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Accessible report

2022

ANNUAL REPORT

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ISRAEL DISCOUNT BANK

Board of Directors and Management Report

Internal Control over Financial Reporting

Financial Statements

Corporate Governance, Audit and Additional details regarding the business of the banking corporation and management thereof

Appendices to the Annual Report

Board of Directors and Management Report

Board of Directors and Management Report - List of tables

Board of Directors and Management Report - List of tables (continued)

Statement of the Chairman of the Board of Directors

Dear shareholders,

I have the honor to present to you the financial statements for the year 2022, a year of widespread achievement and excellent financial results for the Discount Group. These results are not self-evident, particularly against the background of the numerous global and domestic events during the past year, events which have had a significant impact on the economic environment. 2022 was characterized by a global downturn in economic activity, which occurred against the background of the continuing war between Russia and Ukraine, the energy crisis in Europe and the slowdown in China. These events have led to supply chain disruptions and accelerated inflation that have resulted in a tightening of monetary policy and a slowdown in the pace of economic activity. The capital markets too suffered steep declines. Despite the challenging circumstances, the Discount Group continued to work determinedly to implement the strategic plan and to realize the goals that it had set for itself, alongside further responsible and significant growth in all its areas of focus, and on the background of all this have already attained the multiyear strategic goals that it had aimed to achieve by 2025! The Group ended 2022 with a net profit of NIS 3,495 million, which reflects a 26% increase over the previous year's net profit. The return on equity reached 15.1%, compared to 13.6% in the previous year and the operating efficiency ratio also improved to 55.8%, compared to 65.4% in the previous year. The results reflect **significant growth in income** against the background of the rising interest, with net interest income rising by 33% in 2022 (the interest margin rose from 2.34% in 2021 to 2.69% 2022). Alongside this, there has been further responsible growth in credit, with the Group's total credit having grown by 13.1% in 2022. The bulk of the growth was recorded in housing loans, which had been defined as a strategic focus, with a growth of 21% since the beginning of the year, while increasing the Group's market share. In addition, the Bank has continued this year to distribute a dividend of 20% of current profits.

Our subsidiary companies have also concluded a year of multiple achievements, growth and good business performance. IDB Bank achieved an 18.4% increase in net profits, reaching a level of US$ 114 million. MDB achieved a net profit of NIS 601 million and a return on equity of 15.7%, with its credit portfolio growing by 13.3%. ICC continued to grow in the credit scope, the number of cards and the card transactions turnover, and presented a net profit of NIS 309 million and a return on equity of 14.3%. Discount Capital presented a reduction in income and profit on the background of the macro conditions prevalent during 2022.

Again in 2022, we continued working vigorously to apply the Bank's strategic plan, a plan that is intended to support the realization of our ambitious vision – **to be the best financial institution, which creates maximum value for its shareholders over time**. The plan is founded on three central pillars: winning in traditional banking, groundbreaking innovation and leveraging the Group's strength, with goals and focused action areas being set for each pillar so as to create significant change through bank changing strategic projects.

During the past year, we executed a number of important measures and introduced many developments throughout the organization, in all the strategic projects. One of the goals on which we have focused and in which we have taken a quantum leap is to be the bank providing the best customer experience in the Israeli banking system, in line with our marketing promise – **Discount Wants You More** and aspiring to realize this in practice. By canceling interest on debit balances up to NIS 2,000 and by providing customers with tools to help them better control their expenses and prevent them going into the red, we have removed some of our customers' major pain points. We introduced a significant service measure – responding within an hour to correspondence on the app, and we were also the first to offer the most profitable, high-interest, long-term deposits. All these have succeeded in positioning Discount as a bank that is hungry and competitive, and as a bank that is constantly making improvements in order to be the best bank for its customers.

In 2022, we also continued to focus on our growth goal and we succeeded in creating responsible and significant growth in all areas and particularly in the mortgages, business and commercial banking spheres. Also this year, the volume of attracting new customers was exceptionally successful, and Discount grew in this aspect far above its share. Additionally, measures were introduced this year, intended to support the building of Discount's operational excellence, so as to support the improvement in customer experience, reduce errors and operational risks and assist in achieving significant cost savings.

Alongside the goals and the business strategy, Discount Bank publishes for the first time in this report a significant and challenging ESG strategy, as approved recently by the Bank's Board of Directors. As part of the implementation of the formed strategy, Discount will promote connection of environment, social and governance aspects with the core business, organizational and social activity of the Group, while focusing on three central areas: social mobility and financial inclusion, diverse and equal employment and green future - promotion of green conduct in the Bank's business and operating activity.

The Group is currently completing preparations for the move to the new Discount Campus at the "1000 Compound" in Rishon Lezion. The relocation to the Campus is an event of dramatic significance for the Group that affects multiple aspects – from infrastructure and business continuity aspects through to the creation of an innovative, advanced work environment for the Group's employees. I believe that the move to the new Campus will enable the Discount Group to continue its onward drive toward realizing the goals it has set for itself, at the same time as the Group itself continues to progress and develop in the way it operates. In addition, the working experience at the campus, which reflects the considerable thought that has gone into creating an optimal employee experience, will contribute to a feeling of commitment and connection on the part of the Group's employees and support the goal of assimilating a winning organizational culture that advances the Bank's strategy.

As part of the Bank's strategy, Discount has defined as a goal being a leading player in the implementation of groundbreaking banking models that create innovation, through establishing ventures that will operate as independent companies and that will compete with the whole banking system, including with Discount Bank itself. Within this framework and less than two years after PayBox was incorporated as a separate company, Discount has allied with Ezbob Ltd. and is establishing "greenlend", a fintech company that will provide credit for individuals and small businesses, over a fully digitalized and rapid process, to customers of all the banks. Greenlend will operate over digital distribution channels that serve multiple and diverse communities (b2b2c) and will offer – over an embedded process in the distribution channels – credit customized to the needs of those communities, at the place and time that it is needed.

A decision was recently taken that requires Discount to sell the means of control that it holds in ICC with this being done within a timeframe of several years, as specified in the report. Despite our opinion that the decision is incorrect and will not contribute to increasing competition in the Israeli banking system, we will honor the decision and are taking steps to implement it as required. Data can be found in this report with regard to Discount's results, excluding ICC, for selected parameters. As can be seen, the separation from ICC is expected to lead to a reduction in the net profit and the return on equity and to a significant improvement in Discount's operating efficiency ratio.

During January 2023, the government began to advance its program to make material changes in Israel's judicial system that has given rise to a major public controversy in Israel. In the opinion of economic parties in Israel and abroad, these changes could have an adverse effect on the financial markets and on the strength of the Israeli economy. In the meantime, 2023 is shaping up to be a year in which macro variables will continue to play a significant role and their impact will surely be reflected both in the rate of the economy's growth and also in the financial resilience of our business and private customers. This reality makes it necessary for us to act responsibly and to stringently manage risks, alongside sensitivity and a constructive approach, that will assist our customers during this complex period. Concurrently with this, during the coming year, we will continue to work tirelessly to realize the Bank's strategic plan, set ourselves more challenging goals and continue to innovate, create and work together in order to be the best bank – for our customers, our employees and all the Bank's stakeholders.

I wish to thank all the employees of Discount for another year of excellent work and for their commitment and great devotion to our customers. Furthermore, I wish to thank the Group's Management for their professional, responsible and steadfast leadership. Together, we will continue leading the work being done on the road to realizing the business goals, for the benefit of Discount, its customers and its employees.

March 12, 2023

Shaul Kobrinsky
Chairman of the Board of Directors

Chapter "A" - General overview, goals and strategy

The meeting of the Board of Directors, held on March 12, 2023, resolved to approve and publish the Bank's 2022 Annual Report.

The Discount Group - Condensed Description and Principal Areas of Operation

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

Domestic Operations

The Discount Group offers its customers comprehensive banking services in all fields of financial activity, by means of a chain of 171 branches in Israel (98 branches of the Bank and 73 branches of Mercantile Discount Bank Ltd.), online banking services and digital banking.
The activities in Israel cover additional fields, including:

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

International Activity

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

Market share

Based on data relating to the banking industry as of September 30, 2022, published by the Bank of Israel, the Discount Bank Group's share in the total of the five largest banking groups in Israel was as follows

	September 30, 2022	December 31, 2021
	In %	
Total assets	16.0	15.2
Net credit to the public	16.7	16.6
Deposits from the public	15.5	14.6
Net interest income	17.6	17.6
Total non-interest income	23.2	21.4

Condensed financial information regarding financial position and operating results

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

	Year				
	2022	2021	2020	2019	2018
			In %		
Main performance indicators:					
Return on equity	15.1	13.6	5.1	9.4	9.3
Return on assets	0.99	0.91	0.35	0.70	0.66
Ratio of net credit to the public to deposits from the public	82.5	81.7	83.5	89.6	87.2
Ratio of common equity tier 1 to risk assets	10.25	10.14	10.20	10.31	10.24
Ratio of total capital to risk assets	13.03	13.46	13.06	13.86	13.67
Leverage ratio	6.2	6.0	6.3	6.9	6.9
Liquidity coverage ratio(1)	130.5	123.1	147.5	121.2	124.8
Net Stable Funding Ratio	124.8	126.7	(2)	(2)	(2)
Efficiency ratio	55.8	65.4	67.5	65.2	68.2
Main credit quality indicators:					
Ratio of balance of allowance for credit losses for credit to the public, to balance of credit to the public	1.31	1.41	1.95	1.38	1.36
Ratio of the balance of impaired credit to the public together with the balance of credit to the public in arrears for 90 days and over, to balance of credit to the public	0.67	0.76	0.95	0.90	0.87
Ratio of net accounting write-offs for credit to the public to the average balance of credit to the public	0.11	0.03	0.19	0.23	0.26
Ratio of credit loss expenses (expenses release) to the average balance of credit to the public	0.18	(0.34)	0.91	0.40	0.34
			In NIS millions		
Principal statements of profit and loss data for the reporting period:					
Net Profit Attributed to the Bank's Shareholders	**3,495**	**2,773**	**975**	**1,702**	**1,505**
Net interest income	8,693	6,529	5,898	5,893	5,526
Credit loss expense (expenses release)	407	(693)	1,718	690	540
Non-financing income	4,251	3,962	4,007	3,771	3,494
Of which: Fees and commissions	3,404	3,125	2,826	2,972	2,851
Non-financing expenses	7,217	6,858	6,681	6,299	6,148
Of which: salaries and related expenses	3,568	3,468	3,242	3,343	3,385
Comprehensive income, attributed to the Bank's shareholders	**2,757**	**2,396**	**559**	**1,782**	**1,661**
Total earnings per share attributed to Bank's shareholders (in NIS)	2.87	2.38	0.84	1.46	1.29

For footnotes see next page.

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

	Year				
	2022	2021	2020	2019	2018
	In NIS millions				
Principal balance sheet data for the end of the reporting period:					
Total assets	**376,754**	**335,088**	**293,969**	**259,823**	**239,176**
Of which:					
Cash and deposits with banks	65,713	59,638	42,936	26,044	21,858
Securities	44,794	43,869	42,785	37,745	37,898
Net credit to the public	241,079	213,156	188,718	180,467	164,804
Total liabilities	**351,276**	**312,940**	**274,242**	**240,630**	**221,507**
Of which:					
Deposits from the public	292,293	260,907	226,118	201,450	188,916
Deposits from banks	15,376	12,534	13,107	6,419	6,886
Bonds and Subordinated debt notes	12,308	15,071	10,201	13,129	8,476
Shareholders' equity	24,880	21,483	19,182	18,678	17,151
Total equity	**25,478**	**22,148**	**19,727**	**19,193**	**17,669**
Additional data:					
Share price	1,848	2,094	1,236	1,601	1,156
Dividend per share	49.88	12.41	4.19	21.92	10.13
Average number of positions at the Group during the year	8,138	7,957	8,431	8,542	8,668
The number of positions at the Group at the end of the year	8,261	8,036	8,027	8,509	8,550
Ratio of fees and commissions to total assets	0.96	1.02	1.02	1.22	1.25

Footnotes:

(1) The ratio is computed for the three months ended at the end of the reporting period.

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

For details regarding the decision of the Bank's Board of Directors dated March 12, 2023, to distribute a dividend in the amount of approx. 15.18 Agorot per share, see below "Dividend distribution" and Note 24 C to the financial statements.

Data for 2022, excluding ICC

	Actual	Excluding ICC[1]
	in NIS millions	
Net Profit Attributed to the Bank's Shareholders	3,495	3,305
	in percentage	
Return on equity	15.1	[2]14.8
Efficiency ratio	55.8	51.5
Ratio of balance of allowance for credit losses for credit to the public, to balance of credit to the public	1.31	1.23
Ratio of credit loss expenses (expenses release) to the average balance of credit to the public	0.18	0.14

Footnotes:

(1) The data for ICC has been totally eliminated, with no calculation in respect of the alternative use of the risk assets that would become available as a result of the separation as well as the yield produced by them and with no calculation of the gains produced by the realization of the holdings in ICC and the yield produced by the investment thereof in an alternative activity.

(2) In congruence of that stated above, the capital has been standardized so as to maintain the actually existing capital adequacy level, and accordingly, the return on equity has been standardized.

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

Developments in the market price of the Discount share

	Closing price at end of the trading day			
	March 9, 2023	December 31, 2022	December 31, 2021	Change in 2022 in %
Discount share	1,847	1,848	2,094	(11.7)
The TA 5 Banks index	3,346.84	3,280.79	3,420.05	(4.1)
The TA 35 index	1,799.32	1,796.92	1,978.06	(9.2)
Discount market value (in NIS billions)	22.85	22.86	24.37	(6.2)

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

Discount Group Segment of Operations - Condensed Description

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

”Household segment” – private individuals, the volume of their financial asset portfolio is lower than NIS 3 million.

”Private banking segment” – private individuals, the volume of their financial asset portfolio exceeds NIS 3 million.

”Minute businesses segment” – businesses, the annual turnover of which is lower than NIS 10 million.

”Small businesses segment” – businesses, the annual turnover of which is equal to or higher than NIS 10 million, but is lower than NIS 50 million.

”Medium businesses segment” – businesses, the annual turnover of which is equal to or higher than NIS 50 million, but is lower than NIS 250 million.

”Large businesses segment” – businesses, the annual turnover of which is equal to or exceeds NIS 250 million.

“Institutional Bodies Segment” – activities with institutional bodies, as these are defined in the Reporting Directives (see Note 29 A to the financial statements).

”Financial management segment” – includes: trading activity, asset and liability management activity, non-financial investment activity and other activities.

”Other segment” – including discontinued operations, profits from reserves and other results relating to employee rights not allocated to other segments and adjustment between the total items attribute to segments and the total items stated in the consolidated financial statements.

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

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

A Summary Description of the Principal Risks

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Disclosure according to the 3rd Pillar of Basel

The Basel guidelines broaden the qualitative and quantitative disclosure requirements in the matter of credit risk, market risk and operating risk exposure management. Qualitative and quantitative disclosure regarding the various risks is presented below in Chapter C "Risks Review" and in the document "Disclosure according to the third pillar of Basel and additional information regarding risks". The document is available for perusal on the Bank's website together with the Bank's 2022 annual report (this report), on the MAGNA site of the Israel Securities Authority, and on the MAYA site of the Tel Aviv Stock Exchange Ltd. and is comprising an integral part of the Bank's 2022 annual report.

Goals and business strategy

The strategic plan, which was formed in the course of 2020, for the years 2021-2025, directs towards the realization of an ambitious vision of being **the best financial institution for its customers, which creates maximum value to its shareholders over time**. The strategic plan is made up of three central pillars – winning in traditional banking, groundbreaking innovation, leveraging the power of the Group.

First pillar – winning in traditional banking

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

Winning customer experience

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

Changing reality requires us to improve customer experience quickly and qualitatively – customers expect another level of service, and the base for comparison is not necessarily other banks but the organizations leading in customer experience provided by them. Discount shall act to create a differentiating competitive advantage by way of a winning

customer experience. In order to realize the vision and become the best Bank for its customers, Discount Bank has launched several strategic projects, intended to turn the whole Bank into a customer focused organization.
These projects require a significant and extensive effort by all units of the Bank, which would lead to a fundamental and deep change in work procedures as well as in service and conduct principles.
Such gradual implementation would lead to improved availability for customers, closure of a full treatment circle and accessibility to products and services customized to the needs of the customer.
In order to measure the success of the fundamental change process, use would be made of the Net Promoter Score index. This index has been successfully implemented by thousands of leading organizations around the world. This index has been proven as directly connected to the increase in income, to attracting new customers and increasing customer loyalty.
Within the framework of this mechanism, the Bank integrated processes involving attentiveness to customers, deep and methodological analysis of feedback from customers through translating the messages into effective initiatives for improving customer experience at all his interface points with the Bank.

Significant growth and increasing market share in focal segments

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

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

Banking excellence

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

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

Winning organizational culture

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

With the understanding of the importance and centrality of the Bank's employees in providing the best service to customers and the ability to realize the strategic plan, the Bank would act in a number of fields:
- The Bank will continue to strengthen its managers and employees while developing leadership in accordance with the Discount spirit and striving to maximize the potential of employees and managers by means of qualitative career development processes;

- The Bank will act in order to improve the sense of commitment and the organizational engagement of employees and managers, while leveraging the relocation to the joint Campus at the "Elef" site in Rishon LeZion, all this, in order to become the best Bank for its employees;
- The Bank will act in order to adopt agile work methods that would support improvement in customer and employee experience and would help in improving performance capabilities and the shortening of response time.

Second pillar – groundbreaking innovation

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

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

Third Pillar – maximizing the value of the Group

Goal: The subsidiary companies are leading growth

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

The strategic plan goals

Subsequent to updating the strategic plan formulated in 2020, which includes a financial plan for the years 2021 through 2025, and in light of the reduction in the level of uncertainty associated with the Corona crisis and the stabilization of the economy during 2021, the Bank's Board of Directors decided on March 8, 2022 to approve the following goals:

- a return on equity goal exceeding 12.5% in 2025;
- an efficiency ratio goal of less than 55% in 2025;
- a net profit goal which will exceed NIS 3.5 billion in 2025;
- a continuation of dividend distributions according to the existing policy, namely, up to a rate of 30%. As progress is made in executing the plan, the possibility of raising the dividend rate will be examined.

Following are actual data regarding components defined as goals of the strategic plan:

- a return on equity goal of 15.1% in 2022;
- an efficiency ratio of 55.8% in 2022;
- a net profit of NIS 3,495 million in 2022.

As seen from the said data, the goals of the strategic plan were mostly achieved already in 2022.

Forward-looking information. The aforesaid reflects the plans of the Bank's Management and its intentions, paying attention to information already in its possession at the time of preparing the reports with regard to the development of the banking sector, to the macroeconomic forecast, including in relation to an increase in the rates of interest and inflation and to the uncertainty associated with planning for several years ahead. Material changes in the economic and regulatory environment or in the geo-political or defense situations, technological developments, actions of competitors operating in the banking sector and other potential competitors, and changes in consumer patterns and customer expectations, which are not under the Bank's control, might results in changes in the ability to execute the Bank's plans as they exist at the time of publishing the statements. For the definition of the term "forward looking information", see "Appendix No. 8 – Glossary".

Environmental, social and governance strategy. Discount Bank, which raised the banner of becoming the best financial institution for its customers and for its shareholders, takes another step in the implementation of it vision and publishes for the first time a significant and challenging ESG strategy, as approved by the Board of Directors on February 28, 2023. As part of the implementation of the strategy that had been formed, Discount Bank will promote a connection between environmental, social and governance aspects and the core business, organizational and social activities of the Group, while focusing on three central fields:

- Social mobility and financial inclusion – promotion of enabling banking, which acts toward increasing financial accessibility for disadvantage populations, alongside support for actions contributing to the reduction of gaps in the social and geographic peripheral areas in Israel through education and knowledge.
- Diverse and equal employment – promotion of employment diversity and employing staff at the Bank coming from employment challenged sectors, alongside the supporting of plans enlarging employment of such sectors in the Israeli economy as a whole. Alongside this, the Bank will act towards the creation of an embracing and enabling work environment.
- Green future – Promotion of green conduct in the Bank's operating and business activity, with a view of reducing its environmental effects.

Presently, the Bank is forming goals and performance indices for the coming years.

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

Material trends, occurrences, developments and changes

Management's handling of current material issues

In 2022 the Discount Group continued to work determinedly to implement the strategic plan and to realize the goals that it had set for itself, alongside further responsible and significant growth in all its areas of focus, and on the background of all this have already attained the multiyear strategic goals that it had aimed to achieve by 2025. The Bank's financial base and its capital infrastructure remain stable and are being stringently managed. The ratio of equity capital Tier 1 amounts to 10.25% and the liquidity coverage ratio amounts to 130.5%. This is the infrastructure that allows the Group to continue growing.
The central challenges and issues in 2022 were:

Issuances

Increase in capital. On March 30, 2022, the Bank completed a process of issuing shares to the public, comprising 72,994,300 shares of a par value of NIS 0.1 each, in total consideration for approx. NIS 1,428 million. The raising of capital has been made in order to enable the Bank to continue its growth momentum and realize the existing significant potential, while focusing on areas being in the strategic center of the Bank, viz, mortgages and medium businesses, utilizing opportunities arising in the market. The raising of capital has been effected on the background of the sharp increase in yields which occurred in recent months and of the fluctuations in the market, which imbeds a significant rise in probability for the increase and force of interest rates, which temporarily affected the capital reserves and capital ratio.
Issue of debt instruments. On June 2, 2022, the Bank, by means of Manpikim, completed the issue of financial instruments intended to respond to the liquidity requirements and strengthen the infrastructure for the accelerated growth strategy for the credit portfolio of the Bank. In this framework, bonds (Series "N") were issued in a total amount of approx. NIS 1 billion, and at an effective margin of 1.05% and commercial securities (Series 2) in a total amount of approx. NIS 700 million and at a margin of 0.34% over the Bank of Israel interest rate.
Issue of subordinate debt notes having a loss absorption mechanism (Coco). On November 27, 2022, the Bank, through Manpikim, completed an issue of subordinate debt notes having a loss absorption mechanism (Series "I"), in a total amount of approx. NIS 463 million, at an effective margin of 2.62%.

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

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

The separation of ICC from Discount Bank

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

- During the period from the effective date and until the end of a period of the later of five years or three years from date of separation, the Bank has to conduct the operation of issue of charge cards issued by it, by means of an operating company, and to enable it to be a party to the charge card agreement;
- As from the end of one year from the effective date and until the end of a period of the later of five years or three years from date of separation, the Bank is not permitted to conduct by means of one operating company, the issue of more than 52% of the total new credit cards issued to Bank customers;
- A fixed mechanism will apply for the distribution of income derived from the issue operation of charge cards and from use of charge cards by customers, between the Bank and the charge card company, so that the said distribution of income would be in accordance with an agreement signed by the parties in 2022;
- Restriction would apply to approaches made to customers regarding renewal of credit cards.

It is noted that the restrictions relating to the duty to enable the credit card company to become a party to the agreement, the forbiddance to conduct through one operating company the issue operation of more than 52% of total new credit cards, and restrictions on approaches to customers regarding the renewal of credit cards, would apply also to some of the other banks.
The Regulations entered into effect on January 31, 2023.
Following the decision of the Minister of Finance and approval of the Regulations, the Bank has decided to record a provision for the balance of taxes due on its share in the profits of ICC, which in accordance with accounting principles, had not been provided for in the past, in the amount of NIS 50 million. The said provision will be included in the report for the first quarter of 2023.

Within the framework of a joint distribution agreement with El-Al Company, El-Al was, inter alia, granted a "phantom" type option, entitling it to economic rights in ICC (of a value equal to 8.75% of the appreciation in value of ICC, exceeding the amount of NIS 1,800 million). The option would be exercisable only in the event of sale or issuance of ICC, in accordance with the terms stated in the related agreement, and would be settled in cash. (The equity capital of ICC as of December 31, 2022, amounts to NIS 2,120 million).

According to an assessment in the hands of ICC, the fair value of the "phantom" option (within the meaning of the term in accepted accounting principles), based on data regarding transactions for the acquisition of the credit card companies Isracard and MAX (being published information only, regarding the agreement, within the framework of which, Harel Investments is expected to acquire all the shares in Isracard, and the agreement, within the framework of which, CLAL Insurance Enterprises Holdings is expected to acquire all the shares in MAX, based on their reports to the public), and on the assumption that ICC will utilize to the options of the distribution of dividends, according to the option agreement, within the framework of the future negotiations to formulate the terms of sale of the holdings in ICC at an amount of approx. NIS 55 million. ICC is expected to recognize a liability in respect of the said option in the first quarter of 2023. Considering the tax effect and after deduction of the share of the First International Bank in the profit of ICC, the recording of the option in the said amount is expected to reduce the net profit of the Bank in the first quarter of 2023 by a net amount of approx. NIS 24.5 million.

It is emphasized that at this stage, the Bank is in the midst of the primary preparation phases for the separation from ICC, and that decisions with respect to the separation outline have not as yet been taken. This issue relates to a transaction of a scope expected to be significant, where the acquisition price to be determined might be affected by the dynamics in the market, as would exist at the time proximate to the date of the transaction, by the path of development of ICC in comparison to its competitors, by the outline for the execution of the separation, by possible competition between potential buyers and by different macro-economic variables. In light of the abovesaid, the acquisition price might be very materially different from the price of ICC seemingly grossed up in the fair value assessment of the option.

For additional details, see the Immediate Reports dated December 22, 2022, January 3, January 19 and January 31, 2023 (Ref. Nos. 2022-01-154045, 2023-01-001587, 2023-01-009330 and 2023-01-012882, respectively), the details contained therein are presented hereby by way of reference.

For details regarding the said Law, see "Legislation and Supervision" in the Chapter "Corporate Governance, Audit and Additional details regarding the business of the banking corporation and management thereof". For details regarding the contribution of ICC to the profits of the Discount Group see below "Principal investee companies". For details regarding the data for the "ICC" segment, within the framework of Managerial Operating Segments, see below in Note 30 to the financial statements.

Developments in the economic environment and their effect on the operations of the Bank and its customers

The Consumer Price Index (CPI) rose in 2022 at a rate of 5.3%, following a long period in which the inflationary environment remained at a low level. According to a review of the Bank of Israel, the inflationary environment around the world continues at a high level, though moderation trend is noticed in some of the countries, particularly in the United States. The Bank of Israel interest rate, which remained unchanged for a long period, increased from a level of 0.1% in April to a level of 3.75% (as from January 2, 2023), similarly to the global trend of rising interest rates.

As detailed in the section "Market risks", the Bank is exposed to market risks, including interest risk. As detailed in this part, the rising interest has a positive effect on the Bank's income, the average interest rate in 2022 rose by approx. 1%, and according to the Bank's assessments, the Bank's financing income increased by approx. NIS 1 billion as a result of the rise in interest.

With respect to the increased in inflation, the Bank is exposed to changes in the CPI in a way that there is an excess of assets over liabilities that are CPI-linked in an amount of approx. NIS 12 billion, at the end of 2022. The rise in the CPI contributed approx. NIS 470 million to the Bank's income in 2022.

The rise in the CPI and in the interest rate may result in an increased burden of loan repayments of burrowers, for households in particular, and in their impaired repayment ability. It is not possible to assess the effect of these factors, and the Bank's Management estimates that these effects are not as yet fully reflected in the allowances for credit losses, and that such effects might be realized in the coming periods.

The principal measures adopted by the Bank in order to face the effects of the main changes in interest and in the CPI are:

- Monitoring interest exposure.
- Entering into interest and CPI hedge transactions.
- Strict underwriting mechanisms for the granting of credit and the monitoring of the credit portfolio quality.
- In the framework of computation of the group allowance, a new macro-economic model has been integrated, intended to foresee the rise in the macro-economic risks. As a result of the above, a buffer has been created for the said risks and their possible implications upon borrowers. The buffer was, inter alia, computed by use of scenarios of rising interest rates and inflation, and forecasts for the GDP and unemployment for the coming year.
- Allowing customers having certain characteristics, the option to reduce the amount of the monthly mortgage repayments to the level existing in September 2022, prior to the last four raisings of the interest rate; the amount deferred would be repayable as from the end of 24 months, spread over 36 installments, with no interest charge.
- Concurrently, the Bank offers its customers deposits bearing a competitive interest rates. During the third quarter of 2022, the Bank introduced a deposit for a period of one year bearing an attractive interest rate. Until the end of 2022, approx. NIS 10 billion had been deposited in the abovementioned deposit.

For details regarding credit and deposit margins, see Appendix no. 1.

Greenlend

On March 5, 2023, the Bank and Ezbob Ltd., a company incorporated in England ("Ezbob"), signed a non-binding memorandum of understanding for the formation of an enterprise for extending consumer credit and credit to small and middle market businesses, to customers of all banks, by means of a company that would be controlled by the Bank (an auxiliary corporation) ("the company").

According to the memorandum of understandings, 70% of the ordinary share capital of the company would be owned by the Bank and 30% would be owned by Ezbob. Extension of credit and its management shall be conducted by means of the innovative technological systems of Ezbob, according to a license granted to the company. In accordance with the Memorandum of Understandings, the Bank is expected to provide the company with capital in the amount of approx. NIS 150 million. In addition, the Bank is expected to put at the disposal of the company additional capital/shareholder loan facilities, for future drawing in certain circumstances. Furthermore, the Bank is expected to provide the company with credit facilities at market terms.

The Bank and Ezbob are acting to form a binding agreement, which would be conditional upon obtaining the required regulatory approvals, including approval by the Bank of Israel. There is no certainty that the above transaction would be consummated.

Strategic cooperation with Shufersal

On January 19, 2021, the Bank signed a strategic cooperation agreement with Shufersal Ltd. to set up a digital wallet for customers of all the banks, based on the PayBox payments platform that is owned by the Bank. The cooperation takes place using a company controlled by the Bank, with the Bank holding 50.1% of the rights in the company and Shufersal holding 49.9% of the rights.

Within the framework of the cooperation, the PayBox operation will be expanded, and, in the first stage, it will become possible for its customers to use a PayBox wallet as a means of payment, to redeem digital purchase coupons, to receive various benefits, and so forth. The parties have agreed to take additional measures in the future in order to enable customers of all the banks to conduct additional financial and banking activity within the framework of PayBox, inter alia, by means of a platform on which financial services and products of various suppliers and fintech companies will be offered to customers of all the banks, with this being subject to the provisions of the law.

In August 2021 PayBox Ltd. made accessible on the PayBox Application the purchase vouchers of Shufersal, and at the end of October 2021, the benefits activity of the Shufersal Customers Club. In March 2022 PayBox expanded its digital wallet services by entering into an engagement with ICC for the issue of digital credit cards to users of the Application. The issue of digital credit cards began during the second quarter of the year. For additional details, see section "Credit Card Operations" below.

Forward-looking information. The aforesaid reflects the assessment of the Bank's Management and its intentions, taking into consideration the information available to it at the time of preparing the reports with regard to the development of the payments field. Statutory and regulatory changes that are not known at the time of publishing the reports, including changes in existing initiatives and drafts, technological developments and/or actions of competitors and changes in consumption habits and customer expectations, as well as macro developments in Israel and around the world, which are not under the control of the Bank, might cause changes in the assessments or in the ability to execute the Bank's plans, as they are at the time of publishing the reports.
Data regarding operations. As of December 31, 2022, the number of users of the PayBox Application, whose registration as users includes the addition of means of payment, totaled approx. 2 million, growth of approx. 25% as compared to December 31, 2021. The number of active users, who made at least one transaction in the last 90 days, totaled at December 31, 2022 approx. 1,270 thousand users, growth of approx. 24% as compared with December 31, 2021. The turnover of the transfer of funds by means of the Application amounted in 2022 to approx. NIS 5 billion, growth of approx. 56% compared to 2021.
The customers' balance held with PayBox amounted at December 31, 2022, to NIS 496 million, as compared to NIS 353 million at December 31, 2021, an increase of 40.5%.

The "One-Click Mobility" reform

The Reform allowing rapid transition between banks – "One-Click Mobility" – entered into effect on September 22, 2021, which allows customers to transfer online their entire banking operations from bank to bank at no cost and within seven business days.
With the introduction of the Reform the Bank has implemented a line of infrastructure, business and marketing measures in order to adapt to the needs of customers and to the Regulation instructions. Among these measures is the adaptation of value offers to the different populations in which may be found all the information regarding the rapid transition between banks and regarding the different benefits offered.
The customer may begin the mobility request of his account in a friendly, available and convenient manner on the digital (using the website or the Application) and at each of the Bank's branches. Following the mobility request, current account balances (in shekel and in foreign currency), authorizations to charge the account, standing orders, checks, securities deposits and credit card charges are being transferred automatically.
The Bank views the Reform as a significant milestone in the improvement of service, creation of value and fortification of customers of the banking system, and the increase in competition together with a significant opportunity for growth through attraction of new customers, intensifying operations and retention of customers.
The ratio of new customers to deserting customers was approx. 1.88 in 2022 (1.93 in 2021).

Striving for a winning customer experience

In order to realize the vision and become the best bank for its customers, the Bank had introduced a comprehensive strategic effort intended to turn the whole Bank into a customer focused organization. This, in a significant and wide move that would engulf all units of the Bank and lead to a fundamental and deep change of work procedures and of service and behavioral principles.
Within the framework of this mechanism, the Bank implements processes of listening to customers, of in-depth and methodological analysis of customer feedback and the ability to translate the messages into effective initiatives improving customer experience at all his interface points with the Bank.
As an additional step in striving for a winning customer experience, the Bank has introduced a few months ago a new and quick service of correspondence on the Application, which invites all Bank customers to approach the Bank and receive a reply within one hour at the most.
The index for the measurement of the success of the change is the Net Promoter Score (NPS). This index has been successfully implemented by thousands of leading organizations around the world. It has been proven that this index is directly related to the growth in income, to attracting new customers and to increasing customer loyalty.

The data is being collected within the framework of reviews performed by the Bank the results of which are being measured against the data of the launching year for the project (2020). The NPS of Discount reached 7% in 2022, as compared to 2% in 2020. This compared to the average of the other large banking groups: -6% in 2022, as compared to -9% in 2020.

2022 Retirement plan

On August 29, 2022, the Bank's Board of Directors approved a retirement plan for permanent employees having the defined characteristics, would be entitled to early retirement under preferential terms.
The liability existing in the books of the Bank covered the cost of the plan in full, and accordingly, no increase in the liability was required in the books of the Bank, and there was no effect on the Bank's equity capital and on its capital adequacy.
Until February 28, 2023, 57 permanent employees had signed an early retirement request from the Bank.

Additional issues

- **Rating by Fitch.** Fitch rated the Bank for the first time in the first quarter of 2023. For additional details, see below "Rating the Liabilities of the Bank and some of its Subsidiaries";
- **Discount Campus.** Construction work on the campus continued in the reported period. For additional details, see Note 26 to the financial statements, section C 13 and "Fixed assets and installations" below;
- **Realization of assets as part of the preparations for the relocation of the Head Offices and operation of the Bank to the Discount Campus.** For additional details, see Note 16 to the financial statements, section K;
- **Increase in competition and reduction in concentration Law.** The preparation for changes in the financial system is continuing, both at the Bank and at ICC, following the Increase in Competition and Reduction in Centralization in the Banking Market in Israel Law including an examination of the separation of ICC from the Bank. For additional details, see Note 36 to the financial statements;
- **Early redemption of regulatory capital instruments.** For details, see below "Capital and Capital Adequacy";
- **Changes in the organizational structure.** For details, see "The Human Capital" below;
- **Equity compensation for officers and to senior employees.** For details, see "The Human Capital" below and Note 23 to the financial statements.

Principal Economic Developments

Presented below are the main economic developments, that impacted the economic environment in which the Israeli banking sector, including the Bank, operated in 2022.
Growth. The year 2022 was typified by a slowdown in the global economic activity, which occurred on the background of the continuing war between Russia and the Ukraine, the energy crisis in Europe and the slowdown in China. In the course of the year, disruptions were recorded in the chain of supply, which led to accelerated inflation, to a severe monetary tightening and a slowdown in the pace of economic activity.
In total for the year, The US economy recorded growth at the rate of 6.5%, concurrently with the recovery of the labor market, and the economy of the Eurozone grew at the rate of 3.5%.
The GDP in Israel for 2022 grew at the rate of 6.5%, on the background of the fast growth at the end of 2021 and in the first half of 2022. Notwithstanding the above, a significant slowdown took place in the second half of the year.
The Bank estimates that in 2023, a significant slowdown in growth, to a rate of 2.5%, will take place in the central scenario, compared to 6.5% in 2022, as stated, with growth in unemployment. In addition, according to estimates of the Bank, a significant slowdown in growth of bank credit is expected, as compared with the rate recorded in the years 2020-2021, this due mostly to the expected decline in demand for credit, on the background of the acceleration in inflation, the steep rise in the interest rate and the slowdown in the economy.

Exchange rates. The dollar basket ("Dollar Index") strengthened in 2022 by a rate of 8%, in view of the rapid rise in interest and an opening of a gap in real yields. Concurrently, the shekel weakened during 2022 against the US dollar by approx. 13% and by approx. 7% against the currencies basket, this, following the steep decline in the equity market abroad and the strengthening of the dollar globally.

Inflation. The global inflation that had started as inflation on the supply side seeped during the year to domestic demand, recording acceleration, as stated. Also in Israel, the inflation is across the board with acceleration in items stemming from domestic demand. In Israel, the inflation in 2022 amounted to 5.3%, as compared to 2.8% in 2021. At the end of December, Index contracts for one year grossed up inflation of 2.75%.

Monetary policy. On the background of the high rates of inflation, central banks continue to adopt a contracting monetary policy at a rapid pace. In the end of year, the FED interest rate reached a level of 4.25%-4.5%, concurrently with the contraction of the balance sheet, in the Eurozone the interest rate was raised to 2%, while the Bank of Israel interest amounted at the end of the year to 3.25%, with a sharp rise in the volume of short-term loans (MAKAM) issues.

Financial markets. In total for the year, most leading indices in the developed markets recorded decline in prices, on the background of the contracting policy adopted by the central banks around the world and the global slowdown. Share indices on the Tel Aviv Stock Exchange dropped during the year, part thereof even at a faster rate than leading indices in the world.

Furthermore, as a result of global trends and the macro-economic conditions, ten year Israel Government bonds were traded at a yield of approx. 3.6%, a significant increase in relation to the beginning of the year, similarly to the US bonds, while maintaining a negative margin of 25 basis points between the Israeli and the US bonds.

First quarter of 2023[1]. The labor market in the United States continues to demonstrate strength, and it is evident that the US economy will avoid a recession in the first quarter. At the same time, the data for the Eurozone indicates moderation in inflation, though its level is still high. In Israel, the economy is slowing down and the rate of unemployment rose to 4.3%, with a further rise in the participation rate.

In January, the inflation reached an annual rate of 5.4% and in February, the Bank of Israel raised the interest rate by 50 basis points to a level of 4.25%. The FED raised the interest rate to 4.5% -4.75%, and the ECB to 2.5%.

The Shekel has weakened sharply since the beginning of the year – by approx. 3% against the dollar and against the basket of currencies. In addition, the TA-125 Index has declined by approx. 4% in the same period, in contrast to a rise of approx. 3% and approx. 9% in the S&P 500 and the NASDAQ, respectively.

Yields on ten year Israel government bonds rose to 3.97%, thus erasing the negative yield margin against the US bonds, which at the end of 2022, stood at approx. 25 basis points. During the period, real yields have risen steeply over all the ranges, as have inflationary expectations too. In the contracts market, one-year CPI contracts were being traded at 3.4% at the end of the period, compared to 2.8% at the end of December.

During January 2023, the Government started to promote a plan for the implementation of material changes in the legal system in Israel, which raises a significant dispute in the Israeli public. In the opinion of various economic entities in Israel and globally, such changes may have an adverse effect on the financial markets and on the stability of the economy in Israel. The said implications may have a negative impact also on the Bank and its customers.

It is noted that Fitch rating agency has recently ratified the credit rating of the State of Israel at a level of "A+", with a "Stable" rating outlook. Fitch noted, inter alia, that a number of countries that had undergone a significant institutional reform, have reached even a decline in their credit rating, and that at this stage it is unclear whether the proposed reform in Israel will have a similar extensive effect. Moody's Rating Agency has issued a report regarding the move promoted by the Government of Israel, in which it notes, inter alia, that in its opinion, if the proposed reform would be fully implemented, it would weaken the authority of the legal system, thereby adversely affecting the credit of the State of Israel.

At this stage, it is not possible to estimate what would be the components of the plan proposing changes in the legal system, if completed at all, and accordingly foresee what would be the implications on the condition of the financial markets and on the state of the economy in Israel.

For details regarding the direct effect on the Bank's capital adequacy, in the event that the credit rating of the State of Israel would be reduced, see "Capital and Capital Adequacy" below.

1 All the data in this chapter refer to the period from January 1, 2022 to March 1, 2023.

On March 10, 2023, the Federal Deposit Insurance Corporation ("FDIC") announced that Silicon Valley Bank ("SVB") had been shut down by the Regulator in California, who appointed the FDIC as a Receiver for SVB. The receivership proceedings in respect of SVB, being a bank that mostly serves hi-tech companies, may have an adverse effect upon the hi-tech industry in Israel, which, at this stage, is difficult to assess. The Bank does not expect a material effect on its results as a result of this matter.

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

For further details, see "Main developments in Israel and around the world in 2022" in "Corporate governance, audit, additional details regarding the business of the banking corporation and management thereof".

Material leading and developing risks

According to the FSB's recommendations, a leading risk is defined as a development occurring in the bank's business environment that could have an adverse effect on its results in the coming year. A developing risk includes a risk, regarding which the timing of its materialization is uncertain, whose occurrence could have a material impact on the bank.

Following are details regarding the most material leading and developing risks.

Macro environment risk. The macro-economic environment is volatile and uncertain, and is influenced by the high inflation rate, by supportive monetary measures and by shrinking liquidity in the markets, all leading to a slowdown. This, alongside geopolitical aspects, impacting the global and domestic economies and the markets. The implications of the macro-economic environment have an impact mostly on credit, investments, market and liquidity, cyber and models risks.

The sharp fluctuations of the markets and the pace of changes create a rise in the risk of a global recession and may lead to a reduction in demand for credit and to an increase in credit losses.

Business model risks. Changes have taken place in recent years in the operating environment stemming, inter alia, from the acceleration in technical developments, erosion in income sources and increased competition in the banking and off-banking industry. This, alongside increasing the consumer transparency and aspects of fairness in the banking system and a change in consumer expectations.

The dynamics, competition, the pace of changes, alongside the volatility and uncertainty of the macro-economic environment, lead to a higher business model risk (being part of the strategic risk) and require the Bank and the Group to examine flexible and advanced solutions for the realization of the growth potential, from a forward looking standpoint, which would ensure the continued positioning of the Group as a leading banking group also in the future. Accordingly, the Group updates annually the list of strategic projects, emphasizing the continuation of efforts regarding strategic focal points, alongside a constant examination of changes in the risk environment.

Such changes, with an emphasis on innovative and technological projects, naturally lead to an increase in third party risks, especially as regards aspects of supply chain, quality protection and control, exposure to cyber risks, fraud, leakage of information and protection of privacy. The Group acts to continuously improve tools supporting risk management, including the updating of policy documents, establishing standardization, contractual regulation and processes as well as introducing "new product" processes to new operations or products.

Alongside the initiation of new projects for improving the Group's preparations towards future banking, crosswise and continuous processes are being implemented, supporting and improving traditional banking processes through improving and making accessible the operations with customers and improving the services. Furthermore, steps are taken to maximize the value of the Group, alongside increasing efficiency and reducing costs, including by means of operational efficiency and digitation of processes.

Cyber risks and data protection. Cyber risk continues to comprise one of the significant and developing threats in the world generally and in the banking system in particular. The level of ingenuity, the complexity of the attack and the variety of methods are increasing and so is the involvement of organized crime factors and of government agencies, this alongside the increase in fraud risks. Due to business competition, and the aspiration to achieve a position in the technological front, the scope of deployment of computer based services exposed to the cyber world has grown (cooperation with third parties, open banking, cloud computer services, use of open code, transition to distance working and more).

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

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

Environment and climate risk. In recent years, the topic of managing environment and climate risks has become a primary focus of regulatory attention due to an understanding that the materialization of environment and climate risks might have an effect on the banking system and in extreme cases might even lead to global and systemic consequences. Accordingly, different regulators around the world, including supervisors of banks, are acting towards the regulation of this field (including principles for the effective management of climate related financial risks). The Bank had conducted a survey of differences from the practice and has formed a work plan for the comprehensive management of climate risk, based on a study of existing trends in this field.

In 2023, the Bank intends to promote its readiness in the field of climate risk management, while following up and studying accepted practices around the world and the implementation thereof in relation to banking business.

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

Opinion of the Independent Auditors

In the opinion provided by the independent auditors on the financial statements for the year 2022, the independent auditors drew attention to Note 26 C, section 11, regarding claims that cannot be estimated.

Material developments in income, expenses and other comprehensive income

Profit and Profitability

The Discount Group's Net profit in 2022 amounted to NIS 3,495 million, compared with NIS 2,773 million in 2021, an increase of 26.0%.

Net return on shareholders' equity for 2022 was 15.1%, compared with 13.6% in 2021.

Net earnings per one share of NIS 0.1 par value amounted in 2022 to NIS 2.87, compared with NIS 2.38 in 2021.

The main factors that had an effect on the business results of the Group in 2022, compared with 2021:

a. An increase in net interest income in an amount of NIS 2,164 million (33.1%), which was affected by the growth in credit to the public in the non-linked segment, from an increase in the Bank of Israel interest rate and from the effect of the difference in the rise in the CPI;
b. Credit loss expenses of NIS 407 million in 2022, compared to expenses release of NIS 693 million in 2021. The expenses in 2022 were mostly affected by the increasing of the effect of the macro component and from growth in credit. This, compared with expenses release at a total of NIS 693 million in the previous year;
c. An increase in the non-interest income, of NIS 289 million (7.3%), which was affected, mostly, by an increase in other income, which includes capital gains on the sale of buildings in the amount of NIS 423 million, by an increase of NIS 279 million in fees and commissions (8.9%), mainly from an increase in credit card fees and commissions and by a decrease of NIS 348 million in non-interest financing income (45.5%), mostly from the decrease in gains on investment in shares and gains from investment in bonds;
d. An increase of NIS 359 million in operating and other expenses (5.2%), affected, mainly, from an increase of NIS 100 million in salaries (2.9%), from an increase of NIS 214 million in other expenses (9.7%), and from a NIS 45 million rise in maintenance and depreciation of buildings and equipment (3.8%);
e. Tax provision of NIS 1,806 million on earnings in the first nine months of 2022, compared with NIS 1,516 million in the previous year.

Additional details and explanations are presented below.

Net Profit Attributed to the Bank's Shareholders in the fourth quarter of 2022 amounted to NIS 939 million, compared with NIS 893 million in the third quarter of the year, an increase in a rate of 5.2%, and compared with NIS 529 million in the fourth quarter of 2021, an increase of 77.4%.

Net return on equity attributable to the Bank's shareholders reached in the third quarter of 2022 an annualized rate of 15.4%, compared to 15.0% in the third quarter of the year and compared to 9.8% in the fourth quarter of 2021.

The major factors affecting the business results of the Group in the fourth quarter of 2022, compared with the previous quarter, were:

a. An increase in net interest income in the amount of NIS 260 million (11.4%).
b. A decrease in credit loss expenses in the amount of NIS 129 million (117.0%).
c. An increase in non-interest income in the amount of NIS 87 million (8.5%).
d. An increase in operating and other expenses in the amount of NIS 140 million (7.7%).
e. A provision for taxes on income in the amount of NIS 516 million was recorded in the fourth quarter of 2022, compared to an amount of NIS 472 million in the preceding quarter.

Developments in Income and Expenses

Developments in certain profit and loss statement items in 2020-2022

	For the year ended December 31,			Change in %	
	2022	2021	2020	2022 compared to 2021	2021 compared to 2020
	In NIS millions				
Interest income	11,700	7,491	6,987	56.2	7.2
Interest expenses	3,007	962	1,089	212.6	(11.7)
Net interest income	**8,693**	**6,529**	**5,898**	**33.1**	**10.7**
Credit loss expenses (expenses release)	407	(693)	1,718		
Net interest income after credit loss expenses	**8,286**	**7,222**	**4,180**	**14.7**	**72.8**
Non-interest Income					
Non-interest financing income	417	765	1,142	(45.5)	(33.0)
Fees and commissions	3,404	3,125	2,826	8.9	10.6
Other income	430	72	39	497.2	84.6
Total non-interest income	**4,251**	**3,962**	**4,007**	**7.3**	**(1.1)**
Operating and other Expenses					
Salaries and related expenses	3,568	3,468	3,242	2.9	7.0
Maintenance and depreciation of buildings and equipment	1,232	1,187	1,185	3.8	0.2
Other expenses	2,417	2,203	2,254	9.7	(2.3)
Total operating and other expenses	**7,217**	**6,858**	**6,681**	**5.2**	**2.6**
Profit before taxes	5,320	4,326	1,506	23.0	187.3
Provision for taxes on profit	1,806	1,516	549	19.1	176.1
Profit after taxes	**3,514**	**2,810**	**957**	**25.1**	**193.6**
Bank's share in profit of associates, net of tax effect	27	20	50	35.0	(60.0)
Net profit attributed to the non-controlling interests in consolidated companies	(46)	(57)	(32)	(19.3)	78.1
Net Profit attributed to Bank's shareholders	**3,495**	**2,773**	**975**	**26.0**	**184.4**
Return on shareholders' equity, in %	15.1	13.6	5.1		
Efficiency ratio in %	55.8	65.4	67.5		
Net Profit attributed to Bank's shareholders - excluding certain components (see below)	**3,190**	**3,016**	**1,287**	**5.8**	**134.3**
Return on shareholders' equity, in % - excluding certain components (see below)	13.8	14.8	6.7		
Efficiency ratio in % excluding certain components (see below)	57.4	61.6	62.5		

Profitability - excluding certain components

	For the year ended December 31				
	2022	2021	2020	2022 compared to 2021	2021 compared to 2020
	in NIS millions			Change in %	
Net Profit Attributed to the Bank's Shareholders - as reported	3,495	2,773	975	26.0	184.4
Excluding[1]:					
Profit from the sale of rights in Visa Europe	(20)	-	(44)		
Realization of assets	(315)	(38)	-		
Nonrecurring awards	-	155	-		
Subsidiary retirement plan	-	-	15		
Redemption of jubilee awards	-	19	-		
Effect of settlement	30	94	272		
Provision for claims, net of insurance income	-	-	43		
Expenses of vacating the Management Building of IDB Bank	-	13	26		
Net Profit Attributed to the Bank's Shareholders - excluding the above components	**3,190**	**3,016**	**1,287**	**5.8**	**134.3**

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

Developments in certain profit and loss statement items in the fourth quarter of 2022, compared with the third quarter of 2022 and the fourth quarter of 2021

	2022		2021	Change Q4 2022 compared to	
	Q4	Q3	Q4	Q3 2022	Q4 2021
	In NIS millions			in %	
Interest income	3,930	3,113	1,871	26.2	110.0
Interest expenses	1,390	833	188	66.9	639.4
Net interest income	**2,540**	**2,280**	**1,683**	**11.4**	**50.9**
Credit loss expenses (expenses release)	230	106	(10)	117.0	
Net interest income after credit loss expenses	**2,310**	**2,174**	**1,693**	**6.3**	**36.4**
Non-interest Income					
Non-interest financing income	248	151	180	64.2	37.8
Fees and commissions	857	871	809	(1.6)	5.9
Other income	9	5	50	80.0	(82.0)
Total non-interest income	**1,114**	**1,027**	**1,039**	**8.5**	**7.2**
Operating and other Expenses					
Salaries and related expenses	988	881	970	12.1	1.9
Maintenance and depreciation of buildings and equipment	313	309	293	1.3	6.8
Other expenses	666	637	676	4.6	(1.5)
Total operating and other expenses	**1,967**	**1,827**	**1,939**	**7.7**	**1.4**
Profit before taxes	1,457	1,374	793	6.0	83.7
Provision for taxes on profit	516	472	269	9.3	91.8
Profit after taxes	**941**	**902**	**524**	**4.3**	**79.6**
Bank's share in profit (loss) of associates, net of tax effect	(3)	11	4		
Net loss (profit) attributed to the non-controlling interests in consolidated companies	1	(20)	1	(105.0)	-
Net Profit attributed to Bank's shareholders	**939**	**893**	**529**	**5.2**	**77.5**
Return on shareholders' equity, in %[(1)(2)]	15.4	15.0	9.8		
Efficiency ratio in %	53.8	55.2	71.2		
Net Profit attributed to Bank's shareholders - excluding certain components (see below)	**958**	**884**	**674**	**8.4**	**42.1**
Return on shareholders' equity, in %[(1)(2)] - excluding certain components (see below)	15.7	14.9	12.5		
Efficiency ratio in % (see below)	53.0	55.5	62.1		

Footnotes:
(1) On an annual basis.
(2) The method of computing the quarterly rate of ROE in annual terms has been changed as from January 1, 2022, according to with the accepted practice at US banks. The comparative data was restated accordingly.

Profitability - excluding certain components

	2022		2021	Q4 2022 compared to	
	Q4	Q3	Q4	Q3 2022	Q4 2021
	in NIS millions			Change in %	
Net income attributed to the Bank's shareholders - as reported	939	893	529	5.2	77.5
Excluding[(1)]:					
Profit from the sale of rights in Visa Europe	-	(20)	-		
Realization of assets	-	-	(38)		
Nonrecurring awards	-	-	155		
Redemption of jubilee awards	-	-	19		
Effect of settlement	19	11	9		
Net income attributed to the Bank's shareholders - excluding the above components	**958**	**884**	**674**	**8.4**	**42.1**

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

Details regarding Excluded Components

Gain on sale of the VISA Inc. shares. Gain for a part of the shares received by ICC and the Bank in 2016, with respect to the merger transaction between VISA Europe and VISA Inc. (see Note 12 K to the financial statements).
Realization of assets as part of the preparations for the relocation of the Head Offices and operation of the Bank to the Discount Campus. For details, see Note 16 to the financial statements, section K.
Nonrecurring awards. For details, see below "The Human Capital".
Retirement plan at a subsidiary company. A voluntary retirement plan at ICC, which recognized the total cost of the plan as an expense in the second half of 2020 (see Note 23 I (3) to the financial statements).
Redemption of jubilee awards. For details, see below "The Human Capital".
Effect of settlement. Acceleration of the amortization of "actuarial profits and losses" (a charge to profit and loss) following the expected payment of severance pay to retirees within the framework of the retirement plans and by natural retirement (see Note 23 J to the financial statements).
Provision for claims net of insurance indemnification. Changes in the provision for proceedings in Australia (net of insurance indemnification), see Note 26 C 11.3 to the financial statements as of December 31, 2020 (pp. 230-231).
Expenses of vacating the Management Building of IDB Bank. Principally the balance of lease improvements in the old Management building, which was written off in the fourth quarter of 2020, and in the second quarter of 2021 it was decided to write it off, due to the vacating of parts of the old building during those quarters, respectively, as well as expenses relating to the vacating of the building and its return to the owners.

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

Details regarding material changes in statement of profit and loss items

Net interest income. In 2022, net interest income, amounted to NIS 8,693 million compared with NIS 6,529 million in 2021, an increase of 33.1%. The rise in the net interest income, in the amount of NIS 2,164 million, is explained by a positive price impact of approx. NIS 1,130 million, and from a positive quantitative effect in the amount of approx. NIS 1,034 million (see "Rates of interest income and expenses and analysis of the changes in interest income and expenses" in Appendix No.1).
The interest margin, excluding derivatives, reached a rate of 2.38% in 2022, compared with 2.21% in 2021.
The average balance of interest bearing assets has increased by a rate of approx. 15.9%, from an amount of NIS 278,970 million to NIS 323,381 million, and the average balance of interest bearing liabilities has increased by a rate of approx. 22.4%, from an amount of NIS 198,776 million to NIS 243,336 million.

Net interest income according to linkage segments

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

	2022				2021			
	Volume of activity(1) in %	Weight out of total net interest income, in %	Net interest income in NIS millions	Interest spread in %	Volume of activity(1) in %	Weight out of total net interest income, in %	Net interest income in NIS millions	Interest spread in %
Unlinked shekels	72.9	75.6	6,574	2.59	72.6	74.3	4,851	2.33
CPI-linked shekels	7.7	12.8	1,112	1.65	7.9	9.0	587	0.49
Foreign Currency	19.4	11.6	1,007	1.58	19.5	16.7	1,091	1.91
Net interest income and the interest spread	**100.0**	**100.0**	**8,693**	**2.38**	**100.0**	**100.0**	**6,529**	**2.21**

Footnote:
(1) According to the average balance of the interest bearing assets.

The growth in net interest income, stemmed mostly from an increase in credit to the public in the non-linked segment from an increase in the Bank of Israel interest rate and from the effect of the difference between the rise in the CPI in 2022, by a rate of 5.3%, and the rise of 2.4% in 2021.

In the non-linked shekel segment, net interest income increased in 2022 at a rate of 35.5%. Income from this segment constituted 75.6% of total net interest income in 2022, compared with 74.3% in 2021.

The average balance of assets in this segment increased in 2022 by 16.6% compared with 2021.

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

The CPI-linked Shekel segment, net interest income increased in 2022 at a rate of 89.4% and its proportion of total net interest income in 2021 was 12.8%, compared with 9.0% in 2021. The average asset balance in this segment in 2022 increased by a rate of 14.2% compared with 2021.

The Bank has a surplus of balance-sheet assets over its balance-sheet liabilities and the increase in profits stemmed mostly from the increase in the CPI, and from an increase in the volume of net interest bearing assets, mostly credit to the public.

In the foreign currency segment, which includes activities in the foreign currency-linked shekel segment, net interest income increased in 2022 by a rate of 7.7%. Its proportion of all net profit was 11.6% in 2021, compared with 16.7% in 2021.

The average balance of assets in this segment increased in 2022 at a rate of 14.0% compared to 2021.

The decrease in the segment's profit is due to a decrease in the interest spread. The decrease in the interest margin was affected, inter alia, by the change in the mix of assets and liabilities.

Non-interest financing income decreased in 2022 at a rate of 45.5%, compared with 2021. The decline in non-interest financing income stems, mostly, from the decline in income from derivatives operations, from a reduction in gains on investment in shares and from the decrease in gains on realization and from adjustments to fair value of bonds, which were offset by an increase in exchange differences (see below "Analysis of the total net financing income").

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

Composition of net financing income

	Annual	Q4	Q3	Q2	Q1
			in NIS millions		
			2022		
Interest income	11,700	3,930	3,113	2,573	2,084
Interest expenses	3,007	1,390	833	500	284
Net interest income	8,693	2,540	2,280	2,073	1,800
Non-interest financing income (expense)	417	248	151	(27)	45
Total net financing income	**9,110**	**2,788**	**2,431**	**2,046**	**1,845**
			2021		
Interest income	7,491	1,871	1,912	1,997	1,711
Interest expenses	962	188	255	312	207
Net interest income	6,529	1,683	1,657	1,685	1,504
Non-interest financing income	765	180	198	89	298
Total net financing profit	**7,294**	**1,863**	**1,855**	**1,774**	**1,802**

Analysis of the total net financing income

	Annual	Q4	Q3	Q2	Q1
	in NIS millions				
	2022				
Financing Income from current operations	8,473	2,513	2,265	1,965	1,730
Effect of CPI on net interest income	626	111	151	230	134
Effect of CPI on derivative instruments	(156)	(15)	(39)	(65)	(37)
Net profit from realization and adjustment to fair value of bonds(1)	(31)	(96)	(11)	16	60
Profit (losses) from investments in shares(2)	84	2	41	(15)	56
Adjustment to fair value of derivative instruments	(170)	210	(50)	(186)	(144)
Exchange rate differences, options and other derivatives(1)	279	62	71	100	46
Net profit on the sale of loans	5	1	3	1	-
Total net financing income	**9,110**	**2,788**	**2,431**	**2,046**	**1,845**
Footnotes:					
(1) Exchange rate differences for trading bonds are included in the exchange rate differences line	23	3	(3)	19	4
(2) Of which: income from realizations in Discount Capital in deduction of provision for impairment	57	(2)	5	15	39
	2021				
Financing Income from current operations	6,407	1,682	1,594	1,587	1,544
Effect of CPI on net interest income	288	28	96	152	12
Effect of CPI on derivative instruments	(62)	(8)	(21)	(31)	(2)
Net profit from realization and adjustment to fair value of bonds(1)	125	2	20	27	76
Profit from investments in shares(2)(3)	398	118	85	95	100
Adjustment to fair value of derivative instruments	(3)	30	37	(72)	2
Exchange rate differences, options and other derivatives(1)	141	11	44	16	70
Total net financing profit	**7,294**	**1,863**	**1,855**	**1,774**	**1,802**
Footnotes:					
(1) Exchange rate differences for trading bonds are included in the exchange rate differences line	(16)	(11)	(5)	(1)	1
(2) Of which: income from realizations in Discount Capital	194	84	73	26	11
(3) See note 12 (L).					

Net financing income increased in 2022 at a rate of 24.9%. The increase in financing income stemmed mostly from an increase in financing income from current operations as well as from the effect of the rise in the CPI, which were offset by adjustments to fair value of derivative instruments and a reduction in gains on investment in shares and a decline in net gains on the realization and adjustments of bonds.

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

Interest spread, including derivatives not for trading reached 2.03% in 2022, compared to 1.97% in 2021.

Net financing income, increased in the fourth quarter of 2022, at a rate of 49.7%, compared with the corresponding quarter last year, and increased at a rate of 14.7% compared with the third quarter of 2022.

The interest spread relating to balance-sheet activity reached a rate of 2.53% in the fourth quarter of 2022, as against 2.19% in the corresponding quarter last year and against 2.44% in the third quarter of the year.

Interest spread, including derivatives not for trading reached in the fourth quarter of 2022 a rate of 2.12%, compared to 1.95% in the corresponding quarter last year and compared to 2.09% in the third quarter of the year.

Development of net interest income, by regulatory operating segments

	For the year ended December 31,		
	2022	2021	Change
	In NIS millions		in %
Domestic operations:			
Households	3,081	1,972	56.2
Private banking	201	49	310.2
Small and minute businesses	1,955	1,422	37.5
Medium businesses	503	374	34.5
Large businesses	1,125	872	29.0
Institutional bodies	65	29	124.1
Financial management	616	963	(36.0)
Total Domestic operations	**7,546**	**5,681**	**32.8**
Total International operations	**1,147**	**848**	**35.3**
Total	**8,693**	**6,529**	**33.1**

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

Credit loss expenses. The accounting policy regarding current expected credit losses (CECL) was initially applied from January 1, 2022, as detailed in Note 1 C 5 to the financial statements. At date of initial implementation, the allowance was adjusted to the new accounting policy, and the cumulative effect thereof was recognized in the balance of retained earnings as of January 1, 2022.
In 2022 credit loss expenses were recorded in an amount of 407 million were recorded, compared with expenses release of NIS 693 million in 2021.
The credit loss expenses increase in 2022 has been mostly affected by the following factors:
- Expenses increase on a group basis in the amount of NIS 346 million, compared to expenses release of NIS 599 million, in 2021. Expenses in the current year was affected mostly from the increase in expenses for macro-economic components and growth in the balance of credit;
- In 2022, no expenses were recorded on a specific basis, this as a result of recording collections and mitigation in classification, which were offset by accounting write-offs, as compared with the expenses release of NIS 99 million in 2021;
- Expenses for housing loans in the amount of NIS 61 million (including expense release amounting to NIS 2 million, for housing loans in the commercial sectors), compared to expenses in an amount of NIS 5 million in 2021 (including expense release amounting to NIS 1 million, for housing loans in the commercial sectors), affected, mostly, from the growth in credit and from the effect of macro-economic components.

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

Details of the annual development in the credit loss expenses

	2022	2021
	In NIS millions	
On a specific basis		
Change in allowance	(107)	(101)
Gross accounting write-offs	272	319
Collection	(165)	(317)
Total on a specific basis	**-**	**(99)**
On a group basis		
Change in allowance	263	(648)
Gross accounting write-offs	506	308
Collection	(362)	(254)
Total on a group basis	**407**	**(594)**
Total	**407**	**(693)**
Rate of credit loss expenses (expenses release) to the average balance of credit to the public	0.18%	(1)(0.34%)

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

Details of the quarterly development in the credit loss expenses

	2022				2021			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions							
On a specific basis								
Change in allowance	(30)	30	(36)	(71)	(14)	10	(88)	(9)
Gross Accounting Write-offs	111	53	50	58	88	75	65	91
Collection	(24)	(70)	(49)	(22)	(59)	(65)	(140)	(53)
Total on a specific basis	**57**	**13**	**(35)**	**(35)**	**15**	**20**	**(163)**	**29**
On a group basis								
Change in allowance	128	55	126	(46)	(45)	(166)	(249)	(188)
Gross Accounting Write-offs	132	124	138	112	88	73	70	77
Collection	(87)	(86)	(98)	(91)	(68)	(53)	(68)	(65)
Total on a group basis	**173**	**93**	**166**	**(25)**	**(25)**	**(146)**	**(247)**	**(176)**
Total	**230**	**106**	**131**	**(60)**	**(10)**	**(126)**	**(410)**	**(147)**
Rate of credit loss expenses (expenses release) to the average balance of credit to the public[1]:								
The rate in the quarter:	(2)0.38%	(2)0.18%	(2)0.23%	(2)(0.11%)	(0.02%)	(2)(0.25%)	(0.82%)	(2)(0.30%)
Cumulative rate since the beginning of the year:	0.18%	(2)0.10%	(2)0.06%	(2)(0.11%)	(2)(0.34%)	(2)(0.46%)	(2)(0.56%)	(2)(0.30%)

Footnotes:
(1) On an annual basis.
(2) Including an expense in an immaterial amount for credit to banks and governments.

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

Fees and commissions amounted to NIS 3,404 million in 2022, compared with NIS 3,125 million in 2021, an increase of 8.9%. The growth was mainly affected by credit card fees and commissions.

Distribution of fees and commissions

	For the year ended December 31,		
	2022	2021	Change
	in NIS millions		in %
Account Management fees	472	440	7.3
Credit cards	1,709	1,502	13.8
Operations in securities and in certain derivative instruments	361	407	(11.3)
Fees and commissions from the distribution of financial products	158	158	-
Handling credit	226	188	20.2
Conversion differences	161	137	17.5
Foreign trade services	60	56	7.1
Fees and commissions on financing activities	177	159	11.3
Other fees and commissions	80	78	2.6
Total fees and commissions	**3,404**	**3,125**	**8.9**

Salaries and related expenses amounted to NIS 3,568 million in 2022, compared with NIS 3,468 million in 2021, an increase of 2.9%. (For details as to the components of this item, see Note 6 to the financial statements). Eliminating the effect of certain components as detailed below, an increase of 5.0% would have been recorded.

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

	For the year ended December 31			Change in %	
	2022	2021	2020	2022 compared to 2021	2021 compared to 2020
	In NIS millions				
Salaries and Related Expenses - as reported	3,568	3,468	3,242	2.9	7.0
Awards	(495)	(542)	(122)		
Retirement plan in a subsidiary	-	-	(31)		
Salaries and Related Expenses - excluding certain components	**3,073**	**2,926**	**3,089**	**5.0**	**(5.3)**

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

					2021			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions							
Salaries and Related Expenses - as reported	988	881	844	855	970	867	830	801
Awards	(210)	(106)	(95)	(85)	(222)	(147)	(118)	(55)
Salaries and Related Expenses - excluding certain components	**778**	**775**	**749**	**770**	**748**	**720**	**712**	**746**

Other expenses amounted to NIS 2,417 million in 2022, compared to NIS 2,203 million in 2021, an increase of 9.7%. The increase was affected, mainly, by an increase in expenses regarding fees and commissions, computer, marketing and advertising and other, which were partly offset by the decline in settlement in 2022, as compared to 2021 that was affected by the 2020 retirement plan.
For additional details, see Note 7 to the financial statements.

Investments and Expenses for the Information Technology System

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

Investments and expenses for the information technology system

	December 31, 2022				December 31, 2021			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
	in NIS millions							
Expenses for the information technology system, as included in the statement of profit and loss:								
Payroll and related expenses	257	87	29	373	211	77	27	315
Acquisitions or license fees not capitalized to assets	208	3	-	211	169	3	-	172
Outsourcing expenses	129	12	1	142	92	10	13	115
Depreciation expenses	376	85	8	469	348	90	10	448
Other expenses	102	33	58	193	108	29	48	185
Total	**1,072**	**220**	**96**	**1,388**	**928**	**209**	**98**	**1,235**
Additions to assets for information technology system not charged as an expense:								
Salaries and related expenses cost	130	-	-	130	95	-	-	95
Outsourcing costs	250	-	-	250	233	-	-	233
Acquisition or license fee costs	86	116	-	202	83	118	-	201
Equipment, buildings and real estate costs	-	-	-	-	-	-	6	6
Total	**466**	**116**	**-**	**582**	**411**	**118**	**6**	**535**
Balances of assets for the information technology system:								
Total amortized cost	**1,256**	**287**	**67**	**1,610**	**1,192**	**255**	**163**	**1,610**
Of which: for salaries and related expenses	996	2	5	1,003	910	2	2	914

For additional details, see Note 16 to the financial statements.

Developments in the Other Comprehensive Income (loss)

Changes in other comprehensive income (loss) after tax effect

	Other comprehensive income (loss), before attribution to non-controlling interests					Other comprehensive income (loss) attributed to non-controlling interests	Other comprehensive loss attributed to the Bank's shareholders
	Net adjustments, for presentation of available-for- sale bonds at fair value	Adjustments from translation of financial statements(1)	Net profit (loss) on cash flows hedge	Adjustments for employee benefits	Total		
	in NIS millions						
Balance at December 31, 2019	374	(344)	2	(524)	(492)	(11)	(481)
Net change during the year	112	(254)	(1)	(2)(275)	(418)	(2)	(416)
Balance at December 31, 2020	**486**	**(598)**	**1**	**(799)**	**(910)**	**(13)**	**(897)**
Net change during the year	(243)	(113)	(2)	(16)	(374)	3	(377)
Balance at December 31, 2021	**243**	**(711)**	**(1)**	**(815)**	**(1,284)**	**(10)**	**(1,274)**
Net change during the year	(3)(1,562)	484	(19)	363	(734)	4	(738)
Balance at December 31, 2022	**(1,319)**	**(227)**	**(20)**	**(452)**	**(2,018)**	**(6)**	**(2,012)**

Footnotes:
(1) Including adjustments from translation of financial statements of a consolidated subsidiary - Discount Bancorp Inc., the functional currency of which is different from that of the Bank.
(2) Including an amount of NIS 365 million in the whole of 2020, for the 2020 retirement plan, see Note 8 C.
(3) See Note 12 M to the financial statements.

The comprehensive income amounted in 2022 to NIS 2,757 million, as compared with NIS 2,396 million in 2021. The difference between the comprehensive income for this year and the net profit, stemmed mostly from unrealized losses in the amount of NIS 1,562 million on available-for-sale bonds, profits in the amount of NIS 484 million on translation adjustments and from profits of NIS 363 million on adjustments relating to employee benefits.

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

Developments of Assets and Liabilities

Total assets as at December 31, 2022 amounted to NIS 376,754 million, compared with NIS 335,088 million at the end of 2021, an increase of 12.4%.

Developments in the principal balance sheet items

	December 31, 2022	December 31, 2021	Rate of change in %
	in NIS millions		
Assets			
Cash and deposits with banks	65,713	59,638	10.2
Securities	44,794	43,869	2.1
Net credit to the public	241,079	213,156	13.1
Liabilities			
Deposits from the public	292,293	260,907	12.0
Deposits from banks	15,376	12,534	22.7
Subordinated debt notes	12,308	15,071	(18.3)
Shareholders' equity	24,880	21,483	15.8
Total equity	25,478	22,148	15.0

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

Explanation of changes in certain balance sheet items

Cash and deposits with banks. Cash and deposits with banks increased in 2022 by approx. 10.2%, comprising an increase of approx. NIS 6.1 billion. Most of the increase stems from the resources at the Bank (mostly deposits by the public) growing at a faster rate than the growth rate of credit in 2022.

Deposits by the public. Increased by approx. NIS 31 billion, stemming from attracting deposits from customers of the Bank in order to finance the growth in credit of the Group. Most of the increase in deposits came from deposits by business customers.

Deposits by banks. The growth stems from growth in business activity with banks.

Bonds and subordinated debt notes. The balance declined by approx. NIS 2.8 billion, as a result of current maturity of bonds, which was partly offset by the issue of bonds in the amount of approx. NIS 2.2 billion. For additional details see Note 21 to the financial statements.

Credit to the Public

General. Net credit to the public, as at December 31, 2022, amounted to NIS 241,079 million, compared with NIS 213,156 million on December 31, 2021, an increase of 13.1%. The ratio of net credit to the public, to total assets reached 64% at the end of 2022, compared with 63.3% at the end of 2021.

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

Composition of Credit to the Public by Linkage Segments

Composition of net credit to the public by linkage segments

	December 31, 2022		December 31, 2021		
	In NIS millions	% of total credit to the public	In NIS millions	% of total credit to the public	Rate of change in %
Non-linked shekels	179,846	74.6	156,869	73.5	14.6
CPI-linked shekels	24,334	10.1	21,435	10.1	13.5
Foreign currency and foreign currency-linked shekels	36,899	15.3	34,852	16.4	5.9
Total	**241,079**	**100.0**	**213,156**	**100.0**	**13.1**

Credit to the public denominated in foreign currency and in Israeli currency linked thereto increased by 5.9% compared with December 31, 2021. In U.S. Dollar terms, credit to the public in foreign currency and foreign currency linked Shekels decreased by US$721 million as compared to December 31, 2021, a decrease of 6.4%. The total credit to the public, which includes credit in foreign currency and Israeli currency linked to foreign currency computed in dollar terms, increased by 11.1% as compared to December 31, 2021.

Composition of Credit to the Public by Regulatory Operating Segments

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

	December 31, 2022	December 31, 2021	change
	In NIS millions		in %
Domestic operations:			
Households*	97,457	83,635	16.5
Private banking*	490	440	11.4
Small and minute businesses	41,185	(1)39,031	5.5
Medium businesses	17,224	14,770	16.6
Large businesses	58,407	50,393	15.9
Institutional bodies	416	(1)1,337	(68.9)
Total Domestic operations	**215,179**	**189,606**	**13.5**
Total International operations*	**29,109**	**26,590**	**9.5**
Total credit to the public	**244,288**	**216,196**	**13.0**
Credit loss expenses	(3,209)	(3,040)	5.6
Total net credit to the public	**241,079**	**213,156**	**13.1**
*Of which - Mortgages	65,325	53,944	21.1

Footnote:
(1) Reclassified - see Note 29 C (1) to the financial statements.

The increase in credit to the public in 2022 reflects growth in the focus points determined in the updated strategic plan: credit to households excluding housing loans grew by NIS 2,592 million (8.6%). Credit to medium businesses grew by NIS 2,454 million (16.6%). Credit to large businesses increased by NIS 8,014 million (15.9%) and housing credit grew by NIS 11,381 million (21.1%).
As seen from the above table, IDB Bank recorded in 2022 significant growth regarding the credit balances.

Composition of Credit to the Public by Economic Sectors

Developments of overall credit exposure, by major principal sectors

	December 31, 2022		December 31, 2021		
Economic Sectors	Total credit to the public risk	Rate from total credit risk	Total credit to the public risk	Rate from total credit risk	Rate of change
	in NIS millions	%	in NIS millions	%	in %
Industry	22,832	6.1	20,641	6.1	10.6
Construction and real estate - construction	49,370	13.1	43,297	12.9	14.0
Construction and real estate - real estate activity	30,312	8.1	26,048	7.7	16.4
Commerce	37,936	10.0	32,295	9.6	17.5
Financial services	35,965	9.6	33,081	9.8	8.7
Private individuals - housing loans	73,674	19.6	63,954	19.1	15.2
Private individuals - other	75,391	20.0	69,496	20.6	8.5
Other sectors	50,735	13.5	47,605	14.2	6.6
Total overall credit to the public risk	**376,215**	**100.0**	**336,417**	**100.0**	**11.8**

The data presented above indicates that in 2022, the overall risk regarding credit to the public increased by 11.8% compared with the end of 2021. This growth applied to credit granted for all sectors.

Development of Problematic Credit Risk

For details regarding identification and classification of non-accruing debts, a term replacing the term impaired debts, see Note 1 D 4a to the financial statements.
Following are details on credit to the public, as specified in Note 31 to the financial statements:
Problematic credit to the public. The balance sheet problematic credit to the public (interest accruing and non-accruing) amounted at December 31, 2022 to NIS 6,703 million, compared to NIS 6,290 million at December 31, 2021, an increase at the rate of 6.6%.
Problematic credit non-accruing interest. The non-accruing interest problematic credit to the public amounted at December 31, 2022 to NIS 1,520 million, compared to NIS 1,531 million as at January 1, 2022, a decrease at a rate of 0.7%.

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

	December 31, 2022			December 31, 2021		
Economic Sectors	Total credit risk	Of which: Problematic credit risk	Rate of problematic risk	Total credit risk	Of which: Problematic credit risk	Rate of problematic risk
	in NIS millions		%	in NIS millions		%
Industry	22,832	739	3.2	20,641	598	2.9
Construction and real estate - construction	49,370	1,219	2.5	43,297	639	1.5
Construction and real estate - real estate activity	30,312	1,361	4.5	26,048	1,146	4.4
Commerce	37,936	931	2.5	32,295	967	3.0
Financial services	35,965	5	0.0	33,081	95	0.3
Private individuals - housing loans	73,674	313	0.4	63,954	280	0.4
Private individuals - other	75,391	529	0.7	69,496	562	0.8
Hotels, Hotel Services and Food	3,842	466	12.1	4,058	1,272	31.3
Transportation and Storage	7,434	271	3.6	7,334	382	5.2
Other Sectors	39,459	1,382	3.5	36,213	918	2.5
Total Public	**376,215**	**7,216**	**1.9**	**336,417**	**6,859**	**2.0**
Banks	7,136	-	-	6,991	-	-
Governments	36,055	-	-	35,313	-	-
Total	**419,406**	**7,216**	**1.7**	**378,721**	**6,859**	**1.8**

In 2022 the ratio of problematic credit risk to the total credit risk decreased. The total problematic debts decreased mostly in the sectors of hotels, hotel services and food, transportation and storage, financial services and commerce. On the other hand, the total problematic debts increased mostly in construction and real estate – construction, construction and real estate - real estate activity, other sectors and industry sectors.

The Balances of the Allowance for Credit Losses

The balance of the allowance for credit losses. The balance of the allowance for credit loss, including the allowance on a specific basis and the allowance on a group basis, but not including allowance for off-balance sheet credit risk, stood at NIS 3,209 million as of December 31, 2022. The balance of this allowance constitutes 1.31% of the credit to the public, compared with a balance of the allowance in the amount of NIS 3,040 million, constituting 1.41% of the credit to the public as of December 31, 2021, and compared to the balance of allowance of NIS 2,995 million as of January 1, 2022, following the initial application of the new accounting policy, which comprised 1.39% of credit to the public.
The balance of allowances for credit losses for non-accruing credit amounted on December 31, 2022, to NIS 248 million.
The balance of allowances for credit losses for accruing credit amounted on December 31, 2022, to NIS 2,961 million (of which: for accruing problematic debts – NIS 397 million).

The Risk Characterization of the Credit to the Public Portfolio

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

	For the year ended December 31			
	2022		2021	
	Credit loss expense (expense reversal)	Rate of expense (expense reversal)	Credit loss expense (expense reversal)	Rate of expense
sectors	In NIS millions	%	In NIS millions	%
Industry	37	0.3	(63)	(0.5)
Construction and real estate - construction	153	0.7	14	0.1
Construction and real estate - real estate activity	25	0.1	(67)	(0.3)
Commerce	(33)	(0.1)	(150)	(0.6)
Hotels, hotel services and food	(53)	(1.6)	(100)	(2.7)
Transportation and storage	(29)	(0.5)	(21)	(0.4)
Financial services	(8)	(0.1)	(16)	(0.1)
Other Business Services	(13)	(0.2)	(67)	(1.1)
Public and Community Services	60	0.4	(16)	(0.1)
Other Sectors	43	-	(48)	-
Total Commercial	**182**	**0.1**	**(534)**	**(0.4)**
Private Individuals - Housing Loans	63	0.1	6	0.0
Private Individuals - Other	162	0.5	(172)	(0.5)
Total credit loss expenses (expense release) to the public	**407**	**0.2**	**(700)**	**(0.3)**
Total Banks and Governments	-	-	7	0.3
Total credit loss expenses (expense release)	**407**	**0.2**	**(693)**	**(0.3)**

The data shown above indicates that the increase in the credit loss expense in 2021 was focused on the private individuals – other, construction and real estate – construction, private individuals – housing loans and public and community services sectors.

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

Approx. 99.03% of borrowers were granted credit of no more than NIS 1.2 million. Credit to this group constituted 34.0% of total credit to the public as at December 31, 2022, compared with 35.6% as at December 31, 2021. The credit bracket between NIS 1.2 million and NIS 200 million constitutes approx. 46.3% of all credit as at December 31, 2022, similar to December 31, 2021. The 160 largest borrowers, in the credit brackets between NIS 200 million and NIS 6,723 million, were granted credit constituting approx. 19.7% of total credit to the public as at December 31, 2022, compared with 131 borrowers that were granted credit constituting 18.1% of the total credit as at December 31, 2021. For details regarding credit levels in excess of NIS 800 million, see "Appendices to the annual report" – Appendix 7, section 2.
For additional details, see "Credit risks" in Chapter "C" below, and also "Credit risk" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

Securities

General. Securities in the nostro portfolio amounted to NIS 44,794 million as at December 31, 2022, compared with NIS 43,869 million at the end of 2021, an increase of 2.1%.

Following are securities included in the "nostro" portfolio of the Discount Group, the investment in which as of December 31, 2022, amounted to 5% or over of the total amount of the portfolio: "government variable 1130" and the "shekel government 219" security types, which amounted to approx. 9.6%, and approx. 5.0%, of the total portfolio, respectively.

As of December 31, 2022, approx. 70.9% of the portfolio is invested in Government bonds, and approx. 15.5% of the portfolio is invested in bonds backed by mortgages of different federal agencies (Freddie Mac, Fannie Mae, Ginnie Mae) with an "AAA" rating, (of which - approx. 0.5% of the portfolio is invested in bonds of U.S. Government Supported Enterprises (GSE)). For details regarding the Bank's investments in bonds, according to economic sectors, see "Appendices to the annual report", appendix 6, sections 1-3. For details regarding the distribution of the investment in government bonds according to principal governments, see "Appendices to the annual report" - appendix 7, section 3.

Nostro portfolios management policy. The Bank's "nostro" investment portfolios and of its subsidiaries are used as a central tool in the management of linkage base and interest rate risks, the management of the liquidity buffer and the distribution of the credit risks among sectors and countries in which the exposure level of the banking credit portfolio is low. The portfolios are managed with a general overview of the Bank's balance sheet, aiming at maximizing interest income, under risk limitations determined by the Board of Directors and the Boards of Directors of the subsidiaries.

The assets and liabilities management committee is the function approving the interest rate and linkage base exposures in the Bank's balance sheet. Investments that have a credit risk component are managed within the framework of a group investment policy, which has established goals and distribution limitations and has defined areas of expertise for each company in the group.

In 2022, the securities portfolio increased by 2.1%, stemming mostly from the growth in assets and mortgages backed, foreign countries bonds and from the growth in not for trade shares. Investments were made according to the principles detailed above.

Composition of the Securities Portfolio by Linkage Segments

Composition of the securities portfolio by linkage segments

	December 31, 2022	December 31, 2021	Rate of
	In NIS millions		change in %
Non-linked shekels	21,961	24,254	(9.5)
CPI-linked shekels	2,494	1,043	139.1
Foreign currency and foreign currency-linked shekels	18,546	16,953	9.4
Shares - non-monetary items	1,793	1,619	10.7
Total	**44,794**	**43,869**	**2.1**

Securities in foreign currency and in Israeli currency linked foreign currency increased by 9.4% compared with December 31, 2021. In U.S. Dollar terms, the securities in Israeli currency and in foreign currency linked Israeli currency decreased by US$181 million, a decrease of 3.3% as compared with December 31, 2021. Total securities, including securities in foreign currency and in Israeli currency linked to foreign currency expressed in U.S. Dollar terms, decreased by 2.8% as compared with December 31, 2021.

Composition of the Securities Portfolio according to Portfolio Classification

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

Composition of investments in securities portfolio according to portfolio classification

	December 31 ,2022			December 31 ,2021		
	Amortized Cost (in shares-cost)	Fair value	Book value	Amortized Cost (in shares-cost)	Fair value	Book value
	in NIS millions					
Bonds						
Held to maturity	14,847	13,594	14,847	10,197	10,377	10,197
Available for sale	27,344	25,858	25,858	30,733	31,027	31,027
Trading	2,309	2,296	2,296	1,026	1,026	1,026
Shares						
Available for sale	1,692	1,767	1,767	1,513	1,613	1,613
Trading	4	26	26	3	6	6
Total Securities	**46,196**	**43,541**	**44,794**	**43,472**	**44,049**	**43,869**

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

The rise in yields recorded since the beginning of the year was very steep and exceptional from an historical point of view. Differently from prior events of rising yields, in which the central banks around the world had immediately adopted an expansionary monetary policy, in the present event central banks around the world adopted a sharp change in policy, to a narrowing monetary policy. Moreover, the war between Russia and the Ukraine has led to a global increase in commodity prices and to impairment in the chain of supply, which had started even before the outbreak of the war, gaining acceleration in its wake, and thus causing a significant rise in inflation and in uncertainty. In consequence of these exceptional developments, the markets expect that in order to curb inflation, the rate of increase in interest would be exceptional in comparison to the past.

In the opinion of the Bank, the above described circumstances agree with the term "rare event", as defined in the public reporting instructions, and as such, justify the transfer between the portfolios.

The implementation of this step significantly reduced the level of exposure of the Bank's equity capital and of the capital adequacy ratio to fluctuations in prices of bonds, caused by exogenous factors, as discussed above.

Corporate bonds (excluding mortgages and assets backed bonds). Discount Group's available-for-sale bonds portfolio as of December 31, 2022, includes investments in corporate bonds in the amount of NIS 2,703 million (of which an amount of NIS 367 million is held by IDB Bank), compared with NIS 3,166 million as of December 31, 2021, a decrease of 14.6%. For details as to the balance of unrealized profit (losses) included in the balance of the said bonds, see Note 12 to the financial statements.

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

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

Investments in Mortgage and Asset Backed Securities

General. Discount Group's securities portfolio as of December 31, 2022 includes investment in mortgage-backed and asset-backed bonds in an amount of NIS 8,412 million, compared with NIS 8,190 million as of December 31, 2021. The amount includes investment in mortgage and asset backed bonds in the amount of NIS 7,592 million, which are held by IDB Bank, compared to an amount of NIS 7,607 million as at December 31, 2021, a decrease of 0.2%. Approx. 82.7% of the mortgage and asset backed securities portfolio are comprised of debentures of various federal agencies (Ginnie Mae, Fannie Mae, Freddie Mac) with an AA-AAA rating in the U.S.. The investment in the said bonds does not include exposure to the subprime market.

As of December 31, 2022, the portfolio of mortgage and assets backed securities included unrealized net losses of NIS 1,063 million, compared with net losses in an amount of NIS 58 million as of December 31, 2021.
U.S. Government Sponsored Enterprises. Fannie Mae and Freddie Mac are Government Sponsored Enterprises (GSE) chartered by the U.S. Congress with mission to provide liquidity and stability to the U.S. housing and mortgage markets. To accomplish their mission, the GSE operate in the secondary mortgage market. Rather than granting home loans directly to the consumers, the GSE work with mortgage banks, brokers, and other primary mortgage market partnerships ensuring they have the funds to lend to home buyers at affordable rates. The GSE fund their mortgage investments primarily by issuing debt securities in the domestic and international markets.
All of the GSE-MBS held by IDB Bank are performing up to their conditions.
In addition to Fannie Mae and Freddie Mac, a third GSE is the Federal Home Loan banks whose mission is to provide liquidity and stability to its U.S. member banks.
CLO. IDB Bank holds secured bonds of the CLO class in a total amount of NIS 629 million. The said securities are rated AA-AAA by at least one rating agency. The Bank holds bonds of the CLO class in the amount of NIS 818 million. The said securities are rated AA-AAA. For details, see Note 12 to the financial statements.

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

In light of the increase trend in yields to maturity recorded in the bond market in 2022, an increase in unrealized losses, included in the portfolio of available-for-sale bonds, was recorded in 2022, which as of December 31, 2022 amounted to a total of NIS 1,566 million, representing approx. 6.0% of the portfolio balance (December 31, 2021 - losses in the amount of NIS 166 million, approx. 0.54% of the portfolio balance). As assessed by the Management, these losses are due to an increase in yields in the capital market in 2022, which is explained by the expectation of an increase in interest rates and a change in inflation expectations. It should also be noted that most of the losses in the portfolio are attributed to bonds issued by governments (mainly the Israeli government) and bonds backed by assets or mortgages. Based on the above, the Bank's Management estimates that these losses stem from changes in the market and not from credit losses. The classification of losses inherent in the portfolio of available-for-sale bonds is reviewed by the Bank on a quarterly basis. Based on these tests, a provision for impairment in value of NIS 45 million was recognized in the profit and loss statement in 2022.
For details regarding the review of impairment in value of available-for-sale bonds, see below "Critical accounting policies and critical accounting estimates" and Note 1 D 4a to the financial statements.
For details regarding unrealized losses on available-for-sale bonds that are in a loss position, by period of time and rate of impairment, see Note 12 D to the financial statements.

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

The balance of the adjustments presented as part of equity, for stating available-for-sale bonds at fair value, including for bonds on loan, amounted at December 31, 2022, to NIS 1,940 million unrealized losses before tax effect, compared to NIS 377 million unrealized gains before the tax effect, as of December 31, 2021.

Customer Assets

Deposits from the public as at December 31, 2022, amounted to NIS 292,293 million, compared with NIS 260,907 million at the end of 2021, an increase of 12%.

Composition of deposits from the public by linkage segments

	December 31, 2022		December 31, 2021		
	In NIS millions	% of total Deposits from the public	In NIS millions	% of total Deposits from the public	Rate of change in %
Non-linked shekels	196,945	67.4	179,371	68.7	9.8
CPI-linked shekels	4,188	1.4	4,110	1.6	1.9
Foreign currency and foreign currency-linked shekels	91,160	31.2	77,426	29.7	17.7
Total	**292,293**	**100.0**	**260,907**	**100.0**	**12.0**

Deposits from the public in foreign currency and in Israeli currency linked to foreign currency increased at the rate of 17.7%, compared with December 31, 2021. In dollar terms the deposits from the public in foreign currency and in Israeli currency linked to foreign currency increased by US$1,009 million, an increase of 4.1% compared with December 31, 2021. Total deposits from the public, including deposits in foreign currency and in Israeli currency linked to foreign currency computed in U.S. Dollar terms, increased by 8.0%, as compared with December 31, 2021.

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

	December 31, 2022	December 31, 2021	Change in %
	In NIS millions		
Domestic operations:			
Households	94,036	89,965	4.5
Private banking	22,319	18,999	17.5
Small and minute businesses	47,752	(1)47,703	0.1
Medium businesses	15,093	(1)12,780	18.1
Large businesses	48,002	(1)35,267	36.1
Institutional bodies	29,655	(1)22,383	32.5
Total Domestic operations	**256,857**	**227,097**	**13.1**
Total International operations	**35,436**	**33,810**	**4.8**
Total deposits from the public	**292,293**	**260,907**	**12.0**

Footnote:
(1) Reclassified - see Note 29 C (1) to the financial statements.

The ratio of total net credit to the public, to deposits from the public was approx. 82.5% as at December 31, 2022, compared with 81.7% at the end of 2021.
Deposits from the public of the three largest depositor groups amounted as of December 31, 2022, to NIS 7,417 million.
Securities held for customers. On December 31, 2022, the balance of the securities held for customers at the Bank amounted to approx. NIS 187.12 billion, including approx. NIS 1.58 billion of non-marketable securities, compared to approx. NIS 235.02 billion as at December 31, 2021, including approx. NIS 1.9 billion of non-marketable securities, a decrease of approx. 20.4%. For details as to income from security activities, see Note 4 to the financial statements. In addition, the balance of securities held on behalf of customers at the MDB as of December 31, 2022, amounted to approx. NIS 11.45 billion, compared with approx. NIS 12.69 billion on December 31, 2021, a decrease of 9.8%. The decline in the amount of the portfolios at the Bank and at MDB stems mostly from the decline in the domestic and the global capital markets.
Pension advisory services. The total cumulative assets of customers receiving pension consulting services from the Bank as at December 31, 2022, amounting to approx. NIS 21.65 billion, compared with NIS 23.8 billion as of December 31, 2021, a decrease of 9.0%, which stemmed, which stemmed from the decreases in the markets in 2022.

Capital and Capital Adequacy

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

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

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

Issuance of subordinated debt notes (Series I). During November 2022, the Bank completed one issuance process of subordinated debt notes (Coco) through "Manpikim", in a total amount of approx. NIS 463 million. The said issuance increased the total capital ratio by 0.18%.

Early redemption of regulatory capital instruments. On January 10, 2022, the Bank redeemed the subordinated debt notes Series L (which include a "loss absorption" mechanism) by way of a full early redemption, according to the terms of the capital notes and after obtaining the Supervisor of Banks' approval, in a total amount of approx. NIS 784 million, including interest and linkage differences. All as set forth in the immediate report dated January 10, 2022 (reference no. 2022-01-005026). Had the aforesaid early redemption taken place on December 31, 2021, the total capital ratio would have been 0.37 lower.

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

Effect of the issue of capital. The issue of capital which was completed on March 30, 2022, increased the ratio of common equity tier 1 at a rate of 0.57%, in December 31, 2022 terms.

Effect of the rise in the interest rate. In the course of the year, the Bank made several moves in order to reduce the effect of the rising interest rate on the capital of the Bank. This, by transferring a part of the securities portfolio from the available-for-sale portfolio to the held to maturity portfolio, and by the hedging of an additional part of the available-for-sale portfolio. As estimated by the Bank, a rise of 1% in the interest rate would reduce the Common Equity Tier 1 ratio by 0.08%, in terms of December 31, 2022 (the calculation is based on the impact of a parallel increase in interest of 1% on the Group's securities portfolio and actuarial liabilities as of December 31, 2022, net of the tax effect).

The effect of falling prices. The decrease in Common Equity Tier 1 as a result of the decline in prices during 2022 actuarial liabilities, reached approx. 0.51%.

Effect of the implementation of the Directive regarding the standardized approach for measuring counterparty credit risk exposures. The applicable date is from July 1, 2022. The implementation of the new directive reduced the Common Equity Tier 1 ratio at the implementation date by a rate of 0.06%.

Effect of the credit rating of the State of Israel. The credit rating of the State of Israel has a direct effect on the capital requirements, in view of the fact that the capital requirement for exposure to governments, to public sector entities (local authorities, for instance) and to banks, derives from the credit rating of the State. According to estimates of the Bank, if and to the extent that the credit rating of the State of Israel would decline (at 1 notch), this would have a decrease of 0.18% in the Tier 1 capital ratio at the implementation date in terms of December 31, 2022.

Effect of the amendment to Proper Conduct of Banking Business Directive No. 203. The implementation of the amendment to the directive, with reference to the financing of the purchase of certain lands, will amount to a decrease of 0.05% in the Common Equity Tier 1 ratio following the full implementation of the said amendment. According to the relief established in the directive, this effect is spread as from the third quarter of 2022 to the second quarter of 2023.

For details regarding the purchase of credit risk insurance, including guaranties, see "Large business segment (Domestic operations) – additional details".

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

Common Equity Tier 1 goal and total capital goal

At least once a year, the Board of Directors approves the Bank's capital goals, which comprise a Common Equity Tier 1 goal and a total capital goal. These goals are based on the policy that has been approved by the Board of Directors, which expresses the Bank's appetite for risk, pursuant to which the Bank is required to maintain a higher capital adequacy level than the rate required by the ICAAP result and according to a system stress test. It should be noted that these goals consider, inter alia, the results from the Bank's internal processes for determining the capital goals (the ICAAP results) and the results of the last SREP that was carried out, which includes a dialogue between the Bank and the Banking Supervision Department in relation to the specific risks of the Bank at the time when this process was carried out and the uniform stress tests were conducted[2].
On the background of the spreading of the Corona virus and with the aim of supporting the credit needs of customers during this period, the Bank's Board of Directors decided on April 7, 2020, to adjust the goal of the Common Equity Tier 1 ratio to 8.9% (instead of the previous 9.9%), as permitted under the Provisional Instruction published by the Supervisor of Banks (see above). The total capital goal was adjusted accordingly.
On November 22, 2021, the Bank's Board of Directors decided to reestablish the goal of the Tier I capital ratio at the targeted range that had been in effect prior to the entry into effect of the Provisional Instruction. On the basis of the ICAAP and the SREP procedures as stated, including the latest uniform stress tests performed, the Board decided to reduce the said goal by 0.15%, fixing it at the rate of 9.75% as well as reduce the minimal total capital goal fixing it at the rate of 12.6%[3].

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

Capital Planning

As part of the capital planning process, the capital targets of the work plan have been set in the outline, which enables attainment of the Board of Directors' goals while maintaining a capital buffer in the event of unexpected fluctuations affecting the capital ratio, and from these the risk assets budget is derived. The allocation of the risk assets between the business units and the subsidiaries is in line with the strategic plan, while optimizing the Group's return on equity. The capital outline takes into consideration various parameters that have an effect on the capital ratios, such as: assumption of profitability consistent with the risk assets budget, dividend distribution, changes in the various capital reserves, regulatory adjustments and amortizations according to transitional instructions. The Bank examines a number of scenarios in arriving at the prescribed capital ratios.
As part of the capital management process, the Bank routinely examines its ability to attain the internal capital targets set by the Board of Directors and included in the work plan. Should the forecasted capital ratio differ considerably from that planned (by a predetermined rate), a Management discussion takes place to consider the measures that need to be taken in order to attain the prescribed outline – measures such as reducing risk assets, utilizing the capital buffer, and so forth.
For additional details, see "Capital adequacy" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks". The document is available for perusal on the Bank's website together with the Bank's 2022 Annual Report (this report), on the MAGNA site of the Israel Securities Authority, and on the MAYA site of the Tel Aviv Stock Exchange Ltd..

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

3 On June 2, 2021, the Supervisor of Banks affirmed that the requirement raising the capital goal by a rate expressing 1% of the balance of housing loans, relates only to the Common Equity Tier 1 goal, and that there is no duty to apply it also to the total capital goal. Accordingly, the minimum ratio has been reduced by 0.20%.

Exposure regarding the investment in Discount Bancorp Inc.

A US dollar exposure (structural position) in the amount of US$1,121 million exists as of December 31, 2022, stemming from the investment in the banking subsidiary in New York (Discount Bancorp Inc.). This exposure prevents material fluctuations in the ratio of capital to risk components caused by the effect of exchange rate of the US dollar on the credit risk. On the other hand, changes in the exchange rate of the dollar affect the shekel value of the investment in the said subsidiary and lead to fluctuations in other comprehensive profit and in the equity capital of the Bank.

Components of Capital

Total capital as at December 31, 2022, amounted to NIS 25,478 million, compared with NIS 22,148 million at December 31, 2021, an increase of 15%. The increase stems, mostly, from the profit for the year.
Shareholders' equity as at December 31, 2022, amounted to NIS 24,880 million, compared with NIS 21,483 million at December 31, 2021, an increase of 15.8%.
The change in Shareholders' equity in 2022 was affected, among other things, from the issue of capital to the net tune (net of issue expenses) of approx. NIS 1,398 million, by the net earnings during the period, by a decrease of NIS 1,611 million in the component of net adjustment of available-for-sale bonds presented at fair value, net of the tax effect, and from an increase of NIS 512 million in financial statements transactions adjustments and from the net actuarial gain in the amount of NIS 380 million.
The ratio of total capital, to total assets as at December 31, 2022, stood at 6.8%, compared with 6.7% as of December 31, 2021.

Components of the Regulatory Capital as of December 31, 2022

Ratio of common equity tier 1 on December 31, 2022, amounted to 10.25%, as compared with 10.14% on December 31, 2021.
Total capital ratio as of December 31, 2022, amounted to 13.03%, as compared with 13.46% on December 31, 2021.

Components of the regulatory capital as of December 31, 2022

	December 31,	
	2022	2021
	in NIS millions	
1. Capital for Calculating ratio of capital		
Common equity tier 1 after deductions	25,353	21,839
Additional tier 1 capital after deductions	-	178
Tier 1 capital	**25,353**	**22,017**
Tier 2 capital	6,878	6,971
Total capital	**32,231**	**28,988**
2. Weighted risk assets balance		
Credit risk[(2)]	225,052	194,544
Market risk	3,633	3,738
CVA risk	2,077	1,656
Operational risk	16,685	15,383
Total weighted risk assets balance	**247,447**	**215,321**
3. Ratio of capital to risk assets		
Ratio of common equity tier 1 to risk assets	10.25	10.14
Ratio of total capital to risk assets	13.03	13.46
Ratio of minimum capital required by the Supervisor of Banks		
Ratio of common equity tier 1[(1)]	9.19	8.16
Total capital ratio	12.50	11.50

Footnotes:
(1) With an addition of 0.19%, according to the additional capital requirements with respect to housing loans - see Note 25 section 1(b) to the financial statements (December 31, 2021: 0.16%).
(2) The total weighted balances of the risk assets have been reduced by NIS 252 million (December 31,2021: NIS 343 million) due to adjustments in respect to the efficiency plan.

Raising of Resources

Issue of shares. In March 2022, the Bank completed the process of a share issue in a total amount of NIS 1,428 million. For additional details, see Note 24 a to the financial statements.
Issue of regulatory capital instruments. In November 2022 the Coco bonds issuance in an overall scope of approx. NIS 463 million was concluded (Series I). For additional details, see Note 25 1 M to the financial statements.
The Bank may raise additional regulatory capital instruments according to the Bank's work plan for 2023 and market conditions, in order to maintain the total capital targets for 2023.

Additional Disclosure according to the Third Pillar of Basel

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

Dividends Distribution

On December 26, 2017 the Bank's Board of directors approved a dividend policy, according to which, starting with the first quarter of 2018, the Bank will distribute in each quarter a dividend at the rate of up to 15% of the net distributable earnings, as reflected in the consolidated financial statements for the preceding quarter. On November 26, 2019, the Bank's Board of Directors approved an update to the Bank's dividend policy, according to which, starting with the third quarter of 2019, the Bank may distribute in each quarter, a dividend of up to 30% of the distributable net earnings according to the consolidated financial statements for the previous quarter, instead of a distribution rate of up to 15%.
It is clarified that this policy should not be deemed a commitment by the Bank for a dividend distribution, and that each dividend distribution in practice shall be subject to approvals required by the law, including a specific approval by the Board of Directors for a dividend distribution based on its judgment and subject to compliance with the provisions of the law applying to dividend distribution, inter alia, according to the Companies Law and directives of the Bank of Israel. It is further noted that the actual distribution of a dividend is subject to compliance with the capital adequacy goals prescribed by the Supervisor of Banks and the internal capital goals, as determined or would be determined by the Bank's Board of Directors. The Board of Directors may examine from time to time the dividend distribution policy and decide at any time, taking into account business considerations and the provisions of the law and regulation applying to the Bank, on changes in the dividend policy, including in the rate of dividend to be distributed. The Board may also decide that no dividend should be distributed at all.
On April 7, 2020, on the background of Corona virus crisis and with the aim of supporting the credit needs of its customers, the Bank's Board of Directors decided to temporarily discontinue the distribution of dividends. The Bank has resumed the distribution of dividends starting with the profits of the third quarter of 2021, at the rate of 20%.
On March 12, 2023 the Bank's Board of Directors decided to make a dividend distribution at the rate of 20% of the profits of the fourth quarter of 2022, in an amount of approx. NIS 187.8 million, representing approx. 15.18 Agorot per ordinary A share of NIS 0.1 par value. Further details regarding the Board of Directors' decision, including the dates set as the record date and the payment date, are included in the immediate report that the Bank is issuing concurrently with the publication of this report.
For additional details, see Note 24 C (4) to the financial statements. For details of the dividends paid in 2020-2022, see Note 24 C (5) to the financial statements. For details regarding the limitations set in the Supervisor of Banks' directives, see Note 24 C (2) to the financial statements.

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

General

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

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

Concise data regarding operations in the various segments, regulatory and managerial, is presented in Notes 29-30 to the financial statements.

A summary description of segments of operation, including the criteria for assigning customers to segments of operation, in general was included above in "Discount Group Segment of operations - Condensed description" under "The Discount Group - Condensed description and principal areas of operation".

Details regarding the distribution of human resources in the Group according to segments of operation are included under "the human capital" below. For details regarding the assumptions, assessments and reporting principles used in the preparations of the data, see Note 29 D to the financial statements.

Allocation of indirect expenses. Indirect expenses are allocated to the different segments according to the model, as detailed in Note 29 D Section 2. The principal variables affecting the allocation are the scope of operations of the customers and the number of employees.

Administrative Structure

The Discount Group operates in Israel and overseas by way of the Bank, subsidiaries, branches and representative offices, in all areas of banking and financial services.

The Bank's business operations in 2022 were conducted by three divisions: Banking Division, Corporate Division and the Financial Markets Division.

The Banking Division conducts business with households and small businesses, digital banking customers and private banking customers (both Israeli and international). The Division is responsible for the operation of the investment consultants operating in investment and consulting centers and private banking centers and for mortgage activity, by means of the mortgage center and mortgage consultants placed at some of the branches.

The Corporate Division is responsible for conducting business with large business corporations and medium corporations (middle market), as well as building (closed real estate projects) and income producing real estate corporations, major participants in the capital market, institutional bodies financing of infrastructure projects, and customers operating in the hi-tech field and in the diamond sector. In addition, the Division has a syndication unit and complex foreign trade unit. The operational services to customers of the Corporate Division is principally provided at the Tel Aviv Main Branch.

The Financial Markets Division is responsible for the financial management of the Bank and of the Group, which includes asset and liability management, dealing rooms management, market risks management, transfer prices management, capital management, "Nostro" portfolio management and management of relations with foreign financial institutions and in the management of deposit and securities products.
In addition, alongside the above-mentioned divisions, two additional business activities divisions operate at the Bank:
The Digital, Data and Marketing Division is responsible for the online channels area, which allows the Bank's customers to obtain advanced services conveniently.
The Planning, Strategy and Finance Division is responsible, among other things, for pension advisory services activity and promotion of Group management with respect to strategic business aspects.
Operations and Assets Division which is responsible for the Bank's foreign trade activity.

Household Segment (Domestic operations)

General

The household segment provides services and diverse financial products to the Group's private individual customers, both at Discount Bank and at MDB. These are provided by means of a chain of 171 branches located all over the country, in addition to a variety of direct channels. The customers are classified into groups according to their age, financial wealth and additional parameters.

Scale of Operations and Net Profit of the Segment

The segment's net profit in 2022 amounted to NIS 849 million, compared to an amount of NIS 325 million in 2021. The growth in profits was mostly affected by growth in income, which was partly offset by an increase in credit loss expenses.
Credit loss expenses in 2022 expenses in an amount of NIS 222 million have been recorded, compared to expenses release of NIS 162 million in 2021. The increase in expenses is due, primarily, from the group allowance.

Principal data regarding the Household segment (Domestic operations)

	For the year ended December 31,	
	2022	2021
	in NIS millions	
Total income	4,966	3,672
Credit loss expenses (expenses release)	222	(162)
Total Operating and other expenses	3,393	3,268
Net Profit Attributed to the bank's shareholders	849	325

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

Private Banking Segment (Domestic operations)

Scale of Operations and Net Profit of the Segment

Net profit of the segment in 2022 amounted to NIS 112 million, compared with NIS 33 million in 2021. The growth in profits was mostly affected by growth in income.

Principal data regarding the Private banking segment (Domestic operations)

	For the year ended December 31,	
	2022	2021
	in NIS millions	
Total income	280	133
Credit loss expenses (expenses release)	1	(1)
Total Operating and other expenses	111	85
Net Profit Attributed to the bank's shareholders	112	33

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

Small and minute businesses Segment (Domestic operations)

Scale of Operations and Net Profit of the Segment

Net profit of the segment in 2022 amounted to NIS 721 million, compared with NIS 550 million in 2021. The increase in profits was mostly affected by the increase in income, which was partly offset by an increase in credit loss expenses.
The credit loss expenses. In 2022 expenses were recorded in an amount of NIS 89 million, compared to expenses release in an amount of NIS 211 million in 2021. The increase in expenses is due, primarily, to the increase in the group allowance.

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

	For the year ended December 31,	
	2022	2021
	in NIS millions	
Total income	2,555	1,991
Credit loss expenses (expenses release)	89	(211)
Total Operating and other expenses	1,371	1,372
Net Profit Attributed to the bank's shareholders	721	550

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

Medium businesses Segment (Domestic operations)

Scale of operations and Net Profit of the Segment

Net profit of the segment in 2022 amounted to NIS 221 million, compared with NIS 114 million in 2021. The growth in profits was mostly affected by growth in income.
Credit loss expenses amounted to NIS 35 million in 2022, compared to NIS 50 million in 2021.

Principal data regarding the Medium businesses segment (Domestic operations)

	For the year ended December 31,	
	2022	2021
	in NIS millions	
Total income	648	499
Credit loss expenses	35	50
Total Operating and other expenses	281	278
Net Profit Attributed to the bank's shareholders	221	114

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

Large businesses Segment (Domestic operations)

Scale of operations and Net Profit of the Segment

Net profit of the segment in 2022 amounted to NIS 528 million, compared with NIS 610 million in 2021, an increase of 13.4%. The decrease in the profit was effected, mostly, from an increase in credit loss expenses, which was offset by an increase in income.
Credit loss expenses. In 2022 expenses have been recorded of NIS 70 million, compared to expenses release of NIS 339 million in 2021. The increase in expenses is due, mostly, to the increase in the group allowance.

Principal data regarding the Large businesses segment (Domestic operations)

	For the year ended December 31,	
	2022	2021
	in NIS millions	
Total income	1,576	1,266
Credit loss expenses (expenses release)	70	(339)
Total Operating and other expenses	703	682
Net Profit Attributed to the bank's shareholders	528	610

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

Institutional Bodies Segment (Domestic operations)

Scale of operations and Net Profit of the Segment

The net profit of the segment in 2022 amounted to NIS 14 million, compared to a negligible amount in 2021. The growth in profits was mostly affected by growth in income, which was partly offset by the decrease in expenses release.

The credit loss expenses release in 2022 amounted to NIS 2 million, compared to expenses release of NIS 23 million in 2021.

Principal data regarding the Institutional bodies segment (Domestic operations)

	For the year ended December 31,	
	2022	2021
	in NIS millions	
Total income	77	39
Credit loss expenses release	(2)	(23)
Total Operating and other expenses	59	64
Net Profit Attributed to the bank's shareholders	14	-

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

Financial Management Segment (Domestic operations)

Scale of operations and Net Profit of the Segment

Total income of the segment in 2022 amounted to NIS 1,494 million, compared to NIS 1,812 million in 2021, a decrease at a rate of 17.5%. The decrease in income stemmed, inter alia, from a decline in income from operations in derivatives, from the reduction in gains on investment in shares and from the decline in gains on realization and adjustments to fair value of bonds, that were offset by the increase in exchange differences.

The segment's net profit in 2022 amounted to NIS 702 million, compared to NIS 880 million in 2021, a decrease of 20.2%.

Principal data regarding the Financial management segment (Domestic operations)

	For the year ended December 31,	
	2022	2021
	in NIS millions	
Total income	1,494	1,812
Credit loss expenses	-	7
Total Operating and other expenses	465	415
Net Profit Attributed to the bank's shareholders	702	880

Income from trading activities

The income from trading activities in the financial management segment amounted to NIS 433 million in 2022, compared with NIS 298 million in 2021 (see Note 29 H to the financial statements). The income from trading activities that was included within the framework of interest income and within the framework of non-interest financing income amounted to NIS 480 million in 2022, compared with NIS 289 million in 2021 (see Notes 2 and 3 to the financial statements).

The gap between income from trading activity in the financial management segment (Note 29 H to the financial statements) and the income from trading activity included within the framework of interest income and within the framework of non-interest financing income (Notes 2 and 3 to the financial statements) is due to overseas activity, which is included only within the framework of the non-interest financing income (NIS 53 million in 2022, compared to NIS 54 million in 2021) and to commission from securities and inter-segment net interest and non-interest income, which are included only in income from trading activity in the financial management segment (NIS 6 million, net, in 2022, compared to NIS 61 million, net, in 2021).

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

International Operations Segment

Scale of operations and Net Profit of the Segment

The net profit in the segment in 2022 amounted to NIS 348 million, compared to NIS 261 million in 2021, an increase of 33.3%. The increase in profit was affected by a growth in income, which was partly offset by an increase in operating expenses.
The credit loss expenses release in 2022 amounted to NIS 8 million, compared to an amount of NIS 14 million in 2021.

Principal data regarding the International operations segment

	For the year ended December 31,	
	2022	2021
	in NIS millions	
Total income	1,348	1,079
Credit loss expenses release	(8)	(14)
Total Operating and other expenses	834	694
Net Profit Attributed to the bank's shareholders	348	261

During 2022, IDB Bank continued the implementation of its five-year strategy.

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

Main investee companies

General

The Bank's Group is composed of commercial banks in Israel and overseas and financial services companies. Total investment in the investee companies as at December 31, 2022, amounted to NIS 11,778 million, compared with NIS 12,852 million on December 31, 2021, an increase of 9.1%.

Distribution of Net profit by the Group's structure

	Contribution to the Group's profit				
	For the year ended December 31				
	2022		2021		
	In NIS millions	% of Net profit	In NIS millions	% of Net profit	Change in %
Banking Activity:					
Commercial banks:					
In Israel - the Bank	2,292	65.7	1,615	58.2	41.9
Mercantile Discount Bank	601	17.2	562	20.3	6.9
Overseas - Discount Bancorp	347	9.9	259	9.3	34.0
Other Activities:					
Israel Credit Cards	190	5.4	166	6.0	14.5
Discount Capital	85	2.4	172	6.2	(50.6)
Other financial services	(20)	(0.6)	(1)	(0.0)	-
Net profit	**3,495**	**100.0**	**2,773**	**100.0**	**26.0**

At the end of 2022, 22.59% of all assets in the consolidated balance sheet were assets of consolidated companies in Israel, and approx. 11.76% were assets of the overseas consolidated company. The contribution to the net profit by the consolidated companies in Israel amounted to NIS 849 million in 2022 (NIS 893 million in 2021). The contribution to the Net profit by overseas consolidated companies amounted to NIS 351 million in 2022 (NIS 261 million in 2021). The contribution to net profit recorded in 2022 for associates amounted to NIS 3 million (NIS 4 million in 2021).
The total contribution by both domestic and overseas investees companies to the Bank's net profit amounted to NIS 1,203 million in 2022, compared with NIS 1,158 million in 2021, an increase of 3.9%.
The Bank evaluates the performance and opportunities of the principal investee companies, an evaluation that includes, from time to time, an examination of the strategic alternatives relating to the principal investee companies. Following are the main developments in principal investee companies.

Discount Bancorp, Inc.

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

Discount Bancorp, Inc. – principal data

	Fourth Quarter		year	
	2022	2021	2022	2021
	In US$ millions			
Principal statements of profit and loss data for the reporting period:				
Net profit attributed to the shareholders	32	30	114	92
Net interest income	92	71	335	257
Credit loss expenses (expenses release)	1	(5)	(3)	(5)
Non-financing income	12	22	68	87
Non-financing expenses	64	54	255	222
Principal balance sheet data for the end of the reporting period:				
Total assets	12,512	12,952	12,512	12,952
Credit to the public, net	8,154	8,421	8,154	8,421
Securities	2,460	2,829	2,460	2,829
Deposits from the public	10,479	11,245	10,479	11,245
Total equity	1,121	1,158	1,121	1,158
	In %			
Main performance indicators:				
Return on equity	11.5	10.4	10.2	7.9
Efficiency ratio	61.5	58.1	63.4	64.5
Ratio of total capital to risk assets	15.1	13.6	15.1	13.6
Ratio of credit loss expenses (expenses release) to the average balance of credit to the public	0.06	(0.23)	(0.03)	(0.07)
Total net return on interest bearing assets	3.19	2.43	2.80	2.33

The main factors affecting the results in 2022, compared to 2021, are: US$77.8 million increase in net interest income (30.3%), US$19.2 million decrease in non-interest income (22.1%) and US$32.8 million increase in operating and other expenses (14.7%). The said increase stemmed mostly from the growth in employee wage benefits (growth in wages and awards; US$12 million, 10.3%), growth in consulting fees (approx. US$4 million) and from the growth in other expenses (US$14.4 million, 38.9%; mostly due to a nonrecurring operating loss and cost of external services).

The contribution of Bancorp to the Bank's net results reached a profit of NIS 347 million (after deducting a provision for taxes of NIS 54 million) in 2022, compared with NIS 259 million in 2021 (net of provision for taxes in the amount of NIS 28 million).

Distribution of dividend. In 2021 Bancorp distributed dividend to Discount Bank in a total amount of US$43 million. No dividend was distributed by Bancorp in 2022.

The annual financial statements of Bancorp and of IDB Bank are available for review on the Internet website of IDB Bank. Annual and quarterly financial data is available for review on the Internet website of FDIC.

Material weakness[4]. During the third quarter of 2022, a material weakness was identified, relating to controls designed to verify that orders for the transfer of funds from an account of a customer have indeed been given by that customer. This material weakness has not resulted in a misstatement of the consolidated financial statements of IDB Bank for any of the periods presented in its interim financial statements as at September 30, 2022. Management of IDB Bank has concluded an investigation of the event and has taken measures to avoid repetition of such a case in the future. The findings are immaterial in relation to the consolidated financial statements, and therefore, no material weakness was defined at the Group level. In the fourth quarter of 2022, in view of the adopted immediate measures and the tests performed, the level of deficiency was reduced, and it is no longer defined as a material weakness.

The annual financial statements of Bancorp and of IDB Bank are available for review on the Internet website of IDB Bank (IDB Bank). Annual and quarterly financial data is available for review on the Internet website of FDIC.

4 A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's financial statement will not be prevented, or detected and corrected in a timely basis.

Mercantile Discount Bank Ltd.

Mercantile Discount Bank Ltd. ("MDB") is a fully owned and controlled subsidiary of the Bank. At the end of 2022, MDB operated through 73 branches (73 branches in 2021).

Mercantile Discount Bank Ltd. – principal data

	Fourth Quarter		year	
	2022	2021	2022	2021
	In NIS millions			
Principal statements of profit and loss data for the reporting period:				
Net profit attributed to the shareholders	151	91	601	562
Net interest income	521	342	1,746	1,324
Credit loss expenses (expenses release)	78	(6)	155	(81)
Non-financing income	97	94	376	469
Non-financing expenses	310	309	1,051	1,021
Principal balance sheet data for the end of the reporting period:				
Total assets	64,786	59,894	64,786	59,894
Credit to the public, net	42,569	37,636	42,569	37,636
Securities	6,988	6,883	6,988	6,883
Deposits from the public	51,047	48,070	51,047	48,070
Total equity	4,055	3,771	4,055	3,771
	In %			
Main performance indicators:				
Return on equity	15.1	9.8	15.7	16.2
Efficiency ratio	50.2	70.9	49.5	56.9
Ratio of total capital to risk assets	13.60	14.01	13.60	14.01
Ratio of credit loss expenses (expenses release) to the average balance of credit to the public	0.73	(0.06)	0.38	(0.23)
Total net return on interest bearing assets	3.39	2.57	2.92	2.63

The main factors affecting the business results. The profit in 2022, compared to 2021, was affected, mostly, from an increase of NIS 422 million in net interest income, an increase of 31.9%; from a decrease of NIS 236 million in credit loss expenses; and from a decrease of NIS 121 million in non-interest income, a decrease of 84.6%.

The increase in interest income stemmed from an increase in the average balance of income producing assets, and from an increase in the interest margin as a result of the rise in the interest rate and in the CPI. The decrease in non-interest financing income is mostly explained by the sale in full of the holdings of MDB in ZIM shares in 2021, for total consideration of approx. NIS 90 million, and from recording losses on available-for-sale bonds and from adjustments to fair value of trading securities in the amount of NIS 9 million, compared to gains on realization of available-for-sale bonds in the amount of NIS 31 million in 2021.

The transition to recording credit loss expenses in 2022, stemmed from the recording of expenses of NIS 86 million on a specific basis in 2022, compared to absence of expenses in 2021, and from the recording of expenses on a group basis in the amount of NIS 69 million in 2022, compared to reversal of allowances of NIS 81 million in 2021. The increase in expenses on a group basis stemmed mostly from macro-economic adjustments with respect to possible change scenarios regarding the repayment ability of borrowers and the rate of the expected loss, update of the qualitative adjustments and the growth in volume of the credit to the public portfolio.

The ratio of capital to risk assets. MDB's Board of Directors has set a minimal common equity tier 1 ratio of 9.5% and a minimal total capital ratio of 12.8%, with effect from April 1, 2022 and thereafter.

Distribution of dividend. During 2021-2022 Mercantile Discount Bank did not distribute dividend.

Strategic plan. The Board of Directors of MDB approved in the fourth quarter of 2021, a multi-annual strategic plan for the years 2022 to 2026, which includes a number of principal directions of action: expansion of the retail activity of the bank (households, housing loans and small businesses), with growth in specific segments of the population; growth in activity regarding commercial customers; increasing activity with local authorities, including activity with suppliers of local authorities and with employees of local authorities; operating efficiency.

For details regarding lawsuits and motions for approval of the lawsuits as class action suits filed against MDB, see Note 26 C to the financial statements, sections 10.7 and 10.8.
The annual and quarterly financial statements of Mercantile Discount Bank are available on the MAGNA website of the Israel Securities Authority, on the MAYA website of the Tel Aviv Stock Exchange Ltd. appearing under "Mercantile Issuance", and on the website of Mercantile Discount Bank.

Israel Credit Cards Ltd.

Israel Credit Cards Ltd. ("ICC") is a subsidiary of the Bank. As of December 31, 2022, the Bank owned 71.8% of the equity and 79.0% of the voting rights in ICC. At this date, the First International Bank held the balance of the rights in ICC.
For details regarding the separation of ICC from the Discount Group, see Note 36 B 1 to the financial statements.
A letter of understanding between the shareholders of ICC. The Bank and FIBI established a letter of understanding between them as shareholders of ICC, which is to regulate several issues, including: the distribution of dividends by ICC, entering into new issuance agreements, actions taken to increase the number of credit cards in use and assisting measures for the sale of the holdings of FIBI in ICC, in the event that FIBI would decide to realize it's holdings.

Israel Credit Cards Ltd. – principal data

	Fourth Quarter		year	
	2022	2021	2022	2021
	In NIS millions			
Principal statements of profit and loss data for the reporting period:				
Net profit attributed to the shareholders	39	40	309	271
The contribution to the Bank's business results[1]	24	24	190	166
Income from credit card transactions	428	388	1,651	1,432
Net interest income	178	146	680	548
Non-financing income (expense)	(7)	1	102	5
Non-financing expenses	541	471	1,992	1,594
Of which: Credit loss expenses	43	9	97	(9)
Principal balance sheet data for the end of the reporting period:				
Total assets	18,547	16,076	18,547	16,076
Interest bearing credit to the public	8,183	6,717	8,183	6,717
Total equity	2,120	2,216	2,120	2,216
	In %			
Main performance indicators:				
Return on equity	7.4	7.3	14.3	13.2
Efficiency ratio	83.1	86.4	77.9	80.8
Ratio of total capital to risk assets	13.5	16.3	13.5	16.3
Turnover of credit card transactions – in NIS millions	38,770	34,819	149,851	128,864
Number of active cards – in thousands	3,330	3,143	3,330	3,143

Footnote:
[1] Differences between net income and the contribution to the Bank's business results is derived from recognition of current tax liability for the investment in the company and from the Bank's holding rate in the company.

The business results of ICC in 2022, were affected by a nonrecurring income from the transaction for the sale of shares in VISA Inc. in the amount of NIS 30 million (NIS 23 million net of tax). The results for 2021 were affected by a nonrecurring decrease of NIS 25 million, net of tax, in the provision for certain customer benefit plans, which came to an end during the third quarter of 2021.
The results for 2022 were, inter alia, affected by an increase in income from credit card transactions (NIS 418 million, 21.0%), stemming mainly from the growth in the card issue turnover of ICC in general, and from the growth in overseas transactions in particular, which increased at a significant rate following the recovery from the Corona crisis; from the growth in net interest income (NIS 132 million, 24.0%), stemming mainly from the growth of 22% in the credit

portfolio of the company; recognition of credit loss expenses in the amount of NIS 97 million in 2022, compared to expenses release amounting to NIS 9 million in 2021; an increase in operating expenses (NIS 131 million, 7.5%), stemming mainly from the growth of approx. NIS 49 million in payments to international organizations, due to the growth in volume of overseas transactions, as well as from the growth in other operating expenses following an adjustment of the provision for VAT assessments; growth in sales and marketing expenses (NIS 66 million, 11.8%), stemming from the growth in payments to business partners, following the growth in volume of operations, and from the reversal of the provision for gift campaigns made in 2021.

Distribution of dividend. In May 2022, ICC distributed to its shareholders a dividend of NIS 340 million (the share of the Bank is approx. NIS 244 million). In September 2022, ICC distributed to its shareholders an additional dividend in the amount of NIS 80 million (the share of the Bank is approx. NIS 57 million).

Strategic plan. In the course of 2021, ICC formed a multi-annual strategic plan for the years 2022-2026, which was approved by the company's Board of Directors in December 2021. Standing at the base of the plan is the continued positioning of the company as a leader in the off-banking payments and credit activities by means of flexibility, innovation and corporations, alongside the striving for an optimal customer experience, and considering the incessant changes in the competitive environment in which ICC operates. In 2023, ICC intends to implement the multi-annual strategic plan, comprising mostly of the creation of future growth generators and establishing its leadership in core operations.

The strategic focal points of ICC are:

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

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

For details regarding lawsuits and motions to approve them as class action suits filed against ICC, see Note 26 C to the financial statements, sections 10.1, 10.4 and 10.9.

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

Discount Capital Ltd.

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

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

Discount Capital – principal data

	In NIS millions		
Principal statements of profit and loss data for the year:	2022	2021	Change in %
Net profit attributed to the shareholders	108	212	(51.4)
The contribution to the Bank's business results[(1)]	85	172	(50.6)
Principal balance sheet data for the end of the reporting period:	December 30, 2022	December 31, 2021	Change in %
Total assets	2,579	2,330	10.3
Total equity	1,293	1,193	8.2

Footnote:

(1) Differences between net income and the contribution to the Bank's business results is derived from current tax liability for the investment on the company (2021 - differences in the implementation of generally accepted accounting principles and current tax liability for the investment on the company).

For details regarding income from the investment portfolio of Discount Capital, see below in "Financial Management Segment (Domestic operations) – additional details".
The profit in the years 2021-2022 was affected mainly by the volume of realizations.
During 2022, Discount Capital, through a subsidiary, participated in 37 public offerings of which, three public offerings for the Discount Group and 22 private placements, of which one private placement for the Discount Group, with a total volume of approx. NIS 27.8 billion (in 2021 - 77 public offerings of which, two public offerings for the Discount Group and 17 private placements with a total volume of approx. NIS 30 billion).
For additional details regarding activity in the investment field, see "Investments in non-financial corporations", in the Chapter "Activity of the Group according to Regulatory Segments of Operation - Additional Details" and Note 30 B to the financial statements.

Chapter "C" - Risks review

General Description of the Risks and Manner of Management thereof

Risk Profile of the Discount Group - Risk Environment

The Discount Group is engaged in a wide range of financial operations involving risk taking. The Group maintains international presence through IDB Bank only. The complexity of the risk environment (domestic and international, regulatory and internal), as well as the dynamics and pace of changes occurring in the risk environment, create challenges in the risk management field alongside the business challenges.
Following are the major external effects, to which the Group is exposed, are:

- **The macro-economic environment.** Rising interest, volatility in the markets and uncertainty alongside the rising cost of financing sources and the risk of recession and slowdown in growth, may harm the profitability of the system;
- **Intensified competition, profitability risks and the business model.** The growing competition environment accompanied by supporting regulation, erosion in margins, the strengthening of off-banking competitors alongside efficiency challenges and the need to diversify the sources of income, efficiency and acceleration of the pace of adoption of innovation in the system. Within the framework of the strategic plan, goals and supporting projects have been determined for the strengthening of traditional banking, improvement of processes and increasing customer satisfaction, alongside focusing on innovation and maximization of the Group's value. The Group is preparing for the separation of ICC;
- **Adaptation of manpower to qualifications and recruitment and staff preservation challenges.** The turnover of employees and retirement moves alongside dynamics and increasing demand in the labor market as well as the progress of technology, create challenges to the management of human resources and to the attraction and preservation of qualitative manpower and raise the need for the strengthening of qualifications, conducting processes of communicating knowhow and management of the transformation required respecting manpower and models of employment.
  In response to the above, efforts are made to strengthen the employer brand, increasing "bench depth" and the strengthening of qualification of employees. This, alongside the assimilation of new automation and technologies supporting efficiency of the manpower and improvement of processes;
- **Cyber risks.** Intensification of the technological risks, including the increase in the means, sophistication and complexity of cyber-attacks in Israel and globally is leading to an increase of cyber and data protection risks and to the regulators and supervisory authorities, in Israel and globally, focusing on regulating such threats and on their supervision, as across the board threats, which, in addition to the technological risk, may develop also into a strategic business risk. The exposure to cyber risks and data security increased in light of the increase in the use of outsourcing, increase in cooperation with third parties and the expansion in digital activity. The Group has a cyber policy and strategy as well as a multiannual work plan for improvement of cyber defense, including the

strengthening of the network defense and its components, improving forestallment and monitoring tools, identification of irregular activity and upgrading infrastructure. The Group acted in 2022 towards the strengthening the appropriateness of business continuity processes to diverse reference scenarios, including communication aspects in the flow of information during a scenario of this kind;
- **Fraud risk.** In recent years, growth is noticed in the volume of fraud attempts in the system and in the total fraud damage as well as growth in complexity and ingenuity of fraud. The Bank and the Group adopt measures for the strengthening of validation processes and reduction in exposure;
- **Compliance and prohibition of money laundering.** Regulation challenges and sanctions relating to compliance and prohibition of money laundering, mostly in view of the implementation of the sanctions regimen;
- **Model risks.** The ever-increasing emphasis on digital banking, alongside customers' higher expectations for value propositions, insights and products that are tailored, timely and readily available, is leading to a situation where organizations in general and the banking system in particular are becoming more and more dependent on data and models, including the integration of sophisticated models based on artificial intelligence and machine learning. These aspects are creating growing challenges both in the field of model development and also in the fields of models validation and risk management. The Group is implementing a multi-year work plan for the development of sophisticated models, as well as for the constant improvement of the tools and methodologies that support the model risks management. An increase was noted in 2022 in model risks stemming from varied changes in the macro-economic environment in the business environment and in the regulatory environment. Such changes raise doubts as to the continuation of the forecasting ability of several of the models and require careful use thereof, as well as the examination and updating thereof, where required;
- **Environmental and climate risk.** In recent years, the subject of Environmental and climate risks management is receiving a high regulatory attention due to the understanding that realization of environmental and climate risks may impact the banking system and in extreme cases even lead to global and systemic effects. Accordingly, different regulators around the world, including also the Supervisor of Banks in Israel, are acting towards the regulation of this field: disclosure to the public of aspects of the environmental, social and governance (ESG), and stating principles for the effective management of climate related financial risks.

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

Principles of Risk Management

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

High-level principles for risk management in the Discount Group:
- Risk management is performed from a Group integrated viewpoint, cross organization, along the management echelon and across the business units, using methodologies and consistent terms with reference to all types of risks to which the group is exposed;
- Group corporate governance, which supports the maintenance of an effective chain of control over the activity of the group, subject to the provisions of the law;
- Responsibility for risk management is hierarchical, where each managerial level bears responsibility for the risks existing in its scope of operation, in a manner ensuring aggregation of risk management at all management levels up to the member of Management in charge of the business line, including the maintenance of proper procedures for identification, measurement, assessment, control, monitoring and reporting of risks;
- A senior officer in the position of member of Management is in charge of each of the material risks to which the Group is exposed. He bears the overall accountability for management of the risk in the first line of defense;
- The risk management concept supports the eligibility and improvement of decision making processes and value maximization from a long-term viewpoint;

- The Bank's activity is conducted according to the Bank's vision and the principles of the code of ethics, which express the core values of the Bank's activity and its interface with stakeholders, customers, suppliers, employees, etc.;
- The organizational culture encourages transparency and an effective intra-organizational communication, while allowing for a proper flow of information, including for violation/failure events, to all the functions involved in the handling of risks.
- Risks are being managed while maintaining the separation of duties and controls between the defenses lines involved in the risk management;
- A dynamic and evolving over time risk management concept according to changes in the requirements of the Bank and the Group, regulatory instructions, accepted practice in Israel and around the world and conditions in the inner and external environment;
- Risk management is conducted on a continuous basis, from a forward looking viewpoint, which includes processes of identification, measurement, assessment, monitoring, control and current reporting of exposure to risks, management thereof and their implications on the risk profile, alongside the identification of materializing and new risks;
- Risk management processes are being integrated as part of the current business activity, and they are integrated into material processes and projects at the Bank and the Group, including "new product" processes, where required and the absorption of risk based indices in the measurement of performance and of compensation plans;
- The risk management processes include proactive measures for risk management and for the formation of an effective organizational culture and the integration of control culture, with an emphasis on integration of fairness and decency values into operations and processes.

Risk Appetite

The Risk Management Division is responsible for the periodic updating of the risk appetite, in conjunction with the capital planning process, the strategic planning and liquidity planning, in a manner that these processes be integrated, complement one another, with the objective being to marry the Group's return and maintain its stability in a long-term view.

The Discount Group's risk appetite declaration is in line with the requirements of Proper Conduct of Banking Business Directive No. 310 and reflects the risk preferences of the Board of Directors, through setting limits and defining clear and easily assimilated "boundaries" for activity and business directions and for ensuring compliance with regulatory requirements and limitations. The declaration includes quantitative and qualitative statements relating to each of the risk areas being managed, and these constitute the basis for drawing up risk appetite documents for the individual risk areas that include limits, goals and warning thresholds that form the outline for setting the Group's business policy.

The declaration's limits are set, inter alia, based on the use of various scenarios and stress tests, which constitute a central and important tool for assessing the risks and their potential impact on the Group's capital. The declaration includes statements and limits relating to a normal business situation and to a stress situation, and from a forward-looking perspective.

The risk appetite declaration and the individual risk appetite documents drawn up pursuant thereto constitute one of the main tools of the Board of Directors for supervising that the corporation's risk profile correlates with the set appetite, and these are monitored on an ongoing basis and reported periodically to the Board of Directors. According to the declaration, any exception to these limits is reported to the Board of Directors, or to one of its committees, while prescribing an outline for reducing the level of risk and complying with the limits.

The risk appetite declarations of the Group companies correspond to the Group declaration and are in alignment therewith. Once a year, concurrently with the planning processes for the work plan, the capital and the liquidity, a review is carried out of the risk appetite and the Group declaration document is updated and approved by the Board of Directors.

No deviations from regulatory restrictions occurred in 2022.

Risk Management Policy and Tools

The risk management concept of the Group is established in a series of policy documents for the management of the various risks. These have been approved by the Bank's Board of Directors and their aim is to outline the comprehensive infrastructure for risk management at the Bank and in the Group. This concept includes extensive addressing of corporate governance aspects of risk management, including the definition of authority and responsibility of the functionaries taking part in the risk management processes, definition of the tools, methodologies and models used for the identification, measurement, evaluation, control, monitoring and reporting of exposure to risks, including risk appetite and stress tests.
The risk management policy documents are consistent with the developing regulation in the risk management field within the given business environment, and are delivered for adoption to the major subsidiaries, subject to the required adjustments. For additional details regarding the various tools used in risk management and the integration of the risk culture, see "Risk management tools" and "Risk culture and absorption of the usefulness of risk management processes" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

Assessment of the Risk Profile

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

Stress Tests

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

management division, in determining specific restrictions, in defining the risk appetite and in forming alternative plans for situations in which the risk might materialize.

Disclosures according to the Third Pillar of Basel

The Basel guidelines broaden the qualitative and quantitative disclosure requirements in the matter of credit risk, market risk and operating risk exposure management. Qualitative and quantitative disclosure regarding the various risks is presented above and below in this Chapter and in the document "Disclosure according to the third pillar of Basel and additional information regarding risks". The document is available for perusal on the Bank's website together with the Bank's 2022 annual report (this report), on the MAGNA site of the Israel Securities Authority, and on the MAYA site of the Tel Aviv Stock Exchange Ltd. and is comprising an integral part of the Bank's 2022 annual report.

Credit Risks

Credit Risks and the manner of Management thereof

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

Credit Policy Documents

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

Credit Risks Measurement and Reporting

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

Structure and Organization of the Credit Risks Management Functions

The organizational structure that serves the management of credit risk at the Bank includes the definition of authority and responsibility of the functions involved in managing the risk at the Bank – the Board of Directors, Management and three separate lines of defense:
First line of defense. The business units perform on a current basis processes for mitigating credit risk by means of the economic and business analysis of applications for credit for assessing the credit risk involved in the operations of the borrower, credit rating and current monitoring and control of the credit granted and the quality of the borrower.

The control units are responsible for the credit risks management related to the operations of the business divisions, as well as for the performance of current monitoring and control processes and the writing and updating of methodologies and procedures in the credit field. Among these units may be mentioned the credit risk management wing of the Corporate Division, the retail credit wing and the risk management, compliance and control department at the Banking Division.
The credit committees discuss and take decisions regarding credit issues, both as regards new credit applications and as regards existing indebtedness.
Second line of defense. The risk management division is responsible for the formation and updating of core documents in the credit field, the current evaluation of the credit risk profile of the Bank and the Group, the development and implementation of internal models for credit rating and Group methodologies for the management of credit risk. In addition, the risk management division is responsible for the post factum examination of the manner of credit risk management at all its stages, providing assessments of specific credit quality and the quality of the credit portfolio as a whole, as well as the rendering of opinion regarding credit transactions, determination of credit rating, classification and allowances. Classification and allowances procedures are conducted at the Risk Management Division, under responsibility of the Chief Accounting Officer.
Third line of defense. The internal audit performs sample examinations of credit files, credit granting approval processes and its management, and checks whether work processes comply with the Bank's procedures. In addition, it performs cross-organization audits of credit issues.

Adoption of updates to the generally accepted accounting principles at banks in the U. S. – Allowances for credit losses

Starting with January 1, 2022, the Bank applies the directives of the Supervisor of Banks requiring adoption in full of the accounting principles accepted by US banks with respect to allowances for expected credit losses (CECL). (See also Note 1 C 5 (1) and 1 D 4a to the financial statements). The principal subsidiaries also started at that date to apply the said rules, except for ICC, which according to the instructions of the Supervisor of Banks, applies the rules as from January 1, 2023.
For details regarding preparations made by the Bank for the implementation of the new rules, the First Quarter of 2022 Report (p. 47).
The new rules were initially implemented during 2022, for the data as of January 1, 2022 (transition date).
During 2022, the Bank continued to improve and develop the process for measuring the allowance for credit losses. The said improvement and development are expected to continue also in 2023.
It is noted that application of the new rules requires the formation of a methodology and complex models as well as a new technological application. Naturally, also after the year of the initial application, improvement and development of the process for the measurement of the credit loss allowances would be continued, and respectively, such activity may require certain changes in the measurement procedure.
It is further noted, that the new rules do not require the application of a uniform methodology, and therefore, banking corporations had determined their own methodology and models used in the implementation of the rules, while using discretion. Care is therefore required in comparing the effects of the initial implementation as reported by the banks.
The data of the problematic debts and allowances in this chapter below and in Notes 13 and 31 to the financial statements are presented according to the new rules. The comparative data is indeed, presented according to the new format, but this is according to the identification and classification rules, which had been in effect until December 31, 2021, prior to the new directive taking effect. Therefore, caution should be exercised in examining changes between the data as of December 31, 2022 and December 31, 2021.

Credit Quality and Problematic Credit Risk

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

	December 31, 2022			
	Commercial	Housing	Private	Total
	In NIS millions			
Credit risk in Credit Granting Rating[1]				
Balance sheet credit risk	147,607	64,409	31,547	243,563
Off-balance sheet credit risk[3]	68,472	8,293	40,986	117,751
Total credit risk in Credit Granting Rating	**216,079**	**72,702**	**72,533**	**361,314**
Credit risk not in Credit Granting Rating:				
1. Not problematic	3,820	603	2,037	6,460
2. Accruing problematic	4,665	84	437	5,186
3. Problematic non-accruing	[4]1,211	229	81	[4]1,521
Total balance sheet credit risk	**9,696**	**916**	**2,555**	**13,167**
Off-balance sheet credit risk[3]	**1,375**	**56**	**303**	**1,734**
Total credit risk not in Credit Granting Rating	**11,071**	**972**	**2,858**	**14,901**
Of which: Accruing debts in arrears of 90 days or more	70	-	45	115
Total overall credit risk of the public[2]	**227,150**	**73,674**	**75,391**	**376,215**
Additional information concerning nonperforming assets:				
Non-accruing debts	[4]1,263	229	81	[4]1,573

	December 31, 2021			
	Commercial	Housing	Private	Total
	In NIS millions			
Credit risk in Credit Granting Rating[1]				
Balance sheet credit risk	136,398	53,014	29,493	218,905
Off-balance sheet credit risk[3]	56,904	[5]9,957	37,864	104,725
Total credit risk in Credit Granting Rating	**193,302**	**62,971**	**67,357**	**323,630**
Credit risk not in Credit Granting Rating:				
1. Not problematic	2,838	650	1,493	4,981
2. Accruing problematic	4,282	280	481	5,043
3. Problematic non-accruing	[4]1,210	-	72	[4]1,282
Total balance sheet credit risk	**8,330**	**930**	**2,046**	**11,306**
Off-balance sheet credit risk[3]	**1,335**	**[5]53**	**93**	**1,481**
Total credit risk not in Credit Granting Rating	**9,665**	**983**	**2,139**	**12,787**
Of which: Accruing debts in arrears of 90 days or more	43	276	43	362
Total overall credit risk of the public[2]	**202,967**	**63,954**	**69,496**	**336,417**
Additional information concerning nonperforming assets:				
Non-accruing debts	[4]1,264	-	72	[4]1,336

Footnotes:
(1) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit according to the Bank's policy.
(2) Balance Sheet and Off-Balance Sheet Credit Risk, including for derivative instruments. Including: Debts, bonds, securities borrowed or purchased under agreements to resell.
(3) Credit risk for off-balance sheet financial instruments, as calculated for single borrower liability limitation.
(4) Including non-accruing corporate bonds in the amount of NIS 1 million (December 31, 2021- non-accruing corporate bonds of NIS 1 million).
(5) Reclassified due to changes in the data.

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

	2022			
	Commercial	Housing Loans	Private	Total
	In NIS millions			
Movement in non-accruing/impaired debts (for credit to the public only)				
Balance of impaired debts at December 31, 2021	1,567	-	230	1,797
Adjustment to non-accruing credit at January 1, 2022[1]	(383)	275	(158)	(266)
Balance of non-accruing credit to the public at January 1, 2022	**1,184**	**275**	**72**	**1,531**
Credit classified as non-accruing during the period	1,080	118	236	1,434
Credit resuming accruing interest income	(442)	(99)	(20)	(561)
Credit written off accounting wise	(181)	(10)	(168)	(359)
Repaid credit	(442)	(55)	(39)	(536)
Other	11	-	-	11
Balance of non-accruing debts at end of the period	**1,210**	**229**	**81**	**1,520**
Of which: changes in restructured non-accruing credit				
Balance of restructured troubled debt as of December 31, 2021	911	-	204	1,115
Adjustment to restructured non-accruing credit as of January 1, 2022[1]	(359)	7	(158)	(510)
Balance of restructured non-accruing credit as of January 1, 2022	**552**	**7**	**46**	**605**
Restructure of debts made during the period	390	3	51	444
Debts reclassified as non-impaired due to following restructure	(268)	(5)	(20)	(293)
Restructured debts written off	(22)	(1)	(14)	(37)
Restructured debts repaid	(201)	-	(21)	(222)
Other	(1)	-	-	(1)
Balance of restructured non-accruing credit at end of the period	**450**	**4**	**42**	**496**
Changes in allowances for credit losses on impaired debts:				
Balance of allowance for credit losses as of the beginning of the year	277	9	23	309
Increase in allowances	247	17	119	383
Net write-offs	(319)	(13)	(112)	(444)
Balance of allowance for credit losses as of end of the period	**205**	**13**	**30**	**248**

Footnote:

(1) For details regarding the identification and classification of non-accruing debts, a term replacing the term "impaired debts", see Note 1 d' 4a to the financial statements.

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

	2021		
	Commercial	Private	Total
	In NIS millions		
Change in impaired debts (For credit to the public only):			
Balance of impaired debts as of the beginning of the period	1,946	261	2,207
Debts classified as impaired during the period	885	223	1,108
Debts no longer classified as impaired	(20)	-	(20)
Impaired debts written off	(236)	(141)	(377)
Impaired debts settled	(987)	(113)	(1,100)
Other	(21)	-	(21)
Balance of impaired debts as of end of the period	**1,567**	**230**	**1,797**
Of which: movement in restructured troubled debts			
Balance of restructured troubled debts at beginning of the period	1,154	245	1,399
Debt restructurings performed during the period	527	105	632
Debts that have again been classified to unimpaired due to a following restructuring	(18)	-	(18)
Restructured troubled debt written off	(27)	(40)	(67)
Restructured troubled debt settled	(694)	(103)	(797)
Other	(31)	(3)	(34)
Balance of restructured troubled debts at the end of the period	**911**	**204**	**1,115**
Changes in allowances for credit losses on impaired debts:			
Balance of allowance for credit losses as of the beginning of the period	373	132	505
Increase in allowances	402	138	540
Collections and write-offs	(455)	(181)	(636)
Balance of allowance for credit losses as of end of the period	**320**	**89**	**409**

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

	December 31, 2022				December 31, 2021			
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total
Quality analysis of credit to the public								
Ratio of non-accruing credit to balance of credit to the public	0.84%	0.35%	0.24%	0.62%	0.92%	-	0.23%	0.59%
Ratio of non-accruing credit or which is in arrears for 90 days or over to balance of credit to the public	0.88%	0.35%	0.37%	0.67%	0.96%	0.51%	0.36%	0.76%
Ratio of problematic credit to balance of credit to the public	4.05%	0.48%	1.52%	2.74%	4.17%	0.52%	1.75%	2.91%
Ratio of credit risk that has no credit granting rating to balance of credit to the public	7.64%	1.49%	8.38%	6.10%	7.39%	1.82%	6.78%	5.91%
Expense analysis for credit losses for the reported period								
Ratio of credit loss expenses (expense release) to the average balance of credit to the public	0.13%	0.10%	0.49%	0.18%	(0.43%)	0.01%	(0.55%)	(0.34%)
Ratio of net accounting write-off to the average balance of credit to the public	0.09%	0.01%	0.35%	0.11%	0.01%	0.01%	0.12%	0.03%
Analysis of credit loss allowance for credit to the public								
Ratio of credit loss allowance to balance of credit to the public(1)	1.53%	0.41%	2.14%	1.31%	1.59%	0.48%	2.23%	1.41%
Ratio of credit loss allowance to balance of non-accruing credit to the public	182.81%	116.16%	902.47%	211.12%	172.02%	-	977.78%	237.50%
Ratio of credit loss allowance to balance of non-accruing or in arrears for 90 days or over credit to the public	172.81%	116.16%	580.16%	196.27%	166.11%	93.48%	612.17%	185.14%
Ratio of credit loss allowance to net accounting write-offs	16.89	53.20	6.36	12.78	173.17	43.00	18.53	54.29

Footnote:
(1) The ratio of credit loss allowance to balance of credit to the public as at January 1, 2022, according to the CECL rules, is 1.39%.

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

	2022			
	Q4	Q3	Q2	Q1
	In NIS millions - End of period			
Non-accruing Asset balance	1,573	1,536	(1)1,863	(1)1,537

	2022			
	Q4	Q3	Q2	Q1
	In % - End of period			
Ratio of non-accruing credit or which is in arrears for 90 days or over to balance of credit to the public	0.67	0.67	(1)0.81	(1)0.71
Ratio of credit loss allowance to balance of non-accruing or in arrears for 90 days or over credit to the public	196.27	197.18	(1)159.42	(1)184.51

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

Credit risk by economic sectors

Credit risk by economic sectors – consolidated

	December 31, 2022							
						Credit Losses[3]		
	Total Credit Risk[1][8][9]	Of Which: Credit Performance Rating[4]	Of which: Problematic credit risk[5]	Non-problematic credit risk, not in credit granting rating	Of which: Non-accruing credit risk	Periodic Credit Loss Expenses (expense reversal)	Net Accounting Write-Offs (Collection) Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions							
Industry	17,078	16,278	489	311	176	31	58	256
Construction and Real Estate - Construction'[6]	49,159	47,712	1,219	228	278	153	24	493
Construction and Real Estate - Real Estate Activity	16,000	15,486	362	152	220	61	2	325
Commerce	27,029	26,011	490	528	119	(42)	9	316
Financial Services[7]	25,396	24,947	5	444	1	(4)	21	94
Other Business Services	40,892	38,832	1,143	917	340	60	46	679
Total Commercial	**175,554**	**169,266**	**3,708**	**2,580**	**1,134**	**259**	**160**	**2,163**
Private Individuals - Housing Loans	73,227	72,267	313	647	229	61	5	271
Private Individuals - Other	73,371	70,651	481	2,239	81	163	115	818
Total Public	**322,152**	**312,184**	**4,502**	**5,466**	**1,444**	**483**	**280**	**3,252**
Banks in Israel and Government of Israel	29,909	29,909	-	-	-	-	-	1
Total Lending Activity in Israel	**352,061**	**342,093**	**4,502**	**5,466**	**1,444**	**483**	**280**	**3,253**
Total Public - Lending Activity Outside of Israel	**54,063**	**49,130**	**2,714**	**2,219**	**129**	**(76)**	**(29)**	**379**
Banks and Governments Outside of Israel	13,282	13,282	-	-	-	-	-	30
Total Lending Activity Outside of Israel	**67,345**	**62,412**	**2,714**	**2,219**	**129**	**(76)**	**(29)**	**409**
Total	**419,406**	**404,505**	**7,216**	**7,685**	**1,573**	**407**	**251**	**3,662**

Footnotes:

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

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

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

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

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

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

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

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

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

Credit risk by economic sectors – consolidated (continued)

	December 31, 2021							
						Credit Losses[3]		
	Total Credit Risk[1][8][9]	Of Which: Credit Performance Rating[4]	Of which: Problematic credit risk[5]	Non-problematic credit risk, not in credit granting rating	Of which: Non-accruing credit risk	Periodic Credit Loss Expenses (expense reversal)	Net Accounting Write-Offs (Collection) Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions							
Industry	15,204	14,313	526	365	184	(18)	36	282
Construction and Real Estate - Construction'[6]	43,155	42,411	639	105	208	43	35	351
Construction and Real Estate - Real Estate Activity	14,237	13,853	356	28	92	(15)	(5)	213
Commerce	22,892	21,938	532	422	131	(190)	(50)	419
Hotels, Hotel Services and Food	2,306	1,946	291	69	57	(51)	(2)	53
Transportation and Storage	6,358	5,889	382	87	163	(19)	18	139
Financial Services[7]	22,375	22,294	54	27		(12)	(6)	91
Other Business Services	8,228	7,563	255	410	91	(67)	6	163
Public and Community Services	11,004	10,842	62	100	7	(21)	(2)	35
Other Business Services	9,555	9,307	116	132	82	(57)	(23)	124
Total Commercial	**155,314**	**150,356**	**3,213**	**1,745**	**1,015**	**(407)**	**7**	**1,870**
Private Individuals - Housing Loans	63,655	[10]62,679	275	[10]701	-	6	6	255
Private Individuals - Other	67,437	65,339	524	1,574	72	(169)	38	765
Total Public	**286,406**	**278,374**	**4,012**	**4,020**	**1,087**	**(570)**	**51**	**2,890**
Banks in Israel and Government of Israel	31,442	31,442	-	-	-	-	-	-
Total Lending Activity in Israel	**317,848**	**309,816**	**4,012**	**4,020**	**1,087**	**(570)**	**51**	**2,890**
Total Public - Lending Activity Outside of Israel	**50,011**	**45,256**	**2,847**	**1,908**	**297**	**(130)**	**5**	**399**
Banks and Governments Outside of Israel	10,862	10,862	-	-	-	7	-	22
Total Lending Activity Outside of Israel	**60,873**	**56,118**	**2,847**	**1,908**	**297**	**(123)**	**5**	**421**
Total	**378,721**	**365,934**	**6,859**	**5,928**	**1,384**	**(693)**	**56**	**3,311**

Footnotes:

(1) Balance Sheet and Off-Balance Sheet Credit Risk, including for derivative instruments. Including: Debts[2], bonds, securities borrowed or purchased under agreements to resell, assets for derivative instruments, and credit risk for off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 222,572 million, NIS 42,251 million, NIS 1,207 million, NIS 5,524 million, NIS 107,167 million, respectively.

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

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

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

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

(6) Includes housing loans in the amount of NIS 313 million, which were granted to acquisition groups, the projects being built by them are in the course of construction.

(7) Including mortgage backed securities in the amount of NIS 6,673 million, issued by GNMA and in the amount of NIS 358 million, issued by FNMA and FHLMC.

(8) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 7,633 million.

(9) The balance of commercial debts includes housing loans in the amount of NIS 252 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

(10) Reclassified - following improvement of data.

Exposure to Foreign Countries - consolidated

	As of December 31					
	2022			2021		
	exposure			exposure		
The Country	balance sheet[(2)(7)]	Off-balance sheet[(2)(3)(7)]	Total	balance sheet[(2)]	Off-balance sheet[(2)(3)]	Total
	In NIS millions					
United States	18,431	9,748	28,179	17,450	7,805	25,255
Other	6,191	[(5)]8,479	14,670	7,791	[(5)]7,065	14,856
Total exposure to foreign countries[(1)]	**24,622**	**18,227**	**42,849**	**25,241**	**14,870**	**40,111**
Of which - Total exposure to the PIGS countries[(4)]	9	235	244	19	155	174
Of which - Total exposure to LDC countries[(6)]	413	162	575	491	129	620
Of which - Total exposure to countries having liquidity problems	31	13	44	44	15	59

Notes:

(1) Exposure to countries where the total amounts of exposure to each of them exceeds 1% of the total consolidated assets or more than 20% of the equity, whichever is lower. Based on the final risk, net of the effect of guarantees, liquid collateral and credit derivatives.

(2) Balance sheet and off-balance sheet credit risk, are presented before the impact of the allowance for credit losses and before the impact of collateral that are deductible for the purpose of a borrower or a group of borrowers liability.

(3) Credit risk of off-balance sheet financial instruments as computed for the purpose of borrower indebtedness limitations.

(4) Portugal, Italy, Greece and Spain.

(5) Including the transfer of credit risk to a consortium of international insurers, as of December 31 2022 in the following countries: Switzerland – an amount of NIS 2,662 million and Germany – an amount of NIS 2,223 million, and as of December 31 2021 in the following countries: Switzerland – an amount of NIS 2,471 million and Germany – an amount of NIS 2,539 million.

(6) The item "Total exposure to LDC countries" includes the total exposure to countries defined as less developed countries (LDC) which are countries classified by the world bank as having low or medium income.

(7) Balance sheet and off-balance sheet credit risk for derivative instruments is presented after credit risk mitigation (see Note 1 C 5 (2) to the financial statements).

Exposure to Russia and the Ukraine

The macro-environment risk/risk environment. The continuing conflict between Russia and the Ukraine increases uncertainty in the markets, however its effect has been significantly moderated and is being focused now on the commodities market.

Exposure to foreign countries. Balance sheet and off-balance sheet credit risk. As of December 31, 2022, exposure to Russia and to the Ukraine is at a negligible scope (a mere few millions of NIS).

Exposure to sanctions. The war between Russia and the Ukraine has led to the imposition of economic sanctions on the part of the United States, the European Union, Britain and additional countries, on entities, individuals and separatist regions and on sectors, such as aviation, energy and diamonds, and to different restrictions on export and import to and from Russia, and all this in addition to the sanctions that had been imposed in earlier years on Russia and the Crimean Peninsula. The sanctions that had been imposed are relevant to activities and services, which banks may provide to or conduct with any of their customers to whom or to whose operations the sanctions are relevant.

As an entity that conducts business with international customers and other factors, such as correspondent banks and custodians, the Bank acted towards the implementation of the sanctions that might be relevant to customers and to such international factors or to their fields of operation.

In continuation of the above stated, the Bank has adopted a number of measures, including, inter alia, delays and even blocking of funds transfer operations or the deposit of funds by bodies and entities included in lists compiled under power of the international sanctions; the regulation of its operation according to the sectorial sanctions, including sanctions pertaining to the diamond sector. In addition, the Bank applies measures regarding the monitoring and control required for maintaining completeness and propriety of the lists of entities and individuals recognized in its systems, including by way of modifying them to the updated lists of the US Treasury Department (OFAC), of the European Union and of the United Nations Sanctions Committee, mapping of operations involving risk and implementation of additional controls, where required.

The transaction of business not in agreement with the sanctions may expose the Bank and any of its relevant customers to enforcement measures and loss of reputation. Changes in sanctions and their complexity increase the sanction compliance risk and the inputs required for the implementation thereof.

Letter of the Supervisor of Banks. On June 8, 2022, the Supervisor of Banks issued a letter with respect to "risks involved in engagement with factors declared in international sanctions lists and in national sanctions lists of foreign countries". The letter states that banking corporations are required to determine a policy and procedures regarding the manner in which use should be made of international lists and national sanctions lists of foreign countries, and the manner of engagement or conduct of business with factors declared in the said lists. The letter further states that refusal to approve a transaction, refusal to engage in a contract or the termination of an engagement due to the implementation of the said policy, would be considered reasonable refusal to provide service regarding the Banking Law (Customer service). The Bank acted for the implementation of the above stated.

For details regarding letters of the Supervisor of Banks in the matter of opening bank accounts for new immigrants from Russia and their transfer of funds, see "Legislation and Supervision" below.

Credit Exposure to Foreign Financial Institutions

General. Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the said entities.

As opposed to the definition of the "financial services" economic sector for the purpose of disclosure in the Management Review concerning the "Overall credit risk according to economic sectors", the exposure for foreign financial institutions presented in the table hereunder includes exposure to foreign banks and to foreign investment banks, which, on the one hand, are not included in credit to the public, and on the other hand, does not include exposure for investment in asset backed securities and for potential off-balance sheet exposure.

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

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

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

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

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

It is noted that within the framework of the policy updating, the Bank examined in 2022 the effectiveness of risk management procedures, and in this framework has updated a part of the internal limitations. The risk indices of financial institutions around the world rose in 2022, in accordance with the rise in volatility in the markets, and accordingly, the CDS rates of banks also rose. No material change has taken place in the rating of banks in the world, though there were cases of lowered ratings for specific banks.

Distribution of the Bank's exposures in the fourth quarter is not affected by the Corona crisis. The Bank maintains routine monitoring of the scope of exposures, and concentrate the credit exposures at banks with a high rating.

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

Credit exposure to foreign financial institutions. The Bank's credit exposure to foreign financial institutions comprises mostly of exposure to banks and investment banks. As seen from the data presented hereunder, approx. 98% of the exposure as of December 31, 2022, is to financial institutions rated "A-"rating or higher.

The states for which the Bank has exposure as stated above as of December 31, 2022, include, inter-alia the United States and Great Britain.

In 2022, impairment of securities was not made with respect to the exposure to financial institutions (except for an allowance in the negligible amount of approx. NIS 5 million).

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

	Balance sheet credit risk(2)(4)(5)	Present off balance sheet credit risk(3)(4)	Present credit exposure(4)
	In NIS millions		
	As of December 31, 2022		
Present credit exposure to foreign financial institutions(1)(6)			
External credit rating(7)			
AAA to AA-	771	20	791
A+ to A-	3,196	470	3,666
BBB+ to BBB-	28	5	33
BB+ to B-	2	20	22
Not rated	2	25	27
Total present credit exposure to foreign financial institutions	**3,999**	**540**	**4,539**
	As of December 31, 2021		
Present credit exposure to foreign financial institutions(1)(6)			
External credit rating(7)			
AAA to AA-	1,190	63	1,253
A+ to A-	4,511	672	5,183
BBB+ to BBB-	43	159	202
BB+ to B-	4	35	39
Not rated	110	25	135
Total present credit exposure to foreign financial institutions	**5,858**	**954**	**6,812**

Notes:

(1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the said entities.

(2) Deposits with banks, credit to the public, investment in bonds, securities borrowed or purchased under agreements to resell and other Balance sheet credit risk for derivative instruments (see Note 1 C 5 (2) to the financial statements).

(3) Mainly guarantees, including guarantees securing third party indebtedness.

(4) Credit exposures and problematic credit risk are presented before the effect of allowance for credit losses and before deductions as defined in Section 5 of Proper Conduct of Banking Business Directive No. 313.

(5) For further information regarding the composition of the credit exposure reflected in the table showing derivative instruments in relation to banks/dealers/brokers, see Note 28 to the financial statements.

(6) Credit exposure does not include exposure to financial institutions that have explicit and full government guarantees, and does not include investment in assets backed securities (for additional details regarding assets backed securities, see Note 12 to the financial statements).

(7) According to Moody's rating, and in its absence, the Fitch rating or S&P.

In addition to the exposure presented in the above table, as of December 31, 2022 and December 31, 2021 a potential off-balance sheet exposure exists for derivative instruments of foreign banks (as defined in Section (4)(a) to the definition of indebtedness in Proper Conduct of Banking Business Directive No. 313 regarding "Restrictions on indebtedness of a single borrower and of a group of borrowers"), namely, variable percentage of the outstanding balance of a future transaction, in the amount of NIS 1,479 million and NIS 262 million, respectively.

Credit Risk in Housing Loans

General. The data presented hereunder relate to all the activity of the Group in this field: the Bank, MDB and IDB Bank (hereinafter will be named together as "the Group"). It is noted though, that the data relating to IDB Bank are negligible (housing credit in the amount of NIS 336 million as of December 31, 2022 and NIS 228 million as of December 31, 2021).

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

The growth recorded in the volume of housing loans granted by the banking industry, which exceeds the economic growth rates and the growth rates in the standard of living and in household income together with the rise recorded in the interest rate and a scenario of the rise in unemployment and an additional rise in the interest rate, may lead to impairment in the quality of the housing credit portfolio and may increase exposure to credit risk in the banking industry. Beginning with the second quarter of 2022 a decline was recorded, all across the system, in the volume of housing loans extended. Also in the fourth quarter of 2022, following the trend of rising interest in the economy, the volume of execution of housing loans continued to decline. Despite the slowdown in the housing market, a clear decline in prices has not yet been recorded.

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

In addition, the following actions are taken:

- The Group conducts credit quality control prior to the granting of the credit, by means of a back-office layout, which includes credit underwriting unit, legal underwriting and an examination unit. Mortgage loans having a high risk profile are approved by means of a specialized approval center;
- The use of "safety factors" (durability tests) in the loan approval process. Prior to approval of the loan facility, the Group studies possible implications that might arise from theoretical changes in market variables (principally, an increase of 2-3 basis points in the annual interest rate in loans bearing variable interest rates) on the repayment ability of the borrower.
- Determination of exposure policy for special segments: acquisition groups, foreign residents, all-purpose loans, etc. In loans financing the purchase of luxury properties, the Bank applies a stringent scale of authority;
- Current use of theoretical scenarios, including stress tests, for the sensitivity analysis of anticipated changes in the Bank's exposure to credit risk, as a derivative of changes in the tested parameters;
- Conducting the monitoring of key risk indicators (KRI's), and additional parameters including, in the case of developments in the housing market, the employment market and the volume of arrears concerning loans granted by the Bank and by the banking industry;
- Entering into specific arrangements with borrowers who meet difficulties in honoring the periodic repayment terms of the original loans;
- Updating credit application rating model for mortgages;
- Use of computerized tools in order to mitigate credit risks and mitigate operational risks;
- In the second half of 2022, the Bank has updated the combined report of the payment to income (PTI) ratio restriction in an LTV rates of above 60%, from 35% to 30%.

The volume of the Group's housing loan portfolio as of December 31, 2022, amounted to NIS 65,543 million (December 31, 2021 - NIS 54,196 million).

Certain risk characteristics of the Group's housing loans portfolio

	December 31,	
	2022	2021
	%	
Rate of housing loans financing over 75% of the value of the property	0.8	1.1
Rate of housing loans, the monthly repayment amount of each exceeds 35% of the income of the borrower	12.4	9.3
Rate of housing loans carrying variable interest rate of the total amount of the housing loan portfolio(1)	58.7	58.5

Footnote:

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

Amount of loans and average financing ratios

	December 31,	
	2022	2021
Average amount of loan (in NIS thousands)	993	937
Average financing ratio for housing loans (in %)	56.7	56.0
Average financing ratio for general purpose loans (in %)	30.3	(1)24.0

Footnote:

(1) Reclassified - following improvement of data.

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

	December 31,			
	2022		2021	
Credit limit net(1)(2) (in NIS thousands)	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Up to 1,200	42,342	64.9	38,162	70.8
Between 1,200 and 4,000	21,554	33.0	14,786	27.4
Over 4,000	1,379	2.1	990	1.8
Total	**65,275**	**100.0**	**53,938**	**100.0**
Of which:				
Housing loans that were granted abroad	323		227	

Footnotes:

(1) The balance of credit is after deduction of allowance for credit losses in the amount of NIS 268 million (31.12.2021: NIS 258 million).

(2) The outstanding balance of credit to the public includes housing loans in the amount of NIS 218 million, which are integrate in the transactions and security layout of the business of commercial borrowers, or which have been granted to acquisition groups, the projects being constructed by them are in stage of construction (December 31,2021: NIS 252 million).

Volume of problematic debts in housing loans

		Balance of problematic credit				
	Balance of credit to the public(1)(5)	Accruing	Non-accruing	Total	Balance of allowances for credit losses(2)(3	Ratio of problematic debt
December 31	In NIS millions					Change in %
2022	65,543	84	(4)229	313	(2)268	0.5
2021	54,196	(4)281	-	281	(2)258	-

Footnotes:

(1) Recorded amount.

(2) As of December 31, 2022, the balance of the allowance includes a group allowance computed in accordance with the instructions regarding allowance for current expected credit losses (CECL).

(3) As of December 31, 2021, the balance of the allowance includes a minimum allowance of NIS 61 million, computed according to the extent of arrears, a specific allowance in access of the minimum allowance in the amount of NIS 1 million, and a group allowance of NIS 196 million, comprising 0.36% of the balance of credit, for which no minimum allowance according to the extent of arrears was recognized.

(4) As of December 31, 2022 the balance of the problematic credit in arrears of 90 Days or More .As at December 31, 2021, total problematic credit

(5) The outstanding balance of credit to the public includes housing loans in the amount of NIS 218 million, which are integrate in the transactions and security layout of the business of commercial borrowers, or which have been granted to acquisition groups, the projects being constructed by them are in stage of construction (December 31,2021:NIS 252 million).

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

	2022		2021	
Loan to value (LTV) ratio(1)	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Up to 45%	4,493	25.3	4,351	25.7
Between 45% and 60%	5,800	32.6	5,885	34.7
Over 60%	7,472	42.1	6,719	39.6
Total	**17,765**	**100.0**	**16,955**	**100.0**

Footnote:

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

The average loan period of housing loans at the Bank in 2022, was 23.7 years, similar to 23.8 years in the industry. The amount of credit for a period of over twenty years amounted to 56% of the whole credit portfolio of housing loans. The data regarding the distribution of extended credit as of December 31, 2022, by period of loan shows that the granting of loans at the Bank in 2022 for periods of over twenty years reached a rate of 70% of the portfolio.

Developments in housing credit balances according to linkage segments

	Non-linked credit			CPI linked credit			credit			
	Fixed interest	Variable interest		Fixed interest	Variable interest		Fixed interest	Variable interest		
December 31	In NIS millions		% of total Housing Credit	In NIS millions		% of total Housing Credit	In NIS millions		% of total Housing Credit	Total Housing Credit (1)(2)
2022	20,996	26,822	73.2	5,756	11,596	26.6	24	81	0.2	65,275
2021	16,732	22,068	72.0	5,157	9,857	27.8	23	101	0.2	53,938

Footnotes:

(1) The outstanding balance of credit to the public includes housing loans in the amount of NIS 218 million, which are integrated in the transactions and security layout of the business of commercial borrowers, or which have been granted to acquisition groups, the projects being constructed by them are in stage of construction (December 31,2021:NIS 252 million).

(2) The balance of credit is after deduction of allowance for credit losses of NIS 268 million (December 31,2021: NIS 258 million).

Most of the loans are granted for an initial period of up to 25 years. The average period of the loans portfolio at the Bank, is lower than that of the industry.
The outstanding balance as of December 31, 2022, of the housing loans portfolio according to the present period to maturity of over 20 years, amount to NIS 29.6 billion at the Bank, comprising 55.7% of the total housing loans portfolio.

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

	2022		2021	
Ratio of payment to income (PTI)[1]	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Up to 40%	16,713	99.4	15,833	99.7
Over 40%	100	0.6	41	0.3
Total	**16,813**	**100.0**	**15,874**	**100.0**

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

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

Credit Risk of Private Individuals (excluding Housing Credit Risk)

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

Development in balances

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

	Balance Sheet Credit Risk				
	Financial assets portfolio				
	Less than NIS 50 thousand	Greater than NIS 50 thousand	Total balance credit risk	Total off-balance credit risk	Total credit risk
	Balance in NIS million				
	December 31, 2022				
Level of income to the account					
Excluding permanent income to the account	1,046	103	1,149	574	1,723
Less than NIS 10 thousand	3,904	838	4,742	3,300	8,042
Greater than NIS 10 thousand, but less than NIS 20 thousand	4,312	1,637	5,949	3,771	9,720
Greater than NIS 20 thousand	4,108	3,018	7,126	5,616	12,742
Total	**13,370**	**5,596**	**18,966**	**13,260**	**32,226**
	December 31, 2021				
Level of income to the account					
Excluding permanent income to the account	1,116	112	1,228	551	1,779
Less than NIS 10 thousand	4,081	940	5,021	3,258	8,279
Greater than NIS 10 thousand, but less than NIS 20 thousand	3,986	1,700	5,686	3,480	9,166
Greater than NIS 20 thousand	3,397	2,989	6,386	4,787	11,173
Total	**12,580**	**5,741**	**18,321**	**12,076**	**30,397**

Additional quantitative characteristics

Distribution by the average remaining period to maturity

	December 31,	
	2022	2021
	Balance of loans	
Fixed maturity date	in NIS millions	
Up to 1 year	1,277	1,344
Over 1 year and up to 3 years	4,748	4,833
Over 3 years and up to 5 years	3,984	4,040
Over 5 years	2,996	2,546
Total	**13,005**	**12,763**

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

Distribution by size of credit to the borrower

	December 31,	
	2022	2021
Balance sheet credit upper limit (NIS thousands)	in NIS million	
Up to 40	5,132	4,826
Between 40 and 150	9,563	9,390
Over 150	4,271	4,105
Total	**18,966**	**18,321**

Distribution by exposure to changes in interest rates

	December 31,	
	2022	2021
	in NIS million	
Fixed interest credit	5,714	5,434
Variable interest credit	13,252	12,887
Total	**18,966**	**18,321**

Distribution of collateral securing the credit

	December 31,	
	2022	2021
	Total collateral	
Type of collateral	in NIS millions	
Liquid financial assets	1,047	1,224
Other collateral	1,050	980
Total	**2,097**	**2,204**

Development of problematic credit risk for private individuals

				Rate from total balance-sheet to credit to the public	
	December 31,			December 31,	
	2022	2021	Change in	2022	2021
	in NIS million		%	%	
Problematic credit risk	179	241	(25.6)	0.9	1.3
Of which: Non-accruing credit risk[(1)]	39	124	(68.2)	0.2	0.7
Debts in arrears of 90 days or more	45	43	4.7	0.2	0.2
Net accounting write-offs	14	3	374.4	0.1	0.0
Balance of allowance for credit losses	459	399	15.1	2.4	2.2

Footnote:
(1)The data as of December 31,2021, relates to impaired credit risk. In the absence of possibility of comparison between the data, there is no significance to the rate of change.

Credit risk regarding the purchase of motor vehicles. The balance of credit granted for the purchase of motor vehicles (in the Bank, MDB and ICC), pledged, amounted to NIS 1,491 million at December 31, 2022, compared with NIS 1,677 million as of December 31, 2021, a decrease of 11.1%.

Additional details

Background

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

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

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

Development of the Risk

Starting with the previous decade, the credit granted to households doubled its ratio in the credit portfolios of the five large banking groups. Most of the growth in credit to households in Israel stems from housing loans (about two thirds of credit granted to households). At the same time, the credit to households granted by off-banking entities continued to grow, though its share is still low in relation to banking credit.

The Corona crisis, which broke out in the first quarter of 2020, caused a decline in the GDP, a rise in unemployment, as well as to assistance, mostly governmental, provided to private customers and to small businesses. Such assistance that was provided by way of grants, funds guaranteed by the Government and the deferral of loan repayments, which together with additional aspects, led to a decline in the number of problematic customers and to a decline in credit risk.

In the second half of 2022, a moderate increase in the assessment of credit risk began, compared to the first period following the exit from the Corona crisis. Part of the indices are found in an upward trend, as observed in earlier quarters, following the rising interest rates (globally and in Israel), the moderate increase in unemployment rates and the slowdown in the pace of economic growth.

Risk Mitigating Measures

Determining underwriting thresholds. Within the framework of determining the risk appetite, underwriting thresholds have been set, which reflect the maximum level of risk in which new consumer credit may be provided. Deviation from these rules is possible only in exceptional cases and in limited amounts, while ascending the authorization scale.

Models and analytical tools. The process of determining the consumer credit risk at the Bank is accompanied by statistical models, which calculate the credit risk assessments (LGD and PD) that forecast the customer's risk level and the marginal transaction. The models are based upon variables referring to the characteristics of the customer, his repayment ability, financial stability and his banking past. The models are being updated from time to time according to market changes, state of the borrowers and additional factors.

Effective measurement. All business units at the Bank are being measured on a current basis by the quality of the consumer credit portfolio under their responsibility, and by their adherence to the underwriting rules. All functions related to credit underwriting have defined indices, the aim of which is maintaining the quality of the portfolio and the wide distribution of credit to the extent possible.

Use of information obtained from the credit data base. Credit underwriting if performed using information obtained from the data base, subject to minimum levels of materiality, as defined by the Bank and to limitations set by law.

The Fairness Principle

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

Monitoring and Control

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

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

Quantitative data regarding credit granted to private individuals in ICC

A rise at the rate of 21.9% was recorded in 2022 in the balance of interest bearing credit granted to private individuals, in continuation of a rise of 11.9% in 2021. This credit amounted as of December 31, 2022, to NIS 7,034 million, compared with NIS 5,772 million as of December 31, 2021, and comprises 59.8% of total credit to private individuals at the responsibility of ICC, most of which is credit carrying variable interest rates regarding credit transactions, revolving credit card transactions, loans, designated credit for the purchase of vehicles and other transactions. The remaining credit to private individuals amounted to NIS 4,726 million, as compared to NIS 4,147 million as of December 31, 2021 (an increase of approx. 15.5%), reflecting balances of regular transactions, installment transaction on account of the trading house and other transactions. The major part of credit losses stems from interest bearing credit.
Credit losses for private individuals amounted in 2022 to NIS 93 million, compared to an expense release in the amount of NIS 1 million in the corresponding period last year. The growth in credit loss expenses stems mostly from a decrease in the group allowance for credit losses in prior periods, as well as from the growth in volume of accounting write-offs.

Credit risk in relation to the Construction and Real Estate Sector

The construction and real estate sectors are a central component in the Bank's credit portfolio, and most of the credit to these sectors is managed by the Real Estate wing in the Corporate Division, which possesses a high level of expertise and considerable experience in this field. In this area, the Bank operates subject to the regulatory limitation and according to mitigating instructions determined by the Supervisor of Banks, within the framework of the Provisional Instruction, in order to enable confronting the Corona crisis, according to which banks may increase the volume of credit extended to the construction and real estate sector, so that the rate of credit in this sector shall not exceed 26% of total credit, and after deduction of indebtedness of national infrastructure projects, shall not exceed 22%. The banks would be required to revert to a rate of 20% during a period of twenty-four months as from December 31, 2025, on condition that the rate of indebtedness during the said two years would not exceed the rate at December 31, 2025. The Bank conforms to the said limits and also to internal limits serving as alert levels.
The credit policy for the sector focuses on financing activities in Israel, while giving priority to long-established borrowers having a high level of financial strength, with whom the Bank has positive business experience. The financing of entrepreneur residential construction projects and income generating real-estate projects is conducted by the closed loan method, under minimum requirements, including equity capital, minimal estimated profitability, compliance with stress tests (inter alia, price reduction scenarios), price reduction absorption ability, early sales and more – for a fuller explanation, see the "Construction and Real Estate Activity" under "Additional Details Regarding the Business of the Banking Corporation and Management Thereof" chapter.
During 2022 the scope of exposure of the Bank to the construction and real estate sector grew at a slower pace than that of 2021. It is noted, that in 2021 a significant growth regarding this sector was recorded in the banking system as a whole, accompanied by increased competition.
The Bank operates with a focus on financing residential building projects and financing the purchase of land. The Bank monitors and closely follows the growth in exposure, inter alia, for new transactions having increased risk (see below), and where required, the Bank has made adjustments to the group allowance. It is noted that the Bank has increased the insurance coverage in 2022. The rate of exposure to credit in the construction and real estate sector at the Bank dropped from 17.12% at the end of 2021 to 17.03% at the end of 2022.

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

The Supervisor of Banks issued on August 19, 2021, a letter in the matter of "Growth in credit risk pertaining to the construction and real estate sector", on the background of the significant growth that had taken place at the banking system during the first half of the year with respect to business credit balances in general and in credit balances to the construction and real estate sector in particular, as well as in view of the increase in competition and the growing risk appetite, and in consequence thereof, an increase in credit risk. The letter requires banking corporations to reinforce their monitoring and control procedures as regards the development of risks, especially with respect to new credit transactions. Within the framework of monitoring and control, as stated, banking corporations are required to determine criteria for credit underwriting defined by them as "increased risk" credit (on the basis of parameters stated in an Annex to the letter). Moreover, banking corporations are required to adjust the computation of the group allowance for credit losses following the fast growth of the credit portfolio and the relaxation in underwriting conditions.
In continuation to that stated above, and on the background of the growth in risks pertaining to the construction and real estate sector, banks were required by the Supervisor of Banks, on October 11, 2021, to expand, as from the report for the third quarter of 2021, the quantitative and qualitative disclosure regarding the construction and real estate sector presented in their Boards of Directors and Managements' reports, and accordingly, a Table was added detailing credit exposure and data regarding credit rated for granting and credit not rated for granting. In a further letter from the Banking Supervision Department, dated December 30, 2021, the banking corporations were required to make an adjustment to the group allowance in the 2021 financial statements in view of the rise in the risk and the level of exposure to the construction and real estate sector, as well as expanding the disclosure on this topic.
An Amendment to Proper Conduct of Banking Business Directive No. 203, was published on May 22, 2022, in the matter of the standardised approach to the measurement of credit risk and capital adequacy, according to which the list of

debts averaged at the rate of 150% risk would include loans intended to finance the purchase of land for development or building purposes at a rate exceeding 80% of the value of the purchased property, excluding loans financing the purchase of agricultural land having no planning horizon or intention to file a request for a change in zoning, and loans financing the purchase of land for the personal use of a borrower who is not classified to the construction and real estate sector. The Amendment takes effect on June 30, 2022, though the effect of the existing amount of loans on the capital adequacy ratio may be spread at fixed quarterly installments until June 30, 2023 (beginning with the third quarter of 2022).
A detailed analysis of transactions made at Discount Bank in the course of 2022 points at a decline in the volume of new credit that agrees with the criteria of increased risk.
During the reported period, MDB extended an insignificant amount of credit to the construction and real estate sectors, which matches the definition of increased risk credit, according to parameters defined by this bank.
As of December 31, 2022, MDB has an outstanding balance of credit extended to the construction and real estate sectors of NIS 363 million, answering to the definition of "intensified credit risk for the purchase of land".

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

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

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

	December 31, 2022					December 31, 2021					
Sector	Credit for the public	Guarantees	Unutilized facilities	Total Credit Risk	Of which: problematic credit	Credit for the public	Guarantees	Unutilized facilities	Total Credit Risk	Of which: problematic credit	Change in total credit risk
	in NIS million										%
Income generating real estate	13,179	242	1,472	14,893	328	11,487	197	1,774	13,458	336	10.7
Construction – general building contracting	739	835	352	1,926	39	1,019	565	335	1,919	56	0.4
Residential projects financing	5,310	6,655	11,724	23,689	139	4,899	5,551	10,766	21,216	171	11.7
Acquisition of building land	12,653	356	402	13,411	859	10,424	347	425	11,196	145	19.8
Subcontracting	1,519	1,159	607	3,285	99	1,519	1,071	622	3,212	108	2.3
Civil engineering work	1,855	2,329	1,067	5,251	43	1,625	1,766	857	4,248	100	23.6
Other	1,462	550	682	2,694	72	1,346	382	408	2,136	79	26.1
Total	**36,717**	**12,126**	**16,306**	**65,149**	**1,579**	**32,319**	**9,879**	**15,187**	**57,385**	**995**	**13.5**

The credit risk relating to the construction and real estate sector grew in 2022 by 13.5%. As shown in the table above, most of the growth is in the residential projects financing and acquisition of building land.

Breakdown by quality of credit portfolio

	December 31,		
	2022	2021	
	in NIS million		Change in %
Non-accruing debts	496	239	107.5
Impaired debts in Arrears of 90 Days or More	12	7	71.4
Other problematic debts	1,071	749	43.0
Total problematic debts	**1,579**	**995**	**58.7**
Non-problematic debts ranked as "performing"	61,744	(2)55,453	11.3
Non-problematic debts not ranked as "performing"	1,826	937	94.9
Total Credit	**65,149**	**57,385**	**13.5**
Debts whose settlement date has been deferred, at the customer's request(1)	-	9	(100.0)

Footnotes:
(1) Requests for deferment of loan settlement dates due to the economic crisis that developed as a result of the "Corona virus" event.
(2) Reclassified – following improvement of data.

As shown by the Table, the credit risk for non-accruing debts for the construction and real estate sector increased in 2022 by approx. 107.5%. Other problematic debts increased by 43.0% and performing credit which is not at credit rated for granting increased by approx. 94.9%.
For details regarding the purchase of a policy to insure against credit risk related to Sale Law guarantees and performance guarantees and with respect to the purchase of credit risk insurance in the real estate field, see the risks report.

Breakdown by type of financing

	December 31,		
	2022	2021	
	in NIS million		Change in %
Housing construction	38,389	28,914	32.8
Industrial and commercial construction	12,460	12,926	(3.6)
Without real estate collateral	14,300	15,545	(8.0)
Total	**65,149**	**57,385**	**13.5**

Breakdown by type of collateral

	December 31,		
	2022	2021	
	in NIS million		Change in %
"Gross" land	13,294	11,357	17.1
Real estate under construction	22,175	19,266	15.1
Constructed real estate	15,380	11,217	37.1
Without real estate collateral	14,300	15,545	(8.0)
Total	**65,149**	**57,385**	**13.5**

Credit risk for Leveraged Finance

Definition of leveraged finance. Defined as credit for the finance of capital transactions by corporations, granted at a high financing ratio and credit granted to borrowers typified by a high leverage finance level which significantly exceeds accepted norms in this sector of operations. According to Proper Conduct of Banking Business Directive No. 327 the definition of leveraged loans has been set, and it includes, among other things, transactions for the acquisition of another corporation, purchase of own shares and the distribution of capital.
Credit risk for leveraged finance. The Bank's credit policy determines strict guidelines regarding underwriting and restrictions on the scope of exposure to leveraged finance. In addition, developments in leveraged finance and compliance with the determined limitations are reported once in each quarter to the Bank's Management and the Board of Directors, this, in order to monitor the risks inherent in such financing.

Proper Conduct of Banking Business Directives determined restrictions regarding the finance of capital transactions, which the Bank abides by.
Following are data regarding credit risk pertaining to leveraged finance as of December 31, 2022. Disclosure is focused on exposure leverage transactions, each of which exceeds the threshold set in the Bank's policy and subject to Proper Conduct of Banking Business Directives.

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

	December 31, 2022				December 31, 2021			
	Balance sheet exposure	Off-Balance sheet exposure	Total exposure	Specific allowance for credit losses	Balance sheet exposure	Off-Balance sheet exposure	Total exposure	Specific allowance for credit losses
Sector	In NIS millions							
Construction and real estate	1,041	181	1,222	-	118	-	118	-
Commerce	181	-	181	-	-	-	-	-
Public and Community Services	258	5	263	-	262	4	266	-
Total	**1,480**	**186**	**1,666**	**-**	**380**	**4**	**384**	**-**

Exposure to leveraged finance as of December 31, 2022 amounted to NIS 1,480 million, compared to NIS 380 million at the end of 2021, an increase of 289.5%. The growth during the reported period stemmed from the inclusion of certain borrowers, following a renewed examination of their characteristics.
The balance of exposure presented in the table above, is after accounting write-offs.
The off-balance sheet exposure for leverage finance transactions as of December 31, 2022, amounted to NIS 186 million (December 31, 2021 – NIS 4 million).
For additional details, see "Credit risk" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks", which is available for review on the MAGNA website of the Israel Securities Authority and on the MAYA website of the Tel Aviv Stock Exchange as well as on the Bank's website.

Additional disclosure regarding credit risk for significant exposure to borrower groups

As at December 31, 2022, there is no borrower group whose indebtedness exceeds 15% of the capital, as defined in the Directive.
It is noted that as of June 30, 2022, and September 30, 2022, there was one group the indebtedness of which exceeded 15% of the capital, as stated. This Group included a large Government corporation engaged in infrastructure, constituting a monopoly in its field, as well as many borrowers, the main source of credit repayment of whom, relies upon their business with this corporation. In view of a structural change in the sector in which the company operates, and the clarifications contained in the updated Q&A file published by the Supervisor of Banks, the said borrowers no longer comprise part of the company's group.

Market Risks

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

- **Share prices risk and credit margin in the holding of securities risk.** The risk of impairment, as stated, as a result of erosion in value of securities having a credit risk and in the value of non-financial assets, including funds, due to price fluctuations.

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

Strategy and Policy

The policy document for market risk management constitutes a framework for the management of the market risks at the Bank and the Group and defines the responsibility and authority of the parties involved in the processes for managing the market risks that the Group accepts.
Management of the risk is intended to minimize, as much as possible, the materialization of unexpected risks and harm stemming from the uncontrolled acceptance of risk.
The policy and the principles in the policy document are on a Group basis, with each of the subsidiaries, on an individual basis, adapting the policy to its own administrative structure, to local regulations and to its business environment. The risks are managed from an overall Group standpoint and within a framework of mandatory professional guidance.
As part of the updating of the market risk management policy, the effectiveness of limitations applying to market risk at the Bank and at the Group is reviewed, including in the trading portfolio, intactness of the exposure population is being examined, while identifying vulnerable areas, and comparison is being made with principal risk indices in relation to the system. Within the framework of updating of the policy in 2022, limitations had been updated increasing the risk appetite in the investment portfolio according to the Bank's strategic insight, including limitations regarding the investment portfolio.

Risk Appetite

The appetite for market risks, as defined in the policy, reflects the willingness of the Bank and the subsidiaries in the Group to accept market risks for the purpose of achieving their strategic goals. The fundamental concept in managing the risk is that the balance sheet will be managed with the aim of maximizing the economic capital from a long-term perspective, given the risk appetite and subject to accounting considerations and to considerations affecting the capital planning.
The policy defines the quantitative and qualitative limitations in relation to the characteristics of the market risks exposure at the Group companies and in the markets and instruments in which they are active through the banking portfolio and the trading portfolio.
The risk appetite is determined taking into consideration the two measurement approaches – accounting and economic, as well as the various management tools – sensitivity analyses, accounting scenario of an ordinary business situation (capital scenario), historical VAR model and stress tests, while taking into consideration different time spans – short-term and long-term.
In order to effectively manage and analyze the exposures and to display a concise picture to the decision makers, two categories of risk indices have been defined – primary risk indices, which serve the first line of defense in taking ongoing or periodic decisions regarding exposure scopes, and the additional risk indices, which are the remaining risk indices, that complete and set out the risk picture, in respect to some of which the Board of Directors has set limits, in respect to some, limits are set at division head level, and there are also risk indices which are only subject to monitoring without any limits being set.
The Bank and the subsidiaries manage and monitor compliance with the limits for both the primary risk indices and also for the additional risk indices. Details regarding the scope of the exposures and the limits set will be presented below within the framework of the quantitative disclosure.

Structure and Processes

The market risk management policy defines an organizational structure for managing the risks, which ensures a proper balance and non-dependence among the parties involved in managing the risks. Three lines of defense are defined in relation to the market risks, for the purpose of ensuring this balance, as follows:
First line of defense. The collective Group management of interest, is being conducted by means of Global Treasury at the Financial Markets Division. The Group investment risk management is conducted by the investments unit at the Financial Markets Division. The Group management refers to all market risk acceptors at the Group including the asset and liability management activity, the investment activity and the trading activity at the Bank, at IDB Bank and at MDB. Within the framework of the first line of defense, measurement, control and operating units operate independently from the risk acceptors.
Second line of defense. The risk management function is an independent function and its role is to complement the risk management activity performed by the business lines. This function has the necessary standing and authority to enable it to affect decisions that impact on the risk exposure, including involvement in the main strategic processes that affect the risk appetite, risk identification, mandatory professional guidance for the subsidiaries, policy updates and validation of the principal models used in risk management.
Third line of defense. The internal audit function at the Bank and at the Group companies is responsible for conducting an independent self-assessment of the degree of effectiveness of the implementation of the risk management processes at the Bank and at the Bank Group companies, on the basis of findings from the audits conducted according to a work plan that is approved by the boards of directors of the Bank Group companies.
Management supervision. Current management and supervision in the area of market risks management are performed, inter alia, by the following committees: the assets and liabilities management committee (ALM committee), the Group assets and liabilities management committee (GALCO) and the financial forum.

Mechanisms that enable an immediate response to exceptional market developments

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

Measurement and Reporting

Measurement of exposure to market risks, including the calculation of the main risk estimates is performed by the first line of defense at the Bank on a weekly basis, using a designated system for market risk management.
The second line of defense measures and controls the exposures to market risks according to additional risk indices, using an independent calculation, at weekly intervals for the Bank standalone and at monthly intervals for the Group.
The risk management system is used as a data base for financial data, which contains the financial information regarding the range of financial instruments operated by the Bank, including embedded options, for market data (such as indices, exchange rates and interest rates), their volatility level and the statistical correlation between them, as well as financial and behavioral models. In addition, simulations are conducted through the system on all the transactions at the Bank and Group levels and on activities/portfolios (for trade and banking), and a variety of risk

indices are calculated, including the interest exposures (it should be noted that the system is also used to measure the fair value for financial reporting purposes).
This system is also used by MDB in computing its exposure to market risks.
IDB Bank. Measurement of the exposure to market risks is performed by the first line of defense (Treasury) by means of a designated system for the management of market and liquidity risks. This system is an advanced system which increases the analysis capabilities and enables a monthly monitoring of the central risk assessing factors.
The measurement results are reported on a current basis within the framework of the relevant Management and Board of Directors committees.

Models and Risk Indices

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

Exposure to Interest Rate Risk

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

Quantitative information regarding interest risk – sensitivity analysis

Net adjusted fair value of financial instruments - consolidated

	December 31 2022			December 31 2021		
	Israeli currency	Foreign currency(2)	Total	Israeli currency	Foreign currency(2)	Total
	In NIS millions					
Net adjusted fair value(1)(3)	16,120	5,099	21,219	13,578	5,224	18,802
Of which: the banking book	15,987	4,038	20,025	13,332	5,071	18,403

Footnotes:
(1) Net fair value of financial instruments, excluding nonfinancial items and net of the effect of liability for employee rights and allocation to periods of on-call deposits.
(2) Including Israeli currency linked to foreign currency.
(3) Not including liabilities for leasing.

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

	December 31 2022			December 31 2021		
	Israeli currency	Foreign currency(4)	(5)Total	Israeli currency	Foreign currency(4)	(5)Total
	In NIS millions					
Parallel changes						
A parallel increase of 1%	(3)	170	167	(466)	102	(364)
Of which: the banking book	-	186	186	(449)	106	(343)
A parallel decrease of 1%	7	(202)	(195)	468	(349)	119
Of which: the banking book	9	(217)	(208)	450	(354)	96
Non-parallel changes						
Curving(2)	(649)	55	(594)	(490)	23	(467)
Flattening(3)	631	(28)	603	369	(32)	337
Interest rise in the short-term	585	52	637	174	15	189
Interest decline in the short-term	(635)	(53)	(688)	(202)	(167)	(369)

Footnotes:

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

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

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

(4) Including Israeli currency linked to foreign currency.

(5) After offsetting effects.

The principal change in sensitivity to changes in the interest rates stems from the shekel segment. This being the result of the following reasons:

- The decline in margins, which had materially reduced exposure;
- Effect of the rise in yields on behavioral models – the rise in interest has prolonged the average maturity period for deposits, thus reducing exposure to the rise in interest;
- The Bank has reduced the interest exposure inherent in the available-for-sale securities portfolio.

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

	December 31, 2022			December 31, 2021		
	Interest income	Non-interest financing income	Total	Interest income	Non-interest financing income	Total
	In NIS millions					
Parallel changes						
A parallel increase of 1%	521	(44)	477	1,216	(72)	1,144
Of which: the banking book	509	(41)	468	1,202	(64)	1,138
A parallel decrease of 1%	(1,033)	35	(998)	(1,404)	76	(1,328)
Of which: the banking book	(1,021)	35	(986)	(1,390)	67	(1,323)

Sensitivity of the income is calculated on the basis of various assumptions regarding the effect of a change in interest on the return on assets and the cost of the deposits (Beta) and application of minimum interest levels for pricing.
As of December 31, 2022, the estimated effect of a parallel increase of 1% on interest income amounted to an increase of NIS 477 million, whereas the estimated effect of a parallel decrease of 1% amounted to a decrease of NIS 760 million. This compared to estimates as of December 31, 2021, which amounted to an increase in interest income of NIS 1,144 million, in a scenario of a parallel increase of 1%, and to a decrease in interest income of NIS 1,328 million, in a scenario of a parallel decrease of 1%. Sensitivity of the income is calculated on the basis of various assumptions regarding the effect of a change in interest on the return on assets and the cost of the deposits (Beta) and application of minimum interest levels for pricing.

In light of the steep rise in interest rates in Israel and in the US, the Bank has updated the model assumptions relating to the cost of deposits (Beta), as well as the assumption relating to changes in balances bearing no interest. The decline in the sensitivity of income to the rise in interest stems mostly from this update.

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

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

Fair value of financial instruments. Most of the Bank’s balance sheet financial instruments do not have a quoted “market price” as they are not traded on an active market. Accordingly, according to the directive, the fair value is estimated using accepted pricing models, and in particular through the calculation of the present value of the discounted cash flows using a discount interest rate appropriate to the level of risk embodied in the instrument.
The determination of the discount interest rate is subjective. Thus, for most of the financial instruments, the fair value estimate presented below does not necessarily constitute an indication of the realizable value of the financial instruments on the reporting date.
The assessment of the present value of future cash flows was done according to the interest rates in effect on the reporting date, without taking into consideration fluctuations in interest rates. Using different discount rates assumptions, may result in significantly different fair value amounts. This relates particularly to financial instruments bearing a fixed interest rate or non-interest bearing.
It should be further noted, that the differential between the book value of the financial instrument and its fair value, may never be realized, as the Bank usually holds the financial instrument to maturity.
In consequence of the above, it should be stressed that the data included in this Note, is no indication of the Bank’s value.
Furthermore, due to the broad spectrum of possible assessment techniques and estimates in implementing the reporting directives with regard to the fair value, care should be taken when examining the fair value data itself as well as when comparing it with the fair value data presented by other banks.
Hybrid financial instruments are debt instruments, in which are embedded derivative components that have not been separated there from. In providing information regarding fair value, the Bank is not required to classify financial instruments as hybrid financial instruments, because, according to the Bank of Israel’s guidelines, the interest rate exposure of these instruments included the division of such transactions according to maturity dates, while separating the option component from these instruments. Following are details of the hybrid financial instruments, where in the disclosure regarding exposure to changes in interest rates, the separated option and the host instrument have been treated as standalone instruments (the effect on the financial statements is not material): deposits with the option of a fixed rate of interest or of a variable rate of interest, savings deposits linked to the CPI or linked to foreign currency with an option for changing the linkage base and an option securing the Shekel principal sum deposited, deposits and loans linked to the CPI or linked to foreign currency with an option for securing the Shekel principal sum.
For further details regarding the main methods and assumptions used in assessing the fair value of financial instruments, see Note 34 to the financial statements.

For details regarding the effect of changes in interest rates on the fair value of problematic debts, see Note 34 c.
The net changes in fair value, in the different linkage segments, stem from the active management of the active capital and the decision to move it according to returns expected in the different linkage segments.
No weekly cumulative change occurred in the past ten years, which had it occurred in the reported period would have adversely affected the ”going concern” assumption used at the basis of preparation of the financial statements.

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

The data presented above, was computed on the basis of fair value, as required by the public reporting directives of the Supervisor of Banks and according to the calculation of the table "Exposure to interest rate changes", which is presented within the framework of the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

The current management of exposure to interest rates applies to all of the Bank's operations, and takes into consideration additional data that represent the economic approach to the management of exposure of the economic value of the Bank's equity to changes in interest rates.

The principal differences between the computation of exposure according to accounting fair value and the managed economic exposure are as follows:

(a) The computation of the accounting fair value made use of graphs that take into consideration credit margins. Computation of the economic exposure made use of graphs representing the transfer prices.

(b) Items relating to liabilities for employee rights are included in the economic measurement in the CPI-linked segment, while in the accounting measurement they are presented in the unlinked segment;

(c) Economic exposure takes into consideration expected future cash flows, such as deposits in savings schemes, in contrast to the calculation on the fair value basis, which does not take into account such future deposits;

(d) An impaired non-interest bearing debt is related in economic exposure to the non-linked segment, as it does not carry interest, while in fair value calculations, it is presented in its original segment;

(e) Optional savings schemes are presented at fair value in their principal linkage segment, while in economic exposure each component is presented in its related linkage segment.

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

The change in interest rates	Non-linked	CPI linked	US dollar	Other foreign currency	Total
			In NIS millions		
			December 31, 2022		
An increase of 100BP in interest rates	(62)	(518)	106	26	(447)
A decrease of 100BP in interest rates	76	432	(135)	(28)	345
			December 31, 2021		
An increase of 100BP in interest rates	(654)	(78)	21	44	(667)
A decrease of 100BP in interest rates	633	114	(259)	(53)	436

Changes in effect of the scenario – the non-linked segment shows decline stemming from the following factors:

- Effect of the rise in yields on the behavioral models – the rise in interest prolonged the period to maturity of deposits, thereby reducing exposure to rising interest;
- Reduction in exposure to interest inherent in the available-for-sale securities portfolio.

Changes in effect of the scenario – the linked segment shows an increase stemming from the following factors:

- Increase in the linked credit, mostly in the mortgages activity;
- A rise in yields which reduced the rate of premature repayments forecasted for mortgages, thus increasing exposure.

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

In addition to a scenario of a parallel move in the interest graphs, the exposure to non-parallel changes in the various interest graphs is also being studied.

Replacement of foreign interest benchmarks (base rates) and its repercussions

General. On March 20, 2019, the Supervisor of Banks addressed a letter to the banking corporations, in which they are requested to prepare for the anticipated discontinuation of the publication of interest benchmarks existing around the world and their replacement with other benchmarks. On February 13, 2020, the Supervisor of Banks published a letter regarding the disclosure regarding preparations towards termination of the use of the LIBOR interest, on the background of disclosure guidelines published by the SEC in the matter.

Discontinuation of the use of LIBOR interests. According to the pronouncement made by the UK's Financial Conduct Authority (FCA) in July 2017, it has been decided to gradually terminate the use of the LIBOR interests in stages through the end of 2021. Further to this decision, various work teams have been set up around the world in order to determine interest indices, as an alternative to the LIBOR interest rates. In May 2020, the Bank informed the relevant customers with respect to the anticipated change and the preparations made by the Bank in the matter.

ICE Benchmark Administration Company, the administrator for the dollar LIBOR interest, announced on November 30, 2020, its intention to defer to June 2023, the termination of publishing the US dollar LIBOR interest for the most material tenors (one month and three months).

Furthermore, the International Swaps and Derivatives Association (ISDA), published on October 23, 2020, the ISDA 2020 IBOR Fallbacks protocol, which includes swap mechanisms for LIBOR interest. The Bank adopted the said protocol on February 1, 2021.

The main risks and the Bank's preparations therefor. The discontinuation of the use of LIBOR interests and the transition to alternative interest indices create various risks - operational, IT systems, the Bank-customer relations, financial and legal, that arise from the Bank's operations with its customers. The Bank is making preparations to identify the risks, inter alia, by means of mapping all the relevant forms, contracts and exposures.

The Bank has examined the expected effect of discontinuing to publish the LIBOR interest and has implemented the transition to new interest indices in relation to each of the relevant currencies.

In December 2021, the Bank completed its operational and legal preparations for the transition to the new interest indices for the credit products and derivatives. In addition, the loan forms and contracts to be used with the new interests have been updated. The Bank has held training sessions for employees to be able to support customers using foreign currency credit products and has sent notices and announcements to the relevant customers according to the requirements of Proper Conduct of Banking Business No. 250A.

On June 30, 2023, the LIBOR interest quotation for the US dollar will be discontinued; the Bank has made preparations to replace the interest index for the balance of the loans linked to the LIBOR interest, to an alternative interest index based on the SOFR graph, as published by the Chicago Mercantile Exchange (CME) with the addition of adjustment of the risk margin. Notices would be delivered to the relevant customers and in publications of the Bank.

Proper Conduct of Banking Business Directive No. 250A - Transition from the LIBOR interest rate. The Directive published on September 30, 2021, states instructions regarding the preparations to be made for the termination as from December 31, 2021, of the publication of the LIBOR interest rate, including the application of an alternative basic interest rate, treatment of existing agreements, and information/data that a bank has to publish, as follows:

- In deciding the alternative computation method, a banking corporation has to take into consideration the recommendations made by the relevant committees and work teams regarding the different currencies, including the recommendations of the International Swaps and Derivatives Association (ISDA). Furthermore, the banking corporation has to operate fairly.
- In cases where customers being individuals, small or minute business are involved (hereinafter: "consumer customers"), who are party to existing agreements requiring their consent, no early redemption commission may be charged if the customer has chosen to repay the loan instead of changing to the alternative interest rate.
- Consumer customers have to be informed of the transition until October 31, 2021, while all other customers have to be informed until November 30, 2021.
- Managements and boards of directors of banks are required to determine a policy and hold periodic discussions (with respect to the preparations and potential risks).

The Directive took effect on October 14, 2021. The Bank had made preparations for adherence thereto, and had implemented the relevant instructions, including delivery of additional notifications to relevant customers, posting the required contents to the Bank's Internet website, completing and digitalizing the new forms and notices to customers having existing credit/deposits bearing LIBOR interest until October 31, 2021.

Material exposures. The Bank has various contracts that continue beyond 2021 which relate to LIBOR interests.

Discount's exposure to the LIBOR interest rate in respect to exposures that will continue beyond June 30, 2023 – in US$ currency

	December 31, 2022		December 31, 2021	
	Number of transactions	Book value in NIS million	Number of transactions	Book value in NIS million
Loans	1,185	8,216	1,338	8,924
Securities	20	595	21	575
Total	**1,205**	**8,311**	**1,359**	**9,499**
Derivatives (volume transactions)	1,188	52,426	1,239	46,958

The Discount Group is no longer exposed to the LIBOR interest with respect to other currencies.
The Table includes data of Discount Bank, MDB and of IDB Bank.

Inflation and exchange rate risk

Exposure to base risk is measured in the CPI linked segment and in the foreign currency segment (including Israeli currency linked to foreign currency). For details regarding assets and liabilities according to linkage terms, see Note 32 to the financial statements.

Capital sensitivity to changes in exchange rate. The capital's sensitivity to changes in exchange rate is presented in the following table, which provides details regarding the impact of changes in exchange rates of the major currencies on the equity as of December 31, 2022.

Effect of hedging relations and transactions in derivative instruments on the exposure. The exposure in the CPI-linked segment is created due to an excess of applications in relation to sources in this segment. In order to hedge the exposure in the CPI-linked segment, the Bank makes use of contracts on the consumer price index. As a general rule, the Bank's policy is not to create an exposure to foreign currency exchange rates in its ongoing activity. Coverage of the built-in foreign currency position, which arises from the investment in IDB Bank, was canceled in the past, in order to reduce the sensitivity of the capital ratio to changes in exchange rates (see above "Exposure regarding the investment in Discount Bancorp Inc." in section "Capital and capital adequacy").

The Bank's capital sensitivity of changes in exchange rates

	For the fourth Quarter ending on December 31, 2022			
	in NIS millions			
Segment	10%	5%	-5%	-10%
USD	485	239	(230)	(457)
EUR	223	110	(101)	(194)
Other Foreign Currencies	15	7	(7)	(15)

This effect has been computed on the basis of the expected change in the fair value of the Group in the various currencies, given the scenario determined by the Supervisor of Banks.

Sensitivity of the capital to changes in the CPI. The sensitivity of the capital to changes in the CPI is presented in the following Table, which details the effect of a 3% change on the capital as of December 31, 2022.

Sensitivity of the capital to changes in the CPI

	For the fourth quarter ended on December 31, 2022	
	in NIS millions	
	Increase of 3%	Decrease of 3%
	373	(373)

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

Share Price Risk

Shares Position in the Banking Book

Strategy and processes

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

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

Investments in shares

	December 31	
	2022	2021
	In NIS millions	
Investments in shares of associates[1]:		
Non marketable shares	486	462
Shares in the available-for-sale portfolio:		
Marketable shares	130	283
Non marketable shares	1,637	1,330
Total shares in the available for sale portfolio	**1,767**	**1,613**
Total investment in shares	**2,253**	**2,075**

Footnote:
(1) For additional information, see Note 15 to the Financial Statements.

Capital requirement regarding share position

	December 31	
	2022	2021
	In NIS millions	
For investments in venture capital funds, in private equity funds and in a fund of hedge funds[2]	298	230
For investments in other shares[3]	150	135
Total capital requirement share position[1]	**448**	**365**

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

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

Management of Positions in the Trading Portfolio

The Group distinguishes between exposure created in the course of managing the Bank's assets and liabilities and exposure to trading. Generally, trading exposures exist only at the parent company and they are the result of the Bank's activity as a market maker and are concentrated mostly in the dealing room as part of the activity of the Bank as a "market maker" and the dynamic management of the liquid financial assets portfolio. Occasional trading exposures occur at the subsidiaries in immaterial volume. The trading activity is intended at creating income while creating exposure within the approved risk limits for this activity, and maintaining daily and sub-daily monitoring and control.
As stated, trading activity is mainly focused on the dealing room, which both conducts trading with customers and transactions hedging the risks, and operations to generate profit as part of the management of market risks. In addition, a non-significant trading portfolio exist at the investments unit.
In this connection, it should be noted that the Group investment policy prescribes that the Group should not invest in entities most of whose business is transactions in derivative financial instruments and short selling, such as hedge funds.
The Board of Directors has determined additional sets of limits pertaining to trading activities and to asset and liability management activities in terms of sensitivity to risk factors including the VaR and the theoretical loss involved in stress tests. In addition, Management determined a set of limitations on different trading operations in terms of the scope of activity at the product level. The limitations are monitored on a daily and intra-day basis by the control units of the Financial Markets Division. The Head of the Division has set a series of internal limits, within the framework of the limits set by the Board of Directors, aimed at providing advance warning when the Board of Directors' limits are approached and thereby preventing such limits being exceeded.
In 2022, no deviations from limitations set by the Board of Directors were recorded.

Liquidity and Financing Risks

Liquidity risk is a risk to the stability of the Group, stemming from the inability to provide for its liquidity needs and the difficulty to honor its obligations, due to unexpected developments, as a result of which, the Group would be forced to raise funds and/or dispose of assets in a manner that would cause it a material loss. The Bank has determined the limitation of maximum exposure to liquidity risk. In addition, the coverage ratio is being examined and managed on a current basis, as required by Proper Conduct of Banking Business Directive No. 221.
Liquidity risk is defined by the Regulator as stability risk comprising one of the material risks for any financial institute. The objective in managing this risk is to avoid a situation in which the Bank will have difficulty in meeting its obligations as a result of unavailability of liquid resources. The underlying assumption is that the materialization of liquidity risk, in most cases, will cause losses because of the need to raise funds at high prices or to realize non-liquid assets at a loss. Accordingly, the Discount Group has formulated a liquidity risk management policy that, inter alia, meets the requirements as set forth in Proper Conduct of Banking Business Directives No. 342 (The Internal Liquidity Model) and No. 221 (Liquidity Coverage Ratio).
The "Liquidity Risk Management Policy" document is updated and approved once each year by the Management and the Board of Directors.
Within the framework of the policy, the following subjects are prescribed: the liquidity risk appetite, including a set of limits, the organizational structure for managing the risk and the core processes both in routine circumstances and on the occurrence of a liquidity event.
Within the framework of the current management, the liquidity risk is being monitored by means of the liquidity coverage ratio for periods of up to one month (Proper Conduct of Banking Business Directive No. 222). For longer periods, the measurement is carried out according to the NSFR model (Proper Conduct of Banking Business Directive

No. 222). Concurrently, the liquidity position is being assessed by means of an internal model for different periods of between one day and up to one year (Proper Conduct of Banking Business Directive No. 342). The internal model computes the liquidity ratio and the liquidity gaps under various stress scenarios. These scenarios simulate specific liquidity events for the Bank/the Group and various systemic events.
In addition to the internal model, over its various scenarios, the Bank makes use of additional indices and tools to monitor the liquidity risk:
- The mix and concentration of the sources, the mix and concentration of the assets, supplementary scenarios for the internal model and a comparison with other banks;
- Within the framework of the current management of the liquidity risk, the Risk Management Division measures a large number of indicators for the purpose identification of and warning against changes in trends of liquidity risk (KRI's; "Red lights"). This being an additional tool for the identification and warning against possible changes in the liquidity position.

The Bank has determined the limitation of maximum exposure to liquidity risk. No deviation from the said restrictions was recorded in 2022.
Within the periodic updating of the policy document, a part of the limitations referring to the centralization of deposits and the total overall volume of pledged assets have been updated. Also extended was the list of indicators regarding the monitoring of the liquidity risk.

Plan for dealing with a Liquidity Crisis

In Principle 11 of the Basel Core Principles document from 2008, it is prescribed that a banking corporation should have a formal contingency funding plan (CFP) that clearly sets out the strategies for addressing liquidity shortfalls in emergency situations. According to the document, the plan should outline policies to manage a range of scenarios, establish clear lines of responsibility, include reporting procedures, including reporting in the event of escalation, and should be regularly tested and updated to ensure its operational validity.
From the aspect of the Directive, materialization of the liquidity risk occurs in a situation where a banking corporation is compelled to raise funds at high prices or to realize assets at a loss in order to meet its liabilities.
The establishment of an orderly process to deal with possible crisis situations raises the level of awareness and readiness of the various parties in the organization, and hence its importance and contribution in mitigating the risk of crises occurring and in their correct management should a crisis occur. The Bank's Management conducts exercises from time to time to test the contingency plan, while drawing conclusions.
The Bank's CFP clearly describes the range of practical measures required to be implemented in times of emergency. The plan describes the processes and the parties that will be responsible for identifying a crisis situation, for managing the crisis, including prescribing spheres of responsibility and authority, for reporting processes and frequency of reporting, for Group management and coordination, for declaring the restoration of a normal business situation, and for establishing processes for lesson learning. In addition, the plan presents at every level a variety of alternatives for action which require great consideration before their activation, through examining their implications.
The plan for managing a liquidity crisis constitutes a set of defaults and tools that the organization will activate when a liquidity crisis develops. Nevertheless, it does not constitute an alternative to exercising judgment and taking real time decisions– at the various levels of the Bank's management and which are obligatory given the reality of a volatile and unexpected crisis situation, such as a liquidity crisis.
The main focal points to which the plan provides a solution are:
- Identifying and announcing a liquidity crisis and the type of crisis (specific crisis, system crises, combined crisis);
- Measures to improve the liquidity level;
- Measurement and monitoring of the liquidity level;
- Advocacy;
- Group management.

The plan differentiates between different types of liquidity crises, including systemic crisis, a specific crisis and a crisis combining different levels of intensity of each type. In addition, the plan needs to address a situation defined as a pre-crisis situation, a situation of higher specific/systemic liquidity risk prior to an event being defined as a crisis event, as well as the transition between different levels of stress or transition between different types of crises. In addition, it provides a response to a liquidity crisis that materializes in a Group subsidiary and risk that impacts on the subsidiaries/the Group as a whole.

The principal aspects of the plan are being reviewed and approved annually, within the framework of approving the liquidity risk management policy document.

Group management

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

Reporting

Daily – Measurement of the liquidity risk is made using an internal liquidity model (Proper Conduct of Banking Business Directive No. 342) and according to the liquidity coverage ratio (LCR - Proper Conduct of Banking Business Directive No. 221), on a daily basis, by means of the Bank's market and liquidity risks management system. Measurement results, both for the Bank and for the Group, are reported to the risk managers and control parties.
Weekly – A designated liquidity forum meets at weekly intervals at the least and discusses current liquidity topics. Material effects are reported once a week to the financial forum, headed by the Head of the Financial Markets Division.
Monthly – The Bank's Management reports within the framework of the ALM Committee on the liquidity position of the Bank, the subsidiaries and the Group as a whole.
Quarterly – Managements of the Bank and of the subsidiary companies report to the Group's asset and liability management committee (GALCO) once in every quarter, the liquidity condition of each company, as well as trends and the status of the Group's liquidity situation.

Liquidity Coverage Ratio

As of December 31, 2022, the liquidity coverage ratio of the Discount Group, on the basis of 73 observations average, stood at 130.5%, compared with 123.1% as of December 31, 2021, higher than the minimum requirements according to the instructions. The increase in the ratio stemmed from the decision of the Bank to increase the liquidity volume at the end of the year. For additional details, see Note 25 to the financial statements, section 3.

Liquidity and the Raising of Resources in the Bank

The year 2022 was opened with a liquidity surplus following the raising of debt capital at the end of 2021 which financed the growth in the credit portfolio during the year. During the fourth quarter, the Bank decided to increase the liquidity surplus, this being reflected in the growth of the liquidity ratio. The Bank maintains high level liquidity in relation to the regulatory requirements. The following trends have been noticed during the year:

- An increase of approx. NIS 14.6 billion in the volume of non-linked and CPI linked shekel deposits, comprising a rate of approx. 10.7%, of which an increase in retail deposits of approx. NIS 3.2 billion and an increase in corporate deposits of approx. NIS 7.4 billion. Financial deposits grew by approx. NIS 4 billion;
- The amount of foreign currency deposits increased by approx. US$1.8 billion, comprising a rate of approx. 13.7%, of which retail deposits in the amount of approx. US$270 million, nonfinancial corporations grew by approx. US$1.1 billion, while financial deposits grew by US$418 million. Including the exchange rate effect, foreign currency deposits rose by approx. NIS 11.8 billion.

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

During 2022, the Bank maintained liquid assets in a volume larger than that of its liquid liabilities and its internal liquidity model indicated a liquidity surplus.

During the year, the amount of deposits with the Bank has grown, particularly in the wholesale sector.

Deposits from the public (at the Bank)

	December 31, 2022	December 31, 2021	Change compared to December 31, 2021	
	In NIS millions		In NIS millions	in %
Non-linked shekels	153,976	139,403	14,573	10.5
CPI-linked shekels	10,304	9,415	889	9.4
Foreign currency and foreign currency linked shekels	53,139	41,182	11,957	29.0
Total	**217,419**	**190,000**	**27,419**	**14.4**
Foreign currency and foreign currency linked shekels - In US$ millions	15,101	13,242	1,859	14.0

Deposits from Banks (at the Bank)

	December 31, 2022	December 31, 2021	Change compared to December 31, 2021	
	In NIS millions		In NIS millions	in %
Non-linked shekels	9,241	7,840	1,401	17.9
CPI-linked shekels	22	25	(3)	(12.0)
Foreign currency and foreign currency linked shekels	568	1,106	(538)	(48.6)
Total	**9,831**	**8,971**	**860**	**9.6**

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

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

Operational Risks

Operational risk is the risk of loss caused by impropriety or by the failure of internal procedures, individuals and systems or as a result of external events

The operational risk is inherent in all business lines, products, systems and the work processes performed at the Bank. Accordingly, awareness and management of the operational risk at all levels of duty are of importance.

The framework for the management of operational risk includes the policy document for risk management, which is approved once in each year by the Management and by the Board of Directors, and adopted by the subsidiary companies, and the risk tolerance statement, which determines qualitative and quantitative limitations regarding material risks existing at the Bank Group. The Group operates an automated system for managing the risk, which measures and assesses the overall operational risks and reports operating failure events in all risk centers.

Operational risks are being managed on the basis of the current identification of processes, risks and controls, as well as on the basis of failure events data base, the monitoring thereof and the drawing of conclusions there from and

identification of the factors causing the failure. Moreover, material risks are being reduced by means of the formation of recommended controls, monitoring or transfer to a third party (by purchase of different insurance policies).
Once every three years (or during the three years) a comprehensive operational risks survey is conducted that includes, inter alia, relating to fraud and embezzlement risks.
A survey of operational risks was concluded in the fourth quarter of 2022. The survey focused on identifying the material risks in the Bank's divisions which could affect the overall operational risk profile.
There is a continuing trend of applying changes to the work processes and expanding the digital services that the Bank provides to its customers, deriving from the realization of the strategic plan or from new products, as well as from increased efficiency. These changes create potential for increased risk, mainly in the short term. At the same time, management quality is improving, inter alia due to the increase and absorption of awareness for the reporting of events, the strengthening of interfaces and controls and the mechanizing of processes.
Within the framework of the annual approval of the risk tolerance declaration, the limits of and limitations on tolerance to fraud events as regards E-Banking have been raised due to the increase in activity using digital means at the Bank.
It is noted that in 2022 the risk of fraud continued to be high in view of the growing fraud attempts and identification of new fraud possibilities. In particular, following the increase in social engineering events related to customers of the Bank, and resulting from the forging of bank charge cards. In 2022, deviation from limitations regarding "fraud damage in E-Banking in the Group" and "damage of a single event" was recorded, following a fraud event at IDB Bank.
Malfunction in the PayBox Application. For details, see the 2020 Annual Report (p. 97). For details regarding lawsuits filed with respect to the said event and motions for their approval as class action suits, see Note 26 section 10.5 to the financial statements. For details regarding the Privacy Protection Authority, see "Proceedings regarding Authorities" below.
Business continuity. The issue of business continuity is managed by means of the policy for the management of business continuity, which defines the solution concept for facing a crisis, by means of the business continuity management program (BCM), which is designed to ensure the continuation of the regular functioning of the Bank as regards its business transactions and as regards services defined as essential.
At the base of the assessments for business continuity stands the backup for the vital technological infrastructure established by the Bank, and the providing to customers of supporting layouts and services.
In recent years, the Bank upgraded the business continuity activity by means of an updated identification of business impact analysis (BIA) processes, a renewed definition of the concept of operation and management of risk in crisis events and the exercise thereof, including the integration of operational, financial scenarios as well as cyber aspects and their synchronization.

Outsourcing and Supplier Risks

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

For additional details regarding operational risks and the manner of management thereof, see the document "Disclosure according to the third pillar of Basel and additional information regarding risks" available on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd.

Other Risks

Cross-border Risks

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

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

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

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

Legislation in Israel

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

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

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

The Bank implements the legislation requirements relating to the implementation of FATCA in Israel. The Bank has completed the annual report to the Israeli tax authorities in the matter of FATCA for the year 2021.

Automatic exchange of information (CRS). By power of the said amendment to the Income Tax Ordinance, the Income Tax Regulations (Application of a uniform standard for the testing and reporting the propriety of information regarding financial accounts), 2019, were published on February 6, 2019. According to Regulations and the guidelines of the Supervisor of Banks in the matter, the Bank continues in identifying countries serving as tax residence for its customers and in the implementation of the CRS standard, including identification, classification and automatic exchange of information regarding financial accounts of foreign residents. The Bank has completed the CRS annual report to the Israeli Tax Authority for the year 2021.

Information Technology Risks

The IT layout comprises a central component in the proper operation and management of a banking corporation, in view of the information, including all its aspects and ramifications, having a decisive influence over the stability of the corporation and its development. Information technology risks are risks deriving from the use or the non-use by a corporation of information technology and/or the dependence of a corporation thereon.

Core processes for risk management. The core processes are based on the risk management principles, with adjustments required with respect to the IT world, with a view of enabling efficient focusing on areas and systems identified as having higher risk of disrupting the business activity, maintenance of the fitting of the technological development to the business strategy and to changes in the operational environment, as well as the adequacy of the ability of the technology to recover from crisis situations to the Bank's needs and to the regulation to which the Bank is committed.

Strategic Risk

The strategic risk is being managed by the Discount Group according to the risk management concept of three lines of defense, and the Head of the Strategy, Finance and Holdings Division acts a manager of this risk. Challenges of the competitive environment, development of digital banking, innovation as well as expected changes in the concept of operation of the banking industry, constitute a challenge in the management of this risk.

The Bank continues in the advancement of a multi-annual strategic plan, providing response to anticipated challenges and to changes in the competition environment, and which includes diverse projects, the aim of which is to lead improvement in Bank customer satisfaction by means of customer tailored banking. The strategic plan is made up of three central pillars – accelerated evolution of traditional banking, revolution in banking business by way of groundbreaking innovation and maximizing the value of the Group.

The plan is examined once a year, with attention being paid to changes in the local and global competitive environment, while studying the need for the updating of focal items and/or introduction of new projects at the Bank and at the subsidiaries.

The Risk Management Divisions at the Bank and at the principal subsidiaries closely accompany material and strategic projects with the intention of verifying the uncovering and reduction of risk issues, including by way of performing new product processes, where required.

Reputation Risk

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

As support for risk management, operates a reputation forum that includes representatives from the principal subsidiaries, which meets on a quarterly basis, discusses internal and external risk issues and monitors indices and indicators regarding various risk areas, which might have possible relation to the reputation risk.

Furthermore, reputation risk management aspects include also preparations for confrontation with different crisis situations, including being a derivative of crisis events having a potential impact of the second order on the reputation of the Group.

Data and cyber protection risks

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

Environmental and climate risks

Environmental Risks

Environmental risk is the risk stemming from exposure (direct or indirect) of financial corporations to activities having a potential for environmental damage, or which would be affected by it, such as, for instance, air and water pollution, soil contamination, harm to the biodiversity and more.
Recently the topic of environmental risk has received a high degree of focus from the regulatory authorities, who understand that the materialization of environmental risks could affect the banking system and, in extreme circumstances, could even have global and systemic effects. Accordingly, various regulators around the world, including the Banking Supervision Department, are preparing to map the activities relating to this topic in the banking systems towards future regulation in this field.
In 2009, following a regulatory expectation letter concerning this topic sent to the banking system, the Bank's activities in this field were put in order, including as part of the credit policy and as part of the specific credit approval processes.
On December 1, 2020, a letter regarding environmental risk management was sent to banking corporations and credit card companies by the Supervisor of Banks. The Banking Supervision Department views with great importance the promotion of the environmental risk issue, and sees in the banking corporations important partners in the transition to sustainable environmental economy, inter alia, by way of formation of appetite for environmental risk, credit policy, investments, allocating capital to "green" financing and investments, etc.
Within the framework of a Bank of Israel circular dated December 2, 2021 regarding the public disclosure of environmental, social and governance (ESG) aspects, it is necessary – inter alia – to examine the need to expand the disclosure concerning the risks in this field to which the Bank is exposed, including due to developments associated with climate change and transition risks, and in order to reflect material changes in the way that such risks are managed and to include, inter alia, quantitative indices for measuring the exposure to these risks.
In view of the above stated, the Group applies a policy, according to which, consideration of the environmental risk will comprise a layer of the total risks considered by the corporation when granting credit being part of the underwriting process, in the current management of credit and within the framework of the periodic discussion of the borrower.
The Bank has an organized credit methodology regarding environmental risks that is intended to monitor the risk of credit losses that might be caused as a result of provisions pertaining to environmental quality hazards and the enforcement of such provisions (such as a deterioration in a customer's business position due to penalties resulting from non-compliance with the provisions of the law). Within the framework of the methodology, the Bank has defined an evaluation process for the environmental risk level of customers in economic sectors that might be exposed to environmental risks and for the quality of risk management conducted by these customers. This process is conducted upon the granting the credit and at the time of the periodic assessment of the quality of customers and the quality of the collateral and according to the level of materiality.

The methodology for identifying environmental risks includes, inter alia, mapping the environmental risk potential by economic sectors, analyzing and referencing specific environmental risk aspects at the borrower level, within the framework of the examination and approval processes for credit applications and major sectoral exposures that have been identified as being exposed to a higher level of environmental risk, such as sectors in the fields of mining and quarrying, energy production, industrial chemicals, the food industry, etc., as well as within the framework of the ongoing management of the risk.
The Bank is studying the subject and follows regulatory developments in order to prepare for the rise in level of managing environmental risks, while examining international management and reporting frameworks.

Climate Risks

Climate risks – physical risks and transition risks related to climate changes, to which financial corporations and/or the financial sector are exposed.

- Physical risks comprise risk of damages following extreme events such as flooding and fire.
- Transition risks are risks of harm to economic activity or to the value of assets following climate regulations and transition to low carbon economics.

Awareness of climate risks has increased recently, and accordingly has supervisory expectations and regulatory requirements. The Supervisor of Bank is presently formulating principles for the effective management of climate related financial risks. The Draft Directive proposes principles according to which banking corporations are required to act in order to manage in an optimal way its exposure to climate related financial risks. The Draft is based on a document published by the Basel Committee in June 2022, the title of which is: "Principles for the effective management and supervision of climate related financial risks".
The Bank recognizes the importance of this issue and the implications which this might have on the Bank from the aspect of exposure to financial and other risks. The Risk Management Division was charged with the management and promotion of this subject. In addition, the Bank had conducted a survey of gaps as compared with the practice and has formulated a work plan for the comprehensive management of climate risks, based upon a study of existing trends in this field.
In 2023, the Bank intends to continue and promote its readiness in the field of climate risk management, while monitoring and studying practices accepted globally and their implementation as related to banking business (such as the TCFD reports and the measurement of the carbon footprint of the credit portfolio).

Legal Risks

A legal risk is the risk of loss, loss of income or damage to the business caused, inter alia, by the absence of power to legally enforce execution of a contract or by ignorance of the provisions of the law or by a mistaken interpretation of the provisions of the law, including principal or secondary legislation, directives of supervisory authorities, etc., requiring the Bank to act in accordance therewith, or from exposure to legal proceedings against the Bank or any of its employees or officers within the framework of their work at the Bank or on its behalf, on the criminal, administrative or civil plain.
The legal risk includes, inter alia, exposure to penalties, fines or other punitive damages, as a result of supervisory enforcement actions as well as private settlements.
According to Proper Conduct of Banking Business Directive No. 350, the legal risk forms part of the operational risk, defined therein as risk of losses due to improper or failure of internal processes, employees and systems, or due to external events.
The principal risk factors for legal risk exposure are: absence of knowledge of the law applying to the operations of the Bank and the Group, mistaken legal advice, activity without legal support, mismatch of standard documents and procedures to changes in the law, non-compliance with the law and/or regulations.
The Bank's operations are regularized by various regulatory directives and by legislative instructions, regulations and rules imposing on the Bank various duties and restrictions on the part of the supervisory authorities to which the Bank is subject in its operations, this, inter alia, due to its status of a "banking corporation". Any action in contravention of these provisions, or the non-implementation thereof, may expose the Bank to legal risks.
The Chief Legal Adviser is the chief legal risks manager at the Bank and at the Group.

The Bank maintains a Group legal risk management policy, which is updated from time to time. The policy was recently updated and approved by the Board of Directors in November 2022. Within the framework of updating the stated policy, it was, inter alia, decided in November 2022, that management of the regulatory risk shall be conducted by the Legal Consul Division, though managed separately from the legal risk.
Regulatory risk focuses on identifying and monitoring legislation processes and drafts issued by the Bank of Israel, bringing them on time to the attention of the relevant functions at the Bank, in order to appropriately analyze the effect of such processes upon the Bank, and ensure the existence of the required preparations by the Group.
The Bank's legal risk management policy has been adopted, mutatis mutandis, by the principal subsidiaries in Israel and by IDB Bank.

Compliance Risks

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

Prohibition of Money Laundering and Terror Financing

Discount Group's activities with banks acting in the Palestinian Authority. During 2017, different meetings were held between the Bank and the Ministry of Finance, the Ministry of Justice and the Supervisor of Banks with a view of forming tools for the hedge of the risk involved in the provision of services to the banks acting in the Palestinian Authority, through the granting of a letter of commitment not to institute criminal charges and by providing a letter of indemnity for possible monetary claims. During the second quarter of 2018, the Bank received immunity and indemnity letters signed by the State of Israel. In the letter of immunity, the State of Israel undertook not to file an indictment against the Bank, Mercantile Discount Bank, its officers and employees for certain offenses in the area of the prohibition of money laundering and the financing of terror, in connection with the provision of services to the banks acting in the Palestinian Authority during the period from March 28, 2016, until May 31, 2019 ("the period of immunity and indemnity"). In the letter of indemnification, the state of Israel has undertaken to indemnify the Bank and MDB in an amount of up to NIS 1.5 billion for the expenses (liability under a peremptory ruling and court costs), which will be incurred by the banks in connection with the conduct of civil proceedings or criminal proceedings (that had not concluded with a conviction), which will be brought against the banks, their officers or their employees, in connection with the provision of services to banks acting in the Palestinian Authority in the period of immunity and indemnity. The aforesaid immunity and indemnity undertaking from the state was subject to reservations and conditions with which the banks need to comply, and which were specified in the letters of immunity and indemnity.
On June 26, 2018, the Supervisor of Banks informed the Bank and MDB that she would not take any enforcement measures for everything relating to the operation of the banks regarding the correspondence services provided by them to which the immunity letter applies. On October 21, 2018, the Government Secretariat published an announcement stating that the government had decided to establish a government company, wholly-owned by the State of Israel, which will provide correspondence services to the Palestinian banking system via the Palestinian Monetary Authority, using the payments array in Israel, with this replacing to a certain extent the service that some of the commercial banks are currently providing, and in light of their having announced their intention to cease providing such service.
On June 30, 2019, the Bank received a letter of indemnity signed by the Accountant General, which extends the indemnification period through February 28, 2021, which later on, was extended until May 31, 2021. Inter alia, the State has undertaken in the letter of indemnity to indemnify the Bank and MDB in an amount of up to NIS 1.5 billion for each indemnifiable event. Moreover, the State has also undertaken to indemnify the banks for proceedings that conclude in a mutually agreed fine in the United States (without conviction). The State's undertaking of indemnity is subject to qualifications and terms with which the banks must comply, which are similar to the qualifications and terms prescribed in the original letter of indemnity.
On the background of the delay in the start of operation of the Correspondence Government Company, that had been established but has not yet begun operations for providing services for banks operating in areas of the Palestinian Authority, the validity of the letters of indemnity and immunity has been extended twice more, until March 31, 2023.

At the request of the Bank and MDB, an amended letter of indemnity was received on February 9, 2023, by which, inter alia, the State is committed to indemnify the Bank and MDB in an amount of up to NIS 2 billion, for each indemnifiable event. The commitment of the State to indemnify is subject to limits and terms that the banks have to abide with, similarly to the limits and terms stated in the original letter of indemnity. The amended letter of indemnity is valid until March 31, 2023.
It is noted that during 2022, a draft Proper Conduct of Banking Business Directive was published, determining which of the provisions of the Proper Conduct of Banking Business Directives would apply to the Correspondence Company when it starts operations. Also published was a Memorandum of the Correspondence Services Bill, which would regulate the activity of the Company.
In light of the aforesaid, the Bank for the moment is continuing to provide services to banks operating in the Palestinian Authority.
For details regarding the requirement by the Supervisor of Banks to pay the wages of Palestinian workers by bank transfers, see below "Legislation and Supervision". The said requirement increased the volume of correspondent activity of the Group vis-à-vis the banks operating in areas of the Palestinian Authority.

Conduct Risk

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

Risk Factors Table

Banking corporations in Israel are required to present the risk factors in the framework of the annual report and to classify according to categories their impact on the business of the banking corporation, to the extent possible in respect to each risk factor. The Group uses a five grade evaluation scale for the rating of the impact of each risk (High, Medium-High, Medium, Low-Medium and Low).
Within the framework of risk management processes at the Discount Group and according to regulatory requirements in the matter, mapping, identification, analysis and evaluation processes are conducted for the risks to which the Group is exposed, according to an orderly Group methodology for the evaluation of the risk profile as part of the capital adequacy assessment process. At the base of the assessment, the Bank tests the implications of changes in the risk environment, in the inherent risk, in risk centers, in the quality and effectiveness of the risk management processes and in the control environment, the examination of implications from a forward looking view and more.
All these, as well as the methodology that had been formed for the assessment of the risk profile comprise, among other things, a basis for the assessment of capital requirements coinciding with to the Group's unique risk profile.
Due to the complexity of the risks discussed, as well as the ability to assess their impact, the Group uses various assessment tools, including expert assessment, risk cards, models and stress tests, which include different assumptions regarding the impact of exposure, the magnitude of future events and the probability that such events would materialize. Notwithstanding, no standardized objective grading exists for the conversion of the results received by use of the assessment tools, as stated, to the categories used in the table. It is also noted that each risk factor is tested independently of other risk factors, which are detailed in the Table.
In view of that stated above, it is emphasized that the assessment of the impact of each risk factor is a subjective assessment made by the Bank's Management, of the material risk factors and their impact, according to the unique characteristics of operations of the Discount Group, and therefore, extra care should be taken in examining the impact of the risk factor, as stated in the table, and in comparing this data with that of other banks.

Risk Factors Table

Risk factor	Risk Factor Impact	Basing the assessment
1. Risk environment[5]	High	The uncertainty in the macro-economic environment, the rise in inflation and the raising of the interest, reduction in liquidity in the markets, the volatility in the financial markets, the slowdown in growth, the decline in demand for housing and the slowdown in the hi-tech industry, alongside the Russia-Ukraine war and its impact on the chain of supply, all led to a rise in uncertainty and in the risk environment, due to the material and potential impact on the economy and on the banking system, which may also be manifested in the coming years. The Bank conducts a follow-up of the implications upon the Bank and the companies in the Group, including, the monitoring and control over risk centers affected by the different events. Challenges in the competition and innovation environment continue, as a result of the entry of new competitors, technological developments, extension of cooperation with third parties, the strengthening of the off-banking market, changes in the labor market and the multitude of regulatory challenges. Moreover, regulation moves and the regulatory focus on aspects of fairness, decency, transparency and privacy protection continue. Cyber and data protection risks continue to present a threat to the financial system, inter alia, in view of the growing use of digital channels and the continuing attack attempts directed against the financial system, and stemming there from also the rise in fraud risk. Within the internal risk environment, there are the challenges relating to the relocation to the Discount Campus and the preparations for the separation from ICC.
2. Overall impact of credit risk	Medium-High	The risk evaluation is at a level of "Medium-High", in view of the challenges of the risk environment and the high uncertainty, which may have an effect on the business lines at the Bank and at the Group and on the repayment ability of borrowers. The Bank is expected to continue implementation of the growth strategy, according to the strategic plan, alongside the continuing tight management and monitoring of the risk in the credit portfolio as well as adjustments to the risk appetite, according to different developments and events. Concurrently, the Bank emphasizes the development of retail and business models that will support credit risk management and pricing.
2.1. Quality of borrowers and collaterals risk	Medium-High	The Bank conducts monitoring and control at all business lines, adjustments of policy and of the risk appetite, use of advanced tool for analyzing and examining stress tests, as part of the risk management.
2.2. Industry concentration risk	Medium	The Bank complies with the regulatory restrictions. In 2022, there was a decrease in the rate of exposure to the construction and real estate sector.
2.3. Borrower/groups of Borrowers concentration risk	Medium	The Group complies with the regulatory restrictions.
3. Overall impact of market risks	Low-Medium	Monitoring and reporting of development of the financial risks is conducted at the Group level. In 2022, volatility in the markets increased, but the Bank managed exposure in a tight manner and reduced exposure to the accounting capital stemming from the rise in interest.
3.1. Interest rate risk	Low-Medium	The scope of interest exposure (both economic and accounting) regarding the Bank's equity remains within the risk appetite framework similarly to the banking system as a whole. Monitoring of the economic sensitivity to the rise in the interest rate is conducted, inter alia following the continuing growth in the mortgage portfolio as part of the business strategy of the Group.

5 Relates to the evaluation of the risk environment impacts: domestic, global, the local and international competition environment and the regulatory risk environment.

Risk Factors Table (continued)

Risk factor	Risk Factor Impact	Basing the assessment
3.2. Inflation and exchange rate risk	Low	The CPI-linked position at the Bank grew in volume in 2022, concurrently with the rise in inflationary expectations in the markets. The possible loss that might be incurred due to a decline in the level of inflation, inter alia, in view of entry of the markets into recession, is still not material in relation to the interest risk.
3.3. Share price and credit spreads risks relating to the holding of securities	Low-Medium	Continuing the monitoring of the adherence to Group restrictions, while adapting them to the investment strategy and to the policy documents.
4. Liquidity risk	Low-Medium	The Group continues to enjoy steadfast liquidity in shekels and in foreign currency. The Group applies a clear financial strategy and policy. This, alongside a continuing improvement of the tools and models supporting risk management at Group perspective. The effect of liquidity risk is evaluated at "Low-Medium" in view of the reduced liquidity in the markets expected in 2023. The financing strategy and diversification of the sources of liquidity are being closely monitored at the Bank and the Group, as well as the study of margin management in a rising interest environment.
5. Operating risk	Medium	The level of risk is "Medium" on the background of the relocation to the Discount Campus and changes in the work environment and in the supporting tools, the multiple managed projects and strategic challenges, alongside changes in manpower, increase in the volume of fraud and in financial crime risks, alongside an increase in scope of operations. Automation, digitation and implementation of computer systems processes continue. These support improvements in the control environment and in the risk management capabilities. The ability to attract and preserve suitable professional staff continues to present a challenge. The year 2022 was dedicated to preparations for the relocation to the Discount Campus, including management of the change, with a focus on supporting preparations in the adjustment of procedures to the new work environment. Fraud risk is growing in view of fraud attempts increasing and identification of new ways for fraud. The improvement of the Group's organizational robustness continues regarding business continuity risk management, by applying an operation perception, formation of infrastructure supporting management of BIA processes and strengthening the Group exercises program.
6. IT risk	Medium	The Bank continues the realization of a computer plan, which is compatible with the strategic focal points which is tested and updated by periodic prioritization processes, with continuous improvement of monitoring and control processes and the strengthening of infrastructure and technological redundancy and improvement of tools and methodologies supporting the risk management. The abundance of challenges on the background of expansion of the digital activity, integration of innovative technologies and transition to cloud computing. Furthermore, there are challenges stemming from the technological preparations required for the relocation to the Campus, including the completion of the preparation for the transfer of the computer installations as well as integration of the cyber defense in the Campus and in the current management systems.

Risk Factors Table (continued)

Risk factor	Risk Factor Impact	Basing the assessment
7. Data protection and cyber risks	Medium-High[6]	Cyber threats continue with a rise in their force, ingenuity and complexity. The Group continues to allocate significant resources for the reduction of exposure, which includes: the focusing on stronger protection of the network and its components, improvement of forestallment and monitoring tools, improving the ability to contain and manage events, management of cyber risk applying to the supply chain, reducing exposure applying to money outflow routes, central management of authorization concepts, and more. A constant maintenance process is performed as well as continuing improvement of controls and the challenging thereof by different methods.
8. Legal and regulatory risk	Medium	The trend of multiple legal and regulatory directives continues, alongside many approaches from regulatory authorities that require preparation and allocation of inputs.
9. Cross-border risks	Medium-High	Continuation of the growing foreign and domestic regulation, alongside the dynamics of risk and increased enforcement. The Group continues preparations for regulating the activity for providing banking services having foreign connections and invests in mechanization and in the introduction of changes in the Bank's systems, in support of the FATCA, CRS and QI requirements.
10. Compliance risks	Medium	Abundance of regulatory requirements in all aspects of compliance, privacy protection, fairness and decency, aspects of competition and international regulation. Growing enforcement and imposition of monetary sanctions for violations. The Group continues to focus resources in improving the quality of compliance risk management and implementation of controls in a risk based approach, and in the integration of fairness, decency and privacy protection aspects in all companies in the Group.
11. Money Laundering and Financing of Terror risks	Medium-High	Evaluation of the impact of risk has been raised to "Medium-High", in view of the burden of regulatory requirements alongside challenges in the implementation of the sanction regimen and international regulations, as well as infrastructure challenges. The Bank acts in order to improve its risk management abilities by means of automation, improvement of technological tools, fortifying the control environment and the tightening of Group supervision.
12. Reputation risk	Low-Medium	Continuing the implementation of the strategic plan, at the center of which is the leading and improvement of customer experience, on the background of existing challenges, including the increasing public and media debate with respect to the profitability of the banking system.
13. Strategic risk (including risk of the business model)	Medium	The Group continues in its growth strategy and in implementing new strategic projects intended to provide response to the significant challenges and to the changes in traditional banking, in the implementation of new banking and maximization of the value of the Group. The Group is making preparations towards the separation of ICC, with Discount Bank having been allocated a period of 3-4 years for the completion of the sale. The Bank has formed an ESG strategy according to the regulatory guidelines in the matter.
14. Model risks	Medium	The Group operates according to a multi-annual work plan for the development of advanced models, as well as the continuing improvement of tools and methodologies supporting model risk management. Management of the work plan for the development and validation of the models continues with a risk based approach. Within the framework of the model risk field, action is taken to strengthen the risk management infrastructure, with the automation of processes and the establishing of an independent approach.

As stated, the assessment of the impact of the different risks is conducted within the framework of the capital adequacy assessment process (ICAAP). Environmental and climate risks are yet to be assessed in 2022 within the framework of these processes, and accordingly, their impact is not presented in the Table.

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

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

Critical Accounting Policies and Critical Accounting Estimates

General

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

Allowances for expected Credit Losses (CECL)

Starting with January 1, 2022, the Bank implements the directives of the Supervisor of Banks, which require adoption in full of the accounting principles accepted by US banks with respect to current expected credit losses (CECL), as described in Note 1 D 4a regarding the accounting policy.
According to the new rules, the allowance for credit losses is computed according to the loss expected all along the life of the credit. In assessing the allowance for credit losses, significant use is being made of forward looking information reflecting reasonable and supportable forecasts regarding future economic events. Assessment of the expected loss, as stated, is based on the methodology and models developed by the Bank.
As stated, the process is based upon significant assessments involving uncertainty and on subjective estimates. Changes in assessments or estimates may have a significant impact on the allowance for credit losses presented in the Bank's financial statements.
The Bank examines the overall adequacy of the allowance for credit losses. The said adequacy evaluation is based on discretion of Management, which, inter alia, takes into consideration the assessment methods applied in determining the allowance.
For details regarding the accounting policy, see Note 1 D 4a to the financial statements. For details regarding the credit and its quality, see Note 31 to the financial statements. For details regarding the overall credit risk for which the Group is responsible for problematic borrowers, see above under "Structure and Developments of Assets, Liabilities, Capital and Capital Adequacy". For details regarding the credit risk management at the Bank, see "Credit risks" above in Chapter C – "Risks review" and in the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

Contingent Liabilities

The accounting treatment of contingencies is implemented according to the U.S. Standard ASC 450 and its related guidelines, and according to the guidelines and clarifications of the Supervisor of Banks, including public reporting directives in the matter of "Accounting for Contingencies". In assessing the required allowance, it is necessary to examine the probability of a loss and to assess its amount. These evaluations affect both the duty itself of creating an allowance for the claim and the mode and scope of the disclosure in the financial statements.
For the purpose of assessing possible losses as a result of actions filed against the Bank, the Bank's Management and the managements of other banks and companies in the Group rely on opinions of Counsels representing them in these matters. In the nature of things, such opinions are subjective and face objective evaluation difficulties. Such difficulties grow immensely in cases of class action suits.
Accordingly, it is possible that the actual results of certain of the actions would be different from those estimated based on the opinions of Counsels. In view of the volume of actions pending against the Bank, other banks and companies in the Group, it may transpire that the non-materialization of such estimates would have a material effect on the financial results of the Discount Group.
The Bank is exposed to unasserted claims. In assessing the risk associated with unasserted claims/lawsuits, the Bank relies on internal assessment by the handling entities and by Management, which weigh the estimated probability of a claim being made, the chances of such claim, if made, to prevail and any settlement payments. Such assessment is based on past experience with regard to similar claims filed, and on an analysis of the actual allegations. By nature, in view of the preliminary stage of inquiring of the legal allegation, the actual outcome objective difficulties exist, which may result in the impossibility of making an assessment. Even if an assessment is made the actual outcome may differ from assessment conducted prior to filing of the claim.
It should be noted that where the Bank is one of the defendants in an action, and the claimants have not attributed an amount to each of the defendants, the evaluation of the claim amount relevant to the Bank has been made to the best of ability, taking into account that consideration of the total amount might mislead and is incorrect in the circumstances, and that the evaluation does not necessarily represent the allocation as finally determined by the Court.
For details of material legal actions pending against the Bank and against other companies in the Group, see Note 26 C sections 10-11 to the financial statements. For details as to additional proceedings and claims settled during the year, see "Legal proceedings" in Chapter "Corporate governance, audit and additional details regarding the business of the Banking corporation and management thereof". For details regarding the criteria relating to the disclosure of legal actions and the accounting treatment adopted in their respect, see Note 1 D 17 to the financial statements.

Impairment of Available for Sale Bonds

As from January 1, 2022, the Bank is implementing the Directives of the Supervisor of Banks requiring the adoption in full of accounting principles accepted by US banks in the matter of "financial instruments – credit losses", as described in Note 1 D 4a regarding accounting policy.
According to the new rules, impairment of bonds attributed to credit losses, is recognized by way of an allowance for credit loss, while impairment attributed to other factors, not recognized by way of a credit loss allowance, is to be recognized, net of tax, in other comprehensive income.
Management of the Bank is therefore required to test and assess whether impairment should be attributed to a credit loss, as well as its amount.
In order to test whether a credit loss exists, Managements of the Bank and of the relevant subsidiaries base themselves on different characteristics of the bonds and the issuing companies thereof, such as: the ratio of loss to the amortized cost, the credit rating of the bonds and changes that had taken place in the rating and the attribution of the impairment to an adverse change in the condition of the issuer or to a change in market condition in general, and more.
Furthermore, in assessing the allowance for credit losses, the Bank takes into consideration available relevant information regarding ability of redemption of the bonds, including data relating to past events, present conditions and supportable reasonable forecasts.

The said assessments and characteristics are largely subject to subjective considerations, and accordingly, to changes in assessments and assumptions, in the characteristics supporting them, which in essence may have a significant effect on the allowance for impairment and its classification.
For further details, and including the criteria, the fulfillment of which would require recognition of credit losses, see Note 1 D 4a to the financial statements.

Measurement of Financial Instruments according to their Fair Value

Directives of the Supervisor of Banks. The Bank implements the directive regarding Measurement of fair value based on the U.S. financial accounting standard ASC 820. Fair value is defined as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between voluntary seller and voluntary purchaser at date of measurement. Among other things, the Standard requires that for the purpose of assessing fair value maximum use should be made, to the extent possible, of observable inputs, while reducing the use of unobservable inputs. Observable inputs reflect information available on the market, received from independent sources, while unobservable inputs reflect the assumptions of the banking corporation.
ASC 820 details the hierarchy of measurement techniques based on the question whether inputs used for the determination of fair value are observable or unobservable.
These types of inputs create a fair value grading according to levels: 1, 2, and 3. For additional details, see Note 1 D 7.
Determination of the fair value of financial instruments of level 2 and level 3, is based upon estimates and assumptions relying, among other things, on subjective considerations. Accordingly, a possible deviation in the said estimates and assumptions may change the fair value of the financial instruments.
For additional details regarding the distribution of the fair value of financial assets and financial liabilities measured at fair value, based on the scale of quality determined in the Standard see Note 34 to the financial statements.
The assumptions, according to which the Bank had classified assets and liabilities to the various quality groups, as detailed above, included:
- In the highest quality group (Level 1) are included financial instruments and derivative financial instruments, traded on an active market (typified by a large number of participants and by a high trading turnover), the prices quoted thereon reflect actual market price;
- In the medium quality group (Level 2) are included financial instruments that are not traded on an active market, the fair value of which is based on quotations received from independent entities (hereinafter: Instruments, the fair value of which is determined by "pricing services"), and assessment models, all significant data used therein are observable in the market and are supported by observable market inputs. The financial instruments (including derivative instruments) the fair value of which is determined using "pricing services" include non-marketable securities denominated in Israeli currency and bonds of foreign financial institutions, corporations and governments;
- In the lowest quality group (Level 3) are included derivative financial instruments, the fair value of which is determined based on significant unobservable inputs included in the assessment model. This class includes also significant derivative financial instruments, the adjustment for credit risk in respect thereof is not based on observable inputs.

For details regarding transfers between levels of fair value hierarchies, see Note 34 G to the financial statements.
As seen from the data presented in Note 34 E 1 to the financial statements, the ratio of instruments classified to Level 3, to the total of assets and liabilities for derivative financial instruments, was 16.4% at December 31, 2022, compared with 21.2% at December 31, 2021.
The income on assets and liabilities, measured recurrently on the basis of fair value, included in level 3 in Note 34 F (1), amounted to NIS 2,626 million in 2022, compared to an income of NIS 294 million for 2021.
Estimate of fair value of securities. Securities, excluding bonds held to maturity, are stated in the balance sheet at fair value, except for shares and option warrants for which fair value is not readily available, which are stated at cost. Differences between the fair value and the stated cost of securities available for sale, are recognized in a capital reserve.
The market value of securities traded on an active market and which have a market price, represents their fair value. The stated fair value relating to securities which are not traded on an active market and which do not have a market price, is a calculated fair value as explained hereunder.

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

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

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

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

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

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

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

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

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

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

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

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

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

Adjustment of the credit risk relating to assets and liabilities for derivative instruments, resulted in 2022 in a loss of NIS 24 million, compared to a gain of NIS 4 million in 2021.

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

	December 31, 2022	December 31, 2021
	in NIS millions	
Assets for derivative instruments	11,423	5,529
Adjustment for credit risk regarding assets relating to derivative instruments	(61)	(40)
Liabilities for derivative instruments	9,356	6,328
Adjustment for credit risk regarding liabilities relating to derivative instruments	(5)	(8)

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

Employee Rights

The Bank applies U.S. accounting principles as regards employee rights. For additional details, see Note 1 D 15.1. The Bank recognizes amounts relating to pension and severance plans and other post retirement plans on the basis of computations that include actuarial and other assumptions.

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

The actuarial computation is based on several parameters, including: life expectancy, retirement age of employees prior to the retirement date, the rate of employee retirement prior to the prescribed retirement date, the rate of increase in salary anticipated and the discount rate. These parameters were determined, inter-alia, based on forecasts prepared by the actuary and the experience accumulated in the Bank. The actuarial computation was based on a computed discount rate, according to instructions of the Supervisor of Banks.

Furthermore, implementation of the accounting policy involves assessments and judgment with respect to the following matters:

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

Updated actuarial opinion. The Bank has ordered an updated actuarial assessment as of December 31, 2022. The actuarial opinion also includes a computation of the actuarial provision amount for severance pay that would have been required were the cap rate to be determined according to the Israeli Securities Authority's "deep market" guideline.

The actuarial assessment as of December 31, 2022, as compared to the assessment at December 31, 2021, has been mainly affected by the increase in the discounting rate. The principal change stemmed from an increase in the international margin and from an increase in the rates of yields to redemption of CPI-linked governments bonds. For additional details, see Note 1 D 15.6 and Note 23 to the financial statements.

Presenting the actuary's opinion for perusal. The opinion of the Actuary[7] is available for perusal on the MAGNA website of the Israeli Securities Authority, on the MAYA website of the Tel Aviv Stock Exchange Ltd. and on the Bank's website, together with the Bank's 2022 Annual Report (this Report).

Possible impact of changes in parameters and in assumptions. For details regarding the effect of a change of one percentage point, in the capitalization rate, in the rate of retirement and in the rate of increase in compensation, on the liability for the forecasted benefit, before the tax effect, see Note 23 C to the financial statements, section 3.2.

Examination of impairment in value of non-financial assets

The Bank's Management examines from time to time whether circumstances exist requiring provisions for impairment of non-financial assets owned by the Bank. The said evaluation, by its nature, involves assumptions and estimates which retroactively might appear biased.

Impairment of costs of internal development of computer software. Examining the existence of impairment with respect to the own development of computer software shall be made also where the signs noted in the generally accepted accounting principles for banks in the United States. For additional details regarding the said indicators, see Note 1 D 13 to the financial statements.

The written down balance of in-house software development costs amounted at December 31, 2022 to NIS 1,085 million (December 31, 2021: NIS 1,012 million).

7 The English translation of the Opinion is available for perusal at the Bank's website.

Controls and Procedures

Disclosure controls and procedures. In the spirit of Section 302 of the Sarbanes-Oxley Law of 2002 and the instructions published in accordance therewith by the SEC in the United States, the Supervisor of Banks issued a directive regarding a declaration as to disclosure in quarterly and annual reports of banking corporations.

In order to establish these declarations, the Bank has examined the principal processes of production and delivery of information related to the financial statements by the Bank's various units, as well as the controls applying to these processes. As part of this review, the processes of data communication have been mapped and documented in detail, including the controls implemented in these processes. Additional new controls have been formed, and absorbed in the work processes.

Proper Conduct of Banking Business Directive No. 309. On September 28, 2008, the Bank of Israel issued Proper Conduct of Banking Business Directive No. 309, in the spirit of Section 404 of the Sarbanes-Oxley Law of 2002, which requires bank managements to comply with the following requirements: assuring the establishment of controls and procedures regarding disclosure and internal control over financial reporting; evaluation of the effectiveness of the controls and procedures as to disclosure at the end of each quarter; evaluation of the internal control on the financial reporting at the end of each year, as well as evaluation at the end of each quarter of the changes that have occurred in internal control during the quarter, which have had or might have had a material effect on the internal control over financial reporting.

During 2022, the Bank conducted a process of validation and updating of existing processes and addition of new processes and effectiveness examinations to the internal control layout over financial reporting, by means of the SOX unit established within the Accounting Division.

Based on the findings of the said examination of the effectiveness of internal control, the Bank's Management together with the President & CEO and the Bank's Chief Accountant have assessed the effectiveness of controls in the reported period over the Bank's financial reporting. On the basis of this assessment, the Bank's President & CEO and the Chief Accountant arrived to the conclusion that as of the end of the reported period, the controls and procedures regarding financial reporting are effective in order to: record, process, conclude and report the information included in the annual financial statements, according to the public reporting directives of the Supervisor of Banks and on the date prescribed by these directives.

Changes in Internal Control

During the fourth quarter ended on December 31, 2022, no change has occurred in the Bank's internal control over financial reporting, which materially affected, or is reasonably to materially affect, the Bank's internal control over financial reporting.

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

March 12, 2023	Shaul Kobrinsky Chairman of the Board of Directors	Uri Levin President & Chief Executive Officer

2022

Internal Control over Financial Reporting

Certification

I, Uri Levin, certify that:

1. I have reviewed the annual report of Israel Discount Bank Ltd. (hereinafter: ”the Bank”) for 2022 (hereinafter: ”the Report”);
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Report;
3. Based on my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations, changes in shareholders' equity and cash flows of the Bank as of, and for, the periods presented in this report;
4. Other officers of the Bank providing this certification and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting (as defined in the public reporting instructions regarding ”Directors' Report”), and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiaries, is made known to us by others within the Bank and those entities, particularly during the period of preparing this report;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes according to accepted accounting principles and directives and guidelines of the Supervisor of Banks;
   (c) Evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in the Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Report based on such evaluation; and
   (d) Disclosed in the Report any change in the Bank's internal control over financial reporting that occurred during this quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting.
5. The other officers of the Bank providing this certification and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's Auditors, to the Board of Directors and to the audit committee of the Board of Directors:
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

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

March 12, 2023

Uri Levin,
President & Chief
Executive Officer

Certification

I, Joseph Beressi, certify that:

1. I have reviewed the annual report of Israel Discount Bank Ltd. (hereinafter: "the Bank") for 2022 (hereinafter: "the Report");
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Report;
3. Based on my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations, changes in shareholders' equity and cash flows of the Bank as of, and for, the periods presented in this report;
4. Other officers of the Bank providing this certification and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting (as defined in the public reporting instructions regarding "Directors' Report"), and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiaries, is made known to us by others within the Bank and those entities, particularly during the period of preparing this report;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes according to accepted accounting principles and directives and guidelines of the Supervisor of Banks;
   (c) Evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in the Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Report based on such evaluation; and
   (d) Disclosed in the Report any change in the Bank's internal control over financial reporting that occurred during this quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting.
5. The other officers of the Bank providing this certification and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's Auditors, to the Board of Directors and to the audit committee of the Board of Directors:
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

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

March 12, 2023

Joseph Beressi
Senior Executive Vice
President
Chief Accountant

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

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

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

Management, under the supervision of the Board of Directors, assessed the effectiveness of the Bank's internal control over financial reporting as of December 31, 2022, based on the framework set forth in the Internal Control model of the Committee Sponsoring Organizations of the Treadway Commission (COSO) since 2013. Based on that assessment, Management believes that as of December 31, 2022, the Bank's internal control over financial reporting is effective.

The effectiveness of the Bank's internal control over financial reporting as of December 31, 2022 has been audited by the Bank's independent auditors, Messrs. Somekh Chaikin and Ziv Haft, Certified Public Accountants, as stated in their report presented on pp. 129-130, which includes an unqualified opinion regarding the effectiveness of the Bank's internal control over financial reporting as of December 31, 2022.

Shaul Kobrinsky Chairman of the Board of Directors	Uri Levin President & Chief Executive Officer	Joseph Beressi Senior Executive Vice President Chief Accountant	March 12, 2023

2022

Financial Statements

Somekh Chaikin

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

We have audited the internal control over financial reporting of Israel Discount Bank Ltd. (hereinafter: "the Bank") as of December 31, 2022, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Bank's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of internal control over financial reporting, included in the accompanying Directors' and Management's reports on internal control over the attached financial reporting. Our responsibility is to express an opinion on the Bank's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Bank maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control - Integrated Framework issued by COSO 2013.

We have also audited, according to accepted auditing standards in Israel and certain auditing standards applied in the audit of banking corporations as determined by directives and guidelines of the Supervisor of Banks, the Balance sheets – of the Bank and consolidated – as at December 31, 2022 and 2021, and the statements of profit and loss, the Statements of Comprehensive income, the Statements of Changes in Shareholders Equity and the Statements of Cash Flows – of the Bank and consolidated – for each of the three years in the period ended December 31, 2022, and our report dated March 12, 2023, expressed an unqualified opinion on these financial statements as well as calling attention to Note 26 C section 11, regarding claims that cannot be estimated.

Somekh Chaikin
Certified Public Accountants (Isr.)

Ziv Haft
Certified Public Accountants (Isr.)

March 12, 2023

KPMG Somekh Chaikin

BDO

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

We have audited the financial statements of Israel Discount Bank Limited (hereinafter: "the Bank") and the consolidated financial statements of the Bank and consolidated: Balance sheets as at December 31, 2022 and December 31, 2021, statements of profit and loss, statements of comprehensive income, statement of changes in shareholders' equity and statements of cash flows for the three years, the last of which ended December 31, 2022. These financial statements are the responsibility of the Bank's Board of Directors and Management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position - of the Bank and consolidated - as at December 31, 2022 and 2021, and the results of operations, the changes in shareholders' equity and cash flows - of the Bank and consolidated - for the three years the last of which ended December 31, 2022, according to generally accepted accounting principles in Israel (Israeli GAAP). Furthermore, in our opinion, the abovementioned financial statements were prepared according to the directives and guidelines of the Supervisor of Banks.

Without qualifying our above opinion, we call attention to the Note 26 C section 11 regarding claims that cannot be estimated.

We have also audited according to standards prescribed by the United States Public Company Accounting Oversight Board (PCAOB) regarding the audit of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the internal control of the Bank over financial reporting as of December 31, 2022, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report of March 12, 2023, included an unqualified opinion on the effectiveness of internal control over financial reporting of the Bank.

Key audit matters

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

Allowance for credit losses

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

According to the description in Notes 1, 13, and 31 to the consolidated financial statements, the allowance for credit losses for balance sheet and off-balance-sheet credit to the public in the Bank's consolidated financial statements amounts to approx. NIS 3,662 million as of December 31, 2022 and it includes an allowance on a specific basis and allowance on a group basis for credit to the public risk.

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

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

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

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

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

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

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

KPMG Somekh Chaikin

BDO

The response given to the key audit matter

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

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

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

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

These procedures included among other things:

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

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

Somekh Chaikin
Certified Public Accountants (Isr.)

Ziv Haft
Certified Public Accountants (Isr.)

March 12, 2023

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

Statement of Profit and Loss for the Year ended December 31

		Consolidated		
	Notes	2022	2021	2020
		in NIS millions		
Interest income		11,700	7,491	6,987
Interest expenses		3,007	962	1,089
Net interest income	**2**	**8,693**	**6,529**	**5,898**
Credit loss expenses (expenses release)	13,31	407	(693)	1,718
Net interest income after credit loss expenses		**8,286**	**7,222**	**4,180**
Non-interest Income				
Non-interest financing income	3	417	765	1,142
Fees and commissions	4	3,404	3,125	2,826
Other income	5	430	72	39
Total non-interest income		**4,251**	**3,962**	**4,007**
Operating and other Expenses				
Salaries and related expenses	6	3,568	3,468	3,242
Maintenance and depreciation of buildings and equipment	16	1,232	1,187	1,185
Other expenses	7	2,417	2,203	2,254
Total operating and other expenses		**7,217**	**6,858**	**6,681**
Profit before taxes		5,320	4,326	1,506
Provision for taxes on profit	8	1,806	1,516	549
Profit after taxes		**3,514**	**2,810**	**957**
Bank's share in profit of associates, net of tax effect	15	27	20	50
Net profit:				
Before attribution to non-controlling interests		3,541	2,830	1,007
Attributed to the non-controlling interests		(46)	(57)	(32)
Net Profit Attributed to the Bank's Shareholders		**3,495**	**2,773**	**975**
Earnings per share of NIS 0.1 par value attributed to the Bank's shareholders (in NIS)	**9**	**2.87**	**2.38**	**0.84**

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

Date of approval of the financial statements:

March 12, 2023

Shaul Kobrinsky
Chairman of the Board of Directors

Uri Levin
President & Chief Executive Officer

Joseph Beressi
Senior Executive Vice President, Chief Accountant

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

		The Bank		
	Notes	2022	2021	2020
		in NIS millions		
Interest income		7,178	4,454	3,979
Interest expenses		2,091	669	680
Net interest income	**2**	**5,087**	**3,785**	**3,299**
Credit loss expenses (expenses release)	13,31	161	(590)	1,045
Net interest income after credit loss expenses		**4,926**	**4,375**	**2,254**
Non-interest Income				
Non-interest financing income	3	153	349	753
Fees and commissions	4	1,354	1,263	1,166
Other income	5	500	138	104
Total non-interest income		**2,007**	**1,750**	**2,023**
Operating and other Expenses				
Salaries and related expenses	6	2,010	2,043	1,876
Maintenance and depreciation of buildings and equipment	16	795	761	730
Other expenses	7	734	856	996
Total operating and other expenses		**3,539**	**3,660**	**3,602**
Profit before taxes		3,394	2,465	675
Provision for taxes on profit	8	1,102	850	254
Profit after taxes		**2,292**	**1,615**	**421**
Bank’s share in profit of investee companies, net of tax effect	15	1,203	1,158	554
Net profit attributed to bank's shareholders		**3,495**	**2,773**	**975**

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

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

	2022	2021	2020
	in NIS millions		
Net profit before attribution to non-controlling interests	3,541	2,830	1,007
Net profit attributed to non-controlling interests	(46)	(57)	(32)
Net profit attributed to the Bank's shareholders	**3,495**	**2,773**	**975**
Other comprehensive loss, before taxes:			
Net adjustments, for presentation of available-for-sale bonds at fair value[3]	(2,317)	(352)	157
Adjustments from translation of financial statements	484	(113)	(254)
Adjustments of liabilities for employee benefits[2]	548	(28)	(417)
Net loss on cash flows hedge	(27)	(3)	(1)
Other comprehensive loss, before taxes	**(1,312)**	**(496)**	**(515)**
Related tax effect	578	122	97
Other comprehensive loss, before attribution to non-controlling interests, after taxes	(734)	(374)	(418)
Other comprehensive income (loss), attributed to non-controlling interests	4	3	(2)
Other comprehensive loss, attributed to the Bank's shareholders, after taxes	**(738)**	**(377)**	**(416)**
Comprehensive income, before attribution to non-controlling interests	2,807	2,456	589
Comprehensive income, attributed to non-controlling interests	(50)	(60)	(30)
Comprehensive income, attributed to the Bank's shareholders[1]	**2,757**	**2,396**	**559**

Footnotes:

(1) See Note 10.

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

(3) See Note 12 M.

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

Balance sheet as at December 31

		Consolidated		The Bank	
	Notes	2022	2021	2022	2021
		in NIS millions			
Assets					
Cash and deposits with banks	11,27	65,713	59,638	53,675	45,604
Securities					
Held-to-maturity bonds		14,847	10,197	10,022	7,728
Available- for- sale bonds		25,858	31,027	15,066	17,787
Not for trading shares		1,767	1,613	139	233
Trading securities		2,322	1,032	2,192	939
Total Securities (of which:16,359, 12,204, 12,712, 8,406 respectively, pledged to lenders)	**12,27**	**44,794**	**43,869**	**27,419**	**26,687**
Securities borrowed or purchased under agreements to resell		857	1,207	857	1,207
Credit to the public	13,31	244,288	216,196	160,002	141,043
Provision for credit loss	13,31	(3,209)	(3,040)	(1,880)	(1,824)
Net credit to the public		**241,079**	**213,156**	**158,122**	**139,219**
Credit to Governments	14	2,599	2,664	2,597	2,635
Investment in investee companies (consolidated – associates)	15	486	462	12,852	11,778
Buildings and equipment	16	3,904	3,401	2,387	2,152
Intangible assets and goodwill	17	162	163	-	-
Assets for derivative instruments	28	11,420	5,522	10,498	5,223
Other assets	18	5,740	5,006	2,340	2,774
Total Assets		**376,754**	**335,088**	**270,747**	**237,279**
Liabilities and Equity					
Deposits from the public	19	292,293	260,907	217,419	190,000
Deposits from banks	20	15,376	12,534	9,831	8,971
Deposits from the Government		117	346	1	101
Securities lent or sold under agreements to repurchase		3,739	-	3,739	-
Bonds and Subordinated debt notes	21	12,308	15,071	192	3,299
Liabilities for derivative instruments	28	9,348	6,323	8,530	5,965
Other liabilities[(1)]	22	18,095	17,759	6,155	7,460
Total liabilities		**351,276**	**312,940**	**245,867**	**215,796**
Equity capital attributed to the Bank's shareholders	24	24,880	21,483	24,880	21,483
Non-controlling rights in consolidated companies		598	665	-	-
Total equity		**25,478**	**22,148**	**24,880**	**21,483**
Total Liabilities and Equity		**376,754**	**335,088**	**270,747**	**237,279**

Footnote:

(1) Of which allowance for credit losses for off-balance sheet credit instruments as of December 31, 2022, and December 31, 2021 of NIS 424 million and NIS 249 million consolidated, and of NIS 336 million, and 185 million at the Bank, respectively. See Note 31 E.

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

Statement of Changes in Shareholders' Equity

		Capital reserves								
	Paid up share capital	Share premium	Benefit for share-based payment transactions	Other	Total paid up share capital and reserves	Accumulative other comprehensive loss	Retained earnings	Shareholders' equity	Non-controlling interests	Total equity
	in NIS millions									
Balance at December 31, 2019	676	4,174	-	215	5,065	(481)	14,094	18,678	515	19,193
Net Profit for the year	-	-	-	-	-	-	975	975	32	1,007
Dividend paid	-	-	-	-	-	-	(49)	(49)	-	(49)
Transactions with minority	-	-	-	(6)	(6)	-	-	(6)	-	(6)
Other comprehensive loss, net after tax effect	-	-	-	-	-	(416)	-	(416)	(2)	(418)
Balance at December 31, 2020	**676**	**4,174**	**-**	**209**	**5,059**	**(897)**	**15,020**	**19,182**	**545**	**19,727**
Net Profit for the year	-	-	-	-	-	-	2,773	2,773	57	2,830
Dividend paid	-	-	-	-	-	-	(144)	(144)	-	(144)
A decrease in the rate of holding in a subsidiary company, with no loss of control	-	-	-	49	49	-	-	49	58	107
Transactions with minority	-	-	-	-	-	-	-	-	2	2
Other comprehensive loss, net after tax effect	-	-	-	-	-	(377)	-	(377)	3	(374)
Balance at December 31, 2021	**676**	**4,174**	**-**	**258**	**5,108**	**(1,274)**	**17,649**	**21,483**	**665**	**22,148**
Changes in 2022:										
The effect of adoption of new accounting standards(1)	-	-	-	-	-	-	(139)	(139)	-	(139)
Net Profit for the period	-	-	-	-	-	-	3,495	3,495	46	3,541
Dividend paid	-	-	-	-	-	-	(617)	(617)	-	(617)
Transactions with minority	-	-	-	(5)	(5)	-	-	(5)	(2)	(7)
Issue of Shares(2)	7	1,391	-	-	-	-	-	1,398	-	1,398
Benefit for share based payment transactions(3)	-	-	3	-	-	-	-	3	3	6
Dividend to non-controlling interests in consolidated companies	-	-	-	-	-	-	-	-	(118)	(118)
Other comprehensive loss, net after tax effect	-	-	-	-	-	(738)	-	(738)	4	(734)
Balance at December 31, 2022	**683**	**5,565**	**3**	**253**	**5,103**	**(2,012)**	**20,388**	**24,880**	**598**	**25,478**

Footnotes:

(1) Cumulative effect of the initial implementation of US GAAP regarding current expected credit losses, See Note 1 C 5(1).

(2) See note 24.

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

Statement of Cash Flows for the year ended December 31

	Consolidated			The Bank		
	2022	2021	2020	2022	2021	2020
	in NIS millions					
Cash Flows from Operating (to Operating) Activities						
Net profit before attribution to non-controlling interests in consolidated companies	3,541	2,830	1,007	3,495	2,773	975
Adjustments necessary to present cash flows from current operations:						
Bank's share in undistributed (profits) loss of investee companies (consolidated – associates)	(27)	(28)	(54)	(1,304)	(1,244)	(636)
Depreciation of buildings and equipment (including impairment in value)	579	538	491	366	343	298
Provision for impairment in value of securities	60	102	29	35	69	5
Credit expenses (reducing expenses) release	407	(693)	1,718	161	(590)	1,045
Gain on sale of credit portfolio, net	(5)	–	(3)	(2)	–	(3)
Profit on sale of available-for-sale bonds and shares not for trading	(47)	(548)	(647)	8	(193)	(299)
Realized and non realized loss (gain) from adjustment to fair value of trading securities, net	(88)	28	(91)	(97)	29	(88)
Non realized loss (gain) on adjustment to fair value of shares no for trading	28	(66)	(8)	57	(67)	(7)
Gain from realization at an investment in investee companies (consolidated – associates)	(15)	(12)	–	–	–	–
Gain on realization of buildings and equipment	(421)	(52)	(32)	(415)	(52)	(27)
Benefit for share based payment transactions	6	–	–	3	–	–
Net deferred taxes	(433)	366	(353)	30	345	(269)
Severance pay – increase (decrease) in excess of provision over the deposits	(370)	(20)	201	(248)	(33)	209
Net change in current assets:						
Assets for derivative instruments	(5,898)	878	(1,855)	(5,275)	508	(1,475)
Trading securities	(1,142)	28	1,441	(1,094)	49	1,323
Other assets	908	99	360	732	44	205
Effect of changes in exchange rate on cash and cash equivalent balances	(282)	114	150	(353)	139	150
Accrual differences included in investment and financing activities	(1,252)	1,270	1,272	(317)	756	593
Net change in current liabilities:						
Liabilities for derivative instruments	3,025	(1,042)	2,526	2,565	(615)	2,067
Other liabilities	386	665	1,026	(877)	(1,565)	(73)
Adjustments for exchange rate differences on current assets and liabilities	68	(27)	(143)	–	–	–
Dividends received from investee companies (consolidated – associates)	26	27	18	311	143	101
Net Cash Flows from Operating (to Operating) Activities	**(946)**	**4,457**	**7,053**	**(2,219)**	**839**	**4,094**

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

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

	Consolidated			The Bank		
	2022	2021	2020	2022	2021	2020
	in NIS millions					
Cash Flows to Investing Activities						
Net change in Deposits with banks	(99)	310	(372)	(2,274)	(479)	(440)
Net change in net credit to the public	(18,106)	(11,604)	(5,610)	(14,988)	(8,577)	(6,372)
Net change in Credit to the Governments	2,831	2,060	1,931	2,805	2,063	1,956
Net change in Securities borrowed or purchased under agreements to resell	350	(133)	(543)	350	(133)	(543)
Acquisition of held-to-maturity bonds	(1,143)	(2,921)	(3,920)	(298)	(1,194)	(3,709)
Proceeds from redemption of held-to-maturity bonds	1,033	391	556	575	211	400
Purchase of available-for-sale bonds and shares not for trading	(16,069)	(17,485)	(19,086)	(13,182)	(12,257)	(10,580)
Proceeds of sale of available-for-sale bonds and shares not for trading	12,981	12,999	13,131	11,251	10,690	8,975
Purchased credit portfolios	(14,165)	(12,504)	(7,926)	(7,585)	(7,502)	(4,272)
Gain on sale of credit portfolio	1,511	996	74	1,023	847	56
Proceeds of redemption of available-for-sale bonds	3,971	3,404	3,543	2,687	384	1,319
Purchase of shares in investee companies (consolidated – associates)	(24)	(123)	(160)	–	–	(9)
Proceeds of the sale of investments in associates	26	23	–	–	–	–
Investment in deferred debt notes of a subsidiary company	–	–	–	(543)	(323)	–
Proceeds of redemption of a subordinated debt note issued by a subsidiary company.	–	–	–	110	94	13
Acquisition of buildings and equipment	(1,064)	(977)	(836)	(677)	(566)	(494)
Proceeds from sale of buildings and equipment	521	61	60	510	61	51
Net Cash Flows to Investing Activities	**(27,446)**	**(25,503)**	**(19,158)**	**(20,236)**	**(16,681)**	**(13,649)**
Cash Flows from Financing Activities						
Net change in Deposits from banks	2,842	(573)	6,688	859	3,133	4,076
Net change in Deposits from the public	29,701	34,388	25,125	25,761	26,065	17,832
Net change in Deposits from the Government	(229)	3	163	(100)	(25)	110
Net change in Securities borrowed or purchased under agreements to resell	3,739	(161)	(185)	3,739	–	–
Issuance of subordinated debt notes	2,197	5,785	540	–	–	–
Redemption of subordinated debt notes	(5,220)	(1,032)	(3,438)	(3,142)	(292)	(366)
Issue of Shares	1,398	–	–	1,398	–	–
Dividend paid to the shareholders	(617)	(144)	(49)	(617)	(144)	(49)
Dividend to non-controlling interests	(118)	–	–	–	–	–
Net cash flows from Financing Activities	**33,693**	**38,266**	**28,844**	**27,898**	**28,737**	**21,603**
Increase (decrease) in cash	5,301	17,220	16,739	5,443	12,895	12,048
Cash balance at beginning of period	59,277	42,265	25,777	44,243	31,487	19,585
Effect of changes in exchange rate on cash and cash equivalent balances	675	(208)	(251)	353	(139)	(146)
Cash balance at end of period	**65,252**	**59,277**	**42,265**	**50,039**	**44,243**	**31,487**
Interest and taxes paid and/or received						
Interest received	10,318	7,258	6,947	6,184	4,378	4,383
Interest paid	(2,110)	(766)	(1,260)	(1,562)	(593)	(1,007)
Dividends received	41	37	27	314	143	108
Taxes on income paid	(1,480)	(1,033)	(1,066)	(743)	(619)	(630)
Taxes on income received	279	127	207	201	72	154

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

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

	2022	2021	2020
	in NIS millions		
The Bank:			
Recognition of a right-of-use asset in consideration for a leasing liability	69	28	646
Purchase of fixed assets	18	4	81
Lending of securities	267	1,746	(1,262)
Consolidated:			
Recognition of a right-of-use asset in consideration for a leasing liability	588	107	895
Purchase of fixed assets	94	20	134
Lending of securities	330	1,883	(1,574)

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

Notes to the Financial Statements

1. Significant Accounting Policies

A. General

1) Israel Discount Bank Ltd. (hereinafter: "the Bank") is a banking corporation incorporated in Israel.
2) The financial statements are prepared according to directives and guidelines of the Supervisor of Banks on the preparation of a banking corporation's annual financial statements.
3) The Notes to the financial statements relate to the Bank's financial statements and to the consolidated financial statements of the Bank and its subsidiaries, except where it states that the note relates to the Bank only, or to the consolidated statements only.
4) The financial statements were approved for publication by the Bank's Board of Directors on March 12, 2023.

B. Definitions

In these financial statements –

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

Generally Accepted Accounting Principles by banks in the U.S. – Accounting principles which U.S. banks traded in the U.S. are required to adopt according to a hierarchy determined by the U.S. Financial Accounting Standard ASC 105-10 (FAS 168). In addition, the Supervisor of Banks has clarified that despite the hierarchy determined by FAS 168, unless the bank supervision authorities in the United States take a different position with regard to the manner of implementing the rules, which then shall be deemed a Generally Accepted Accounting Principle by banks in the U.S..

"Interested party" and "Related party" - within their meaning in section 80 of the Reporting to the Public Directives.

"Consolidated companies" - Companies the financial statements of which are fully consolidated, directly or indirectly, with those of the Bank.

"Associates" - companies, other than consolidated companies and including partnerships, the investment in which is included in the financial statements, either directly or indirectly, on the equity basis.

"Investee companies" - consolidated companies and associates.

"CPI" or "Index" - the Consumer Price Index in Israel published by the Central Bureau of Statistics.

C. Basis for the preparation of the financial statements

1. **Principles of financial reporting**

   The Bank's financial statements are prepared according to the provisions of the Reporting to the Public Directive of the Supervisor of Banks. In most of the subjects, these instructions are based on accounting principles accepted by U.S. banks (US GAAP).

2. **Functional Currency and Presentation Currency**

   The financial statements are presented in New Israel Shekels (NIS), which is the Bank`s functional currency, being rounded off to the nearest NIS million, except where otherwise stated. The NIS is the currency representing the principal economic environment in which the Bank operates. For details on the functional currencies of banking overseas branches, see section D 1 below.

3. **Basis of measurement**

   The financial statements have been prepared on the basis of historical cost except for the following assets and liabilities:

   - Derivative financial instruments and other financial instruments measured at fair value through profit and loss (such as: investment in securities included in the trading portfolio);
   - Bonds classified as available-for-sale;
   - Non-current assets held for sale and a group of assets held for sale;
   - Deferred tax assets and liabilities;
   - Provisions;
   - Assets and liabilities for employee benefits;
   - Investments in associates.

1. Significant Accounting Policies (continued)

4. **Use of estimates**

In preparing the financial statements, the Management of the Bank and of the investee companies are required to use discretion and apply estimates, evaluations and assumptions that affect the implementation of the accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from such estimates. Upon the formation of accounting estimates applied in the preparation of financial statements, the Management of the Bank and of the investee companies are required to make assumptions on circumstances and events involving significant uncertainty. When considering such estimates, the Managements of the Bank and of the investee companies base their selves upon past experience, various facts, external factors and reasonable assumptions according to the circumstances applying to each estimate.

The estimates as well as the underlying assumptions are being reviewed on a current basis. Changes in accounting estimates are recognized in the period in which the estimates were changed and in each affected future period.

5. **Initial implementation of accounting standards, updates of accounting standards and Directives of the Supervisor of Banks**

1. Starting with the period beginning January 1, 2022, the Bank implements accounting standards and instructions as detailed hereunder: allowances for current expected credit losses (CECL) (see section 1 below).
2. As from July 1, 2022, the Bank applies the directive regarding the "Standardised approach to the calculation of exposure to counterparty credit risk". The format of the disclosure had been updated to conform to the updated methods of calculation according to the said instruction.

Following is a description of the nature of changes made to the accounting policy applied in these financial statements, as well as a description of the manner and effect of the initial implementation, if at all:

(1) Adoption of updates to accounting principles accepted by US banks – allowances for credit loss and additional instructions

On March 28, 2018, the Supervisor of Banks issued a letter in the matter of "adoption of updates to accounting principles accepted by US banks – allowances for credit loss and additional instructions", in which, inter alia, it is required to implement the accounting principles accepted by US banks with respect to allowances for credit losses. The initial implementation was made according to transitional instructions stated in the US rules.

The aim of the new rules is to improve the quality of reporting the financial condition of a banking corporation, by means of the early recognition of allowances for credit losses, in a manner that strengthens the anti-cyclicality in the conduct of the allowances for credit losses, which supports a more rapid response by banks to a deterioration in borrowers' credit quality, , and strengthens the connection between the manner in which credit risks are managed and the manner in which these risks are reflected in the financial statements , while basing it on existing methods and processes.

The principal changes in the accounting treatment in the financial statements of banking corporations, following the implementation of these principles, are, inter alia:

- The credit loss allowance is computed based on the loss expected over the life of the credit, instead of estimating the loss incurred but not yet identified;
- In assessing the credit loss allowance significant use is made of forward looking information, which reflects reasonable and supportable forecasts regarding future economic events;
- The disclosure was expanded regarding the effect of the date of granting the credit over the credit quality of the credit portfolio;
- The manner of recording the decline in value of bonds in the available-for-sale portfolio was changed;
- The new rules for the computation of the credit loss allowance apply to credit (including housing loans), bonds held for redemption, and certain off-balance sheet credit exposure.

On December 1, 2020, a circular was published in the matter of "regulatory capital – effect of implementation of accounting principles regarding current expected credit losses". The circular states transitional instructions that apply with the initial adoption of the new rules, this in order to reduces unexpected effects of the implementation of the rules on the regulatory capital.

On February 2, 2021, a circular was published in the matter of " current expected credit losses on financial instruments", within the framework of which, inter alia, requirements were abolished for recognition of a group allowance, at a minimum rate of 0.35%, for housing loans, and for the recognition of a minimum allowance based on the extent of arrears method. In addition, an update was made to Proper Conduct of Banking Business Directive No. 202 regarding "regulatory capital", according to which, banking corporations are required to deduct from the Common Equity Tier 1 amounts for housing loans classified over a time as non-accruing loans, according to the manner of computation determined in Appendix "H" to Proper Conduct of Banking Business Directive No. 202.

The Bank and its banking subsidiaries are implementing the new rules as from January 1, 2022. ICC will implement the new rules as from January 1, 2023.

1. Significant Accounting Policies (continued)

Following the implementation of the Standard, certain processes have been changed that relate to the classification and examination of problematic credit, the definition of credit as not accruing interest income, write-off rules and methods for the measurement of the allowance. Furthermore, the disclosure requirements have been modified to the requirements of the US accounting standards, as adopted by the Supervisor of Banks within the framework of the public reporting instructions, all as detailed below.

The initial implementation of the new rules as from January 1, 2022, was made with the recognition of the cumulative effect of the change in the balance of retained earnings at date of initial implementation. Furthermore, certain mitigations were adopted at date of initial implementation, as provided in the transitional instructions, including distribution of the effect of initial implementation in everything related to its effect on the Common Equity Tier 1 ratio, over a period of three years: 75% in the first year of implementation, 50% in the second, and 25% in the third year.

The major part of the effect, as presented below, stemmed from the updating of the measurement methods of the credit loss allowance, from the treatment of housing loans in a non-accruing status, and from accounting write-offs of interest or principal, updating the related deferred tax balances as well as from the effect on the regulatory capital resulting from deduction from capital of housing loans in the status of non-accruing for a prolonged period, and the recognition of the increase in the credit loss allowance over a period of time according to the transitional instructions, determined as described above.

The cumulative effect recognized in the balance of retained earnings at date of initial implementation on January 1, 2022, amounts to NIS 139 million (a total of NIS 179 million, before tax), net of the related tax effect, stemming from the increase in the balance of the allowance for credit losses, in the amount of NIS 160 million, as detailed below, as well as from the increase of NIS 19 million in the balance of accounting write-offs for debts, which until the implementation of the new Standard had been treated by the specific examination method, and following the implementation of the new Standard were moved to the group examination method.

It is noted that application of the new rules requires the formation of a methodology and complex models as well as a new technological application. Naturally, also after the beginning of initial application, improvement and development of the process for the measurement of the credit loss allowances would be continued, and respectively, such activity may require certain changes in the measurement procedure.

Details regarding the effect of the initial implementation are presented hereunder

	Audited	Unaudited	
	December 31, 2021	Effect of implemen-tation of CECL	January 1, 2022
	In NIS millions		
Balance			
Credit to the Public	216,196	(19)	216,177
Of which: Problematic credit non-accruing interest	1,280	251	1,531
Allowance for Credit Losses:	(3,040)	45	(2,995)
Of which: credit loss allowance – commercial portfolio	(2,078)	(38)	(2,116)
Of which: credit loss allowance – housing loans	(258)	49	(209)
Of which: credit loss allowance – private individuals, other	(704)	34	(670)
Net credit to the public	**213,156**	**26**	**213,182**
Credit loss allowance for banks and governments	(22)	(9)	(31)
Allowance for credit losses on off-balance sheet credit exposures[(1)]	(249)	(195)	(444)
Common equity			
Retained earnings balance, before the tax effect	17,649	(179)	17,470
Tax effect	-	40	40
Retained earnings balance, net of the tax effect	**17,649**	**(139)**	**17,510**
Capital adequacy and Leverage			
Ratio of common equity tier 1 to risk assets	10.14%	(0.01%)	10.13%
Ratio of total capital	13.46%	(0.01%)	13.45%
Leverage ratio	5.98%	(0.01%)	5.97%

Footnote:

(1) Included in the item "Other liabilities".

1. Significant Accounting Policies (continued)

As stated, ICC will implement the new rules as from January 1, 2023. According to estimates of ICC, the effect of the initial implementation as of January 1, 2023, is expected to be an increase of NIS 50 million in the allowance for credit losses, stemming mostly from the following segments: credit to commercial customers – an increase of approx. NIS 10 million; credit to private individuals – an increase of approx. NIS 40 million. The said increase in the allowance for credit losses would be recognized in retained earnings at January 1, 2023, and would not affect the current business results.

D. Accounting policy applied in the preparation of the financial statements

1. Foreign currency and linkage

Foreign currency transactions. At date of recognition of a transaction in foreign currency, any asset, liability, income, expense, profit or loss deriving from such transaction are translated, at date of initial recognition, to the Bank's functional currency according to the exchange rate in effect on date of the transaction. Financial assets and liabilities denominated in foreign currency at the reporting date are translated into the functional currency according to the exchange rate ruling on that date.

Non-financial assets and liabilities denominated in foreign currency and measured according to fair value are translated into the functional currency according to the exchange rate ruling on the date on which fair value has been determined. Non-financial items stated in foreign currency and measured according to historical cost are translated according to the exchange rate ruling at the date of the transaction.

Profits or losses on translation of transactions in foreign currency, which stem from fluctuations of the currencies in the period between the date of the transactions and the date of settlement/balance sheet date, are recognized in the statement of profit and loss as translation differences profits or losses (non-interest financing income), excluding:

- Changes in fair value of components included in the evaluation of the effectiveness of hedge for a hedge instrument hedging a net investment in foreign operations or hedging cash flows;
- Exchange rate differences for items comprising a part of a net investment.

Foreign activity. Assets and liabilities of foreign activities, including goodwill and adjustments to fair value made upon acquisition, are translated into NIS on the basis of the exchange rates ruling at the reporting date. Income and expenses as well as the profits and losses of foreign activities are translated into NIS on the basis of exchange rates ruling at dates of the transactions. Exchange rate differences on translation are recognized in other comprehensive income and presented under "financial statements translation adjustments".

Upon the realization of a foreign operation, the cumulative amount of exchange rate differences relating to that foreign operation, which had been recognized in other comprehensive income, are reclassified to the statement of profit and loss in the period in which the profit or loss from the realization of the foreign operation is recognized.

Overseas banking branches. The banking branch Bancorp is classified as foreign operations the functional currency of which is different from the shekel.

Details on representative rates of exchange and the CPI and their annual rates of change

				Annual rate of change		
	2022	2021	2020	2022	2021	2020
CPI (in points)[(1)]:						
Known at balance sheet month	108.0	102.6	100.2	5.3	2.4	(0.6)
Representative exchange rate (in NIS) at the balance sheet date of the:						
U.S. Dollar	3.519	3.110	3.215	13.2	(3.3)	(0.7)
Euro	3.753	3.519	3.944	6.6	(10.8)	1.7

Footnote:
(1) Presented according to the 2018 base index.

2. Principles of consolidation and the implementation of the equity method

2.1 **Goodwill.** The Bank recognizes goodwill at acquisition date on the basis of the fair value of the consideration given, including amounts recognized for any rights that do not confer control in the acquired entity, as well as the fair value at acquisition date of capital rights in the acquired entity held previously by the purchaser, after deduction of the net amount attributed at acquisition date to identifiable acquired assets and accepted liabilities.

2.2 **Subsidiary companies.** These are entities controlled by the Bank, the financial statements of which are consolidated with those of the Bank from date of obtaining control until control is discontinued.

1. Significant Accounting Policies (continued)

Non-controlling interests. These are rights representing the equity capital of a subsidiary company which may not be attributed, directly or indirectly, to the parent company and which include additional components, to the extent existing which are classified to equity. Non-controlling interests are measured at fair value at date of the business combination.

Attribution of comprehensive income to shareholders. Profit or losses and any component of other comprehensive income are attributed to the Bank's shareholders and to the non-controlling right holders in consolidated subsidiaries therein. Total profit and other comprehensive income are attributed to the Bank's shareholders and to the non-controlling right holders therein even if, as a result, the outstanding balance of the non-controlling interests will be negative.

Transactions with non-controlling right holders while maintaining control. Transactions with non-controlling right holders while maintaining control are treated as capital transactions. The difference between the consideration received or paid and the change in the non-controlling interests in consolidated subsidiaries is charged to the owners' share of the Bank, directly to capital.

2.3 **Investments in associates.** Associates are entities in which the Bank has a material influence over their financial and operational policies, though not control. Investments in associates are treated by the equity method and are initially recognized at cost. The cost of investment includes transaction costs. The consolidated financial statements include the share of the Group in income and expenses, in the profit or loss and in other comprehensive income of associates treated by the equity method, after adjustments required to modify the accounting policy to that of the Group from date on which material influence has been obtained and until the date on which material influence no longer exist. It is clarified that the Bank does not make adjustments to accounting policies adopted by the public reporting directives implemented by a non-financial affiliate, which applies the IFRS rules.

2.4 **Transactions eliminated upon consolidation.** Intercompany balances within the Group and unrealized income and expenses stemming from intercompany transactions, were eliminated upon consolidation of the financial statements. Unrealized profits derived from transactions with associates were eliminated against the investment according to the rights of the Group in the associates. Unrealized losses were eliminated in the same manner in which unrealized profits have been eliminated, as long as no evidence of impairment exists.

2.5 **The treatment in the Bank's standalone financial statements.** In preparing the standalone financial statements, the Bank is treating investee companies by the equity method of accounting. This, according to directives and guidelines of the Supervisor of Banks. The Bank’s standalone financial statements include the financial statements of property and service companies wholly owned by the Bank, and which assets are mostly used by the Bank.

3. **The basis of recognition of income and expenses**

3.1 Income and interest expenses are included on an accrual basis, except for interest accrued on problematic debts classified as not occurring interest income debts which is recognized on cash basis, when there is no doubt that the remaining recorded amount of the non-accruing debt will be collected. In cases where such doubt exists, all amounts collected serve to reduce the outstanding balance of the loan. Furthermore, interest on amounts in arrear for housing loans is recognized on the basis of actual collection.

3.2 Commission income for the granting of services are recognized in the Statement of profit and loss upon accrual of the Bank's entitlement to such income. Certain fees and commissions, such as commission for guarantees and certain commission relating to project financing, are recognized on a pro-rata basis over the period of the transaction.

3.3 In hybrid capital instruments, which include a structured step-up redemption, the interest rates used to compute the interest cost are the interest rates in effect prior to the step-up, based on Management's evaluation that the instruments would be redeemed at date of increase in the interest rate.

3.4 **Fees and commissions on the setting-up of credit facilities.** Fees and commissions charged upon the setting-up of credit facilities, except for loans for periods of up to three months, are not recognized immediately as income in the statement of profit and loss, but are deferred and recognized over the period of the loan as a yield adjustment. Commission income, as stated, is recognized by the effective interest method and is reported as part of interest income.

3.5 **Credit allocation fees and commissions.** Credit allocation fees and commissions are treated according to the probability of the commitment to grant credit being realized. Where the probability is remote, the commission is recognized on a "straight-line" basis over the period of the commitment, otherwise, the Bank defers recognition of such commission income until date of realization of the commitment or until date of expiry thereof, whichever is earlier. Where the commitment has been realized, then the commission income is recognized by way of adjustment of the yield over the lifetime of the loan, as stated above. Where the commitment expires without being realized, the fees and commissions are recognized on date of expiry and are reported as part of commission income. In this matter, the Bank assumes that the probability of the commitments being realized is not remote.

1. Significant Accounting Policies (continued)

3.6 Changes in terms of loans. In cases of refinancing or of restructuring of non-problematic loans, the Bank examines whether the debt terms had been changed so that they are advantageous to the Bank, at least as the terms of similar debt instruments of other customers having similar risk characteristics, and whether the terms of the loan were materially changed. In such cases, the outstanding fees and commissions not yet amortized as well as early repayment fees and commissions collected from the customer for the change in the terms of credit are recognized in the statement of profit and loss. Otherwise, the said fees and commissions are included as part of the net investment in the new loan and are recognized as an adjustment of the yield, as stated above.

3.7 Early repayment commission. Fees and commissions charged for early repayments are recognized immediately as part of interest income.

3.8 Regarding securities – see sub-section 5 below; for derivative financial instruments - see sub-section 6 below.

3.9 Other income and expenses are recognized on an accrual basis.

4a. Non-accruing debts, credit risk and credit loss allowances – the accounting policy applied as from January 1, 2022

Identification and classification of non-accruing debts (replacing impaired debt). The Bank has introduced procedures for the identification of problematic credit and for the classification of debts distinguishing between debts classified as problematic, including non-accruing debts and performing debts. According to such procedures, the Bank classifies all of its problematic debts and off-balance sheet items under the following classifications: special mention, substandard or non-accruing. A debt is classified as non-accruing when, based upon information and up to date events it is expected that the Bank would not be able to collect all amounts due according to the contractual terms of the debt.

For the purpose and classification and treatment of problematic credit, the Bank distinguishes between:

A. Commercial credit for a debt the contractual balance of which amounts to NIS 1 million or over – the decision regarding classification of the debt and the required allowance is based, inter alia, on the arrears situation of the debt, evaluation of the debtor's financial condition and repayment ability, evaluation of the primary source for the repayment of the debt, existence and condition of the collateral, financial condition of the guarantors, if at all, and their commitment to support the debt, and the ability of the borrower to obtain third party finance. In any event, a commercial debt as above, is classified as non-accruing when repayment of principal or interest is in arrears for 90 days or more, except where the debt is well secured and is in the process of collection, or if the debt has undergone troubled debt restructurings but does not comply with the terms for accrual of interest income.

Starting with the date of classification as a non-accruing debt, the debt is treated as a debt not accruing interest income (such debt designated as "non-accruing debt"), unless the debt had undergone troubled debt restructurings and complies with the terms for accrual of interest income.

For details regarding the accounting write-off rules with respect to such debts, see "Accounting write-offs" below.

B. Credit to private individuals, housing loans and commercial credit for a debt the contractual balance of which is lower than NIS 1 million – the decision regarding the classification of the debt is based upon the arrears situation of the debt. For this purpose, the Bank monitors the number of days in arrears determined in relation to the contractual repayment terms of the debt. Such debts, which are in arrears for 90 days or over, are classified as substandard, though accrual of interest income is not interrupted. This, with the exception of housing loans, which are classified as debts not accruing interest income when the repayment of principal or interest is in arrears of 90 days or over.

Debts included in the group track, which had undergone restructure of a troubled debt restructurings and do not accrue interest income, are classified as non-accruing substandard debts.

For details regarding the accounting write-off rules with respect to such debts, see "Accounting write-offs" below.

Debt arrangement policy and treatment of restructured troubled debts. With a view of improving the management of credit and the collection thereof, and with the aim of avoiding failure situations or seizure of pledges assets, the Bank had determined and is applying a policy for arrangement of problematic debts and for a change in terms of debts not identified as problematic. Methods for changes in terms of debts may include, inter alia, deferment of repayment dates, reduction in the rate of interest or in the amounts of periodic repayments, changing the terms of the debt in order to modify them to the financing structure of the borrower, consolidation of the borrower's debts, transfer of the debt to other borrowers in case of a group of borrowers under joint control, reexamination of the financial yardsticks applying to the borrower, and more.

1. Significant Accounting Policies (continued)

The Bank's policy is based upon criteria, which allows Management of the Bank to apply judgment as to whether repayment of the debt is expected, and the policy is applied only if the borrower proves his ability and wish to repay the debt and if he is expected to abide by the terms of the new arrangement.

In order to determine whether a debt arrangement made by the Bank constitutes troubled debt restructurings, the Bank performs a qualitative test of all terms and conditions of the arrangement and of the circumstances under which it had been made, with a view of determining as to whether:

(1) The borrower is under financial difficulties; and (2) the Bank has granted a waiver to the borrower as part of the debt arrangement.

In order to determine as to whether the borrower is under financial difficulties, the Bank examines whether there are signs indicating financial difficulties of the borrower at date of the arrangement, or existence of a reasonable possibility of the borrower experiencing financial difficulties were it not for the arrangement.

In addition, the Bank considers that a waiver is being granted to the borrower, as part of the arrangement, even if the contractual interest is raised under the arrangement, if one or more of the following conditions exists:

- As a result of the restructure, the Bank is not expected to collect the full amount of the debt (including the interest accrued under the contractual terms);
- The present fair value of the collateral, in case of debts that are collateral-dependent, does not cover the contractual balance of the debt, indicating inability to collect the full amount of the debt;
- The borrower has no possibility of obtaining finance at accepted market rates, for a debt having characteristics similar to the debt being the subject matter of the arrangement;
- Where the banking corporation does not conduct an additional underwriting process upon renewal of a substandard debt, or where there is no change in the pricing of the debt, or if the pricing had not been adjusted so as to match the risk prior to renewal, or where the borrower does not provide additional means compensating the growth in risk stemming from his financial difficulties, then the renewal is strongly considered to be troubled debt restructuring.

The Bank does not classify a debt as a restructured troubled debt, where the restructure leads to an insignificant delay in repayment, taking into consideration the frequency of repayments during the contractual repayment period and during the expected original lifespan of the debt. In this respect, where several arrangements had been made involving changes in the loan terms, the Bank takes into account the cumulative effect of prior arrangements, when determining whether the delay in repayment, stemming from the restructure of the debt, is insignificant.

As a general rule, restructure leading to a delay in repayment of 90 days or more, as compared with the contractual terms, would be considered restructure leading to a delay in repayment that is not insignificant.

Treatment of restructured debts and consecutive restructure. Debts, the terms of which had been changed under the restructure of a troubled debt, are classified as non-accruing debts. Under special circumstances, when a debt had been restructured as a troubled debt, and at a later date, the banking corporation and the debtor enter into an additional restructure agreement, the banking corporation is no longer required to treat the debt as one that had undergone restructure of a troubled debt if the following two conditions exist: (1) the debtor is no longer under financial difficulties at date of the consecutive restructure; and (2) according to the terms of the consecutive restructure, no waiver had been granted to the borrower by the banking corporation (including no waiver of principal on a cumulative basis since date of extending the original loan).

Reversal of a non-accruing debt to the status of an accruing debt. As a general rule, a non-accruing debt reverts to be classified as an accruing debt if one of the two following conditions exists:

- There are no principal or interest components of the debt that are due and had not been repaid, and the Bank expects the repayment in full of the remaining balance of principal and interest according to the terms of the agreement (including amounts which had been written-off accounting wise or an allowance was made in their respect);
- Where the debt is now well secured and is in the process of collection.

Moreover, with respect to a debt which had formally been restructured as a troubled debt, and classified as non-accruing at date of change in terms, the Bank may reinstate the debt as an accruing debt, on condition that an updated and well documented credit analysis is performed supporting reversal to accruing status, based on the financial condition of the borrower and prospects of repayment according to the updated terms. The evaluation should be based upon the historical consecutive repayment performance of the borrower, in cash or cash equivalents, over a reasonable period of at least six months, where the Bank may take into account repayments made during a reasonable period prior to the restructure, if the payments comply with the updated terms. Otherwise, a debt that had undergone restructure of a troubled debt must continue to be classified as non-accruing debt.

1. Significant Accounting Policies (continued)

Furthermore, with respect to a debt that had formally undergone restructure of a troubled debt, and which had been classified as accruing debt prior to the restructure, the Bank may continue to accrue interest on condition that following the restructure, collection of principal and interest according to the updated terms is reasonably secured, based on an updated and well documented credit analysis, on condition that the borrower has a history of continuous repayment performance over a reasonable period prior to the changes, and that the restructure has improved the prospects of collection of the loan according to a reasonable repayment schedule.

Starting with January 1, 2022, the above instructions pertaining to the treatment of a restructured troubled debt, apply also to housing loans, and they are being applied to housing loans as from January 1, 2022, onwards.

Allowance for credit loss – measurement. The Bank has determined procedures for the classification of credit and for measurement of the allowance for credit losses in order to maintain an appropriate level of allowance to cover current expected credit losses in relation to its credit portfolio. In addition, the Bank has determined procedures required to maintain an allowance at an appropriate level in order to cover current expected credit losses related to bonds held-to-maturity, bonds held in the available-for-sale portfolio as well as certain off-balance sheet exposure (see below).

Assessment of the allowance for current expected credit losses is computed over the contractual period of the financial asset. The contractual period is not adjusted for extensions, renewals and expected changes, unless one or more of the following applies: (a) at date of reporting, the Bank has reasonable expectations for an agreement with the borrower for a restructure of a troubled debt; or (b) the original loan agreement or the updated agreement at date of reporting include the option for extension or renewal of the loan, which may not be unconditionally revoked by the Bank.

In general, computation of the allowance for current expected credit losses is assessed on a group basis (by means of statistical models) where the assets have similar risk characteristics. Such characteristics comprise, inter alia: (1) the business activity of the borrower; (2) the borrower's conduct of his banking operations; (3) classification of the borrower; (4) type of the financial asset; (5) type of collateral; (6) size; (7) age of the loan.

The Bank has divided the credit portfolio into segments according to its business viewpoint, while distinguishing between commercial credit, SME, housing loans, private individuals - other, and credit not to the public. The Bank has determined models and methodologies to be used in measuring the required allowance in each segment. The determined models are risk rated based (PD and LGD) that assess the amount of the expected loss in case of materialization of failure.

Where the reasonable and supportable period as determined by the Bank, is shorter than the lifespan of the financial asset, the Bank reverts to the use of historical information that is not modified to the risk of the specific borrower and is not modified for existing economic conditions or for anticipated future economic conditions, such as: changes in rate of unemployment, GDP, interest, etc.

Credit loss allowance – SME credit. For the SME credit portfolio, the Bank measures the expected credit loss allowance on the basis of the PD LGD method while dividing the credit portfolio into segments having similar risk characteristics, such as the rating models, type of financial asset and type of collateral.

For the purpose of modifying the historical data to present economic conditions and to expectations regarding future economic conditions, the Bank determined that the reasonable and supportable period is one year. In case of assets having a contractual lifespan exceeding this period, the Bank reverts to the use of historical information that is not modified, by means of a method divided into two layers. The first layer refers to a macro-economic modification; the reversal in respect thereof is immediate at the end of the first year. The second layer refers to reversal to historical data regarding losses and/or defaults. This reversal is performed during a period of two additional years by means of half-yearly modification formulas for the PD data, which in fact would reflect, on the basis of historical data, a modification of the PD rate for one year for the two coming years also.

Credit loss allowance – credit to private individuals (excluding housing loans). For the private individuals credit portfolio, excluding housing loans, the Bank measures the allowance for current expected credit losses using the PD LGD method, while dividing the credit portfolio into segments having similar risk characteristics, such as the rating models, type of financial asset and type of collateral.

For the purpose of modifying the historical data to present economic conditions and to expectations regarding future economic conditions, the Bank decided that the reasonable and supportable period is one year. In case of assets having a contractual lifespan exceeding this period, the Bank reverts to the use of historical information that is not modified, by means of a method divided into two layers. The first layer refers to a macro-economic modification; the reversal in respect thereof is immediate at the end of the first year. The second layer refers to reversal to historical data regarding losses and/or defaults. This reversal is performed during a period of two additional years by means of half-yearly modification formulas for the PD data, which in fact would reflect, on the basis of historical data, a modification of the PD rate for one year for the two coming years also.

1. Significant Accounting Policies (continued)

Credit loss allowance – housing loans. For the housing loan portfolio, the Bank measures the allowance for current expected credit losses using the PD LGD method, while dividing the credit portfolio into segments having similar risk characteristics, such as the rating group and the age of the loan.

For the purpose of modifying the historical data to present economic conditions and to expectations regarding future economic conditions, the Bank decided that the reasonable and supportable period is one year. As distinguished from other credit portfolios of the Bank (consumer and commercial), the defaults curve is based entirely on historical data, while the rating models are used solely for segmentation purposes. In view of this, where assets having a contractual lifespan longer than the reasonable and supportable period are involved, then reversal is made only for the macro-economic adjustment component. This reversal is made immediately at the end of the first year.

Credit loss allowance – commercial credit. For the commercial credit portfolio, the Bank measures the allowance for current expected credit losses using the PD LGD method, while dividing the credit portfolio into segments having similar risk characteristics, such as the rating models, type of financial asset and type of collateral.

For the purpose of modifying the historical data to present economic conditions and to expectations regarding future economic conditions, the Bank decided that the reasonable and supportable period is one year. In case of assets having a contractual lifespan exceeding this period, the Bank reverts to the use of historical information that is not modified, by means of a method divided into two layers. The first layer refers to a macro-economic modification; the reversal in respect thereof is immediate at the end of the first year. The second layer refers to reversal to historical data regarding losses and/or defaults. This reversal is performed during a period of four additional years by means of transfers matrix.

In addition to that, the Bank has determined criteria and factors that are taken into account in determining that for certain exposure to governments, the current expected credit losses reflect a zero loss.

Credit loss allowance – off-balance sheet credit exposure. Off-balance sheet credit exposure includes credit exposure for commitments to extend credit, documentary credit, financial guarantee not treated as insurance, and other similar instruments. The credit loss allowance for off-balance sheet exposure is assessed in the same way that the allowance for balance sheet credit is assessed, while taking into account the expected materialization of the credit. For the purpose of assessing the expected rate of materialization, a methodology has been determined, assessing the conversion coefficients of off-balance sheet credit into balance sheet credit, which are based on the rate of utilization respecting each type of off-balance sheet exposure, based on past experience.

The Bank does not assess an expected credit loss allowance for off-balance sheet commitments to extend credit, which may be unconditionally revoked by the Bank.

Credit loss allowance – bonds in the held-to-maturity portfolio. The Bank does not measure current expected credit losses for government bonds of the Government of Israel or the US Government, because the information regarding historical credit losses, following modification to existing conditions and to reasonable and supportable forecasts, leads to expectations that the non-payment of the basic amortized cost equals zero.

The remaining balance of the bonds, non-government as stated, is of a negligible amount.

Credit loss allowance – Available-for-sale bonds. The Bank assesses current expected credit losses for available-for-sale bonds at each reporting date, where the fair value of the bonds is lower than the amortized cost. The Bank tests whether the decline in fair value stems from credit losses or from other factors. Impairment related to credit loss is recognized by means of an allowance for credit losses, while impairment not recognized by means of a credit loss allowance, is taken to other comprehensive income, net of tax.

The allowance for current expected credit losses regarding available-for-sale securities is computed on a specific basis, using the discounted cash flow method, through which the Bank compares the present value of expected future cash flows, determined on basis of past events, present conditions and reasonable and supportable forecasts (such as: sectorial, geographic, economic and political factors, relevant to the collection ability respecting the bond), to the basic amortized cost of the security and to its fair value. The allowance, as stated, is recognized against a credit loss expense, in order to reflect the credit loss component of the decline in fair value to below the amortized cost. The allowance for credit loss for an available-for-sale bond is limited so as not to exceed the amount of the difference between the amortized cost and the lower fair value (the fair value floor).

If over a period of time, the fair value of the security rises, then all the allowance for credit losses that had not been written-off accounting wise, is reversed by credit loss expenses release.

Credit loss allowance – credit assessed on a specific basis. When the Bank identifies that a financial asset does not have joint risk characteristics similar to those of other financial assets, the Bank assesses the allowance for credit losses for such assets on a specific basis, using the discounted cash flow method and/or on the basis of the value of the collateral, for loans that are collateral dependent.

1. Significant Accounting Policies (continued)

In addition, with respect to commercial credit, the contractual balance of which amounts to NIS 1 million or over, and which is classified as non-accruing, the Bank applies the discounted cash flow method or on the basis of the value of the collateral.

Qualitative modifications. The Bank performs qualitative modifications intended to reflect, in computing the allowance for credit losses, assessments regarding characteristics that are not adequately reflected in the models used.

Expected collections. The allowance for credit losses includes also an assessment of expected collections for accounting write-offs.

Testing the overall adequacy of the allowance. In addition to the above stated, the Bank tests the overall adequacy of the allowance for credit loss. The adequacy test, as stated, is based on Management's judgment, which takes into account the risks inherent in the credit portfolio and the deficiencies and limitations of the assessment methods applied by the Bank in determining the allowance.

Accounting write-offs. The Bank writes-off accounting wise, any debt or a part thereof considered as uncollectible and having a low value, the stating of which as an asset is not justified, or a debt regarding which the Bank conducts collection efforts over a long period (defined generally as a period exceeding two years).

For debts the collection of which is collateral dependent, the Bank immediately writes-off against the balance of allowance for credit losses, that part of the recorded amount of the debt exceeding the fair value of the collateral.

With respect to commercial credit, the contractual balance thereof is lower than NIS 1 million, and credit to private individuals that is not for housing purposes, the Bank records an accounting write-off when the arrears period of the debt reaches 150 days or more. It is noted that, where the debt is secured by collateral that is not a residential property, and seizure of the pledged asset had begun and is secured, the Bank writes-off accounting wise only that part of the recorded amount of the debt exceeding the value of the collateral (net of selling expenses).

With respect to housing loans secured by residential property, the Bank performs a up-to-date assessment of the value of the collateral, no later than the debt becoming in arrears of 180 days or over, and writes-off accounting wise that part of the recorded amount of the loan exceeding the value of the collateral (net of selling expenses).

It is clarified that accounting write-offs do not involve a legal waiver, and they reduce the reported balance of the debt for accounting purposes only, while creating a new cost basis for the debt in the books of the Bank.

Disclosure requirements. The Bank has modified disclosure to the new disclosure format and to disclosure regarding non-accruing debts instead of impaired debts.

4b. Impaired debts, credit risk and allowance for credit loss – the accounting policy applied until December 31, 2021

General. According to a Directive of the Supervisor of Banks regarding "Measurement and disclosure of impaired debts, credit risk and allowance for credit losses", the Bank applied the U.S. accounting standards in this matter (ASC 310) and the positions of the bank's supervisory authorities in the U.S. as well as of the SEC, as adopted in the past in the public reporting provisions in statements of position and guidelines of the Supervisor of Banks. Furthermore, the Bank is implementing the guidelines of the Supervisor of Banks on "Dealing with problematic debts".

Identification and classification of impaired debts. The Bank has established procedures for the identification of problematic credit and the classification of problematic debts and off-balance sheet credit items under the following classifications: special mention, substandard or impaired. Furthermore, any debt, the terms of which had been changed within the framework of a reconstruction of a troubled debt, was classified as an impaired debt, unless prior to the reconstruction and thereafter, a minimum allowance for credit losses according to the extent of arrears method has been made according to the Appendix to Proper Conduct of Banking Business Directive No. 314 regarding "Proper assessment of credit risks and proper measurement of debts".

Definition of the primary source of repayment upon the classification of a problematic debt. Determination of the proper classification of a debt, until a default event occurs or until expectation for such an event becomes highly probable, was based on the repayment ability of the borrower, namely: the expected strength of the primary repayment source (a sustainable source of cash over a period of time that must be under the control of the borrower and which must be explicitly or in substance separated for the repayment of the debt), and this, despite the support of second and third place repayment sources (such as: collateral, guarantor support, refinancing by a third party).

1. Significant Accounting Policies (continued)

At the time of classifying the debt as impaired, the Bank had defined the debt as a debt that does not accrue interest income and ceased to accrue interest income with respect thereto, other than as stated below with regard to certain restructured debts. In addition, at the time of classifying the debt as impaired, the Bank reverses all the interest income that has been accrued and recognized in profit and loss but has not yet been collected. A debt that has undergone a formal troubled debt restructuring and, following the restructuring, it was reasonably certain that the debt will be repaid and will perform according to the new terms, has been treated as an impaired debt that accrues interest income. In addition, the Bank prescribes rules pursuant to which an impaired debt returned to be classified as an unimpaired debt (these rules do not apply to debts classified as impaired as a result of having undergone a troubled debt restructuring).

Allowance for credit losses. The Bank has determined procedures for the classification of credit and for the measurement of the allowance for anticipated credit losses which was assessed in one of two ways: "specific allowance" or "group allowance".

The examination of debts for determining the allowance and the treatment of the debt, was consistently applied for all debts according to the quantitative level and the Bank's credit management policy, and no changes were made between the specific examination track and the group basis examination track during the life of the debt, unless a restructure of a troubled debt had been made.

Specific allowance for credit losses. The Bank has identified for a specific examination debts for which, the total of their contractual amount, grouped at the borrower level, is over NIS 1 million (in one consolidated company – for debts exceeding NIS 500 thousand, and in a consolidated credit card company – credit card debts exceeding NIS 500 thousand, and for trading houses' debts – of any amount).

The specific allowance for credit losses was assessed on the basis of anticipated future cash flows, capitalized using the original effective interest rate pertaining to the debt. Where the debt is collateral dependent or when foreclosure of property is expected by the Bank, the specific allowance is assessed on the basis of the fair value of the collateral pledged to secure the debt in question, after taking into account conservative and consistent coefficients reflecting, among other things the volatility of the fair value of the collateral, the time period until its actual realization and expected costs involved in the selling of the collateral.

Group allowance for credit losses. Was computed to reflect allowances for impairment for credit losses, that are not specifically identified inherent in large groups of small debts having similar risk characteristics, as well as for debts examined on a specific basis and found unimpaired. The allowance for credit losses for debts assessed on a group basis, was computed according to the rules established in ASC 450, and according to instructions of the Supervisor of Banks, based on historical loss ratios in various economic sectors, differentiating between problematic and non-problematic credit, and taking into account relevant environmental factors, including trends in the scope of credit in each sector and conditions in the sector, macro-economic data, assessment of the general quality of the credit to an economic sector, changes in volume and trends of balances in arrears and impaired balances and the effect of changes in the credit concentration.

The allowance for off-balance sheet credit instruments was assessed according to the rules determined by ASC 450. The group allowance was based on the rates of allowance determined for balance sheet credit (as detailed above), taking into consideration the anticipated rate of realization to credit of the off-balance sheet credit risk. The rate of realization to credit is computed by the Bank based on Credit Conversion Factors (CCF), as detailed in Proper Conduct of Banking Business Directive No. 203 "Measurement and capital adequacy – credit risk – the standardised approach".

Minimum allowance for housing loans – was computed according to a formula determined by the Supervisor of Banks, considering the extent of arrears, in a way in which the rates of the allowance increase in proportion to the extent of arrears. Calculation of the allowance based on the extent of arrears applies to all housing loans, excluding loans that are not repayable in periodic installments and loans that finance operations of a business nature.

Furthermore, the Bank implemented the provisions of Proper Conduct of Banking Business Directive No. 329 in the matter of "Restrictions on the granting of housing loans". Accordingly, the Bank verified that the balance of the group allowance for credit loss, for housing loans shall not fall below a rate of 0.35% of the outstanding balance of such loans as of date of the report.

Moreover, the Bank studied the overall fairness of the allowance for credit losses. This fairness evaluation was based on the Management's discretion, which takes into account the risks inherent in the credit portfolio and evaluation methods implemented by the Bank in determining the allowance.

In view of the letters of the Supervisor of Banks of August 19, 2021 and December 30, 2021, in the matter of "credit risk growth in the construction and real estate sector", and following the requirement by the Supervisor of Banks to modify the group allowance for the commercial credit portfolio, the Bank has increased the balance of the group allowance for the construction and real estate sector in Israel to an amount of approx. NIS 535 million, comprising a rate of approx. 0.93% of the balance of credit risk relating to this sector.

Additional details regarding the accounting policy applied through December 31, 2021 are presented in Note 1 D 4 to the financial statements as of December 31, 2021.

1. Significant Accounting Policies (continued)

5. Securities

5.1 According to directives of the Supervisor of Banks, the Bank's investments in securities are classified as follows:

(a) Held to maturity bonds - bonds which the Bank intends and has the ability to hold until maturity, except for debentures which may be called early or otherwise disposed, such that the Bank may not cover substantially all of its recognized investment. Bonds are stated at cost with the addition of accumulated linkage differences or exchange differences and interest, as well as the premium or discount component created upon acquisition and not yet amortized.

The transfer or sale of bonds classified to the held-to-maturity portfolio, is permitted in case of certain changes in circumstances, in which the sale or transfer will not be considered as contradicting the initial classification of the bonds, including evidence of material deterioration in the repayment ability of the bond issuer.

(b) Available-for-sale bonds – bonds not classified as held-to-maturity bonds or as trading bonds. Available-for-sale bonds are stated in the balance sheet at fair value on the reporting date. Unrealized profits or losses on adjustment to fair value are not included in the statement of profit and loss and are reported net, after deduction of liability for taxes, in a separate item of capital in accumulated other comprehensive income, except for losses for decline in value recognized in the profit and loss statements.

(c) Trading securities - purchased securities held for sale in the near period or securities, which the Bank has chosen to measure at fair value through the statement of profit and loss under the fair value alternative, except for shares with no available fair value. The trading securities are presented in the balance sheet at their fair value at the reporting date. unrealized profits or losses due to adjustments to fair value are recorded in the statement of profit and loss.

(d) Shares not for trading

- Shares, for which available fair value exists, are stated in the balance sheet at their fair value at the reporting date. Unrealized profits or losses and realized profits or losses on adjustment to fair value are stated in the statement of profit and loss;
- Shares, for which available fair value does not exist, are stated in the balance sheet at cost, net of impairment in value with the addition or deduction of changes in observable prices of regular transactions in similar or identical investments of the same issuer. Unrealized and realized profits and losses on adjustment to changes in observable prices, as stated, are recorded in the statement of profit and loss.

5.2 The cost of realized securities is recognized in the statement of profit and loss on a "moving average" basis.

5.3 Dividend income, accrued interest, linkage differentials, amortization of premium or discount (according to the effective interest method) as well as losses on impairment are recognized in the statement of profit and loss.

5.4 Interest income for acquired beneficiary rights (such as: asset backed financial instruments of the MBS, CDO, CLO, CMO types), excluding beneficiary rights of a high credit quality, is recognized according to the prospective interest method, the rate of interest used for recognition of interest income being adjusted to changes in assessment of future cash flows. In this respect, beneficiary rights of a high credit quality comprise beneficiary rights issued with U.S. government guarantee or by U.S. government agencies, as well as asset backed securities the rating of which is at least "AA".

5.5 Investments in venture capital funds is treated at cost less losses on impairment. Gains on investments in venture capital are recognized in the statement of profit and loss upon realization of the investment.

5.6 For the treatment of transactions involving the transfer of financial assets (such as: repurchase agreements, lending of securities, etc.), see subsection 9 below. In the matter of computing fair value, see subsection 7 below.

5.7 Decline in value of securities – available-for-sale bonds or bonds in the held to maturity portfolio – see Note 1 D 4a above.

5.8 Impairment in value of securities – shares with no available fair value – at each reporting period, the Bank conducts a qualitative assessment that takes into account impairment in value indicators, in order to assess whether an impairment in value had occurred regarding investments in shares with no available fair value. If, according to such assessment, an impairment in value of the investment in such shares had occurred, the Bank assesses the fair value of the investment in order to arrive at the amount of the loss incurred as a result of the impairment in value.

6. Derivative financial instruments and hedge transactions. The Bank recognizes all derivatives as assets or liabilities on the balance sheet and measures them at fair value. Changes in the fair value of a derivative instrument shall be reflected in the statement of profit and loss, or shall be included in the equity as an "other comprehensive income" component, according to the designation of the derivative instrument.

Hedge of fair value - The change in the fair value of derivatives hedging exposure to the change in the fair value of an asset or a liability, is recognized in the statement of profit and loss on a current basis, as well as the change in value of the hedged item, which may be related to the hedged risk.

1. Significant Accounting Policies (continued)

Hedge of cash flows - The accounting treatment of changes in the fair value of derivatives that hedge exposure to changes in the cash flow generated by an asset or a liability: the change in the fair value of a derivative designated to hedge a cash flow risk, for components included in the hedge effectiveness assessment, is reported as a component of "other comprehensive income", and thereafter, in the period in which cash flows have an effect on the statement of profit and loss, it is reclassified to the statement of profit and loss.

For further details, see Note 28 hereunder.

7. **Determination of fair value of financial instruments.** Fair value is defined as the price that would have been received on a sale of an asset or the price that would have been paid upon the transfer of a liability, in an ordinary transaction between participants in the market at date of measurement. Among other things, the Standard requires that for assessing fair value maximum use should be made, to the extent possible, of observable inputs, while reducing the use of unobservable inputs. Observable inputs reflect information available on the market, received from independent sources, while unobservable inputs reflect the assumptions of the Bank.

   Sub-Topic 820-10 of the Codification details the hierarchy of measurement techniques based on the question whether inputs used for the determination of fair value are observable or unobservable. These classes of inputs create a fair value grading as detailed below:

   - Level 1 inputs: quoted prices (non-adjusted) on active markets for identical assets or liabilities, to which the Bank has access at date of measurement;
   - Level 2 inputs: Inputs observable, directly or indirectly, for the asset or liability and which are not quoted prices that are included in Level 1;
   - Level 3 inputs: unobservable inputs for assets or liabilities.

   Securities. The fair value of trading securities, available-for-sale bonds and equity securities the fair value of which is readily available is stated on the basis of market prices quoted on a principal market, where several markets on which the security is traded exist, the assessment is made according to the quoted price at the most beneficial market. In such cases, the Bank's fair value of the investment in securities is the multiplication of the number of units by that quoted market price. The quoted price used for the determination of the fair value, is not adjusted for the size of the position of the Bank in relation to the volume of trade (size of holding factor). Where no quoted market price is available, the assessment of fair value is based on the best available information while making maximum use of observable inputs, taking into consideration the risk inherent in the derivative instrument (market risk, credit risk and such like).

   Derivative financial instruments. Derivative financial instruments that have an active market are assessed at market value determined on the principal market, and in the absence of a principal market, according to the price quoted at the most beneficial market. Derivative financial instruments that are not marketable are assessed on the basis of models that take into account the risks inherent in the derivative instrument (market risk, credit risk and such like). For further details, see below for assessment methodologies for credit risk and non-performance risk.

   Additional non-derivative financial instruments. No "market price" is available for most of the financial instruments in this category (such as: credit to the public, credit to the government, deposits from the public, deposits with banks, subordinate capital notes and non-marketable loans) because these are not traded on any active market. Accordingly, fair value is assessed using accepted pricing models, such as the present value of future cash flows discounted at a discount rate reflecting the risk level inherent in the financial instrument. To this end, future cash flows for non-accruing debts and other debts have been computed after eliminating the effect of accounting write-offs and allowances for credit losses for the debts.

   Evaluation of credit risk and nonperformance risk. The Standard (ASC 820) requires to reflect credit risk and nonperformance risk in measuring the fair value of a debt, including derivative instruments that were issued by the Bank and measured according to fair value. Nonperformance risk includes the credit risk of the Bank but is not limited to that risk only.

   For further details on the methods and principle assumptions used for assessment of fair value of financial instruments, see note 34 below regarding balances and fair value assessments of financial instruments.

8. **Offsetting assets and liabilities.** The Bank offsets assets and liabilities deriving from the same counterparty and presents in the balance sheet their net balance, where the following accumulated conditions exist: (1) on the said liabilities, the bank has a legally enforceable right of setoff of the liabilities against assets; (2) it is its intention to settle the liabilities and realize the assets on a net basis or simultaneously; (3) Both the Bank and the counterparty owe to one another determinable amounts.

   When assets and liabilities derive from two different counterparties, they are presented in the balance sheet at the net amount, upon meeting all the conditions detailed above and on condition that there is an agreement between the three parties that establish in a clear manner the Bank's right of set-off for said liabilities.

1. Significant Accounting Policies (continued)

The Bank does not offset the exposures for derivative instruments in the balance sheet.

The Bank offsets deposits, the repayment of which to the depositor is conditional upon the collection of the credit and the credit granted out of such deposits, where no credit loss risk to the Bank is involved.

9. **Transfers and services relating to financial assets and settlement of liabilities.** The Bank applies the measurement and disclosure rules determined according to Topic 860 of the Codification, for the accounting treatment of financial asset transfers and extinguishments of liabilities.

According to the said rules, the transfer of certain financial assets shall be treated as a sale accounting wise, if and only if all the following conditions exist: (1) the transferred financial asset had been isolated from the transferor, and are beyond the reach of the transferor and his creditors, also in the case of bankruptcy or other type of receivership; (2) each acceptor has the right pledge or exchange the transferred asset, and no conditions exist which also restrict the transferee from using his right to pledge or exchange the asset and which grants the transferor a larger than just a trivial benefit; (3) the transferor does not maintain effective control of the transferred financial assets.

In addition, in order for the transfer of a part of a financial asset to be considered a sale, the transferred part must fall within the definition of participating rights, in addition to the conditions noted above.

In the event that the transaction meets the terms for treatment thereof as a sale transaction, the transferred financial assets are removed from the Bank's balance sheet. The differences between the amount of consideration received and the amount of the disposed assets are recognized in the statement of profit and loss. Accordingly, where sale conditions do not exist, the transfer is treated as a collateralized debt. A sale of a part of a financial asset, which is not considered a participating right, is treated as a secured borrowing with pledge of collateral. The Bank continues to record the transferred financial assets in the balance sheet, with no change in their measurement.

Transactions involving the lending or borrowing of securities, in which the lending is made in consideration of the credit quality and general collateral of the borrower, the lending or borrowing is treated as credit or as a deposit, which are measured at the fair value of the related securities. Income on an accrual basis relating to these securities are recorded as interest income from credit, while changes in fair value (over and above changes in the accrual basis) are recorded as part of non-interest financing income in the case of securities included in the trading portfolio, or recorded in other comprehensive income in the case of available-for-sale securities.

The Bank removes a liability if it had been extinguished, namely, if one of the following terms exists: (a) the Bank had paid the lender and was released from its obligations regarding this liability; or (b) the Bank, under a legal process, had been legally released from liability or, with the consent of the lender, had been released from being the principal debtor for this liability.

An overseas subsidiary conducts transactions for the sale of securities under repurchase agreements terms and for the purchase of securities under agreements to resell terms. Securities sold under repurchase agreements terms, according to which control over the sold asset has not been lost, are treated as acceptance of a secured liability, so that the sold securities are not eliminated from the balance sheet, being reflected in the section "Securities", against which a deposit, the repayment of which is secured by a pledge of the said securities, is reflected in the section "Securities lent or sold under agreements to repurchase". Securities purchased under resale agreement terms, are treated as the granting of a secured loan, so that the securities so purchased serve as collateral for the loan and are not reflected in the Balance sheet. The loan granted is reflected in the section "Securities borrowed or purchased under agreements to resell".

10. **Fixed assets (buildings and equipment)**

Recognition and measurement. Fixed asset items are measured at cost less depreciation and accumulated losses on impairment. Cost includes expenditure that may be directly attributed to the acquisition of the asset, necessary costs involved in bringing the asset to the condition and location required for the asset to operate according to its designated use.

The cost of acquired software being an integral part of the operation of the related equipment is recognized as part of the cost of such equipment. Furthermore, according to the public reporting directives, the Bank classifies to the buildings and equipment item the cost of purchased software assets or capitalized costs of software developed internally for own use. Regarding the accounting treatment of software costs, see sub section 12 below.

Depreciation. An asset is depreciated when it is available for use, namely, when it has reached the location and the condition required for it to operate in the manner intended by Management.

Depreciation is charged to the Statement of profit and loss by the straight-line method over the assessed useful life span of each part of the fixed asset items, since this system reflects in the best manner, the forecasted consumption format of the future economic benefits embedded in the asset. Assets leased by way of a financial lease are amortized over the shorter of the period of the lease or the period of use of the asset. Leasehold improvements are being amortized over the shorter of the period of the lease or the useful life of the asset. Land is not amortized.

1. Significant Accounting Policies (continued)

Assessments on the depreciation method, the useful life span of assets and their residual values are re-examined when events or changes in circumstances indicate that the present assessments are no longer appropriate, and are adjusted where required

For details as to the depreciation rates in the current period and the comparative periods, see Note 16 below.

11. Leases - general. Agreements, which confer the Bank control over the use of an asset for a period of time within the framework of a lease in return for a consideration, are treated as leases. Upon initial recognition, a liability is recognized in an amount equal to the present value of the future lease payments during the lease period (such payments do not include variable lease payments), and concurrently, a right of use asset is recognized in the amount of the liability for the lease, adjusted for lease payments made in advance or accumulated, and net of lease incentives, and with the addition of direct expenses incurred on the lease.

The lease period is determined as the period in which the lease is not revocable, together with periods covered by an option to extend or cancel the lease, if it is reasonably certain that the lessee would or would not exercise the option, respectively, and together with periods covered by an option to extend or not to cancel the lease, where the right to exercise such an option is controlled by the lessor.

For operating leases, a liability and a right of use asset would be recorded where the lease period exceeds 12 months. Where the lease is for land and buildings, the land and building components are taken separately for classification and measurement, a significant consideration in classifying the land component is the fact that in general, land has an indeterminate life span.

Consecutive measurement. Following the initial recognition, a liability for lease (operating and financial) is measured at amortized cost according to the effective interest method. Moreover, the Bank examines a right of use asset (for an operating and a financial lease) for impairment in value, according to sub-topic 360-10-35 of the Codification regarding impairment of fixed assets.

Lease payments – operating lease. Lease payments, excluding variable lease payments, are recognized in profit and loss by the "straight line" method, over the period of the lease. Received lease incentives are recognized as an integral part of total lease expenses by the "straight line" method, over the period of the lease. Variable lease payments based on changes in index or in the rate of interest, are recognized in profit and loss in the period of change. Variable lease payments, which are not based on changes in index or in the rate of interest, are recognized in profit and loss in the period in which the specific aim leading to the change in the lease payments, is reached, and these would be cancelled in the period in which it is no longer expected that the specific aim would be reached.

In any consecutive reporting period, a right of use asset is recognized in the amount of the amortized cost of the liability for the lease, adjusted for lease payments paid in advance or accumulated, and net of the balance of lease incentives, together with direct costs not yet amortized and net of impairment losses accumulated for the right of use asset.

Lease payments – financial lease. Following the initial date of the lease, a right of use asset is measured at cost less accumulated amortization, net of accumulated impairment losses, and adjusted for the remeasurement of the liability for the lease. Amortization is computed by the "straight line" method over the useful life or the contractual period of the lease.

12. Intangible assets

Goodwill. Goodwill is measured at cost less accumulated impairment losses.

Software costs. Software purchased by the Bank is measured at cost less accumulated depreciation and impairment losses.

Capitalization of software costs for internal use. The Bank capitalizes costs related to the development of software for internal use only when: (1) the first stage of the project has been completed; and (2) Management has approved and has committed to, directly or indirectly, finance the software development project, and that it is expected that the project would be completed. The Bank capitalizes the following costs: direct cost of materials and services consumed, payroll cost of workers directly engaged in the development work or in obtaining the software. Other costs for the development operations and costs incurred in the first stage of the project are recognized in profit and loss as incurred.

Amortization. Amortization is charged to the Statement of profit and loss by the straight-line method over the useful life span of intangible assets, including software assets, beginning with the date on which the assets are ready for use.

Subsequent costs. The cost of upgrades and improvement of software for in-house use are capitalized only if it is expected that the costs incurred would lead to additional functionality. Other consecutive costs are recognized as an expense as incurred.

Guidelines in the matter of capitalization of in-house software development costs. Due to the accounting complexity involved in the process of capitalizing in-house software development costs, and in view of the materiality of the amounts of software costs capitalized, the Supervisor of Banks has determined guidelines in the matter of capitalization of software costs. The guidelines include reference to the materiality threshold for capitalization of software costs for each development project, the amortization period, capitalization coefficients for hours worked, and the grade of employees whose costs are to be capitalized.

1. Significant Accounting Policies (continued)

13. Impairment of non-financial assets

Recognition of loss on impairment. Non-financial assets held for use are subject to review for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The carrying amount is not recoverable if it exceeds the amount of the undiscounted cash flows expected to be derived from use of the asset and its realization. Loss on impairment is measured as the amount by which the carrying amount of the asset (group of assets) exceeds its fair value.

Impairment of costs of internal development of computer software. Examining the existence of impairment for the own development of computer software shall be made where the signs noted in the generally accepted accounting principles for banks in the United States exist, SOP 98-1: "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use (ASC 350-40):

(1) It is not expected that the software will provide significant potential services;

(2) A material change occurred in the manner or scope of use of the software or in the anticipated use of the software;

(3) A material change in the software was made or will be made in the future;

(4) The costs of development or of modifying the software intended for internal use deviate materially from forecasted amounts;

(5) It is no longer expected that the development of the software will be completed and use made thereof.

If one or more of the above signs appear, the Bank examines impairment according to the rules of ASC 360.

14. Non-current assets and disposal groups held for sale. The Bank classifies a non-current asset (or a disposal group) as held for sale if its carrying amount is settled primarily through a sale and not by way of continued use, in a period in which all the following terms are fulfilled: (1) Management is committed to the planning of a sale of the asset (or the disposal group); (2) the asset (or the disposal group) is available for immediate sale in its present condition; (3) an active plan has been initiated to locate a buyer and other actions have been taken to complete the planning to sell the asset; (4) the sale of the asset (or the disposal group) is probable and the transfer of the asset (or the disposal group) is expected to be classified as a sale completed within one year; (5) the asset (or the disposal group) is being actively marketed for sale at a price reasonable in relation to its present fair value; (6) actions required to complete the plan indicate that it is unlikely that the plan will be significantly changed or withdrawn.

The Bank measures the held for sale assets (or the disposal group) at the lower of the carrying amount or the fair value less costs to sell. Depreciable assets that are classified as held for sale are not subject to periodic depreciation.

An impairment loss recognized at the time of the initial classification of an asset (or a disposal group) as held for sale, as well as subsequent remeasurement profits or losses are carried to profit or loss. Profits from an increase in value are recognized up to the cumulative amounts of the impairment losses that were recognized from the time of the asset (or the disposal group) being classified as held for sale.

15. Employee rights

15.1 Post retirement benefits – pension, severance pay and other benefits – defined benefits plans

- The Bank recognizes amounts relating to pension and severance plans and other post retirement plans on the basis of computations that include actuarial and other assumptions, including: discount rates, mortality rates, early retirement rates, forecasted long-term return rates on assets of the plan, compensation increases and employee turnover;
- The Bank reviews its assumptions on a periodic basis and updates these assumptions where required. As a general rule, the actuarial estimates are made once a year, unless material changes occur in the actuarial assumptions in the interim period, which materially impact the actuarial liabilities. The Bank has decided to perform a quarterly actuarial assessment of the severance pay liability;
- Changes in assumptions are in general recognized, subject to the instructions stated above, firstly in accumulated other comprehensive income, and are amortized to the statement of profit and loss in following periods;
- The liability is accumulated over the relevant period determined according to the rules detailed in section 715 of the codification;
- The Bank implements the guidelines issued by the Supervisor of Banks for internal control over the financial reporting process in the matter of employee rights, including for examining the "liability in substance" of the Bank to grant its employees benefits comprising increased severance pay and/or early pension.

15.2 Post retirement benefits – defined deposits plans

A defined deposit plan is a plan that provides post-retirement benefits in consideration for services provided, maintains a personal account for each participant in the plan, defines how deposits to the account of the employee should be determined instead of determining the amount of the benefits that the employee would receive. The Bank's commitment to deposit in the defined deposit plan, are recognized as an expense in the statement of profit and loss in the periods during which the employees have provided the relevant services.

1. Significant Accounting Policies (continued)

15.3 Absence from work entitling compensation – vacation and sick leave

- The liability for vacation pay is measured on a current basis, without the use of discount rates and actuarial assumptions;
- The Bank does not accrue a liability for sick-leave that may materialize during the employee's current service.

15.4 According to instructions of the Supervisor of Banks, the discount rates are determined according to the rates of return to maturity, according to the maturity periods of Israeli government bonds at date of reporting, with the addition of an average margin of corporate bonds rated "AA" (international) and above at date of reporting. For practical reasons, the spread has been determined according to the difference between the rates of return to maturity, according to maturity periods, on U.S. corporate bonds rated "AA" and higher, and the rates of return to maturity, for the same maturity periods, on U.S. government Bonds, and everything at date of reporting.

15.5 The accounting treatment of actuarial profits/losses recognized in other comprehensive income:

- The actuarial loss as of January 1, 2013, deriving from the difference between the discount rate used to compute the CPI-linked provisions for employee rights, determined according to the provisional instruction of the Reporting to the Public Directives (4%), and the discount rates as of that date for CPI-linked liabilities to employees, as determined according to the rules, as stated above (hereinafter: "the loss"), was included in accumulated other comprehensive income;
- Actuarial profits recognized as from January 1, 2013, and thereafter, derived from current changes in the discount rates during the reported year, are recognized in accumulated other comprehensive income, and reduce the above stated recorded balance of loss until its nullification;
- Actuarial losses derived from current changes in the discount rates during the reported year, and actuarial profits derived from current changes in the discount rates during the reported year, recognized after nullification of the recorded balance of loss, as above, are amortized by the "straight line" method over the remaining average period of service of the employees expected to enjoy benefits under the plan;
- Other actuarial profits and losses (which are not the result of changes in the rate of discount) as at January 1, 2013, and for periods thereafter, are included in accumulated other comprehensive income and amortized by the "straight line" method over the remaining average period of service of the employees expected to enjoy benefits under the plan, except in certain exceptional cases.

15.6 The computation on an actuarial basis of the provisions for the Bank's liability for severance pay involves the use of statistical tools and evaluations on the future, and is based on past experience and on the limitations determined in this respect by the Bank's Management (see hereunder).

The limitations determined by the Management, which were implemented in the financial statements as of December 31, 2022, are as follows:

- the minimum age for retirement under preferential terms is 45 (for permanent employees);
- retirements according to the retirements vector based on research conducted by the actuary in 2020.

16. Share based payment

The fair value at date of granting the share based payments to officers is charged as a payroll expense concurrently with the increase in the share capital over the period in which unconditional entitlement to the awards is obtained. The amount charged as an expense for share based payments conditional upon vesting terms being service terms or performance terms (that differ from market terms), is adjusted to reflect the number of awards expected to be vested.

17. Contingent liabilities. The accounting treatment of outstanding legal actions is according to the provisions of the U.S. Accounting Standard ASC 450 "Accounting for Contingencies" and its related guidelines, and according to the guidelines and clarifications of the Supervisor of Banks, including public reporting directives in the matter of the "Accounting for Contingencies".

In assessing the outstanding legal actions, Managements of the Bank and of its subsidiaries base themselves on opinions of their legal Counsels, which determine the probability of the exposure to the risk involved in these claims materializing.

Claims have been classified according to the probability range for a risk exposure materializing, as follows:

1) Probable - probability of over 70%.
2) Reasonably possible - probability of over 20% and up to and including 70%.
3) Remote - probability of 20% or less.

The financial statements include appropriate provisions regarding claims the realization of the exposure for such was considered "probable".

1. Significant Accounting Policies (continued)

According to the guidelines, only in rare cases may a banking corporation state in its financial statements that it is not possible to assess the prospects of a risk exposure materializing for an ordinary legal action and an action approved as a class action, this in four financial statements (including one annual financial statements) to be published subsequently to the filing of a lawsuit together with a petition to have it approved as a class action suit, such period is not to include a period in which the Court has decided to stay the proceedings. Note 26 states separately the outstanding claims, for which a reasonable assessment of the exposure to risk is not possible.

The Bank has described material legal proceedings being conducted against the Bank and Group companies. In this respect, the Bank has determined that as a general rule, a legal proceeding shall be disclosed where the amount claimed exceeds 0.5% of the equity capital of the Bank if it is not possible to assess the prospects of the risk exposure materializing and exceeds 1% of the equity capital where the reasonability prospects of the risk exposure materializing is possible or remote.

It should further be noted, that in cases where the Bank is one of the defendants in the action, and the claimants have not allocated the amount claimed to each of the defendants, the amount estimated as relevant to the Bank is computed to the best of ability, considering the fact that taking the full amount into account might be misleading and is not correct under the circumstances, and that the estimate made does not necessarily represent the allocation which at the end of the day would be decided by the Court.

The Bank is exposed to unasserted claims or suits due, inter alia, to doubts with regard to interpretation of agreements and/or legal provisions and/or their application. The Bank is made aware of such exposure in several ways, including: appeals or complaints by third parties to Bank entities. In assessing the risk associated with unasserted claims/lawsuits, the Bank relies on internal assessment by the handling entities and by Management, which weigh the estimated probability of a claim being made, the chances of such claim, if made, to prevail and any settlement payments. Such assessment is based on past experience with regard to similar claims filed, and on an analysis of the actual allegations. By nature, in view of the preliminary stage of inquiring of the legal claim, the actual outcome objective difficulties exist, which may result in the impossibility of making an assessment. Even if an assessment made differs from an assessment conducted prior to filing of the claim.

18. **Guarantees.** Guarantees are contingent contracts that require the guarantor to make payments to the guaranteed party on the occurrence of the conditions that require the realization of the guarantee. A liability for guarantee is recognized in the books in the amount of its fair value, as assessed based on commission fees received, even if it is not expected that the payments will be made in the future. In instances where, at the time of the initial recognition, the Bank was required to recognize a provision for a loss contingency for the guarantee, according to the provisions of Topic 450 of the Codification, the liability for the guarantee is measured at the time of the initial recognition at the higher of the fair value and the amount of the provision according to the provisions of Topic 450 of the Codification.

    The liability is subtracted from the books at the time when the Bank is released from the risk, according to the nature of the guarantee, usually at the time of settling the liability. When the guarantee is measured at the time of its initial recognition according to the provisions of Topic 450 of the Codification, its subsequent measurement is also performed according to these provisions.

19. **Income tax expense.** The Bank's financial statements include current taxes and deferred taxes. The provision for taxes on income of the Bank and of its consolidated subsidiaries comprising financial institutions for VAT purposes, include profit tax levied on income under the Value Added Tax Law. VAT levied on payroll of financial institutions is included in the statement of profit and loss in the section "Salaries and related expenses".

    The Bank allocates the tax expense or the tax benefits on income to continuing operations to other comprehensive income and to items directly recognized in equity.

    The Bank recognizes differed tax liabilities for all temporary differences chargeable to tax, except for the following temporary differences: undistributed profits of a domestic subsidiary which in substance are for an indefinite period of time; an excess of the amount for purposes of financial reporting above the tax base of an investment in a foreign subsidiary, which in substance are for an indefinite period of time; differences related to goodwill (or part thereof) for which goodwill amortization is not deductible for tax purposes; differences stemming from intercompany transactions.

    The Bank recognizes deferred tax assets for all temporary differences available for deduction as well as for carry forward losses, and concurrently recognizes a valuation allowance for that amount included in the asset, which more likely than not, would not be realized. The Bank reduces the amount of deferred tax assessed by the amount of tax benefits that are not expected to be realized based on available evidence – both the positive evidence supporting the recognition of a deferred tax assets and the negative evidence supporting the creation of a valuation allowance for the deferred tax asset, to determine whether a net deferred tax asset should be recognized.

1. Significant Accounting Policies (continued)

- Deferred tax liabilities or deferred tax assets are measured by the enacted legal tax rates expected to apply to sufficient taxable income in the periods in which it is expected that the deferred tax liability would be settled or the deferred tax asset would be realized.
- The Bank classifies interest income or expenses for taxes on income to the section "Taxes on income". Penalties payable to the tax authorities are also classified by the Bank to the section "Taxes on income".

Uncertain tax positions. The Bank recognizes the effect of tax positions only if it is more likely than not that these positions would be accepted by the Tax Authorities or by the Courts. Recognized tax positions are measured according to the highest amount the probability of its realization exceeds 50%. Changes in recognition or in measurement are reflected in the period in which changes in circumstances leading to a change in considerations have occurred.

Netting of deferred tax assets and liabilities. The Bank nets all deferred tax liabilities and tax assets, as well as all related valuation allowances for a certain taxable component and within the boundaries of a certain tax jurisdiction area.

Additional taxes for the distribution of dividends. The Bank may be liable for additional taxes in the case of a distribution of dividend by consolidated subsidiaries. This additional tax is not included in the financial statements in cases where the investee company adopts a policy of non-distribution of dividends involving additional taxes. In cases where an investee company is expected to distribute dividends out of profits involving additional taxes, the provision for taxes is increased for the additional tax that might apply for such distribution of dividend.

20. **Earnings per share.** The Bank presents basic earnings per share for its ordinary share capital. The basic earnings per share is computed by dividing the earnings or loss attributed to the holders of the Bank's ordinary shares by the weighted average number of ordinary shares outstanding during the period.

The diluted earnings per share are determined by the adjustment of the profit or loss attributable to the ordinary shareholders of the Bank and the adjustment of the weighted average number of outstanding ordinary shares, after adjustment for the effect of all potentially diluting shares, including share option warrants.

21. Operating segments reporting

Regulatory operating segments. A regulatory operating segment is a component of a banking corporation which is engaged in specific operations or which serves particular classes of customers, as defined by the Supervisor of Banks. The reporting format for the Bank's regulatory operating segments has been determined in the Reporting to the Public Directives of the Supervisor of Banks.

A regulatory operating segment is mainly defined on the basis of the classification of customers. Private customers are classified to the household segment and to the private banking segment based on the scope of their financial assets. Customers other than private individuals are classified to business segments, mainly on the basis of their business turnover (distinguishing between minute and small businesses, medium businesses and large businesses), to institutional bodies segment and to the financial management segment. In addition, the Bank is required to apply the operating segments reporting requirements according to Management's approach, when these are materially different from the regulatory operating segments.

Operating Segments according to Management's approach. Further to the uniform reporting according to regulatory operating segments, the Reporting to the Public Directives require disclosure of operating segments according to Management's approach, and according to accounting principles accepted by U.S. banks in the matter of operating segments (included in ASC 280, see Note 30 below).

An operating segment defined according to Management's approach is a component of a banking corporation that is engaged in operations which are expected to produce income and bear expenses; the results thereof are being regularly reviewed by Management and the Board of Directors for making decisions on the allocation of resources and evaluation of its performance; and that separate financial information exists for such.

The classification of segments at the Bank is based upon the characterization of customer segments. These segments include also banking products. The results of the product segment that cannot be attributed to the relevant customer segments, are included in the section "Non-allocated amounts and adjustments".

22. **Amortization of deferred expenses.** Bond and subordinated debt notes issue costs are amortized proportionally to the outstanding principal amount of the bonds.

23. **Debtors and creditors regarding credit card activity.** At date of the transaction, the credit card company clearing the transaction acquires an asset for the debt of the issuer of the card or the card holder and concurrently assumes a liability towards the trading house. Furthermore, a credit card Company as an issuer, acquires an asset for a debt of a card holder or of the issuing bank, and concurrently, a liability towards the clearing credit card company.

Debtor and creditor balances for credit card transactions represent entries processed until the business day preceding the day of the report.

1. Significant Accounting Policies (continued)

24. **Issuance agreements with customer clubs.** The issuance agreements of ICC with different customer clubs regularize, inter alia, the manner of distribution of income between the parties, as well as aspects relating to expenses, including marketing and advertising budgets provided by the parties and the distribution of costs.

For engagements of ICC with customer clubs, the income of ICC for the cross-commission on transactions made by use of the club charge cards and interest income on transactions made with these cards, are included in the income in the consolidated financial statements (in the section "income from credit card commission" and in the section "net interest income" respectively). Amounts to which the customer clubs are entitled as well as the share of ICC in expenses are included in the section "other expenses". Furthermore, certain of the agreements of ICC with customer clubs include an award component depending on reaching certain milestones, for which, ICC assesses in each period the entitlement to such award, and accordingly recognizes an expense in the financial statements (which is spread over the relevant period).

2. Interest Income and Expenses

	Consolidated			The Bank		
	2022	2021	2020	2022	2021	2020
	in NIS millions					
A. Interest Income[2]						
Credit to the public	10,176	6,871	6,294	6,057	4,048	3,554
Credit to the Governments	86	63	76	86	63	76
Deposits with the Bank of Israel and cash	680	37	37	522	27	26
Deposits with Banks	42	9	17	104	25	33
Securities borrowed or purchased under resale agreements	12	-	-	12	-	-
Bonds[1]	684	492	543	397	291	290
Other assets	20	19	20	-	-	-
Total interest income	**11,700**	**7,491**	**6,987**	**7,178**	**4,454**	**3,979**
B. Interest Expenses[2]						
Deposits from the public	(2,305)	(507)	(731)	(1,946)	(431)	(506)
Deposits from the Government	(2)	(2)	(3)	-	-	-
Deposits from the Bank of Israel	(7)	(6)	(2)	(5)	(4)	(1)
Deposits from banks	(85)	(29)	(50)	(32)	(4)	(3)
Securities lent or sold under agreements to repurchase	(65)	-	(5)	(65)	-	-
Bonds and subordinated debt notes	(543)	(417)	(296)	(43)	(229)	(168)
Other liabilities	-	(1)	(2)	-	(1)	(2)
Total interest expenses	**(3,007)**	**(962)**	**(1,089)**	**(2,091)**	**(669)**	**(680)**
Net interest income	**8,693**	**6,529**	**5,898**	**5,087**	**3,785**	**3,299**
C. Details of the net effect of hedge derivative instruments on interest income and expenses[3]:						
Interest Income	-	(31)	(5)	1	(27)	(25)
Interest expenses	(16)	19	14	-	-	-
D. Accrual basis, interest income from bonds:						
Held-to-maturity	177	116	92	105	90	72
Available-for-sale	464	363	441	250	189	209
Trading	43	13	10	42	12	9
Total included in interest income	684	492	543	397	291	290

Footnotes:

(1) Interest Income generated by mortgage backed securities (MBS) - in US $ millions	39	34	41	-	-	-
Interest Income generated by mortgage backed securities (MBS) - in NIS millions	132	109	140	-	-	-

(2) Including the impact of hedge relations.

(3) Details of the effect of hedge derivative instruments on subsection A+B.

3. Non-Interest Financing Income

	Consolidated			The Bank		
	2022	2021	2020	2022	2021	2020
	in NIS millions					
A. Non-interest financing income (expenses) from operations not for trading purposes						
From operations in derivative instruments , net						
Net income (expenses) for derivative instruments[4]	2,779	(1,111)	(1,239)	2,531	(1,077)	(1,169)
Total from operations in derivative instruments	**2,779**	**(1,111)**	**(1,239)**	**2,531**	**(1,077)**	**(1,169)**
From investments in bonds:						
Gains on sale of available-for-sale bonds[3]	53	221	408	47	171	278
Losses on sale of available-for-sale bonds[3]	(85)	(12)	-	(47)	(12)	-
Provision for impairment of available-for-sale bonds[3]	(45)	(69)	(5)	(35)	(69)	(5)
Total from investments in bonds	**(77)**	**140**	**403**	**(35)**	**90**	**273**
Net exchange rate differences	**(2,780)**	**1,065**	**1,414**	**(2,662)**	**1,012**	**1,350**
Net profit (loss) from investments in shares:						
Gains on sale from non trading shares	98	339	241	11	34	23
Losses on sale from non trading shares	(19)	-	(2)	(19)	-	(2)
Provision for impairment of non trading shares	(15)	(33)	(24)	-	-	-
Dividends from non trading shares	14	11	9	3	4	1
Unrealized profits (losses) [7]	(28)	66	8	(57)	67	7
Profit on sale of shares and activities of associates	15	12	-	-	-	-
Total from investment in shares	**65**	**395**	**232**	**(62)**	**105**	**29**
Net profit on loans sold[8]	5	-	3	2	-	3
Total non-interest financing income (expenses) from operations not for trading purposes	**(8)**	**489**	**813**	**(226)**	**130**	**486**
B. Non-interest financing income from operations for trading purposes[5]:						
Net income on non trading derivative instruments	337	304	238	282	248	179
Net realized and non-realized profit (losses) on adjustment of trading bonds to fair value[1]	69	(31)	92	77	(32)	90
Net realized and non-realized profit (losses) on adjustment of trading shares to fair value[2]	19	3	(1)	20	3	(2)
Total from trading operations[6]	**425**	**276**	**329**	**379**	**219**	**267**
Details of non-interest financing income from operations for trading purposes, according to risk exposure:						
Interest rate exposure	273	222	236	229	165	171
Foreign currency exposure	132	49	95	130	51	100
Share exposure	20	5	(2)	20	3	(4)
Total according to risk exposure	**425**	**276**	**329**	**379**	**219**	**267**
Total non-interest financing income	**417**	**765**	**1,142**	**153**	**349**	**753**

Footnotes:

(1) Of which, a part of the income (loss) relating to trading bonds that are still on hand at balance sheet date	(13)	-	6	(11)	(1)	5
(2) Of which, a part of the income relating to trading shares that are still on hand at balance sheet date	22	3	-	24	3	-
(3) Reclassified from accumulated other comprehensive income (loss), see Note 10: Of which, profit from investments in bonds, net	(77)	140	403	(35)	90	273

(4) Excluding the impact of hedge relations.
(5) Including exchange rate differences from trading operations.
(6) For interest income on investments in trading bonds, see Note 2, above.
(7) Including profits and losses on measurement at fair value of shares with readily determinable fair value, as well as upward or downward adjustments of shares without readily determinable fair value.
(8) For details , see Note 31.

4. Fees and commissions

A. Composition

	Consolidated			The Bank		
	2022	2021	2020	2022	2021	2020
	in NIS millions					
Account Management fees	472	440	438	281	262	259
Credit cards	1,709	1,502	1,310	185	172	137
Operations in securities and in certain derivative instruments	361	407	353	238	251	235
Fees and commissions from the distribution of financial products	158	158	142	140	141	126
Handling credit	226	188	178	175	143	136
Conversion differences	161	137	122	123	105	95
Foreign trade services	60	56	50	49	45	40
Net income from credit portfolio services	4	4	4	4	3	4
Fees and commissions on financing activities	177	159	156	133	116	107
Other fees and commissions	76	74	73	26	25	27
Total fees and commissions	**3,404**	**3,125**	**2,826**	**1,354**	**1,263**	**1,166**

B. Income from contracts with customers

Following is the distribution of income from fees and commissions according to regulatory segments of operation

	Consolidated											
	Domestic operations								Total International operations			
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses	Institutional bodies	Financial manage-ment	Total Domestic operations	Private Individuals	Business operations	Total International operations	Total
	In NIS millions											
	2022											
Account Management fees	209	3	175	20	26	–	–	433	10	29	39	472
Credit cards	1,373	–	155	36	142	–	–	1,706	3	–	3	1,709
Operations in securities and in certain derivative instruments	117	42	61	15	53	10	42	340	21	–	21	361
Fees and commissions from the distribution of financial products	111	24	20	2	1	–	–	158	–	–	–	158
Handling credit	11	–	31	21	96	–	38	197	–	29	29	226
Conversion differences	45	10	90	11	5	–	–	161	–	–	–	161
Foreign trade services	1	–	30	13	13	1	2	60	–	–	–	60
Net income from credit portfolio services	3	–	–	–	–	1	–	4	–	–	–	4
Fees and commissions on financing activities	5	–	33	25	101	–	–	164	–	13	13	177
Other fees and commissions	10	–	5	2	14	–	1	32	–	44	44	76
Total fees	**1,885**	**79**	**600**	**145**	**451**	**12**	**83**	**3,255**	**34**	**115**	**149**	**3,404**

4. Fees and commissions (continued)

B. Income from contracts with customers

Following is the distribution of income from fees and commissions according to regulatory segments of operation (continued)

	Consolidated											
	Domestic operations								Total International operations			
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses	Institutional bodies	Financial management	Total Domestic operations	Private Individuals	Business operations	Total International operations	Total
	In NIS millions											
	2021											
Account Management fees	198	2	161	20	24	-	-	405	10	25	35	440
Credit cards	1,197	1	149	29	125	-	-	1,501	1	-	1	1,502
Operations in securities and in certain derivative instruments	128	48	69	14	44	10	56	369	37	1	38	407
Fees and commissions from the distribution of financial products	111	25	19	2	1	-	-	158	-	-	-	158
Handling credit	9	1	23	14	92	-	23	162	3	23	26	188
Conversion differences	38	7	81	8	3	-	-	137	-	-	-	137
Foreign trade services	-	-	28	12	10	-	6	56	-	-	-	56
Net income from credit portfolio services	4	-	-	-	-	-	-	4	-	-	-	4
Fees and commissions on financing activities	4	-	33	24	84	-	1	146	-	13	13	159
Other fees and commissions	11	-	6	2	11	-	3	33	-	41	41	74
Total fees	**1,700**	**84**	**569**	**125**	**394**	**10**	**89**	**2,971**	**51**	**103**	**154**	**3,125**

4. Fees and commissions (continued)

B. Income from contracts with customers (continued)

Following is the distribution of income from fees and commissions according to regulatory segments of operation (continued)

	Consolidated											
	2020											
	Domestic operations								Total International operations			
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses	Institutional bodies	Financial management	Total Domestic operations	Private Individuals	Business operations	Total International operations	Total
	In NIS millions											
Account Management fees	194	2	167	20	24	–	–	407	10	21	31	438
Credit cards	1,020	–	145	30	114	–	–	1,309	1	–	1	1,310
Operations in securities and in certain derivative instruments	123	43	63	11	39	9	35	323	30	–	30	353
Fees and commissions from the distribution of financial products	101	23	16	1	1	–	–	142	–	–	–	142
Handling credit	8	3	21	19	79	–	23	153	2	23	25	178
Conversion differences	33	8	70	8	3	–	–	122	–	–	–	122
Foreign trade services	–	–	21	12	9	–	8	50	–	–	–	50
Net income from credit portfolio services	4	–	–	–	–	–	–	4	–	–	–	4
Fees and commissions on financing activities	5	–	31	22	77	–	8	143	–	13	13	156
Other fees and commissions	12	–	5	2	12	–	3	34	–	39	39	73
Total fees	**1,500**	**79**	**539**	**125**	**358**	**9**	**77**	**2,687**	**43**	**96**	**139**	**2,826**

5. Other Income

	Consolidated			The Bank		
	2022	2021	2020	2022	2021	2020
	In NIS millions					
Management fees from consolidated subsidiaries	-	-	-	3	4	4
Capital gain on sale of buildings and equipment*	421	52	29	415	52	25
Other income	9	20	10	82	82	75
Total other income	**430**	**72**	**39**	**500**	**138**	**104**
*Of which: on a sale and leaseback transactions involving buildings and equipment	408	48	4	408	48	4

6. Salaries and Related Expenses

	Consolidated			The Bank		
	2022	2021	2020	2022	2021	2020
	in NIS millions					
Salaries	2,527	2,424	2,222	1,376	1,379	1,253
Expense resulting from share based payment transactions	6	-	-	3	-	-
Other related expenses including further education fund, vacation and sick leave	121	138	157	47	62	63
Long-term benefits	-	15	16	-	15	16
National Insurance and payroll taxes	523	537	483	363	387	347
Pension expenses (including severance pay and provident fund contributions)[(1)]:						
Defined Benefits Cost of service	117	105	90	75	63	47
Defined deposits	210	191	201	136	129	142
Other post retirement benefits and non-pension post retirement benefits Cost of service [(1)]	8	6	6	6	5	4
Special benefits for dismissal	5	4	32	-	-	-
Expenses regarding other employee benefits	51	48	35	4	3	4
Total salaries and related expenses	**3,568**	**3,468**	**3,242**	**2,010**	**2,043**	**1,876**
Of which: overseas salaries and related expenses	452	391	385	-	-	-
Of which an expense resulting from transactions treated as share based payment transactions settled by capital instruments.	6	-	-	3	-	-

Footnote:
(1) See Note 23.

7. Other Expenses

	Consolidated			The Bank		
	2022	2021	2020	2022	2021	2020
	In NIS millions					
Expenses for pension (including contributions for severance pay and provident funds), defined benefit (excluding cost of service)	55	62	82	46	45	60
Other post employment benefits and post retirement benefits that do not comprise pension (excluding cost of service)	11	13	13	9	10	11
Long-term benefits (excluding cost of service)	2	15	(2)	2	15	(2)
Reductions, settlements - defined benefit	46	143	413	46	143	375
Marketing and advertising	334	232	211	123	70	50
Communications	117	108	127	50	44	56
Computer services	299	253	198	133	130	104
Office expenses	27	27	27	13	14	14
Insurance	56	53	27	22	22	10
Professional services	233	235	214	110	131	116
Directors' fees	23	17	14	9	6	5
Instruction and training	16	10	7	6	7	4
Fees	656	552	480	38	32	32
Other	542	483	443	127	187	161
Total other expenses	**2,417**	**2,203**	**2,254**	**734**	**856**	**996**

8. Provisions for Taxes on Profit

A. Composition

	Consolidated			The Bank		
	2022	2021	2020	2022	2021	2020
	in NIS millions					
Taxes for current year	2,041	1,103	849	1,241	570	462
Taxes for previous years	(47)	(17)	(34)	(82)	(28)	(37)
Total current taxes	**1,994**	**1,086**	**815**	**1,159**	**542**	**425**
Addition (deduction):						
Deferred taxes for current year	(238)	388	(311)	(123)	267	(233)
Deferred taxes for previous years	50	42	45	66	41	62
Total deferred taxes[1]	**(188)**	**430**	**(266)**	**(57)**	**308**	**(171)**
Total provision for taxes on profit	**1,806**	**1,516**	**549**	**1,102**	**850**	**254**
Of which: tax provision abroad	174	138	78	-	-	-

Footnote:

(1) Composition of deferred tax expense (income):

	Consolidated			The Bank		
	2022	2021	2020	2022	2021	2020
	in NIS millions					
Deferred tax income, before the effect of the following items:	(188)	430	(266)	(57)	308	(171)
Total deferred taxes	**(188)**	**430**	**(266)**	**(57)**	**308**	**(171)**
The above table does not include the tax effect of certain items that are recognized directly in capital in each period:						
The tax effect of all items recognized directly in capital	(40)	-	-	(38)	-	-
The total tax expense (income) for items recognized in other comprehensive income	(659)	(147)	(134)	(281)	(84)	(175)

8. Provisions for Taxes on Profit (continued)

B. Reconciliation between the theoretical tax which would apply had the profit been taxed at the statutory tax rate applying to the Banking corporations in Israel, to the provision of taxes on profit as charged in the statement of profit and loss:

	Consolidated			The Bank		
	2022	2021	2020	2022	2021	2020
	in NIS millions					
Profit before taxes	5,320	4,326	1,506	3,394	2,465	675
Statutory tax rate on banks in Israel	34.19%	34.19%	34.19%	34.19%	34.19%	34.19%
Income tax at the statutory tax rate	**1,819**	**1,479**	**515**	**1,160**	**843**	**231**
Income tax (tax savings) on:						
Income of foreign subsidiaries	(14)	1	22	-	-	-
Income exempt from tax or taxed at preferred rates	(4)	(8)	(7)	(1)	(1)	(1)
Adjustment differences on depreciation and capital gains	(23)	(9)	(7)	(22)	(9)	(6)
Other non-deductible expenses	18	3	7	10	3	4
Losses and timing differences (utilization), net, for which no deferred tax assets were recorded	15	8	-	-	-	-
Additional amounts payable with respect to problematic debts	13	21	14	9	16	11
Taxes for prior years	6	8	(2)	(14)	(2)	14
Income of Israeli subsidiaries	(9)	16	7	(30)	-	-
Change in the balance of the provision for deferred tax asset	1	1	1	1	1	1
Net interest income for income tax	(16)	(4)	(1)	(11)	(1)	-
Total provision for taxes on profit	**1,806**	**1,516**	**549**	**1,102**	**850**	**254**

C. (1) Agreed final income tax assessments have been received by the Bank for the tax years up to and including 2018.

(2) Final withholding tax assessments up to and including the year 2018 were issued to the Bank in 2021.

(3) The major consolidated subsidiaries in Israel have received final tax assessments, or assessments deemed final for the years 2017-2018. Final income tax assessments have been received by IDB Bank for the years up to and including 2016.

D. On December 14, 2016, the Director of Value Added Tax ("the Director") issued to ICC assessments for periods from January 2012 to August 2016. The amount charged in these assessments, including interest and linkage, totaled NIS 48 million. ICC disputed the position of the Director, and is of the opinion that it has good arguments in support of its position. Accordingly, ICC filed on March 9, 2017, an appeal. On March 8, 2018, ICC received the decision of the VAT Director rejecting the appeal submitted, as stated, as well as increasing the charge of the tax assessment to NIS 75 million (including interest and linkage increments). Should the position of ICC would not be admitted by the Court, it might be liable for the issues contained in the assessment, also for periods following the date of the assessment. On January 31, 2019, ICC filed an appeal against the said decision with the Central Region District Court. On November 3, 2019, the Supreme Court approved an agreed plea for the consolidation of the hearing of the appeal with the hearing of the appeals filed by competitors of ICC. A pretrial hearing was held on May 24, 2021. Hearing of evidence was conducted during the months of June and July 2022. During the reported period, the parties conducted negotiations towards a compromise regarding the said assessments. As of date of publication of this report, the parties have not reached agreement, and accordingly, ICC has to submit until March 15, 2023, a summing-up brief in this case.

On February 12, 2023, ICC received VAT assessments for the years 2018-2022, in a total amount of NIS 192 million, including interest and linkage increments. The issues raised in these assessments are basically similar to those raised in the assessments issued in respect of earlier charging periods.

ICC estimates the amount of exposure, for which no provision has been recorded in its financial statements, at approx. NIS 191 million. During the reported period, the parties conducted negotiations regarding a possible compromise with respect to the said assessments. As of date of approval of the financial statements, no agreement has been reached, and accordingly, ICC is preparing to submit a summing-up brief in the case.

8. Provisions for Taxes on Profit (continued)

On February 12, 2023, ICC received VAT assessments for the years 2018-2022 in a total amount of NIS 192 million, including interest and linkage differences. The issues in the aforesaid assessments are the same in principle as those in the assessments issued for the previous taxable periods.

E. On February 9, 2000, the Bank's shares in IDB Bank were transferred to Discount Bancorp. Inc. (hereinafter - "Bancorp"), a wholly-owned holding subsidiary of the Bank, registered in the State of Delaware, U.S. The transfer of the shares to Bancorp was made at their value in the Bank's books, in consideration for shares issued by Bancorp. The transfer of the shares was made according to the provisions of Section 104A of the Israeli Income Tax Ordinance. The Bank is obligated to pay taxes in Israel for the said transfer of shares, if and when such shares will be sold. The Bank has provided the Tax Authority with a guarantee as to the payment of such taxes.

F. **Deferred tax liabilities not recognized.** As of December 31, 2022, deferred tax liabilities in the amount of approx. NIS 407 million, for temporary differences in the amount of approx. NIS 1,864 million, relating to investments in subsidiaries, were not included, since the Bank does not intend to realize these investments in the foreseeable future.

8. Provisions for Taxes on Profit (continued)

G. Movement in deferred taxes

1. Consolidated

	Opening balance	Changes recognized in the statement of income	Effect of change in the tax rate recognized in the statement of income	Changes recognized in capital	Changes recognized in other comprehensive income	Closing balance	The average tax
	in NIS millions						in %
	For the year of 2022						
Deferred tax asset							
On provision for credit losses	1,008	140	(2)	230	13	1,389	33.7
On provision for vacation pay, jubilee awards and provision of retirees	517	(75)	-	-	(33)	409	33.7
From excess liabilities for employee benefits over the assets of the plan	610	26	-	-	(150)	486	34.0
On securities	2	(1)	-	-	226	227	29.0
On income tax carry- forward deductions	17	12	-	-	-	29	23.0
Other	59	80	-	-	11	150	27.2
Gross balance of deferred tax assets	**2,213**	**182**	**(2)**	**230**	**67**	**2,690**	**32.7**
Provision for deferred tax asset	(14)	(15)	-	-	-	(29)	23.0
Balance of deferred tax assets deduction deferred tax liabilities	**2,199**	**167**	**(2)**	**230**	**67**	**2,661**	**32.8**
Deferred tax liability							
On securities	40	(14)	-	-	-	26	27.2
Fixed assets and leasing	147	(16)	(5)	-	6	132	28.3
For investment in investee companies	231	6	-	-	3	240	14.8
Other	16	7	2	-	1	26	28.8
Gross balance of deferred tax liabilities	**434**	**(17)**	**(3)**	**-**	**10**	**424**	**18.7**
Net balance of deferred tax assets	**1,765**	**184**	**1**	**230**	**57**	**2,237**	**29.7**
Of which: for foreign operations	73					299	29.0
	For the year of 2021						
Deferred tax asset							
On provision for credit losses	1,298	(287)	-	-	(3)	1,008	33.5
On provision for vacation pay, jubilee awards and provision of retirees	519	(28)	-	-	26	517	33.7
From excess liabilities for employee benefits over the assets of the plan	618	4	-	-	(12)	610	33.9
On securities	2	(1)	-	-	1	2	31.6
On income tax carry- forward deductions	8	9	-	-	-	17	23.0
Other	80	(21)	-	-	-	59	30.3
Gross balance of deferred tax assets	**2,525**	**(324)**	**-**	**-**	**12**	**2,213**	**33.5**
Provision for deferred tax asset	(6)	(8)	-	-	-	(14)	23
Balance of deferred tax assets deduction deferred tax liabilities	**2,519**	**(332)**	**-**	**-**	**12**	**2,199**	**33.6**
Deferred tax liability							
On securities	76	21	-	-	(57)	40	34.2
Fixed assets and leasing	119	29	-	-	(1)	147	28.2
For investment in investee companies	166	66	-	-	(1)	231	14.7
Other	27	(10)	-	-	(1)	16	28.5
Gross balance of deferred tax liabilities	**388**	**106**	**-**	**-**	**(60)**	**434**	**19.2**
Net balance of deferred tax assets	**2,131**	**(438)**	**-**	**-**	**72**	**1,765**	**29.9**
Of which: for foreign operations	53					73	29.0

8. Provisions for Taxes on Profit (continued)

G. Movement in deferred taxes (continued)

2. The Bank

	Opening balance	Changes recognized in the statement of income	Changes recognized in capital	Changes recognized in other comprehensive income	Closing balance	The average tax
			in NIS millions			in %
			For the year of 2022			
Deferred tax asset						
On provision for credit losses	596	74	50	-	720	34.2
On provision for vacation pay, jubilee awards and provision of retirees	428	(65)	-	(26)	337	34.2
From excess liabilities for employee benefits over the assets of the plan	422	22	-	(106)	338	34.2
On income tax carry- forward deductions	4	-	-	-	4	23.0
Other	14	3	-	-	17	34.2
Gross balance of deferred tax assets	**1,464**	**34**	**50**	**(132)**	**1,416**	**34.2**
Provision for deferred tax asset	(4)	-	-	-	(4)	23.0
Balance of deferred tax assets deduction deferred tax liabilities	**1,460**	**34**	**50**	**(132)**	**1,412**	**34.2**
Deferred tax liability						
On securities	39	(19)	-	-	20	34.2
Fixed assets and leasing	73	(4)	-	-	69	27.8
For investment in investee companies	221	3	-	2	226	14.5
Gross balance of deferred tax liabilities	**333**	**(20)**	**-**	**2**	**315**	**16.9**
Net balance of deferred tax assets	**1,127**	**54**	**50**	**(134)**	**1,097**	**28.8**
			For the year of 2021			
Deferred tax asset						
On provision for credit losses	814	(218)	-	-	596	34.2
On provision for vacation pay, jubilee awards and provision of retirees	461	(58)	-	25	428	34.2
From excess liabilities for employee benefits over the assets of the plan	434	(7)	-	(5)	422	34.2
On income tax carry- forward deductions	4	-	-	-	4	23.0
Other	19	(5)	-	-	14	34.2
Gross balance of deferred tax assets	**1,732**	**(288)**	**-**	**20**	**1,464**	**34.2**
Provision for deferred tax asset	(4)	-	-	-	(4)	23.0
Balance of deferred tax assets deduction deferred tax liabilities	**1,728**	**(288)**	**-**	**20**	**1,460**	**34.2**
Deferred tax liability						
On securities	18	21	-	-	39	34.2
Fixed assets and leasing	74	(1)	-	-	73	27.5
For investment in investee companies	164	58	-	(1)	221	14.5
Gross balance of deferred tax liabilities	**256**	**78**	**-**	**(1)**	**333**	**17.5**
Net balance of deferred tax assets	**1,472**	**(366)**	**-**	**21**	**1,127**	**29.0**

8. Provisions for Taxes on Profit (continued)

H. Brought forward losses and credits for tax purposes

	Deferred tax assets	Provision for deferred tax asset	Net deferred tax assets	Balance of loss(1)
	in NIS millions			
	For the year ended December 31, 2022			
Losses for tax purposes:				
The bank	4	4	-	18
Subsidiaries in Israel	25	25	-	110
	For the year ended December 31, 2021			
Losses for tax purposes:				
The bank	4	4	-	18
Subsidiaries in Israel	10	10	-	43

Footnote:
(1) The first year of expiry cannot be estimated

I. **Taxation of the foreign banking subsidiary.** According to an agreement reached with the Tax Authority, the earnings of the foreign banking subsidiary are added to the Bank's chargeable income, so that the Bank complements the tax recorded abroad on the pre-tax accounting profits of the foreign subsidiary to the amount of tax that would have been paid in Israel on such profit based on the tax rate applicable to the Bank in Israel.

J. For details regarding a tax ruling for the establishment of PayBox Company, see Note 38 below.

9. Earnings Per Share

	For the year ended December 31		
	2022	2021	2020
	in NIS millions		
Earnings per share			
Total net income attributed to bank's shareholders	3,495	2,773	975
	In Thousand		
Earnings per share:			
Weighted average of shares of NIS 0.1 par value:			
Balance to January 1	1,164,017	1,164,017	1,164,017
Shares issued during the year(1)	55,396	-	-
Weighted average of shares of NIS 0.1 par value, used for earnings per share	**1,219,413**	**1,164,017**	**1,164,017**
Earnings per share of NIS 0.1 (in NIS)	**2.87**	**2.38**	**0.84**

Footnote:
(1) See Note 24.

According to the rules, stock options issued to Officers and senior employees (see Note 24 below) have not been taken into account in the reported period in computing the diluted per share earnings.
In the reported period, the Bank did not have securities having a dilutive effect.

10. Accumulated Other Comprehensive Income (Loss)

A. Changes in other comprehensive income (loss) after tax effect

	Other comprehensive income (loss), before attribution to non-controlling interests					Other comprehensive income (loss) attributed to non-controlling interests	Other comprehensive loss attributed to the Bank's shareholders
	Net adjustments, for presentation of available-for-sale bonds at fair value	Adjustments from translation of financial statements[(1)]	Net profit (loss) on cash flows hedge	Adjustments for employee benefits	Total		
	in NIS millions						
Balance at December 31, 2019	374	(344)	2	(524)	(492)	(11)	(481)
Net change during the year	112	(254)	(1)	[(2)](275)	(418)	(2)	(416)
Balance at December 31, 2020	**486**	**(598)**	**1**	**(799)**	**(910)**	**(13)**	**(897)**
Net change during the year	(243)	(113)	(2)	(16)	(374)	3	(377)
Balance at December 31, 2021	**243**	**(711)**	**(1)**	**(815)**	**(1,284)**	**(10)**	**(1,274)**
Net change during the year	[(3)](1,562)	484	(19)	363	(734)	4	(738)
Balance at December 31, 2022	**(1,319)**	**(227)**	**(20)**	**(452)**	**(2,018)**	**(6)**	**(2,012)**

Footnotes:

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

(2) Including an amount of NIS 365 million for the 2020 retirement plan, see Note 23.

(3) See Note 12 M.

10. Accumulated Other Comprehensive Income (Loss) (continued)

B. Changes in other comprehensive income (loss) component before tax effect and after tax effect

	2022			2021			2020		
	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes
	in NIS millions								
Changes in components of other comprehensive loss, before attribution to non-controlling interests:									
Adjustments for presentation of available-for- sale bonds at fair value									
Net unrealized income (loss) from adjustments to fair value	(2,448)	797	(1,651)	(212)	62	(150)	560	(169)	391
loss (Income) on available-for-sale bonds reclassified to the statement of income(2)	131	(42)	89	(140)	47	(93)	(403)	124	(279)
Net change during the year(5)	**(2,317)**	**755**	**(1,562)**	**(352)**	**109**	**(243)**	**157**	**(45)**	**112**
Translation adjustments									
Adjustments from translation of financial statement (1)	484	-	484	(113)	-	(113)	(254)	-	(254)
Net change during the year	**484**	**-**	**484**	**(113)**	**-**	**(113)**	**(254)**	**-**	**(254)**
Cash flow hedging									
Net income (loss) on cash flow hedging	(31)	9	(22)	(2)	1	(1)	2	(1)	1
Net loss (income) on cash flow hedging reclassified to the statement of income	4	(1)	3	(1)	-	(1)	(3)	1	(2)
Net change during the year	**(27)**	**8**	**(19)**	**(3)**	**1**	**(2)**	**(1)**	**-**	**(1)**
Employee benefits									
Net actuarial (loss) income	437	(147)	290	(241)	84	(157)	(892)	304	(4)(588)
loss reclassified to the statement of income(3)	111	(38)	73	213	(72)	141	475	(162)	313
Net change during the year	**548**	**(185)**	**363**	**(28)**	**12**	**(16)**	**(417)**	**142**	**(275)**
Total net change during the year	**(1,312)**	**578**	**(734)**	**(496)**	**122**	**(374)**	**(515)**	**97**	**(418)**
Changes in components of other comprehensive income (loss) attributed to non-controlling interests:									
Total net change during the year	**5**	**(1)**	**4**	**4**	**(1)**	**3**	**(2)**	**-**	**(2)**
Changes in components of other comprehensive loss attributed to the Bank's shareholders:									
Total net change during the year	**(1,317)**	**579**	**(738)**	**(500)**	**123**	**(377)**	**(513)**	**97**	**(416)**

Footnotes:

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

(2) The pre-tax amount is reported in the of statement of profit and loss in the item "non-interest financing income". For further details see the note on non-interest financing income.

(3) The pre-tax amount has been classified to other expenses.

(4) Including an amount of NIS 365 million for the 2020 retirement plan, see Note 23.

(5) See Note 12 M.

11. Cash and Deposits with Banks

	Consolidated		The Bank	
	December 31		December 31	
	2022	2021	2022	2021
	in NIS millions			
Cash and deposits with central banks	61,591	55,926	45,632	39,939
Deposits with commercial banks	4,122	3,712	8,043	5,665
Total cash and deposits with banks(1)	**65,713**	**59,638**	**53,675**	**45,604**
Includes cash, deposits with banks and deposits with central banks for an initial period of up to three months	65,252	59,277	50,039	44,242

Footnote:

(1) See Note 27 C, D, E, G, H, J, K for pledges.

12. Securities

A. Composition of this item - consolidated[1]

	December 31 ,2022				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(1) Held-to-maturity bonds[7]					
Bonds and loans:					
Of the Israeli Government[10]	11,497	11,497	1	843	10,655
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	3,257	3,257	1	408	2,850
Of others abroad[6]	93	93	-	4	89
Total held-to-maturity bonds	**14,847**	**[9]14,847**	**2**	**1,255**	**13,594**

	December 31 ,2022				
			Accumulated other comprehensive income		
	Book value	Amortized cost	Profits	Losses	Fair value[2]
	In NIS millions				
(2) Available- for- sale bonds[8]					
Bonds and loans:					
Of the Israeli Government[10]	12,625	13,251	57	683	12,625
Of foreign governments	5,375	5,507	3	135	5,375
Of Israeli financial institutions	89	94	-	5	89
Of foreign financial institutions	549	556	5	12	549
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	5,155	5,811	1	657	5,155
Of others in Israel	384	414	1	31	384
Of others abroad[6]	1,681	1,711	13	43	1,681
Total Available- for- sale bonds	**[9]25,858**	**27,344**	**[3]80**	**[3]1,566**	**25,858**

	December 31 ,2022				
	Book value	Cost	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2][4]
	In NIS millions				
(3) Investment in not for trading shares	1,767	1,692	[5]85	[5]10	1,767
Of which: shares, the fair value of which is not readily available	1,637	1,603	34	-	1,637
Total not for trading securities	**42,472**	**43,883**			**41,219**

For footnotes see next page.

12. Securities (continued)

A. Composition of this item - consolidated[1] (continued)

	December 31 ,2022				
	Book value	Amortized cost (in shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(4) Trading Securities					
Bonds and loans:					
Of the Israeli Government	2,206	2,218	-	12	2,206
Of foreign governments	76	76	-	-	76
Of others in Israel	14	15	-	1	14
Total bonds	**[9]2,296**	**2,309**	**-**	**13**	**2,296**
Shares	26	4	24	2	26
Total trading securities	**2,322**	**2,313**	**[5]24**	**[5]15**	**2,322**
Total securities	**44,794**	**46,196**			**43,541**

Footnotes:

(1) See Note 27 for pledges.

(2) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

(3) Included in "Accumulated other comprehensive income".

(4) Shares included in this column, for which no fair value is available, are stated at cost net of impairment, with the addition or deduction of changes in observable prices of ordinary transactions in similar or identical investments of the same issuer

(5) Recorded in the statement of profit and loss.

(6) Municipal bonds and bonds of states in the U.S.

(7) No data is included for the balance of allowance for credit loss, because the allowance at December 31, 2022 is in a negligible amount.

(8) No data is included for the balance of allowance for credit loss, because, as stated, no such allowance was required as of December 31, 2022.

(9) Including securities sold by the Bank under repurchase terms from held-to-maturity portfolio at an amortized cost of NIS 808 million, from the available for sale portfolio with a market value of NIS 2,282 million and from trading portfolio with a market value of NIS 976 million.

(10) See Note L

	December 31, 2021				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(1) Held-to-maturity bonds					
Bonds and loans:					
Of the Israeli Government	8,520	8,520	209	25	8,704
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	1,587	1,587	3	11	1,579
Of others abroad[6]	90	90	4	-	94
Total held-to-maturity bonds	**10,197**	**10,197**	**216**	**36**	**10,377**

12. Securities (continued)

A. Composition of this item - consolidated[(1)] (continued)

	December 31, 2021				
			Accumulated other comprehensive income		
	Book value	Amortized cost	Profits	Losses	Fair value[(2)]
	In NIS millions				
(2) Available- for- sale securities					
Bonds and loans:					
Of the Israeli Government	17,747	17,501	307	61	17,747
Of foreign governments	3,532	3,531	11	10	3,532
Of Israeli financial institutions	122	118	4	-	122
Of foreign financial institutions	517	510	8	1	517
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	6,582	6,632	41	91	6,582
Of others in Israel	533	500	33	-	533
Of others abroad[(6)]	1,994	1,941	56	3	1,994
Total Available- for- sale bonds	**31,027**	**30,733**	**[(3)]460**	**[(3)]166**	**31,027**

	December 31, 2021				
	Book value	Cost	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[(2)(4)]
	In NIS millions				
(3) Investment in not for trading shares	1,613	1,513	[(5)]109	[(5)]9	1,613
Shares	1,330	1,330	-	-	1,330
Total shares	**42,837**	**42,443**			**43,017**

	December 31, 2021				
	Book value	Amortized cost (in shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[(2)]
	In NIS millions				
(4) Trading Securities					
Bonds and loans:					
Of the Israeli Government	937	938	2	3	937
Of foreign governments	48	48	-	-	48
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	21	21	-	-	21
Of others in Israel	20	19	1	-	20
Total bonds	**1,026**	**1,026**	**3**	**3**	**1,026**
Shares	6	3	4	1	6
Total trading securities	**1,032**	**1,029**	**[(5)]7**	**[(5)]4**	**1,032**
Total securities	**43,869**	**43,472**			**44,049**

Footnotes:
(1) See Note 27 for pledges.
(2) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.
(3) Included in "Accumulated other comprehensive income".
(4) Shares included in this column, for which no fair value is available, are stated at cost net of impairment, with the addition or deduction of changes in observable prices of ordinary transactions in similar or identical investments of the same issuer.
(5) Recorded in the statement of profit and loss.
(6) Municipal bonds and bonds of states in the U.S.

For details as to the results of investment activity in bonds and shares, see Notes 2 and 3.

12. Securities (continued)

B. Composition of this item - the Bank[1]

	December 31,2022				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(1) Held-to-maturity bonds[6]					
Bonds and loans:					
Of the Israeli Government[9]	10,022	10,022	-	706	9,316
Total held-to-maturity bonds	**10,022**	**[8]10,022**	**-**	**706**	**9,316**

	December 31,2022				
			Accumulated other comprehensive income		
	Book value	Amortized cost	Profits	Losses	Fair value[2]
	In NIS millions				
(2) Available-for-sale bonds[7]					
Bonds and loans:					
Of the Israeli Government[9]	6,632	6,917	20	305	6,632
Of foreign governments	5,358	5,489	3	134	5,358
Of Israeli financial institutions	71	75	-	4	71
Of foreign financial institutions	549	556	5	12	549
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	820	856	-	36	820
Of others in Israel	322	352	1	31	322
Of others abroad	1,314	1,329	13	28	1,314
Total Available- for- sale bonds	**[8]15,066**	**15,574**	**[3]42**	**[3]550**	**15,066**

	December 31,2022				
	Book value	Amortized cost (cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2][4]
	In NIS millions				
(3) Investment in not for trading shares	139	96	[5]45	[5]2	139
Of which: shares, the fair value of which is not readily available	79	79	-	-	79
Total not for trading securities	**25,227**	**25,692**	**-**	**-**	**24,521**

12. Securities (continued)

B. Composition of this item - the Bank[1] (continued)

	December 31,2022				
	Book value	Amortized cost (for shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(3) Trading Securities:					
Bonds and loans:					
Of the Israeli Government	2,167	2,178	-	11	2,167
Total bonds	**[8]2,167**	**2,178**	**-**	**11**	**2,167**
Shares	25	1	24	-	25
Total trading securities	**2,192**	**2,179**	**[5]24**	**[5]11**	**2,192**
Total securities	**27,419**	**27,871**			**26,713**

Footnotes:

(1) See Note 27 for pledges.

(2) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

(3) Included in shareholders equity in the item "Adjustments for presentation of available-for-sale securities at fair value".

(4) Shares included in this column, for which no fair value is available, are stated at cost net of impairment, with the addition or deduction of changes in observable prices of ordinary transactions in similar or identical investments of the same issuer

(5) Recorded in the statement of profit and loss.

(6) No data is included for the balance of allowance for credit loss, because the allowance at December 31, 2022 is in a negligible amount.

(7) No data is included for the balance of allowance for credit loss, because, as stated, no such allowance was required as of December 31, 2022.

(8) Including securities sold by the Bank under repurchase terms from held-to-maturity portfolio at an amortized cost of NIS 808 million, from the available for sale portfolio with a market value of NIS 2,282 million and from trading portfolio with a market value of NIS 976 million.

(9) See Note L.

12. Securities (continued)

B. Composition of this item - the Bank[1] (continued)

	December 31,2021				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(1) Held-to-maturity bonds:					
Bonds and loans:					
Of the Israeli Government	7,728	7,728	168	25	7,871
Total held-to-maturity bonds	**7,728**	**7,728**	**168**	**25**	**7,871**

	December 31,2021				
			Accumulated other comprehensive income		
	Book value	Amortized cost (for shares - cost)	Profits	Losses	Fair value[2]
	In NIS millions				
(2) Available for sale securities:					
Bonds and loans:					
Of the Israeli Government	11,076	10,857	237	18	11,076
Of foreign governments	3,523	3,522	11	10	3,523
Of Israeli financial institutions	86	81	5	-	86
Of foreign financial institutions	516	509	8	1	516
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	583	584	-	1	583
Of others in Israel	417	384	33	-	417
Of others abroad	1,586	1,559	30	3	1,586
Total bonds	**17,787**	**17,496**	**[3]324**	**[3]33**	**17,787**

	December 31,2021				
	Book value	Amortized cost (cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2][4]
	In NIS millions				
(3) Investment in not for trading shares	233	135	[5]105	[5]7	233
Of which: shares, the fair value of which is not readily available	7	7	-	-	7
Total not for trading securities	**25,748**	**25,359**	**-**	**-**	**25,891**

12. Securities (continued)

B. Composition of this item - the Bank[1] (continued)

	December 31,2021				
	Book value	Amortized cost (for shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(3) Trading Securities:					
Bonds and loans:					
Of the Israeli Government	935	936	2	3	935
Total bonds and bills	**935**	**936**	**2**	**3**	**935**
Shares	4	1	4	1	4
Total trading securities	**939**	**937**	**[5]6**	**[5]4**	**939**
Total securities	**26,687**	**26,296**	**-**	**-**	**26,830**

Footnotes:

(1) See Note 27 for pledges.

(2) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

(3) Included in shareholders equity in the item "Adjustments for presentation of available-for-sale securities at fair value".

(4) Shares included in this column, for which no fair value is available, are stated at cost net of impairment, with the addition or deduction of changes in observable prices of ordinary transactions in similar or identical investments of the same issuer

(5) Recorded in the statement of profit and loss.

For details as to the results of investment activity in bonds and shares, see Notes 2 and 3.

C. Amortized cost and unrealized losses, according to the length of the period and rate of impairment of held-to-maturity bonds which are in an unrealized loss position - consolidated

	December 31, 2022							
	Less than 12 months				More than 12 months			
		Unrecognized losses from adjustment to fair value				Unrecognized losses from adjustment to fair value		
	Amortized cost	0-20%	20-40%	Total	Amortized cost	0-20%	20-40%	Total
	In NIS millions							
Held-to-maturity bonds								
Bonds and loans:								
Of the Israeli Government	8,825	456	13	469	1,802	352	22	374
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	1,407	152	21	173	1,714	175	60	235
Of others abroad	63	4	-	4	-	-	-	-
Total held-to-maturity bonds	**10,295**	**612**	**34**	**646**	**3,516**	**527**	**82**	**609**

	December 31, 2021							
	Less than 12 months				More than 12 months			
		Unrecognized losses from adjustment to fair value				Unrecognized losses from adjustment to fair value		
	Amortized cost	0-20%	20-40%	Total	Amortized cost	0-20%	20-40%	Total
	In NIS millions							
Held-to-maturity bonds								
Bonds and loans:								
Of the Israeli Government	1,918	25	-	25	-	-	-	-
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	1,222	11	-	11	11	[1]-	-	-
Total held-to-maturity bonds	**3,140**	**36**	**-**	**36**	**11**	**-**	**-**	**-**

Footnote:

(1) An amount lower than NIS 1 million.

12. Securities (continued)

D. Fair value and unrealized losses, according to the length of the period and rate of impairment of available-for-sale bonds which are in an unrealized loss position- consolidated

	December 31, 2022							
	Less than 12 months				More than 12 months			
		Unrealized losses				Unrealized losses		
	Fair value	0-20%	20-40%	Total	Fair value	0-20%	20-40%	Total
	In NIS millions							
Available- for-sale bonds								
Bonds and loans:								
Of the Israeli Government	5,576	431	49	480	1,588	186	17	203
Of foreign governments	2,018	57	-	57	1,419	78	-	78
Of Israeli financial institutions	89	5	-	5	-	-	-	-
Of foreign financial institutions	309	10	-	10	40	2	-	2
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	3,035	233	-	233	1,924	164	260	424
Of others in Israel	294	31	-	31	3	(1)-	-	-
Of others abroad	1,050	36	-	36	61	7	-	7
Total available-for-sale bonds	**12,371**	**803**	**49**	**852**	**5,035**	**437**	**277**	**714**

	December 31, 2021							
	Less than 12 months				More than 12 months			
		Unrealized losses				Unrealized losses		
	Fair value	0-20%	20-40%	Total	Fair value	0-20%	20-40%	Total
	In NIS millions							
Available- for-sale bonds								
Bonds and loans:								
Of the Israeli Government	1,744	27	-	27	578	34	-	34
Of foreign governments	2,899	10	-	10	-	-	-	-
Of foreign financial institutions	149	1	-	1	-	-	-	-
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	3,592	79	-	79	315	12	-	12
Of others abroad	452	3	-	3	-	-	-	-
Total available-for-sale bonds	**8,836**	**120**	**-**	**120**	**893**	**46**	**-**	**46**

Footnote:
(1) An amount lower than NIS 1 million.

12. Securities (continued)

E. **Further details regarding mortgage and asset backed securities, on a consolidated basis.** The Bank's securities portfolio as of December 31, 2022, includes investments in asset backed securities, primarily investment in mortgage backed securities (MBS) which are held for the most part by IDB Bank.

Mortgage-backed Securities - MBS. A type of asset-backed security (ABS) that is secured by a mortgage or a pool of mortgages, for which periodic payments of principal and interest are paid. These securities are also referred to as mortgage related or mortgage pass-through securities.

The Board of Directors of IDB Bank has determined restrictions on the volume of investment in mortgage backed bonds (MBS) except for Ginni Mae.

The market risk of these securities is evaluated prior to purchase to determine their suitability for inclusion in the portfolio. Moreover, certain high risk tranches, are not allowable.

A real estate mortgage investment conduit (REMIC) is a complex pool of mortgage securities created to acquire investment income for its creators and investors. REMICs consist of a fixed pool of mortgages broken apart into tranches, repackaged, and marketed to investors as individual securities.

A stripped MBS, or stripped mortgage-backed security (MBS), is a type of mortgage-backed security that is split into principal-only tranches and interest-only tranches. Stripped MBS derive their cash flows either from principal payments or interest payments on the underlying mortgages, unlike conventional MBS where cash flows are based on both principal and interest payments.

Mortgage Pass - Through. A security issued by a financial institution which constitutes holdings of a proportionate share of the mortgage loan portfolio of private borrowers. Where the issue is executed by Ginnie Mae Government Sponsored Enterprises (hereinafter: "GNMA"), a U.S. Government guarantee is in effect. When the issue is performed by Fannie Mae or Freddie Mac, Government Sponsored Enterprises (hereinafter: "GSE"), the issuer provides guarantee for any loss on the loan portfolio backing the bond. Where the issue is performed by other financial institutions, the security is backed by the mortgages alone. The large issuers of securitized assets are the GSE's who have a high credit rating. The GSE's are sponsored by the U.S. Government and are supervised by it. There is, however, no explicit guarantee on the part of the U.S. Government to the GSE's.

Mortgage loans, grant the private borrower the right of early repayment at any given time. As a result, the investors have interest exposure (early repayment), as well as exposure to the condition in the real estate market and the economy in general.

Collateralized Mortgage Obligation - CMO. A type of structured bond, backed by a portfolio of mortgage loans of private borrowers in the United States. The CMO is divided into tranches. Each tranche represents a bond security entitled to receive interest and repayment of principal before or after other bonds in the CMO, so that each bond reflects a different maturity period and interest risk. Where the CMO is issued by GNMA or GSE's, the issuer provides guarantee for any loss on the loan portfolio backing the bond. Where the CMO is issued by other financial institutions, the bond is backed by the mortgages alone and preference is given to bonds high rated for payments of principal and interest over the other tranches given a lower rating.

CLO (Collateralized Loan Obligation): A bond backed up by a loan portfolio.

FNMA (Fannie Mae): a public corporation under the sponsorship of the U.S. Government that purchases mortgages, securitizes them and sells them on the open market (the corporation does not carry a U.S. Government guarantee).

FHLMC (Freddie Mac): an agency branched to the U.S. Government that purchases mortgages, securitizes them and sells them to the public (the agency does not carry a U.S. Government guarantee).

GNMA (Ginnie Mae): a federal mortgage corporation. Bonds issued by it are secured by guarantees of the Government National Mortgage Association.

12. Securities (continued)

F. Additional details (consolidated) regarding mortgage and asset backed bonds

	December 31 ,2022			
	Amortized cost	Unrealized gains from adjustment to fair value(1)	Unrealized losses from adjustment to fair value(1)	Fair value
	In NIS millions			
1.Mortgage-backed bonds (MBS):				
Available-for-sale bonds(3)				
Mortgage pass-through bonds:	251	-	17	234
of which:				
Bonds guaranteed by GNMA	194	-	10	184
Bonds issued by FHLMC and FNMA	57	-	7	50
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	4,053	1	581	3,473
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	4,053	1	581	3,473
Total available-for-sale MBS bonds	**4,304**	**1**	**598**	**3,707**
Held-to-maturity bonds(2)				
Mortgage pass-through bonds:	39	-	2	37
of which:				
Bonds guaranteed by GNMA	8	-	-	8
Bonds issued by FHLMC and FNMA	31	-	2	29
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	3,218	1	406	2,813
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	3,217	1	406	2,812
Total held-to-maturity MBS bonds	**3,257**	**1**	**408**	**2,850**
Total mortgage-backed bonds (MBS)	**7,561**	**2**	**1,006**	**6,557**
2.Total-Asset-backed available-for-sale bonds (ABS)(3)	1,507	-	59	1,448
Of which collateralized bonds CLO	1,506	-	59	1,447
Of which Asset-backed bond (ABS)	1	-	-	1
Total mortgage and asset-backed bonds	**9,068**	**2**	**1,065**	**8,005**

Footnotes:

(1) For available for sale bonds-accumulated other comprehensive income.

(2) No data is included for the balance of allowance for credit loss, because the allowance at December 31, 2022 is in a negligible amount.

(3) No data is included for the balance of allowance for credit loss, because, as stated, no such allowance was required as of December 31, 2022.

12. Securities (continued)

F. Additional details (consolidated) regarding mortgage and asset backed bonds (continued)

	December 31 ,2021			
	Amortized cost	Unrealized gains from adjustment to fair value(1)	Unrealized losses from adjustment to fair value(1)	Fair value
	In NIS millions			
1.Mortgage-backed bonds (MBS):				
Available-for-sale bonds				
Mortgage pass-through bonds:	442	11	1	452
of which:				
Bonds guaranteed by GNMA	249	7	-	256
Bonds issued by FHLMC and FNMA	193	4	1	196
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	5,030	29	88	4,971
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	5,030	29	88	4,971
Total available-for-sale MBS bonds	**5,472**	**40**	**89**	**5,423**
Held-to-maturity bonds				
Mortgage pass-through bonds:	11	1	-	12
of which:				
Bonds guaranteed by GNMA	9	1	-	10
Bonds issued by FHLMC and FNMA	2	-	-	2
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	1,576	2	11	1,567
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	1,576	2	11	1,567
Total held-to-maturity MBS bonds	**1,587**	**3**	**11**	**1,579**
Trading bonds				
Other mortgage-backed bonds (including CMO, REMIC and STRIPPED MBS):	21	-	-	21
Of which Bonds issued or guaranteed by FHLMC, FNMA and GNMA	21	-	-	21
Total mortgage-backed trading bonds (MBS)	**21**	**-**	**-**	**21**
Total mortgage-backed bonds (MBS)	**7,080**	**43**	**100**	**7,023**
2.Total-Asset-backed available-for-sale bonds (ABS)	1,160	1	2	1,159
Of which collateralized bonds CLO	1,158	1	2	1,157
Of which Asset-backed bond (ABS)	2	-	-	2
Total mortgage and asset-backed bonds	**8,240**	**44**	**102**	**8,182**

Footnote:

(1) For available for sale bonds-accumulated other comprehensive income.

12. Securities (continued)

F. Additional details (consolidated) regarding mortgage and asset backed bonds (continued)

Additional details regarding mortgage and asset backed bonds in unrealized loss position

	December 31 ,2022			
	Less than 12 months		12 months and over	
	Fair value	Unrealized losses	Fair value	Unrealized losses
	In NIS millions			
1.Mortgage-backed bonds (MBS):				
Available-for-sale bonds				
A. Mortgage pass-through bonds				
Bonds guaranteed by GNMA	184	10	–	–
Bonds issued by FHLMC and FNMA	25	2	25	5
Total mortgage-backed pass-through bonds	**209**	**12**	**25**	**5**
B.Other mortgage-backed bonds (including CMO,REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	1,700	174	1,616	407
Total other mortgage-backed bonds	**1,700**	**174**	**1,616**	**407**
Total available-for-sale MBS	**1,909**	**186**	**1,641**	**412**
Held-to-maturity bonds				
A.Mortgage pass-through bonds:				
Bonds guaranteed by GNMA	6	(1)–	–	–
Bonds issued by FHLMC and FNMA	1	(1)–	28	2
Total mortgage-backed pass-through bonds	**7**	**-**	**28**	**2**
B. Other mortgage-backed bonds (including CMO,REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	1,227	173	1,451	233
Total other mortgage-backed bonds	**1,227**	**173**	**1,451**	**233**
Total held-to-maturity MBS bonds	**1,234**	**173**	**1,479**	**235**
Total mortgage-backed bonds (MBS)	**3,143**	**359**	**3,120**	**647**
2. Asset-backed available-for-sale bonds (ABS)				
Collateralized bonds CLO	1,125	47	283	12
Of which Asset-backed bond (ABS)	1	(1)–	–	–
Total asset-backed available-for-sale bonds (ABS)	**1,126**	**47**	**283**	**12**
Total mortgage and asset-backed bonds	**4,269**	**406**	**3,403**	**659**

Footnote:
(1) Amount lower than NIS 1 million

12. Securities (continued)

F. Additional details (consolidated) regarding mortgage and asset backed bonds (continued)

Additional details regarding mortgage and asset backed bonds in unrealized loss position (continued)

	December 31 ,2021			
	Less than 12 months		12 months and over	
	Fair value	Unrealized losses	Fair value	Unrealized losses
	In NIS millions			
1.Mortgage-backed bonds (MBS):				
Available-for-sale bonds				
A.Mortgage pass through bonds:				
Bonds guaranteed by GNMA	5	(1)–	–	–
Bonds issued by FHLMC and FNMA	60	1	–	–
Total mortgage backed pass through bonds	**65**	**1**	**-**	**-**
B. Other Mortgage-Backed Securities (including CMO,REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	2,856	76	315	12
Total other mortgage-backed bonds	**2,856**	**76**	**315**	**12**
Total available-for-sale MBS bonds	**2,921**	**77**	**315**	**12**
Held-to-maturity bonds				
Other mortgage-backed bonds (including CMO,REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	1,211	11	11	(1)–
Total other mortgage-backed bonds	**1,211**	**11**	**11**	**-**
Total held-to-maturity MBS bonds	**1,211**	**11**	**11**	**-**
Trading bonds				
Other mortgage-backed bonds (including CMO,REMIC and STRIPPED MBS):				
Bonds issued or guaranteed by FHLMC, FNMA and GNMA	2	(1)–	–	–
Total other mortgage-backed bonds	2	–	–	–
Total mortgage-backed trading bonds (MBS)	**2**	**-**	**-**	**-**
Total mortgage-backed bonds (MBS)	**4,134**	**88**	**326**	**12**
2.Asset-backed available-for-sale bonds (ABS)				
Collateralized bonds CLO	671	2	–	–
Total asset-backed available-for-sale bonds(ABS)	**671**	**2**	**-**	**-**
Total mortgage and asset backed bonds	**4,805**	**90**	**326**	**12**

Footnote:
(1) Amount lower than NIS 1 million

G. The available-for-sale securities portfolio includes corporate bonds, including bonds of banks, in a total amount of NIS 2,703 million (December 31, 2021: NIS 3,166 million). The balance of the said bonds included as of December 31, 2022, unrealized net losses in the amount of NIS 72 million (December 31, 2021: unrealized net gains of NIS 97 million).

H. **Available-for-sale bonds.** As from January 1, 2022, the Bank is applying the directives of the Supervisor of Banks requiring the adoption in full of accounting principles accepted by US banks in the matter of "financial instruments – credit losses", as discussed in Note 1(e), by which the Bank is required to recognize an allowance for credit losses for impairment related to credit loss.

Whereas the Bank and the relevant subsidiaries have no intention of selling available-for-sale bonds that are in an unrealized loss position, no impairment in value has been recognized in their respect in the profit and loss statement. Furthermore, based on a performed assessment, the Bank and the relevant subsidiaries have not recognized an allowance for credit loss for the said bonds. All that stated above, excluding an allowance of approx. NIS 45 million in 2022.

Held-to-maturity bonds. As from January 1, 2022, the Bank is applying the directives of the Supervisor of Banks requiring the adoption in full of accounting principles accepted by US banks in the matter of allowance for current expected credit losses (CECL), as discussed in Note 1 (e). The Bank and the relevant subsidiaries have not recognized an allowance for credit loss for most of the bonds held in the held-to-maturity portfolio, principally Israeli government bonds and US government bonds. As of December 31, 2022, an allowance for credit loss exists for other bonds in a negligible amount.

In 2022, an allowance for credit losses was recorded for several securities in and amount of NIS 164 million (in 2021 and 2020 an other than temporary in nature write down was recorded for several securities, in the amount of NIS 114 million and NIS 31 million, respectively).

12. Securities (continued)

I. **Fair value presentation.** The balances of securities as of December 31, 2022, and December 31, 2021, include securities amounting to NIS 28,251 million and NIS 32,342 million, respectively, that are presented at fair value.

J. Data regarding non-accruing problematic bonds - consolidated

	December 31, 2022	December 31, 2021
	In NIS millions	
Recorded amount of non-accruing interest income problematic bonds	1	1

K. VISA Inc. shares

On November 2, 2015, VISA Inc. Company (hereinafter: "VISA Inc.") and VISA Europe Ltd. (hereinafter: "VISA Europe") announced the signing of an agreement, according to which, VISA Inc. would acquire VISA Europe from the principal members holding its shares (hereinafter: "the transaction").

On June 21, 2016, the consideration for the transaction was received, which included, inter alia, preferred shares blocked for periods of between four and twelve years, convertible into VISA Inc. shares. The consideration for the transaction was divided between ICC (approx. 68% of the consideration of the transaction), and Discount Bank (approx. 24.9% of the consideration of the transaction) and the First International Bank (hereinafter: "the parties"), all having the status of "Principal Member" of VISA.

Upon receipt of the preferred shares, they were recognized at their fair value as of that date (being the market value of the VISA Inc. shares that would be received after conversion of the preferred shares, net of a 50% coefficient, based on the estimate of the Bank on the effect of the locking up of the shares and of the effect of certain uncertainties relating to the conversion mechanism).

The first tranche of the preferred shares was converted in September 2020, into marketable shares in a total value of NIS 121 million (of which, the share of ICC – NIS 82 million, and the share of the Bank – NIS 30 million). Following the above stated, income was recorded in 2020 on realization of the shares sold and on the revaluation of a part of the shares (unrealized gains) in the amount of NIS 88 million, before tax (amount of NIS 44 million after tax and after attribution to the non-controlling interest in ICC). The said income was recognized in the section "Non-interest financing income". After being released from blockage, additional shares held by ICC and by the Bank were realized in the third quarter of 2022, in a total amount of approx. NIS 57 million. Net profit of NIS 24 million were recorded in the third quarter for the said realization (net of the tax effect and FIBI's share). Following the aforementioned release, ICC retained non-listed preferred shares, the total value of which (including the share of the ICC owner banks) at the reporting date is assessed at approx. NIS 59 million ("naïve value"). The equity value of these shares, which are stated at the cost method, is NIS 14 million. It is clarified that the conversion ratio of the preferred shares may decrease in the future, depending on pending claims existing against VISA, relating to the operations of VISA Europe.

The division was made and would be made in the future according to an agreed division mechanism established by the parties.

L. Zim shares

The Bank and MDB had received in the past shares in ZIM Combined Shipping Services Ltd. (hereinafter: "ZIM"), as part of a debt arrangement, which were recorded at zero value. According to a report by ZIM, the issue of ZIM shares on the New York Stock Exchange (NYSE) was concluded on February 1, 2021. Lock-up arrangements applied to the said shares, which terminated on July 26, 2021, and the process of realization of these shares began. MDB and Discount Bank have realized their share holdings in full. For these realizations, a pre-tax gain of NIS 124 million was recorded in 2021.

M. Moving bonds to the held-to-maturity portfolio

On May 17, 2022, the Bank, IDB Bank and MDB moved bonds from the available-for-sale portfolio to the held-to-maturity portfolio, in a total amount of approx. NIS 4.5 billion. As required by the reporting instructions, the unrealized loss on adjustment to fair value of the said bonds at the transfer date, in a total amount of NIS 450 million, is continued to be presented in other comprehensive income and is amortized to profit and loss over the remaining lives of the bonds as an adjustment of yield. Until December 31, 2022, a total of NIS 54 million was amortized to profit and loss.

13. Credit Risk, Credit to the Public and Allowance for Credit Losses

General. As from January 1, 2022, the Bank is applying the directives of the Supervisor of Banks requiring the adoption in full of accounting principles accepted by US banks in the matter of allowance for current expected credit losses (CECL). For details regarding the updated accounting policy and regarding the identification and classification of non-accruing debts, a term that has replaced the term impaired debts, see Note 1 D 4a above. The comparative data is indeed presented according to the new format, but this is according to the identification and classification rules, which had been in effect until December 31, 2021, prior to the new directive taking effect.

Debts – in this Note: credit to the public, credit to Governments, deposits with banks and other debts, excluding bonds, securities borrowed or purchased under agreements to resell and assets for the Maof market activity.

It is noted, that Note 31 presents the details included in this Note, as well as an extended discussion thereof.

1. Debts, credit to the public and the balance of allowance for credit losses - consolidated

	December 31, 2022					
	Credit to the public					
	Commercial[(1)]	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments Held-to-maturity and available-for-sale-bonds	Total
	In NIS millions					
Recorded amount of debts:						
Examined on a specific basis	134,873	336	1,458	136,667	47,453	184,120
Examined on a group basis	(1)9,989	64,989	32,643	107,621	-	107,621
Total debts	**144,862**	**65,325**	**34,101**	**244,288**	**47,453**	**291,741**
Of which:						
Non-accruing debts	1,210	229	81	1520	-	1,520
Debts in arrears of 90 days or more	70	-	45	115	-	115
Other problematic debts	4,592	84	392	5068	-	5,068
Total Problematic debts	**5,872**	**313**	**518**	**6,703**	**-**	**6,703**
Allowance for Credit Losses for debts:						
Examined on a specific basis	1,909	13	22	1,944	29	1,973
Examined on a group basis	303	253	709	1,265	-	1,265
Total allowance for Credit Losses	**2,212**	**266**	**731**	**3,209**	**29**	**3,238**
Of which: For non-accruing debts	205	13	30	248	-	248
Of which: For other problematic debts	267	1	128	397	-	397

Footnote:

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

13. Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

1. Debts, credit to the public and the balance of allowance for credit losses - consolidated (continued)

	December 31, 2021					
	Credit to the public					
	Commercial[(1)(2)]	Private Individuals - Housing Loans[(2)]	Private Individuals - Other Loans[(2)]	Total[(2)]	Banks and Governments[(2)]	Total[(2)]
	In NIS millions					
Recorded amount of debts:						
Examined on a specific basis	121,847	228	2,040	124,115	6,376	130,491
Examined on a group basis	[(1)]8,872	53,716	29,493	92,081	-	92,081
Total debts	**130,719**	**53,944**	**31,533**	**216,196**	**6,376**	**222,572**
Of which:						
Non-accruing debts	1,208	-	72	1,280	-	1,280
Debts in arrears of 90 days or more	43	276	43	362	-	362
Other problematic debts	4,206	4	438	4,648	-	4,648
Total Problematic debts	**5,457**	**280**	**553**	**6,290**	**-**	**6,290**
Allowance for Credit Losses for debts:						
Examined on a specific basis	1,897	1	113	2,011	22	2,033
Examined on a group basis	181	257	591	1,029	-	1,029
Total allowance for Credit Losses	**2,078**	**258**	**704**	**3,040**	**22**	**3,062**
Of which: For non-accruing debts	280	-	31	311	-	311
Of which: For other problematic debts	372	61	195	628	-	628

Footnotes:

(1) The balance of commercial debts includes housing loans in the amount of NIS 252 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

(2) Reclassified due to changes in the data.

13. Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

1. Debts, credit to the public and the balance of allowance for credit losses - the Bank

	Credit to the public					
	Commercial[(1)]	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments Held-to-maturity and available-for-sale-bonds	Total
	In NIS millions					
	December 31, 2022					
Recorded amount of debts:						
Examined on a specific basis	83,776	-	-	83,776	35,755	119,531
Examined on a group basis	[(1)]8,420	53,743	14,063	76,226	-	76,226
Total debts	**92,196**	**53,743**	**14,063**	**160,002**	**35,755**	**195,757**
Of which:						
Non-accruing debts	756	143	13	912	-	912
Debts in arrears of 90 days or more	33	-	24	57	-	57
Other problematic debts	2,217	42	46	2,305	-	2,305
Total Problematic debts	**3,006**	**185**	**83**	**3,274**	**-**	**3,274**
Allowance for Credit Losses for debts:						
Examined on a specific basis	1,249	-	-	1,249	28	1,277
Examined on a group basis	170	187	274	631	-	631
Total allowance for Credit Losses	**1,419**	**187**	**274**	**1,880**	**28**	**1,908**
Of which: non-accruing debts	147	11	3	161	-	161
Of which: for other problematic debts	211	1	14	226	-	226

Footnote:

(1) The balance of commercial debts includes housing loans in the amount of NIS 132 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

13. Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

1. Debts, credit to the public and the balance of allowance for credit losses - the Bank (continued)

	Credit to the public					
	Commercial[1]	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments[2]	Total
	In NIS millions					
	December 31, 2021					
Recorded amount of debts:						
Examined on a specific basis	74,467	-	140	74,607	8,300	82,907
Examined on a group basis	[1]8,105	44,707	13,624	66,436	-	66,436
Total debts	**82,572**	**44,707**	**13,764**	**141,043**	**8,300**	**149,343**
Of which:						
Non-accruing debts	893	-	15	908	-	908
Debts in arrears of 90 days or more	20	196	24	240	-	240
Other problematic debts	1,795	-	88	1,883	-	1,883
Total Problematic debts	**2,708**	**196**	**127**	**3,031**	**-**	**3,031**
Allowance for Credit Losses for debts:						
Examined on a specific basis	1,219	-	42	1,261	22	1,283
Examined on a group basis	121	219	223	563	-	563
Total allowance for Credit Losses	**1,340**	**219**	**265**	**1,824**	**22**	**1,846**
Of which: non-accruing debts	230	-	8	238	-	238
Of which: for other problematic debts	169	55	67	291	-	291

Footnotes:

(1) The balance of commercial debts includes housing loans in the amount of NIS 119 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

(2) Reclassified due to changes in the data.

13. Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

2. Movement in the balance of allowance for credit losses - consolidated

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments Held-to-maturity and available-for-sale-bonds[2]	Total
	In NIS millions					
Balance of allowance for credit losses, as at December 31, 2019	1,823	207	717	2,747	1	2,748
Credit loss expenses	1,182	70	452	1,704	14	1,718
Accounting write-offs	(437)	(19)	(437)	(893)	–	(893)
Collection of debts written-off in previous years	276	–	252	528	–	528
Net accounting write-offs	(161)	(19)	(185)	(365)	–	(365)
Adjustments from translation of financial statements	(27)	–	–	(27)	–	(27)
Balance of allowance for credit losses, as at December 31, 2020	**2,817**	**258**	**984**	**4,059**	**15**	**4,074**
Expenses (expense release) for credit loss	(534)	6	(172)	(700)	7	(693)
Accounting write-offs	(336)	(8)	(283)	(627)	–	(627)
Collection of debts written-off in previous years	324	2	245	571	–	571
Net accounting write-offs	(12)	(6)	(38)	(56)	–	(56)
Adjustments from translation of financial statements	(13)	–	(1)	(14)	–	(14)
Balance of allowance for credit losses, as at December 31, 2021	**2,258**	**258**	**773**	**3,289**	**22**	**3,311**
Adjustment to the opening balance, net of tax due to the effect of the initial application[1]	183	(32)	–	151	9	160
Credit loss expenses	182	63	162	407	–	407
Accounting write-offs	(401)	(5)	(372)	(778)	–	(778)
Collection of debts written-off in previous years	270	–	257	527	–	527
Net accounting write-offs	(131)	(5)	(115)	(251)	–	(251)
Adjustments from translation of financial statements	33	1	1	35	–	35
Balance of allowance for credit losses, as at December 31, 2022	**2,525**	**285**	**821**	**3,631**	**31**	**3,662**
Of which: for off-balance sheet credit instruments						
as at December 31, 2020	213	–	85	298	–	298
as at December 31, 2021	180	–	69	249	–	249
as at December 31, 2022	313	19	90	422	2	424

Footnotes:

(1) Effect of initial implementation of US GAAP regarding allowance for current expected credit losses (CECL). See also Note 1(c)(5) to the financial statements.

(2) In the years 2020 and 2021, the column includes only governments and banks.

13. Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

2. Movement in the balance of allowance for credit losses - the Bank

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments Held-to-maturity and available-for-sale-bonds[2]	Total
	In NIS millions					
Balance of allowance for credit losses, as at December 31, 2019	1,148	180	320	1,648	1	1,649
Credit loss expenses	814	58	159	1,031	14	1,045
Accounting write-offs	(243)	(19)	(188)	(450)	-	(450)
Collection of debts written-off in previous years	202	-	138	340	-	340
Net accounting write-offs	(41)	(19)	(50)	(110)	-	(110)
Balance of allowance for credit losses, as at December 31, 2020	**1,921**	**219**	**429**	**2,569**	**15**	**2,584**
Expenses (expense release) for credit loss	(461)	6	(142)	(597)	7	(590)
Accounting write-offs	(182)	(8)	(117)	(307)	-	(307)
Collection of debts written-off in previous years	222	2	120	344	-	344
Net accounting write-offs	40	(6)	3	37	-	37
Balance of allowance for credit losses, as at December 31, 2021	**1,500**	**219**	**290**	**2,009**	**22**	**2,031**
Adjustment to the opening balance, net of tax due to the effect of the initial application[1]	172	(56)	(3)	113	8	121
Credit loss expenses	76	42	43	161	-	161
Accounting write-offs	(232)	(5)	(130)	(367)	-	(367)
Collection of debts written-off in previous years	176	-	122	298	-	298
Net accounting write-offs	(56)	(5)	(8)	(69)	-	(69)
Balance of allowance for credit losses, as at December 31, 2022	**1,692**	**200**	**322**	**2,214**	**30**	**2,244**
Of which: for off-balance sheet credit instruments						
as at December 31, 2020	190	-	36	226	-	226
as at December 31, 2021	160	-	25	185	-	185
as at December 31, 2022	273	13	48	334	2	336

Footnotes:

(1) Effect of initial implementation of US GAAP regarding allowance for current expected credit losses (CECL). See also Note 1(c)(5) to the financial statements.

(2) In the years 2020 and 2021, the column includes only governments and banks.

14. Credit granted to Governments

	Consolidated		The Bank	
	December 31		December 31	
	2022	2021	2022	2021
	in NIS millions			
Credit to Israel government	913	1,131	911	1,102
Credit to foreign governments	1,686	1,533	1,686	1,533
Total credit granted to Governments	**2,599**	**2,664**	**2,597**	**2,635**

15. Investment in Investee Companies and Details on These Companies

A. Consolidated

	December 31, 2022			December 31, 2021		
	Associates	Consolidated subsidiaries	Total	Associates	Consolidated subsidiaries	Total
	In NIS millions					
Total Shares stated on equity basis[1]	**484**	**-**	**484**	**460**	**-**	**460**
Other investments:						
Shareholders' loans	2	-	2	2	-	2
Total other investments	**2**	**-**	**2**	**2**	**-**	**2**
Total investments	**486**	**-**	**486**	**462**	**-**	**462**
Includes:						
Earnings accumulated since January 1, 1992	84	-	84	80	-	80
Items accumulated in shareholders' equity since January 1, 1992:						
Adjustment for Employee benefits	-	-	-	(1)	-	(1)
Details Regarding Goodwill:						
Original amount	-	305	305	-	305	305
Book value[2]	-	162	162	-	163	163

Footnotes:

(1) Includes earnings and translation adjustments in units having a functional currency that differs from the reporting currency accumulated from the acquisition date up to December 31, 1991.

(2) Balances of goodwill for consolidated subsidiaries are presented in the item "Intangible assets and goodwill".

15. Investment in Investee Companies and Details on These Companies (continued)

B. The Bank

	December 31, 2022			December 31, 2021		
	Associates	Consolidated subsidiaries	Total	Associates	Consolidated subsidiaries	Total
	in NIS millions					
Total Shares stated on equity basis (including goodwill)[(1)]	41	11,051	11,092	39	10,415	10,454
Other investments:						
Subordinated debt notes and Capital notes	–	1,758	1,758	–	1,322	1,322
Shareholders' loans	2	–	2	2	–	2
Total investments	**43**	**12,809**	**12,852**	**41**	**11,737**	**11,778**
Includes:						
Earnings accumulated since January 1, 1992	38	9,446	9,484	37	8,454	8,491
Items accumulated in shareholders' equity since January 1, 1992:						
Net adjustments for presentation of bonds available for sale at fair value	–	(871)	(871)	–	4	4
Adjustments from translation of financial statements	–	(225)	(225)	–	(710)	(710)
The State's bonus to the employees (privatization)	–	32	32	–	32	32
Net adjustments on the hedging of cash flows	–	(20)	(20)	–	(2)	(2)
Adjustment for Employee benefits	–	(26)	(26)	1	(133)	(132)
Transactions with minority	–	(8)	(8)	–	(3)	(3)
Details Regarding Goodwill:						
Original amount	–	282	282	–	282	282
Book value	–	142	142	–	142	142

Footnote:

(1) Includes earnings and translation adjustments in units having a functional currency that differs from the reporting currency accumulated from the acquisition date up to December 31, 1991.

The Bank's share of profit or loss of investee companies

	Consolidated			The Bank		
	2022	2021	2020	2022	2021	2020
	In NIS millions					
Bank's share in profit of investee companies (consolidated – associates)	30	28	54	1,304	1,244	636
Provision for taxes:						
Current taxes	–	–	–	98	28	42
Deferred taxes	3	8	4	3	58	40
Total provision for taxes	**3**	**8**	**4**	**101**	**86**	**82**
Bank's share in profit net of tax effect of investee companies (consolidated - associates)	**27**	**20**	**50**	**1,203**	**1,158**	**554**

15. Investment in Investee Companies and Details on These Companies (continued)

C. Information on principal investee companies

Name of Company	Details of company	Share in capital conferring rights to profits		Share in voting rights		Investment in shares Equity basis[1]	
		2022	2021	2022	2021	2022	2021
		In %				In NIS millions	
1. Consolidated Subsidiaries:							
Discount Bancorp, Inc.[2]	Holding company, U.S.A.	100.00	100.00	100.00	100.00	30	27
Israel Discount Bank of New York [3]	Commercial bank, U.S.A	100.00	100.00	100.00	100.00	3,915	3,576
Mercantile Discount Bank Ltd.	Commercial bank	100.00	100.00	100.00	100.00	4,053	3,769
Israel Credit Cards Ltd.[4]	Credit card service	[10]71.83	[10]71.83	79.00	79.00	1,164	1,273
Discount Capital Ltd.	Underwriting and investments	100.00	100.00	100.00	100.00	1,280	1,171
Discount Manpikim Ltd.	Securities issue	100.00	100.00	100.00	100.00	66	66
Companies held by Israel Discount Bank of New York:							
IDBNY Realty (Delaware) Inc, [5]	Holding company, USA	100.00	100.00	100.00	100.00	1,444	1,295
IDB Realty LLC [6]	Investment company, USA	100.00	100.00	100.00	100.00	2,892	4,206
Companies held by Israel Credit Cards Ltd.:							
Diners (Club) Israel Ltd.[7]	Credit card service	100.00	100.00	100.00	100.00	332	310
Cal Mimun Ltd.	Credit facilitate	100.00	100.00	100.00	100.00	168	150

Footnotes:

(1) Including allocated excess of cost over book value and goodwill.

(2) A holding company, wholly-owned by the Bank, which fully owns and controls Israel Discount Bank of New York.

(3) The company is owned by Discount Bancorp, Inc.

(4) For details regarding a guarantee unlimited in amount in favor of International VISA Organization, securing all of ICC's liabilities, see Note 26 C 8 below.

(5) Included in the financial statements of Israel Discount Bank of New York. The investment in these companies and their contribution to the net profit are not deducted from the investment and contribution to profit of Israel Discount Bank of New York

(6) Included in the financial statements of IDBNY Realty (Delaware), Inc. The investment in these companies and their contribution to the net profit are not deducted from the investment and contribution to profit of IDBNY Realty (Delaware), Inc

(7) For details regarding the holding of a controlling interest in Diners, see Note 36 F below.

(8) For details, see Note 10 A.

(9) Goodwill.

(10) For the period until the date loss of material influence in FIBI.

Of which: excess of cost balance[(9)]		Other investments		Contribution to Net Profit attributed to Bank's shareholders		Dividend		Other items recorded in shareholders' equity[(8)]		Guarantees issued for consolidated subsidiaries in favor of entities outside the group	
2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
In NIS millions											
–	–	–	–	(1)	(1)	–	–	1	(3)	–	–
–	–	–	–	348	259	–	139	(762)	(699)	430	–
1	3	520	260	601	563	–	–	(425)	(109)		–
142	142	–	2	78	64	230	–	(10)	(21)	11	10
18	18	1,171	1,021	85	172	–	–	(4)	(7)	1	6
–	–	67	23	–	–	3	–	–	–	–	–
–	–	–	–	10	11	–	–	(1)	(138)	–	–
–	–	–	–	50	33	1,900	–	(466)	(994)	–	–
–	–	–	–	22	24	–	–	–	–	–	–
–	–	–	5	89	78	72	–	–	–	–	–

D. **Agreement of shareholders of Discount Capital Underwriting Ltd.** At the closing date for the merger of Clal Finance Underwriting Ltd. with and into Discount Capital Underwriting, an agreement between the shareholders of Discount Capital Underwriting, regulating the relations between the shareholders of the Company, entered into effect. It stipulated, *inter alia*, limitations on the transferability of the shares held, and a CALL option was granted to Discount Capital and a PUT option to the minority shareholders of Discount Underwriting, exercisable as from November 15, 2019. An agreement was signed on February 13, 2020, with one of the minority shareholders ("the shareholder") in Discount Capital Underwriting Ltd. ("the Company"), under which, inter alia:

- The shareholder shall exercise the put option for 10% of the shares of the Company subsequent to approval of the financial statements of Discount Capital Underwriting as of March 31, 2020 (In June 2020, Discount Capital acquired the shares, as stated);
- The block up period for the balance of the shares held by it (approx. 21%) shall be extended to December 31, 2021, at the consideration determined by the parties, subject to the right of the shareholder to shorten the block up period, until December 31, 2020.
- On May 25, 2022, the block up period for the exercise of a put option granted to the shareholder of Discount Capital Underwriting ("the shareholder") was extended until December 31, 2023, with respect to the balance of Discount Capital Underwriting shares held by him, in consideration for that determined by the parties, subject to the right of the shareholder to shorten the block up period until December 31, 2022. At December 31, 2022, the shareholder held approx. 16% of the shares of Discount Capital Underwriting.

An agreement entered into effect on August 28, 2022, according to which the shareholders of Discount Underwriting sold, pro-rata, approx. 21.65% of the company's shares ("the sold shares") to two Senior Officers of Discount Capital Underwriting ("the purchasers"). The consideration for the transaction is not material. Upon consummation of the transaction, the holdings of Discount Capital were reduced to 50.1%, and an Addendum to the company shareholders agreement entered into effect, according to which, the purchasers joined as parties to the shareholders agreement, and Discount Capital Ltd. was granted a CALL option, and each of the purchasers were granted a PUT option with respect to the sold shares.

E. **A capital compensation plan.** Two senior officers of Discount Capital Underwriting (the CEO and a Deputy CEO) were entitled to the underwriting company's share based fixed compensation, within the framework of the Company's compensation plan during 2020-2021. As of December 31, 2022, the two officers of Discount Capital Underwriting held approx. 1.2% of the shares of the underwriting company, that had been issued under the plan.

16. Buildings and Equipment

A. Composition

	Consolidated				
	Buildings and land [(1)]	Equipment, furniture and vehicles	Hardware	Software	Total
	in NIS millions				
Cost:					
Balance as at December 31, 2020	2,530	885	[(3)]988	[(2)(3)]3,687	8,090
Additions	426	66	116	389	997
Translation adjustments	(3)	(1)	(1)	(4)	(9)
Disposals	(81)	(21)	(32)	(156)	(290)
Balance as at December 31, 2021	**2,872**	**929**	**1,071**	**3,916**	**8,788**
Additions	559	52	116	431	1,158
Translation adjustments	15	2	6	14	37
Disposals	(247)	(78)	(1)	(2)	(328)
Balance as at December 31, 2022	**3,199**	**905**	**1,192**	**4,359**	**9,655**
Depreciation and impairment loss:					
Balance as at December 31, 2020	[(3)]1,215	[(3)]613	[(3)]784	[(2)(3)]2,483	5,095
Depreciation for the year	56	42	90	348	536
Translation adjustments	(3)	(1)	(3)	(5)	(12)
Disposals	(70)	(17)	(34)	(111)	(232)
Balance as at December 31, 2021	**1,198**	**637**	**837**	**2,715**	**5,387**
Depreciation for the year	53	65	85	376	579
Translation adjustments	1	1	3	8	13
Disposals	(151)	(74)	(1)	(2)	(228)
Balance as at December 31, 2022	**1,101**	**629**	**924**	**3,097**	**5,751**
Carrying amount:					
Balance as at December 31, 2020	**1,315**	**272**	**204**	**1,204**	**2,995**
Balance as at December 31, 2021	**1,674**	**292**	**234**	**1,201**	**3,401**
Balance as at December 31, 2022	**2,098**	**276**	**268**	**1,262**	**3,904**
Average weighted depreciation rate for year 2021	4.7%	9.6%	20.9%	21.4%	14.9%
Average weighted depreciation rate for year 2022	4.4%	10.4%	21.5%	21.3%	15.3%

Footnotes:

(1) Includes installations and leasehold improvements.

(2) Software no longer in use by the Bank at the relevant reporting dates has been deleted. The correction had no effect on the balance at balance sheet date.

(3) Improvement of the data.

16. Buildings and Equipment (continued)

A. Composition (continued)

	The Bank				
	Buildings and land [(1)]	Equipment, furniture and vehicles	Hardware	Software	Total
	in NIS millions				
Cost:					
Balance as at December 31, 2020	1,763	413	704	(2)2,245	5,125
Additions	241	27	90	212	570
Disposals	(36)	(8)	–	(17)	(61)
Balance as at December 31, 2021	**1,968**	**432**	**794**	**2,440**	**5,634**
Additions	356	20	84	235	695
Disposals	(240)	(76)	–	(2)	(318)
Balance as at December 31, 2022	**2,084**	**376**	**878**	**2,673**	**6,011**
Depreciation and impairment loss:					
Balance as at December 31, 2020	862	254	548	(2)1,518	3,182
Depreciation for the year	31	25	62	223	341
Disposals	(27)	(6)	–	(8)	(41)
Balance as at December 31, 2021	**866**	**273**	**610**	**1,733**	**3,482**
Depreciation for the year	30	44	57	235	366
Disposals	(149)	(73)	–	(2)	(224)
Balance as at December 31, 2022	**747**	**244**	**667**	**1,966**	**3,624**
Book value:					
Balance as at December 31, 2020	**901**	**159**	**156**	**727**	**1,943**
Balance as at December 31, 2021	**1,102**	**159**	**184**	**707**	**2,152**
Balance as at December 31, 2022	**1,337**	**132**	**211**	**707**	**2,387**
Average weighted depreciation rate for year 2021	3.4%	9.4%	19.7%	20.5%	13.4%
Average weighted depreciation rate for year 2022	3.5%	9.8%	19.9%	20.5%	14.2%

Footnotes:

(1) Includes installations and leasehold improvements.

(2) Software no longer in use by the Bank at the relevant reporting dates has been deleted. The correction had no effect on the balance at balance sheet date.

B. The Bank and a consolidated subsidiary own leasehold rights for periods ending in the years 2022-2066.

16. Buildings and Equipment (continued)

	Consolidated		The Bank	
	December 31			
	2022	2021	2022	2021
	in NIS millions			
C. Depreciated balance of buildings and land includes:				
Installations and leasehold improvements depreciated balance	224	213	58	54
Balance of provision for impairment loss	6	6	6	6
D. Financial leasing rights:				
Balance of non-capitalized leasehold	4	4	3	3
Balance of capitalized leasehold	55	108	41	39
E. Depreciated balance of not yet registered buildings	1,247	822	751	504
F. Depreciated balance of buildings not in use by the bank, the majority of which are rented to other parties	5	2	4	2
G. Depreciated balance of buildings and equipment designated for sale (1)	126	87	28	87
H. The cost of in-house development of computer software:				
The cost of software put into operation	3,192	4,243	2,326	3,475
Accumulated depreciation	(2,402)	(3,447)	(1,731)	(2,876)
Depreciable amount	**790**	**796**	**595**	**599**
Accumulated costs for software under development	295	216	68	40
Total cost of in-house development of computer software	**1,085**	**1,012**	**663**	**639**
I. Gross value of fully depreciated fixed assets still in use	2,870	(2)2,584	1,712	(2)1,561
J. Recognized cost for fixed assets items in mounting stage:				
Cost of real estate	1,312	619	827	498
Cost of equipment	17	6	17	6

Footnotes:

(1) No loss on the sale of buildings and equipment held for sale in expected, in excess of the provisions created therefore.

(2) Software no longer in use by the Bank at the relevant reporting dates has been deleted. The correction had no effect on the balance at balance sheet date.

K. Realization of assets as part of the preparations for the relocation of the Head Offices and operation of the Bank to the Discount Campus

As part of the preparations for the relocation of the Head Offices and operation of the Bank, ICC and MDB to the Discount Campus, the following transactions were performed:

- The Bank sold on March 21, 2021, the property at 17, Yehuda Halevi Street in Tel-Aviv, which serves one of the Bank's Head Office units. Transfer of the right of possession in the property took place on December 31, 2021, and the property has been leased to the Bank until the planned relocation date to the Discount Campus, in the first half of 2023. Upon the transfer of possession of the property, the Bank recorded a profit of approx. NIS 38 million, net of the tax effect.
- On March 1, 2022, the Bank completed the sale transaction of two of its properties, located at 156 Herzl Street and 160 Herzl Street in Tel Aviv. In the first quarter of 2022 the Bank recorded a gain of approx. NIS 315 million, net of the tax effect. The property has been leased to the Bank until the planned relocation date to the Discount Campus.
- On March 23, 2022, ICC signed an agreement for the sale of the ICC Building in Givatayim, in consideration for NIS 336 million, with the addition of VAT and betterment levies. The transaction is expected to be consummated in the second quarter of 2023. ICC estimates a gain of approx. NIS 220 million, net of the tax effect, is expected to be recognized on this transaction at the date of closing the transaction (the Bank's share in this amount is approx. NIS 158 million).
- On August 8, 2022, MDB's Board of Directors gave approval for the bank to enter into a transaction for the sale of space in The Jubilee Tower in Tel Aviv, which serves the bank's Management and its central head office units. The closure of the transaction and transfer of possession of the property is expected by June 30, 2023. As assessed by it, MDB expects to recognize a gain of approx. NIS 80 million, net of the tax effect. The gain will be recognized in accordance with the date of completing the transfer of possession in the property. MDB has an option to defer the date of transferring possession by six months, until December 31, 2023, and, after that date, it also has an option to rent the property for up to two years.

16. Buildings and Equipment (continued)

L. Information on leases

1. Leases expenses

	Year 2022	Year 2021
	In NIS millions	
Expenses with respect to operating leases	184	123
Variable lease expenses	(1)40	(1)22
Income with respect to subleases	(3)	-
Total expenses with respect to leases	**(2)221**	**(2)145**

Footnotes:

(1) Includes VAT, linkage differences and interest.

(2) Expenses for leases are included in the items salaries and related expenses, and in maintenance and depreciation of building and equipment expenses in the statement of profit and loss.

2. Additional information on leases

	Year 2022	Year 2021
	In NIS millions	
Capital gain from sale and leaseback transactions	408	48
Cash paid with respect to balances included in measuring the lease liabilities:		
Cash flows with respect to operating activities with respect to operating leases	205	144
Right-of-use assets recognized with respect to new operating leases	588	107
Average weighted period balance (in years):		
With respect to operating leases	10.3	5.3
Average weighted discount interest:		
With respect to operating leases	1.2%	0.5%

3. Non-discounted cash flows and liabilities according to maturity periods

	December 31 2022		December 31 2021	
	Undiscounted cash flows	Lease liabilities	Undiscounted cash flows	Lease liabilities
	In NIS millions			
Up to 1 year	156	141	121	120
Over 1 year up to 2 years	136	124	101	100
Over 2 years up to 3 years	119	107	89	88
Over 3 years up to 4 years	96	86	63	63
Over 4 years up to 5 years	90	80	54	53
Over 5 years	796	723	352	347
Total	**1,393**	**1,261**	**780**	**771**

4. Non-discounted cash flows – liabilities for subleases[1]

	December 31 2022
	Undiscounted cash flows
	In NIS millions
Up to 1 year	3
Over 1 year up to 2 years	5
Over 2 years up to 3 years	5
Over 3 years up to 4 years	5
Over 4 years up to 5 years	5
Over 5 years	81
Total	**105**

Footnote:

(1) Activity that began in 2022 (IDB Bank).

17. Intangible Assets and Goodwill

	Consolidated
	Goodwill[1]
	in NIS millions
Cost	
Balance as at December 31, 2022, 2021 and 2020	**305**
Amortization and losses on impairment	
Balance as at December 31,2020	141
Amortization of customer relations asset	1
Balance as at December 31,2021	**142**
Amortization of customer relations asset	1
Balance as at December 31,2022	**143**
Book value	
Balance as at December 31,2020	**164**
Balance as at December 31,2021	**163**
Balance as at December 31,2022	**162**

Footnote:

(1) Goodwill recognized in business combination (goodwill recognized upon acquisition of an associate, included in the item "investment in associates").

18. Other Assets

	Consolidated		The Bank	
	December 31		December 31	
	2022	2021	2022	2021
	In NIS millions			
Net deferred tax assets (see Note 8 G)	2,261	1,787	1,109	1,143
Excess advance tax payments over current provisions	58	304	–	228
Issue costs and discount expenses of subordinated capital notes	49	52	56	59
Income receivable	166	136	146	133
Right-of-use assets for operating leases	1,205	773	509	529
Surrender value of life assurance policies owned by a consolidated subsidiary	866	747	–	–
Assets for Maof market operations	20	105	20	105
Gold deposit	93	88	93	88
Prepaid expenses	395	336	92	106
Other debtors and debit balances	627	678	315	383
Total other assets	**5,740**	**5,006**	**2,340**	**2,774**

19. Deposits from the Public

A. Type of deposits according to location of raising the deposit and type of depositor

	Consolidated		The Bank	
	December 31			
	2022	2021	2022	2021
	In NIS millions			
In Israel				
Demand deposits:				
Non-interest bearing	48,047	67,694	34,460	52,273
Interest bearing	69,432	56,182	61,173	50,705
Total demand deposits	**117,479**	**123,876**	**95,633**	**102,978**
Time deposits	139,379	103,221	121,786	87,022
Total deposits in Israel*	**256,858**	**227,097**	**217,419**	**190,000**
* Of which:				
Private individuals deposits	116,356	108,965	98,498	92,259
Institutional bodies deposits	29,655	21,353	22,676	14,583
Corporations and others deposits	110,847	96,779	96,245	83,158
Outside Israel				
Demand deposits:				
Non-interest bearing	6,622	6,991	-	-
Interest bearing	20,968	22,504	-	-
Total demand deposits	**27,590**	**29,495**	**-**	**-**
Time deposits	7,845	4,315	-	-
Total deposits outside Israel	**35,435**	**33,810**	**-**	**-**
Total deposits from the public	**292,293**	**260,907**	**217,419**	**190,000**

B. Deposits from the public according to size, on a consolidated basis

	December 31	
	2022	2021
Deposit limit	Balance	
In NIS millions	In NIS millions	
Up to 1	96,125	87,599
Over 1 up to 10	69,671	65,077
Over 10 up to 100	43,702	39,273
Over 100 up to 500	34,338	30,116
Over 500	48,457	38,842
Total	**292,293**	**260,907**

20. Deposits from Banks

	Consolidated		The Bank	
	December 31		December 31	
	2022	2021	2022	2021
	In NIS millions			
In Israel				
Commercial banks:				
Demand deposits	2,064	843	554	168
Time deposits	66	-	97	159
Central banks:				
Schedule deposits	9,731	9,724	6,403	6,399
Outside Israel				
Commercial banks:				
Deposits on demand	1,505	1,163	1,184	1,957
Schedule deposits	1,876	645	1,499	192
Acceptances	134	159	94	96
Central banks:				
Time deposits	-	-	-	-
Total deposits from banks	**15,376**	**12,534**	**9,831**	**8,971**

21. Bonds and Subordinated Capital Notes

	Consolidated				The Bank	
	Average maturity[(1)]	Internal rate of return[(1)]	December 31		December 31	
	years	%	2022	2021	2022	2021
			in NIS millions			
Bonds and subordinated capital notes not convertible into shares:						
In non-linked Israeli currency	6.85	2.59	3,307	4,095	-	893
In Israeli currency, linked to CPI	5.71	1.36	8,258	8,206	192	544
Commercial securities in non-linked Israeli currency	0.42	2.86	743	908	-	-
Bonds and subordinated capital notes convertible into shares:						
In Israeli currency, linked to CPI	-	-	-	[(2)]1,852	-	[(2)]1,852
Credit-linked notes (CLN):						
In non-linked Israeli currency	-	-	-	-	-	-
In foreign currency, Euro	-	-	-	10	-	10
Total bonds and capital notes[(3)(4)]			**12,308**	**15,071**	**192**	**3,299**

Footnotes:

(1) Internal rate of return is the rate which discounts the projected payment flow of amounts presented in the balance sheet. Period to maturity is the average of the repayments periods weighted by the cash flows discounted at the internal rate of return. Data regarding the internal rate of return and the period to maturity relates to the consolidated statements as of December 31, 2022.

(2) Subordinate capital notes, recognized as additional tier I capital, under the transitional instructions of Basel III.

(3) Of which: NIS 11,932 million in the consolidated, listed for trade on the Tel Aviv Stock Exchange (2021: NIS 13,926 million)

(4) Of which: NIS 4,593 million in the consolidated, are subordinated capital notes (2021: NIS 7,263 million)

Issuance of subordinated debt notes (Series G). On June 22, 2020, the Bank, through Manpikim, completed the process of issuing subordinated debt notes (Series G), which include a capital loss absorption mechanism (Coco), which are capital instruments classified as Tier 2 capital for their inclusion in the Bank's regulatory capital, in a total amount of NIS 440.4 million. On April 22, 2021, the Bank, through Manpikim, completed the process of issuing of the said subordinated debt notes, in a total amount of approx. NIS 932 million. On June 28, 2021, the Bank, through Manpikim, completed the process of issuing a private placement of the said subordinated debt notes, in a total amount of approx. NIS 250 million.

Issuance of subordinated debt notes (Series H). On November 29, 2021, the Bank, through Manpikim, completed the process of issuing subordinated debt notes (Series H), which include a capital loss absorption mechanism (Coco), which are capital instruments classified as Tier 2 capital for their inclusion in the Bank's regulatory capital, in a total amount of NIS 580 million.

21. Bonds and Subordinated Capital Notes

Issuance of subordinated debt notes (Series I). On November 28, 2022, the Bank, through Manpikim, completed the process of issuing subordinated debt notes (Series I), which include a capital loss absorption mechanism (Coco), which are capital instruments classified as Tier 2 capital for their inclusion in the Bank's regulatory capital, in a total amount of NIS 463 million.

Issue of debt instruments within the framework of an international private placement. On January 26, 2023, the Bank completed an international private placement of US dollar bonds, issued to institutional investors. The gross proceeds of the issue amounted to approx. US$799.48 million (NIS ___ million).

Issuance of commercial securities and bonds. On November 29, 2021, the Bank, by means of Manpikim, completed the issue of bonds (Series "O") were issued in a total amount of approx. NIS 3.1 billion and commercial securities (Series 1) in a total amount of approx. NIS 907 million.

On June 2, 2022, the Bank, by means of Discount Manpikim, completed the issue of bonds (expansion of Series "N") in a total amount of approx. NIS 1 billion, and commercial securities (Series 2) in a total amount of approx. NIS 700 million.

Early redemption of regulatory capital instruments. For details, see Note 25 1 below.

Early redemption of subordinated capital notes (Series 1). For details, see Note 25 1 (m) below.

22. Other Liabilities

	Consolidated		The Bank	
	December 31		December 31	
	2022	2021	2022	2021
	in NIS millions			
Net provision for deferred taxes (see Note 8 G)	24	22	12	16
Excess of current tax provisions over advance payments	134	83	70	-
Excess liabilities for employee benefits over assets of the plan (see Note 23 B)	2,136	2,634	1,550	1,898
Deferred income	275	251	188	159
Payables for credit card activity	10,476	9,767	2,016	2,102
Liabilities for operating leases	1,261	771	500	526
Allowance for credit losses for guarantees and facilities	424	249	336	185
Expenses payable	1,518	1,474	450	744
Liabilities for Maof market operations	20	105	20	105
Liabilities stemming from "Market making" activity	671	1,124	671	1,124
Other payables and receivables	1,156	1,279	342	601
Total other liabilities	**18,095**	**17,759**	**6,155**	**7,460**

23. Employee Benefits

A. Following is a description of the main benefits granted to employees of the group

(1) The liability of the Bank and its subsidiaries for severance pay to their employees, based on the customary one month’s salary for each year of employment, is mainly covered by deposits with severance pay funds and by insurance policies and pension funds, and the balance is recorded as a provision in the Bank's books. Most of the amounts accumulated in insurance policies and pension funds are not included in the balance sheet since they are not controlled by the Bank or its subsidiaries.

(2) Members of the Bank’s Management are entitled to the customary severance payments and an "adjustment"/non-competition award of between 4 to 8 months’ salary upon retirement, pursuant to individual agreements signed with them, and for which adequate provisions have been included (see section E below, in the matter of the approved compensation policy). The pension liability of a foreign consolidated company, based on actuarial computations, is covered by current deposits into a recognized foreign pension fund.

(3) In certain consolidated banking subsidiaries, several officers are entitled to "adjustment" bonus" equal to 6 to 9 months’ salaries, and for which adequate provisions have been included.

(4) The Bank and its subsidiaries are not permitted to withdraw these deposits except for making severance payments.

23. Employee Benefits (continued)

(5) A number of the Bank's employees were entitled to long-service bonuses equal to a certain number of monthly salaries, and to a certain number of additional vacation days, upon completing 20, 30 and 40 years of employment in the Bank. According to instructions of the Supervisor of Banks the provision for this liability was computed on an actuarial basis and stated at its present value. According to a collective labor agreement of December 2021, the future entitlement to a jubilee award, jubilee vacation and jubilee vacation pay for entitled employees had been abolished, and a format had been determined for computing the redemption amount of the liability of the Bank for the abolished entitlement.

(6) Employees of the Bank and its consolidated subsidiaries in Israel are entitled to annual vacation as provided by labor agreements in force, and subject to the guidelines of the Annual Vacation Law 5711- 1951. The liability for vacation pay is recognized over the period of employment in which the right to paid vacation accumulates. The liability is determined on the basis of the most recent salary in the reporting period with the addition of related payments.

(7) Employees of the Bank and its subsidiaries are entitled to certain benefits after retirement. The said liability is computed on an actuarial basis. In addition, some of the employees who accepted early retirement exchanged their retirement award with a pension for a determined period.

It should be noted that the agreement "Grades and stages" signed in 2011, reduced the benefits granted to retirees who were engaged as or converted to the status of tenured employees, subsequently to January 1, 2012. These benefits match now the terms applying to employees under this agreement, and consist of presents for the holidays and medical expenses.

The wage agreement dated February 21, 2019, reduces the benefits granted to pensioners and to all tenured employees – cancellation of reimbursement of medical expenses and of a daily newspaper.

(8) Several of the companies have adopted employee compensation plans, according to which the General Managers and/or other employees of these companies are entitled to a bonus, the amount of which is based upon their business results. The necessary provisions for these bonuses are included in the financial statements.

(9) **"Annuity" type retirement plan.** A number of retirees in the period from 2007 to 2011 (29 employees as of December 31, 2022) have chosen the full or combined annuity option, under which , the capital payment is converted into a series of monthly payments or into a combination of a capital payment and a series of monthly payments. The plan is limited in advance to a number of payments predetermined by the retiree (in the range of a minimum of 120 payments and the maximum of 300 payments).

(10) **2011 retirement plan.** A part of the retirees within the framework of the 2011 retirement plan (121 employees as of December 31, 2022), have elected the monthly pension option. The aforesaid liability is fully covered by the balance of the provision for severance pay.

The terms of the monthly pension are as follows:

- A CPI-linked monthly pension for the entire lifetime of the retiree, from the date of his/her retirement;
- The monthly pension amounts are determined on the retirement date according to an economic computation performed by the Bank, which derives from the amount of the balance in the severance pay fund that was converted to the pension;
- The employee can opt for a pension track with or without next of kin.
- The employee is given the option of choosing a guaranteed number of pension payments, based on his/her age.

For pension payable to the retiree and/or his/her spouse upon reaching the age of 85 years (all according to the route chosen by the retiree), the Bank has purchased insurance coverage that would secure the payment of the said pension and which will be paid directly by the insurance company.

(11) **2014, 2016 and 2018 retirement plans.** Some of the retirees under the 2014 retirement plan (1 employee as of December 31, 2022), 2016 retirement plan (4 employees as of December 31, 2022) and the 2018 retirement plan (2 employees as of December 31, 2022), have elected the monthly pension option covering the life of the retiree and/or his/her spouse, or the option combining a monthly pension with a one-off capital payment.

For pension payments due to a retiree who was sixty years of age or over at retirement date, or upon reaching the age of sixty, the Bank had purchased (or will purchase when the employee reaches the age of sixty) insurance coverage that ensures the payment of the said pension, which would be payable directly by the insurance company. Pension payments due until the retiree reaches the age of sixty, are payable directly by the Bank.

Terms of the monthly pension are as follows:

- A monthly pension for the life of the retiree since date of retirement, linked to the CPI until the employee reaches sixty years of age, and linked to the terms of the policy after the age of sixty;
- The employee may elect a pension option with or without next of kin;

23. Employee Benefits (continued)

- The employee may elect a pension option with or without ensuring a minimum pension payment for 240 months, with the addition of the number of months up to the age of sixty (for employees who have not yet reached the age of sixty at retirement date).

The capital payment, the pension payments by the Bank and the cost of the purchased insurance policy, are limited to the amount that would have been paid to the retiree had he elected the full capital payment option.

According to the said plans, upon the retiree reaching the age of 60, the Bank purchases coverage in insurance for the liability.

(12) **Nonrecurring awards according to special collective labor agreements dated December 23, 2021.** On December 23, 2021, special collective labor agreements in the matter of extension of validity of the Labor Charter and industrial peace for five years were signed by the Bank, the Employees Representative Committee and the New General Federation of Labor – MAOF Federation. In addition, special collective labor agreements were signed in the matters of salary and awards for three years, the transfer to the Discount Campus of the Bank's Head Office and additional units, and in the matter of redemption of the Jubilee Award, Jubilee vacation and Jubilee vacation pay (hereinafter: "the agreements").

Under the said agreements, it has been decided to pay nonrecurring awards, as follows:

- Consent award on the transfer to the Campus – employees who had been employed by the Bank at date of signature of the agreement, received in the course of 2022 a nonrecurring award for the consent to the transfer to the Discount Campus and the changes involved in such transfer. The provision for the consent award in 2021 amounted to approx. NIS 93 million (pre-tax effect).
- Awards for changes made to the Labor Charter –
  - For changes agreed upon by the parties in the agreement for extension of the validity of the Labor Charter, clerk grade employees of the "tenured" employee status, who had been employed by the Bank at date of signature of the agreement, received a nonrecurring award.
  - Managerial grade employees receive a nonrecurring award based on the ROE, paid subject to an annual return ratio of 10% in the year preceding the year of payment and at a total cost not exceeding NIS 8 million per year for all employees of this grade, in each of the years 2022-2024.

  Provision for the award in 2021 regarding changes in the Labor Charter amounted to approx. NIS 101 million.
- Award to branch employees – in the course of 2022, Bank branch employees received an additional nonrecurring award at a cost of NIS 10 million (pre-tax effect).

B. Details of benefits

	Consolidated		The Bank	
	December 31			
	2022	2021	2022	2021
	in NIS millions			
Severance pay, retirement and pension :				
The liability amount	2,644	3,180	1,920	2,336
Fair value of the plan's assets	1,219	1,384	936	1,103
Excess liabilities over the plan's assets included in the item "other liabilities	**1,425**	**1,796**	**984**	**1,233**
Amounts included in the other liabilities item:				
Post retirement benefits to retirees	562	677	482	571
Vacation	142	153	84	94
Illness	7	8	-	-
Total Excess liabilities of the program included in the item "other liabilities" (Note 22)	**2,136**	**2,634**	**1,550**	**1,898**
Of which – for benefits to employees abroad	30	29	-	-

23. Employee Benefits (continued)

C. Defined benefit plan – consolidated

1. Commitment and financing status

1.1 Change in commitment for anticipated benefits

	For the year ended December 31			
	2022	2021	2022	2021
	Severance pay, retirement and pension payments		Post retirement retiree benefits	
	in NIS millions			
Commitment for anticipated benefits at the beginning of the year	3,180	3,133	677	613
Cost of service	117	105	8	6
Cost of interest	81	54	13	15
Actuarial loss (profit)	(542)	320	(106)	74
Changes in foreign currency exchange rates	-	-	3	(1)
Benefits paid	(172)	(432)	(33)	(30)
Other	(20)	-	-	-
Commitment at the end of the year for anticipated benefits	**2,644**	**3,180**	**562**	**677**
Commitment at the end of the year for accumulated benefits[1]	**2,272**	**2,786**	**562**	**677**

Footnote:

(1) The commitment for a cumulative benefit differs from the commitment for a contractual benefit in that it does not include any assumptions with regard to the future compensation levels.

1.2 Change in fair value of the plan's assets and financing status of the plan

	For the year ended December 31	
	2022	2021
	Severance pay, retirement and pension payments	
	in NIS millions	
Fair value of the plan's assets at the beginning of the year	1,384	1,318
Actual return on the plan's assets	(135)	169
Deposits to the plan	26	22
Benefits paid	(53)	(168)
An addition stemming from the merger of Municipal Bank	(3)	43
Fair value of the plan's assets at the end of the year	**1,219**	**1,384**
Financing status – net liability recognized at the end of the year	**(1,425)**	**(1,796)**

1.3 Amounts recognized in the consolidated balance sheet

	December 31			
	2022	2021	2022	2021
	Severance pay, retirement and pension payments		Post retirement retiree benefits	
	in NIS millions			
Amounts recognized in the item "other liabilities"	(1,425)	(1,796)	(562)	(677)
Net liability at the end of the year	**(1,425)**	**(1,796)**	**(562)**	**(677)**

23. Employee Benefits (continued)

C. Defined benefit plan – consolidated

1. Commitment and financing status

1.4 Amounts recognized in accumulated other comprehensive income, before tax effect

	December 31			
	2022	2021	2022	2021
	Severance pay, retirement and pension payments		Post retirement retiree benefits	
	in NIS millions			
Net actuarial loss	(665)	(1,109)	(22)	(127)
Net cost for prior service	-	-	(1)	-
Closing balances of accumulated other comprehensive income (loss)	**(665)**	**(1,109)**	**(23)**	**(127)**

1.5 Plans in which the commitment for cumulative benefits exceeds the plan's assets

	December 31	
	2022	2021
	Severance pay, retirement and pension payments	
	in NIS millions	
Commitment for cumulative benefits	2,154	2,786
Fair value of the plan's assets	1,068	1,384

1.6 Plans in which the commitment for anticipated benefits exceeds the plan's assets

	December 31	
	2022	2021
	Severance pay, retirement and pension payments	
	in NIS millions	
Commitment for anticipated benefits	2,644	3,180
Fair value of the plan's assets	1,219	1,384

23. Employee Benefits (continued)

C. Defined benefit plan – consolidated (continued)

2. Expense for the year

2.1 Components of net benefit costs recognized in the statement of profit and loss for defined benefits pension plans and a defined deposit

	For the year ended December 31,		
	2022	2021	2020
	in NIS millions		
Severance pay, retirement and pension payments			
Cost of service	117	105	90
Cost of interest	81	54	75
Anticipated return on assets of the plan	(73)	(64)	(58)
Cost of prior service	(20)	-	-
Amortization of unrecognized amounts:			
Net actuarial loss	67	72	65
Total amortization of unrecognized amounts	**67**	**72**	**65**
Other, including loss from reduction or settlement	46	143	413
Total net cost of benefits	**218**	**310**	**585**
Total expense regarding defined deposits pension plans	**210**	**191**	**201**
Total expenses included for Severance pay, retirement and pension payments	**428**	**501**	**786**
Of which: expenses included in salaries and related expenses	327	296	291
Of which: expenses included in other expenses	101	205	495
Post retirement retiree benefits			
Cost of service	8	6	6
Cost of interest	13	15	16
Amortization of unrecognized amounts:			
Net actuarial income	(1)	-	(2)
Cost of prior service	(1)	(2)	(1)
Total amortization of unrecognized amounts	**(2)**	**(2)**	**(3)**
Total net cost of benefits	**19**	**19**	**19**
Of which: expenses included in salaries and related expenses	8	6	6
Of which: expenses included in other expenses	11	13	13

23. Employee Benefits (continued)

C. Defined benefit plan – consolidated (continued)

2. Expense for the year (continued)

2.2 Changes in assets of the plan and in the commitment for benefits recognized in other comprehensive income (loss), before tax effect

	For the year ended December 31					
	2022	2021	2020	2022	2021	2020
	Severance pay, retirement and pension payments			Post retirement retiree benefits		
	in NIS millions					
Net actuarial loss (income) for the year	(331)	172	896	(106)	74	(3)
Amortization of actuarial income (loss)	(67)	(72)	(65)	1	-	2
Amortization of credit for prior service	-	-	-	1	2	1
Other, including loss from reduction or settlement	(46)	(143)	(413)	-	-	-
Total recognized in other comprehensive (income) loss	**(444)**	**(43)**	**418**	**(104)**	**76**	**-**
Total net cost of benefits[1]	**218**	**310**	**585**	**19**	**19**	**19**
Total amount recognized in net cost of benefits and in other comprehensive income (loss)	**(226)**	**267**	**1,003**	**(85)**	**95**	**19**

Footnote:
(1) See item 2.1 above.

3. Assumptions

3.1 Assumptions on the basis of a weighted average used in determining the commitment for the benefit and in measuring the net cost of the benefit

3.1.1 Principal assumptions used in determining the commitment for the benefit

	December 31			
	2022	2021	2022	2021
	Severance pay, retirement and pension payments		Post retirement retiree benefits	
Discount rate	1.64%-1.83%	-0.75%-0.53%	1.76%-2.00%	-1.18%-0.80%
Retirement rate	0.42%-26.28%	0.41%-24.28%		
Compensation growth rate	1.80%	1.80%		

3.1.2 Principal assumptions used in measuring the net cost of benefit for the period

	December 31			
	2022	2021	2022	2021
	Severance pay, retirement and pension payments		Post retirement retiree benefits	
Discount rate	0.46%-1.29%	-0.14%-0.82%	0.04%-1.49%	-0.53%-1.07%
Anticipated long-term return on the plan's assets	5.93%	4.84%		
Compensation growth rate	2.17%	2.09%		

23. Employee Benefits (continued)

C. Defined benefit plan – consolidated (continued)

3. Assumptions (continued)

3.2 Effect of a one percentage point change on the commitment for anticipated benefits, before the tax effect

	Increase of one percentage point				Decrease of one percentage point			
	Severance pay, retirement and pension payments		Post retirement retiree benefits		Severance pay, retirement and pension payments		Post retirement retiree benefits	
	December 31							
	2022	2021	2022	2021	2022	2021	2022	2021
	in NIS millions							
Discount rate	(237)	(305)	(43)	(62)	228	322	43	64
Retirement rate	129	128	(1)	–	(136)	(133)	1	–
Compensation growth rate	237	305	–	–	(196)	(275)	–	–

4. The plan's assets

4.1 Composition of the fair value of the plan's assets

	December 31, 2022			December 31, 2021		
	level 1	level 2	Total	level 1	level 2	Total
	in NIS millions					
Type of asset						
Cash and deposits with banks	78	–	78	80	–	80
Shares	305	35	340	539	35	574
Bonds:						
Government	269	29	298	248	27	275
Corporate	294	56	350	296	64	360
Total bonds	563	85	648	544	91	635
Other	(2)	155	153	10	85	95
Total	**944**	**275**	**1,219**	**1,173**	**211**	**1,384**

4.2 Fair value of the plan's assets by type of asset and Allocation target for the year 2022

	Allocation target	% of the plan's assets	
	Year 2023	December 31, 2022	December 31, 2021
	in percentage		
Type of asset			
Cash and deposits with banks	0.2-18.2	6.4	5.8
Shares	26.7-49.9	27.9	41.5
Bonds:			
Government	16.8-24.6	24.4	19.9
Corporate	23.0-32.3	28.7	26.0
Total bonds	39.8-56.9	53.1	45.9
Other	2.9-12.1	12.6	6.8
Total		**100.0**	**100.0**

23. Employee Benefits (continued)

C. Defined benefit plan – consolidated (continued)

5. Cash flow

5.1 Deposits

	Forecast[1]	Deposits in practice	
		For the year ended December 31,	
	2023	2022	2021
	Severance pay, retirement and pension payments		
	in NIS millions		
Deposits	26	26	22

Footnote:
(1) Assessment of expected deposits with defined benefit pension plans during 2023.

5.2 Benefits expected to be paid by the Bank in the future

	Severance pay and pension payments
Year	In NIS millions
2023	195
2024	173
2025	151
2026	135
2027	143
2028-2032	626
2033 and thereafter	1,384
Total	**2,807**

D. **Compensation policy for officers of the Bank (2020-2022).** At a special General Meeting held on March 18, 2020, it was resolved to approve the compensation policy for the Bank's officers for the years 2020 through 2022, according to Section 267A of the Companies Law. The compensation policy will remain in force for a period of three years from the date of the general meeting's approval.

The Bank's compensation policy is subject, inter alia, to the provisions of the Companies Law, the Supervisor's directives and the Compensation Law.

The compensation policy includes, inter alia, the following components: the maximum monthly salary amount and the considerations in setting this; the scope of severance pay, which will usually be at a rate of 100% of the monthly salary, while prescribing provisions in connection with the inclusion of Section 14 of the Severance Pay Law; the prior notice period, which is not to exceed four months; the possibility of making a payment equal to up to six monthly salaries and related terms and conditions (excluding social benefit payments) for an officer's undertaking to adhere to a non-competition period of up to six months (when, in exceptional instances, the Bank will be entitled to decide to make the payment in the aforesaid scope without an undertaking for a non-competition period); a variable retirement terms payment, which will be subject to payment deferral arrangements; payment of a recruitment grant in special instances; payment of country-to-country relocation expenses incurred by an officer as a result of his appointment; related terms and conditions; a plan for the payment of annual awards to officers, subject to meeting the prescribed threshold goals. The scope of the annual award for officers is based on meeting Group indicators and individual indicators that reflect the officer's contribution to attaining the Bank's goals and on a discretionary award component. As part of the policy, special provisions have been prescribed regarding compensation of officers who deal with risk management, control and audit. The policy also includes a provision setting a ceiling for the amount of annual awards paid to any of the officers, as well as provisions allowing the distribution of a special contribution award and a discretionary award from a budget to be placed at the President & CEO's disposal. The policy prescribes arrangements for spreading the annual award, as well as provisions on the terms of service and employment of the Chairman of the Board of Directors and of the President & CEO.

The Compensation Committee and the Board of Directors have been authorized to approve an award to officers answerable to the President & CEO, other than on measurable indicators criteria basis, of up to a maximum amount of three monthly salaries to each such officer.

23. Employee Benefits (continued)

The President & CEO has been authorized to approve immaterial changes in the terms of service of the officers answerable to him, without needing the approval of the Compensation Committee, according to the Companies Regulations (Relaxations in Transactions with Interested Parties), 5760-2000, while, regarding the President & CEO, immaterial changes in his terms of service can be approved by the Compensation Committee.

Under the policy, provisions have been prescribed whereby variable compensation granted and paid will be repayable upon fulfillment of criteria prescribed in the compensation policy, according to that specified in Directive 301A.

The policy includes limits on the scope of the compensation to officers taking into consideration the rules and limits prescribed in the Compensation Law.

The policy also includes provisions on the possibility of granting equity compensation to officers, subject to limits on the scope of the compensation that are prescribed in the compensation policy.

E. **Compensation policy for officers of the Bank (2023-2025).** At a special General Meeting held on February 28, 2023, it was resolved to approve the compensation policy for the Bank's officers for the years 2023 through 2025, according to Section 267A of the Companies Law. The compensation policy will remain in force for a period of three years from the date of the general meeting's approval.

The Bank's compensation policy is subject, inter alia, to the provisions of the Companies Law, the Supervisor's directives and the Compensation Law.

The principal changes between the compensation policy for the Bank's officers (2023-2025) and the previous compensation policy for officers are as follows:

(1) Monthly salary – Adjusting the monthly salary ceiling for officers, except for the directors and the President & CEO, to an amount of NIS 140,000, linked to the increase in the index known on the date of the Compensation Policy's approval (instead of a ceiling of NIS 130,000, linked to the index), which reflects the increase in the index in relation to the previous ceiling.

(2) Annual award:
- Adding a clarification that the Bank may prescribe further threshold conditions in addition to those set forth in the Proposed Compensation Policy and deleting the threshold condition whereby the rate of return on equity in the award year is not to be less than 7%;
- Deleting the sections that relate to entitlement to an annual award upon termination of employment and upon commencement of employment during the year;
- Spreading the annual award – adding a condition whereby, if the Bank does not fulfill the condition for the payment of the portion of the annual award that is deferred (that the Bank has not recorded a loss in its consolidated financial statements for the award year that preceded the date for paying the deferred portion of the award), the payment of the aforesaid deferred portion of the award will be deferred to the following year, and if, as stated, the Bank does not fulfill said condition also at that time, the entitlement to that deferred portion of the award will be revoked.

(3) Award for special contribution – raising the ceiling for this award to an amount of NIS 5 million per annum for all the officers and subject to the limit in the Supervisor's Directive regarding the total of the variable component that can be granted discretionally to an officer (instead of a ceiling of NIS 1 million).

(4) Equity compensation – adding a clarification that the vesting period of the equity compensation (which, according to the existing Compensation Policy, will be spread over a period of not less than three years) will be at a vesting pace that is not to be faster than under a straight-line approach, and the expiry period in relation to the options will be up to six years from the date of their allotment.

(5) Repayment pursuant to the Supervisor's directives – amending the definition of "Exceptional Harm" so that it will include an actual monetary expense for the Bank that exceeds 2% of the Bank's shareholders' equity at the time of the expense materializing, according to its latest published consolidated financial statements (instead of 5%), and this is for the matter of repayment in the case where the officer was complicit in behavior that caused Exceptional Harm to the Bank, as described in the proposed compensation policy.

(6) Definition of an immaterial change – adding a clarification that the tested cost in relation to the last year or in relation to the annual cost in 2022, whichever is the higher, in connection with a change that is immaterial, is after excluding changes that stemmed from previous approvals of the President & CEO as an immaterial change, as well as adding a clarification that the limit on the annual cost to the Bank, as prescribed in section 13.2 of the Compensation Policy, does not include the cost in respect to updating existing provisions deriving from changes in employment terms (such as, the provision for severance pay or for an adaptation grant in the event of a change in the monthly salary).

23. Employee Benefits (continued)

F. Award plan for members of the Bank's Management and for the Internal Auditor (2017–2019)

On December 26, 2016, the Bank's Board of Directors adopted the recommendation of the Compensation Committee and approved the award plan for members of the Bank's Management and for the Internal Auditor for the years 2017–2019 ("the plan"), according to the compensation policy for an officer at the Bank ("the Compensation Policy"). The plan is described in Note 23 F to the financial statements as of December 31, 2020.

Awards for 2019. Under the compensation plan, the mechanism for the spreading of the award applied in 2019 to two members of Management, where in their case, the total amount of the award to which a member of Management is entitled exceeded 40% of the fixed award of that member of Management.

The Compensation Committee confirmed the fulfillment of the conditions for the payment of the third and final installment of the deferred award for 2019 for 2 members of Management, according to the policy for the compensation of Officers, which would be paid soon after the publication of the 2022 Annual Report.

G. Award plan for members of the Bank's Management and for the Internal Auditor (2020-2022)

1. **General.** On February 10, 2020, the Bank's Board of Directors accepted the recommendation of the Compensation Committee and approved an awards plan for members of the Bank's Management for the years 2020 through 2022 ("the Plan"), according to the compensation policy for the Bank's officers ("the Compensation Policy").
2. **Annual award for Executive Vice Presidents**
   - (a) **General.** The annual award for Executive Vice Presidents (including the Internal Auditor) is composed of an award based on meeting Group indicators ("a Group Award") and an award based on indicators deriving from meeting the goals of the division/activity over which the Executive Vice President is responsible ("an Individual Award").
   - (b) The total award for an Executive Vice President for the Group indicators and the individual indicators is not to exceed six (6) monthly salaries (or five and a half (5.5) monthly salaries for the Executive Vice President for Oversight and Control).
   - (c) The threshold terms for payment of the annual award will be meeting the following minimum cumulative indicators:
     1. The rate of return on equity in the award year is not to be less than 7% (seven percent), excluding exceptional profits or losses (as these are defined in the Compensation Policy);
     2. The total capital adequacy ratio and the Common Equity Tier 1 adequacy ratio, as per the Bank's annual consolidated financial statements for that award year, are not to be less than the minimum ratios prescribed in the Supervisor of Banks' directives;
     3. Attainment of the minimum qualitative indicator score, which will include the Executive Vice President's contribution in implementing processes in the corporate governance fields, meeting the Bank's general goals in the fields of risk management, compliance with laws (including internal enforcement in the securities field and/or other fields), regulatory directives and the Bank's procedures;

     If, for any of the Executive Vice Presidents, the threshold terms referred to in this subsection are not met in the award year, that Executive Vice President will not be entitled to an annual award for said year. This, however, should not be taken as prejudicing the entitlement of the other Executive Vice Presidents to an annual award.
   - (d) The Group Award – the Group Award for each Executive Vice President will be limited to an amount that shall not exceed three monthly salaries of the Executive Vice President, or two and a half monthly salaries for the Executive Vice President for Oversight and Control. As of 2022, the Group indicators comprised the return on equity (with a 50% weighting) and the efficiency ratio (with a 50% weighting). A target goal will be set for each Group indicator, pursuant to which the minimum and maximum goals for that indicator will be set; meeting these respective goals will grant entitlement to the award at the rates prescribed in the Plan from the maximum amount of the award in relation to the indicator.
   - (e) The Individual Award – the Individual Award will be limited to an amount that shall not exceed three monthly salaries for each Executive Vice President and will be calculated on the basis of the indicators that focus on the goals set for the division for which the Executive Vice President is responsible in the aforesaid year, which will be recommended by the President & CEO and, proximate to the start of the award year, will be brought before the Compensation Committee and the Board of Directors for approval. A target goal will be set for each indicator, pursuant to which the minimum and maximum goals for that indicator will be set; meeting these respective goals will grant entitlement to the award at the rates prescribed in the Plan from the maximum amount of the award in relation to the indicator.
   - (f) **Compensation of officers engaged in risk management, control and audit**

     In relation to the Bank's risk management, control and audit functions (the Internal Auditor, the Chief Accountant, the Chief Legal Counsel, and the Chief Risk Officer; collectively: "the Oversight and Control Functions"), special provisions have been prescribed as part of the Plan, taking into consideration the importance and sensitivity of the duties imposed on these functions.

23. Employee Benefits (continued)

According to the Supervisor's directives, the ratio between the fixed compensation and the variable compensation of the Oversight and Control Functions will be weighted more in favor of the fixed compensation, including in relation to officers that are not included as part of the Oversight and Control Functions.

Accordingly, the Bank has prescribed that part of the annual award that is attributable to the Group indicators will be lower for the Control and Oversight Functions than for the other officers.

The President & CEO's duties in relation to recommending the personal indicators that comprise the personal award and their weighting and the exercise of discretion for the annual award components (as stated in section 2 below) will be done by the Audit Committee for the Bank's Internal Auditor, by the Bank's Risk Management Committee in consultation with the Bank's President & CEO, for the Bank's Chief Risk Officer and by the Audit Committee in consultation with the Bank's President & CEO for the Bank's Chief Accountant.

3. **Special contribution award and individual qualitative award (discretionary award)**

   (a) Special contribution award – the Compensation Committee and the Board of Directors may grant a special award to all the Executive Vice Presidents or to any of them (both during the award year and also if the threshold terms in the award year have not been met), for exceptional performance or for a special contribution in attaining the Bank's goals, including for meeting the measurable criteria set in advance by the Board of Directors, provided that the amount of the special contribution awards does not exceed an amount of NIS 1 million per year and subject to the maximum awards amount as referred to in section 4 below.

   (b) Discretionary award – The Bank's President & CEO has been given a budget for discretionary awards that is not to exceed two and a quarter times the monthly salaries of the Executive Vice Presidents entitled to such awards, which will be distributed at the discretion of the President & CEO, with this being the case even if the threshold terms in the award year have not been met, if, in the President & CEO's opinion, there are reasons that justify doing so, or if an annual award has been granted in the award year. The discretionary award amount is not to exceed three monthly salaries for a single Executive Vice President and is subject to the maximum awards amount as referred to in section 4 below. The distribution of the discretionary awards budget will be carried out subject to approval from the Compensation Committee and the Board of Directors.

4. **Maximum amount of all the awards**

   The total awards amount for all the officers (including the President & CEO) for the award year is not to exceed 2.5% of the net profit attributable to the Bank's shareholders, as per the annual financial statements for the award year.

   The total awards amount for an award year for a Business Executive Vice President (one who is defined as such by the Board of Directors) is not to exceed nine monthly salaries of that Executive Vice President.

   The total awards amount for a head office Executive Vice President (one who is not a Business Executive Vice President or an Oversight and Control Executive Vice President) and for an Oversight and Control Executive Vice President is not to exceed eight monthly salaries of that Executive Vice President.

5. **Spreading the award**

   (a) 50% of the awards amount for the award year will be paid immediately after publication of the Bank's financial statements for the award year.

   (b) 50% of the awards amount will be linked to the rise in the CPI, will be deferred and will be spread in three equal portions over the three years following the eligibility date for the awards amount (hereinafter: "the Deferred Award" and "the Deferred Award Portion").

   (c) Payment of a Deferred Award Portion will be contingent on the Bank not recording a loss in its consolidated financial statements for the award year preceding the payment date for the Deferred Award Portion.

   (d) Notwithstanding the aforesaid, if, in any award year, the variable compensation to which an officer is entitled for that year does not exceed 40% of the officer's fixed compensation, 100% of the awards amount for the award year will be paid, without the spreading and deferral mechanism coming into play.

6. The Plan also adopts the provisions of the officers' Compensation Policy concerning the authority of the Board of Directors to reduce the total awards amount, to the maximum amounts of an Executive Vice President's annual compensation, to provisions on the repayment of award amounts paid to an Executive Vice President, and to circumstances for invalidating the awards amount.

7. **Awards for 2020.** No eligibility for an annual award was conferred on the Executive Vice Presidents for 2020. It was also decided that no qualitative personal awards would be granted.

23. Employee Benefits (continued)

8. **Awards for 2021.** In view of the Bank's compliance with the threshold terms for an annual award (see Section 2(c) above), the Compensation Committee and the Board of Directors approved the distribution of a collective award according to attaining of the collective indices determined according to the award plan (see Section 2(d) above), and distribution of a personal award computed on the basis of indices focused on goals set for the Division under the responsibility of the Vice President (see Section 2(e) above). Also, the distribution of the budget for the discretionary awards based on the recommendation of the President & CEO in a differential manner was approved (see Section 3(b) above). It should be noted that within the framework of the computation of the awards, the Compensation Committee and the Board of Directors, under their authority according to the definition of special profits or losses in the compensation policy applying to officers of the Bank, approved a special loss for an expense recognized in December 2021 for awards of a nonrecurring nature in connection with the consent for changes in the set of collective labor agreements at the Bank and in connection with the relocation to the Discount Campus in Rishon LeTzion (including an expense of a similar nature at MDB for the agreement for the relocation to the Campus), in a total amount of approx. NIS 232 million before tax (NIS 152 million net of tax effect). Approval of the special loss has increased the collective award by approx. 0.36 salaries on an average for the Vice President, and for reasons of caution has been classified as a discretionary award component, subject to the limit relating to the total amount of discretionary awards of up to three monthly salaries according to Directive 301A. For details on the nonrecurring awards, see Section A (12) above (in view of the classification as a discretionary award, as stated, the annual award has in fact increased by an amount equal to approx. 0.08 salaries on an average, for a Vice President). In addition, the Compensation Committee and the Board of Directors approved awards for special contribution for three Vice Presidents of the Bank, in a total amount of NIS 568 thousand, and subject to the discretionary limitation as discussed above (see Section 3(a) above).

   The total amount of awards for Vice Presidents for the year 2021, according to the award plan, amounted to NIS 9,978 thousand.

   According to the compensation plan, the award distribution mechanism for the awards for 2021 applies to 7 Vice Presidents, which in their case, the total amount of awards to which a Vice President is entitled exceeds 40% of the regular compensation of that Vice President.

9. **Awards for 2022.** In light of the Bank meeting the annual award threshold terms (see section 2(c) above), the Compensation Committee and the Board of Directors have approved the distribution of a group award in accordance with having met the group indicators set in the awards plan (see section 2(d) above; as of 2022, the group indicators include the return on equity (with a 50% weighting) and the efficiency ratio (with a 50% weighting)), and the distribution of a personal award that is calculated based on the indicators that focus on the goals set for the division for which the vice president is responsible (see section 2(e) above). In addition, a budget has been approved for discretionary awards, whose distribution will be according to the recommendation of the CEO, on a differential basis (see section 3 (b) above). In addition, the Compensation Committee and the Board of Directors approved awards for special contribution to two Executive Vice Presidents at the Bank, in a total amount of NIS 596 thousand, and subject to a judgment limitation, as stated (see section 3 (a) above).

   All the awards for the vice presidents for 2022, in accordance with the awards plan, amount to NIS 9,064 thousand.

   In accordance with the compensation plan, the award spreading mechanism will apply to the 2022 awards for 6 vice presidents, where the amount of the awards to which the vice president is entitled exceeds 40% of the fixed compensation for that vice president.

H. Awards plan for members of the Bank's Management and for the internal auditor (2023-2025)

General. On January 23, 2023, the Bank's Board of Directors accepted the recommendation of the Compensation Committee and approved the awards plan for members of the Bank's Management for the years 2023-2025 according to the Bank's Compensation Policy for Officers ("the Compensation Policy").

The main changes between the awards plan for members of the Bank's management and for the internal auditor (2023-2025) and the awards plan that preceded it:

(1) Spreading the annual award – a condition has been added whereby, if the Bank does not meet the terms for paying the part of the annual award that is deferred (that the Bank has not recorded a loss in its consolidated financial statements for the award year preceding the date of paying the deferred award installment), the payment of said deferred award installment will be deferred to the following year, and, if the Bank does not meet the aforesaid terms at that time either, the entitlement to said deferred award installment will be canceled.

(2) Award for a special contribution – the maximum amount of this award has been increased to NIS 5 million per year for all officers, subject to the limit imposed in the Supervisor of Banks' directive with regard to the total of the variable component that can be discretionally granted to an officer (in place of the previous maximum amount of NIS 1 million).

23. Employee Benefits (continued)

I. **The 2020 retirement plan**

(1) **Discount Bank.** On August 26, 2020, the Bank's Board of Directors approved an efficiency plan, according to which, about 300 permanent employees of the Bank, belonging to the defined target population (ages 50-66), would be able to take early retirement under preferential terms. In light of the success of the retirement plan and the interest shown by many additional employees in retiring according to the terms and conditions of the plan, the Bank's Board of Directors approved, on October 19, 2020, enlarging the retirement plan by up to an additional 200 employees.

This plan increased the liability recorded in the Bank's books by NIS 495 million (before the tax effect; in excess of the cost of severance pay according to the law and the surplus balance from a previous retirement plan).

The cost of updating the actuarial liabilities for employees for the efficiency plan was treated as an actuarial loss and recorded in other comprehensive income.

Costs of the plan are amortized to profit and loss as part of the balance of "actuarial profits/losses", by the straight line method over the remaining average period of service of the employees. In reporting periods, in which "settlement" is effected (as defined by US GAAP), an additional amortization of the "actuarial profits/losses" balance would be added to the said amortization, in the ratio of the settlement costs borne by the Bank (actual payments whether for regular retirement or early retirement) to the balance of liability for severance pay.

Settlement costs in the amount of NIS 375 million were recorded in the year ended December 31, 2020. Settlement costs in the amount of NIS 143 million were recorded in the year ended December 31, 2021.

(2) **Mercantile Discount Bank.** Within the efficiency measures adopted by MDB, the Board of Directors of this bank approved on September 15, 2020, an early retirement plan for employees, including preferential retirement terms. The plan has been implemented by MDB in the fourth quarter of 2020, and its total cost amounted to NIS 117 million. Following the above stated, MDB added an amount of approx. NIS 60 million to its severance pay liabilities as of December 31, 2020. The said increase has been classified as an actuarial loss recorded in the section "Other comprehensive income" being part of shareholders' equity (net of tax savings of NIS 20 million).

Settlement costs in the amount of NIS 38 million were recorded in the year ended December 31, 2020.

(3) **ICC.** On September 30, 2020, ICC's board of directors approved a one-time retirement plan, following the drawing up of an outline by the company's management, against the background of the Corona crisis and the desire to significantly increase the number of retirees beyond the number of employees expected to retire due to natural retirement. In light of the aforesaid, it was decided to make an exceptional and one-time change to the retirement outline at the company, and to offer retirees preferred terms and conditions compared to the usual retirement terms and conditions.

Under the plan, approx. 80 permanent employees of the company, belonging to the target population defined, were eligible for early retirement under preferred terms and conditions. The retirees were offered enlarged severance pay at a rate of up to 200%. The total cost of the retirement plan was estimated at NIS 31 million, before tax effect. This cost was recognized in 2020's results as a non-recurring expense.

(4) The amount of the settlement that was charged to profit and loss in 2020 (including for the previous retirement plans) amounted to NIS 413 million (before tax effect). The amount of the settlement charged to profit and loss in 2021, amounted to approx. NIS 143 million (before tax effect). The balance will be spread over the average duration of the liability, which currently stands at approx. 13 years, according to the accounting principles applicable to the Bank.

J. **The 2022 retirement plan.** On August 29, 2022, the Bank's Board of Directors approved a retirement plan for permanent employees having the defined characteristics, would be entitled to early retirement under preferential terms.

The liability existing in the books of the Bank covers in full the cost of the plan, accordingly, no increase in the liability reflected in the books of the Bank is expected, and no effect is expected on the Bank's equity capital and on its capital adequacy.

Until February 28, 2023, some 57 permanent employees had signed an early retirement request from the Bank.

The amount of the settlement charged to profit and loss in 2022, amounted to approx. NIS 46 million (before tax effect).

24. Shareholders' Equity, Preferred Shares, Share based payment transactions and Dividends

A. The authorized, issued and paid-up nominal capital (In new Israeli Shekels)

	December 31,2022		December 31, 2021	
	Authorized	Issued and Fully Paid-Up	Authorized	Issued and Fully Paid-Up
Ordinary "A" Shares of NIS 0.1 par value each	260,515,000	123,701,129	260,515,000	116,401,699
6% Cumulative Preferred Shares, of NIS 0.00504 each (equivalent to £10 each)	202	202	202	202
Total shareholders equity	**260,515,202**	**123,701,331**	**260,515,202**	**116,401,901**

Ordinary "A" Shares are registered and are listed for trade on the Tel Aviv Stock Exchange.

On March 30, 2022, the Bank completed a process of issuing shares to the public, comprising 72,994,300 shares of a par value of NIS 0.1 each, in total consideration for approx. NIS 1,428 million.

B. 6% cumulative preferred authorized share capital

The dividend and the rights of these shareholders are linked to the representative rate of exchange of the New Israel shekel to the pound sterling at the date of each payment. At the balance sheet date, every holder of a preference share, the par value of which is equivalent to £10, is entitled to an annual dividend in an amount of NIS 2.54, and at the time of liquidation to a distribution in an amount of NIS 42.37. According to Israeli accounting principles, non-participating preference shares are not to be included as part of shareholders' equity, and accordingly they are presented under the section "other liabilities".

C. Dividend

(1) General. The distribution of dividends by the Bank is subject to the provisions of the law, including limitation deriving from Directives of the Supervisor of Banks.

(2) Restrictions established in instructions of the Supervisor of Banks. Proper Conduct of Banking Business Directive No. 331 determines restrictions on the distribution of dividends. Letters of the Supervisor of Banks in the matters of "Capital policy for interim periods" and "Basel III framework – Minimum core capital ratios" required banking corporations, among other things, to avoid a distribution of dividend, if as a result thereof, the banks might not attain the capital targets determined in the said letters.

(3) Dividend payment for preferred shares. On December 28, 2021, a dividend for the year 2022 at the rate of 6% was paid to the holders of 40,000 6% cumulative preferred shares of NIS 0.00504 par value each, in a total amount of £24,000.

(4) Dividend policy. On December 26, 2017 the Bank's Board of directors approved a dividend policy, according to which, starting with the first quarter of 2018, the Bank will distribute in each quarter a dividend at the rate of up to 15% of the net distributable earnings, as reflected in the consolidated financial statements for the preceding quarter.

On November 26, 2019, the Bank's Board of Directors approved an update to the Bank's dividend policy. According to which, starting with the third quarter of 2019, the Bank may distribute in each quarter, a dividend of up to 30% of the distributable net earnings according to the consolidated financial statements for the previous quarter, instead of a distribution rate of up to 15%.

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

On April 7, 2020, on the background of Corona virus crisis and with the aim of supporting the credit needs of its customers, the Bank's Board of Directors decided to temporarily discontinue the distribution of dividends. The Bank has resumed the distribution of dividends, starting with the profits of the third quarter of 2021, at the rate of 20%.

On March 12, 2023, the Bank's Board of Directors decided to make a dividend distribution at the rate of 20% of the profits of the fourth quarter of 2022, in an amount of approx. NIS 187.8 million, representing approx. 15.18 Agorot per ordinary A' share of NIS 0.1 par value.

24. Shareholders' Equity, Preferred Shares, Share based payment transactions and Dividends (continued)

(5) Details on the dividend paid

Declaration date	Payment date	Total dividend paid	Rate from the profit	Dividend per share
		In NIS million	In percentage	In agorot (100 agorot = NIS 1)
March 15, 2020	April 5, 2020	48.8	15	4.19
November 22, 2021	December 9, 2021	144.4	20	12.41
March 8, 2022	March 30, 2022	105.8	20	9.09
May 22, 2022	June 9, 2022	196.6	20	15.89
August 11, 2022	August 30, 2022	135.9	20	10.99
November 23, 2022	December 13, 2022	178.6	20	14.44

D. Share based payment transactions - Equity compensation for officers and senior employees

(1) Outline for the allocation of share options. On May 30, 2022, the Bank's Board of Directors approved an outline for the granting of up to 10,000,000 nonmarketable share options to offerees, at no cost, each of which would be exercisable, upon fulfillment of certain terms, into one registered Ordinary A share of the Bank of a par value of NIS 0.1, subject to adjustments (hereinafter: "the outline" and "the pool", respectively), and it also approved on June 27, 2022, following approval by the Bank's Remuneration Committee regarding Officers of the Bank, the actual granting of up to 3,939,972 share options out of the pool, to 33 employees of the Bank, of which are 9 Executive Vice Presidents and 24 senior managers reporting to VP's, engaged by the Bank under personal employment agreements (hereinafter: "the first allotment"). On July 17, 2022, the Bank allotted the options to the offerees according to the present allotment (hereinafter: "date of allotment").

The options under the first allotment and the options that would be allotted in the future, if at all, under the outline, are allotted according to the capital compensation plan 2022, approved by the Board of Directors and submitted to the Tax Authority on May 31, 2022 (hereinafter: "the plan") and according to the provisions of Sections 102(b)(2) and 102(b)(3) of the Income Tax Ordinance (New Version), 1961, under the capital profit tax option, by means of a Trustee.

In the event that entitlement of the offeree to the option that had been granted to him expires and/or is cancelled prior to being exercised by him, the option returns to the pool being used by the Bank, and out of which, the Bank would be entitled to grant options according to the provisions of the plan and the outline, at its exclusive discretion.

Vesting period. The options granted to each offeree are divided into two tranches. The first tranche (one half of the options) vests at the end of two years since date of allotment, and the second tranche (one half of the options) vests at the end of three years from date of allotment (hereinafter: "the original vesting date").

Vesting performance goals. Each option tranche allotted to an offeree vests on the determined date for vesting, subject to the Bank fulfilling the cumulative conditions detailed below (hereinafter: "vesting performance goals"):

- The comprehensive capital adequacy ratio and the Common Equity Tier 1 ratio, according to the annual consolidated financial statements of the Bank for the two calendar years ended prior to the vesting date of the first trance and for the calendar year ended prior to the vesting date of the second tranche, shall not be lower that the minimal ratios determined in Directives of the Supervisor of Banks;
- The Bank's rate of return on equity according to the Bank's annual consolidated financial statements of the Bank for the two full calendar years ended prior to the vesting date of the first tranche, shall not be lower than 7% on an average, and the rate of return on equity in the calendar year ended prior to the vesting date of the second tranche shall not be lower than 7%. In the event that the Bank does not attain the performance goal of return on equity on the original vesting date of a particular tranche, the compliance test regarding this performance goal regarding that tranche would be deferred to the next year, so long as the option has not expired, with the rate of return on equity with respect to the first tranche shall be tested in relation to the three calendar years prior to the deferred vesting date, and with respect to the second tranche, shall be tested in relation to the calendar year prior to the deferred vesting date.

Exercise price. The exercise price of the options that would be allotted according to the outline, shall at least equal the average of the closing quotations of the shares of the Bank on the Stock Exchange on the thirty trading days prior to the date of approval of granting by the Board of Directors (or by the manager of the plan) with the addition of a premium to be determined, if at all, when in relation to the first allotment a premium of 5% has been determined, and the exercise price of each option allotted to the offerees in the first allotment amounts to NIS 19.66 (subject to adjustments according to the outline).

24. Shareholders' Equity, Preferred Shares, Share based payment transactions and Dividends (continued)

Exercise period. Each tranche may be exercised as from the original date of vesting and until the end of two years from the said date, subject to adjustments in certain cases.

Manner of exercising the options. The exercise shall be made by an exercise mechanism of options into shares based on the benefit component (Net exercise).

Automatic compulsory exercise. In the event that following the vesting of any option tranche and prior to its expiry, the closing quotation for the Bank's shares on the Stock Exchange at the close of whatever trading date, would be equal to or exceed a price which is 70% higher than the closing quotation for the shares of the Bank on the trading day immediately prior to the date on which the Board of Directors approved the granting of options (with respect to the first allotment – an amount of NIS 31.65) (hereinafter: "the maximum quotation"), then all options of that tranche would be automatically exercised.

Miscellaneous instructions. The outline contains different instructions, including instructions regarding cases of termination of employment; instructions regarding adjustment of the right of the offeree to exercise the options in case of different events happening; instructions regarding the management of the plan and the authority of the manager of the plan, and more.

The economic value of the options. The fair value of the options granted under the first allotment, as of date of approval of the present allotment by the Board of Directors, amounts to approx. NIS 15,701 thousands. The fair value of the options is based upon a binomial model for the pricing of options, consistent with the Black & Scholes formula, all according to the assumptions as contained in the outline.

The number of options allotted in the first allotment, for each offeree being an Officer, reflects the fair value as of date of approval of the allotment by the Board of Directors, which equals the amount of three monthly salaries for each vesting year, and for an offeree being another senior employee, equals two monthly salaries for each vesting year.

(2) **Additional allotment in 2022.** On August 11, 2022, the Board of Directors approved an additional actual allotment of 638,341 options according to the outline, to five employees of the Bank, of which, two are Executive Vice Presidents, and three are senior managers reporting to VP's, who are employed by the Bank under a personal employment agreement. The exercise price of each option allotted to the offerees in the additional allotment amounts to NIS 19.81 (subject to adjustments according to the outline). The stated fair value of the options granted under the additional allotment, as of date of approval of the additional allotment by the Board of Directors, amounts to approx. NIS 3,077 thousands.

(3) **Additional allotment in 2023.** On January 23, 2023, the Board of Directors approved the actual grant of an additional 966,840 options, pursuant to the outline, to 11 employees of the Bank, who are senior managers reporting to a vice president and who are employed at the Bank under a personal contract. The exercise price for each option granted to the allottees in this grant is NIS 19.34 (subject to adjustments in accordance with the outline). The fair value of the options granted within the framework of this allotment, as of the date of approval of the allotment by the Board of Directors, is approx. NIS 3,814 thousand.

(4) **Details regarding the total cost of compensation.** The cost of compensation recognized in profit and loss in 2022 totaled approx. NIS 3 million (2021 – NIS 0 million).

As of December 31, 2022, the total cost of the inclusive compensation relating to awards not yet matured, which, as yet, has not been recognized in the statement of profit and loss is approx. NIS 15 million, and the weighted average period over which it is expected to be recognized is approx. 1.6 years.

24. Shareholders' Equity, Preferred Shares, Share based payment transactions and Dividends (continued)

(5) Assessment of fair value

	For the year ended December 31,			
	2022			
	First allotment		Second allotment	
	First tranche	Second tranche	First tranche	Second tranche
Risk-Free rate (%)	2.59	2.62	2.31	2.35
Volatility of the share price (weighted average) (%)	28.36	26.49	28.61	26.73
Period to expiry of the option	4 years	5 years	4 years	5 years

(6) Movement in share options

	For the year ended December 31,			
	2022			
	First allotment		Second allotment	
	Number of options	Weighted average of exercising price[3]	Number of options	Weighted average of exercising price[3]
Granted during the year[1]	3,939,972	19.66	638,341	19.81
Existing in circulation at the end of the year [2]	3,939,972	19.41	638,341	19.56

Footnotes:

(1) The weighted average of the fair value of share options granted in the course of the year is NIS 4.10.

(2) Existing in circulation share options at the end of the year classified according to range of exercise price (in NIS):

	December 31,
	2022
Range of exercise price (in NIS)	19-20
Number of options	4,578,313
Weighted average of exercising price (in NIS)	19.43
Weighted average of the balance of the contractual period to maturity (in years)	4.06
Of which, number of exercisable options	-

(3) Exercise price of the options, subject to adjustments for the distribution of dividends.

25. Capital Adequacy, Leverage and Liquidity according to Directives of the Supervisor of Banks

1. Capital adequacy according to Directives of the Supervisor of Banks

A. **Adoption of Basel III provisions.** On June 3, 2013, the Supervisor of Banks issued amendments to Proper Conduct of Banking Business Directives, to modify them to the Basel III guidelines.

The said amendments gradually entered into effect beginning with January 1, 2014, according to the transitional provisions determined in Proper Conduct of Banking Business Directive No. 299 regarding "measurement and capital adequacy – the regulatory capital – transitional provisions". The data presented below (as of December 31, 2022) reflects deductions, according to the transitional provisions. Among other things, the Directives state more stringent requirements for the components qualified for inclusion in regulatory capital and regulatory adjustments (deductions from capital).

According to the instructions, starting with January 1, 2015, the minimum total capital ratio, which the Bank is required to attain, is 12.5%.

The Bank prepared a detailed plan for attaining the capital targets, and is acting toward its implementation.

B. **Additional capital requirements for housing loans.** On September 28, 2014 the Supervisor of Banks issued an amendment to Proper Conduct of Banking Business Directive No. 329, under which, a banking corporation is required to increase their capital target by a rate which expresses 1% of the outstanding housing loans. The said requirement increased the minimum capital requirement by approx. 0.19% as of December 31, 2022.

25. Capital Adequacy, Leverage and Liquidity according to Directives of the Supervisor of Banks (continued)

1. Capital adequacy according to Directives of the Supervisor of Banks

It is noted that in accordance to the Provisional Instruction from April 27, 2020, the said requirement shall not apply to housing loans approved as from March 19, 2020 and until date of expiry of the Provisional Instruction. Housing loans approved as from the effective date of the provisional instruction, and for which, the additional capital requirement does not apply, as stated, amounted at December 31, 2022 to NIS 18,013 million. In reply to an approach by the Bank, the Supervisor of Banks clarified on June 2, 2021, that the said requirement relates only to the Common Equity Tier 1 goal, and that it is not required to apply it also for the total capital goal. Accordingly, the required minimum total capital ratio has been reduced by approx. 0.2%.

On December 27, 2021, as part of the updating of Proper Conduct of Banking Business Directive No. 329, "Limitations on Issuing Housing Loans", it was prescribed that the aforesaid additional capital requirement would apply solely to loans for housing and would not apply to a housing loan not for acquiring a land right and a housing pledge ("an 'any purpose' loan").

C. **Relief on the retirement plans**

(1) **Relief on the retirement plan 2018.** The Supervisor of Banks granted the Bank relief for its 2018 efficiency plan. Costs in a total amount of approx. NIS 145 million (before taxes; an amount of NIS 95 million net of tax) have been eliminated in computing capital adequacy in the report for the second quarter of 2018, and are gradually amortized, as from the third quarter of 2018, on a quarterly straight-line basis (5% per quarter) over a period of five years. Costs in the amount of NIS 86 million have been amortized to December 31, 2022.

(2) **Relief on the retirement plan 2020.** The Supervisor of Banks granted the Bank relief regarding its 2020 retirement plan. Costs in a total amount of approx. NIS 257 million (before taxes; an amount of NIS 169 million net of tax) have been eliminated in computing capital adequacy in the report for the second quarter of 2020, and are gradually amortized, as from the third quarter of 2020, on a quarterly straight-line basis (5% per quarter) over a period of five years. Costs in the amount of NIS 84 million have been amortized to December 31, 2022. Additional details on the retirement plan are given in Note 23 I.

(3) **Relief on the expanding of the retirement plan 2020.** The Supervisor of Banks granted the Bank relief on the expanding of its 2020 retirement plan. Costs in a total amount of approx. NIS 238 million (before taxes; an amount of NIS 157 million net of tax) have been eliminated in computing capital adequacy in the report for the third quarter of 2020, and are gradually amortized, as from the fourth quarter of 2020, on a quarterly straight-line basis (5% per quarter) over a period of five years. Costs in the amount of NIS 70 million have been amortized to December 31, 2022. Additional details on the retirement plan are given in Note 23 I.

(4) **Relief on the retirement plan 2020 - MDB.** The Supervisor of Banks granted MDB a relief regarding its 2020 retirement plan. Costs in a total amount of approx. NIS 60 million (before taxes; an amount of NIS 40 million net of tax) have been eliminated in computing capital adequacy in the 2020 annual report, and are gradually amortized, as from the fourth quarter of 2020, on a quarterly straight-line basis (5% per quarter) over a period of five years. Costs in the amount of NIS 18 million have been amortized to December 31, 2022. Additional details on the retirement plan are given in Note 23 I.

D. **Capital components subject to fluctuations.** The Bank manages its capital adequacy with the intent of complying with the requirements of the Supervisor of Banks and with the targets set by the Board of Directors. The capital adequacy of the Bank is subject to changes, inter alia, for a change in the volume of risk assets and deductions from capital, for changes in market return, which affect the profits of the available-for-sale portfolio and are recognized in the capital reserve, and for actuarial changes recognized in capital, as a result of changes in the interest rate used for the computation of the Bank's liabilities or other actuarial assumptions, such as mortality rates, retirement, etc.

E. **Provisional Instruction mitigating the capital requirements to face the Corona crisis.** The Supervisor of Banks published on March 31, 2020 a Provisional Instruction, according to which, on the background of the spreading of the Corona virus and in order to secure the ability of banks to continue the granting of credit, the regulatory capital requirements applying to banks, have been reduced so that the minimum Common Equity Tier 1 ratio (excluding the additional capital buffer for residential credit) would be 8% (compared to 9% prior to the change), and the minimum total capital ratio would be 11.5% (compared to 12.5% prior to the change). The Provisional Instruction has been extended from time to time, and recently until December 31, 2021. On December 27, 2021, the Banking Supervision Department published a circular, according to which, with effect from January 1, 2022, the temporary directive will cease to be valid. The mitigated capital requirements will apply for a period of twenty-four months following the end of the temporary directive period (namely, until December 31, 2023), on condition that the Bank's capital ratios shall not be lower than the capital ratios existing at the end of the temporary directive period, or the capital ratios applying to the Bank prior to the temporary directive, whichever is lower. As from January 1, 2022, with the expiry of the period of the Provisional Instruction, the minimum level of the Common Equity Tier 1 ratio and the minimum level of the total capital ratio reverted to the level of 9% and 12.5%, respectively, subject to that stated above.

25. Capital Adequacy, Leverage and Liquidity according to Directives of the Supervisor of Banks (continued)

1. Capital adequacy according to Directives of the Supervisor of Banks

F. (1) **An early redemption in full of Series "A" and Series "B" capital notes (hybrid tier 1 capital).** On January 1, 2022, the Bank redeemed the capital notes by means of an early redemption in full, according to the terms of the capital notes and following the approval of the Supervisor of Banks, in a total amount of approx. NIS 1,852 million, including interest and linkage increments.

(2) **An early redemption in full of the subordinate capital notes (Series L).** On January 10, 2020, the Bank redeemed the subordinated capital notes (which include a loss absorption mechanism) by means of an early redemption in full, according to the terms of the capital notes and following the approval of the Supervisor of Banks, in a total amount of approx. NIS 784 million, including interest and linkage increments.

G. Capital for calculating ratio of capital

Computed according to Proper Conduct of Banking Business Directives Nos. 201-211 in the matter of "measurement and capital adequacy".

	December 31,	
	2022	2021
	in NIS millions	
Common equity tier 1 after deductions	(1)25,353	(1)21,839
Additional tier 1 capital after deductions	-	178
Tier 1 capital	25,353	22,017
Tier 2 capital after deductions	6,878	6,971
Total capital	**32,231**	**28,988**

Footnote:
(1) See item "C" above.

H. Weighted risk assets balance

	December 31,	
	2022	2021
	in NIS millions	
Credit risk(1)	225,052	194,544
Market Risk	3,633	3,738
CVA risk	2,077	1,656
Operational risk	16,685	15,383
Total weighted risk assets balance	**247,447**	**215,321**

Footnote:
(1) The total weighted balances of the risk assets have been reduced by NIS 252 million (December 31,2021: NIS 343 million) due to adjustments in respect to the efficiency plan and an amount of NIS 555 million in respect of adjustments for higher capital requirements in respect of housing loans of increased risk, designated for the purchase of land.

25. Capital Adequacy, Leverage and Liquidity according to Directives of the Supervisor of Banks (continued)

1. Capital adequacy according to Directives of the Supervisor of Banks (continued)

I. Ratio of capital to risk assets

	December 31,	
	2022	2021
	In %	
A. Consolidated		
Ratio of common equity tier 1 to risk assets	10.25	10.14
Ratio of total capital to risk assets	13.03	13.46
Ratio of minimum common equity tier 1 required by the Supervisor of Banks[(3)(5)]	9.19	8.16
Minimum total capital adequacy ratio required by the Supervisor of Banks[(5)]	12.50	11.50
B. Significant subsidiaries		
1. Mercantile Discount Bank LTD. and its consolidated companies		
Ratio of common equity tier 1 to risk assets	11.07	11.9
Ratio of total capital to risk assets	13.66	14.01
Ratio of minimum common equity tier 1 required by the Supervisor of Banks[(4)(5)]	9.22	8.18
Minimum total capital adequacy ratio required by the Supervisor of Banks[(5)]	12.5	11.5
2. Discount Bancorp Inc. [(1)]		
Ratio of common equity tier 1 to risk assets	14.12	12.57
Ratio of total capital to risk assets	15.05	13.62
Ratio of minimum common equity tier 1 required according to local regulation[(2)]	4.5	4.5
Minimum total capital adequacy ratio required according to local regulation[(2)]	8.0	8.0
3. Israel Credit Cards LTD.		
Ratio of common equity tier 1 to risk assets	12.4	15.3
Ratio of total capital to risk assets	13.5	16.3
Ratio of minimum common equity tier 1 required by the Supervisor of Banks	8.0	8.0
Minimum total capital adequacy ratio required by the Supervisor of Banks	11.5	11.5

Footnotes:

(1) The data in this item was computed according to the rules mandatory in the U.S.A.

(2) IDB Bank is subject to the new Basel III capital rules based on the final rules published by the FRB. Capital ratios are as follows: 4.5% CET1 to risk-weighted assets; 6.0% Tier 1 capital to risk-weighted assets; and 8.0% Total capital to risk-weighted assets.

(3) With an addition of 0.19% (December 31, 2021: 0.16%), according to the additional capital requirements with respect to housing loans - see item 1 (b) above.

(4) With an addition of 0.22% (December 31, 2021: 0.18%), according to the additional capital requirements with respect to housing loans - see item 1 (b) above.

(5) For details regarding provision instruction mitigating the capital requirements in order to face the Corona crisis, see section E above.

25. Capital Adequacy, Leverage and Liquidity according to Directives of the Supervisor of Banks (continued)

1. Capital adequacy according to Directives of the Supervisor of Banks (continued)

J. Capital components for calculating ratio of capital

	December 31,	
	2022	2021
	in NIS millions	
A. Common Equity Tier 1		
Common equity	25,478	22,148
Difference between common equity and common equity tier 1	(262)	(395)
Total common equity tier 1 before supervisory adjustments and deductions	**25,216**	**21,753**
Supervisory adjustments and deductions		
Goodwill and other intangible assets	175	195
Supervisory adjustments and other deductions	25	8
Total supervisory adjustments and deductions before effect of adjustments for the efficiency plan and before effect of adjustment for expected credit losses	**200**	**203**
Total adjustments in respect to the efficiency plan	202	289
Total adjustments for expected credit losses	135	-
Total common equity tier 1 after supervisory adjustments and deductions	**25,353**	**21,839**
B. Additional tier 1 capital		
Additional tier 1 capital before supervisory adjustments and deductions	-	178
Total additional tier 1 capital after supervisory adjustments and deductions	**-**	**178**
C. Tier 2 capital		
Instruments before deductions	3,942	4,431
Allowance for credit losses before deductions	2,839	2,452
Minority interests in a subsidiary	97	88
Total tier 2 capital before deductions	6,878	6,971
Deductions	-	-
Total tier 2 capital	**6,878**	**6,971**

K. The effect of the adjustments for the efficiency plan, expected credit losses and increased risk loans for the purchase of land

	December 31,	
	2022	2021
	In %	
Ratio of Common Equity Tier 1 to risk items before effect of adjustments	10.07	9.99
Effect of the adjustments in respect to the efficiency plan[(1)]	0.11	0.15
Effect of adjustments for expected credit losses[(2)]	0.05	-
Effect of adjustments for increased risk loans for the purchase of land[(3)]	0.02	-
Ratio of common equity tier 1 to risk assets after the effect of the adjustments	10.25	10.14

Footnotes:

(1) See item C and J above.

(2) Adjustments for the effect of initial application of accounting principles regarding expected credit losses, which are gradually being decreased until December 31, 2024. See also item J above.

(3) Adjustments for the effect of initial application of the directives of the Supervisor of Banks regarding higher capital requirements for increased risk loans intended to finance the purchase of land, which are gradually being decreased until June 30, 2023.

L. The issue of hybrid tier 1 capital

(1) General

The subordinate capital notes issued by the Bank in the years 2006-2009, as detailed in sections (2) and (3) below have been recognized as hybrid tier 1 capital under the Basel II rules. The said capital notes were not qualified in terms of the Basel III provisions, though according to the transitional provisions they were recognized in the transitional period as additional tier I capital, and were gradually eliminated in the years 2014-2021.

25. Capital Adequacy, Leverage and Liquidity according to Directives of the Supervisor of Banks (continued)

1. Capital adequacy according to Directives of the Supervisor of Banks (continued)

(2) Hybrid tier 1 capital - Series "A"

The issue of hybrid tier 1 capital in the years 2006-2007. On December 31, 2006 subordinate capital notes, in its par value, were issued in the amount of NIS 750 million in a private placement, and on May 13, 2007 an additional NIS 250 million was issued to investors in a private placement. On May 31, 2007, the Bank published a Prospectus for the listing for trade of subordinate capital notes.

The issue of hybrid tier 1 capital in 2008. On September 25, 2008 the Bank issued subordinated capital notes (Series "A"), by way of enlarging of an existing Series, listed for trade per Prospectus dated May 30, 2007, in a par value of approx. NIS 147 million, through a private issue to classified investors (as defined in the Securities Regulations (Offer of Securities to the Public), 5767-2007).

Early redemption. On January 1, 2022, the Bank redeemed the capital notes in a full early redemption according to the terms of the capital notes and after obtaining approval from the Supervisor of Banks.

(3) Hybrid tier 1 capital - Series "B"

Issue of hybrid tier 1 capital in March 2009. The Bank entered into an agreement with Migdal Insurance Company Ltd. (participation in profits), Migdal Insurance Company Ltd. (nostro) and Migdal Makefet Pension Funds and Provident Funds Management Ltd., each of them separately according to its share, for the private placement of NIS 350 million par value of the Bank's subordinated capital notes (Series "B") in a total consideration for NIS 350 million.

Early redemption. On January 1, 2022, the Bank redeemed the capital notes in a full early redemption according to the terms of the capital notes and after obtaining approval from the Supervisor of Banks.

M. Issuance of subordinate debt notes which include a loss absorption mechanism

Series "L". On January 10, 2017, the Bank issued an amount of approx. NIS 784 million par value of subordinate debt notes (series "L"), which were listed for trade on the Stock Exchange. The subordinate debt notes (Series "L") comprised capital instruments, which were classified as Tier 2 capital for inclusion in the Bank's regulatory capital and complied with the qualifying terms contained in the Basel III rules.

Early redemption. On January 10, 2022, the Bank redeemed the capital notes in a full early redemption according to the terms of the capital notes and after obtaining approval from the Supervisor of Banks.

Series "F". On October 29, 2019, the Bank issued (through Manpikim Company) an amount of approx. NIS 1,232 million par value of subordinate debt notes (series "F"), which were listed for trade on the Stock Exchange. The subordinate debt notes (Series "F") include a loss absorption mechanism through the elimination of the principal sum of the subordinate debt notes (Series "F") either in full or in part, in the case of certain circumstances occurring, as detailed below. The subordinate debt notes (Series "F") comprise capital instruments, classified as Tier 2 capital for inclusion in the Bank's regulatory capital and comply with the qualifying terms contained in the Basel III rules. On January 7, 2020, the Bank (through Manpikim Company) issued to a classified investor in a private placement, subordinate debt notes (Series "F") in the nominal value of NIS 100 million.

The principal sum of the subordinate debt notes (Series "F") will be repaid in one amount on October 29, 2030, unless Discount Manpikim has previously used its right for the early redemption if the subordinate debt notes after six years, subject to approval of the Supervisor of Banks.

The outstanding balance of the subordinate debt notes (Series "F"), carries a fixed annual interest of 1.46% payable once a year.

Series "G". On June 22, 2020, the Bank (through Manpikim company) issued subordinate debt notes (Series "G") in the nominal value of approx. NIS 440.4 million, which were listed for trading on the Stock Exchange. The said subordinate debt notes (Series "G") contain a loss absorption mechanism by the elimination of the principal sum of the subordinate debt notes (Series "G"), in whole or in part, upon existence of certain circumstances, as detailed below. The subordinate debt notes (Series "G") comprise a capital instrument classified as Tier 2 capital for their inclusion in the Bank's regulatory capital, and which comply with the qualifying terms of Basel III. On April 22, 2021, the Bank issued (through Manpikim) approx. NIS 1,286.05 million subordinated debt notes (Series G) in a public offering by way of extending a listed series.

The principal sum on the subordinate debt notes (Series "G") shall be redeemed in one payment, on July 1, 2031, unless, prior to this date, Discount Manpikim exercises its right for the premature redemption of the subordinate debt notes after six years, subject to approval of the Supervisor of Banks.

The outstanding balance of the subordinate debt notes (Series "G") carries a fixed annual interest rate of 2.42%, payable once in each year.

25. Capital Adequacy, Leverage and Liquidity according to Directives of the Supervisor of Banks (continued)

1. Capital adequacy according to Directives of the Supervisor of Banks (continued)

Series "H". On November 27, 2022, the Bank (through Manpikim company) issued NIS 573.1 million par value of subordinate debt notes (Series "H"), which were listed for trading on the Stock Exchange. The said subordinate debt notes (Series "H") contain a loss absorption mechanism by the elimination of the principal sum of the subordinate debt notes (Series "H"), in whole or in part, upon existence of certain circumstances, as detailed below. The subordinate debt notes (Series "H") comprise a capital instrument classified as Tier 2 capital for their inclusion in the Bank's regulatory capital, and which comply with the qualifying terms of Basel III.

The principal sum on the subordinate debt notes (Series "H") shall be redeemed in one payment, on November 1, 2032, unless, prior to this date, Discount Manpikim exercises its right for the premature redemption of the subordinate debt notes, no earlier than November 1, 2027, and no later than December 1, 2027, subject to approval of the Supervisor of Banks.

The outstanding balance of the subordinate debt notes (Series "H") carries a fixed annual interest rate of 0.2%, payable once in each year.

Series "I". On November 28, 2022, the Bank (through Manpikim company) issued NIS 463.3 million par value of subordinate debt notes (Series "I"), which were listed for trading on the Stock Exchange. The said subordinate debt notes (Series "I") contain a loss absorption mechanism by the elimination of the principal sum of the subordinate debt notes (Series "I"), in whole or in part, upon existence of certain circumstances, as detailed below. The subordinate debt notes (Series "I") comprise a capital instrument classified as Tier 2 capital for their inclusion in the Bank's regulatory capital, and which comply with the qualifying terms of Basel III.

The principal sum on the subordinate debt notes (Series "I") shall be redeemed in one payment, on November 30, 2033, unless, prior to this date, Discount Manpikim exercises its right for the premature redemption of the subordinate debt notes, no earlier than November 30, 2028, and no later than December 30, 2028, subject to approval of the Supervisor of Banks.

The outstanding balance of the subordinate debt notes (Series "I") carries a fixed annual interest rate of 3.17%, payable once in each year.

Constitutive event for non-viability. Upon occurrence of circumstances comprising a constitutive event for non-viability, as described below, Discount Manpikim shall write-off (fully or partly) the subordinate debt notes of the said series. A constitutive event for non-viability of a banking corporation is the earlier of the two following events:

- Announcement of the Supervisor to the Banks that the conversion of the capital instrument or its write-off is imperative, and that, in the opinion of the Supervisor, without it the bank would reach the point of non-viability;
- Notice to the Bank by the Supervisor of Banks on the decision to carry out the raising of capital from the public sector, or other support of equal value, without it the bank would reach the non-viability point, as stated by the Supervisor of Banks.

In the event that following the write-off of the principal sum and up to a period of 7 years from the date of the write-off (15 years from the issuance date in Series "L"), the Bank's Common Equity Tier 1 ratio would rise above the minimum capital ratio determined for the Bank by the Supervisor of Banks, then the Bank, at its discretion, would be entitled to announce the reversal, in part or in full, of the principal's write-off.

25. Capital Adequacy, Leverage and Liquidity according to Directives of the Supervisor of Banks (continued)

2. Leverage ratio according to Directives of the Supervisor of Banks

Computed according to Proper Conduct of Banking Business Directive No. 218 in the matter of leverage ratio.

Temporary directive for a relaxation in relation to leverage in light of the Corona crisis. On November 15, 2020, the Banking Supervision Department issued an update to Proper Conduct of Banking Business Directive No. 250. The update deals with the relaxation in the leverage ratio for a banking corporation, so that it will amount to 4.5% for a banking corporation whose market share is smaller than 24%. This was done to prevent a situation where the leverage ratio would constitute an obstacle to extending bank credit. The temporary directive has been extended from time to time. In a circular dated May 15, 2022, the relief stipulated in this matter was extended so that it will be valid until June 30, 2024, provided that the leverage ratio is not less than the rate on December 31, 2023 or from the minimum leverage ratio required from a banking corporation prior to the temporary directive, the lower of the two.

	December 31,	
	2022	2021
	in NIS millions	
A. Consolidated		
Tier 1 capital(1)	25,353	22,017
Total exposures	412,180	368,120
	In %	
Leverage ratio	6.2	6.0
Minimal Leverage ratio required by the Supervisor of Banks	4.5	4.5
B. Significant subsidiaries		
1. Mercantile Discount Bank LTD. and its consolidated companies		
Leverage ratio	5.9	6.0
Minimal Leverage ratio required by the Supervisor of Banks	4.5	4.5
2. Discount Bakcorp Inc.		
Leverage ratio	10.3	9.4
Minimal Leverage ratio required by the Supervisor of Banks	4.0	4.0
3. Israel Credit Cards LTD.		
Leverage ratio	9.2	11.1
Minimal Leverage ratio required by the Supervisor of Banks	4.5	4.5

Footnote:
(1) For the effect of the adjustments for the efficiency plans, see items 1 J ,K.

Factors which may materially affect the leverage ratio. The changes in the scope of exposure and the Tier 1 capital of the Bank may lead to changes in the Bank's leverage ratio. For possible changes in the regulatory capital, see section 1 D above.

25. Capital Adequacy, Leverage and Liquidity according to Directives of the Supervisor of Banks (continued)

3. Liquidity coverage ratio according to Directives of the Supervisor of Banks

Computed according to Proper Conduct of Banking Business Directive No. 221 in the matter of liquidity coverage ratio.

General. The Bank implements Proper Conduct of Banking Business Directive No. 221 in the matter of liquidity coverage ratio, which adopts the recommendations of the Basel Committee on the liquidity coverage ratio in the banking industry in Israel. The liquidity coverage ratio tests a 30-day horizon in the stress test and is intended to ensure that a banking corporation maintains an inventory of high quality liquid assets covering the liquidity requirements of the banking corporation within that time horizon. The Directive determines the manner of calculation of the liquidity coverage ratio, including the definition of characteristics and operating requirements as to the "inventory of high quality liquid assets" (the numerator) and the safety factors for such as well as the net cash outflow expected in the stress test as defined in the Directive for the 30 calendar days (the denominator).

The stress test determined in the Directive includes a shock combining a shock specific to the corporation as well as a market-wide shock, under which standard withdrawal rates have been determined for the cash outflows and rates of deposits of cash inflows according to the categories of the different balances.

The computation is based on the average of daily observations in the period of ninety days prior to the date of the report (with the exception of ICC, where the computation was based on the average of monthly observations).

Factors which may materially affect the liquidity coverage ratio. The Bank manages the liquidity risk with the aim of ensuring the ability to honor its liabilities in different variable situations. This, according to requirements and restrictions determined by the Board of Directors in the matter of liquidity risk management and according to guidelines of the Supervisor of Banks.

Factors that may materially impact the liquidity situation and for which the Bank has made preparations, include different situations, local and international, which may affect the cost of raising resources and their availability, the value of liquid assets and the repayment ability of the Bank's customers.

	For the three months ended December 31,	
	2022	2021
	In %	
A. Consolidated		
Liquidity coverage ratio	130.5	123.1
Minimal Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0
B. The Bank		
Liquidity coverage ratio	145.4	131.9
Minimal Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0
C. Significant subsidiaries[(1)]		
Mercantile Discount Bank LTD. and its consolidated companies		
Liquidity coverage ratio	134.2	128.6
Minimal Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0

Footnote:

(1) The new directive does not apply to credit card companies and thus data relating to ICC are not presented. Likewise, the directive does not apply to IDB Bank.

25. Capital Adequacy, Leverage and Liquidity according to Directives of the Supervisor of Banks (continued)

4. Net Stable Funding Ratio according to the Supervisor of Banks's directive

General. With effect from December 31, 2021, the Bank applies Proper Conduct of Banking Business Directive No. 222, "Net Stable Funding Ratio – NSFR", which adopts the recommendations of the Basel Committee regarding a Net Stable Funding Ratio in the Israeli banking system. According to the directive, the objective of a Net Stable Funding Ratio is to improve the resilience of the liquidity risk profile of banking corporations in the long term by means of requiring from the banking corporations to maintain a stable funding profile according to the composition of their balance sheet assets and their off-balance sheet activities. The Net Stable Funding Ratio consists of two components: available stable funding items (the numerator) and required stable funding items (the denominator). "Available stable funding" is defined as that part of the capital and liabilities that can be relied upon over the time horizon taken into account in the Net Stable Funding Ratio, which lasts for one year. The Required amount of stable funding of a particular corporation is a function of the liquidity characteristics and the residual maturities of the various assets held by that corporation, as well as of its off-balance sheet exposures.

According to the directive, the required minimum Net Stable Funding Ratio stands at 100%.

	December 31,	
	2022	2021
	In %	
A. Consolidated		
Net stable funding ratio (NFSR)	124.8	126.7
Minimal Net stable funding ratio required by the Supervisor of Banks	100.0	100.0
B. Significant subsidiaries		
1. Mercantile Discount Bank LTD. and its consolidated companies		
Net stable funding ratio (NFSR)	125.6	127.3
Minimal Net stable funding ratio required by the Supervisor of Banks	100.0	100.0

26. Contingent Liabilities and Special Commitments

A. Off-Balance sheet Commitment at year-end regarding activity based[(1)] on loan payments

	Consolidated		The Bank	
	December 31		December 31	
	2022	2021	2022	2021
	in NIS millions			
Balance of loans granted out of deposits repayable according to the repayment of the loans[(2)]				
Israeli currency - non linked	101	141	101	141
Israeli currency - linked to the CPI	360	343	335	316
Foreign currency	4	6	4	6
Total	**465**	**490**	**440**	**463**

Footnotes:

(1) Loans and deposits granted out of deposits, the repayment of which to the depositors is conditional upon the collection of these loans (or deposits), with a margin or with a collection commission (instead of a margin).

(2) Standing loans and government deposits made in respect thereof, totaling NIS 91 million (2021: NIS 76 million), have not been included in the table.

26. Contingent Liabilities and Special Commitments (continued)

B. Cash flows for collection fees and commissions and interest spreads of activity based on loan requirements – Consolidated[3]

	December 31							
	2022							2021
	Up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total	Total
In Israeli currency, non-linked:								
Future contractual flows	1	–	–	1	4	–	6	5
Expected future flows based on Management's estimates of early repayments	1	–	–	1	4	–	6	5
Discounted expected future flows based on Management's estimates of early repayments[1]	–	–	–	1	2	–	3	4
In Israeli currency, CPI-linked:								
Future contractual flows	1	1	1	1	1	–	5	6
Expected future flows based on Management's estimates of early repayments	1	1	1	1	–	–	4	4
Discounted expected future flows based on Management's estimates of early repayments[2]	1	1	1	1	–	–	4	4

Footnotes:

(1) The capitalization was performed according to weighted rate of 3.70% (1.63% :2021)

(2) The capitalization was performed according to weighted rate of 0.94% (0.04% :2021)

(3) There were no cash flows in foreign currency during the reported periods

Information as to the granting of loans during the year by the mortgage banks - consolidated

	December 31	
	2022	2021
Loans out of deposits repayable according to the repayment of loans	29	27
Standing loans	19	23

C. Contingent liabilities and other special commitments

	Consolidated		The Bank	
	December 31		December 31	
	2022	2021	2022	2021
	in NIS millions			
1. Commitment to acquire buildings and equipment[1]	515	849	397	607
2. Commitment to invest in private investment funds and in venture capital funds	847	730	–	–

Footnote:

(1) Mainly due to the Discount campus establishment, see item 13 below.

26. Contingent Liabilities and Special Commitments (continued)

3. The Bank and Mercantile Discount Bank ("MDB"), which are members of the Maof Clearing House Ltd., are responsible towards the Maof Clearing House, together with the members of the Maof Clearing House, to any financial indebtedness arising from Maof Clearing House transactions (transactions regarding options and future contracts settled by the Maof Clearing House) made at the Stock Exchange. For this purpose, the Maof Clearing House established a risk fund. The Bank's share in the risk fund as of December 31, 2022, amounts to approx. NIS 234 million, comprising 36.94% of the total risk fund at that date. The share of MDB in the Risk Fund as of December 31, 2022, amounted to approx. NIS 5 million, comprising 0.8% of the total amount of the Risk Fund as of that date. The two banks were required to provide collateral in favor of the Maof Clearing House by way of securities (Government bonds) in an amount that would cover their possible liability for their share in the risk fund, as stated, as well as an additional amount derived from the volume of operations in this field of each of the banks (see Note 27 E). Each of the banks is also committed to pay the Maof Clearing House any monetary charge that may result from its operations and from the operation of their customers for performing Maof transactions cleared at the Clearing House.
4. According to the articles of the Stock Exchange and the byelaws of the Tel Aviv Stock Exchange Clearing House, the members are committed towards the Clearing House to cover any amount resulting from the obligations on behalf of themselves or their customers as well as for other Stock Exchange members who are not members of the Clearing House and their customers, for transactions conducted by way of the Clearing House. Furthermore, each member is also responsible for his share of the Risk Fund, established for this purpose, based on the clearing ratio of turnovers of the members. As collateral for their obligations towards the Clearing House, the Bank and MDB pledged their rights to accounts maintained at the Clearing House (in which securities are deposited) and at the Bank of Israel (in which cash is deposited). (See Note 27 G).
5. The subsidiary of the Bank was engaged in providing a full array of trust and custodianship services and served, inter alia, as a trustee for certain bonds that were issued to the public pursuant to a prospectus and traded on the Tel-Aviv Stock Exchange. The company is preparing to close down its operations and it is left with only a small amount of activity.
6. a) The Bank's previous Articles of Association, which were amended in March 2002, prescribed that the Bank shall indemnify any person who serves or served as a representative of the Bank, or at its request, as a Director in another company in which the Bank has an interest, for the expenses incurred by such person in connection with legal proceedings instituted against him for acts of commission or omission in the course of fulfilling his duties as a Director of such other company, and for an amount he is ordered to pay under a judgment handed down in such legal proceedings, including by way of a settlement to which the Bank has agreed, unless the judicial authority in such proceedings has found that the acts as aforesaid on the part of such person were not made in good faith. The Bank is entitled to issue a letter of indemnity to any such Director of another company, including a Director of the Bank who serves as a Director in the other company, at terms and conditions approved by the Board of Directors. Accordingly, the Bank has issued letters of indemnity, unlimited as to amount, to Directors who serve or served at the Bank's request in other companies held, directly or indirectly, by the Bank (see hereunder).

   b) According to the Bank's Articles of Association, any employee or clerk of the Bank who is not an executive officer, will be indemnified out of the Bank's funds for any liability incurred by him in his capacity as an employee or clerk of the Bank in defending himself in any legal proceedings, whether civil or criminal, in which a judgment is given in his favor or in which he is acquitted, and the Bank is entitled to indemnify him for any financial liability imposed on him in favor of another person for an act done in his capacity as an employee or clerk of the Bank.

   c) The Articles of Incorporation of certain consolidated subsidiaries of the Bank allow for indemnification of officers under certain conditions, subject to the provisions of the Law. Certain companies in certain cases granted such indemnification.

   d) Discount Manpikim Ltd.("Manpikim"), a wholly owned and controlled subsidiary of the Bank, gave a commitment in September 2006 for the indemnification of Directors and of whoever officiated as its CEO at that time, each of them separately, for a monetary liability that will be imposed on any of them and for reasonable litigation expenses, in connection with a publication of a shelf Prospectus of September 2006, and with an issue made by shelf offer reports during the period of twenty-four months from date of publication of the shelf Prospectus, as well as a private placement and the registration for trade according to a Prospectus, dated September 2006, and this under terms specified in the letter of indemnification. In any event, the maximum amount of the indemnification granted to all of the directors and to the CEO as a whole shall not exceed the gross proceeds of the said issuances, and in any case no more than NIS 1.5 billion (the consideration for the issue of debt notes according to this Prospectus amounted to approx. NIS 1,452 million). In September 2007, Discount Manpikim Ltd. approved a similar indemnify to the CEO appointed subsequently to the issue of the shelf prospectus, regarding shelf offering reports that were published subsequent to the date of the resolution, according to the said shelf prospectus.

26. Contingent Liabilities and Special Commitments (continued)

e) In February 2008 Manpikim granted indemnification to directors as well as the CEO of the company, for each of them separately, for monetary liability that might be imposed on any of them and for reasonable litigation expenses in connection with the issue of the balance of the subordinated debt notes not yet issued, according to a shelf Prospectus dated September 28, 2008 and/or in connection with the publication of a shelf Prospectus of February 2008 and the issue of subordinated debt notes in accordance therewith, and this under terms specified in the letter of indemnification. In any event, the maximum amount of the indemnification granted to all of the directors and to the CEO as a whole shall not exceed the gross proceeds of the said issue, and in any case no more than NIS 2 billion (the consideration for the issue of debt notes according to this Prospectus amounted to approx. NIS 1,967 million). This indemnification is in addition to the indemnification given in section "D" above.

f) Manpikim granted in February 2009 (within the framework of the resolution taken at a shareholders' meeting of Manpikim) indemnification to directors as well as the CEO of the company for each of them separately, for monetary liability that might be imposed on any of them and for reasonable litigation expenses in connection with the issue of subordinated capital notes according to the amended a shelf prospectus dated December 24, 2008, which was published on March 12, 2009, and this under terms specified in the letter of indemnification. In any event, the maximum amount of the indemnification granted to all of the directors and to the CEO as a whole shall not exceed the gross proceeds of the said issuances, and in any case no more than NIS 3 billion (the consideration for the issue of debt notes according to this Prospectus amounted to approx. NIS 2,408 million).

g) On October 2, 2013, Manpikim (pursuant to a resolution adopted at a shareholders' meeting of Manpikim) granted indemnification to the Directors, the CEO and to the Comptroller of the company, for a monetary liability to be imposed on any of them and for reasonable litigation expenses, in connection with a Prospectus for the merger between the company and Discount Mortgages Issues Ltd. Manpikim committed in advance for each of the Directors, the CEO and the Comptroller of the company, each of them separately, to grant indemnification, for a monetary liability that may be imposed on any of them, and for reasonable legal fees, in connection with the merger Prospectus and the merger, including everything stemming from them and/or related to them, directly or indirectly, on condition that in no event shall the maximum cumulative amount of the indemnification granted to all those entitled to it, exceed the sum of NIS 200 million.

For the indemnity granted by Manpikim to officers of Manpikim, for the issuance of prospectuses, as detailed in sections (d) to (g) above, the Bank has granted an indemnity to Manpikim.

h) On February 26, 2019, the Bank approved the application to Manpikim of the group indemnification resolution dated February 26, 2016, according to which, the maximum amount of indemnification granted and which may be granted by the Bank to officers of the Bank and officers of its subsidiary companies, shall not exceed a cumulative amount equal to 25% of the equity capital of the Bank, as reflected in its most recent financial statements published proximately prior to the actual date of indemnification.

i) **Indemnification for Trustees for the holders of debt notes issued by the Bank and by Discount Manpikim.** According to the terms of the Deeds of Trust, the Trustees are entitled to indemnification by the Bank for reasonable expenses incurred in connection with action taken by power of their duty under the Deeds of Trust, as well as to indemnification for certain events according to the indemnification terms contained in the Deeds of Trust.

j) **Liability Insurance of Officers.** The Bank's special general meeting held on March 18, 2020, resolved to approve in advance the engagement of the Bank in an insurance policy covering the liability of Directors and officers, whether by way of purchasing a new policy or by way of extending the validity of the existing policy, within the power of the compensation policy that was approved by the same meeting, under the terms and limitations stated in the said compensation plan. Note 26 C, section 8 J of the financial statements as of December 31, 2019, described the Officers' insurance arrangements that had been in effect prior to the said decision.

k) **Advance exemption and a commitment to indemnify of directors and other officers.** On June 26, 2007 a General Meeting approved advance exemption from responsibility of directors and other officers in the Bank and of former directors and officers in the Bank (according to a list of individual names), subject to exceptions detailed in the decision, deriving from the Bank's articles regarding liability exemption.

In addition, the above mentioned special general meeting approved a commitment for indemnification of other directors and officers in the Bank as of the date of the decision (as detailed in the list appended to the announcement of the General Meeting), for monetary liabilities levied on them and for reasonable legal expenses, all in connection with raising of tier 1 capital implemented in the Bank in December 2006 and May 2007.

26. Contingent Liabilities and Special Commitments (continued)

The General Meeting of Shareholders from August 27, 2009 approved the granting of exemption and indemnification to Directors and other Officers appointed subsequently to June 2007 (the date on which the General Meeting of shareholders approved the granting of exemption and indemnification to acting Officers and to Officers that had acted in the past) as well as to Directors and other Officers that may be appointed in the future, excluding controlling shareholders for whom a specific resolution is required. In this framework, certain amendments to the indemnification letter have been approved, which will apply also to Directors and Officers who had been issued indemnification letters in June 2007.

l) At the general meeting held on September 9, 2013, it was resolved to amend the advance indemnification undertaking for directors and other officers of the Bank, including directors or other officers as they shall be from time to time, inter alia, according to the Improvement of Enforcement Measures at the Israel Securities Authority (Legislative Amendments), 5771-2011 and the Antitrust Law (Amendment No. 13), 5772-2012.

m) On December 2, 2015, the Bank's annual general meeting resolved to approve the updating of the resolution on the grant of an indemnification undertaking to the directors and officers serving with the Bank, including those who shall serve with the Bank from time to time, and to amend the Bank's articles and the compensation policy accordingly.
Under the amendment of the indemnification commitment, the maximum amount of indemnification was fixed at 25% of the equity value, as reflected in the last financial statements published prior to the date of the actual indemnification; the limit on the maximum indemnification amount, and also the requirement that the indemnification shall be given in connection with the events set forth in the appendix of the indemnification undertaking, shall apply only to a monetary obligation imposed on the officers and not for reasonable litigation expenses; the amended wording of the indemnification undertaking shall supersede the previous undertakings or other previous agreements between the Bank and the officers; however, if the terms of this undertaking worsen the terms of indemnification for the officer, or if this undertaking shall not be valid, the previous undertakings or the previous agreement shall apply.

n) **Exemption and a commitment to indemnify of Directors and Officers of MDB.** On November 29, 2009, MDB's General meeting of Shareholders approved the granting of a commitment to indemnify and exemption to Directors and other Officers of MDB and providing a commitment for the indemnification of other Directors and officers and of certain of its subsidiaries, who held office at MDB and at those subsidiaries from 2002 onwards. The said commitment to indemnify and exemption were granted according to principles and group limitations approved by the Bank's board in July 2009. On October 31, 2012 and on March 24, 2013, the general meeting of shareholders of that bank approved amendments to sections regarding indemnification commitments granted to officers of the bank, as stated above, to add indemnification for administrative enforcement proceedings under various laws, as detailed in the articles, and which may be indemnified under the law. The General Meeting of Shareholders of MDB approved on January 31, 2016 amendments to the indemnification resolution, which was granted to officers of MDB, to agree with the indemnification terms granted to officers of Discount Bank.
The Compensation Committee of the Bank's Board of Directors decided on February 6, 2020 to enlarge the applicability of the exemption and of the said commitment for indemnification, to include also two former officers of Municipal Bank Ltd., for their responsibility for the preparation of the financial statements of Municipal Bank Ltd. at November 30, 2019, and for the period then ended.
A letter of commitment for the granting of exemption and indemnity has been extended so as to apply to additional senior employees.

o) **Exemption and a commitment to indemnify Directors and Officers of ICC and Diners.** In May 2017 'ICC's and Diners' general Meeting of Shareholders approved the granting of a commitment to indemnify and exemption to Directors and other Officers of ICC and Diners, respectively, who held office at ICC and Diners, respectively, since the year 2011 onwards in ICC (in Diners since the year 2015). The said commitment to indemnify and exemption were granted according to principles and group limitations approved by the Bank's Board of Directors. The indemnification letters of ICC and Diners have been amended to agree with the indemnification terms granted to officers of Discount Bank.

p) **Indemnification of officers of subsidiary companies.** According to a policy decision regarding indemnity for officers of subsidiaries in the Discount Bank Group, amended and approved by the Bank`s Board of Directors in August 2020, the Bank is committed to indemnify acting officers of Discount Trust Company, Tafnit, Discount Capital, Discount Capital Underwriting Ltd. and Discount Leasing, under terms parallel to the terms granted to officers of the Bank. In August 2020 as stated, the Bank's Board of Directors approved amendments to the Group policy decisions regarding exemption and indemnification to officers of the Group.

26. Contingent Liabilities and Special Commitments (continued)

q) In the December 2014 agreement for the sale of DBLA's operations, indemnities were granted to the buyer for various representations.

r) In the November 2015 agreement for the sale of the customer operations of IDB (Swiss) Bank DBLA, indemnities were granted to the buyer, limited with regard to period and amount, for various representations.
According to the Swiss regulations, the records of IDB (Swiss) Bank, which was liquidated and struck off, have to be maintained for a period of ten years from date of termination of the banking activities.

7. The Bank's practice is to grant, from time to time, and at terms and circumstances customary in the banking business, letters of commitment and of indemnification, limited or unlimited in amount, and for limited or unlimited periods, and everything in the Bank's ordinary course of business. Inter alia, such letters of indemnity are granted within the framework of the regulations of the Clearing House as to lost checks; are granted to Receivers and Liquidators; are granted for negligence claims, to providers of various services including assessors, project manager etc.; to customers for lost check books; to credit card companies as part of the accountability with them; or indemnification granted as part of a contractual obligation.
This includes a full indemnification granted by the Bank to an assessor, in respect to any damage, which might be caused to him as a result of rendering valuation opinions, except in the case where gross negligence or malfeasance might be found; and a similar indemnification that the Bank gave to an expert who had provided the bank with an economic opinion.

8. a) The Bank has granted the International VISA Organization a guarantee unlimited in amount, securing the operations of ICC. Against this guarantee, ICC provided the Bank with a letter of indemnity.

b) The Bank issued a guarantee in the amount of approx. US$3 million, in favor of the MasterCard Worldwide organization, to secure the activity of ICC in the Organization.

c) ICC has granted an indemnification for all liabilities of its subsidiary companies: C.A.L (Financing), ICC Deposits and Yatzil Finance. Diners has granted an indemnification for all liabilities of Diners Financing.

9. Under permits granted to the Bank for the construction of a building at 156 Herzl Street, Tel Aviv, the Bank is obligated to the Tel Aviv Municipality to bear the costs involved in evacuating tenants from the plot. To the best of the Bank's knowledge as at the date of the financial statements, the Municipality had not yet begun evacuating the tenants from the plot. In the sale agreement by which the Bank had sold the said building (see Note 16(k) above), an assignment of charges was made between the Bank and the purchaser as regards the above-mentioned liability. The said sale transaction was concluded in March 2022 to balance sheet date.

10. **Various actions against the Bank and its consolidated subsidiaries.** Various actions are pending against the Bank and its consolidated subsidiaries. These include class action suits and applications to approve actions as class action suits. Among others, claims are raised in these claims with regard to the unlawful debiting of interest and/or the debiting of interest not according to agreements, unlawful charges of commission, failure to execute instructions, applications for the confirmation of attachment orders for attachments served by third parties on the assets of debtors which they allege are held by the Bank, the unlawful debiting of accounts, mistakes in value dates, the invalidity of collateral security and the realization thereof, applications for injunctions ordering the Bank to refrain from paying out bank guarantees or documentary credit, as well as allegations pertaining to securities, construction loans, applications for the removal of restrictions on an account pursuant to the Dishonored Checks Law, 5741- 1981. In the opinion of the Bank's Management, which is based, inter alia, on legal opinions and/or on the opinion of managements of its consolidated subsidiaries, which are based upon the opinion of their counsels, respectively, as the case may be, adequate provisions have been included in the financial statements, where required. The total exposure for claims filed against the Bank and its consolidated subsidiaries, whose prospects of materializing, in whole or in part, has been assessed as reasonably possible, amounted to approx. NIS 661 million as of December 31, 2022.

10.1 On April 28, 2014, a lawsuit together with a motion for its approval as a class action suit, were filed with the District Court Central Region against ICC and other credit card companies. The above motion raises the allegation for two binding arrangements in the field of immediate debit cards ("debit") and pre-paid cards ("pre-paid"). A new motion was filed on June 8, 2016, which assessed the damage for all defendants at approx. NIS 7 billion.
According to the suggestion of the Court, the parties agreed to refer the case to mediation on the question of the settlement date. The last mediation meeting was held on September 7, 2022, in which the Mediator informed that she does not see any point in continuing the mediation proceedings, referring the parties to the Court. A pretrial hearing was conducted on November 20, 2022 and evidence hearing sessions were set for July 2023. Furthermore, with the recommendation of the Court, the parties continue to conduct negotiations in an effort to bring the case to an agreed conclusion.

26. Contingent Liabilities and Special Commitments (continued)

10.2 On February 21, 2017, the Bank received notice of a lawsuit together with a motion for its approval as a class action suit, filed with the Tel Aviv- Jaffa District Court against the Bank. The motion claims that the Bank charges customers entitled to be defined as a "small business", with fees and commissions that are not in agreement with the small business pricelist. It is further claimed that the Bank did not disclose to its business customers the option of being classified as a small business and the practical significance of such classification, a conduct that led to the charging of excess fees and commissions. The Claimants stated the amount of the claim at approx. NIS 261 million.

The Claimants have filed similar legal actions against additional banks. The respondent banks informed the Court that they agree to the consolidation of the hearing though not to the consolidation of the cases, so that a separate clarification of facts would be required for each of the respondents.

At the hearing on April 6, 2021, the Court instructed a technical consolidation only of the actions for the hearing of proof, and clarified that each action would be decided on its own merits. On February 13, 2022, the Court addressed questions for consideration of the regulator. On August 22, 2022, the Regulator submitted his response. On August 30, 2022, the Bank informed of its consent to take part in mediation proceedings, however, no consent has been reached regarding the mediation. A pretrial hearing was held on November 27, 2022. Dates were set for the hearing of evidence for the months of March-April 2023.

10.3 An action together with a motion for approval of the action as a class action suit was filed against the Bank on June 21, 2018, with the Central District Court in Lod. As alleged by the Appellant, the Bank violates the provisions of the Guardian General Law, 5737-1978, and the provisions of the Protection of Deposited Assets Law, 5725-1964, in that it does not report to the Custodian General its holding of an "abandoned asset". It is claimed that the Bank does not make reasonable efforts to locate the owners of the "abandoned asset", and causes damage to members of the class in that the Custodian General would have invested these funds in a most beneficial fashion suitable to the type of the abandoned asset, and would have made real efforts to locate the owners. The Appellant stated the amount of the claim for all class members at NIS 300 million.

On September 29, 2021, the amended motion for approval was filed.

On December 20, 2021, the Bank filed its response to the amended motion, and on January 19, 2022, the Appellant responded to the response of the Bank to the amended motion. A hearing of the case was held on January 26, 2022. On February 14, 2022, the parties informed of their intention to participate in an additional mediation process following the unsuccessful mediation proceedings held in 2021. A hearing set for the presentation of evidence on June 19, 2022, had been deferred and thereafter cancelled.

10.4 On July 22, 2018, a claim and a petition for the claim's approval as a class action were filed in the Tel Aviv District Court against ICC and two other credit card companies. The subject of the petition is paperless transactions (mainly telephone transactions) with companies engaged in direct marketing. It is alleged in the petition that the credit card companies have not prevented the companies engaged in direct marketing from exploiting the elderly and stealing their money in illegal transactions, executed by charging their credit cards. It is also alleged in the petition that the credit card companies should have prevented this phenomenon at the outset and, prior to entering into an engagement with the direct marketing companies, they should have checked the nature of these companies and their activity and should have verified that they were in full compliance with the law. The petitioners have assessed the amount of their claim in the sum of NIS 900 million for all the members of the group.

On December 27, 2021, the Government Attorney General filed notice of his appearance in the proceedings and has presented his position, which in essence states that it is possible to place responsibility upon the Respondents based on the general tort of negligence, while determining principles for the setting of limits to this duty. On August 21, 2022, the District Court handed a ruling dismissing the motion for approval. On November 13, 2022, the Appellants filed an appeal against the ruling with the Supreme Court. A hearing of the appeal was set for September 27, 2023.

10.5 On January 30, 2020, four lawsuits were filed with the Tel Aviv District Court against the Bank together with motions for their approval as class action suits. The lawsuits refer to a failure in the installation of a server on the PayBox payment application, a failure, which, as argued by the plaintiffs, caused them damages.

The amounts of the claims for all members of the class amount in the four motions to NIS 850 million, NIS 500 million, NIS 25 million and NIS 2.5 million, respectively.

The four Appellants informed on June 7, 2021, that they had reached agreement on the submission of a consolidated motion for approval. A decision dated June 20, 2021, set dates for submission of argument briefs for the consolidated motion. Hearing of the case was set for January 24, 2022. A consolidated motion was filed on August 23, 2021, in one case, and on August 29, 2021, the three motions in the other cases were struck off.

26. Contingent Liabilities and Special Commitments (continued)

In the period from October 2021 to January 2022, the parties filed their argument briefs on the motion for attaching evidence on behalf of the Appellants. On February 22, 2022, the Court upheld the motion and instructed the attachment of the evidence.

On April 3, 2022, the Bank filed its response to the motion for approval. On October 19, 2022, the Appellants submitted their response to the response of the Bank. A pretrial hearing was held on January 19, 2023. The Court instructed the parties to submit until March 30, 2023, an updating notice regarding the continuation of the proceedings and negotiation attempts between them.

10.6 On May 11, 2020, a statement of claim and a petition for its approval as a class action were filed against the Bank and against two other banks, at the Tel Aviv District Court.

The claimant alleges that the Bank has breached its duty of banking confidentiality in that it has granted international corporations, such as Facebook and Google, access to its digital platforms and is allowing them to gather private information on customers. It is alleged that the banks have made a deal with these international data corporations under which they received cheap and effective tools in return for violating customer privacy. As alleged by the petitioner, the Bank’s different documents have been drafted in an all-embracing and sweeping fashion without providing any explanation to customers on the nature of the data that is transferred and the customers' signature on these agreements should not be considered as consent to the transfer of information.

The petitioner has stated that the amount of the damage caused to all the class action members cannot be assessed.

In the hearing held on July 15, 2021, the Court set dates for submission of argument briefs for the motion by the banks for the striking off of items included in the response by the Appellants ("motion for striking off"). It was also stated that following a decision in the matter of the motion for striking off, the argument briefs would be served to the Regulator, to obtain his position in this case. On August 30, 2021, the banks filed a motion for the deletion of items from the response brief of the Appellants. In the period from August to December 2021, the parties submitted their claims briefs on the motion for dismissal. No decision has yet been given. The pretrial hearing scheduled for February 16, 2023 has been canceled, and no new date has yet been scheduled.

For details of a motion for approval of an action as a class action involving a similar issue, filed against ICC and additional Respondents, see section 10.9 below.

10.7 On September 16, 2020, a claim together with a motion for its approval as a class action were filed against MDB at the Jerusalem District Court. The Claimant alleges that as a condition for the grant of a state-guaranteed loan MDB requires to open a deposit from the loan funds, with id pledged to secure the repayment of the loan, namely that the amount of the loan actually received is the amount of the loan, net of the amount of the deposit. The Claimant also alleges that the loan documents do not mention the level of the effective interest, including all fees, interest and other payments that have to be made.

The group that the Claimant is seeking to represent is defined as follows: “any customer that took, in the last seven years, a loan from the Respondent, and the effective interest specified in the loan documents (as defined in the Supervisor of Banks’s circular – Circular No. 2140-06-8) did not include all the fees and payments that the customer was required to pay”. The Claimant has assessed the amount of the action for the whole group in the sum of approx. NIS 817 million, but it was noted that the exact amount will be determined once the material in MDB’s possession is received.

A first hearing was held on December 8, 2021, following which, the Appellant informed that he accepts the advice of the Court to scale down the motion for approval by forgoing the causes regarding coercive tied selling and regarding monetary deposits.

At the hearing held on May 12, 2022, the parties notified the Court that they were intending to turn to mediation, and so they did.

10.8 On November 16, 2020 an action had been filed with the Jerusalem District Court, together with a motion for approval of the action as a class action suit, against the Bank, MDB and five additional banks. The Claimants argue that the banks are not acting according to the provisions of the Credit Data Law and the Regulations enacted under it, by incorrectly reporting data relating to cases where they have no authority to do so. It is also argued that the banks report legal proceedings for a debt even after a ruling had been given at the conclusion thereof, and this until repayment of the debt had been made in full, or until after a debt arrangement had been signed, date of granting exemption, or any other date following the rendering of a ruling.

It is further argued that the banks report also claims in determined amounts submitted to the Debt Execution Office, and this despite the fact that no legal proceedings had been instituted with a Court of Law. The Claimants claim a monetary damage of different amounts for the different class members and a nonmonetary damage for damaged autonomy in the amount of NIS 50,000, with no proof of damage.

The Claimants state that the members of the class number tens of thousands of customers who had suffered considerable damage, though, at this stage and prior to obtaining data, the Claimants are unable to estimate the amount of the damage to the class as a whole. The parties agreed to refer the case to mediation and on February 24, 2022 informed the Court that they had reached conclusion in principle, which might lead to the termination of the proceedings.

26. Contingent Liabilities and Special Commitments (continued)

A compromise agreement was submitted on December 15, 2022, for approval of the Court. A hearing of the motion for approval of the compromise agreement took place on March 5, 2023, and on March 9, 2023, a ruling was issued approving the compromise arrangement.

10.9 On April 13, 2021, ICC received notice of a motion for approval of a class action. The motion had been filed against fifteen financial bodies, including banks, credit card companies, insurance companies and investment houses.

The subject of the action is the argument made by the Claimants that the Respondents provided third parties, including Google and its advertising services in particular, private, personal and confidential data on their customers using the Respondents' digital services, or who had done so during the seven years prior to the date of filing the action, without obtaining the said customers' consent, thus violating their rights to privacy in contravention of obligations imposed on the Respondents under the law.

The damage caused to the group, which the Claimants wish to represent, is estimated by the Claimants at amounts reaching millions of NIS. The Claimants state the amount of the personal damage for each Claimant at NIS 1,000 for non-monetary damage, and NIS 1,000 for the monetary damage.

On June 20, 2022, ICC filed its response to the motion for approval. A pretrial was conducted on November 6, 2022. With the recommendation of the Court, the parties have started mediation proceedings.

For details regarding a motion for approval of an action as a class action in a similar matter, filed against the Bank and additional banks, see section 10.6 above.

11. Applications to approve certain actions against the Bank and its consolidated subsidiaries as class action suits and other actions for which it is not possible at this stage to evaluate their prospects of success:

A class action suit and applications to approve certain actions as class action suits, as well as other claims, are pending against the Bank and its consolidated subsidiaries, which, in the Bank's opinion, and based on legal opinions and/or on the opinion of managements of its consolidated subsidiaries, based on legal opinions, respectively, it is not possible at this stage to evaluate their prospects of success, and therefore no provision has been included in respect therewith.

11.1 On December 19, 2019, the Bank received a statement of claim together with a plea for deferment of the payment of Court fees, filed with the Tel Aviv-Yaffo District Court against the Bank and against five additional defendants.

The claim had been filed by a commercial bank in the Ukraine, the Joint Stock Company Commercial Bank, Privat Bank, and the cause of action being fraud, embezzlement and deceit perpetrated by former controlling stockholders of the Plaintiff who are being sued in the statement of claim.

As argued in the statement of claim, the controlling stockholders of the Plaintiff had acted for the granting of loans by the Plaintiff to entities under their control, such loan monies being later transferred through bank accounts in order to hide their source, and finally usurped for the personal benefit of the controlling stockholders. It is further argued that as part of the fraud and embezzlement perpetrated according to the instructions of the controlling stockholders, an amount of US$1.2 billion was smuggled to Israel by way of monetary transfers from a bank account in Cyprus belonging to a company owned by the controlling stockholders to its account with the Bank. As described in the statement of claim, the said monetary transfers were made in the years from 2007 to 2011. According to the arguments of the Plaintiff by allowing these monetary transfers to and from the Bank, the Bank has caused damage to the Plaintiff, and this, as argued by the Plaintiff, is in contradiction to the duties applying to him under the Prohibition of Money Laundering Law in Israel.

The amount of the claim against all defendants is stated at NIS 2.1 billion.

On March 18, 2020, the Court accepted the plaintiff's motion and granted an order permitting the service of the statement of claim outside its jurisdiction.

On February 17, 2020, the Bank filed a motion for the dismissal in limine of the claim or, alternately, for a stay of proceedings therein due to the parallel proceedings being conducted overseas. On May 17, 2020, the Court ruled to accept the Bank's motion for an extension to the date for filing a statement of defense.

On December 7, 2020, the Court ruled for the rejection of the motion of the Bank for the in limine dismissal of the action.

At the request of the Claimant, the Court permitted the delivery of the statement of claim to a part of the Defendants, whose alleged place of residence is in the Ukraine; and this decision was appealed (not yet decided). Furthermore, at the request of the Bank dated May 26, 2021, the Court has extended the date for submission of the statement of defense until after a decision is given in the motion for an Order under the money laundering prohibition laws, submitted by the Bank. In between, the Attorney General for the Government informed on October 28, 2021, of his intention to appear in the proceedings, and also stated his position, whereby, inter alia, he is opposed to the granting of an Order under the Prohibition of Money Laundering statutes. On October 17, 2021, the Bank filed a motion for the stay of proceedings in Israel, inter alia, on the background of the existence of parallel proceedings in the Ukraine. The Claimant filed on December 9, 2021, a response to the motion for the stay of proceedings. The Bank filed on January 9, 2022, its response to the response of the Claimant to the motion for the stay of proceedings.

26. Contingent Liabilities and Special Commitments (continued)

A hearing of the preliminary motions was held on May 18, 2022. In continuation of the hearing, a legal process arrangement had been reached, which obviates, at this stage, a decision regarding the preliminary motions. The Bank submitted a statement of defense on August 3, 2022.

On January 27, 2022, two of the Respondents filed motions in which they deny the authority of the Court in Israel to try the case.

On February 3, 2022, another defendant, a foreign resident, submitted a statement of defense and on January 26, 2023, following the instruction of the District Court to do so, that defendant submitted his statement of defense in the Hebrew language. On February 16, 2022, the Claimant informed that he had served the statement of claim to an additional Defendant (a foreign corporation).

12. Discount Capital company invests in private equity funds, in venture capital funds and in non-financial corporations. As of December 31, 2022, the outstanding balance of investment commitments made by Discount Capital in funds and corporations amounted in total to NIS 847 (approx. US$241 million [as of December 31, 2021: NIS 710 million (approx. US$228 million)].
13. **Discount Campus.** In 2016, Discount Leasing, ICC and MDB began initiating the Group campus that would house the head offices of the Bank and of the principal subsidiaries in Israel – MDB and ICC. The investment in the project amounted on December 31, 2022, to NIS 1,263 million. The balance of the commitment for the project as of December 31, 2022, amounts to approx. NIS 290 million (all amounts do not include VAT).

27. Pledges, Restrictive Terms and Collateral

A. IDB Bank has pledged various loans and corporate bonds with the Federal Reserve Bank of New York (FRBNY). This pledge was made to secure credit from the FRBNY credit window as well as for credit within the framework of TAF tenders of this bank. The carrying value of the loans and securities pledged for FRBNY credit as of December 31, 2022 amounted to US$900 million (NIS 3,169 million) [as of - December 31, 2021: US$828 million (NIS 2,575 million)].

In addition, IDB Bank pledged loans in favor of the Federal Home Loan Bank, in the amount of US$1,279 million (NIS 4,502 million) as of December 31, 2022 as a collateral for deposits received from it [as at December 31, 2021: approx. US$1,029 million (NIS 3,201 million)].

B. The Bank is a member of the Euroclear Clearing House, which serves as a clearing system for transactions in securities traded on international markets, made through this clearing house. For this purpose, the Bank has pledged cash and securities in the amount of US$15 million (NIS 53 million) [as at December 31, 2021: US$15 million (NIS 47 million)].

C. The Bank deposits liquid assets with foreign brokers (in the United States) as collateral for option transactions performed by its customers by means of these brokers. In the past the Bank was required to deposit bonds as part of the said collateral. This requirement was changed during 2015, and the Bank is now required to deposit cash instead of bonds. The balance of the deposit as of December 31, 2022 amounted to approx. US$8 million (NIS 28 million) [as of: December 31, 2021: US$5 million (NIS 15 million)].

D. Note 26 C 3 above describes the risk fund established by the Maof clearing house. The Bank's share in the fund, deriving from the volume of the clearing activity on behalf of the Bank's customers as of December 31, 2022, amounted to approx. NIS 234 million (December 31, 2021: NIS 185 million).

The balance of the security, which the Bank has to provide in favor of the clearing house (an off-balance sheet liability) based on scenarios devised by the Stock Exchange for the activity of the Bank's customers and for the Bank's activity itself (nostro) as of December 31, 2022, was approx. NIS 1,180 million (2021: NIS 848 million).

According to the Memorandum and Bye Laws of the Maof clearing house all member of the clearing house, including the Bank signed pledge agreements to secure their liabilities in favor of the Maof clearing house and deposited liquid security only (State of Israel bonds and/or cash).

The Bank provided the Maof Clearing House with a first-degree pledge on all monies that had been deposited by the Bank in an account in the name of the Maof Clearing House at the Stock Exchange Clearing House and at an account in the name of the Maof Clearing House in another bank, all as collateral for amounts that the Bank will be liable for Maof transactions to which it is responsible towards the Maof Clearing House. The obligation is subject to conditions, and the Bank is entitled, under certain conditions, to demand the repayment of certain amounts.

It is noted that on October 27, 2016, the Board of Directors of the Stock Exchange, following resolutions of the Boards of Directors of the Maof clearing house and of the Stock Exchange clearing house, approved the opening of accounts for these clearing houses with the Bank of Israel, this to enable the clearing houses to deposit with the Bank of Israel the cash collateral provided by members of the clearing houses, and to amend accordingly the by-laws of the clearing houses.

In this framework, all members of the clearing houses, including the Bank, signed two additional pledge agreements, according to which, the rights of the members in the collateral accounts with the Bank of Israel would be pledged in favor of the Stock Exchange clearing house and the Maof clearing house, this in addition to earlier pledges and without derogating therefrom.

27. Pledges, Restrictive Terms and Collateral (continued)

Accordingly, the Bank has pledged in favor of the Stock Exchange clearing house and the Maof clearing house, a first degree pledge and an assignment by way of a pledge, in an unlimited amount, on all its rights of whatever type and class, in each of its collateral accounts with the Bank of Israel, including all the rights to receive the funds deposited or registered to the credit of the said accounts, as well as the profits earned thereon and any right stemming from or related to these accounts, and all as guarantee for the settlement of all obligations of the Bank towards the clearing houses, as may be from time to time.

Under these accounts the Bank has pledged bonds and cash in favor of the Maof Clearing House, the amount of which at December 31, 2022, totaled NIS 1,614 million (December 31, 2021: NIS 1,281 million).

MDB has created a similar pledge in favor of the Maof Clearing House. The value of the collateral amounted on December 31, 2022, to approx. NIS 15 million (December 31, 2021: approx. NIS 18 million). In addition, pledged in favor of the Maof Clearing House were cash the balance of which amounted at December 31, 2022, to NIS 2 million (December 31, 2021: NIS 2 million).

Balance of collateral provided to the Maof Clearing House

	Balance as of December 31, 2022	Highest balance during the year 2022	Average balance* in 2022	Balance as of December 31, 2021
	In NIS millions			
Cash	728	1,206	351	53
Securities	908	1,335	1,197	1,248

* The reporting is made on the basis of the month-end balances.

E. As collateral for the obligations of Yatzil Finance, the said company registered an assignment by way of a pledge and a fixed and floating pledges on all its rights according to agreements with business houses for the discount of IsraCard, VISA, American Express and Diners Club Israel vouchers, and all the rights to receive amounts and payments from IsraCard, ICC, American Express and Diners, under power of assignment of rights and under the business house agreement. As of balance sheet date there was no obligation towards the banks.

F. (1) The Bank enters into Credit Support Appendix (CSA) and ISDA types agreements with various banks and customers intended to minimize mutual credit risks arising on derivative trading between the parties. According to these agreements, the value of the inventory of derivative transactions made by the parties is measured periodically, and in the event that the net exposure of one of the parties exceeds a predetermined limit, that party is obligated to transfer deposits designed for the delimitation of the exposure to the other party, until the date of the next measurement. As of December 31, 2022, the Bank allocated in favor of various banks deposits in a total amount of NIS 845 million (December 31, 2021: NIS 609 million).

In addition, in July 2015, the Bank signed an engagement agreement with Merrill Lynch International, which will serve as a clearing house member for the Bank for the central clearing of certain transactions in derivatives, included within the framework of the EMIR reform.

An agreement was signed in January 2020 with CITI Global Markets admitting it as an additional member of the clearing house.

(2) IDB Bank also engages in CSA type agreements. As of December 31, 2022, IDB Bank provided in favor of various banks deposits in a total amount of US$2 million (NIS 6 million) [as of: December 31, 2021: US$57 million (NIS 177 million)].

(3) MDB also engages in CSA type agreements. As of December 31, 2022, MDB provided in favor of various banks deposits in a total amount of NIS 21 million (as of: December 31, 2021: NIS 41 million).

G. As detailed in Note 26 C 4 above, according to the requirements of the Articles of the Tel-Aviv Stock Exchange Ltd. and the bylaws of the Stock Exchange Clearing House (hereinafter: "the Clearing House" or "Stock Exchange Clearing House"), the Bank pledged as security for its obligations towards the Clearing House all the Bank's rights in the security deposit managed by the Clearing House (in which the Bank deposits securities) and all its rights in funds under the name of the Clearing House, deposited with the Bank of Israel. The value of the collateral amounted on December 31, 2022, to NIS 225 million (as at December 31, 2021: NIS 273 million).

MDB has created a similar pledge in favor of the Stock Exchange Clearing House. The value of the collateral as of December 31, 2022, amounted to NIS 38 million (December 31, 2021: NIS 42 million).

27. Pledges, Restrictive Terms and Collateral (continued)

Balance of collateral provided to the Stock Exchange Clearing House

	Balance as of December 31, 2022	Highest balance during the year 2022	Average balance* in 2022	Balance as of December 31, 2021
	In NIS millions			
Cash	156	190	163	189
Securities	108	123	116	126

* The reporting is made on the basis of the month-end balances.

H. In July 2007, the Bank of Israel launched a system for the real-time settlement of large amounts (RTGS), enabling the swift and final transfer of funds between banks connected to the system, provided that the liquidity balance at these banks shall not fall below the volume required for effecting such money transfers. In view of the settlement arrangements, the Bank may require from time to time credit from the Bank of Israel for short periods of time. To secure the repayment in full of amounts due to the Bank of Israel for such credit, as part of joining the security management system operated in this respect by the Stock Exchange Clearing House, the Bank pledged on November 24, 2010, in favor of the Bank of Israel a first degree floating pledge on its holdings in Israel Government bonds, deposited at the Stock Exchange Clearing House in an account in the Bank of Israel's name (in addition to a floating pledge, at first charge, registered on these assets on July 26, 2007).

The Bank deposited with the said account bonds valued, as at December 31, 2022, at approx. NIS 7.1 billion (December 31, 2021: NIS 6.88 billion).

MDB has also registered a similar pledge in favor of the Bank of Israel and has deposited with the Bank of Israel account at the Stock Exchange Clearing House bonds valued, as at December 31, 2022, at approx. NIS 3,406 million (December 31, 2021: approx. NIS 3,392 million).

With effect from April 2020, the Bank is taking loans from the Bank of Israel within the framework of the Bank of Israel's long-term loans plan, which is intended to enlarge the supply of credit to small and minute businesses. As security for this credit, the Bank and MDB have pledged bonds to the Bank of Israel, the value of which as of December 31, 2022 was NIS 9.7 billion (December 31, 2021: NIS 9.7 billion).

Details of the pledge agreement

	Balance as of December 31, 2022	Highest balance during the year 2022	Average balance* in 2022	Balance as of December 31, 2021
	In NIS millions			
Pledged securities (market value)	10,504	11,357	10,553	10,272

* The report is based on outstanding monthly balances.

I. In addition, the Bank and MDB make deposits from time to time with the Bank of Israel, constituting (together with the securities deposited, as stated) the collateral for the credit granted by the Bank of Israel to the Bank and to MDB, within the framework of credit tenders.

For that purpose the Bank has pledged in favor of the Bank of Israel foreign bonds deposited with Euroclear, the value of which, as of December 31, 2021, amounted to US$50 million. As of December 31, 2022, there was no such pledge.

Details of the deposits

	Balance as of December 31, 2022	Highest balance during the year 2022	Average balance* in 2022	Balance as of December 31, 2021
	In NIS millions			
Deposits with the Bank of Israel	56,959	68,610	57,275	51,725
Deposits from the Bank of Israel	9,731	9,731	9,728	9,724

* The report is based on outstanding monthly balances.

27. Pledges, Restrictive Terms and Collateral (continued)

J. According to Section 6(a) of the State Loans Law, 1979, the Accountant General announces from time to time, the appointment of certain entities, including the Bank, as "market makers" for government bonds. Under the market making operations, the Treasury grants the market makers a facility for the borrowing of government bonds to cover short sale bond transactions, as part of the market making. Against the use of this facility, the Bank deposits with the Treasury as collateral amounts equal to the amount of the borrowed bonds. The balance of this deposit at December 31, 2022 was NIS 857 million (December 31, 2021: NIS 1,207 million).

K. The sources and uses of the securities that had been received and the Bank's and which the Bank is entitled to sell or pledge, at their fair value, before setoffs effect

	Consolidated		The Bank	
	December 31		December 31	
	2022	2021	2022	2021
	In NIS millions			
The sources:				
Securities against cash	857	1,207	857	1,207
Total	**857**	**1,207**	**857**	**1,207**
The uses:				
Securities sold under repurchase arrangements	4,067	-	4,067	-
Total	**4,067**	**-**	**4,067**	**-**

L. Details of securities pledged to the lenders

	Consolidated		The Bank	
	December 31		December 31	
	2022	2021	2022	2021
	In NIS millions			
Trading Securities	976	-	976	-
Available for sale securities	6,955	5,344	3,308	1,547
Held-to-maturity bonds	8,428	6,881	8,428	6,880
Total	**16,359**	**12,225**	**12,712**	**8,427**

These securities have been deposited as collateral with the lenders, who are not permitted to sell or pledge them.

M. **RIPO transactions.** During the second quarter of the year, the Bank started to engage in RIPO transactions for different periods, within the framework of which, the Bank had delivered bonds as security obtaining cash against it. As of December 31, 2022, the value of the security provided in this respect amounted to NIS 4.282 billion.

Data on collaterals provided for repurchase transactions

	Balance as of December 31, 2022	Highest balance during the year 2022	Average balance* in 2022	Balance as of December 31, 2021
	In NIS millions			
Cash	215	215	215	-
Securities	4,067	4,292	3,220	-

* The reporting is made on the basis of the month-end balances.

N. IDB Bank pledged loans of the "securities pledged for deposits" type – a pledge of CLO-type securities to local authorities against deposits that are received from them. The balance of the pledged securities amounted on December 31, 2022 to approx. NIS 39 million (approx. US$11.2 million) [as of December 31, 2021: approx. NIS 214 million (approx. $85 million)].

28. Derivative Instrument Activity - Volume, Credit Risk and Due Dates

General

1. Transactions in derivative financial instruments involve market, credit and liquidity risks.
   a. The Bank's activity involves exposure to various risks, including market risk. The market risk includes, *inter alia*, linkage base, interest and exchange rate fluctuation risks, in the correlation characteristics between the various economic parameters, etc. As part of the overall Bank's strategy for the management of exposure to market risk, as stated above, the Bank combines in its financial asset and liability management and as a market maker, a wide range of derivative financial instruments. Among these financial instruments are: Forward transactions, IRS, FRA, Swap, options purchased and written by the Bank, which hedge against changes in foreign currency exchange rates, inflation rates, interest rates, share indices, components of embedded options, etc.
   b. The credit risk involved in these transactions derives from the fact that the stated amount of the transaction does not necessarily reflect its credit risk. Such risk is measured according to the maximum amount of the loss that the Bank might sustain if the other party to the transaction does not honor its terms, net of amounts subject to enforceable set-off agreements.
   The credit risk in the course of the engagement period is estimated at the amount upon exiting the transaction plus future potential exposure as determined in Proper Conduct of Banking Business Directive No. 313 on the computation of the limitation on borrower indebtedness. The Bank's policy as regards the collateral required for customer derivative financial instrument transactions resembles the policy regarding other credit granted, excluding customers' Maof activity. The collateral comprises various types. The Bank may also grant credit facilities to customers without collateral, as the case may be.
   c. Liquidity risk derives from the fact that it might not be possible to rapidly contain the exposure involved, mainly in markets of low level trading.
2. Some of the derivatives are intended and qualified as fair value hedging and cash flow hedging, some are purchased and written as part of the Bank's asset and liability management (derivatives not-for-trade) and the balance of which if defined as derivatives held for trade.
3. The Bank may enter an agreement that in itself does not constitute a derivative instrument, but which contains an embedded derivative. For each contract the Bank evaluates whether the economic characteristics of the embedded derivative are not clearly and closely connected to those of the hosting agreement, and examines whether an independent instrument with the same terms of the embedded instrument would have agreed with the definition of a derivative instrument. When it is determined that the embedded derivative has economic characteristics that are not clearly and closely connected to the economic characteristics of the host contract, and also that a separate instrument having the same terms would have been qualified as a derivative instrument, the embedded derivative is separated from the hosting agreement, treated as a derivative in its own right and stated in the balance sheet together with the hosting agreement at its fair value, changes in its fair value being taken currently to the statement of profit and loss. Where the Bank is unable to reliably identify and measure an embedded derivative for its separation from the hosting agreement, the agreement as a whole is stated in the balance sheet at fair value.
4. The Bank maintains a written documentation of all hedging relations between hedging instruments and the items hedged, as well as the object and strategy of risk management by way of creating the various hedging transactions. The documentation includes the specific identification of the asset, liability, the firm commitment or the anticipated transaction, which were determined as the hedged item, and the manner in which the hedging instrument is expected to hedge against risks involved in the hedged item. The Bank assesses the effectiveness of hedging relations both at the beginning of the transaction and on a continuing basis, according to its risk management policy.
5. The Bank discontinues its hedging accounting from the following points onward when:
   a. It has been determined that the derivative is no longer effective, setting off the changes in fair value or the cash flows of the hedged item;
   b. The derivative expires, sold, cancelled or realized;
   c. The designation of the derivative as a hedging derivative is discontinued, due to the probability of the execution of the transaction being remote;
   d. A firm hedging commitment no longer complies with the definition of a firm commitment;
   e. Management cancels the designation of the derivative as a hedging derivative.

   When hedging accounting is discontinued due to the fact that a derivative is no longer qualified as an effective fair value hedge, the derivative will continue to be stated in the balance sheet at its fair value, however the hedged asset or liability will no longer be adjusted for changes in fair value. When hedging accounting is discontinued due to the fact that the hedged item no longer qualifies as a firm commitment, the derivative will continue to be stated in the balance sheet at fair value and every asset or liability which previously were stated based on the recognition as a firm commitment shall be removed from the balance sheet and recognized as profit or loss in the statement of profit and loss for the reported period.

28. Derivative Instrument Activity - Volume, Credit Risk and Due Dates (continued)

6. Fair value hedging

   Certain derivatives are being designated by the Bank as hedging fair value. The changes in the fair value of derivatives hedging against exposure to changes in fair value of an asset or liability, are currently recognized in the statement of profit and loss, as well as the changes in the fair value of the hedged item, that could be related to the risk being hedged.

7. Cash flow hedge

   The subsidiary IDB Bank designates certain derivatives as hedge for cash flow. The change in the fair value of derivatives hedging exposure to changes in cash flows from assets, liabilities or from foreseen transactions, are firstly recognized in other comprehensive income and thereafter, when the hedged item affects profit or loss, it is reclassified to the statement of profit and loss.

A. Volume of activity on a consolidated basis

1. Par value of derivative instruments

	December 31, 2022			December 31, 2021		
	Non-trading derivatives	Trading derivatives	Total	Non-trading derivatives	Trading derivatives	Total
	In NIS millions					
Interest rate contracts						
Forward and Futures contracts	7,022	28,910	35,932	7,639	15,336	22,975
Options written	1	1,152	1,153	16	606	622
Options purchased	1	1,011	1,012	17	638	655
Swaps(1)	35,073	153,515	188,588	11,124	101,794	112,918
Total(2)	**42,097**	**184,588**	**226,685**	**18,796**	**118,374**	**137,170**
Of which: Hedging derivatives(5)	10,109	–	10,109	4,876	–	4,876
Foreign currency contracts						
Forward and Futures contracts(3)	1,387	42,502	43,889	1,122	40,208	41,330
Options written	–	10,218	10,218	–	11,521	11,521
Options purchased	–	11,044	11,044	–	11,417	11,417
Swaps	34,032	105,180	139,212	32,609	94,588	127,197
Total	**35,419**	**168,944**	**204,363**	**33,731**	**157,734**	**191,465**
Contracts on shares						
Options written	27	7,661	7,688	89	8,862	8,951
Options purchased(4)	28	7,661	7,689	92	8,862	8,954
Swaps	–	925	925	–	902	902
Total	**55**	**16,247**	**16,302**	**181**	**18,626**	**18,807**
Commodities and other contracts						
Forward and Futures contracts	–	839	839	–	132	132
Options written	–	–	–	–	3	3
Options purchased	–	–	–	–	3	3
Total	**-**	**839**	**839**	**-**	**138**	**138**
Total stated amount	**77,571**	**370,618**	**448,189**	**52,708**	**294,872**	**347,580**

Footnotes:

(1) Of which: swaps on which the Bank pays a fixed interest	30,891	(6)58,413
(2) Of which: shekel/CPI swaps	18,610	15,805
(3) Of which: spot foreign currency swap contracts	2,272	936
(4) Of which: traded on the Stock Exchange	7,833	10,011

(5) The Bank conducts accounting hedge by way of IRS transactions.

(6) Reclassified

28. Derivative Instrument Activity - Volume, Credit Risk and Due Dates (continued)

A. Volume of activity on a consolidated basis

2. Gross fair value of derivative instruments

	Gross amount of assets for derivative instruments			Gross amount of liabilities for derivative instruments		
	Non-trading derivatives	Trading derivatives	Total	Non-trading derivatives	Trading derivatives	Total
	In NIS millions					
	December 31, 2022					
Interest rate contracts	947	4,986	5,933	671	4,930	5,601
Of which: Hedging	606	-	606	158	-	158
Foreign currency contracts	1,074	3,394	4,468	53	2,680	2,733
Contracts on shares	1	1,021	1,022	1	1,021	1,022
Total assets/liabilities for derivatives gross(1)	**2,022**	**9,401**	**11,423**	**725**	**8,631**	**9,356**
Balance sheet balance	2,022	9,401	11,423	725	8,631	9,356
Of which: not subject to net settlement arrangement or similar arrangements	55	516	571	21	969	990
	December 31, 2021					
Interest rate contracts	166	1,697	1,863	277	1,600	1,877
Of which: Hedging	77	-	77	65	-	65
Foreign currency contracts	625	2,483	3,108	1,025	2,868	3,893
Contracts on shares	3	555	558	3	555	558
Total assets/liabilities for derivatives gross(1)	**794**	**4,735**	**5,529**	**1,305**	**5,023**	**6,328**
Balance sheet balance	794	4,735	5,529	1,305	5,023	6,328
Of which: not subject to net settlement arrangement or similar arrangements	-	525	525	5	542	547

Footnote:
(1) Of which: NIS 3 million (December 31, 2021: NIS 7 million) positive gross fair value of assets stemming from embedded derivative instruments.
Of which: NIS 8 million (December 31, 2021: NIS 5 million) negative gross fair value of liabilities stemming from embedded derivative instruments.

B. Accounting hedge

1. Effect of accounting hedge

	For the year ended December 31	
	2022	2021
	Interest income (expenses)	
	In NIS millions	
Profit (loss) on fair value hedge		
Interest rate contracts		
Hedged items	(465)	(105)
Hedging derivatives	454	78

28. Derivative Instrument Activity - Volume, Credit Risk and Due Dates (continued)

B. Accounting hedge (continued)

2. Items hedged by fair value hedge

	December 31, 2022			December 31, 2021		
	Book value	Cumulative fair value adjustments increasing (decreasing) the book value		Book value	Cumulative fair value adjustments increasing (decreasing) the book value	
		Existing hedge relations	Discontinued hedge relations		Existing hedge relations	Discontinued hedge relations
	In NIS millions					
Securities	6,606	(407)	-	2,989	(4)	18
Deposits from the public	2,296	(109)	-	1,919	(6)	-

3. Effect of activity in derivative instruments for cash flow hedging

a. Amounts recognized in other comprehensive income for cash flow hedging

	For the year ended December 31		
	2022	2021	2020
	Profit (loss) recognized in accumulated other comprehensive income on the derivative		
	In NIS millions		
Hedge contract			
Interest rate	(27)	(3)	(1)

B. Amounts reclassified from other comprehensive income to profit and loss

	For the year ended December 31		
	2022	2021	2020
	Profit (loss) recognized in accumulated other comprehensive income on the derivative		
	In NIS millions		
Hedge contract			
Interest rate	4	(1)	(3)

4. Effect of Derivatives not designated as hedging instruments on statement of profit and loss

	For the year ended December 31		
	2022	2021	2020
	Profit (loss) recognized in income (expenses) from activity in derivative instruments(1)		
	In NIS millions		
Interest rate contracts	(289)	83	34
Foreign currency contracts	3,402	(892)	(1,035)
Contracts on shares	2	2	-
Total	**3,115**	**(807)**	**(1,001)**

Footnote:

(1) Included in the item Non-interest financing income (expenses).

28. Derivative Instrument Activity - Volume, Credit Risk and Due Dates (continued)

C. Derivative Instruments credit risk based on the counterparty to the contract, on a consolidated basis

	Stock Exchange	Banks	Dealers/ brokers	Governments and central banks	Institutional bodies	Others	Total
	In NIS millions						
	December 31, 2022[7]						
Balance sheet balance of assets for derivative instruments[3]	75	3,227	61	-	9	8,051	11,423
Gross amounts not offset in the balance sheet:							
Credit risk mitigation for financial instruments[6]	-	(1,728)	-	-	(3)	(3,884)	(5,615)
Credit risk mitigation for cash collateral received	-	(858)	(34)	-	-	(2,009)	(2,901)
Adjusting net balance sheet with balance sheet credit risk	-	-	-	-	-	(544)	(544)
Balance sheet credit risk for derivative instruments	**75**	**641**	**27**	**-**	**6**	**1,614**	**2,363**
Off-balance sheet credit risk for derivative instruments[2]	1,533	1,737	125	34	243	2,650	6,322
Total credit risk for derivative instruments	**1,608**	**2,378**	**152**	**34**	**249**	**4,264**	**8,685**
Balance sheet balance of liabilities for derivative instruments[4]	925	3,115	1	113	57	5,145	9,356
Gross amounts not offset in the balance sheet:							
Financial instruments	-	(1,728)	-	-	(3)	(3,884)	(5,615)
Pledged cash collateral	-	(660)	-	(94)	(50)	(138)	(942)
Net amount of liabilities for derivative instruments	**925**	**727**	**1**	**19**	**4**	**1,123**	**2,799**

For footnotes see next page.

28. Derivative Instrument Activity - Volume, Credit Risk and Due Dates (continued)

C. Derivative Instruments credit risk based on the counterparty to the contract, on a consolidated basis

	Stock Exchange	Banks	Dealers/ brokers	Governments and central banks	Institutional bodies	Others	Total
	In NIS millions						
	December 31, 2021						
Balance sheet balance of assets for derivative instruments[3]	62	2,436	4	99	205	2,724	5,529
Gross amounts not offset in the balance sheet:							
Credit risk mitigation for financial instruments[6]	-	(1,677)	(1)	-	(13)	(1,096)	(2,787)
Credit risk mitigation for cash collateral received	-	(706)	(1)	(98)	(158)	(36)	(998)
Net amount of assets for derivative instruments	**62**	**53**	**2**	**1**	**34**	**1,592**	**1,744**
Off-balance sheet credit risk for derivative instruments[1]	267	271	18	30	103	913	1,602
Total credit risk for derivative instruments[5]	**329**	**2,707**	**22**	**129**	**307**	**3,637**	**7,131**
Balance sheet balance of liabilities for derivative instruments[4]	491	2,547	21	-	13	3,256	6,328
Gross amounts not offset in the balance sheet:							
Financial instruments	-	(1,677)	(1)	-	(13)	(1,096)	(2,787)
Pledged cash collateral	-	(806)	-	-	-	(1,365)	(2,171)
Net amount of liabilities for derivative instruments	**491**	**64**	**20**	**-**	**-**	**795**	**1,370**

Footnotes:

(1) The difference, if positive, between the total amount for derivative instruments (including derivative instruments with a negative fair value) included in the borrower's indebtedness, as computed for the purpose of limitation on the indebtedness of a borrower, before credit risk mitigation, and between the balance sheet amount of assets for derivative instruments of the borrower.

(2) The difference, if positive, between the total amount regarding derivative instruments (including derivative instruments with a negative fair value) included in the borrower's indebtedness, as computed for the purpose of limitation on the indebtedness of a borrower, after credit risk mitigation, and between the balance sheet credit risk regarding derivative instruments of the borrower.

(3) Of which: a balance sheet balance of standalone derivative instruments in the amount of NIS 11,420 million included in the item assets for derivative instruments (December 31, 2021: NIS 5,522 million).

(4) Of which: a balance sheet balance of standalone derivative instruments in the amount of NIS 9,348 million included in the item liabilities for derivative instruments (December 31, 2021: NIS 6,323 million).

(5) The amount does not include the above deductions.

(6) The fair value of derivative instruments subject to netting agreements is in the amount of NIS 5,659 million (December 31, 2021: NIS 2,773 million).

(7) See Note 1 C 5 section 2 above

28. Derivative Instrument Activity - Volume, Credit Risk and Due Dates (continued)

D. Due dates - Par value: consolidated period end balances

	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Total
			In NIS millions		
			December 31, 2022		
Interest rate contracts:					
Shekel/CPI	1,955	5,082	9,237	2,336	18,610
Other	31,389	52,225	78,884	45,577	208,075
Foreign currency contracts	116,167	62,468	19,760	5,968	204,363
Contracts on shares	15,242	966	94	-	16,302
Commodities and other contracts	-	839	-	-	839
Total	**164,753**	**121,580**	**107,975**	**53,881**	**448,189**
			December 31, 2021		
Interest rate contracts:					
Shekel/CPI	2,135	2,488	8,974	2,208	15,805
Other	5,488	18,905	53,837	43,135	121,365
Foreign currency contracts	89,747	75,935	19,502	6,281	191,465
Contracts on shares	17,966	771	70	-	18,807
Commodities and other contracts	-	6	132	-	138
Total	**115,336**	**98,105**	**82,515**	**51,624**	**347,580**

29. Regulatory Operating Segments and Geographical Areas Information

A. General

As stated in Note 1 D 19 above, the report on segments of operation is presented in relation to segments that had been defined by the Supervisor of Banks.

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

"Household segment" - private individuals, the volume of their financial asset portfolio is lower than NIS 3 million.

"Private banking segment" - private individuals, the volume of their financial asset portfolio exceeds NIS 3 million.

"Minute businesses segment" - businesses, the annual turnover of which is lower than NIS 10 million.

"Small businesses segment" - businesses, the annual turnover of which is equal to or higher than NIS 10 million, but is lower than NIS 50 million.

"Medium businesses segment" - businesses, the annual turnover of which is equal to or higher than NIS 50 million, but is lower than NIS 250 million.

"Institutional bodies segment" – activity with institutional bodies, as defined in the Regulation of Engagement in Investment Consulting, Marketing of Investments and Investment Portfolio Management Law, 1995, including provident funds, pension funds, further education funds, mutual trust funds, ETN's, insurance companies, Stock Exchange members managing customer funds.

"Large businesses segment" - Businesses, the annual turnover of which is equal to or exceeds NIS 250 million.

"Financial management segment" - includes the following activities: trading activity, asset and liability management activity, non-financial investment activity and other activities.

"Other segment" - including discontinued operations, profits from reserves and other results relating to employee rights not attributed to other segments and adjustment between the total items attribute to segments and the total items stated in the consolidated financial statements.

The following definitions were used in reporting the above operating segments:

"Private individuals" – individuals, including those managing a joint account, who at date of the report are not in debt to the Bank, or whose debt is classified to the economic sector "Private individuals – housing loans and other".

"Business" - a customer who is not included in the definition of "Private individuals" and is not an institutional body or a banking corporation.

"Annual turnover" – annual sales turnover or volume of annual income.

"Trading operations" – investment in securities held for trading, market-making activity regarding securities and derivative instruments, operation in derivative instruments not intended for hedge operations and are not part of the Bank's asset and liability management, repurchase and securities lending transactions, short sale of securities, securities underwriting services.

"Asset and liability management activity" – including investment in available-for-sale bonds and held-to-maturity bonds that are not allocated to other operating segments (where the borrower has no indebtedness to the Bank except for securities), derivative hedging instruments and derivative instruments comprising part of the asset and liability management, deposits with banks and from banks in Israel and abroad, hedge or cover for exchange rate differences of investments in overseas extensions, deposits with or of governments.

"Non-financial investment activity" – investment in available-for-sale equities and investments in associates.

"Other activities" – management services, operating, trusteeship and custodian services for banks, advisory services, sales operations and management of credit portfolios, financial product development operations.

"Asset management" – including assets of provident funds, mutual funds, further education funds, securities of customers, loans managed by the Bank, and assets stemming from collection based operations. Attribution of the average balance of managed assets to the various segments is made according to the segment to which the provident funds and further education funds are allocated, or according to the segment to which the customer holding mutual fund units is attributed.

For details on managerial segments, see Note 30 below.

B. Classification of customers in certain cases. It is noted that, where the Bank has no information as to the business turnover of a commercial customer, who has no debts to the Bank, he may be classified with the relevant regulatory operating segment based on the number of employees in his business or on the value of the total assets of the business or on the total financial assets of the customer held with the Bank, according to the rules detailed in the Directive.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

It is further noted that, where, in the opinion of the Bank, the income turnover of a business customer does not reflect the volume of his operations, he may be classified as follows: if his total indebtedness is equal to or higher than NIS 100 million, he may be classified to the large businesses segment; where his total indebtedness is less than NIS 100 million, he may be classified to the relevant segment according to the number of his employees or the total assets in the balance sheet of the business, according to the rules detailed in the Directive.

Whereas, with respect to a part of the customers, the Bank did not have the complete information required for the classification to regulatory operating segment, according to the new instructions, in particular information regarding their business turnover, various actions had been taken to obtain such information, and in certain cases, in the absence of information, decisions had been made on the basis of evaluations and estimates. The Bank is acting to complete the improvement of the information, and accordingly, such improvements may in future reporting periods require the reclassification of customers to the operating segments. It is noted however, that the volume of classified customers, based on an estimate, continues to decline over the years.

C. Re-Classification

(1) Improvement in the attribution of customers to segments of operation – the transfer of customers from the small and minute businesses segment and from the large businesses segment to the institutional bodies segment.

(2) Improving the treatment by a subsidiary company of recognizing inter-segment interest income/expenses in respect of linkage differences, between the different segments and the financial management segment.

D. The principal assumptions, estimates and principles used in the preparation of segment information

The classification of the business results of the Group into the various regulatory operating segments, as stated above, was prepared based on the principles, assumptions and estimates detailed hereunder:

1. Income

Net interest income**.** The segment is credited with the margin resulting from the difference between the effective interest on loans granted to customers of the segment and the interest paid on deposits of customers of the segment and the transfer prices. The transfer prices reflect the marginal alternative cost of financing sources or the application thereof. The margins are set at the date the transaction is entered into and stay in effect for the duration of the transaction free of market risks. According to this methodology, earning or losses from financing operations resulting from changes in market conditions, including linkage differentials are taken to the "Financial Management" segment presented as inter-segment operations.

Income earned on the Bank's nostro securities and from deposits from the public are also reflected in the Financial Management segment.

Credit loss expenses are included in the segment in which the activity of the customer is reflected, for which the expenses have been written. In the same manner, collection is also reflected in the segment in which the activity of the customer is reflected. The collection of debts from prior years, in material amounts, is included in the large businesses segment.

Non-interest income. Non-interest income that the Bank collects from its customers are charged partly to the activity segment of the customer and partly in the financial management segment.

2. Expenses

The allocation of expenses to segments of operation is based on the following stages:

- Direct expenses of all Bank units, which can be identified at the unit level, are charged directly to the units generating the expense (e.g., branches, operational units, and head office units);
- Operating and other expenses of all Bank units, such as: computer expenses, maintenance, administrative and other operating expenses, which cannot be directly allocated to a specific unit, are charged to all units based on different allocation keys (such as: number of staff, number of customers, number of ATM stations, quantity and volume of operations);
- Expenses of operational units allocated according to the items above, are charged to profit units and management and control units (such as: head office, internal audit unit, strategy and finance unit) based on different allocation keys, such as: number of staff, quantity and volume of operations;
- Expenses of the management and control units are allocated to the profit units based on different allocation keys (such as: number of staff, quantity and volume of operations);
- Distribution of expenses of the profit units to customers of the unit is based on quantity and volume of operations (excluding securities activity, foreign trade according to the number of transactions only), including expenses for mutual services provided by the branch outlay to customers belonging to other divisions;
- Calculating the expenses of operating segments by totaling the expenses allocated to customers belonging to the relevant segment.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

Taxes on income. The provision for taxes of the various segments of operation was computed on the basis of the statutory tax rate of 34.19% (2021: 34.19%). Segments showing a loss recorded a tax income computed also on the basis of the statutory tax rate. The difference between the net statutory tax recognized in the operating segments and the provision for taxes as recorded in profit and loss, is attributed to segments, mainly on the basis of the operating expenses ratio.

3. **Allocation of capital and computation of the return**

Shareholders' equity and subordinated capital notes, being part of the financing sources of credit, are being allocated to each segment for its risk assets. According to directives of the Supervisor of Banks, the sector of operations is credited with imputed interest on the capital allocated to them, on the basis the risk assets attributed to the sector.

The average balance of risk assets presented in the Note was computed in relation to risk assets calculated according to the principles of Basel III.

Computation of the return in each segment was made according to the equity attributed, as stated, to the segment: 9.19% in 2022, 8.16% in 2021, 8.18% in 2020.

4. **Presentation of inter-segment expenses**

The accountability between the profit centers in the Bank is made as described in section 2 above, by a mechanism that allocates the total amount of expenses to the Bank's customers, using various activity indices, and not by allocating the expenses to the profit centers (and the "sale" of inter-segment services). According to the system described above, each customer "bears" its own relevant expenses, which are accumulated in the various segments according to the affiliation of customers to these segments.

The format described above does not allow the determination as to what expenses of one segment were charged to another segment (referred to in the reporting format as "inter-segment activity"). The Supervisor of Banks permitted the Bank to report on the basis of the mechanism it developed for allocating income and expenses, and inconsequence thereof not to report inter-segment transfers.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

E. information regarding regulatory operating Segments, consolidated

	For the year ended December 31, 2022				
	Domestic operations				
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses
	in NIS millions				
Interest income from external sources	4,151	18	2,094	710	1,946
Interest expenses To external sources	380	176	246	141	558
Net interest income from external sources	3,771	(158)	1,848	569	1,388
Net interest income Intersegmental	(690)	359	107	(66)	(263)
Total net Interest income	3,081	201	1,955	503	1,125
Non-interest financing income from external sources	1,086	(854)	(269)	(411)	(62)
Non-interest financing income Intersegmental	799	933	869	556	513
Total Non-interest financing income	1,885	79	600	145	451
Total income	**4,966**	**280**	**2,555**	**648**	**1,576**
Credit loss expenses (expenses release)	222	1	89	35	70
Operating and other expenses	3,393	111	1,371	281	703
Profit before taxes	**1,351**	**168**	**1,095**	**332**	**803**
Provision for taxes on profit	435	56	368	110	270
Profit after taxes	**916**	**112**	**727**	**222**	**533**
Bank's share in operating income of associates	-	-	-	-	-
Net Profit from ordinary operations before Attributed to the non-controlling interests	916	112	727	222	533
Net Profit (Loss) from ordinary operations Attributed to the non-controlling interests	(67)	-	(6)	(1)	(5)
Net Profit Attributed to the bank's shareholders	**849**	**112**	**721**	**221**	**528**
Balance of average Assets	89,445	614	40,563	16,400	53,485
Of which - Investment in associates	-	-	-	-	-
Of which - Balance of average credit to the public[(3)]	88,604	546	40,085	16,432	52,872
Balance of credit to the public at the period end[(3)]	[(4)]97,457	[(4)]490	41,185	17,224	58,407
Balance of non-accruing debts	310	-	600	190	339
Balance of debts in arrear for over ninety days	45	-	67	1	-
Balance of average Liabilities	97,253	19,631	54,086	15,908	45,147
Of which - Balance of average Deposits from the public	93,478	19,503	48,853	14,775	41,171
Balance of deposits from the public at the period end	94,036	22,319	47,752	15,093	48,002
Balance of average Risk-assets[(1)]	65,601	665	39,641	16,549	57,782
Balance of Risk-assets at the period end[(1)]	70,055	772	40,541	17,082	65,667
Balance of average assets under management[(2)]	36,229	23,664	33,570	9,276	54,756
Net interest income:					
Margin from credit activity to the public	2,115	8	1,471	405	988
Margin from deposits activity from the public	966	193	484	98	137
Other	-	-	-	-	-
Total net interest income	**3,081**	**201**	**1,955**	**503**	**1,125**

Footnotes:

(1) Risk weighted assets – as computed for capital adequacy purposes.

(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.

(4) Including housing loans to small and minute business customers with an outstanding credit balance at the end of the period of NIS 3,992 million.

	Institutional bodies	Financial management	Total Domestic operations	International operations: Private Individuals	International operations: Business operations	International operations: Other	Total International operations	Total
	9	1,250	10,178	62	1,257	203	1,522	11,700
	445	686	2,632	55	296	24	375	3,007
	(436)	564	7,546	7	961	179	1,147	8,693
	501	52	–	148	(5)	(143)	–	–
	65	616	7,546	155	956	36	1,147	8,693
	(527)	5,087	4,050	34	115	52	201	4,251
	539	(4,209)	–	–	–	–	–	–
	12	878	4,050	34	115	52	201	4,251
	77	**1,494**	**11,596**	**189**	**1,071**	**88**	**1,348**	**12,944**
	(2)	–	415	2	(10)	–	(8)	407
	59	465	6,383	145	646	43	834	7,217
	20	**1,029**	**4,798**	**42**	**435**	**45**	**522**	**5,320**
	6	387	1,632	14	143	17	174	1,806
	14	**642**	**3,166**	**28**	**292**	**28**	**348**	**3,514**
	–	27	27	–	–	–	–	27
	14	669	3,193	28	292	28	348	3,541
	–	33	(46)	–	–	–	–	(46)
	14	**702**	**3,147**	**28**	**292**	**28**	**348**	**3,495**
	630	117,756	318,893	1,606	27,146	12,024	40,776	359,669
	–	466	466	–	–	–	–	466
	599	–	199,138	1,572	26,574	–	28,146	227,284
	416	–	215,179	1,578	27,531	–	29,109	244,288
	–	–	1,439	–	81	–	81	1,520
	–	664	777	–	2	–	2	779
	26,545	39,769	298,339	8,632	26,178	1,752	36,562	334,901
	26,515	–	244,295	8,685	26,339	–	35,024	279,319
	29,655	–	256,857	8,274	27,162	–	35,436	292,293
	767	18,279	199,284	1,792	29,126	2,452	33,370	232,654
	886	17,950	212,953	1,805	29,872	2,817	34,494	247,447
	87,877	461	245,833	14,252	–	–	14,252	260,085
	4	–	4,991	30	697	–	727	5,718
	61	–	1,939	125	259	–	384	2,323
	–	616	616	–	–	36	36	652
	65	**616**	**7,546**	**155**	**956**	**36**	**1,147**	**8,693**

29. Regulatory Operating Segments and Geographical Areas Information (continued)

E. information regarding regulatory operating segments, consolidated (continued)

	For the year ended December 31, 2021				
	Domestic operations				
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses
	in NIS millions				
Interest income from external sources	(6)2,852	8	1,557	454	1,207
Interest expenses To external sources	(6)171	37	58	17	70
Net interest income from external sources	(6)2,681	(29)	1,499	437	1,137
Net interest income Intersegmental	(6)(709)	78	(77)	(63)	(265)
Total net Interest income	1,972	49	1,422	374	872
Non-interest financing income from external sources	2,160	456	938	236	538
Non-interest financing income Intersegmental	(460)	(372)	(369)	(111)	(144)
Total Non-interest financing income	1,700	84	569	125	394
Total income	**3,672**	**133**	**1,991**	**499**	**1,266**
Credit loss expenses (expenses release)	(162)	(1)	(211)	50	(339)
Operating and other expenses	3,268	85	1,372	278	682
Profit(Loss) before taxes	**566**	**49**	**830**	**171**	**923**
Provision for taxes (tax savings) on profit	171	16	276	56	309
Profit after taxes	**395**	**33**	**554**	**115**	**614**
Bank's share in operating income of associates	-	-	-	-	-
Net Profit from ordinary operations before Attributed to the non-controlling interests	395	33	554	115	614
Net Profit (Loss) from ordinary operations Attributed to the non-controlling interests	(70)	-	(4)	(1)	(4)
Net Profit Attributed to the bank's shareholders	**325**	**33**	**550**	**114**	**610**
Balance of average Assets	76,734	441	37,297	13,854	47,026
Of which - Investment in associates	-	-	-	-	-
Of which - Balance of average credit to the public(3)	75,984	394	36,769	13,881	46,768
Balance of credit to the public at the period end(3)	(4)83,635	(4)440	(5)39,031	14,770	50,393
Balance of impaired non-accruing	230	-	663	354	352
Balance of debts in arrear for over ninety days	319	-	41	1	-
Balance of average Liabilities	94,492	17,786	(5)50,710	(5)11,246	(5)32,807
Of which - Balance of average Deposits from the public	90,413	17,690	(5)45,074	(5)10,125	(5)28,753
Balance of deposits from the public at the period end	89,965	18,999	(5)47,703	(5)12,780	(5)35,267
Balance of average Risk-assets(1)	56,272	529	35,643	14,044	51,558
Balance of Risk-assets at the period end (1)	60,900	569	37,729	14,953	53,314
Balance of average assets under management(2)	34,434	24,478	29,574	7,710	47,071
Net interest income:					
Margin from credit activity to the public	1,758	4	1,332	358	848
Margin from deposits activity from the public	214	45	90	16	24
Other	-	-	-	-	-
Total net interest income	**1,972**	**49**	**1,422**	**374**	**872**

Footnotes:

(1) Risk weighted assets – as computed for capital adequacy purposes.

(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.

(4) Including housing loans to small and minute business customers with an outstanding credit balance at the end of the period of NIS 3,315 million.

(5) Reclassified - see C (1) above.

(6) Reclassified - see C (2) above.

Institutional bodies	Financial management	Total Domestic operations	International operations Private Individuals	Business operations	Other	Total International operations	Total
13	(6)456	6,547	45	751	148	944	7,491
48	(6)465	866	24	60	12	96	962
(35)	(6)(9)	5,681	21	691	136	848	6,529
64	(6)972	-	59	(11)	(48)	-	-
29	963	5,681	80	680	88	848	6,529
130	(727)	3,731	51	103	77	231	3,962
(120)	1,576	-	-	-	-	-	-
10	849	3,731	51	103	77	231	3,962
39	**1,812**	**9,412**	**131**	**783**	**165**	**1,079**	**10,491**
(23)	7	(679)	(3)	(11)	-	(14)	(693)
64	415	6,164	132	497	65	694	6,858
(2)	**1,390**	**3,927**	**2**	**297**	**100**	**399**	**4,326**
(2)	552	1,378	-	96	42	138	1,516
-	**838**	**2,549**	**2**	**201**	**58**	**261**	**2,810**
-	20	20	-	-	-	-	20
-	858	2,569	2	201	58	261	2,830
-	22	(57)	-	-	-	-	(57)
-	**880**	**2,512**	**2**	**201**	**58**	**261**	**2,773**
878	97,398	273,628	1,421	23,254	10,921	35,596	309,224
-	362	362	-	-	-	-	362
853	-	174,649	1,431	23,411	-	24,842	199,491
(5)1,337	-	189,606	1,549	25,041	-	26,590	216,196
-	-	1,599	-	198	-	198	1,797
-	990	1,351	-	1	-	1	1,352
(5)18,849	30,692	256,582	8,634	21,850	1,477	31,961	288,543
(5)18,817	-	210,872	8,620	21,814	-	30,434	241,306
(5)22,383	-	227,097	8,621	25,189	-	33,810	260,907
1,078	16,427	175,551	1,642	25,451	2,213	29,306	204,857
817	16,400	184,682	1,701	26,744	2,194	30,639	215,321
84,472	345	228,084	13,464	-	-	13,464	241,548
11	-	4,311	33	600	-	633	4,944
18	-	407	47	80	-	127	534
-	963	963	-	-	88	88	1,051
29	**963**	**5,681**	**80**	**680**	**88**	**848**	**6,529**

29. Regulatory Operating Segments and Geographical Areas Information (continued)

E. information regarding regulatory operating segments, consolidated (continued)

	For the year ended December 31, 2020				
	Domestic operations				
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses
	in NIS millions				
Interest income from external sources	2,356	6	1,538	407	1,128
Interest expenses To external sources	156	76	73	26	103
Net interest income from external sources	2,200	(70)	1,465	381	1,025
Net interest income Intersegmental	(225)	137	(30)	(29)	(220)
Total net Interest income	1,975	67	1,435	352	805
Non-interest financing income from external sources	1,846	520	909	245	(5)581
Non-interest financing income Intersegmental	(346)	(441)	(370)	(120)	(5)(224)
Total Non-interest financing income	1,500	79	539	125	357
Total income	**3,475**	**146**	**1,974**	**477**	**1,162**
Credit loss expenses	518	1	593	198	261
Operating and other expenses	3,194	162	1,329	267	589
Profit(Loss) before taxes	**(237)**	**(17)**	**52**	**12**	**312**
Provision for taxes (tax savings) on profit	(106)	3	18	4	107
Profit(Loss) after taxes	**(131)**	**(20)**	**34**	**8**	**205**
Bank's share in operating income of associates	-	-	-	-	-
Net Profit(Loss) from ordinary operations before Attributed to the non-controlling interests	(131)	(20)	34	8	205
Net Profit from ordinary operations Attributed to the non-controlling interests	(13)	-	(6)	(1)	(4)
Net Profit(Loss) Attributed to the bank's shareholders	**(144)**	**(20)**	**28**	**7**	**201**
Balance of average Assets	71,008	390	35,759	12,928	41,971
Of which - Investment in associates	-	-	-	-	-
Of which - Balance of average credit to the public(3)	70,167	331	35,287	12,883	41,841
Balance of credit to the public at the period end(3)	(4)72,620	(4)364	36,439	12,865	(5)45,833
Balance of non-accruing debts	261	-	631	276	567
Balance of debts in arrear for over ninety days	348	-	38	-	-
Balance of average Liabilities	88,026	17,037	(5)44,813	9,965	(5)27,275
Of which - Balance of average Deposits from the public	83,966	16,912	(5)39,116	8,823	(5)23,361
Balance of deposits from the public at the period end	88,888	17,959	(5)41,629	9,842	(5)24,791
Balance of average Risk-assets(1)	51,918	499	34,880	13,263	45,027
Balance of Risk-assets at the period end (1)	52,744	519	34,665	12,906	47,854
Balance of average assets under management(2)	30,551	19,878	24,084	8,198	(5)31,159
Net interest income:					
Margin from credit activity to the public	1,696	3	1,316	333	776
Margin from deposits activity from the public	279	64	119	19	29
Other	-	-	-	-	-
Total net interest income	**1,975**	**67**	**1,435**	**352**	**805**

Footnotes:
(1) Risk weighted assets – as computed for capital adequacy purposes.
(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.
(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.
(4) Including housing loans to small and minute business customers with an outstanding credit balance at the end of the period of NIS 2,919 million.
(5) Reclassified - see C(1) above.

			International operations				
Institutional bodies	Financial management	Total Domestic operations	Private Individuals	Business operations	Other	Total International operations	Total
24	445	5,904	56	815	212	1,083	6,987
85	319	838	73	143	35	251	1,089
(61)	126	5,066	(17)	672	177	832	5,898
99	268	–	102	(51)	(51)	–	–
38	394	5,066	85	621	126	832	5,898
[5]234	(544)	3,791	43	96	77	216	4,007
[5](224)	1,725	–	–	–	–	–	–
10	1,181	3,791	43	96	77	216	4,007
48	**1,575**	**8,857**	**128**	**717**	**203**	**1,048**	**9,905**
2	15	1,588	3	127	–	130	1,718
59	386	5,986	158	449	88	695	6,681
(13)	**1,174**	**1,283**	**(33)**	**141**	**115**	**223**	**1,506**
(5)	449	470	(12)	43	48	79	549
(8)	**725**	**813**	**(21)**	**98**	**67**	**144**	**957**
–	50	50	–	–	–	–	50
(8)	775	863	(21)	98	67	144	1,007
–	(8)	(32)	–	–	–	–	(32)
(8)	**767**	**831**	**(21)**	**98**	**67**	**144**	**975**
874	82,958	245,888	1,490	22,295	10,593	34,378	280,266
–	200	200	–	–	–	–	200
728	–	161,237	1,494	22,356	–	23,850	185,087
[5]861	–	168,982	1,419	22,078	–	23,497	192,479
276	–	2,011	–	196	–	196	2,207
2	1,162	1,550	–	25	–	25	1,575
[5]18,877	24,586	230,579	9,099	18,608	2,922	30,629	261,208
[5]18,830	–	191,008	9,099	18,608	–	27,707	218,715
[5]15,395	–	198,504	8,514	19,100	–	27,614	226,118
1,338	16,071	162,996	1,754	24,382	2,406	28,542	191,538
1,364	15,557	165,609	1,631	23,804	2,188	27,623	193,232
[5]75,995	544	190,409	13,008	–	–	13,008	203,417
21	–	4,145	38	522	–	560	4,705
17	–	527	47	99	–	146	673
–	394	394	–	–	126	126	520
38	**394**	**5,066**	**85**	**621**	**126**	**832**	**5,898**

29. Regulatory Operating Segments and Geographical Areas Information (continued)

F. Private individuals – operations in Israel, consolidated

	For the year ended December 31, 2022								
	Households sector				Private banking sector				
	Mortgages	Credit cards	Other	Total households	Mortgages	Credit cards	Other	Total private banking	Total
	in NIS millions								
Interest income From external sources	2,533	725	893	4,151	13	-	5	18	4,169
Interest expenses To external sources	-	-	380	380	-	-	176	176	556
Net interest income from external sources	2,533	725	513	3,771	13	-	(171)	(158)	3,613
Net interest income Intersegmental	(1,784)	(17)	1,111	(690)	(8)	-	367	359	(331)
Total net Interest income	749	708	1,624	3,081	5	-	196	201	3,282
Non-interest financing income From external sources	12	1,373	(299)	1,086	-	-	(854)	(854)	232
Non-interest financing income Intersegmental	-	-	799	799	-	-	933	933	1,732
Total Non-interest financing income	12	1,373	500	1,885	-	-	79	79	1,964
Total income	**761**	**2,081**	**2,124**	**4,966**	**5**	**-**	**275**	**280**	**5,246**
Credit loss expenses	60	95	67	222	1	-	-	1	223
Operating and other expenses	259	1,482	1,652	3,393	1	-	110	111	3,504
Profit before taxes	**442**	**504**	**405**	**1,351**	**3**	**-**	**165**	**168**	**1,519**
Provision for taxes on profit	148	179	108	435	1	-	55	56	491
Profit after taxes	**294**	**325**	**297**	**916**	**2**	**-**	**110**	**112**	**1,028**
Net Profit from ordinary operations Attributed to the non-controlling interests	-	(67)	-	(67)	-	-	-	-	(67)
Net Profit Attributed to the bank's shareholders	**294**	**258**	**297**	**849**	**2**	**-**	**110**	**112**	**961**
Balance of average Assets	59,251	14,704	15,490	89,445	390	54	170	614	90,059
Of which - Balance of average credit to the public[3]	59,389	14,450	14,765	88,604	391	54	101	546	89,150
Balance of credit to the public at the period end[3]	[4]64,593	17,917	14,947	97,457	[4]396	58	36	490	97,947
Balance of impaired non-accruing	229	42	39	310	-	-	-	-	310
Balance of debts in arrear for over ninety days	-	-	45	45	-	-	-	-	45
Balance of average Liabilities	167	2,935	94,151	97,253	1	50	19,580	19,631	116,884
Of which - Balance of average Deposits from the public	-	12	93,466	93,478	-	-	19,503	19,503	112,981
Balance of deposits from the public at the period end	-	11	94,025	94,036	-	-	22,319	22,319	116,355
Balance of average Risk-assets[1]	33,758	16,130	15,713	65,601	279	56	330	665	66,266
Balance of Risk-assets at the period end [1]	36,773	17,105	16,177	70,055	269	57	446	772	70,827
Balance of average assets under management[2]	368	-	35,861	36,229	-	-	23,664	23,664	59,893
Net interest income:									
Margin from credit activity to the public	749	708	658	2,115	5	-	3	8	2,123
Margin from deposits activity from the public	-	-	966	966	-	-	193	193	1,159
Total net interest income	**749**	**708**	**1,624**	**3,081**	**5**	**-**	**196**	**201**	**3,282**

Footnotes:

(1) Risk weighted assets – as computed for capital adequacy purposes.

(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.

(4) Including housing loans to small and minute business customers with an outstanding credit balance at the end of the period of NIS 3,992 million.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

F. Private individuals – operations in Israel, consolidated (continued)

	For the year ended December 31, 2021								
	Households sector				Private banking sector				
	Mortgages	Credit cards	Other	Total households	Mortgages	Credit cards	Other	Total private banking	Total
	in NIS millions								
Interest income From external sources	(5)1,549	561	742	(5)2,852	7	-	1	8	2,860
Interest expenses To external sources	-	-	(5)171	(5)171	-	-	37	37	208
Net interest income from external sources	(5)1,549	561	(5)571	(5)2,681	7	-	(36)	(29)	2,652
Net interest income Intersegmental	(5)(988)	(20)	(5)299	(5)(709)	(4)	-	82	78	(631)
Total net Interest income	561	541	870	1,972	3	-	46	49	2,021
Non-interest financing income From external sources	13	1,197	950	2,160	-	1	455	456	2,616
Non-interest financing income Intersegmental	-	-	(460)	(460)	-	-	(372)	(372)	(832)
Total Non-interest financing income	13	1,197	490	1,700	-	1	83	84	1,784
Total income	**574**	**1,738**	**1,360**	**3,672**	**3**	**1**	**129**	**133**	**3,805**
Credit loss expenses (expenses release)	6	(12)	(156)	(162)	-	-	(1)	(1)	(163)
Operating and other expenses	241	1,223	1,804	3,268	1	-	84	85	3,353
Profit (loss) before taxes	**327**	**527**	**(288)**	**566**	**2**	**1**	**46**	**49**	**615**
Provision for taxes (tax savings) on profit	110	185	(124)	171	1	1	14	16	187
Profit (loss) after taxes	**217**	**342**	**(164)**	**395**	**1**	**-**	**32**	**33**	**428**
Net Profit (loss) from ordinary operations Attributed to the non-controlling interests	-	(70)	-	(70)	-	-	-	-	(70)
Net Profit (loss) Attributed to the bank's shareholders	**217**	**272**	**(164)**	**325**	**1**	**-**	**32**	**33**	**358**
Balance of average Assets	46,807	15,013	14,914	76,734	307	49	85	441	77,175
Of which - Balance of average credit to the public(3)	46,940	14,729	14,315	75,984	309	50	35	394	76,378
Balance of credit to the public at the period end(3)	(4)53,363	15,453	14,819	83,635	(4)353	55	32	440	84,075
Balance of impaired debts	-	106	124	230	-	-	-	-	230
Balance of debts in arrear for over ninety days	276	-	43	319	-	-	-	-	319
Balance of average Liabilities	119	2,734	91,639	94,492	1	47	17,738	17,786	112,278
Of which - Balance of average Deposits from the public	-	16	90,397	90,413	-	-	17,690	17,690	108,103
Balance of deposits from the public at the period end	-	13	89,952	89,965	-	-	18,999	18,999	108,964
Balance of average Risk-assets(1)	26,858	14,266	15,148	56,272	202	50	277	529	56,801
Balance of Risk-assets at the period end (1)	30,326	15,165	15,409	60,900	241	55	273	569	61,469
Balance of average assets under management(2)	362	-	34,072	34,434	-	-	24,478	24,478	58,912
Net interest income:									
Margin from credit activity to the public	561	541	656	1,758	3	-	1	4	1,762
Margin from deposits activity from the public	-	-	214	214	-	-	45	45	259
Total net interest income	**561**	**541**	**870**	**1,972**	**3**	**-**	**46**	**49**	**2,021**

Footnotes:
(1) Risk weighted assets – as computed for capital adequacy purposes.
(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.
(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.
(4) Including housing loans to small and minute business customers with an outstanding credit balance at the end of the period of NIS 3,315 million.
(5) Reclassified - see C (2) above.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

G. Small, minute, medium and large businesses - operations in Israel, consolidated

	For the year ended December 31, 2022									
	Small and minute businesses			Medium businesses			Large businesses			
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Total
	in NIS millions									
Interest income From external sources	633	1,461	2,094	178	532	710	650	1,296	1,946	4,750
Interest expenses From external sources	41	205	246	11	130	141	62	496	558	945
Net interest income from external sources	592	1,256	1,848	167	402	569	588	800	1,388	3,805
Net interest income Intersegmental	(93)	200	107	(45)	(21)	(66)	(158)	(105)	(263)	(222)
Total net Interest income	499	1,456	1,955	122	381	503	430	695	1,125	3,583
Non-interest financing income From external sources	(52)	(217)	(269)	14	(425)	(411)	190	(252)	(62)	(742)
Non-interest financing income Intersegmental	111	758	869	17	539	556	(45)	558	513	1,938
Total Non-interest financing income	59	541	600	31	114	145	145	306	451	1,196
Of which - Credit Card income	-	155	155	-	36	36	-	142	142	333
Total income	**558**	**1,997**	**2,555**	**153**	**495**	**648**	**575**	**1,001**	**1,576**	**4,779**
Credit loss expenses	63	26	89	20	15	35	126	(56)	70	194
Operating and other expenses	217	1,154	1,371	36	245	281	99	604	703	2,355
Profit (loss) before taxes	**278**	**817**	**1,095**	**97**	**235**	**332**	**350**	**453**	**803**	**2,230**
Provision for taxes on profit	89	279	368	32	78	110	119	151	270	748
Profit (loss) after taxes	**189**	**538**	**727**	**65**	**157**	**222**	**231**	**302**	**533**	**1,482**
Net Profit from ordinary operations Attributed to the non-controlling interests	-	(6)	(6)	-	(1)	(1)	-	(5)	(5)	(12)
Net Profit (loss) Attributed to the bank's shareholders	**189**	**532**	**721**	**65**	**156**	**221**	**231**	**297**	**528**	**1,470**
Balance of average Assets	14,209	26,354	40,563	4,318	12,082	16,400	17,665	35,820	53,485	110,448
Of which - Balance of average credit to the public(3)	14,329	25,756	40,085	4,346	12,086	16,432	17,291	35,581	52,872	109,389
Balance of credit to the public at the period end(3)	15,034	26,151	41,185	5,016	12,208	17,224	18,887	39,520	58,407	116,816
Balance of impaired non-accruing	201	399	600	31	159	190	226	113	339	1,129
Balance of debts in arrear for over ninety days	11	56	67	1	-	1	-	-	-	68
Balance of average Liabilities	8,330	45,756	54,086	2,008	13,900	15,908	7,104	38,043	45,147	115,141
Of which - Balance of average Deposits from the public	8,149	40,704	48,853	1,976	12,799	14,775	6,991	34,180	41,171	104,799
Balance of deposits from the public at the period end	7,660	40,092	47,752	1,823	13,270	15,093	7,702	40,300	48,002	110,847
Balance of average Risk-assets(1)	14,352	25,289	39,641	4,316	12,233	16,549	21,034	36,748	57,782	113,972
Balance of Risk-assets at the period end (1)	14,565	25,976	40,541	4,985	12,097	17,082	22,584	43,083	65,667	123,290
Balance of average assets under management(2)	428	33,142	33,570	216	9,060	9,276	2,101	52,655	54,756	97,602
Net interest income:										
Margin from credit activity to the public	419	1,052	1,471	105	300	405	396	592	988	2,864
Margin from deposits activity from the public	80	404	484	17	81	98	34	103	137	719
Total net interest income	**499**	**1,456**	**1,955**	**122**	**381**	**503**	**430**	**695**	**1,125**	**3,583**

Footnotes:

(1) Risk weighted assets-as computed for capital adequacy purposes

(2) Managed assets-including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

G. Small, minute, medium and large businesses - operations in Israel, consolidated (continued)

	For the year ended December 31, 2021									
	Small and minute businesses			Medium businesses			Large businesses			
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Total
	in NIS millions									
Interest income From external sources	488	1,069	1,557	105	349	454	401	806	1,207	3,218
Interest expenses From external sources	9	49	58	3	14	17	4	66	70	145
Net interest income from external sources	479	1,020	1,499	102	335	437	397	740	1,137	3,073
Net interest income Intersegmental	(49)	(28)	(77)	(10)	(53)	(63)	(66)	(199)	(265)	(405)
Total net Interest income	**430**	**992**	**1,422**	**92**	**282**	**374**	**331**	**541**	**872**	**2,668**
Non-interest financing income From external sources	100	838	938	38	198	236	98	440	538	1,712
Non-interest financing income Intersegmental	(42)	(327)	(369)	(10)	(101)	(111)	31	(175)	(144)	(624)
Total Non-interest financing income	**58**	**511**	**569**	**28**	**97**	**125**	**129**	**265**	**394**	**1,088**
Of which - Credit Card income	-	149	149	-	29	29	-	125	125	303
Total income	**488**	**1,503**	**1,991**	**120**	**379**	**499**	**460**	**806**	**1,266**	**3,756**
Credit loss expenses release	11	(222)	(211)	7	43	50	5	(344)	(339)	(500)
Operating and other expenses	233	1,139	1,372	36	242	278	103	579	682	2,332
Profit before taxes	244	586	830	77	94	171	352	571	923	1,924
Provision for taxes on profit	79	197	276	25	31	56	120	189	309	641
Profit after taxes	165	389	554	52	63	115	232	382	614	1,283
Net Profit from ordinary operations Attributed to the non-controlling interests	-	(4)	(4)	-	(1)	(1)	-	(4)	(4)	(9)
Net Profit Attributed to the bank's shareholders	**165**	**385**	**550**	**52**	**62**	**114**	**232**	**378**	**610**	**1,274**
Balance of average Assets	13,274	24,023	37,297	2,990	10,864	13,854	15,022	32,004	47,026	98,177
Of which - Balance of average credit to the public[3]	13,331	23,438	36,769	3,018	10,863	13,881	14,914	31,854	46,768	97,418
Balance of credit to the public at the period end[3]	13,941	25,090	[4]39,031	3,096	11,674	14,770	16,911	33,482	50,393	104,194
Balance of impaired debts	207	456	663	29	325	354	5	347	352	1,369
Balance of debts in arrear for over ninety days	7	34	41	-	1	1	-	-	-	42
Balance of average Liabilities	7,473	43,237	[4]50,710	1,862	9,384	[4]11,246	5,814	26,993	[4]32,807	94,763
Of which - Balance of average Deposits from the public	7,301	37,773	[4]45,074	1,837	8,288	[4]10,125	5,732	23,021	[4]28,753	83,952
Balance of deposits from the public at the period end	7,618	40,085	[4]47,703	2,068	10,712	[4]12,780	6,748	28,519	[4]35,267	95,750
Balance of average Risk-assets[1]	12,529	23,114	35,643	3,206	10,838	14,044	19,279	32,279	51,558	101,245
Balance of Risk-assets at the period end [1]	13,382	24,347	37,729	3,239	11,714	14,953	20,390	32,924	53,314	105,996
Balance of average assets under management[2]	429	29,145	29,574	245	7,465	7,710	1,779	45,292	47,071	84,355
Net interest income:										
Margin from credit activity to the public	414	918	1,332	89	269	358	326	522	848	2,538
Margin from deposits activity from the public	16	74	90	3	13	16	5	19	24	130
Total net interest income	**430**	**992**	**1,422**	**92**	**282**	**374**	**331**	**541**	**872**	**2,668**

Footnotes:

(1) Risk weighted assets – as computed for capital adequacy purposes.

(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

H. Financial Management Segment – domestic operations, consolidated (continued)

	For the year ended December 31, 2022				
	Trading activity	Asset and liability management activity	Non-financial investments activity	Other financial activity	Total
	in NIS millions				
Interest income From external sources	54	1,196	-	-	1,250
Interest expenses To external sources	(1)	690	-	(3)	686
Net interest income from external sources	55	506	-	3	564
Net interest income Intersegmental	(41)	93	-	-	52
Total net Interest income	14	599	-	3	616
Non-interest financing income From external sources	282	4,300	34	471	5,087
Non-interest financing income Intersegmental	137	(4,346)	-	-	(4,209)
Total Non-interest financing income	419	(46)	34	471	878
Total income	**433**	**553**	**34**	**474**	**1,494**
Credit loss expenses	-	-	-	-	-
Operating and other expenses	146	288	31	-	465
Profit before taxes	**287**	**265**	**3**	**474**	**1,029**
Provision for taxes on profit	98	110	(6)	185	387
Profit after taxes	**189**	**155**	**9**	**289**	**642**
Bank's share in operating income of associates	-	-	27	-	27
Net Profit from ordinary operations Attributed to the non-controlling interests	-	33	-	-	33
Net Profit Attributed to the bank's shareholders	**189**	**188**	**36**	**289**	**702**
Balance of average Assets	11,270	101,448	3,427	1,611	117,756
Of which - Investment in associates	-	-	466	-	466
Balance of debts in arrear for over ninety days	-	664	-	-	664
Balance of average Liabilities	9,008	29,911	-	850	39,769
Balance of average Risk-assets(1)	5,945	8,740	2,845	749	18,279
Balance of Risk-assets at the period end(1)	6,021	8,126	2,911	892	17,950
Balance of average assets under management(2)	-	-	-	461	461
Components of net interest income and non-interest income:					
Net exchange rate differences(3)	132	25	-	-	157
Net CPI linkage differences(3)	39	431	-	-	470
Net interest exposure(3)	165	287	-	-	452
Net share exposure(3)	19	-	-	-	19
Total net interest income and non-interest income, on an accrual basis	**355**	**743**	**-**	**-**	**1,098**
Profits or losses on sale or on impairment in value	-	(40)	-	-	(40)
Change in the difference between fair value and the accrual basis	-	(149)	-	-	(149)
Other non-interest income	78	(1)	-	-	77
Total net interest income and non-interest income	**433**	**553**	**34**	**474**	**1,494**

Footnotes:

(1) Risk weighted assets-as computed for capital adequacy purposes

(2) Managed assets - including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Including for securities and derivative instruments.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

H. Financial Management Segment – domestic operations, consolidated (continued)

	For the year ended December 31, 2021				
	Trading activity	Asset and liability management activity	Non-financial investments activity	Other financial activity	Total
	in NIS millions				
Interest income From external sources	12	(4)444	-	-	(4)456
Interest expenses To external sources	(1)	(4)465	-	1	(4)465
Net interest income from external sources	13	(4)(21)	-	(1)	(4)(9)
Net interest income Intersegmental	(3)	(4)975	-	-	(4)972
Total net Interest income	10	954	-	(1)	963
Non-interest financing income From external sources	221	(1,440)	394	98	(727)
Non-interest financing income Intersegmental	67	1,510	-	(1)	1,576
Total Non-interest financing income	288	70	394	97	849
Total income	**298**	**1,024**	**394**	**96**	**1,812**
Credit loss expenses	-	7	-	-	7
Operating and other expenses	145	237	30	3	415
Profit before taxes	**153**	**780**	**364**	**93**	**1,390**
Provision for taxes on profit	46	281	161	64	552
Profit after taxes	**107**	**499**	**203**	**29**	**838**
Bank's share in operating income of associates	-	-	20	-	20
Net Profit from ordinary operations Attributed to the non-controlling interests	-	22	-	-	22
Net Profit Attributed to the bank's shareholders	**107**	**521**	**223**	**29**	**880**
Balance of average Assets	7,629	85,609	2,712	1,448	97,398
Of which - Investment in associates	-	-	362	-	362
Balance of debts in arrear for over ninety days	-	990	-	-	990
Balance of average Liabilities	6,353	23,322	-	1,017	30,692
Balance of average Risk-assets(1)	5,135	8,478	2,371	443	16,427
Balance of Risk-assets at the period end (1)	5,317	7,801	2,674	608	16,400
Balance of average assets under management(2)	-	-	-	345	345
Components of net interest income and non-interest income:					
Net exchange rate differences(3)	51	(5)	-	-	46
Net CPI linkage differences(3)	27	199	-	-	226
Net interest exposure(3)	148	751	-	-	899
Net share exposure(3)	3	-	-	-	3
Total net interest income and non-interest income, on an accrual basis	**229**	**945**	**-**	**-**	**1,174**
Profits or losses on sale or on impairment in value	-	121	-	-	121
Change in the difference between fair value and the accrual basis	-	(42)	-	-	(42)
Other non-interest income	69	-	-	-	69
Total net interest income and non-interest income	**298**	**1,024**	**394**	**96**	**1,812**

Footnotes:

(1) Risk weighted assets-as computed for capital adequacy purposes

(2) Managed assets-including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Including for securities and derivative instruments.

(4) Reclassified - see C (2) above.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

I. Information on geographical areas

	Income[1]			Net Income (loss) attributed to the bank's shareholders			Assets	
	For the year end December 31						As at December 31	
	2022	2021	2020	2022	2021	2020	2022	2021
	in NIS millions							
Israel	11,596	9,412	8,857	3,147	2,512	831	333,182	295,680
North America	1,347	1,079	1,050	344	259	146	43,559	39,382
Europe	1	-	(2)	4	2	(2)	13	26
Total Overseas	**1,348**	**1,079**	**1,048**	**348**	**261**	**144**	**43,572**	**39,408**
Total Consolidated	**12,944**	**10,491**	**9,905**	**3,495**	**2,773**	**975**	**376,754**	**335,088**

Footnote:

(1) Income - Net interest income, before credit loss expenses and non-interest income.

30. Managerial Operating Segments

A. General

1. Under the new directives, a banking corporation, the operating segments of which, according to the approach of its Management, are materially different from the regulatory operating segments, shall provide in addition, disclosure regarding operating segments according to the Management's approach ("managerial operating segments"), according to the accounting principles accepted by U.S. banks in the matter of operating segments – (ASC 280).
2. The Bank has identified the following managerial operating segments: Retail banking, Middle Market banking, corporate banking, financial operations, Discount Capital, Discount Bancorp, Israel Credit Cards Company, other. These segments agree with the managerial structure.
   - **segments under responsibility of the Banking Division** (at the Bank; under the responsibility of the Retail Division of MDB relating to retail banking, under the responsibility the Corporate-Commercial Division of MDB relating to commercial banking):

     Retail banking – Household activity (this framework includes services provided by the Bank and MDB in the field of banking and capital market operations for their private customers) and activity of small businesses (this framework includes services provided by the Bank and MDB in the field of banking and capital market operations for business customers, individuals and corporations, the activity of which is typical of small businesses).

     Middle Market banking – Includes banking services provided by the Bank and MDB to business customers (individuals and corporations) having a medium scope of operations, and who do not belong to the corporate banking segment (with effect as from January 1, 2020, responsibility for Middle Market banking was transferred from the Banking Division to the Corporate Division).
   - **segment under the responsibility of the Corporate Division** (at the Bank; under the responsibility of the Commercial Banking Division of MDB):

     Corporate banking segment - Includes banking services provided by the Bank and MDB to large corporations. The segment includes also the activity of the Bank and MDB in the construction and real estate field.
   - **Segment under the responsibility of the Financial Markets Division** (at the Bank; under the responsibility of the Financial Division of MDB):

     Financial activity segment – Includes financial activity of the Bank and of MDB, which is not attributed to customers, such as operations in the securities portfolios of the banks.
   - **Segments including the activities of the principal subsidiaries in the Group:**

     Discount Capital – Operations in the field of investment (in companies, in private equity funds, in venture capital funds and in mezzanine operations), in the field of investment banking, in the initiation and assistance of public and private placements and in providing underwriting and distribution services (by means of a subsidiary company).

     Discount Bancorp – The international activity of the Discount Group, characterized as corporate- middle market activity and private banking through IDB Bank.

     ICC – Issue and clearing activity of credit cards of different kinds, for use in Israel and abroad.
   - **Other segment** – Different activities, which are not included in any of the above described segments, the scope of which is not material enough to be defined as an operating segment.

30. Managerial Operating Segments (continued)

3. In allocating the expenses to the administrative segments, use is made of the allocation model used for the regulatory segments, apart from customer attribution to the appropriate administrative segment, according to criteria used for dividing the activity between the administrative segments.

B. Information regarding managerial operating segments

	Retail banking	Middle market banking	Corporate banking	Financial management	Discount Capital(1)	Discount Bancorp(1)	Israel Credit Cards(1)	other	Adjustments	Total
	In NIS millions									
	For the year ended December 31, 2022									
Net interest income	4,087	809	1,284	656	16	1,151	680	5	4	8,692
Non-interest income	1,192	152	463	257	138	199	(4)1,753	317	(220)	4,251
Total income	**5,279**	**961**	**1,747**	**913**	**154**	**1,350**	**2,433**	**322**	**(216)**	**12,943**
Credit loss expenses (expenses release)	183	90	43	-	1	(8)	98	-	-	407
Operating and other expenses	3,197	370	623	329	54	837	1,895	128	(216)	7,217
Income before taxes	1,899	501	1,081	584	99	521	440	194	-	5,319
Provision for taxes on income	600	168	360	239	36	174	166	62	-	1,805
Income after taxes	1,299	333	721	345	63	347	274	132	-	3,514
Bank's share in income of associates, net of tax effect	1	-	-	5	22	-	2	-	(3)	27
Net income before attributed to the non-controlling interests	1,300	333	721	350	85	347	276	132	(3)	3,541
Net income (loss) attributed to the non-controlling interests	-	-	-	-	-	-	(86)	37	3	(46)
Net income (loss) attributed to the Bank's shareholders	**1,300**	**333**	**721**	**350**	**85**	**347**	**190**	**169**	**-**	**3,495**
Balance of Assets	110,962	31,144	68,081	125,777	2,572	44,031	18,546	13,671	(38,031)	376,753
Balance of credit to the public	109,647	31,278	62,953	-	94	29,109	17,421	-	(6,214)	244,288
Balance of deposits from the public	163,533	29,652	64,238	11,562	-	35,436	11	534	(12,673)	292,293

For footnote see next page.

30. Managerial Operating Segments (continued)

B. Information regarding managerial operating segments (continued)

	Retail banking	Middle market banking	Corporate banking	Financial management	Discount Capital[1]	Discount Bancorp[1]	Israel Credit Cards[1]	other	Adjustments	Total
	In NIS millions									
	For the year ended December 31, 2022									
Net interest income	2,538	659	966	948	20	848	548	-	2	6,529
Non-interest income	1,149	142	381	483	267	231	1,437	59	(187)	3,962
Total income	**3,687**	**801**	**1,347**	**1,431**	**287**	**1,079**	**1,985**	**59**	**(185)**	**10,491**
Credit loss expenses	(295)	(47)	(328)	-	-	(14)	(9)	-	-	(693)
Operating and other expenses	3,264	399	640	320	54	696	1,603	66	(184)	6,858
Income (loss) before taxes	718	449	1,035	1,111	233	397	391	(7)	(1)	4,326
Provision for taxes on income	208	152	347	435	74	138	151	11	-	1,516
Income (loss) after taxes	510	297	688	676	159	259	240	(18)	(1)	2,810
Bank's share in income of associates, net of tax effect	1	-	-	7	13	-	2	-	(3)	20
Net income (loss) before attributed to the non-controlling interests	511	297	688	683	172	259	242	(18)	(4)	2,830
Net income (loss) attributed to the non-controlling interests	-	-	-	-	-	-	(76)	15	4	(57)
Net income (loss) attributed to the Bank's shareholders	**511**	**297**	**688**	**683**	**172**	**259**	**166**	**(3)**	**-**	**2,773**
Balance of Assets	99,921	27,803	58,421	111,163	2,323	40,279	16,075	12,363	(33,260)	335,088
Balance of credit to the public	96,374	28,220	55,022	-	17	26,590	15,307	-	(5,334)	216,196
Balance of deposits from the public	152,590	28,376	46,751	10,698	-	33,810	13	370	(11,701)	260,907

Footnote:

(1) The contribution to the Bank's business results.

30. Managerial Operating Segments (continued)

B. Information regarding managerial operating segments (continued)

	In NIS millions									
	Retail banking[2]	Middle market banking	Corporate banking	Financial management	Discount Capital[1]	Discount Bancorp[1]	Israel Credit Cards[1]	other	Adjustments	Total
	For the year ended December 31, 2021									
Net interest income	2,582	665	890	381	14	829	530	2	5	5,898
Non-interest income	1,059	136	360	829	175	218	1,327	52	(149)	4,007
Total income	**3,641**	**801**	**1,250**	**1,210**	**189**	**1,047**	**1,857**	**54**	**(144)**	**9,905**
Credit loss expenses	733	319	313	-	-	130	223	-	-	1,718
Operating and other expenses	3,227	420	571	324	41	695	1,493	54	(144)	6,681
Income (loss) before taxes	(319)	62	366	886	148	222	141	-	-	1,506
Provision for taxes(tax saving) on income	(116)	22	126	338	54	78	40	8	(1)	549
Income (loss) after taxes	(203)	40	240	548	94	144	101	(8)	1	957
Bank's share in income of associates, net of tax effect	1	-	-	2	50	-	1	-	(4)	50
Net income (loss) before attributed to the non-controlling interests	(202)	40	240	550	144	144	102	(8)	(3)	1,007
Net income attributed to the non-controlling interests	-	-	-	-	-	-	(32)	(3)	3	(32)
Net income (loss) attributed to the Bank's shareholders	**(202)**	**40**	**240**	**550**	**144**	**144**	**70**	**(11)**	**-**	**975**
Balance of Assets	86,759	25,889	53,970	92,236	1,777	35,394	18,534	6,356	(26,946)	293,969
Balance of credit to the public	83,293	26,278	49,612	-	39	23,497	17,901	-	(8,141)	192,479
Balance of deposits from the public	146,487	22,589	29,949	5,630	-	27,614	16	-	(6,167)	226,118

footnote:
(1) The contribution to the Bank's business results.

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses

General. As from January 1, 2022, the Bank is applying the directives of the Supervisor of Banks requiring the adoption in full of accounting principles accepted by US banks in the matter of allowance for current expected credit losses (CECL). For details regarding the updated accounting policy and regarding the identification and classification of non-accruing debts, a term that has replaced the term impaired debts, see Note 1 D 4a above. The comparative data is indeed presented according to the new format, but this is according to the identification and classification rules, which had been in effect until December 31, 2021, prior to the new directive taking effect.

Debts – in this Note: Credit to the public, credit to Governments, deposits with banks and other debts, excluding bonds, securities borrowed or purchased under agreements to resell and assets for the Maof market activity.

A. Debts, held-to-maturity and available-for-sale bonds and off-balance sheet credit instruments

1. Change in the balance of the allowance for credit losses – consolidated

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments Held-to-maturity and available-for-sale-bonds[2]	Total
	In NIS millions					
	2022					
Balance of allowance for credit losses, as at December 31, 2021	2,258	258	773	3,289	22	3,311
Adjustment to the opening balance, net of tax due to the effect of the initial application[1]	183	(32)	–	151	9	160
Expenses for credit loss	182	63	162	407	–	407
Accounting write-offs	(401)	(5)	(372)	(778)	–	(778)
Collection of debts written-off in previous years	270	–	257	527	–	527
Net accounting write-offs	(131)	(5)	(115)	(251)	–	(251)
Adjustments from translation of financial statements	33	1	1	35	–	35
Balance of allowance for credit losses, as at December 31, 2022	**2,525**	**285**	**821**	**3,631**	**31**	**3,662**
Of which: For off-balance sheet credit instruments	313	19	90	422	2	424

For footnotes see next page.

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

A. Debts, held-to-maturity and available-for-sale bonds and off-balance sheet credit instruments (continued)

1. Change in the balance of the allowance for credit losses – consolidated (continued)

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments Held-to-maturity and available-for-sale-bonds(2)	Total
	In NIS millions					
	2021					
Balance of allowance for credit losses, as at December 31, 2020	2,817	258	984	4,059	15	4,074
Expenses (expense release) for credit loss	(534)	6	(172)	(700)	7	(693)
Accounting write-offs	(336)	(8)	(283)	(627)	-	(627)
Collection of debts written-off in previous years	324	2	245	571	-	571
Net accounting write-offs	(12)	(6)	(38)	(56)	-	(56)
Adjustments from translation of financial statements	(13)	-	(1)	(14)	-	(14)
Balance of allowance for credit losses, as at December 31, 2021	**2,258**	**258**	**773**	**3,289**	**22**	**3,311**
Of which: For off-balance sheet credit instruments	180	-	69	249	-	249
	2020					
Balance of allowance for credit losses, as at December 31, 2019	1,823	207	717	2,747	1	2,748
Expenses for credit loss	1,182	70	452	1,704	14	1,718
Accounting write-offs	(437)	(19)	(437)	(893)	-	(893)
Collection of debts written-off in previous years	276	-	252	528	-	528
Net accounting write-offs	(161)	(19)	(185)	(365)	-	(365)
Adjustments from translation of financial statements	(27)	-	-	(27)	-	(27)
Balance of allowance for credit losses, as at December 31, 2020	**2,817**	**258**	**984**	**4,059**	**15**	**4,074**
Of which: For off-balance sheet credit instruments	213	-	85	298	-	298

Footnotes:

(1) Effect of initial implementation of US GAAP regarding allowance for current expected credit losses (CECL). See also Note 1(c)(5) to the financial statements.

(2) In the years 2020 and 2021, the column includes only governments and banks.

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

A. Debts, held-to-maturity and available-for-sale bonds and off-balance sheet credit instruments (continued)

2. Change in the balance of the allowance for credit losses – The Bank

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments Held-to-maturity and available-for-sale-bonds[2]	Total
	In NIS millions					
	2022					
Balance of allowance for credit losses, as at December 31, 2021	1,500	219	290	2,009	22	2,031
Adjustment to the opening balance, net of tax due to the effect of the initial application[1]	172	(56)	(3)	113	8	121
Credit loss expenses	76	42	43	161	–	161
Accounting write-offs	(232)	(5)	(130)	(367)	–	(367)
Collection of debts written-off in previous years	176	–	122	298	–	298
Net accounting write-offs	(56)	(5)	(8)	(69)	–	(69)
Balance of allowance for credit losses, as at December 31, 2022	**1,692**	**200**	**322**	**2,214**	**30**	**2,244**
Of which: For off-balance sheet credit instruments	273	13	48	334	2	336
	2021					
Balance of allowance for credit losses, as at December 31, 2020	1,921	219	429	2,569	15	2,584
Expenses (expense release) for credit loss	(461)	6	(142)	(597)	7	(590)
Accounting write-offs	(182)	(8)	(117)	(307)	–	(307)
Collection of debts written-off in previous years	222	2	120	344	–	344
Net accounting write-offs	40	(6)	3	37	–	37
Balance of allowance for credit losses, as at December 31, 2021	**1,500**	**219**	**290**	**2,009**	**22**	**2,031**
Of which: For off-balance sheet credit instruments	160	–	25	185	–	185
	2020					
Balance of allowance for credit losses, as at December 31, 2019	1,148	180	320	1,648	1	1,649
Credit loss expenses	814	58	159	1,031	14	1,045
Accounting write-offs	(243)	(19)	(188)	(450)	–	(450)
Collection of debts written-off in previous years	202	–	138	340	–	340
Net accounting write-offs	(41)	(19)	(50)	(110)	–	(110)
Balance of allowance for credit losses, as at December 31, 2020	**1,921**	**219**	**429**	**2,569**	**15**	**2,584**
Of which: For off-balance sheet credit instruments	190	–	36	226	–	226

Footnotes:

(1) Effect of initial implementation of US GAAP regarding allowance for current expected credit losses (CECL). See also Note 1(c)(5) to the financial statements.

(2) In the years 2020 and 2021, the column includes only governments and banks.

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Credit to the public

1. Credit quality and arrears - consolidated

	December 31, 2022					
		Problematic[1]			Accruing debts – additional information	
	Performing	Accruing	Non-accruing	Total	In Arrears of 90 Days or More[2]	In Arrears of 30 to 89 Days[3]
	In NIS millions					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	21,741	872	240	22,853	10	25
Construction and Real Estate - Real Estate Activity	13,731	100	218	14,049	2	15
Financial Services	14,139	4	1	14,144	-	5
Commercial - Other	59,761	1,397	622	61,780	56	227
Total Commercial	**109,372**	**2,373**	**1,081**	**112,826**	**68**	**272**
Private Individuals - Housing Loans	64,578	84	229	64,891	-	309
Private Individuals - Other Loans	32,388	397	81	32,866	45	151
Total Public - Activity in Israel	**206,338**	**2,854**	**1,391**	**210,583**	**113**	**732**
Lending Activity Abroad						
Public - Commercial						
Construction and Real Estate	11,446	941	26	12,413	-	-
Commercial - Other	18,172	1,348	103	19,623	2	7
Total Commercial	**29,618**	**2,289**	**129**	**32,036**	**2**	**7**
Private Individuals	1,629	40	-	1,669	-	-
Total Public - Activity Abroad	**31,247**	**2,329**	**129**	**33,705**	**2**	**7**
Total public	**237,585**	**5,183**	**1,520**	**244,288**	**115**	**739**

For footnotes see next page.

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Credit to the public (continued)

1. Credit quality and arrears - consolidated (continued)

	December 31, 2021					
		Problematic[1]			Unimpaired debts – additional information	
	Performing	Accruing	Non-accruing	Total	In Arrears of 90 Days or More[4]	In Arrears of 30 to 89 Days[5]
	In NIS millions					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	19,643	391	113	20,147	6	30
Construction and Real Estate - Real Estate Activity	11,848	235	92	12,175	1	9
Financial Services	13,872	52	-	13,924	1	1
Commercial - Other	53,263	1,288	706	55,257	34	94
Total Commercial	**98,626**	**1,966**	**911**	**101,503**	**42**	**134**
Private Individuals - Housing Loans	53,375	275	-	53,650	271	80
Private Individuals - Other Loans	29,685	443	72	30,200	43	133
Total Public - Activity in Israel	**181,686**	**2,684**	**983**	**185,353**	**356**	**347**
Lending Activity Abroad						
Public - Commercial						
Construction and Real Estate	9,696	681	70	10,447	-	-
Commercial - Other	16,940	1,602	227	18,769	1	9
Total Commercial	**26,636**	**2,283**	**297**	**29,216**	**1**	**9**
Private Individuals	1,584	43	-	1,627	5	-
Total Public - Activity Abroad	**28,220**	**2,326**	**297**	**30,843**	**6**	**9**
Total public	**209,906**	**5,010**	**1,280**	**216,196**	**362**	**356**

Footnotes:

(1) Substandard or special mention non-accruing credit to the public.

(2) Classified as problematic debts accruing interest income.

(3) Accruing interest income. Debts in arrears for 30 to 89 days amounting to NIS 229 million, were classified as problematic debts (December 31, 2021 - NIS 121 million).

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Credit to the public (continued)

2. Credit quality according to years of granting the credit

	December 31, 2022								
	Recorded amount of fixed-time credit to the public								
	2022	2021	2020	2019	2018	Previous	Recorded amount of renewable loans	Recorded amount of renewable loans converted into fixed-time loans	Total
	In NIS millions								
Lending Activity in Israel									
Public - Commercial									
Total construction and Real Estate	**15,965**	**8,743**	**2,481**	**1,635**	**643**	**1,115**	**6,320**	**-**	**36,902**
Credit performance rating	15,693	8,071	2,403	1,570	617	1,046	5,899	-	35,299
Non problematic credit having no credit performance rating	37	33	21	15	8	16	43	-	173
Accruing problematic credit	115	585	29	39	11	33	160	-	972
Non-accruing credit	120	54	28	11	7	20	218	-	458
Total commercial - Other	**24,157**	**10,067**	**6,918**	**3,607**	**2,111**	**6,414**	**24,724**	**-**	**77,998**
Credit performance rating	23,360	9,437	6,522	3,422	1,911	6,187	23,504	-	74,343
Non problematic credit having no credit performance rating	433	183	150	69	40	55	713	-	1,643
Accruing problematic credit	156	432	149	75	145	78	366	-	1,401
Non-accruing credit	208	15	97	41	15	94	141	-	611
Total private Individuals - Housing Loans	**17,630**	**16,160**	**8,418**	**5,528**	**4,159**	**12,996**	**-**	**-**	**64,891**
LTV up to 60%	9,134	9,789	5,363	3,664	2,776	8,735	-	-	39,461
LTV over 60% up to 75%	8,451	6,306	2,996	1,831	1,367	3,741	-	-	24,692
LTV over 75%	45	65	59	33	16	520	-	-	738
Credit not in arrears and in credit performance rating	17,511	16,046	8,347	5,461	4,077	12,545	-	-	63,987
Credit not in arrears and not in credit performance rating	65	57	26	21	28	169	-	-	366
In arrears of 30 to 89 days	51	45	30	30	38	115	-	-	309
Non-accruing credit	3	12	15	16	16	167	-	-	229
Total private Individuals - Other Loans	**5,689**	**3,375**	**1,385**	**952**	**397**	**265**	**6,911**	**-**	**18,974**
Credit not in arrears and in credit performance rating	5,179	3,026	1,222	834	346	213	6,362	-	17,182
Credit not in arrears and not in credit performance rating	480	316	146	104	47	41	476	-	1,610
In arrears of 30 to 89 days	19	17	8	7	2	2	43	-	98
In arrears of 90 days or over	6	5	2	2	-	-	30	-	45
Non-accruing credit	5	11	7	5	2	9	-	-	39
Total Credit to the public - Activity in Israel	**63,441**	**38,345**	**19,202**	**11,722**	**7,310**	**20,790**	**37,955**	**-**	**198,765**
Total Credit to the public - Activity Abroad	**6,092**	**5,635**	**2,443**	**2,304**	**862**	**2,282**	**13,559**	**528**	**33,705**
Non-problematic credit	5,882	5,340	2,300	1,515	755	2,047	12,972	436	31,247
Accruing problematic credit	183	287	118	757	107	235	550	92	2,329
Non-accruing credit	27	8	25	32	-	-	37	-	129
Total Credit to the public	**69,533**	**43,980**	**21,645**	**14,026**	**8,172**	**23,072**	**51,514**	**528**	**232,470**

Footnote:
(1) The disclosure data does not include the subsidiary company ICC, which is expected to apply the new rules as from January 1, 2023

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Credit to the public (continued)

3. Additional information regarding non-accruing debts

A. Credit to the public – non-accruing debts - consolidated

	December 31, 2022					
	Balance[1] of non-accruing debts for which allowance exists	Balance of allowance	Balance[1] of non-accruing debts for which no allowance exists	Total balance[1] of non-accruing debts[3][4]	Balance of contractual principal sum of non-accruing debts	Recorded interest income[2]
	In NIS millions					
Lending Activity in Israel						
Construction and Real Estate	394	40	64	458	1,339	10
Commercial - Other	514	164	109	623	2,263	10
Total Commercial	**908**	**204**	**173**	**1,081**	**3,602**	**20**
Private Individuals - Housing Loans	229	13	-	229	273	1
Private Individuals - Other Loans	81	30	-	81	121	-
Total Public - Activity in Israel	**1,218**	**247**	**173**	**1,391**	**3,996**	**21**
Lending Activity Abroad						
Total Public - Activity Abroad	**33**	**1**	**96**	**129**	**313**	**3**
Total public	**1,251**	**248**	**269**	**1,520**	**4,309**	**24**
Of which:						
Measured specifically according to present valued of cash flows	591	140	82	673	871	
Measured specifically according to fair value of collateral	304	57	187	491	2,965	
Measured on a group basis	356	51	-	356	473	
	December 31, 2021					
Lending Activity in Israel						
Construction and Real Estate	108	25	97	205	1,113	10
Commercial - Other	580	223	126	706	2,506	13
Total Commercial	**688**	**248**	**223**	**911**	**3,619**	**23**
Private Individuals - Housing Loans	-	-	-	-	-	-
Private Individuals - Other Loans	70	31	2	72	364	1
Total Public - Activity in Israel	**758**	**279**	**225**	**983**	**3,983**	**24**
Lending Activity Abroad						
Total Public - Activity Abroad	**211**	**32**	**86**	**297**	**653**	**4**
Total public	**969**	**311**	**311**	**1,280**	**4,636**	**28**
Of which:						
Measured specifically according to present valued of cash flows	649	244	86	735	1,064	
Measured specifically according to fair value of collateral	294	53	225	519	3,546	
Measured on a group basis	26	14	-	26	26	

Footnotes:

(1) Recorded amount.

(2) The amount of interest income recorded in the reported period for the average balance of non-accruing debts, in the period of time in which the debts had been classified as non-accruing.

(3) Had the non-accruing debts accrue interest according to the original terms, interest income of NIS 60 million would have been recorded for the year ended December 31, 2022 (December 31, 2021 - NIS 61 million).

(4) Additional information: the total average recorded amount of the debt of non-accruing debts in the year ended December 31, 2022, amounts to NIS 2,020 million (December 31, 2021 - NIS 1,711 million).

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Credit to the public (continued)

3. Additional information regarding non-accruing debts

B. Debts which undergone troubled debt restructurings - consolidated

	December 31, 2022				
	Recorded amount				
	Not accruing interest income	Accruing debts(1),in arrears for 90 days or more	Accruing debts(1), in Arrears for 30 to 89 Days	Accruing debts(1) not in arrears	Total(2)
	In NIS millions				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate	161	-	1	27	189
Commercial - Other	198	-	2	133	333
Total Commercial	**359**	**-**	**3**	**160**	**522**
Private Individuals - Housing Loans	4	-	-	11	15
Private Individuals - Other Loans	42	-	2	92	136
Total Public - Activity in Israel	**405**	**-**	**5**	**263**	**673**
Lending Activity Abroad					
Total Public - Activity Abroad	**91**	**-**	**-**	**195**	**286**
Total	**496**	**-**	**5**	**458**	**959**

Footnotes:
(1) Accruing interest income.
(2) As at December 31, 2022, restructured troubled debts amounting to NIS 863 million, were classified as problematic debts

Commitment to grant additional credit to borrowers, for which a troubled debt restructurings was performed, under which the credit terms had been changed, amounts at December 31, 2022, to NIS 21 million (December 31, 2021 – NIS 45 million).

	December 31, 2021				
	Recorded amount				
	Not accruing interest income	Accruing debts(1), in arrears for 90 days or more	Accruing debts(1), in Arrears for 30 to 89 Days	Accruing debts(1) not in arrears	Total(2)
	In NIS millions				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate	40	-	-	34	74
Commercial - Other	304	-	2	185	491
Total Commercial	**344**	**-**	**2**	**219**	**565**
Private Individuals - Housing Loans	7	-	-	7	14
Private Individuals - Other Loans	46	-	2	156	204
Total Public - Activity in Israel	**397**	**-**	**4**	**382**	**783**
Lending Activity Abroad					
Total Public - Activity Abroad	**208**	**-**	**-**	**138**	**346**
Total	**605**	**-**	**4**	**520**	**1,129**

Footnotes:
(1) Accruing interest income.
(2) Included in troubled debts.

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Credit to the public (continued)

3. Additional information regarding non-accruing debts (continued)

B. Debts which undergone troubled debt restructurings – consolidated (continued)

	2022			2021			2020		
	Debt restructuring performed								
	Number of contracts	Recorded amount before restructuring	Recorded amount after restructuring	Number of contracts	Recorded amount before restructuring	Recorded amount after restructuring	Number of contracts	Recorded amount before restructuring	Recorded amount after restructuring
	In NIS millions								
Lending Activity in Israel									
Public - Commercial									
Construction and Real Estate	182	171	171	210	54	53	232	47	47
Commercial - Other	753	106	102	883	278	276	1,182	440	438
Total Commercial	**935**	**277**	**273**	**1,093**	**332**	**329**	**1,414**	**487**	**485**
Private Individuals - Housing Loans	21	3	3	-	-	-	-	-	-
Private Individuals - Other Loans	5,219	94	93	5,054	134	131	9,197	203	201
Total Public - Activity in Israel	**6,175**	**374**	**369**	**6,147**	**466**	**460**	**10,611**	**690**	**686**
Lending Activity Abroad									
Total Public - Activity Abroad	**6**	**90**	**90**	**7**	**136**	**136**	**16**	**419**	**415**
Total	**6,181**	**464**	**459**	**6,154**	**602**	**596**	**10,627**	**1,109**	**1,101**

B. Debts which undergone troubled debt restructurings - consolidated (continued)

	2022		2021		2020	
	Failure of restructured debts[(1)]					
	Number of contracts	Recorded amount	Number of contracts	Recorded amount	Number of contracts	Recorded amount
	In NIS millions					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate	85	19	79	8	94	9
Commercial - Other	247	15	323	23	410	20
Total Commercial	**332**	**34**	**402**	**31**	**504**	**29**
Private Individuals - Housing Loans	3	-	-	-	-	-
Private Individuals - Other	2,328	15	2,237	15	3,093	21
Total Public - Activity in Israel	**2,663**	**49**	**2,639**	**46**	**3,597**	**50**
Lending Activity Abroad						
Total Public - Activity Abroad	**1**	**-**	**1**	**7**	**3**	**72**
Total	**2,664**	**49**	**2,640**	**53**	**3,600**	**122**

Footnote:

(1) Debts, which in the reported year turned into debts in arrears for 30 days or over, which had been restructured under troubled debt restructurings during the period of twelve months prior to their having become debts in arrears.

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Credit to the public (continued)

4. Additional information regarding non-accruing credit in arrears

	December 31, 2022									
	In arrears for up to 89 days	In arrears of 90 to 180 days	In arrears for over 180 days to one year	In arrears for over one year to three years	In arrears of over three to five years	In arrears of over five to seven years	In arrears of over seven years	Total non-accruing debts in arrears	Non-accruing debts not in arrears	Total non-accruing
	In NIS millions									
Commercial	93	78	24	116	32	48	14	405	805	1,210
Private Individuals - Housing Loans	-	96	63	32	16	7	13	227	2	229
Private Individuals - Other Loans	3	39	-	-	-	-	-	42	39	81
Total	**96**	**213**	**87**	**148**	**48**	**55**	**27**	**674**	**846**	**1,520**

5. Additional disclosure on the quality of credit

(A) Risk characteristics according to credit segments

(1) Commercial credit

- Sensitivity to the domestic economic cycle in Israel. In addition, in view of material overseas investments by large Israeli corporations, the level of exposure to global crises increased.
- Sensitivity to changes in private consumption.
- Price increases and high rates of inflation, which started in 2021, accelerated in the first nine months of 2022. Inter alia, on the background of the monetary expansion in recent years and disruptions in the global supply chain. These led to the raising of interest rates by central banks, which, as yet, has not ended. This trend has led to a rise in the level of economic uncertainty in Israel and the world over, and to fluctuations in prices of shares and bonds. In addition, the war between Russia and the Ukraine, which broke out during the first quarter of 2022, has led to additional harm caused to the supply of commodities and to a rise in commodities price, all this leading to an adverse effect on the global economy. The Chinese economy, considered a global engine, experienced a decline in growth rates, an increase in business default rates, and the rigid policy of zero Corona, leading to the total closure of cities for weeks.
- The inter-bloc struggle between the United States and China, one of its expressions being the struggle over hegemony in the electronic chip market, may lead to a decline in the volume of global production and trade and to the continuing rise in prices of finished products.

The said macro-economic and geo-political events increased the level of risk in the short-medium term.

(2) Credit to private individuals – housing loans

- Loans involving a high finance ratio carry risk in the event of impairment in the value of collateral below the balance of the loan. The Bank's underwriting policy limits the ratio of finance when granting a loan.

(3) Credit to private individuals – other

- Exposure to retail credit is affected by macro-economic factors. The growth in unemployment rates, which is still minor, recorded in recent months, requires strict management of exposure in the retail credit portfolio.
- The growth in competition in recent years, whether within the banking industry or against off-banking institutions, may lead to erosion of the spreads, to a decline in the quality of borrowers, and as a result thereof to increased credit risk. The present credit policy examines thoroughly the risk involved in the underwriting of loans to existing and new customers using models and tools developed for sales points, thus reducing such risk.

(4) Implication of the rise in the prime interest rate on credit to private individuals (mortgage and other)

The volume of demand for mortgage loans has declined; the increase in amount of monthly repayments following the rise in interest rates may adversely affect the repayment ability, thus increasing the number of borrowers seeking to defer repayment of principal.

The rise in housing prices leads to higher leverage ratios and higher repayment rates, as well as to longer average periods to maturity in housing loans.

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Credit to the public (continued)

5. Additional disclosure on the quality of credit

(B) Indication of credit quality

	December 31, 2022				December 31, 2021			
		Private Individuals				Private Individuals		
	Commercial	Housing Loans	Other Loans	Total	Commercial	Housing Loans	Other Loans	Total
Ratio of the balance of non-problematic credit to the public to the balance of credit to the public	96.0%	99.5%	98.5%	97.3%	95.8%	99.5%	98.3%	97.1%
Ratio of accruing credit to balance of credit to the public	3.2%	0.1%	1.3%	2.1%	3.3%	0.5%	1.5%	2.3%
Ratio of non-accruing credit to balance of credit to the public	0.8%	0.4%	0.2%	0.6%	0.9%	-	0.2%	0.6%
Ratio of the balance of allowance to credit losses for credit to the public to the balance of credit to the public	1.5%	0.4%	2.1%	1.3%	1.6%	0.5%	2.2%	1.4%
Ratio of the balance of allowance to credit losses for credit to the public to the balance of problematic credit risk (excluding derivatives and bonds)	34.9%	85.0%	138.2%	44.7%	34.8%	92.1%	125.3%	44.6%

The number of days in which a debt is in arrears is a central factor in determining the classification of the Bank's debts, and accordingly affects the allowance for credit losses and the accounting write-offs.

A central indication on the quality of the credit portfolio is the ratio of performing debts to the problematic debts at the Bank.

6. Additional information regarding housing loans

Balances for the year end, according to Loan-to-Value (LTV)[(1)] ratio, manner of repayment and type of interest

		Balance of housing loans			
		Total	Of which: Bullet and Balloon debts	Of which: variable interest	Total Off-Balance Sheet Credit Risk
		In NIS millions			
		December 31, 2022			
First degree pledge: financing ratio	Up to 60%	39,677	365	23,305	554
	Over 60%	24,076	144	14,263	370
Second degree pledge or without pledge		1,572	151	787	7,425
Total		**(2)65,325**	**660**	**38,355**	**8,349**
		December 31, 2021			
First degree pledge: financing ratio	Up to 60%	33,904	357	20,045	610
	Over 60%	18,664	127	11,104	466
Second degree pledge or without pledge		1,376	170	639	8,933
Total		**(2)53,944**	**654**	**31,788**	**10,009**

Footnotes:

(1) The ratio between the authorized credit line at the time the credit line was granted and the value of the asset, as confirmed by the Bank at the time the credit line was granted. The LTV ratio is another indication of the bank as to the assessment of the customer risk when the facility was granted.

(2) The balance of housing loans not includes the balance of commercial debts in the amount of NIS 218 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction (December 31, 2021 - NIS 252 million).

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

C. Sale, purchase and syndications of credit to the public during the year

1. Sale and purchase of credit (consolidated)

	Credit risk sold					Credit risk purchased		
	Credit sold this period	Off-balance sheet credit risk[1(1)] sold this period	Of which: problematic credit	Total profit (loss) on credit sold	Balance at end of period of credit sold, which is serviced by the banking corporation	Credit purchased this period	Off-balance sheet credit risk[1(1)] purchased this period	Of which: problematic credit
	In NIS millions							
	2022							
Total commercial	[(2)]558	230	32	4	2,701	11,399	3	-
Private individuals – housing loans	953	-	-	14	863	-	-	-
Total credit to the public risk	**1,511**	**230**	**32**	**18**	**3,564**	**11,399**	**3**	**-**
Credit to governments	-	-	-	-	-	2,766	-	-
Total debts	**1,511**	**230**	**32**	**18**	**3,564**	**14,165**	**3**	**-**
	2021							
Total commercial	[(2)]996	14	48	1	3,199	11,230	-	-
Private individuals – housing loans	-	-	-	-	-	-	-	-
Total credit to the public risk	**996**	**14**	**48**	**1**	**3,199**	**11,230**	**-**	**-**
Credit to governments	-	-	-	-	-	1,274	-	-
Total debts	**996**	**14**	**48**	**1**	**3,199**	**12,504**	**-**	**-**

Footnotes:

(1) Credit risk of off-balance sheet financial instruments, as computed for the purpose of limitations on a single borrower indebtedness, excluding for derivative instruments.

(2) Not including a receipts of NIS 4 million, that has been recorded as a reduction in credit loss expenses (for the year ended December 31, 2022- NIS 51 million) .

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

C. Sale, purchase and syndications of credit to the public during the year (continued)

2. Syndications and participation in loan syndications (consolidated)

	Syndication transactions initiated by the banking corporation				Syndication transactions initiated by others	
	Balance at end of period					
	Share of the banking corporation		Share of others		Share of the banking corporation	
	Credit to the public	Off-balance sheet credit risk	Credit to the public	Off-balance sheet credit risk	Credit to the public	Off-balance sheet credit risk
	In NIS millions					
	2022					
Total commercial	5,354	806	10,353	1,288	5,283	1,860
Total credit to the public risk	**5,354**	**806**	**10,353**	**1,288**	**5,283**	**1,860**
Credit to governments	23	-	94	-	-	-
Total debts	**5,377**	**806**	**10,447**	**1,288**	**5,283**	**1,860**
	2021					
Total commercial	4,541	413	9,580	266	4,933	1,970
Total credit to the public risk	**4,541**	**413**	**9,580**	**266**	**4,933**	**1,970**
Credit to governments	339	-	129	-	-	-
Total debts	**4,880**	**413**	**9,709**	**266**	**4,933**	**1,970**

Footnote:
(1) Credit risk of off-balance sheet financial instruments, as computed for the purpose of limitations on a single borrower indebtedness, excluding for derivative instruments.

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

D. Composition of credit to the public [(1)] and off-balance-sheet credit risk[(3)], by size of credit to individual borrowers

1. Consolidated

				December 31					
				2022			2021		
				Number of borrowers(2)	Credit(1)	Off-balance Credit risk(1)(3)	Number of borrowers(2)	Credit(1)	Off-balance Credit risk(1)(3)
				in NIS millions					
Credit limit (in NIS thousand):									
		Up to	10	1,285,411	2,066	2,014	1,257,803	1,950	1,964
Over	10	Up to	20	494,592	2,550	5,045	500,986	2,567	5,210
Over	20	Up to	40	582,558	5,838	10,845	561,344	5,728	10,431
Over	40	Up to	80	330,857	9,193	9,615	300,581	8,480	8,717
Over	80	Up to	150	108,332	8,122	3,856	98,210	7,275	3,470
Over	150	Up to	300	55,456	8,866	2,659	50,653	8,137	2,405
Over	300	Up to	600	35,139	12,913	2,475	34,007	12,482	2,395
Over	600	Up to	1,200	44,150	33,308	5,241	41,495	29,980	5,983
Over	1,200	Up to	2,000	17,834	21,990	4,658	15,045	17,115	5,298
Over	2,000	Up to	(4)4,000	5,952	12,427	3,363	5,135	10,200	3,511
Over	4,000	Up to	(4)8,000	1,752	7,825	2,296	1,669	7,483	2,279
Over	8,000	Up to	(4)20,000	1,416	14,390	3,675	1,338	13,519	3,466
Over	20,000	Up to	(4)40,000	808	18,794	4,364	772	17,919	3,990
Over	40,000	Up to	(4)200,000	*894	*55,635	20,369	*813	*49,122	18,190
Over	200,000	Up to	(4)400,000	115	18,698	11,872	92	15,960	8,700
Over	400,000	Up to	(4)800,000	29	8,492	7,688	28	8,109	7,449
Over	800,000	Up to	(4)1,200,000	9	3,573	4,506	6	4,021	1,989
Over	1,200,000	Up to	(4)1,600,000	2	1,302	1,550	3	1,271	2,986
Over	1,600,000	Up to	(4)2,000,000	2	1,342	1,878	-	-	-
Over	2,000,000	Up to	(4)2,400,000	1	117	1,956	1	2,220	140
Over	2,400,000	Up to	(4)2,800,000	1	2,566	153	-	-	-
Over	2,800,000	Up to	(4)3,200,000	-	-	-	-	-	-
Over	(4)3,200,000			**1	**6,723	-	**1	**6,673	-
Total				**2,965,311**	**256,730**	**110,078**	**2,869,982**	**230,211**	**98,573**
Mortgage backed securities issued by:									
**GNMA				1	6,723	-	1	6,673	-
*FNMA				1	137	-	1	181	-
*FHLMC				1	102	-	1	177	-

Footnotes:

(1) Including investments in bond of the public, assets deriving from derivative financial instruments as against the public before the provision for credit loss and before the impact of collateral allowed for setoff for the purpose of a borrower or a group of borrowers liability.

(2) Number of borrowers based on total credit and Off-balance sheet credit risk.

(3) Credit risk of off-balance sheet financial instruments, as computed for the purpose of limitations on a borrower (not including credit facilities under banks guarantees, not of the Group's, as of December 31, 2022 - 9,407 NIS million, as of December 31, 2021 - NIS 7,633 million).

(4) Consolidated - by combining specific balances.

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

D. Composition of credit to the public [1] and off-balance-sheet credit risk[3], by size of credit to individual borrowers (continued)

2. The Bank

				December 31					
				2022			2021		
				Number of borrowers[2]	Credit[1]	Off-balance Credit risk[1][3]	Number of borrowers[2]	Credit[1]	Off-balance Credit risk[1][3]
				in NIS millions					
Credit limit (in NIS thousand):									
		Up to	10	293,407	276	668	263,106	260	607
Over	10	Up to	20	108,313	538	1,134	106,510	522	1,111
Over	20	Up to	40	122,332	1,323	2,298	121,142	1,343	2,244
Over	40	Up to	80	103,808	2,861	3,147	103,099	2,942	3,018
Over	80	Up to	150	67,730	4,664	2,772	66,822	4,710	2,600
Over	150	Up to	300	39,764	6,213	2,092	37,785	5,958	1,927
Over	300	Up to	600	26,270	9,536	1,996	25,617	9,307	1,937
Over	600	Up to	1,200	35,583	26,723	4,506	33,739	24,248	5,141
Over	1,200	Up to	2,000	14,546	17,673	4,047	12,281	13,614	4,670
Over	2,000	Up to	4,000	4,502	9,051	2,794	3,838	7,213	2,953
Over	4,000	Up to	8,000	1,244	5,090	1,779	1,204	4,871	1,791
Over	8,000	Up to	20,000	825	7,953	2,463	738	6,911	2,119
Over	20,000	Up to	40,000	401	8,712	2,653	365	7,942	2,347
Over	40,000	Up to	200,000	486	29,572	13,471	434	25,921	11,667
Over	200,000	Up to	400,000	93	14,281	10,517	79	13,680	8,049
Over	400,000	Up to	800,000	27	7,569	7,411	25	6,826	7,273
Over	800,000	Up to	1,200,000	9	3,573	4,506	6	4,022	1,989
Over	1,200,000	Up to	1,600,000	3	1,374	3,066	3	1,271	2,987
Over	1,600,000	Up to	2,000,000	1	1,266	345	-	-	-
Over	2,000,000	Up to	2,400,000	2	1,640	2,493	3	4,969	1,422
Over	2,400,000	Up to	2,800,000	1	2,566	153	-	-	-
Over	2,800,000	Up to	3,200,000	-	-	-	-	-	-
Over	3,200,000			1	1,793	1,576	-	-	-
Total				**819,348**	**164,247**	**75,887**	**776,796**	**146,530**	**65,852**

Footnotes:

(1) Including investments in bond of the public, assets deriving from derivative financial instruments as against the public before the provision for credit loss and before the impact of collateral allowed for setoff for the purpose of a borrower or a group of borrowers liability.

(2) Number of borrowers based on total credit and Off-balance credit risk.

(3) Credit risk of off-balance sheet financial instruments, as computed for the purpose of limitations on a borrower.

(4) The credit limit un the top level: NIS 3,369 million (2021: NIS 2,360 million).

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

E. Off-Balance Sheet Financial Instruments

	Consolidated		The Bank		Consolidated		The Bank	
	Balance[1]	Provision[2]	Balance[1]	Provision[2]	Balance[1]	Provision[2]	Balance[1]	Provision[2]
	December 31, 2022				December 31, 2021			
	in NIS millions							
Transactions in which the balance represents credit risk:								
Letters of credit	1,437	4	1,160	3	1,345	3	726	2
Credit guarantees	2,846	37	2,385	33	2,216	32	1,594	26
Guarantees for home purchasers	18,426	6	17,513	6	16,093	4	15,205	4
Other guarantees and obligations	14,163	51	12,594	48	10,728	50	9,261	46
Unutilized facilities for transactions in derivative instruments	5,755	-	5,687	-	3,696	-	3,587	-
Unutilized facilities credit line for credit cards	39,402	70	8,404	33	35,247	53	7,301	11
Unutilized current loan account facilities and other credit facilities in on-call accounts	10,370	65	8,224	50	10,201	34	8,111	28
Irrevocable commitments to extend credit approved but not yet granted[3]	30,850	184	23,169	157	31,489	66	24,207	61
Commitment to issue guarantees	15,095	7	14,034	6	13,906	7	13,288	7

Footnotes:

(1) Contract balance or their stated amounts at period end before of allowance for credit loss.

(2) Balance of allowance for credit losses at period end.

(3) Including commitments to customers for granting credit within the framework of "an approval in principle and maintaining interest rates" according to Proper Management Directive No. 451 "Procedures for the granting of housing loans".

F. Guarantees

(1) General

The Bank provides a broad variety of guarantees and indemnities for its customers to improve their credit ability and to enable them to complete a wide range of transactions. For certain contracts, which meet the definition of the guarantee, the Bank recognizes – at the time of initial recognition – a liability in the amount of the fair value of the obligation for the guarantee at the time of issuing the guarantee. The maximum amount of the potential future payments is determined according to the nominal amount of the guarantees, without taking into account possible repayments or collateral held or pledged.

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

F. Guarantees (continued)

(2) Potential future payments

	Consolidated						
	The maximal amount of potential future payments						
	Expiration in one year or less	Expiration between one to three years	Expiration between over three years and five years	Expiration over five years	No fixed maturity date	Total	Amortized cost
	in NIS millions						
	December 31, 2022						
Letters of credit (standby)	396	14	–	4	–	414	–
Credit guarantees	1,885	722	204	35	–	2,846	31
Guarantees for home purchasers	–	–	–	–	18,426	18,426	66
Other guarantees and obligations	7,616	2,969	843	2,735	–	14,163	68
Total	**9,897**	**3,705**	**1,047**	**2,774**	**18,426**	**35,849**	**165**
	December 31, 2021						
Letters of credit (standby)	195	–	2	–	–	197	–
Credit guarantees	1,938	210	52	16	–	2,216	22
Guarantees for home purchasers	–	–	–	–	16,093	16,093	58
Other guarantees and obligations	6,152	3,153	509	914	–	10,728	59
Total	**8,285**	**3,363**	**563**	**930**	**16,093**	**29,234**	**139**

31. Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

F. Guarantees (continued)

(2) Potential future payments (continued)

	The Bank						
	The maximal amount of potential future payments						
	Expiration in one year or less	Expiration between one to three years	Expiration between over three years and five years	Expiration over five years	No fixed maturity date	Total	Amortized cost
	in NIS millions						
	December 31, 2022						
Letters of credit (standby)	390	-	-	-	-	390	-
Credit guarantees	1,492	662	202	29	-	2,385	26
Guarantees for home purchasers	-	-	-	-	17,513	17,513	62
Other guarantees and obligations	6,501	2,702	807	2,584	-	12,594	51
Total	**8,383**	**3,364**	**1,009**	**2,613**	**17,513**	**32,882**	**139**
	December 31, 2021						
Letters of credit (standby)	180	-	-	-	-	180	-
Credit guarantees	1,357	174	47	16	-	1,594	16
Guarantees for home purchasers	-	-	-	-	15,205	15,205	55
Other guarantees and obligations	5,021	2,856	494	890	-	9,261	44
Total	**6,558**	**3,030**	**541**	**906**	**15,205**	**26,240**	**115**

(3) Evaluation of the guarantee risk

Most of the guaranties are rated according to the Credit Granting Rating.

32. Assets and Liabilities according to Linkage Terms

Consolidated

	December 31, 2022						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the CPI	In US$	In Euro	In other currencies	Non monetary items	Total
	in NIS millions						
Assets							
Cash and deposits with banks	59,087	18	5,827	367	414	–	65,713
Securities	21,961	2,494	17,484	1,061	1	1,793	44,794
Securities borrowed or purchased under agreements to resell	857	–	–	–	–	–	857
Net credit to the public	179,846	24,334	34,013	2,362	524	–	241,079
Credit to the Government	596	222	1,172	609	–	–	2,599
Investments in associates	2	–	–	–	–	484	486
Buildings and equipment	–	–	–	–	–	3,904	3,904
Intangible assets and goodwill	–	–	–	–	–	162	162
Assets for derivative instruments	2,180	430	7,102	625	83	1,000	11,420
Other assets	2,305	27	1,357	74	99	1,878	5,740
Total assets	**266,834**	**27,525**	**66,955**	**5,098**	**1,121**	**9,221**	**376,754**
Liabilities							
Deposits from the public	196,945	4,188	82,869	6,512	1,779	–	292,293
Deposits from banks	13,622	–	1,646	83	25	–	15,376
Deposits from the Government	28	1	88	–	–	–	117
Securities lent or sold under agreements to repurchase	–	–	3,739	–	–	–	3,739
Bonds and Subordinated debt notes	4,050	8,258	–	–	–	–	12,308
Liabilities for derivative instruments	2,377	546	4,886	465	74	1,000	9,348
Other liabilities	15,661	761	1,387	12	25	249	18,095
Total liabilities	**232,683**	**13,754**	**94,615**	**7,072**	**1,903**	**1,249**	**351,276**
Difference	34,151	13,771	(27,660)	(1,974)	(782)	7,972	25,478
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(31,603)	(1,525)	30,354	1,846	928	–	–
Net options in the money (in terms of underlying asset)	(56)	–	119	(32)	(31)	–	–
Net options out of the money (in terms of underlying asset)	(491)	–	388	124	(21)	–	–
Total	**2,001**	**12,246**	**3,201**	**(36)**	**94**	**7,972**	**25,478**
Net options in the money (discounted par value)	246	–	(113)	(85)	(48)	–	–
Net options out of the money (discounted par value)	(2,936)	–	2,509	494	(67)	–	–

Footnote:

(1) Includes those linked to foreign currency.

32. Assets and Liabilities according to Linkage Terms (continued)

Consolidated (continued)

	December 31, 2021						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the CPI	In US$	In Euro	In other currencies	Non monetary items	Total
	in NIS millions						
Assets							
Cash and deposits with banks	53,145	21	5,593	439	440	-	59,638
Securities	24,254	1,043	16,084	868	1	1,619	43,869
Securities borrowed or purchased under agreements to resell	1,207	-	-	-	-	-	1,207
Net credit to the public	156,869	21,435	32,793	1,535	524	-	213,156
Credit to the Government	639	242	1,130	653	-	-	2,664
Investments in associates	2	-	-	-	-	460	462
Buildings and equipment	-	-	-	-	-	3,401	3,401
Intangible assets and goodwill	-	-	-	-	-	163	163
Assets for derivative instruments	3,080	334	1,416	74	72	546	5,522
Other assets	2,460	15	926	47	92	1,466	5,006
Total assets	**241,656**	**23,090**	**57,942**	**3,616**	**1,129**	**7,655**	**335,088**
Liabilities							
Deposits from the public	179,371	4,110	69,662	6,080	1,684	-	260,907
Deposits from banks	10,813	-	1,604	114	3	-	12,534
Deposits from the Government	167	2	177	-	-	-	346
Bonds and Subordinated debt notes	5,003	10,058	-	10	-	-	15,071
Liabilities for derivative instruments	3,587	436	1,572	107	76	545	6,323
Other liabilities	15,928	798	677	19	36	301	17,759
Total liabilities	**214,869**	**15,404**	**73,692**	**6,330**	**1,799**	**846**	**312,940**
Difference	26,787	7,686	(15,750)	(2,714)	(670)	6,809	22,148
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(18,698)	(3,968)	19,028	2,995	643	-	-
Net options in the money (in terms of underlying asset)	743	-	(373)	(353)	(17)	-	-
Net options out of the money (in terms of underlying asset)	(338)	-	224	114	-	-	-
Total	**8,494**	**3,718**	**3,129**	**42**	**(44)**	**6,809**	**22,148**
Net options in the money (discounted par value)	533	-	(196)	(305)	(32)	-	-
Net options out of the money (discounted par value)	(1,677)	-	1,282	392	3	-	-

Footnotes:

(1) Includes those linked to foreign currency.

32. Assets and Liabilities according to Linkage Terms (continued)

The Bank

	December 31, 2022						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the CPI	In US$	In EURO	In other currencies	Non-monetary Items	Total
	NIS millions						
Assets							
Cash and deposits with banks	49,250	-	3,851	266	308	-	53,675
Securities	15,684	2,392	8,367	811	1	164	27,419
under agreements to resell securities borrowed or purchased	857	-	-	-	-	-	857
Net credit granted to the public	131,080	19,320	5,140	2,239	343	-	158,122
Credit granted to Governments	594	222	1,172	609	-	-	2,597
Investments in associates	1,760	-	-	-	-	11,092	12,852
Buildings and equipment	-	-	-	-	-	2,387	2,387
Assets for derivative instruments	2,164	436	6,209	612	83	994	10,498
Other assets	1,500	-	111	10	98	621	2,340
Total assets	**202,889**	**22,370**	**24,850**	**4,547**	**833**	**15,258**	**270,747**
Liabilities							
Deposits from the public	153,976	10,304	45,554	5,994	1,591	-	217,419
Deposits from banks	9,241	22	486	57	25	-	9,831
Deposits from the Government	-	1	-	-	-	-	1
buy-back arrangements Securities loaned or sold under	-	-	3,739	-	-	-	3,739
Subordinated capital notes	-	192	-	-	-	-	192
Liabilities for derivative instruments	2,388	522	4,094	459	73	994	8,530
Other liabilities	5,328	525	103	9	22	168	6,155
Total liabilities	**170,933**	**11,566**	**53,976**	**6,519**	**1,711**	**1,162**	**245,867**
Difference	31,956	10,804	(29,126)	(1,972)	(878)	14,096	24,880
Effect of non hedging derivative instruments:							
Derivative instruments (except for options)	(30,366)	(1,149)	28,762	1,796	957	-	-
Net options in the money (in terms of base asset)	(56)	-	119	(32)	(31)	-	-
Net options out of the money (in terms of base asset)	(491)	-	388	124	(21)	-	-
Total	**1,043**	**9,655**	**143**	**(84)**	**27**	**14,096**	**24,880**
Net options in the money (discounted nominal value)	246	-	(113)	(85)	(48)	-	-
Net options out of the money (discounted nominal value)	(2,936)	-	2,509	494	(67)	-	-

Footnote:

(1) Includes those linked to foreign currency.

32. Assets and Liabilities according to Linkage Terms (continued)

The Bank (continued)

	December 31,2021						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the CPI	In US$	In EURO	In other currencies	Non-monetary Items	Total
	NIS millions						
Assets							
Cash and deposits with banks	40,680	-	4,272	322	330	-	45,604
Securities	17,897	907	6,960	685	1	237	26,687
under agreements to resell securities borrowed or purchased	1,207	-	-	-	-	-	1,207
Net credit granted to the public	114,009	16,911	6,468	1,432	399	-	139,219
Credit granted to Governments	610	242	1,130	653	-	-	2,635
Investments in associates	1,314	9	-	-	-	10,455	11,778
Buildings and equipment	-	-	-	-	-	2,152	2,152
Assets for derivative instruments	3,065	330	1,156	74	68	530	5,223
Other assets	1,905	-	30	7	92	740	2,774
Total assets	**180,687**	**18,399**	**20,016**	**3,173**	**890**	**14,114**	**237,279**
Liabilities							
Deposits from the public	139,403	9,415	34,170	5,542	1,470	-	190,000
Deposits from banks	7,840	25	1,015	85	6	-	8,971
Deposits from the Government	1	2	98	-	-	-	101
Subordinated capital notes	893	2,396	-	10	-	-	3,299
Liabilities for derivative instruments	3,550	427	1,277	107	74	530	5,965
Other liabilities	6,544	536	121	5	21	233	7,460
Total liabilities	**158,231**	**12,801**	**36,681**	**5,749**	**1,571**	**763**	**215,796**
Difference	22,456	5,598	(16,665)	(2,576)	(681)	13,351	21,483
Effect of non hedging derivative instruments:							
Derivative instruments (except for options)	(16,998)	(3,252)	16,726	2,827	697	-	-
Net options in the money (in terms of base asset)	743	-	(373)	(353)	(17)	-	-
Net options out of the money (in terms of base asset)	(338)	-	224	114	-	-	-
Total	**5,863**	**2,346**	**(88)**	**12**	**(1)**	**13,351**	**21,483**
Net options in the money (discounted nominal value)	533	-	(196)	(305)	(32)	-	-
Net options out of the money (discounted nominal value)	(1,677)	-	1,282	392	3	-	-

Footnote:

(1) Includes those linked to foreign currency.

33. Assets and Liabilities according to Currency and Maturity Periods

Consolidated - in NIS millions(5)

A. Anticipated Future Contractual Cash Flows as of December 31, 2022

	On demand or within 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years
Israeli currency:(including linked to foreign currency)					
Assets(10)	104,549	18,336	34,847	31,266	21,318
Liabilities	161,395	18,190	43,878	8,412	5,639
Difference	**(56,846)**	**146**	**(9,031)**	**22,854**	**15,679**
Derivative instruments (excluding options)	(8,431)	(1,560)	(21,033)	(1,664)	(223)
Options (in terms of underlying assets)	(511)	582	(323)	(95)	2
Difference after effect of derivative instruments:	(65,788)	(832)	(30,387)	21,095	15,458
Foreign currency(8):					
Assets(11)	16,236	6,525	12,529	11,972	6,042
Liabilities	55,551	12,994	25,465	3,606	606
Difference	**(39,315)**	**(6,469)**	**(12,936)**	**8,366**	**5,436**
Of which: Difference in dollar	(38,363)	(5,759)	(11,319)	6,817	4,655
Of which: Difference for foreign activity	(21,594)	979	3,624	4,982	3,319
Derivative instruments (excluding options)	8,431	1,560	21,033	1,664	223
Options (in terms of underlying assets)	511	(582)	323	95	(2)
Difference after effect of derivative instruments:	(30,373)	(5,491)	8,420	10,125	5,657
Total:					
Assets(1)	120,785	24,861	47,376	43,238	27,360
Liabilities(2)	216,946	31,184	69,343	12,018	6,245
Difference	**(96,161)**	**(6,323)**	**(21,967)**	**31,220**	**21,115**
Derivative instruments (excluding options)					
Options (in terms of underlying assets)					
(1) Of which: Credit to the public	45,285	19,821	39,477	35,564	21,958
(2) Of which: Deposits from the public	200,595	26,834	54,684	4,661	1,014
B. Balance Sheet Amount as December 31, 2021					
Total:					
Assets(3)	105,455	20,366	37,428	34,181	26,259
Liabilities(4)	226,199	19,502	36,270	10,683	6,597
Difference	**(120,744)**	**864**	**1,158**	**23,498**	**19,662**
(3) Of which: Credit to the public	40,318	17,547	33,730	29,504	21,258
(4) Of which: Deposits from the public	211,238	15,976	29,432	2,829	892

Footnotes:

(5) This Note presents the anticipated future contractual cash flows for assets and liabilities according to linkage base and according , to the remaining period to the contractual maturity date of each cash flow. The data is shown net of the provision for doubtful debts the allocation of which over periods is made according to an estimate based on the credit periods for which they were made.

(6) As included in Note 32 "Assets and liabilities according to linkage base", including off-balance sheet amounts for derivatives.

(7) Includes past-due receivables totaling NIS 270 million (2021: NIS 205 million).

(8) Excluding Israeli currency linked to foreign currency.

(9) The contractual rate of return is the rate of interest discounting the expected future contractual cash flows presented in this Note for a monetary item, to its balance sheet amount.

(10) Including current loan account credit facilities in the amount of NIS 4,953 million (2021: NIS 4,663 million) and an amount of NIS 547 million with no due date (2021: NIS 590 million).

(11) Including current loan account credit facilities in the amount of NIS 330 million (2021: NIS 272 million) and an amount of NIS 99 million with no due date (2021: NIS 135 million).

						Balance sheet amount[6]		
Over 3 years and up to 4 years	Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows	No fixed maturity date[7]	Total	The contractual rate of return, in percentages[9]
18,384	15,823	46,822	41,154	13,781	346,280	1,138	294,462	4.37
2,532	2,409	4,835	1,557	240	249,087	–	246,546	1.64
15,852	**13,414**	**41,987**	**39,597**	**13,541**	**97,193**	**1,138**	**47,916**	**2.73**
(30)	(366)	1,016	27	–	(32,264)	–	(32,808)	–
–	–	–	–	–	(345)	–	(314)	–
15,822	13,048	43,003	39,624	13,541	64,584	1,138	14,794	–
5,575	3,989	10,985	5,723	3,196	82,772	935	73,071	5.29
413	394	1,017	653	142	100,841	2	103,481	3.21
5,162	**3,595**	**9,968**	**5,070**	**3,054**	**(18,069)**	**933**	**(30,410)**	**2.08**
4,813	3,432	9,094	4,734	3,030	(18,866)	765	(27,612)	–
2,777	2,783	6,009	3,970	2,486	9,335	820	4,137	–
30	366	(1,016)	(27)	–	32,264	–	32,808	–
–	–	–	–	–	345	–	314	–
5,192	3,961	8,952	5,043	3,054	14,540	933	2,712	–
23,959	19,812	57,807	46,877	16,977	429,052	2,073	367,533	4.55
2,945	2,803	5,852	2,210	382	349,928	2	350,027	2.10
21,014	**17,009**	**51,955**	**44,667**	**16,595**	**79,124**	**2,071**	**17,506**	**2.45**
16,933	14,980	41,188	38,625	13,481	287,312	1,044	241,079	5.35
297	528	411	530	7	289,561	–	292,293	2.00
18,659	17,881	50,860	34,484	13,616	359,189	2,812	327,433	2.39
2,670	2,413	5,647	1,578	343	311,902	25	312,094	0.32
15,989	**15,468**	**45,213**	**32,906**	**13,273**	**47,287**	**2,787**	**15,339**	**2.07**
14,233	11,674	32,446	27,796	8,422	236,928	1,291	213,156	3.26
320	208	441	317	5	261,658	–	260,907	0.21

33. Assets and Liabilities according to Currency and Maturity Periods (continued)

The Bank - in NIS millions[5]

A. Anticipated Future Contractual Cash Flows as of December 31, 2022

	On demand or within 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years
Israeli currency:(including linked to foreign currency):					
Assets[10]	83,289	11,919	25,584	22,450	15,309
Liabilities	121,336	10,832	32,160	5,488	4,375
Difference	**(38,047)**	**1,087**	**(6,576)**	**16,962**	**10,934**
Derivative instruments (excluding options)	(7,880)	(997)	(20,619)	(1,664)	(223)
Options (in terms of base assets)	(511)	582	(323)	(95)	2
Difference after effect of derivative instruments:	(46,438)	672	(27,518)	15,203	10,713
Foreign currency[8]:					
Assets[11]	12,771	4,321	4,373	4,849	2,420
Liabilities	31,709	11,624	20,292	1,536	415
Difference	**(18,938)**	**(7,303)**	**(15,919)**	**3,313**	**2,005**
Of which: Difference in dollar	(15,021)	(6,783)	(15,047)	1,821	1,746
Of which: Difference for foreign activity	-	-	-	-	-
Derivative instruments (excluding options)	7,880	997	20,619	1,664	223
Options (in terms of underlying assets)	511	(582)	323	95	(2)
Difference after effect of derivative instruments:	(10,547)	(6,888)	5,023	5,072	2,226
Total:					
Assets[1]	96,060	16,240	29,957	27,299	17,729
Liabilities[2]	153,045	22,456	52,452	7,024	4,790
Difference	**(56,985)**	**(6,216)**	**(22,495)**	**20,275**	**12,939**
Derivative instruments (excluding options)					
Options (in terms of base assets)					
[1] Of which: Credit to the public	36,017	11,291	22,282	20,539	13,070
[2] Of which: Deposits from the public	143,076	19,247	43,606	2,934	2,928
B. Balance Sheet Amount as December 31, 2021					
Total:					
Assets[3]	81,084	12,519	22,396	20,818	16,476
Liabilities[4]	156,991	11,053	24,641	6,776	4,608
Difference	**(75,907)**	**1,466**	**(2,245)**	**14,042**	**11,868**
[3] Of which: Credit to the public	31,633	9,695	19,388	16,788	11,848
[4] Of which: Deposits from the public	147,891	9,151	21,554	2,392	1,643

Footnotes:

(5) This Note presents the anticipated future contractual cash flows for assets and liabilities according to linkage base and according to the remaining period to the contractual maturity date of each cash flow. The data is shown net of the provision for doubtful debts the allocation of which over periods is made according to an estimate based on the credit periods for which they were made.

(6) As included in Note 32 "Assets and liabilities according to linkage base", including off-balance sheet amounts for derivatives.

(7) Includes past-due receivables totaling NIS 185 million (2021: NIS 145 million).

(8) Excluding Israeli currency linked to foreign currency.

(9) The contractual rate of return is the rate of interest discounting the expected future contractual cash flows presented in this Note for a monetary item, to its balance sheet amount.

(10) Including current loan account credit facilities in the amount of NIS 2,375 million (2021: NIS 2,726 million) and an amount of NIS 378 million with no due date (2020: NIS 426 million).

(11) Including current loan account credit facilities in the amount of NIS 389 million (2021: NIS 252 million) and an amount of NIS 90 million with no due date (2021: NIS 126 million).

						Balance sheet amount[6]		
Over 3 years and up to 4 years	Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows	No fixed maturity date[7]	Total	The contractual rate of return, in percentages[9]
14,079	12,717	33,851	31,833	10,793	261,824	1,678	225,289	4.04
3,128	1,949	4,330	991	140	184,729	-	182,593	1.24
10,951	**10,768**	**29,521**	**30,842**	**10,653**	**77,095**	**1,678**	**42,696**	**2.80**
(30)	(366)	1,016	27	-	(30,736)	-	(31,198)	-
-	-	-	-	-	(345)	-	(314)	-
10,921	10,402	30,537	30,869	10,653	46,014	1,678	11,184	-
2,628	1,060	4,306	1,394	532	38,654	115	30,200	4.76
276	263	705	397	142	67,359	2	62,112	2.75
2,352	**797**	**3,601**	**997**	**390**	**(28,705)**	**113**	**(31,912)**	**2.01**
2,018	647	2,928	701	388	(26,602)	-	(29,079)	-
-	-	-	-	-	-	-	-	-
30	366	(1,016)	(27)	-	30,736	-	31,198	-
-	-	-	-	-	345	-	314	-
2,382	1,163	2,585	970	390	2,376	113	(400)	-
16,707	13,777	38,157	33,227	11,325	300,478	1,793	255,489	4.12
3,404	2,212	5,035	1,388	282	252,088	2	244,705	1.62
13,303	**11,565**	**33,122**	**31,839**	**11,043**	**48,390**	**1,791**	**10,784**	**2.50**
10,304	8,890	28,457	30,143	10,695	191,688	619	158,122	4.83
2,587	1,587	3,247	163	-	219,375	-	217,419	1.69
12,490	12,254	33,087	23,905	8,119	243,148	1,732	223,165	1.83
3,538	2,731	4,443	1,433	240	216,454	2	215,033	0.24
8,952	**9,523**	**28,644**	**22,472**	**7,879**	**26,694**	**1,730**	**8,132**	**1.59**
8,697	7,110	21,588	21,474	6,463	154,684	695	139,219	2.59
2,254	2,299	3,191	437	-	190,812	-	190,000	0.19

34. Balances and Fair Value Estimates of Financial Instruments

A. General

The instruction of the Bank of Israel for determining the fair value of financial instruments (the "instruction"), was applied based on the methods and principal assumptions described hereunder. Nothing in the data presented hereunder should be taken as an indication of the Bank's economic value, nor does the data purport to assess such value.

B. Fair value of financial instruments

Most of the Bank's financial instruments do not quote "market price" because there is no active market in which they are traded. Therefore, according to the instruction, fair value is based on accepted pricing models, such as the present value of cash flows discounted at a rate which reflects the estimated risk level related to the financial instrument.

Assessing the fair value by discounting future cash flows and determining the discount interest rate, is subjective. Therefore, the data for most of the financial instruments given hereunder, does not necessarily serve as an indication for the realization value of the financial instrument on the reporting date.

34. Balances and Fair Value Estimates of Financial Instruments (continued)

Estimating the future cash flows was made by interest rates in effect at the reporting date, without taking into consideration fluctuations in interest rates. Using different discount rates assumptions, may result in significantly different fair value amounts. This relates particularly to financial instruments bearing a fixed interest rate or non-interest bearing.

Additionally, no consideration was given to fees and commissions receivable or payable as part of the business activity and the effect of the non-controlling interests and the tax effect were not included.

It should be further noted, that the differential between the book value and the amounts presented in fair value, may never be realized, as the Bank usually holds the financial instrument to maturity. In consequence of the above, it should be stressed that the data included in this Note, is no indication of the Bank's value as a going concern.

Furthermore, due to the wide range of valuation techniques and possible assessments used in determining the fair value, and in view of the methods and assumptions used in applying the instruction, care should be taken when examining the fair value data itself as well as when comparing it with the fair value data presented by other banks.

C. **Methods and main assumptions used in estimating the fair value of financial instruments**

Bank deposits, non-marketable bonds and loan notes and credit to the Government - discounting future cash flows at interest rates at which the Bank transacted business at the reporting date.

Marketable securities - market value for securities traded on an active market, or quotations of international providers of prices for securities traded on an inactive market.

Net credit to the public - Fair value of the balance of credit to the public was determined at the present value of future cash flows using an appropriate discount rate. The present value is measured for the future cash inflows (net of the effect of accounting write-offs and allowances for credit losses) separately for each loan, at a rate of interest reflecting the risk level inherent in the credit.

Determination of the risk level has, to the extent possible, been made, on the basis of a grading model used at present by the Bank, which reviews the level of risk inherent in the debt according to financial and other indices. It should be noted that as of December 31, 2022, the Bank has classified approx. 99% of the indebtedness which has to be classified according to the directives of the Supervisor of Banks (December 31, 2021: approx. 99%). The discounting interest rates have, generally, been determined according to the interest rates used in similar transactions made by the bank as of the date of the report.

In certain cases, where grading data is not available, the segmentation is made on the basis of an overall evaluation of the risk level relating to the business sectors in which the borrowers operate. In this respect, it should be noted that the general risk level, as evaluated for a particular business sector, is not necessarily identical to the risk level of a particular borrower operating in that sector, none the less, to the risk level relating to the credit which the Bank grants to that borrower.

The fair value of impaired debts was computed using discount interest rates reflecting the high credit risk inherent therein. In any case, these discounting rates were not lower than the highest interest rate used by the Bank in its transactions as of the date of the report.

Increasing the discount interest rate by 1 basis point would have reduced the fair value of the problematic debts by NIS 2.3 million. Increasing the discount interest rate by 0.1 basis point would have reduced the fair value of the problematic debts by NIS 1.5 million (compared to no effect and a decrease of fair value by NIS 1 million, respectively, as of December 31, 2021).

Cash flows for mortgages have been evaluated on the basis of an early repayment forecast based on a statistical model. Discounting the said cash flows according to expected repayment dates instead of the contractual repayment dates, increased the fair value of the mortgages, particularly in the CPI linked segment, by NIS 167 million (compared to a decline NIS 125 million at December 31, 2021). The average period to maturity of assets in the CPI-linked segment, based on the original cash flow, which does not take into consideration early redemptions, reached 3.87 years on December 31, 2022, compared to 3.46 years, taking into consideration the forecast for early redemptions (December 31, 2021: 4.14 years compared to 3.63 years, respectively).

Deposits, bonds and subordinated debt notes - Capitalizing future cash flows at a rate at which the Bank pays interest on similar deposits, or on the issue of similar bond and debt notes at the reporting date, Based on parameters, such as: the period of the deposit, type of linkage.

Marketable subordinate debt notes are stated at market value.

Cash flows for deposits were evaluated on the basis of an early withdrawal forecast based on a statistical model. Discounting the said cash flows according to expected withdrawal dates instead of the contractual withdrawal dates, decreased the fair value of the deposits, particularly the non-linked deposits, by NIS 169 million (compared to NIS 91 million at December 31, 2021). The average period to maturity of liabilities in the CPI-linked segment, based on the original cash flow, which does not take into consideration early redemptions, reached on December 31, 2022 to 2.79 years, compared to 2.67 years, taking into consideration the forecast for early redemption (December 31, 2021: 3.07 years and 2.96 years, respectively).

34. Balances and Fair Value Estimates of Financial Instruments (continued)

Financial instruments (except for derivatives and marketable financial instruments) for an initial period of up to three months and at a variable market interest rate - Some of the subsidiaries assume that the balance stated in the balance sheet reflects fair value.

Derivative financial instruments - Such financial instruments, which have an active market, were evaluated at their market value, and where several such markets exist, the evaluation was made according to the most active market.

Derivative financial instruments which are not traded on an active market were evaluated according to models in use by the Bank in its current operations and which take into account the risks involved in the financial instrument: market, credit and other risks.

Off balance sheet financial instruments which involve credit risk - The fair value is presented according to the outstanding balance-sheet balance of fees and commissions on the said transactions, which approximate fair value. The fair value of irrevocable commitments to grant credit, which were approved but not yet executed, does not differ materially from the value of these commitments, as they are presented in Note 31 E.

The bank and its banking subsidiaries in Israel present the balances and fair value estimates of Financial Instruments according to the directive of the Supervisor of Banks. A banking subsidiary abroad presents the balances and fair value estimates of Financial Instruments according to generally accepted accounting principles in the US, which do not materially differ from those of the Supervisor.

D. Composition - consolidated[3]

	Audited				
	December 31, 2022				
	Book	Fair value			
	value	Level 1[1]	Level 2[1]	Level 3[1]	Total
	in NIS millions				
Financial assets					
Cash and deposits with banks	65,713	28,753	-	36,779	65,532
Securities[2]	44,794	29,006	12,839	1,696	43,541
Securities borrowed or purchased under agreements to resell	857	-	-	857	857
Net credit to the public	241,079	4,211	-	234,091	238,302
Credit to Governments	2,599	-	-	2,592	2,592
Assets for derivative instruments	11,420	1,006	6,578	3,836	11,420
Other financial assets	1,669	20	3	1,646	1,669
Total financial assets	**[3]368,131**	**62,996**	**19,420**	**281,497**	**363,913**
Financial liabilities					
Deposits from the public	292,293	31,284	178,641	80,886	290,811
Deposits from banks	15,376	763	3,533	10,665	14,961
Deposits from the Government	117	-	29	88	117
Securities lent or sold under agreements to repurchase	3,739	-	-	3,747	3,747
Bonds and Subordinated debt notes	12,308	11,032	51	364	11,447
Liabilities for derivative instruments	9,348	1,004	7,779	565	9,348
Other financial liabilities [4]	14,500	690	8	13,802	14,500
Total financial liabilities	**[3]347,681**	**44,773**	**190,041**	**110,117**	**344,931**
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	165	-	-	165	165

Footnotes:

(1) Level 1 - fair value measurements using quoted prices in an active market. Level 2 - fair value measurements using other significant observable inputs. Level 3 - fair value measurements using significant unobservable inputs.

(2) For further details of the stated balance sheet amount and the fair value of securities, see Note 5.

(3) Of which: assets and liabilities in the amount of NIS 72,065 million and NIS 159,904 million, respectively, the stated balance sheet amounts of which are identical to their fair value (instruments stated in the balance sheet at their fair value). For additional information regarding instruments measured at fair value on a recurrent basis and on a non-recurrent basis, see items B and C below.

(4) Not including liabilities for leasing.

34. Balances and Fair Value Estimates of Financial Instruments (continued)

D. Composition - consolidated(3) (continued)

	Audited				
	December 31, 2021				
	Book value	Fair value			
		Level 1(1)	Level 2(1)	Level 3(1)	Total
	in NIS millions				
Financial assets					
Cash and deposits with banks	59,638	26,791	-	32,778	59,569
Securities(2)	43,869	(5)29,031	13,577	(5)1,441	44,049
Securities borrowed or purchased under agreements to resell	1,207	-	-	1,207	1,207
Net credit to the public	213,156	4,077	-	211,797	215,874
Credit to Governments	2,664	-	-	2,712	2,712
Assets for derivative instruments	5,522	556	3,500	1,466	5,522
Other financial assets	1,686	105	7	1,574	1,686
Total financial assets	**(3)327,742**	**60,560**	**17,084**	**252,975**	**330,619**
Financial liabilities					
Deposits from the public	260,907	31,483	187,556	42,415	261,454
Deposits from banks	12,534	205	1,700	10,581	12,486
Deposits from the Government	346	-	264	85	349
Securities lent or sold under agreements to repurchase	-	-	-	-	-
Bonds and Subordinated debt notes	15,071	14,294	480	768	15,542
Liabilities for derivative instruments	6,323	555	5,287	481	6,323
Other financial liabilities (4)	13,783	1,228	5	12,550	13,783
Total financial liabilities	**(3)308,964**	**47,765**	**195,292**	**66,880**	**309,937**
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	139	-	-	139	139

Footnotes:

(1) Level 1 - fair value measurements using quoted prices in an active market. Level 2 - fair value measurements using other significant observable inputs. Level 3 - fair value measurements using significant unobservable inputs.

(2) For further details of the stated balance sheet amount and the fair value of securities, see Note 12.

(3) Of which: assets and liabilities in the amount of NIS 71,032 million and NIS 171,083 million, respectively, the stated balance sheet amounts of which are identical to their fair value (instruments stated in the balance sheet at their fair value). For additional information regarding instruments measured at fair value on a recurrent basis and on a non-recurrent basis, see items B and C below.

(4) Not including liabilities for leasing.

(5) Reclassified - Improvement in the calculation of the data.

34. Balances and Fair Value Estimates of Financial Instruments (continued)

E. Items measured at fair value – consolidated

1. Items measured at fair value on a recurring basis

	Audited				
	December 31, 2022				
	Fair value measurements using -				
	Quoted prices in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Influence of deduction agreements	Total fair value
	In NIS millions				
Assets					
Available-for-sale bonds and shares not for trading					
Israeli Government bonds	10,447	2,178	-	-	12,625
Foreign Governments bonds	5,306	69	-	-	5,375
Israeli financial institutions bonds	86	3	-	-	89
Foreign financial institutions bonds	-	549	-	-	549
Bonds backed by assets (ABS) or by mortgage (MBS)	-	5,155	-	-	5,155
Bonds of others in Israel	201	124	-	-	325
Bonds of others abroad	-	1,681	-	-	1,681
Shares not for trading	130	-	-	-	130
Total available-for-sale bonds and shares not for trading	**16,170**	**9,759**	**-**	**-**	**25,929**
Trading Securities					
Israeli Government bonds	2,136	70	-	-	2,206
Foreign Governments bonds	76	-	-	-	76
Israeli financial institutions bonds	-	-	-	-	-
Foreign financial institutions bonds	-	-	-	-	-
Bonds backed by assets (ABS) or by mortgage (MBS)	-	-	-	-	-
Bonds of others in Israel	14	-	-	-	14
Bonds of others abroad	-	-	-	-	-
Trading Shares	2	24	-	-	26
Total trading securities	**2,228**	**94**	**-**	**-**	**2,322**
Credit to the public for securities loaned	4,211	-	-	-	4,211
Assets for derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	423	-	423
Other Interest Rate Contracts	2	5,355	153	-	5,510
Foreign Currency Contracts	4	1,201	3,260	-	4,465
Shares Contracts	1,000	22	-	-	1,022
Commodity and other Contracts	-	-	-	-	-
Total assets for derivative instruments	1,006	6,578	3,836	-	11,420
Other	-	3	-	-	3
Assets for the Maof market operations	20	-	-	-	20
Total assets	**23,635**	**16,434**	**3,836**	**-**	**43,905**
Liabilities					
Deposits from the public for securities borrowed	3,693	-	-	-	3,693
Deposits from banks for securities borrowed	11	-	-	-	11
CLN deposits	-	-	-	-	-
Liabilities for derivative instruments					
Shekel/CPI Interest Rate Contracts	-	1	415	-	416
Other Interest Rate Contracts	-	5,185	-	-	5,185
Foreign Currency Contracts	4	2,574	150	-	2,728
Shares Contracts	1,000	19	-	-	1,019
Commodity and other Contracts	-	-	-	-	-
Total liabilities for derivative instruments	1,004	7,779	565	-	9,348
Other	-	8	-	-	8
Commitments for the Maof market operations	20	-	-	-	20
Short sales of securities	670	-	-	-	670
Total liabilities	**5,398**	**7,787**	**565**	**-**	**13,750**

34. Balances and Fair Value Estimates of Financial Instruments (continued)

E. Items measured at fair value – consolidated (continued)

1. Items measured at fair value on a recurring basis (continued)

	Audited				
	December 31, 2021				
	Fair value measurements using -				
	Quoted prices in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Influence of deduction agreements	Total fair value
	In NIS millions				
Assets					
Available-for-sale bonds and shares not for trading					
Israeli Government bonds	15,585	2,162	-	-	17,747
Foreign Governments bonds	3,423	109	-	-	3,532
Israeli financial institutions bonds	111	11	-	-	122
Foreign financial institutions bonds	-	517	-	-	517
Bonds backed by assets (ABS) or by mortgage (MBS)	1	6,581	-	-	6,582
Bonds of others in Israel	(1)288	134	-	-	422
Bonds of others abroad	-	1,994	-	-	1,994
Shares not for trading	283	-	-	-	283
Total available-for-sale bonds and shares not for trading	**19,691**	**11,508**	**-**	**-**	**31,199**
Trading Securities					
Of the Israeli Government	623	314	-	-	937
Of foreign governments	48	-	-	-	48
Of Israeli financial institutions	-	-	-	-	-
Of foreign financial institutions	-	-	-	-	-
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	-	21	-	-	21
Of others in Israel	20	-	-	-	20
Of others abroad	-	-	-	-	-
Shares	2	4	-	-	6
Total trading securities	**693**	**339**	**-**	**-**	**1,032**
Credit to the public for securities loaned	4,077	-	-	-	4,077
Assets for derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	273	-	273
Other Interest Rate Contracts	-	1,465	125	-	1,590
Foreign Currency Contracts	10	2,023	1,068	-	3,101
Shares Contracts	546	12	-	-	558
Commodity and other Contracts	-	-	-	-	-
Total assets for derivative instruments	556	3,500	1,466	-	5,522
Other	-	7	-	-	7
Total assets	**25,122**	**15,354**	**1,466**	**-**	**41,092**
Liabilities					
Deposits from the public for securities borrowed	1,988	-	-	-	1,988
Deposits from banks for securities borrowed	137	-	-	-	137
CLN deposits	-	-	10	-	10
Liabilities for derivative instruments					
Shekel/CPI Interest Rate Contracts	-	-	240	-	240
Other Interest Rate Contracts	-	1,636	-	-	1,636
Foreign Currency Contracts	9	3,643	241	-	3,893
Shares Contracts	546	8	-	-	554
Commodity and other Contracts	-	-	-	-	-
Total liabilities for derivative instruments	555	5,287	481	-	6,323
Other	-	5	-	-	5
Commitments for the Maof market operations	105	-	-	-	105
Short sales of securities	1,123	-	-	-	1,123
Total liabilities	**3,908**	**5,292**	**491**	**-**	**9,691**

Footnote:

(1) Reclassified - Improvement in the calculation of the data.

34. Balances and Fair Value Estimates of Financial Instruments (continued)

E. Items measured at fair value – consolidated (continued)

2. Items measured according to fair value not on a recurring basis

	December 31, 2022				
	Level 1	Level 2	Level 3	Total fair value	Profit (Loss) for the year ended December 31, 2022
	In NIS millions				
Problematic credit ,the collection of which is collateral dependent	–	–	491	491	(21)
Not for trading shares	–	–	105	105	(14)

	December 31, 2021				
	Level 1	Level 2	Level 3	Total fair value	Profit (Loss) for the year ended December 31, 2021
	In NIS millions				
Impaired credit the collection of which is collateral dependent	–	–	614	614	57
Not for trading shares	–	–	57	57	(33)

34. Balances and Fair Value Estimates of Financial Instruments (continued)

F. Changes in items measured at fair value on a recurring basis included in item 3 – consolidated

	Fair value as at beginning of period	Total realized and unrealized gains (losses) included in the statement of profit and loss	Acquisitions	Settlements	Transfers from level 3	Transfers to level 3	Fair value as at end of period	Unrealized gains (losses) on held instruments as at end of period
	in NIS millions							
	For the year ended December 31, 2022							
Net Assets (Liabilities) for derivative instruments								
Shekel/CPI Interest Rate Contracts	33	(1)(47)	–	22	–	–	8	(1)(26)
Other Interest Rate Contracts	125	(1)85	–	(9)	(87)	39	153	(1)104
Foreign Currency Contracts	827	(1)2,588	(173)	(125)	(2)	(5)	3,110	(1)2,957
Commodity and other Contracts	–	–(1)	–	–	–	–	–	–(1)
Total	**985**	**2,626**	**(173)**	**(112)**	**(89)**	**34**	**3,271**	**3,035**
Liabilities								
CLN Deposits	(10)	–(2)	–	10	–	–	–	–(2)
	For the year ended December 31, 2021							
Net Assets (Liabilities) for derivative instruments								
Shekel/CPI Interest Rate Contracts	78	(1)(20)	–	(25)	–	–	33	(1)(10)
Other Interest Rate Contracts	248	(1)(60)	–	(62)	(4)	3	125	(1)(60)
Foreign Currency Contracts	782	(1)374	(179)	(148)	2	(4)	827	(1)636
Commodity and other Contracts	37	–(1)	–	(37)	–	–	–	–(1)
Total	**1,145**	**294**	**(179)**	**(272)**	**(2)**	**(1)**	**985**	**566**
Liabilities								
CLN Deposits	(31)	(2)(1)	–	22	–	–	(10)	(2)(1)

Footnotes:

(1) Included in the statement of profit and loss in the item "Non-interest financing income".

(2) Included in the statement of profit and loss in the item "Interest income and expenses".

34. Balances and Fair Value Estimates of Financial Instruments (continued)

G. Transfers between hierarchy levels of fair value

Transfers to or from level 3 were made in 2021 and 2022, due to a clarification of the Supervisor of Banks, according to which, derivative instruments, the credit risk thereof is determined on the basis of unobservable inputs, shall be included in level 3.

H. Additional details regarding significant unobservable inputs and valuation techniques used for the measurement of fair value of items classified to level 3

1. Quantitative information on the measurement of fair value at level 3

	Fair value as at December 31, 2022	Valuation Techniques	Unobservable inputs	Range (Weighted Average)				
	In NIS millions			In %				
A. Items measured at fair value not on a recurring basis								
Problematic credit the collection of which is collateral dependent	491	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs					
Not for trading shares	105	Evaluation	Company value					
B. Items measured at fair value on a recurring basis								
Net Assets for derivative instruments								
Shekel/CPI Interest Rate Contracts	8	Discounted cash flow	Inflationary expectations	From	2.28%	to	4.84%	(2.74%)
			Counterparty credit risk (CVA)	From	0.00%	to	6.23%	(3.98%)
Other Interest Rate Contracts	153	Discounted cash flow	Counterparty credit risk (CVA)	From	0.00%	to	33.33%	(0.20%)
Foreign Currency Contracts	3,110	Discounted cash flow	Inflationary expectations	From	2.28%	to	4.84%	(2.66%)
		Discounted cash flow, Models for the pricing of options.	Counterparty credit risk (CVA)	From	0.00%	to	35.52%	(0.42%)
Liabilities								
CLN Deposits	-	Discounted cash flow	Credit risk of the underlying asset					

34. Balances and Fair Value Estimates of Financial Instruments (continued)

H. Additional details regarding significant unobservable inputs and valuation techniques used for the measurement of fair value of items classified to level 3 (continued)

1. Quantitative information on the measurement of fair value at level 3 (continued)

	Fair value as at December 31, 2021	Valuation Techniques	Unobservable inputs	Range (Weighted Average)				
	In NIS millions			In %				
A. Items measured at fair value not on a recurring basis								
Impaired credit the collection of which is collateral dependent	614	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs					
Not for trading shares	57	Evaluation	Company value					
B. Items measured at fair value on a recurring basis								
Net Assets for derivative instruments								
Shekel/CPI Interest Rate Contracts	33	Discounted cash flow	Inflationary expectations	From	1.62%	to	3.66%	(2.49%)
			Counterparty credit risk (CVA)	From	0.00%	to	6.65%	(4.68%)
Other Interest Rate Contracts	125	Discounted cash flow	Counterparty credit risk (CVA)	From	0.00%	to	0.46%	(0.12%)
Foreign Currency Contracts	827	Discounted cash flow	Inflationary expectations	From	1.62%	to	3.66%	(2.50%)
		Discounted cash flow, Models for the pricing of options.	Counterparty credit risk (CVA)	From	0.00%	to	58.03%	(0.38%)
Liabilities								
CLN Deposits	10	Discounted cash flow	Credit risk of the underlying asset					

2. Qualitative information on the measurement of fair value at level 3

Significant unobservable inputs, which were used to measure the fair value of derivative financial instruments, are the interest graph in the CPI linked segment, and adjustments regarding counterparty credit risk (CVA). In as much as the interest graph rises (falls) and the Bank commits to pay the index-linked amount, so the fair value rises (falls). In as much as the interest graph rises (falls) and the counterparty to the transaction is obligated to pay the Bank the index-linked amount, so the fair value falls (rises). The counterparty credit risk coefficient (CVA) expresses the probability of credit default of the counterparty to the transaction. A rise in the default probability reduces the fair value of the transaction, and vice versa.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries

A. Balances

	December 31, 2022													
	Interested parties(1)										Related parties(1)			
											Held by the Bank			
	Controlling Shareholders(2)		Other shareholders(3)		Officers(4)		Others(6)(7)		Whoever was an interested party at date of the transaction		Associates(8)		Others(9)	
	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)
	in NIS millions													
Assets:														
Deposits with banks	–	–	–	–	–	–	–	–	–	–	–	–	58	58
Securities(12)	–	–	–	–	–	–	–	–	–	–	–	–	346	346
Credit to the public	–	–	–	–	4	4	322	585			–	–	371	429
Provision for credit losses	–	–	–	–	–	–	(2)	(5)	–	–	–	–	(14)	(19)
Net credit to the public	–	–	–	–	4	4	320	580			–	–	357	410
Investments in associates(12)	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	–	1,271	1,515	–	–	–	–	126	196
Liabilities:														
Deposits from the public	–	–	64	300	2	5	8,591	11,511	–	–	–	–	267	396
Deposits from banks	–	–	–	–	–	–	–	–	–	–	–	–	631	647
Subordinated debt notes	–	–	20	21	–	–	154	268	–	–	–	–	70	70
Other liabilities	–	–	492	492	26	26	1,946	2,203	–	–	–	–	778	832
Shares (included in equity)(13)	–	–	8,335	8,335	–	–	–	–	–	–	–	–	–	–
Credit risk in off-balance sheet financial instruments(12)(14)	–	–	4	4	9	9	1,121	1,121	–	–	–	–	586	586

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

A. Balances (continued)

	December 31, 2021													
	Interested parties[1]										Related parties[1]			
											Held by the Bank			
	Controlling Shareholders[2]		Other shareholders[3]		Officers[4]		Others[6][7]		Whoever was an interested party at date of the transaction		Associates[8]		Others[9]	
	(11)	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)	(10)
	in NIS millions													
Assets:														
Deposits with banks	–	–	–	–	–	–	–	–	–	–	–	–	12	40
Securities	–	–	–	–	–	–	–	–	–	–	–	–	448	448
Credit to the public	–	–	–	–	6	8	731	748			251	271	749	769
Provision for credit losses	–	–	–	–	–	–	(4)	(4)	–	–	(1)	(1)	(20)	(23)
Net credit to the public	–	–	–	–	6	8	727	744			250	270	729	746
Investments in associates[12]	–	–	–	–	–	–	–	–	–	–	462	462	–	–
Other assets	–	–	–	–	–	–	55	136	–	–	–	–	27	28
Liabilities:														
Deposits from the public	–	–	–	–	13	14	5,615	6,318	–	–	45	72	465	689
Deposits from banks	–	–	–	–	–	–	–	–	–	–	–	–	92	593
Subordinated debt notes	–	–	19	20	–	–	341	395	–	–	–	–	21	21
Other liabilities	–	–	805	916	36	36	1,704	2,342	–	–	19	25	820	1,025
Shares (included in equity)[13]	–	–	5,996	5,996	–	–	–	–	–	–	–	–	–	–
Credit risk in off-balance sheet financial instruments[12][14]	–	–	5	5	12	13	327	327	–	–	4	4	668	704

For notes to the tables see after item D.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

B. Summarized results of transactions with related and interested parties

	Interested parties[1]				Related parties[1]	
					Held by the Bank	
	Controlling Shareholders[2]	Other shareholders[3]	Officers[4]	Others[6][7]	[8]Associates	Others[9]
	in NIS millions					
	For the year ended December 31, 2022					
Net interest income (expenses) (See item D)	-	(2)	-	(115)	1	4
credit loss income	-	-	-	4	-	4
Non-interest income	-	22	-	[15]1,824	22	173
Operating and other expenses (See item C)	-	-	(48)	(18)	(16)	(57)
Total	**-**	**20**	**(48)**	**1,695**	**7**	**124**
	For the year ended December 31, 2021					
Net interest income (expenses) (See item D)	-	(2)	-	(33)	8	14
credit loss income (expenses)	-	-	-	(2)	-	6
Non-interest income (expenses)	-	26	-	[15](299)	24	94
Operating and other expenses (See item C)	-	-	(45)	(23)	(12)	(49)
Total	**-**	**24**	**(45)**	**(357)**	**20**	**65**
	For the year ended December 31, 2020					
Net interest income (expenses) (See item D)	-	(1)	-	(22)	3	5
credit loss expenses	-	-	-	(1)	(1)	(20)
Non-interest income	-	19	-	[15]202	58	134
Operating and other expenses (See item C)	-	-	(36)	(32)	(13)	(35)
Total	**-**	**18**	**(36)**	**147**	**47**	**84**

For notes to the tables see after item D.

C. Compensation and any other benefit to interested parties (from the banking corporation and from investee companies)

	For the year ended December 31					
	2022		2021		2020	
	Officers[4]		Officers[4]		Officers[4]	
	Total benefit[16]	Number of benefit Recipients	Total benefit[16]	Number of benefit Recipients	Total benefit[16]	Number of benefit Recipients
	in NIS millions					
Interested parties employed by the Bank or on its behalf[17]	39	16	39	16	31	16
Directors who are not employed by the Bank or on its behalf	8	9	6	9	5	9
Total	**47**	**25**	**45**	**25**	**36**	**25**

For notes to the tables see after item D.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

D. Net interest income, in transactions of the Bank and its consolidated subsidiaries with related and interested parties[18]

	Consolidated			Of which from Associates		
	2022	2021	2020	2022	2021	2022
	in NIS millions					
A. On assets						
Credit to the public	31	29	14	1	8	3
Total	**31**	**29**	**14**	**1**	**8**	**3**
B. On liabilities						
Deposits from the public	(102)	(15)	(10)	-	-	-
Deposits from the banks	(12)	(2)	(3)	-	-	-
Subordinated capital notes	(29)	(25)	(16)	-	-	-
Total	**(143)**	**(42)**	**(29)**	**-**	**-**	**-**
Total Net interest income	**(112)**	**(13)**	**(15)**	**1**	**8**	**3**

Footnotes: relating to items A,B,C & D:

(1) Interestee party, related party - as defined in section 80 d of the public Reporting Directives.
(2) Controlling shareholder and their relatives – according to section 80 d (1) of the public Reporting Directives.
(3) Other shareholders including whoever holds 5% or more of the means of control of a banking corporation or whoever is entitled to appoint one director or more of the directors or the president & CEO according to section 80 d (2) of the public Reporting Directive.
(4) Officers - according to section 80 d (3) of the public Reporting Directives.
(5) As regards the engagement terms see section O below
(6) according to section 80 d (4) of the public Reporting Directives.
(7) for corporations, where a person or a corporation included in one of the groups of interested parties, as above, according to the Securities Act, holds 25% or more of their issued share capital or of the voting therein, or which is entitled to appoint 25% or more of the directors thereof.
(8) Associates - according to section 80 d (7) of the public Reporting Directives.
(9) according to section 80 d (5) of the public Reporting Directives.
(10) The balance at balance sheet date.
(11) The highest balance during the year on the basis of month-end balances.
(12) Details of these section are included also in Securities - Note 12, Investments in Investee Companies - Note 15 and guarantees Note 26.
(13) Holdings of interested parties and of related parties in the equity of the banking corporation.
(14) Credit risks in off-balance sheet financial instruments as computed for restrictions on the indebtedness of borrowers.
(15) stemming mainly from derivative financial instruments activity and Clearing commissions.
(16) The amounts of the compensation do not include payroll tax.
(17) Including the officiating Chairman of the Board (see section F below)

E. (1) On December 3, 2013 the Bank became a bank with no core controlling interest.

(2) During 2018-2022, a number of entities managing customer funds became interested parties in the Bank, following the policy of the Bank of Israel in the matter of the granting of a bank holding permit to entities managing customer funds. It is noted that pursuant to the Proper Conduct of Banking Business Directive No. 312 in the matter of "related parties", entities which had obtained a holding permit according to the said policy, who hold means of control of the Bank of a rate that does not exceed 7.5%, have been excluded from the definition of "related party", and accordingly, transactions of a banking corporation with such entities does not require approval according to the said Directive.

F. **Compensation for the officiating Chairman of the Board.** The officiating Chairman of the Board of Directors took office as Chairman on December 3, 2018.

(a) **Terms of office approved in February 2019.** The Board of Directors decided on February 26, 2019, to accept the recommendation of the Compensation Committee of February 12, 2019, and approve the terms of office of the Chairman, beginning with the date on which he takes office as Chairman of the Board of the Bank, and subject to the provisions of the law/regulation permitting such terms of office as stated:

1. Period of office - The terms of office apply as from December 3, 2018 and until the end of his period of office as Chairman of the Board (the Chairman ended his second period of office as Director on December 11, 2020, and was appointed to an additional period of office until December 11, 2023).
2. Scope of office - The scope of office is 100% position as an active Chairman of the Board and according to the Bank's needs. The Chairman may not enter into any additional paid engagement, unless he receives in advance the consent of the Board of Directors.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

3. Services rendered by the Chairman of the Board of Directors - The Chairman shall provide his services against issue to the Bank of an invoice. The Chairman shall bear any tax and other compulsory payments under the law, applying to any payment or benefit received according to his terms of office. Where required, VAT under the law will be added to any payment or right to which the Chairman is entitled according to his terms of office.
4. The consideration – For his services as Chairman of the Board, the Chairman shall be entitled to annual consideration in the amount of NIS 2,425 thousand, linked to the CPI, with the addition of VAT under the law ("the annual consideration").
5. Deposits with severance pay and provident funds - In addition to the annual consideration, as stated, the Bank shall pay to the Chairman additional amounts, with the addition of VAT under the law, in lieu of severance pay, provident contributions and loss of work ability compensation, against the deposit thereof by the Chairman in Funds, so that the total of the comprehensive annual compensation payable to the Chairman, including deposits with severance pay and provident funds, would amount to NIS 2,796 thousand (linked to the CPI).
6. Additional terms – The Chairman shall be entitled to an appropriate motor vehicle or to reimbursement of expenses for use of his private vehicle and/or to telephone expenses and/or to benefits and other terms respecting his duties as Chairman of the Board, all as is the accepted practice at the Bank, and provided that the total annual cost to the Bank for the terms of office shall not exceed the annual consideration (not including deposits with severance compensation and provident funds).
7. Expenses – The Chairman shall be entitled to the reimbursement of reasonable expenses incurred by him in the fulfillment of his duties, according to the accepted practice at the Bank.
8. Additional rights - The Chairman shall continue to be entitled to exemption from the duty of care, to officer liability insurance and to an advance commitment for indemnification, as is the practice regarding officers of the Bank.
9. Additional duties - The Chairman is committed to a non-competition and a "cooling-off" period of six months since the date of termination of office and to the maintaining of confidentiality for an unlimited period.

On April 3, 2019, the general meeting of the Bank's shareholders approved the aforesaid terms of office and the revision of the compensation policy for officers accordingly. This, subject to the provisions of the law/regulation permitting such terms of office as stated.

The terms determined in the decision of the General Meeting of Shareholders on the entry into effect of the terms of office and employment, as stated above, were fulfilled on July 29, 2019, including the approval by the Supervisor of Banks and the terms stated by her (hereinafter: "date of entry into effect of the terms of office").

Until date of entry into effect of the terms of office, the Chairman of the Board continued to receive compensation as a regular Director, according to the Companies Regulations (Rules regarding compensation and reimbursement of expenses to an external Director), 5760-2000, and with the Bank's compensation policy. Following the entry into effect of the terms of office, the Chairman of the Board received the compensation to which he is entitled since date of the beginning of his office, net of the amounts that had been received by him as Director's compensation, as stated.

(b) Updating of the terms of office – March 2020. Under the discussions on the compensation policy for officers, and within the framework of the examination of all aspects relating to compensation at the Bank, while making a comparative examination of the practice existing in the banking sector. On March 18, 2020, following approval by the Compensation Committee and by the Bank's Board of Directors, the Bank's General Meeting of Shareholders approved the updating of the terms of office of the Chairman, as follows:

(1) For the undertaking by the Chairman for a non-competition period, including his undertaking not to act during the non-competition period as Director of or provide services or consultation to a banking or financial institution, which is a significant competitor of the Bank, the Chairman of the Board would be entitled to a non-competition payment in an amount equal to one half of the total annual compensation applicable to the office of the Chairman. The said payment for non-competition would be paid at the end of the non-competition period, subject to compliance by the Chairman with his undertaking for a non-competition period.

(2) To the extent that the permitted maximum level under the Compensation Law, including Section 2(b) of the Law, with the averaging of the awards granted to employees of the lowest compensation level, shall increase in relation to the maximum level applying at date of approval for the first time of the terms of office of the Chairman by the general meeting of shareholders, which amounted to approx. NIS 3,010 thousands (which does not include payments and provisions for pension and severance pay according to the Law) – the amount of the annual compensation and the amount of deposits with severance pay and provident funds as stated in the terms of office of the Chairman, shall increase pro-rata with the rate of increase of the existing maximum level.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

(c) **Terms of office approved in August 2022.** Following the Amendment dated April 10, 2022, to Proper Conduct of Banking Business Directive No. 301A – "Compensation policy of a banking corporation" ("the Directive") as relating to the compensation of the Chairman of the Board of Directors of a banking corporation having no core controlling interest ("the amendment to the Directive"), on May 30, 2022, the Bank's Board of Directors, following approval by the Compensation Committee dated May 22, 2022, approved the terms of office of the Chairman of the Board, as detailed below:

1. Period of office – the terms of office apply until the end of the period of his office as Chairman of the Board and as a Director, on December 11, 2023.
2. Scope of office – the scope of office amounts to 100% as active chairman of the board and according to the requirements of the Bank. The Chairman is not permitted to engage in any other paid occupation, unless obtaining in advance the consent of the Board of Directors.
3. Services of the Chairman of the Board – the Chairman will continue and provide service as Chairman of the Board in return for the issue to the Bank of a VAT invoice. All tax payments and other compulsory payments as required by law in respect of any payment or benefit received by him according to his terms of office shall be borne by the Chairman. To the extent required, VAT under the law shall be added to any payment or right due to the Chairman in accordance with his terms of office, and the Bank would be entitled to require the Chairman to issue to the Bank a VAT invoice and any other required confirmation with respect to such a payment, including in respect of the level of withholding tax.
4. Consideration –
   - For his services as Chairman of the Board, the Chairman is entitled to an annual consideration of NIS 2.9 million, with the addition of the amounts stated in subsection 5 below, with the addition of VAT ("the annual consideration"). Regarding parts of a year, the Chairman is entitled to a proportionate part of the annual consideration. It is clarified that the said amount would be payable in full for the year 2022.
   - The annual consideration will be linked in full on a current basis to the rise in the Consumer Price Index ("CPI"). The basic CPI for updating the annual consideration is the CPI for March 2022, as published on April 15, 2022 ("basic CPI"). In case of a decline in the CPI, the annual consideration amount will not be reduced, but it will not continue to rise until such time that the CPI reaches a higher level than that of the most recent CPI to which the annual compensation had been adjusted, and provided that the overall annual compensation (excluding substitute payments by law) does not exceed the maximum amount according to Section 2(b) of the Compensation Law.
5. Substitute payments by law – as part of the annual consideration, as stated in subsection 4 above, the Chairman will be paid an additional amount in the total sum of NIS 430,157, with the addition of VAT, as a substitute for severance pay, provident fund contributions and work incapacity insurance (to which the Chairman is not entitled not being an employee of the Bank), and against depositing this amount by the Chairman with relating funds as self-employed. With respect to parts of a year, the Chairman is entitled to a proportionate part of the substitute payments by law. The substitute payments by law are linked to the CPI in accordance with subsection 4 above.
   The substitute payment amount has been determined according to the rates of 8.333% for severance pay and 6.5% for provident contributions and work incapacity, which according to estimates of the Bank and accepted employment terms, the Bank would have been required to provide for/deposit had the Chairman been engaged as an employee.
   The Bank is entitled to pay the overall annual consideration to the Chairman (the annual consideration including the substitute payment by law) in twelve monthly installments, at the beginning of each calendar month in respect of the previous month.
6. Additional terms – the Chairman is entitled to ask for the reimbursement of travel expenses/ expenses of use of private vehicle of the Chairman, and/or home telephone expenses and/or a mobile phone put at his disposal, all as accepted at the Bank, and provided that the total annual cost to the Bank shall not exceed the annual consideration (excluding the substitute payment amount by law).
7. Reimbursement of expenses – the Chairman is entitled to the reimbursement of reasonable out-of-pocket expenses related to the fulfillment of his duties, in accordance with the accepted practice at the Bank, including foreign travel expenses, subject to the provisions of Section 13A(b)(3)(e) of the Directive. No maximum amount is prescribed for the total amount of reimbursement to which the Chairman is entitled.
8. Additional rights – the Chairman would continue to be entitled to exemption from the duty of care, to officers' liability insurance and to a commitment in advance to indemnification, as the practice is for Officers of the Bank.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

9. Additional commitments of the Chairman - a cooling-off and non-competition period of six months with no additional payment shall apply to the Chairman, beginning with the date of termination of his office, during which, the Chairman will not engage in any way whatsoever, in the management of a banking or financial institution competing with the Bank, and also will not act as Director or provide services or consultation to a banking or financial institution, being a significant competitor of the Bank during the non-competition period, unless he obtains the consent of the Bank, additionally, the Chairman is committed to maintain confidentiality for an unlimited period.
10. According to the Compensation Law – to the extent that the annual consideration due to the Chairman, excluding substitute payments by law, as stated in Item 5 above, exceeds the maximum amount allowed under Section 2(b) of the Compensation Law, relevant to a particular year ("the deviation"), the amount of the deviation would be offset against the annual consideration due to the Chairman.

   On August 2, 2022, the Bank's general meeting of shareholders approved the terms of office as above stated, and the amendment of the compensation policy for Officers, respectively.

G. Compensation for the officiating President & CEO

Terms of office and engagement of the President & CEO. A special General Meeting of Shareholders held on March 18, 2020, resolved to approve the terms of office and engagement of the President & CEO, applying as from December 2, 2019, with the Bank and the President & CEO settling the account on the amounts paid to him in the interim period until date of approval by the Bank's General Meeting of Shareholders, as compared with amounts according to the terms of office and engagement detailed below, including by way of offsetting.

The terms of engagement had been formed according to the Compensation Law, the Bank's compensation policy, the Companies Law and Directive No. 301A. The President & CEO is engaged in a fulltime position and is not entitled to engage in any additional paid occupation, unless he had obtained the Board of Directors' prior consent. The terms of engagement of the President & CEO are in effect for an indeterminate period, each party having the right to inform the other party of the termination of the engagement, which would take place at least six months following the date of the said notice (hereinafter: "the prior notice period"). During the prior notice period, the President & CEO will continue to perform his duties in a full and proper manner, unless the Bank decides to forego his work in effect during the prior notice period, in whole or in part, continuously or intermittently. To the extent that the President & CEO continues to work during the prior notice period, he would be entitled to the monthly salary and to the related benefits according to the terms of engagement. In the event that the Bank decides not to continue engaging the President & CEO during the prior notice period, he would be paid the total amount of the compensation due for the prior notice period, to which he would have been entitled if he would have continued in office as President & CEO until the end of the prior notice period.

In consideration for the fulfillment of his duties, the President & CEO is entitled to a monthly salary of NIS 225,000, gross. The monthly salary is linked to the rise in the CPI, as determined by the engagement terms. At his discretion, the President & CEO may request that his monthly salary would be updated, subject to required changes and adjustments to the related benefits, in whole or in part, as stated in the engagement terms, so that an increase or decrease in his monthly salary, as the case may be, shall come on account of a parallel increase or decrease, as the case may be, in the related benefits, and vice versa, and subject to any law and to no change occurring in the maximum amount of the fixed compensation. As of date of approval of the engagement terms, the maximum fixed annual compensation of the President & CEO is the amount of NIS 2,802 thousand per year, excluding payments and provisions made by the Bank for severance pay, provident fund and loss of work ability, as required by law. The maximum amount of the fixed amount of the compensation is linked to the CPI.

The President & CEO is entitled to paid vacation days (with no accumulation save as detailed below), sick leave, convalescence pay, a suitable motor vehicle, social benefits (pension/managers' insurance arrangements, provident and/or pension funds, including provident; further education fund, loss of work ability insurance), reimbursement of certain expenses and additional benefits. At the end of his tenure of office for whatever reason, the President & CEO would be entitled to severance pay on the basis of his most recent monthly salary, or to the funds and rights accumulated in his favor according to the pension arrangement, the higher amount of the two. The President & CEO is entitled to request to make changes in the related benefits, as stated above, and everything subject to changes and adjustments in other related benefits, as stated, where required, and subject to the maximum fixed amount of compensation.

The Bank may be entitled to require the President & CEO to abide by a cooling-off and no competition period of up to six months following the date of termination of his office, in a way that he would not be engaged or provide services to a banking corporation or to a financial institution, which is a significant competitor of the Bank.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

Subject to compliance with the minimum conditions determined by the compensation policy for officers for return on equity and capital adequacy ratios, the President & CEO would be entitled to an annual award dependent upon performance, of up to two monthly salaries, derived from the results of the Bank according to the group indices and the relating goals, as determined for that year for officers of the Bank, according to the compensation policy, as stated.

In addition, the Compensation Committee and the Board of Directors are entitled to grant to the President & CEO a qualitative annual award, not to exceed three monthly salaries, if they find, at their discretion, that reasons exist justifying the granting of an annual award to the President & CEO, as stated, even though the conditions for the granting of an annual award dependent on performance had not been attained. Entitlement to the said awards is subject to the fact that the permitted maximum amount according to the Compensation Law (including Section 2(b) of the Law), averaged by the awards granted to employees receiving the lowest amount of compensation, permits the payment of such an award, and the amount of the award would be cut down to the permitted level of the maximum amount, as stated.

In November 2020, the Bank's Compensation Committee approved an immaterial change in the terms of engagement of the President & CEO, according to Section 272(d) of the Companies Law, permitting the President & CEO to accumulate vacation days unutilized by him in 2020, so that they would be redeemable at the end of his engagement period or during that period. The Committee considers that this change agrees with the parameters determined by the Bank's compensation policy regarding an immaterial change, and that it does not lead to a deviation from the maximum level of the total compensation permitted in the case of the President & CEO under the Compensation Law.

The annual award for 2021. For the year 2021, and according to the terms of office and employment of the President & CEO, as detailed above, The President & CEO was entitled to an annual award equal to two monthly salaries. However, in view of the maximum amount permitted by the Compensation Law (including Section 2(b) of the Law), the award has been reduced to an amount of approx. NIS 211 thousand, comprising approx. 0.9 monthly salaries.

The annual award for 2022. For the year 2022, and according to the terms of office and employment of the President & CEO, as detailed above, The President & CEO was entitled to an annual award equal to two monthly salaries. However, in view of the maximum amount permitted by the Compensation Law (including Section 2(b) of the Law), the award has been reduced to an amount of approx. NIS 169 thousand, comprising approx. 0.7 monthly salaries.

H. The Bank has a commitment to pay directly to subordinated debt notes holders of the consolidated subsidiary Manpikim Discount Bank Issues Corporation Ltd. upon the debentures' maturity, the amounts of the principal plus accrued interest and linkage differentials. The undertaking is for the repayment of subordinated debt notes, the proceeds of which were deposited with the Bank. The said liability, as at December 31, 2022, amounted to NIS 11,089 million (as at December 31, 2021 – NIS 10,176 million).

I. The Bank and Mercantile Discount Bank have commitments towards the Tel-Aviv Stock Exchange and towards the "Ma'of" clearing house as mentioned in Note 26 C 3 and Note 26 C 4.

J. Investee companies of the Bank are included in the framework of the undertaking granted by the Bank to International VISA Organization and MasterCard Worldwide organization as stated in Note 26 C 8 sections a and b. Investee companies of the Bank have also been included.

K. As to indemnification for interested and related parties and for details as to arrangements for insurance, exemption and indemnification of Directors at the Bank or persons appointed by the Bank as Directors of certain subsidiaries, see Note 26 C 6, sections J-O and section O below.

L. **Compensation of expert directors.** Following approval by the Compensation Committee, the Board of Directors approved on May 16, 2018, the payment of annual compensation and compensation for participation in meetings to external directors and other directors officiating and who would officiate at the Bank (excluding the Chairman of the Board), and who are expert directors, as defined in the Compensation Regulations, in an amount that does not exceed the "maximum amount for an external expert director" stated in the fourth addendum to the Companies Regulations (Rules for Compensation And Expenses Payable To An External Director), 5760-2000, according to the grade of the Bank (hereinafter: "the updated compensation"). A director who is not an expert director shall continue to receive annual compensation and compensation for participation in meetings, as stated in Note 35 L to the financial statements as of December 31, 2017.

The said updated compensation shall be paid to an expert director, as stated, starting with the date of beginning of office of a new external director at the Bank, or the date of renewal of office of an officiating external director, the earlier of the two.

The said approval was granted according to Regulation 1A of the Relief Regulations (Relief for Transactions with Interested Parties), 5760-2000.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

M. **Terms of transactions with interested and related parties.** All business with interested and related parties including non-banking transactions (such as in the insurance field), has been transacted in the ordinary course of business and under terms similar to those of transactions with parties that are not related to the Bank and to its consolidated subsidiaries. Interest charged and interest paid for balances with interested and related parties are at the regular rates at the ordinary course of business with parties that are not related to the Bank.

N. For details on the compensation policy for officers of the Bank, see Note 23 D and E. For details regarding an award plan for members of Bank's Management and for the Internal Auditor (2020-2022), see Note 23 G. For details regarding an award plan for members of Bank's Management and for the Internal Auditor (2023-2025), see Note 23 H.

O. **Directors and officers liability insurance.** On March 31, 2022, pursuant to the approval of the Compensation Committee and the Board of Directors, the Bank took out a collective policy for the insurance of directors and officers, who are currently serving with the Bank or who will serve with it from time to time, including for their service on behalf of the Bank as officers with any other company which is held by the Bank (hereinafter: "the Insurance Policy"), with this being according to Regulation 1B1 of the Companies Regulations (Reliefs in Transactions with Interested Parties), 5760-2000, and according to the Israel Securities Authority's position paper 101-21 (as last updated in August 2020) and with the provisions of the Bank's compensation policy, as approved by the general meeting of the Bank's shareholders on March 18, 2020 subject to that stated below.

The Insurance Policy is in effect from April 1, 2022 through March 31, 2023 (hereinafter: "the Insurance Period"). The liability limit insured within the framework of the Insurance Policy is US$145 million per claim and in aggregate for the Insurance Period. The cost of the premium that was paid for the Insurance Policy for the Insurance Period amounts to approx. US$2.89 million. In the event of a claim against any of the officers, no deductible shall be applicable to the officers themselves. The Bank will bear the deductible of US$500 thousand per event; for claims relating to securities (Entity-SEC), the Bank will bear a deductible of US$1 million per event, while, for claims relating to labor relations (Entity-EPL), the Bank will bear a deductible of US$500 thousand per event.

36. Credit Card Activity

A. **Existing arrangements between credit card companies and between such companies and the banks**

1. **Arrangements between credit card companies – VISA Cards.** At the beginning of September 2001, ICC, The First International Bank ("FIBI"), Israel Discount Bank, Bank Leumi Le'Israel B.M. and Leumi Card (hereinafter together - "the appellants") filed motions with the Competition Tribunal for the approval of a binding arrangement between them, concerning the cross clearing of VISA cards. Over the years, the Tribunal has granted the Appellants provisional and temporary permits for the charging of issuer fees and commissions at agreed rates. Concurrently, the validity of the general exemption has been extended from time to time.

   A tri-party Cross Clearing agreement. On October 30, 2006, the Competition Commissioner (hereinafter: "the Commissioner"), the credit card companies and the banks owning the credit card companies entered into an agreement for the Cross Clearing of Visa and MasterCard credit cards (hereinafter: "the Agreement"). The agreement came into effect upon the granting of a provisional permit by the Competition Court. This agreement has been extended from time to time by the Tribunal.

   Amended cross clearing arrangement - reduction of the issuer commission rate. The Competition Tribunal approved on March 7, 2012 a new compromise arrangement, to which had been attached an amended cross clearing arrangement. The compromise agreement determines, among other things, that the issuer commission of 0.7% is the proper commission for the compromise agreement and that the reduction of the issuer commission to 0.7% shall be applied gradually as detailed in the amended arrangement.

   The five stages, as detailed in the agreement, were implemented on the due dates. From July 1, 2014 and until the end of the agreement period (December 31, 2018), the issuer commission decreased and amounts as of December 31, 2018 to an average rate that did not exceed 0.7%.

   Local clearing exemption terms. On April 25, 2018, the Competition Commissioner published his decision to exempt, under certain terms, the cross clearing arrangement between the credit card companies. The cross clearing arrangement between the credit card companies was approved in March 2012 by the Competition Tribunal in a motion to approve a restrictive arrangement. The Tribunal adopted a compromise agreement that was drawn up at the time between the three credit card companies and the Commissioner ("the Amended Clearing Arrangement").

   Under the provisions of the amended arrangement, the parties filed a motion on March 21, 2012 for exemption of the Operating Arrangement. The present exemption was granted until December 31, 2023, subject to the terms set out in the decision.

36. Credit Card Activity (continued)

Clearing exemption terms. The exemption's provisions apply both to the agreement in principle signed between the banks and the credit card companies on May 9, 2007 and also to its appendices and to the changes thereto. Part of the exemption provisions apply also to a clearing agent who is not an issuer (or vice versa) who joins the agreement, thereby being considered a credit card company according to the definition stated therein.

New players becoming parties to the agreement in principle. Credit card companies must join to the agreement on an equal basis and at no cost. The credit card companies are to place at the disposal of a New Player all the information that it requires in order for it to become a party to the agreement and for it to operate thereunder, as well as perform reasonable adjustments, to the extent required so as to enable a New Player to become a party to the agreement and to operate according to its provisions.

Prohibition on market power being exploited by an issuer or by a clearing agent to the detriment of competitors. An issuer with Wide-Ranging Activity may not discriminate between clearing agents or between customers according to the identity of the clearing agent of the trading house at which the transaction was done, and may not take any action whose intention or likely consequence is such discrimination.

A credit card company that is a clearing agent with Wide-Ranging Activity may not discriminate between issuer's and may not take any action whose intention or likely consequence is discrimination between issuers. The provision prescribes that differences in the terms of engagement resulting from differences in the payments that the clearing agent is required to make to the issuer by law for different types of transactions will not be deemed to be discrimination.

A credit card company that is a clearing agent with Wide-Ranging Activity or an issuer with Wide-Ranging Activity may not link the clearing of transactions using debit cards at a trading house to an engagement with that trading house within the framework of its activity as an issuer.

Prohibition on market power being utilized against a trading house. A credit card company is prohibited from being a party to an accord whose intention or likely consequence is to link the clearing of a debit card that is issued by a party to the agreement to the clearing of a debit card that is issued by an entity that is not a party to the agreement. In addition, a credit card company may not link different types of transactions that are conducted using debit cards that it clears.

Prohibiting a credit card company that is a clearing agent with Wide-Ranging Activity from being a party to accords with a trading house that prevent the trading house or that restrict the trading house from granting discounts to its customers, which depend on the payment means used by the customer.

The changes in the exemption decision. The main change in the new decision is the provision that requires daily clearing. In addition, the new terms also contain relief, which includes removal of the sweeping prohibition on exclusive agreements with a trading house and on the granting of designated discounts.

The granting of the exemption is conditional upon the transition to the daily clearing of deferred debit transactions. This condition became effective on July 1, 2021, and applies to a single payment transaction. In the case of such transactions, the issuer is required to transfer the consideration to the clearing agent no later than one day following the date of transmission of the transaction by the trading house. This condition does not apply to installment transactions.

Reduction of the cross-commission rate. The Governor of the Bank of Israel announced on February 25, 2018 a new outline for the reduction of the cross-commission in deferred charge transactions, from the rate of 0.7% at that date to a rate of 0.5%, this in five phases.

The cross commission level under the outline has been calculated based on the methodology that was approved in 2006 by the Competition Court, as referred to above.

The reduction in the issuer's fee to a level of 0.5% was implemented in stages, as follows:

- from January 1, 2019, through December 31, 2019, the issuer's fee stood at an average rate that did not exceed 0.6%;
- from January 1, 2020, through December 31, 2020, the issuer's fee stood at an average rate that did not exceed 0.575%;
- from January 1, 2021, through December 31, 2021, the issuer's fee stood at an average rate that did not exceed 0.55%;
- from January 1, 2022, through December 31, 2022, the issuer's fee stood at an average rate that did not exceed 0.525%;
- from January 1, 2023, the issuer's fee stands at an average rate that shall not exceed 0.5%.

Furthermore, an outline was established for the reduction of the cross-commission regarding immediate charge transactions, from the rate of 0.3% at that date, to a rate of 0.25%, in two phases. The aforementioned reduction is carried out in stages, as follows:

- from January 1, 2021 through December 31, 2022, the commission stood at an average rate that did not exceed 0.275%;
- from January 1, 2023, the commission stands at an average rate that shall not exceed 0.25%.

On November 25, 2018, these rates were recognized in the Banking Order (Customer service) (Supervision Over Cross-Clearing Service For Charge Card Transactions and for Immediate Debit Transactions), 5789-2018.

36. Credit Card Activity (continued)

2. **Exemption for a restrictive agreement for the clearing of Isracard cards.** On May 14, 2012, IsraCard Ltd. and ICC signed a license agreement, under which ICC was granted a non-exclusive license for the clearing of IsraCard credit card transactions in Israel.

   On May 16, 2018, ICC received an exemption for a restrictive agreement for clearing Isracard cards, further to earlier exemptions granted in this matter. This exemption is granted following the extension of the agreement between ICC and Isracard with regard to clearing "Isracard" branded cards for a further two years, i.e., through May 15, 2020. In general, the exemption is granted for the period of the agreement, but should the parties extend the agreement without making any substantive changes thereto, the exemption will be valid through December 31, 2023. In May 2020, the parties signed the extension of the agreement until December 31, 2023.

3. **A joint issuance agreement between ICC and FIBI.** On December 29, 2020, ICC and FIBI signed a joint credit cards' issuing agreement for customers of the bank. The agreement entrenches the parties' obligations and rights in connection with the issuing of credit cards and the considerations to which the parties are entitled from the joint issuing operations. The agreement states, among other things, a compensation mechanism based on the volume of cards being issued. This agreement replaces previous agreements that were signed between the parties and will be valid until December 31, 2024. The agreement will be automatically renewed for additional periods of two years each.

   A joint issuance agreement between ICC and Discount Bank. On June 13, 2019, ICC and the Bank signed an agreement for the joint issuance of brand name charge cards of "VISA" and "MasterCard", to be operated by ICC. At the same date, Diners signed an agreement for the joint issuance of brand name charge cards of "Diners", to be operated by it. The agreements include, inter alia, mechanisms for the distribution of income, which take effect retroactively as from January 1, 2019, as well as a compensation mechanism for the Bank for attainment of goals. The validity of these agreements is in effect until December 31, 2022. On February 29, 2020, ICC, Diners and MDB signed agreements for the joint issuance of charge cards. These agreements are valid until December 31, 2022.

   At this stage, the joint activity of ICC and Diners with the Bank and with MDB continues according to the provisions of the agreements, which were in effect until December 31, 2022, while the parties have started negotiations for the renewal of the issuing agreements. According to the Regulations enacted under the "Strum Law", fixation applies to the income distribution mechanism between ICC and Discount, and the distribution of income shall be made according to the issue operating agreement that was in effect on January 1, 2022 until the end of three years from date of separation, or until the end of five years from date of publication of the Regulations (January 30, 2023), whichever is later.

4. **Issuance agreements with banks participating in the arrangement.** ICC is engaged with most banks in Israel by agreements for the joint issuance and operation of the issue of charge cards. According to these agreements, ICC and/or the bank issue charge cards to customers of that bank, the operation of which would be performed by ICC. According to the agreements, a mechanism was determined for the distribution of income between ICC and the banks for the card operation (including: income derived from transaction in Israel and abroad, and service commission charged to card holders). Also determined are the operation fees to which ICC would be entitled for certain operations, such as extending bank credit by means of the card. Under certain of the agreements the bank enjoys an increase in its share of the income based on the volume of the joint operations and/or the quantity of cards issued according to the agreement. Moreover, certain of the agreements include awards dependent on attainment of goals.

   The banks were awarded the exclusive discretion on the issue of the credit card, its cancellation, suspension, the number of credit cards to be issued (with no commitment for a minimum number of cards), including the amount of the credit facility and the interest rates charged. Among other things, the agreements also state that the banks would be responsible for everything related to credit risk, while ICC on its part would be responsible for risks of misuse of the credit card by the customer. The agreements further regularize the manner of use of information derived from the use of credit cards and the ownership of the said information, as well as the manner of management of the commercial relations with the credit organizations.

   The agreements are signed for a period of several years and certain of them contain provisions on the extension thereof for an additional period.

B. 1. **The separation of ICC.** On January 31, 2017, the Increase in Competition and Reduction of Centralization in the Israeli Banking Market Law (Legislation amendments), 5777-2017, was published on the Official Gazette ("the Law"). Within the framework of implementation of the Law, in the first stage, the credit card companies, IsraCard and MAX (formerly LeumiCard) were separated from Hapoalim Bank and Bank Leumi, respectively, due to the fact that they held assets of a value exceeding 20%, and therefore defined as "a bank with Wide-Ranging Activity". Accordingly, at that stage, there was no duty to sell ICC.

36. Credit Card Activity (continued)

With respect to ICC, on January 31, 2021, started a period of two years that ended on January 31, 2023, during which, the Minister of Finance, with consent of the Governor of the Bank of Israel and approval by the Finance Committee of the Knesset, was empowered to instruct the separation of ICC from Discount Bank upon existence of certain terms stated in Section 11B(d) of the Banking Law (Licensing), 5741-1981 ("the Banking Law").

According to the provisions of Section 12(b)(3) of the Law, a committee had even been established, among the duties of which was recommending to the Minister in the matter of applying his authority to enforce the duty to sell ICC, as stated. On December 21, 2022, the committee published its recommendation to the Minister of Finance, as accepted by the majority of the committee members, which stated the position that the Minister should apply the said authority. The recommendation document contained also the minority opinion of the Supervisor of Banks, who was not a party to the opinion of the other committee members. On January 18, 2023, after obtaining the consent of the Governor of the Bank of Israel, the Minister applied to the Chairman of the Finance Committee of the Knesset, requesting approval of the Committee to the draft Banking Regulations (Licensing)(A bank with Wide-Ranging Activity), 5783-2023. As part of the application, the Minister referred also to the possibility of acquisition of a charge card company by institutional bodies, and noted that on the background of developments in the market and the provisions of Section 10(A) of the Law, he had instructed the formation of a designated team at the Ministry of Finance to study this issue. The team is expected to present its conclusions within the coming weeks.

On January 30, 2023, the Finance Committee of the Knesset approved the Banking Regulations (Licensing) (A bank with Wide-Ranging Activity), 5783-2023, ("the Regulations").

According to the Regulations, the Bank is bound to sell the means of control of Israel Credit Card Company Ltd., held by it, within a period of three years from the effective date (date of publication of the Regulations in the Official Gazette), or until the end of four years in certain circumstances, to the extent that a public offer outline would be decided upon. Furthermore, the provisions stated in the Law would apply with respect to the sale.

In addition, the following instructions would, inter alia, apply:

- During the period from the effective date and until the end of a period of the later of five years or three years from date of separation, the Bank has to conduct the operation of issue of charge cards issued by it, by means of an operating company, and to enable it to be a party to the charge card agreement;
- As from the end of one year from the effective date and until the end of a period of the later of five years or three years from date of separation, the Bank is not permitted to conduct by means of one operating company, the issue of more than 52% of the total new credit cards issued to Bank customers;
- A fixed mechanism will apply for the distribution of income derived from the issue operation of charge cards and from use of charge cards by customers, between the Bank and the charge card company, so that the said distribution of income would be in accordance with an agreement signed by the parties in 2022;
- Restriction would apply to approaches made to customers regarding renewal of credit cards.

It is noted that the restrictions relating to the duty to enable the credit card company to become a party to the agreement, the forbiddance to conduct through one operating company the issue operation of more than 52% of total new credit cards, and restrictions on approaches to customers regarding the renewal of credit cards, would apply also to a part of the other banks.

The Regulations entered into effect on January 31, 2023.

Following the decision of the Minister of Finance and approval of the Regulations, the Bank has decided to record a provision for the balance of taxes due on its share in the profits of ICC, which in accordance with accounting principles, had not been provided for in the past, in the amount of NIS 50 million. The said provision will be included in the report for the first quarter of 2023.

Within the framework of a joint distribution agreement with El-Al Company, El-Al was, inter alia, granted a "phantom" type option, entitling it to economic rights in ICC (of a value equal to 8.75% of the appreciation in value of ICC, exceeding the amount of NIS 1,800 million). The option would be exercisable only in the event of sale or issuance of ICC, in accordance with the terms stated in the related agreement, and would be settled in cash. (The equity capital of ICC as of December 31, 2022, amounts to NIS 2,120 million).

36. Credit Card Activity (continued)

According to an assessment in the hands of ICC, the fair value of the "phantom" option (within the meaning of the term in accepted accounting principles), based on data regarding transactions for the acquisition of the credit card companies Isracard and MAX (being published information only, regarding the agreement, within the framework of which, Harel Investments is expected to acquire all the shares in Isracard, and the agreement, within the framework of which, CLAL Insurance Enterprises Holdings is expected to acquire all the shares in MAX, based on their reports to the public), and on the assumption that ICC will utilize to the options of the distribution of dividends, according to the option agreement, within the framework of the future negotiations to formulate the terms of sale of the holdings in ICC at an amount of approx. NIS 55 million. ICC is expected to recognize a liability in respect of the said option in the first quarter of 2023. Considering the tax effect and after deduction of the share of the First International Bank in the profit of ICC, the recording of the option in the said amount is expected to reduce the net profit of the Bank in the first quarter of 2023 by a net amount of approx. NIS 24.5 million.

It is emphasized that at this stage, the Bank is in the midst of the primary preparation phases for the separation from ICC, and that decisions with respect to the separation outline have not as yet been taken. This issue relates to a transaction of a scope expected to be significant, where the acquisition price to be determined might be affected by the dynamics in the market, as would exist at the time proximate to the date of the transaction, by the path of development of ICC in comparison to its competitors, by the outline for the execution of the separation, by possible competition between potential buyers and by different macro-economic variables. In light of the abovesaid, the acquisition price might be very materially different from the price of ICC seemingly grossed up in the fair value assessment of the option.

For details regarding the data for the "ICC" segment, within the framework of Managerial Operating Segments, see above in Note 30.

2. **Arrangements following the Strum Law.** Following the Increase in Competition and Reduction in Concentration in the Banking Market in Israel Law (Legislation amendments), 5769-2017 ("the Strum Law"), The Bank and ICC reached the following arrangements:

(a) **Agreement between the Bank and MAX.** The Bank signed a joint issuance agreement on March 29, 2018, with MAX, based on the commercial understandings reached between the parties. According to the agreement, the Bank would issue credit cards together with MAX as from February 2019 (date of entering into effect of the duty stated in the Law to conduct the issuance operation by means of more than one operating company). Inter alia, the agreement regulates the services to be received by the Bank, the division of responsibility and the manner of settlement between the parties. The agreement is in effect until January 31, 2024, and may be extended for an additional period of two years by a notice in advance by the Bank.

(b) **A joint issuance agreement with Bank Hapoalim.** On November 21, 2018, ICC and Bank Hapoalim Ltd. signed an agreement for the joint issuance and operation of debit cards. According to the agreement, the parties will issue credit cards to customers of Bank Hapoalim, which would be operated by ICC. The agreement determines the distribution of income between the parties, as well as their rights and obligations and further arrangements on the said operation. The agreement will be in effect as from date of signature thereof and until December 31, 2024. Bank Hapoalim is entitled to extend the period of the agreement by means of a written request served to ICC no later than June 30, 2024, while ICC is entitled to inform Bank Hapoalim of its consent within 45 days from date of serving of the application for extension. On March 22, 2022, the company and Hapoalim Bank signed an agreement updating certain terms stated in the agreement. Furthermore, the power of the joint issue agreement was extended for an additional period of one year, until December 31, 2025.

(c) **Agreement for joint issuance with Bank Leumi.** On August 12, 2018, ICC, Diners and Bank Leumi Le-Israel Ltd. (hereinafter: "Leumi") signed an agreement for the joint issuance and operation of debit card issuance. According to the agreement, the parties would issue to customers of Leumi debit cards operated by ICC. The agreement determines the division among the parties of income and expenses derived from the joint issuance operations, as well as the rights and duties of the parties and additional arrangements relating to the described operations. The period covered by the agreement would be from February 1, 2019 to December 31, 2024 (approx. 6 years). Leumi will be entitled to terminate the period of the agreement one year prior to the date of termination of the said period. The parties will be permitted to agree to extend the period of the agreement by four additional periods of one year each.

C. **Joint distribution agreement with El-Al Company.** On June 11, 2014, Diners and ICC entered into an agreement for the issue of brand name credit cards to members of the frequent flyer club of El-Al Israel Airlines Ltd. ("EL-AL") (hereinafter: "brand name credit cards"). An agreement of principles was signed on December 11, 2018, for a new engagement of ICC with EL AL, on the issuance and operation of brand name credit cards for a period of ten years as from September 1, 2019, with a mutual termination right for each of the parties after seven years ("the engagement period").

36. Credit Card Activity (continued)

It has been agreed that ICC shall pay EL AL a onetime signature award in a total amount of NIS 75 million, payable upon the agreement of principles taking effect (upon fulfillment of the condition precedent, as detailed below). Furthermore, EL AL would be entitled to the payment by ICC of current royalties (and under certain terms to increased royalties, dependent on reaching determined operational goals), for the use of the brand name credit cards, and which shall be derived from the various income earned on the brand name credit card operations, comprising the distribution of income between the parties for the cross-commission earned on transactions made by the credit cards, for income on the credit extended to card holders, for card fees charged to the holders and for foreign currency conversion income. The agreement of principles determines in addition, instructions on the marketing and promotion of sale of the brand name credit cards, including marketing and advertising budgets by ICC all through the period of the engagement.

On date of entry into effect of the agreement of principles, EL AL received an advance payment of NIS 60 million, on account of a part of the above mentioned current royalties, which shall be reimbursed in full during the first seven years of the engagement period, by means of offsetting the amount against the current royalties only.

Within the framework of the agreement, inter alia, EL AL was granted a "phantom" option, which would grant it economic rights in ICC (of a value equal to 8.75% of the increase in value of ICC of over a total of NIS 1,800 million) or in Diners (of a value equal to 35% of the increase in value of Diners of over a total of NIS 335 million). The option may be exercised only in the event of sale or share issue of any of the above companies, according to the terms stated in the agreement in this respect, and shall be settled in cash.

On September 26, 2019, ICC and Diners signed agreements with Mastercard Europe SA (hereinafter: "Mastercard") on the one part and with EL AL on the other part, as well as on a tripartite agreement with all the parties ("the tripartite agreement"). The tripartite agreement regulates the cooperation with MasterCard in implementing the Fly Card agreement: the issuance of Fly Card credit cards ("Premium" and "Bronze") under the MasterCard brand name and integrated cards under the MasterCard and Diners brand names and other matters. The agreement is in force for a period of ten years as from September 1, 2019, with the option of mutual retirement from the agreement for each one of the parties after seven years.

In 2022, EL AL transferred the operations of the Frequent Flyer Club, including its assets, to a separate subsidiary.

D. **Joint distribution agreement with Shufersal Company.** On November 2, 2017, ICC and Diners (hereinafter jointly: "ICC") and Shufersal Company Ltd. and Shufersal Finance, Limited Partnership (hereinafter jointly – "Shufersal") signed a memorandum of principles (hereinafter: "the Memorandum of principles") for the issue and operation of off-banking credit cards to customers of Shufersal (hereinafter: "Credit Club" and "the Cards", respectively). The parties introduced the club on January 18, 2018, according to the document of principles.

The Memorandum of principles also states that the parties will act towards the signing of a detailed agreement ("the Agreement") to regulate all matters existing between the parties for the Credit Club, and this within a period of 6 months, while until the date of signing of the detailed Agreement, the Memorandum of Principles would bind the parties.

The Agreement would be in effect from date of signature thereof and until December 31, 2027, such period being extended for additional periods of two years each, unless any of the parties announces his wish not to extend the validity of the Agreement for an additional period, by giving a notice twelve months prior to the termination of each period.

Among other things, the Memorandum of Principles regulates the benefits that would be granted to customers holding the Credit Club cards by the parties to the agreement, provisions on attraction of customers to the Credit Club, providing marketing and advertising budgets by the parties, distribution of costs, and instructions relating to fees charged to card holders. All liabilities applying by law to the issuer shall apply to ICC. ICC would be the exclusive issuer permitted to offer debit cards and loans to customers of Shufersal.

The Memorandum of Principles also regulates the possibility that the cards would be registered under the Bank Identification Number (BIN) of Shufersal, if this is requested by Shufersal and subject to obtaining all relevant approvals and licenses.

The Memorandum of Principles determines the distribution of income between the parties for the cross-commission earned on transactions when using the cards, for the interest bearing credit balances created through the operation of the Credit Club, and for card fees charged to the holders thereof. Card holders would also be charged by Shufersal with monthly membership fees for their membership of the Credit Club, according to determined terms.

Under the Memorandum of Principles, it was determined ICC will pay Shufersal NIS 30 million in connection with the benefits that Shufersal will grant to members of the credit club. It also prescribes that, subject to attaining material goals determined for the operations of the Credit Club, Shufersal would be entitled to two awards of NIS 35 million each, at the end of the fourth and eighth year of the Agreement.

36. Credit Card Activity (continued)

The Agreement also regulates the payments to be made between the parties following the termination of the Agreement, where, as a general rule, in the event that ICC continues to operate the cards until their expiry date, the terms of the Agreement will continue to apply for the distribution of income between the parties, while in the case that ICC discontinues the operation of the cards and these would instead be operated by Shufersal, Shufersal Finance or by a third party, then ICC would be entitled to receive, during a stated period, royalties based on ICC's share in income from the cards in the year preceding the date of termination of the Agreement, and all according to the terms and rates determined in the Agreement.

On April 10, 2022, ICC and Shufersal signed an agreement updating certain terms stated in the agreement. Furthermore, the power of the Joint distribution agreement was extended for an additional period of three years, until December 31, 2030.

A tri-party agreement was signed on November 26, 2019, between ICC, Shufersal and El Al for the establishment of a "Shufersal Aviation" Club, and for the accelerated accumulation of benefit points when using FLYCARD credit card at the Shufersal chain.

E. ICC is engaged in the operation of credit cards of brands registered in the name of the international organizations VISA International, MasterCard Worldwide Organization and Diners Club International, and is connected to each of these international organizations by a set of agreements. The license to operate under the VISA and MasterCard brands has no time limit and is not exclusive. The license is subject to compliance with the directives of these organizations. Validity of the concession for the exclusive operation in Israel of the Diners Club brand, granted to ICC by Diners Club International is in effect until December 31, 2029.

F. Acquisition of the minority interest in Diners. In December 2015 ICC acquired all the holdings of Dor-Alon and Blue Square in Diners (49%) (collectively: the "Sold Shares"), so that upon conclusion of the transaction ICC holds all the rights (100%) in Diners. A dispute has arisen between the parties for the entitlement of the Sellers to additional consideration subjected to the conditions precedent. The parties referred to mediation proceeding in the matter, but the mediation proceedings were not successfully concluded.

A monetary action was filed on September 24, 2019 with the Tel Aviv District Court against ICC, in which the Court is asked to order ICC to pay to Dor-Alon and Blue Square an amount of approx. NIS 21 million. On February 9, 2020, ICC submitted a statement of defense for this action. Concurrently with the submission of the statement of defense, ICC submitted a counterclaim, in which the Court is asked to order the opposing parties to pay ICC an amount of approx. NIS 33 million. On June 15, 2020, the Plaintiffs filed a response brief in which they reiterated their arguments, and on the same day they submitted a counter statement of defense, in which the rejected the arguments of ICC in the counterclaim.

G. **Extension of the clearing license of ICC and Diners.** On September 29, 2021, the provisional clearing permit of ICC and Diners was extended to March 31, 2022, or until a permanent permit is obtained, according to the earlier of the two.

37. Legislation Initiatives

Several legislation issues exist (laws, regulations and administrative instructions) which are at different stages of legislation. Certain of these issues are liable to have an adverse effect on the Bank's operations and its consolidated subsidiaries and their business results in the future. The Bank is not able to evaluate the scope of such effect.

38. Establishment of the PayBox Company

The cooperation agreement. A strategic cooperation agreement ("the cooperation agreement") was signed on January 19, 2021, by Discount Bank, Shufersal Ltd. ("Shufersal"), Shufersal Club Company Ltd. ("the Club Company") and PayBox Ltd. ("PayBox") (the last two were companies in formation at date of signing the agreement), for the establishment of a digital wallet for use by customers of all banks, on the basis of the payments platform of PayBox, which at that time had been wholly owned by the Bank.

The Supervisor's approval. On June 1, 2021, the Bank received the approval of the Supervisor of Banks (hereinafter: "the Supervisor's approval") permitting it to have the sole control and to directly hold the means of control in the auxiliary corporation PayBox Ltd. (hereinafter: "the auxiliary corporation"), which is to engage in managing a digital wallet platform and in providing digital services, including brokerage services for banking services and products of supervised financial bodies, subject to the conditions detailed in the letter of approval. For certain operations, PayBox is required to inform the Supervisor of Banks in writing, at least sixty days prior to the introduction of such operations, and they would be subject to obtaining consent of the Supervisor or his non-objection. The cooperation with and activity of the auxiliary corporation, as well as issues relating to use of use of the data obtained within the framework of providing the services and to cost comparison, may be subject to legislation initiatives or future regulation, if at all.

Upon receipt of the Supervisor's approval, the Bank received the regulatory approvals for the completion of the transaction being the subject matter of the agreement.

38. Establishment of the PayBox Company (continued)

Change in structure. According to the said agreement, the Bank formed a wholly owned company under the name of "PayBox", to which were transferred all the assets of PayBox in their format existing at that date. Concurrently, Shufersal had formed a wholly owned subsidiary under the name of "Shufersal Digital Benefits" ("Shufersal Benefits"), to which were transferred assets entitling exclusive rights to different digital operations for Shufersal customers.

Following the formation of the said companies, PayBox and Shufersal Benefits were merged in such a way so that PayBox Company allotted 49.9% of its share capital to Shufersal.

On June 30, 2021, the merger of the companies was completed, so that PayBox absorbed Shufersal Benefits, which was then liquidated ceased and to exist.

Recording the transferred assets. The assets which the Bank had transferred to PayBox, including software development expenses, were recorded at their value in the books of the Bank at date of transfer. The rights for the merger agreement that Shufersal had transferred to Shufersal Benefits, including different exclusivity rights, were primarily recorded at their fair value based on the conducted valuation.

Financing the operations of PayBox. In terms of the cooperation agreement, the Bank and Shufersal agreed to provide PayBox with the funds required for its operation and for the realization of its annual work plan, in the initial years of operation.

Ruling by the Tax Authority on the application for change in structure. On June 15, 2021, the ruling by the Tax Authority was obtained in the matter of the change in structure. According to the tax ruling, the change in structure is in agreement with the terms stated in the Income Tax Ordinance, and the date of change in structure was set for June 30, 2021. Joint instructions were determined for the spin-offand merger, the tax ruling being subject thereto. This ruling states, inter alia, that Discount Bank, Shufersal and PayBox undertake that during the period of two years following the end of the year of merger, each of these entities shall have a separate independent economic activity, the income there from being subject to tax according to Section 2(1) of the Income Tax Ordinance (New version), 5721-1961 ("the Ordinance"), and that Discount Bank and Shufersal shall continue to own their rights in PayBox for a period of not less than two years, subject to the terms of the Ordinance. It is further stated that in the event that the terms of the tax ruling are not fulfilled, Shufersal, Discount Bank and PayBox shall be charged with the taxes and other compulsory payments, from which they had been exempted, together with interest and linkage differences from date of the spin-off and until the date of payment, according to Section 103(j) of the Ordinance. In such an event, Shufersal, Discount Bank and the absorbing company shall submit to the Tax Assessing Officer, immediately proximate to the date of violation, an expert valuation of the transferred operations immediately following the date of the spin-off, according to the Income Tax Rules (Application for a Pre-Ruling for a Merger Plan), 5755-1995. It was also confirmed that ownership of all employee benefit funds transferred to the names of the employees moving from Discount Bank to PayBox, and the transfer of the funds deposited with employee provident funds would be exempt from withholding tax, and that continuity of the rights to severance pay shall apply to these employees, as stated in Section 103(p) of the Ordinance.

Corporate Governance, Audit and Additional details regarding the business of the banking corporation and management thereof

Corporate Governance and additional details - List of tables

Corporate Governance and additional details - List of charts

Corporate governance and audit

Board of Directors and Management

Report on Directors having Accounting and Financial Expertise

According to the Companies Law, the Board of Directors has to determine the required minimum number of Directors that have accounting and financial expertise, within the meaning of this term in Section 240 of the Companies Law. According to Directive No. 301 of Proper Conduct of Banking Business Directives of the Supervisor of Banks has been updated, stating that at least one fifth of the members of a board of directors and at least two directors from among the members of an audit committee must have accounting and financial expertise, and the Bank is acting accordingly. At date of reporting, nine Directors have accounting and financial expertise (out of ten) and all the directors who are members of the Audit Committee possess accounting and financial expertise (6 out of 6). List of Directors having accounting and financial expertise, are presented below under "Details regarding members of the Board of Directors". For details regarding the factual background by which they may be regarded as having such expertise, see the Bank's periodic report for 2022 (Regulation 26), which is presented on the MAGNA website of the Israeli Securities Authority, on the MAYA site of the Tel Aviv Stock Exchange Ltd. and on the Bank's website.

Details regarding Members of the Board of Directors

Directors name	Date on which the term of office as Director began	Membership in the Board of Directors Committees
Shaul Kobrinsky, Chairman of the Board of Directors(3)(4)(5)	December 11, 2020 (initially appointed as Director on December 11, 2014, and as Chairman of the Board since December 3, 2018)	Chairman of the Credit Committee; Chairman of the Resources Committee; Technologies and Innovation Committee
Dr. Doron Avital(5)	August 1, 2021	Compensation Committee; Technologies and Innovation Committee; Resources Committee
Iris Avner(2)(3)(4)(5)	March 22, 2021 (initially appointed on August 22, 2018)	Audit Committee; Credit Committee; Technologies and Innovation Committee; Risk Management Committee
Aharon Abramovich(1)(2)(4)(5)	October 30, 2020 (initially appointed on October 30, 2017)	Chairman of the Compensation Committee; Audit Committee; Resources Committee; Risk Management Committee
Sigal Barmak(1)(2)(3)(4)(5)	August 1, 2021	Audit Committee; Compensation Committee; Risk Management Committee
Yodfat Harel-Buchris(4)(5)	February 15, 2022 (initially appointed on February 15, 2016)	Chairperson of the Technologies and Innovation Committee; Credit Committee; Resources Committee
Prof. Ben-Zion Zilberfarb(2)(4)(5)	August 1, 2021 (initially appointed on August 1, 2018)	Chairman of the Risk Management Committee; Audit Committee; Resources Committee
Danni Yamin(3)(4)(5)	February 1, 2023	Audit Committee; Compensation Committee; Technologies and Innovation Committee; Resources Committee
Baruch Lederman(1)(2)(4)(5)	November 27, 2020 (initially appointed on November 27, 2014)	Chairman of the Audit Committee; Compensation Committee; Credit Committee; Risk Management Committee
Dr. Yaacov Lifshitz(2)(3)(4)(5)	March 26, 2021 (initially appointed on March 26, 2018)	Credit Committee; Technologies and Innovation Committee; Risk Management Committee

Notes:
(1) External Director as defined in the Companies Law.
(2) Independent Director as defined in the Companies Law.
(3) External Director according to Directive No. 301 to Proper Conduct of Banking Business Directives.
(4) Accounting and financial expertise.
(5) Professional qualifications.

For additional details regarding members of the Board of Directors, see the Bank's periodic report for 2022 (Regulation 26), which is presented on the MAGNA website of the Israeli Securities Authority, on the MAYA site of the Tel Aviv Stock Exchange Ltd. and on the Bank's website.

Committee for the appointment of Directors in Banking Corporations

The Banking Law (Licensing), 5741-1981, states that the Governor shall appoint a committee for the appointment of directors in banking corporations, among the duties of which, is the recommendation of candidates for the office of director in a banking corporation having no core controlling interest. The annual general meeting of shareholders had been asked to elect one Directors of external director status, as defined in Directive No. 301 of the Proper Conduct of Banking Business Directives, out of two candidates proposed by the Committee for appointment of directors in banking corporations. For details regarding the elected Director, see ”Changes in the Board of Directors” below.

Changes in the Board of Directors

Appointment of Directors. The General Meeting of Shareholders held on August 2, 2022, decided to appoint Mr. Danny Yamin as a Director for a period of three years, as from February 1, 2023. All as detailed in the Immediate Report dated August 2, 2022 (Ref. No. 2022-01-098110), the information contained therein regarding the above matters, is presented herein by way of reference.

Mr. Danni Yamin, took office on February 1, 2023, as a Director of the Bank, replacing Ms. Miriam (Miri) Katz, who terminated her office on this date. All as detailed in immediate reports dated February 1, 2023 (Ref. Nos. 2023-01-013368 and 2023-01-013359) the information in the above matters detailed therein is presented hereby by way of reference.

The Chairman of the Board, the Board of Directors and the President & CEO thank Ms. Katz for her activity and contribution during her period of office at the Bank and wish Mr. Yamin success in fulfilling his office.

Details regarding Members of Management

Name	Office he/she holds at the corporation	Date on which the term of office began
Uri Levin[1]	The President & CEO	December 2, 2019
Assaf Eldar	Executive Vice President; Head of the Operations and Properties Division	January 1, 2020
Edan Engel	Executive Vice President; Head of the Digital, Data and Markeing Division	July 1, 2021
Joseph Beressi	Senior Executive Vice President, Comptroller; Chief Accounting Officer and Head of the Accounting Division	April 1, 2000
Orit Caspi	Executive Vice President, Chief Risk Officer and Head of Risk Management Division	July 10, 2022[2]
Avraham (Avi) Levy	Senior Executive Vice President; Head of the Banking Division	February 21, 2022[3]
Hagit Meirovitz	Executive Vice President; Head of the Human Resources Division	August 11, 2022[4]
Barak Nardi	Executive Vice President; Head of the Strategy, Finance and Holdings Division	December 15, 2019
Nitzan Sandor	Executive Vice President; Chief Legal Adviser and Head of the Legal Advisory Division	August 11, 2022
Hila Eran-Zik	Senior Executive Vice President; Head of the Corporate Division	August 15, 2022
Assaf Pasternak	Executive Vice President; Head of the Financial Markets Division	April 1, 2018
Adi Kaplan	Executive Vice President; Head of the Technologies Division	January 17, 2021
Nir Abel	Executive Vice President; The Internal Auditor	May 18, 2011

Notes:
(1) Interested party of the corporation.
(2) Acted as Executive Vice President and Head of the Human Resources Division as from January 1, 2020 until July 10, 2022.
(3) Acted as Senior Executive Vice President, Chief Risk Officer and Head of Risk Management Division, as from July 21, 2016 and until February 21, 2022.
(4) Acted as Executive Vice President and, Chief Legal Counsel and Head of the Legal Counsel Division, as from April 1, 2019 and until August 11, 2022.

For additional details regarding members of Management, see the Bank's periodic report for 2022 (Regulation 26A), which is presented on the MAGNA website of the Israeli Securities Authority, on the MAYA site of the Tel Aviv Stock Exchange Ltd. and on the Bank's website.

Changes in Management

On February 21, 2022, Mr. Avi Levi, Senior Executive Vice President, commenced office as Head of the Banking Division, replacing Ms. Yafit Gheriani, Senior Executive Vice President, who terminated her office on this date.
Ms. Esther Deutsch, Senior Executive Vice President and Head of the Group Management and Regulation Division, terminated her office on June 15, 2022. Ms. Esther Deutsch will continue to act as Chairperson of the Board of Directors of MDB and of ICC.
On August 15, 2022, Ms. Hila Eran-Zik commenced office as member of Management with the title of Senior Executive Vice President, Head of the Corporate Division, replacing Mr. Yuval Gavish, Senior Executive Vice President, who terminated his office on this date.
On July 10, 2022, Ms. Orit Caspi, Executive Vice President, began her office as Chief Risk Officer and Head of the Risk Management Division, replacing Mr. Avi Levy, who terminated this office, as stated. Until the said date, acted Mr. Amir Rozin, Deputy Head of the Risk Management Division as substitute of the Head of the Risk Management Division replacing Mr. Avi Levi.
On August 11, 2022, Ms. Nitzan Sandor, Executive Vice President, began her service as Head of the Legal Counsel Division and Chief Legal Counsel in place of Ms. Hagit Meiroviz.
On August 11, 2022, Ms. Hagit Meiroviz, Executive Vice President, began her service as Head of the Human Resources Division in place of Ms. Orit Caspi.

The Chairman of the Board, the Board of Directors and the President & CEO thank Ms. Yafit Gheriani, Ms. Esther Deutsch and Mr. Yuval Gavish for their activity and contribution during their period of office at the Bank, and wish Mr. Avi Levy, Ms. Orit Caspi, Ms. Hagit Meirovitz, Ms. Nitzan Sandor and Ms. Hila Eran-Zik success in fulfilling their offices.

Meetings of the Board of Directors and its Committees

In 2022, the Board of Directors held 33 meetings. In addition, 75 meetings of committees of the Board of Directors were held (including one joint meeting of two Committees).

The detailed information contained in the immediate reports mentioned above in the section "Board of Directors and Management", is presented herewith by way of reference.

The Internal Audit in the Group in 2022

Details of the Internal Auditor. The Bank's Internal Auditor is Mr. Nir Abel, CPA (Isr.), who assumed office on May 18, 2011. The Internal Auditor is not an interested party in the Bank, is not an officer of the Bank, is not related to any of these persons and is not the Bank's external auditor or acting on his behalf.
The Internal Auditor complies with the provisions of Section 146(B) of the Companies Law and of Section 8 of the Banking Rules (Internal Audit) and the staff of the internal audit department comply with the provisions of Section 8 of the Banking Rules (Internal Audit). In addition, until July 2020, Mr. Nir Abel had served also as Internal Auditor of Israel Credit Cards Ltd.
The manner of appointment. The appointment of the Internal Auditor was approved by the audit committee in its meeting on November 29, 2010 and by the Board of Directors in its meeting of December 12, 2010. The appointment of Mr. Abel was approved in light of his qualifications, education and long-term professional experience in the field of internal audit and in the role of chief internal auditor in the banking system. Until his appointment, Mr. Abel, a certified public accountant and economist, served as Head Internal Auditor of the First International Bank Group from August 2006 until March 2011, and as the Chief Internal Auditor of Otzar Hahayal Bank as from November 2000 and until March 2011.
Letter of appointment. The letter of appointment is presented for approval of the Audit Committee and the Board of Directors once every three years. The letter of appointment was last approved by the Audit Committee and by the Board of Directors in December 2021.

The organ in charge of the Internal Auditor. The Chairman of the Board of Directors is the organizational entity in charge of the Internal Auditor.

Work plan. The internal audit operates according to the annual work plan derived from a multi-annual work plan (the multi-annual work plan covers a period of four years). The annual and multi-annual work plans (hereinafter: "the work plan") are prepared in according to the Internal Audit Law, 1992 and according to Proper Bank Management Directives. The work plan was designed on the basis of an overall risk survey, conducted according to new and accepted methodologies, and was influenced by local and international guidelines (including Basel, COSO 2013, SOX and Proper Conduct of Banking Business Directive No. 307 regarding the internal audit function). Prior to the work plan being submitted for approval, it is forwarded to the Bank's independent auditors, to the chairman of the Board of Directors, to the Chairman of the Board's Audit Committee and to the Bank's President & CEO for lodging comments and elucidations. The Board of Director's Audit Committee discusses the work plan and on the basis of its recommendations the plan is brought before the Board for approval. A deviation from the work plan is brought for approval of the Audit Committee.

The Board of Directors and the Audit Committee, which had examined the work plan of the internal audit and the actual performance thereof, are of the opinion that the Bank's internal audit fulfills the requirements determined by professional standards and by the instructions of the Supervisor of Banks.

Audit of investee corporations in Israel and abroad. The internal audit work plan also relates to the Bank's investee companies in Israel and abroad. The planned work programs for the subsidiaries, at which the Bank's Internal Auditor or his deputy serves also as their Internal Auditor, are combined with the annual work program for the Bank's internal audit, while addressing each subsidiary separately. The scope of the work program for each subsidiary as above, is discussed by the audit committee of each subsidiary, and/or by the Board of Directors.

Where the Bank's Internal Auditor does not perform audits of investee companies, control of such companies is performed as required by Section 1(A)(3) of Banking Rules. In addition, the Bank's Internal Auditor coordinates in advance with the Internal Auditor of the investee company as to the matters which would be audited by the Internal Auditor of the investee.

Scope of employment. The Internal Auditor is engaged in a full time position and the average number of staff working under him in the Group in the reported period numbered 84.5 positions (including overheads; not including 6.8 outsourcing positions), of which, 34.2 positions in corporations that engage an independent Internal Auditor (MDB, ICC and IDB Bank). The number of positions in the Internal Audit Group is derived from the requirements of the work plan as approved by the Board of Directors.

Average number of positions in 2022 engaged in internal audit at the Bank and in investee companies in Israel and abroad

	Group employees	Outsourcing employees
The Bank	47.8	2.5
Investee companies in Israel audited by the Bank's internal auditor(1)	1.5	-
In overseas extensions - IDB Bank	1.0	-
Investee companies in Israel where the audit is performed by an independent internal auditor(2)	22.2	1.8
Investee companies abroad where the audit is performed by an independent internal audito(3)	12.0	2.5
Total	**84.5**	**6.8**

Notes:
(1) Inputs in non-banking subsidiaries and inputs in respects of audit of independent banking corporations by the parent company.
(2) The inputs include 17.5 positions for MDB (of which 0.8 outsourced positions), not including 2.5 positions of public inquiries and 6.5 positions in ICC (of which, one outsourcing position).
(3) Auditors in IDB Bank.

Performance of the audit. The internal audit is carried out according to the provisions of the Internal Audit Law, 5752-1992 and according to the professional standards of the Institute of Internal Auditors in Israel. Starting from July 1, 2012, the internal audit operates also according to Proper Conduct of Banking Business Directive No. 307.

The Board of Directors and the Audit Committee have expressed their opinion that the internal auditor has met all the requirements prescribed in the standards referred to above in the directives and guidelines of the Supervisor of Banks, based on an assessment of the internal audit function and the regular reports that it submits. The Audit Committee receives regular reports regarding the activity of the Internal Audit Division, by means of ongoing quarterly reporting and the half-yearly and annual reports, as well as reports on specific topics. An external assessment of the internal audit function was performed in 2019 by a CPA firm selected by the Audit Committee. This was made in addition to an internal assessment performed by the internal audit, according to the guideline contained in Proper Conduct of Banking Business Directive No. 307. The external assessment as well as the internal assessment and review were discussed by the Audit Committee in February 2020.

A review of the internal audit work has also been made by the Bank of Israel, which was also discussed by the Audit Committee.

Access to information. All information and documentation required by the Internal Auditor is handed over to him and is granted permanent and direct access to the Bank's information systems and of investee corporations in Israel and abroad, including financial data.

Reports by the Internal Auditor. All audit reports are submitted in writing and presented to the Chairman of the Board, the Chairman of the Audit Committee, the President & CEO, the Chief Risk Manager, the independent auditors and relevant members of the Management. The audit reports are graded on the basis of the audit findings.

A monthly summary report is presented to the Chairman of the Board, the Chairman of the Audit Committee, the independent auditors and the Bank's Management.

The internal auditor submits periodic activity reports, as follows: a quarterly report concerning all the internal audit work performed at the Bank, at the subsidiaries in Israel and at the foreign extensions, detailing the material findings reported in the individual reports submitted during the reviewed quarter, a concise response to the findings by the audited entities, as well as follow-ups of previous quarterly reports and prior issues that had not yet been resolved. The auditor submits also a semi-annual report and an annual report in the format required by Proper Conduct of Banking Business Instruction No. 307 in the matter of internal audit.

The activity reports are addressed to the Chairman of the Board, the Chairman of the Boards' Audit Committee, the President & CEO, the Chief Risk Manager and to the Independent Auditors. These reports are being discussed by the Management and thereafter by the Boards' Audit Committee. The annual report is being discussed also by the Board of Directors.

In addition, the audit committee discusses specific audit reports regarding the Bank's units, and material reports regarding the Bank's subsidiaries, in cases where the chairman of the audit committee or the Internal Auditor consider that the findings in these reports or the significant issues which they raise require special attention.

The periodic reports were submitted and discussed as follows:

- The report on the activities of the internal audit in the fourth quarter of 2021, submitted on February 20, 2022, and discussed by the Audit Committee on March 30, 2022;
- The annual report on the activities of the internal audit in 2021, submitted on March 24, 2022, and discussed by the Audit Committee on March 30, 2022 and by the Board of Directors on May 20, 2022;
- The report on the activities of the internal audit in the first quarter of 2022 was submitted May 9, 2022, and discussed by the Audit Committee on June 22, 2022;
- The report on the activities of the internal audit in the second quarter of 2022 was submitted on August 30, 2022, and discussed by the Audit Committee on September 20, 2022;
- The report on the activities of the internal audit in the third quarter of 2022, submitted on October 28, 2022, and discussed by the Audit Committee on December 7, 2022;
- The report on the activities of the internal audit in the fourth quarter of 2022, submitted on February 5, 2023 and is yet to be discussed by the Audit Committee.

Valuation by the Board of Directors of the Internal Auditor's performance. In the opinion of the Board of Directors and of the Audit Committee, the scope, nature and continuity of the operations of the Internal Auditor and his work plan are reasonable under the circumstances and attain the goals set out for internal audit at the Bank.

Compensation. Details of the payments to the Internal Auditor and of the components thereof are given hereunder. In the opinion of the Board of Directors, such payments have no effect upon the Internal Auditor's professional judgment.

The Internal Auditor’s Compensation

	General details		Compensation* for services							
Year	Extent of position	Rate of holdings in corporation's capital	Salary	Awards	Employer’s payments and provisions(1)	Benefits and grossing-up(2)	Share based payment(3)	Total	Of which: total for the Compensation for Officers of Financial Corporations Law(4)	Loans granted under regular terms
						in NIS thousands				
2022	100.0%	-	1,279	798	395	123	175	2,770	2,575	-
2021	100.0%	-	1,228	688	321	196	-	2,433	2,251	-

* The amounts of the compensation do not include payroll tax.

Footnotes:

(1) Includes severance pay, provident pay, further education fund, vacation pay, National Insurance contributions, loss of work ability insurance, adaptation grant, non-compete award, prior notice and adjustment of provisions following changes in salary.

(2) Includes value of use of vehicle and of mobile phone, various benefits and their grossing up.

(3) See Note 24 to the financial statements.

(4) Compensation, as defined in the Compensation to Officers of Financial Corporations Law (Special approval and non-deductibility tax wise of exceptional compensation), 5776-2016, which is the total compensation, excluding provisions for severance pay and provident fund contributions (including loss of work ability) according to the law.

Mr. Abel is employed under a personal employment agreement for an indeterminate period, which either of the parties may terminate giving a prior notice of four months. According to the agreement, Mr. Abel is prohibited from competing against the Bank for a period of six months following the termination of employment, unless otherwise agreed by the parties. Mr. Abels’ salary is linked to the CPI, and in the event of the CPI falling, his salary will not change until such time that the rise in the CPI offsets the rate of the fall. Mr. Abel is entitled to annual vacation, sick leave, recreation pay, appropriate motor vehicle, social benefits (severance benefits, provident payments, loss of ability to work insurance and further education fund) as well as other benefits. Upon retirement from office, Mr. Abel is entitled to severance payment according to the law (however, according to the agreement, employer’s pension fund and insurance policy payments will be made in place of severance pay), non-competition/adaptation award in an amount equal to six monthly salaries. Mr. Abel is entitled to participate in the compensation plan for members of the Bank’s Management and for the Internal Auditor, for the years 2020-2022 (see Note 23 E and G to the financial statements).

Auditor's Compensation

The joint auditors of the Bank are BDO Ziv Haft, CPA, since 2000[8], and KPMG Somekh Chaikin, CPA, since 1998.

Compensation(1)(2)(3) paid to the auditors (in NIS thousand)

	Consolidated		The Bank	
	For the year ended December 31,			
	(6)2022	(6)2021	(6)2022	(6)2021
For Auditing(3):				
To the joint auditors	23,950	19,100	9,365	7,605
For Other Services:				
Audit related services(4):				
To the joint auditors	1,901	5,838	1,606	4,867
Taxation Services(5):				
To the joint auditors	3,333	2,871	1,201	972
Other Services:				
To the joint auditors	5,295	4,559	5,182	4,443
To other auditors	-	-	-	-
Total	10,529	13,268	7,989	10,282
Total Auditors' Remuneration	**34,479**	**32,368**	**17,354**	**17,887**

Footnotes:

(1) Report of the Board of Directors to the Annual General Meeting of Shareholders on the compensation of the independent auditors for their audit work and for services in addition to the audit, according to Sections 165 and 167 of the Companies Act, 5759-1999.

(2) Includes compensation that has been paid and compensation that has been accrued.

(3) Auditing annual financial statements and reviewing interim financial statements. Also includes audit - internal control over financial reporting (SOX 404).

(4) Includes mainly audit work and special examinations.

(5) Including mainly annual tax reconciliation statements paid for as part of the audit fees and attributed to tax services based on estimate, tax assessments and tax consultations.

(6) Certain services that were provided in 2021 and included under "Audit related services" have been included under "Audit services" with effect from 2022.

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

Compensation of Interested Parties and Senior Officers and Transactions with Interested Parties

Compensation of Interested Parties Senior Officers

Year 2022											
Details of the recipient				Compensation* for services							
Name	Position	Extent of position	Rate of holdings in corporation's capital	Salary	Awards	Employer's payments and provisions[1]	Benefits and grossing-up[2]	Share based payment[3]	Total	Of which: total for the Compensation for Officers of Financial Corporations Law[4]	Loans granted under regular terms
				in NIS thousands							
Mr. Shaul Kobrinsky	Chairman of the Board	100%	-	3,131	-	-	26	-	3,157	2,721	-
Mr. Uri Levin	President and CEO	100%	-	2,825	169	416	66	-	3,476	3,043	-
Mr. Ziv Biron	President and CEO of IDB New York	100%	-	3,648	2,325	263	249	-	6,485	[5]-	-
Mr. Liran Razmovich	President and CEO of Discount Capital Underwriting	100%	-	1,696	2,265	431	317	-	4,709	[5]-	109
Ms. Hila Himi	President and CEO of Discount Capital	100%	-	1,797	1,528	944	200	-	4,469	[5]-	-
Ms. Lissa Baum	Executive Vice President and Chief Lending Officer of IDB New York	100%	-	2,027	1,851	355	77	-	4,310	[5]-	-
Mr. Levi Halevi	President and CEO of Israel Credit Cards (CAL)	100%	-	1,833	1,405	799	241	-	4,278	[5]-	29
Mr. Avraham (Avi) Levy	Senior Executive Vice President, Head of the Banking Division	100%	-	1,678	669	741	202	222	3,512	3,043	-
Mr. Assaf Pasternak	Executive Vice President, Head of the Financial Markets Division	100%	-	1,314	858	707	184	188	3,251	2,740	-
Mr. Barak Nardi	Executive Vice President, Head of the Strategy, Finance and Holdings Division	100%	-	1,298	885	427	216	188	3,014	2,802	-
Mr. Joseph Beressi	Senior Executive Vice President, Comptroller, Chief Accounting Officer and Head of the Accounting Division	100%	-	1,334	769	480	206	183	2,972	2,727	-

* The amounts of the compensation do not include payroll tax.

Footnotes:

(1) Includes severance pay, provident pay, further education fund, vacation pay, National Insurance contributions, loss of work ability insurance, adaptation grant, non-compete award, prior notice and adjustment of provisions following changes in salary.

(2) Includes value of use of vehicle and of mobile phone, various benefits and their grossing up.

(3) See Note 24 to the financial statements.

(4) Compensation, as defined in the Compensation to Officers of Financial Corporations Law (Special approval and non-deductibility tax wise of exceptional compensation), 5776-2016, which is the total corporations, excluding provisions for severance pay and provident fund contributions (including loss of work ability) according to the law (or contributions to funds as an alternative to these components for anyone not employed as an "employee").

(5) The Compensation for Officers of Financial Corporations Law does not apply to this officer.

Compensation of Interested Parties Senior Officers (continued)

Year 2021

Details of the recipient				Compensation* for services						
Name	Position	Extent of position	Rate of holdings in corporation's capital	Salary	Awards	Employer's payments and provisions[1]	Benefits and grossing-up[2]	Total	Of which: total for the Compensation for Officers of Financial Corporations Law[3]	Loans granted under regular terms
				in NIS thousands						
Mr. Shaul Kobrinsky	Chairman of the Board	100%	-	2,847	-	-	31	2,878	2,469	-
Mr. Uri Levin	President and CEO	100%	-	2,719	211	481	35	3,446	3,043	-
Mr. Ziv Biron	President and CEO of IDB New York	100%	-	3,489	1,638	228	197	5,552	(4)-	-
Mr. Liran Razmovich	President and CEO of Discount Capital Underwriting	100%	-	1,380	2,441	354	315	(5)4,490	(4)-	205
Mr. Moshe Agami	General Counsel, Deputy CEO of Discount Capital Underwriting	100%	-	1,176	2,025	312	204	(6)3,717	(4)-	174
Ms. Lissa Baum	Executive Vice President and Chief Lending Officer of IDB New York	100%	-	1,852	1,399	280	68	3,599	(4)-	-
Mr. Yuval Gavish[7]	Former Deputy President & CEO, Head of the Corporate Division	100%	-	1,507	832	608	216	3,163	2,926	56
Ms. Yafit Gheriani[8]	Former Senior Executive Vice President, Head of the Retail Banking Division	100%	-	1,308	940	636	189	3,073	2,692	-
Mr. Adi Kaplan[9]	Executive Vice President, Head of the Technologies Division	100%	-	1,091	(10)898	(11)868	201	3,058	2,898	-
Ms. Esther Deutsch[12]	Former Senior Executive Vice President, Head of the Group Management and Regulation Division	100%	-	1,281	795	527	202	2,805	2,443	-

* The amounts of the compensation do not include payroll tax.

Footnotes:

(1) Includes severance pay, provident pay, further education fund, vacation pay, National Insurance contributions, loss of work ability insurance, adaptation grant, non-compete award, prior notice and adjustment of provisions following changes in salary.

(2) Includes value of use of vehicle and of mobile phone, various benefits and their grossing up.

(3) Compensation, as defined in the Compensation to Officers of Financial Corporations Law (Special approval and non-deductibility tax wise of exceptional compensation), 5776-2016, which is the total corporations, excluding provisions for severance pay and provident fund contributions (including loss of work ability) according to the law (or contributions to funds as an alternative to these components for anyone not employed as an "employee").

(4) The Compensation for Officers of Financial Corporations Law does not apply to this officer.

(5) Not including share based payment in the amount of NIS 392 thousand, see Note 15 E to the financial statements.

(6) Not including share based payment in the amount of NIS 333 thousand, see Note 15 E to the financial statements.

(7) Mr. Gavish ended his term of office as Deputy President & CEO, Head of the Corporate Division on August 15, 2022.

(8) Ms. Gheriani ended her term of office as Head of the Retail Banking Division on February 21, 2022.

(9) Mr. Kaplan took office as Head of the Technologies Division on January 10, 2021.

(10) Including a recruitment grant.

(11) Includes a provision at the date of appointment for an adaptation grant and a non-compete award.

(12) Ms. Deutsch ended her term of office as Head of the Group Management and Regulation Division on June 15, 2022.

Mr. Shaul Kobrinsky serves as Chairman of the Board of Directors since December 3, 2018. For details regarding the terms of office of Mr. Kobrinsky, see Note 35 F to the financial statements.

Mr. Uri Levin, Mr. Levin officiates as the Bank's President & CEO since December 2, 2019. For details regarding the terms of office of Mr. Levin, see Note 35 G to the financial statements.

Mr. Ziv Biron, President & CEO of IDB Bank, is employed pursuant to the terms of an Employment Agreement. IDB Bank's Compensation Committee of the Board of Directors approved the initial terms of the Employment Agreement and annually reviews and approves Mr. Biron's incentive compensation. Mr. Biron is entitled to participate in all savings and retirement plans, welfare and insurance plans, practices, policies and perquisites of employment applicable generally to other senior executives of the Bank. IDB Bank provides Mr. Biron with the use of an automobile and annual home leave in Israel.

Mr. Liran Razmovich serves as the CEO of Discount Capital Underwriting Ltd. Mr. Razmovich is employed under a personal contract for an indefinite period that can be terminated by either of the parties giving two months' advance notice. The non-competition period defined in the agreement is for three months from the termination date of his employment with the company. Mr. Razmovich is entitled to vacation days, sick days, recreation pay, a suitable vehicle, social benefits (severance pay, provident fund, loss of capability to work insurance, and further education fund), and additional benefits. Furthermore, in 2021 Mr. Razmovich was entitled to equity-based compensation, in Discount Capital Underwriting shares, as part of the company's compensation plan (see Note 15 E to the financial statements).

Ms. Hila Himi serves as CEO of Discount Capital Ltd. Ms. Himi is employed under a personal contract for an indefinite period that can be terminated by either of the parties giving four months' advance notice. The non-competition period defined in the agreement is for three months from the termination date of his employment with the company. Ms. Himi is entitled to vacation days, sick days, recreation pay, a suitable vehicle, social benefits (severance pay, provident fund, loss of capability to work insurance, and further education fund) adaptation award in an amount equal to three monthly salaries, and additional benefits.

Ms. Lissa Baum, Executive Vice President, Head of the Corporate Division in IDB Bank. For additional details, see below "Terms of employment of members of Management of IDB Bank".

Mr. Levi Halevi acts as President and CEO of ICC. Mr. Halevi is engaged under a personal agreement that states the terms of his employment, which include a fixed salary, social contributions, an appropriate vehicle, variable compensation according to the compensation policy of ICC, a reciprocal advance notice of termination, and an adaptation award payable upon termination of his office. Moreover, Mr. Halevi is committed to a non-competition period. In addition, Mr. Halevi is entitled to awards in accordance with the award plan detailed in Note 21, Section D of ICC's financial statements for December 31, 2022.

Mr. Avraham (Avi) Levy is employed by the Bank as Senior Executive Vice President, Head of the Banking Division. Mr. Levy was entitled to participate in the compensation plan for members of the Bank's Management and for the Internal Auditor, for the years 2020-2022 (see Note 23 D to the financial statements). Mr. Levy is entitled to participate in the compensation plan for members of the Bank's Management and for the Internal Auditor, for the years 2023-2025 (see Note 23 E to the financial statements). For additional details, see below "Terms of employment of members of the Bank's Management".

Mr. Asaf Pasternak is employed by the Bank as Executive Vice President, Head of the Financial Markets Division. Mr. Pasternak was entitled to participate in the compensation plan for members of the Bank's Management and for the Internal Auditor, for the years 2020-2022 (see Note 23 D to the financial statements). Mr. Pasternak is entitled to participate in the compensation plan for members of the Bank's Management and for the Internal Auditor, for the years 2023-2025 (see Note 23 E to the financial statements). For additional details, see below "Terms of employment of members of the Bank's Management".

Mr. Barak Nardi is employed by the Bank as Executive Vice President, Head of the Strategy, Finance and Holdings Division. Mr. Nardi was entitled to participate in the compensation plan for members of the Bank's Management and for the Internal Auditor, for the years 2020-2022 (see Note 23 D to the financial statements). Mr. Nardi is entitled to participate in the compensation plan for members of the Bank's Management and for the Internal Auditor, for the years 2023-2025 (see Note 23 E to the financial statements). For additional details, see below "Terms of employment of members of the Bank's Management".

Mr. Joseph Beressi employed by the Bank as Senior Executive Vice President, Comptroller - Chief Accounting Officer and Head of the Accounting Division. Mr. Beressi was entitled to participate in the compensation plan for members of the Bank's Management and for the Internal Auditor, for the years 2020-2022 (see Note 23 D to the financial statements). Mr. Beressi is entitled to participate in the compensation plan for members of the Bank's Management and for the Internal Auditor, for the years 2023-2025 (see Note 23 E to the financial statements). For additional details, see below "Terms of employment of members of the Bank's Management".

Terms of employment of members of the Bank's Management. Members of the Bank's Management mentioned above are employed under a personal employment agreement for an indeterminate period, which either of the parties may terminate giving a prior notice of four months. The period of limitation on competition stated in the agreement is three to six months from date of termination of their employment with the Bank, unless it is otherwise agreed by the parties. The salary of part of the members of the Bank's Management is linked to the CPI, and in the event of the CPI falling, their salary will not change until such time that the rise in the CPI offsets the rate of the fall. Members of the members of the Bank's Management are entitled to vacation, sick leave, recreation pay, appropriate motor vehicle, social benefits (severance benefits, provident payments, loss of ability to work insurance and further education fund) as well as other benefits. Upon retirement from office, the Bank's management are entitled to severance payment according to the law (however, according to the agreement, employer's pension fund and insurance policy payments will be made in place of severance pay), as well as to non-competition/adaptation award in an amount equal to four to eight monthly salaries. For details regarding the compensation plan for the Bank's officers (2020-2022) and the compensation plan for the Bank's officers (2023-2025), see Note 23 D and E to the financial statements, respectively. For details regarding the award plan for members of the Bank's Management and for the Internal Auditor (2020-2022) and the award plan for members of the Bank's Management and for the Internal Auditor (2023-2025), see Note 23 G and H to the financial statements, respectively.

Terms of employment of members of Management of IDB Bank. Members of IDB Bank Management mentioned above are employed by IDB Bank as an "employee at will." IDB Bank's Compensation Committee of the Board of Directors annually reviews and approves the compensation of members of the IDB Bank management. Members of the IDB Bank management are entitled to participate in all savings and retirement plans, welfare and insurance plans, practices, policies and perquisites of employment applicable generally to other senior executives of the Bank.

For details regarding officers included in the Table for 2021, but not included in the Table for 2022, see the 2021 annual report (pp. 336-337).

Members of the Board of Directors. Directors of the Bank are entitled to annual compensation and to participation compensation, payable under the regulations of the Companies Law (Regulations regarding compensation and expenses payable to external directors), 2000 (the "regulations"). The Chairman of the Board is not entitled to annual compensation and to participation compensation. For details regarding the payment to expert directors (as defined in the Regulations), see Note 35 L. The cost of compensation for all the Directors, excluding the officiating Chairman of the Board, amounted in 2022, to NIS 8,350 thousand (2021: NIS 5,514 thousand).

Compensation policy for Officers of the Bank. For details respecting the compensation policy for officers of the Bank, see Note 23 D and E to the financial statements. For further disclosure in the matter of "compensation", see the document "Disclosure according to the third pillar of Basel and additional information regarding risks", available for review on the Internet.

For details regarding the Compensation of Officers of Financial Corporations Law, 2016, see the 2016 Annual Report (pp. 406-407).

Letters of the Supervisor of Banks in the matter of "principles for determining the terms of office of the chairman of the board of a bank having no core controlling interest". The letter, published on August 1, 2019, states that the Supervisor of Banks would not intervene with regards to the terms of office of the Chairman of the Board, determined according to the principles stated in the letter, on condition that these are determined for the period ending at the end of the year 2020. During this period, the Supervisor will examine the definitions of the office and the new terms of office relating to chairmen of boards of directors of banking corporations having no core controlling interest as well as the need to amend the Directive. The letter clarifies that the terms of office of the chairman of the board shall be determined according to principles, which ensure that the duties and authority of the chairman do not deviate from the duties and authority conferred upon him by Law, and that the terms of compensation do not create "affinity" and/or might impair the independence of the chairman. Furthermore, the letter notes that the need to establish the status of the chairman of the Board as being part of the board of directors and segregate him from the management of the bank, including by means of determining his compensation in relation to the manner in which the other members of the board of directors are being remunerated, as stated in Proper Conduct of Banking Business Directive No. 301A, is of a double importance in the case of a bank having no core controlling interest.

It is noted that the terms of office that had been approved for the Bank's Chairman of the Board, as described in Note 35 F to the financial statements, comply with the principles determined by the Supervisor of Banks, as stated in her said letter.

On December 21, 2021, the Bank received a letter from the Supervisor of Banks in the matter of the principles determining the terms of office of the chairman of the Board of Directors of a bank having no core controlling interest. According to the letter, the Supervisor of Banks shall not interfere with the terms of office of the chairman of the board if such terms match his duties, provided these are determined for the period until the end of September 2022 and letters dated June 22, 2021, and September 12, 2021, stating that the Supervisor of Banks would not interfere with the terms of office that would fulfill that stated therein, until the end of September 2021 and the end of December 2021, respectively. The said letter is an extension of the letter of August 2019, which stated, as above, that the Supervisor will not interfere with terms of office that agree with the contents thereof until the end of 2020, in the course of which the Supervisor of Banks will publish the definitions for the position and the new terms of office of chairpersons of boards of directors of banking corporations having no core controlling interest, through an amendment of Proper Conduct of Banking Business Directives.

Transactions with Interested and Related Parties

Terms of office of the Chairman of the Board and of the President & CEO of the Bank. The Bank's special general meeting of shareholders held on March 18, 2020, approved the update of the terms of office of the Chairman of the Board. The said meeting also approved the terms of office and employment of the Bank's President & CEO. On March 18, 2020, the Bank's General Meeting of Shareholders approved the updating of the terms of office of the Chairman. For details regarding the terms of office of Mr. Kobrinsky, see above "Compensation of interested parties and senior officers" and Note 35 F to the financial statements. For additional details, see Note 35 to the financial statements.

Directors and officers liability insurance. On March 31, 2021, the Bank purchased a collective insurance policy for Directors and Officers, officiating and who may officiate from time to time at the Bank, including for their office on behalf of the Bank in any other company in which the Bank has an interest. The said insurance policy was purchased according to approvals of the Compensation Committee and the Board of Directors and Position 101-21 of the Securities Authority. The General Meeting of Shareholders approved on May 23, 2021, an amendment to the compensation policy, within the framework of which the instructions relating to the insurance of Directors and Officers are to be updated so that the terms of the insurance policy would agree with the instructions of the compensation policy.

A collective insurance policy for Directors and Officers. For details, see Note 35 O.

Amendment of the Remuneration Policy of Officers at the Bank according to Section 267A of the Companies Law. The General Meeting of Shareholders held on August 2, 2022, resolved to approve an amendment to the compensation policy for Officers at the Bank, according to Section 267A of the Companies Law. All as detailed in the Immediate Reports dated July 25, 2022 (Ref. No. 2022-01-094939) and August 2, 2022 (Ref. No. 2022-01-098110), the information detailed therein in this matter is presented hereby by way of reference.

Approval of the updating of the terms of office of the Chairman of the Board, and accordingly amendment of the compensation policy for Officers. The General Meeting held on August 2, 2022, resolved to approve the updating of the terms of office of the Chairman of the Board, Mr. Shaul Kobrinsky, and, accordingly, an amendment of the compensation policy for Officers. The said amendments are according to and in the light of an amendment to Proper Conduct of Banking Business Directive No. 301A "Remuneration policy in a banking corporation", published by the Supervisor of Banks on April 10, 2022, which included instruction regarding everything relating to the compensation of the Chairman of the Board of a banking corporation having no core controlling interest. All as detailed in the Immediate Reports dated July 25, 2022 (Ref. No. 2022-01-094939) and August 2, 2022 (Ref. No. 2022-01-098110), the information detailed therein in this matter is presented hereby by way of reference.

Corporate Governance Questionnaire

The Securities Authority published on January 14, 2016, an updated version of the Corporate Governance Questionnaire. The accompanying letter noted that the staff of the Securities Authority works for the establishment of the matter in a binding and permanent manner in Regulations, and that it encourages its implementation even previously. A corporate governance questionnaire for the year 2022, which was voluntarily published by the Bank in an updated version, is available for review on the MAGNA website of the Israeli Securities Authority, on the MAYA website of the Tel Aviv Stock Exchange as well as on the Bank's website.

Special and independent committee – proceedings in Australia

Different legal proceedings have been conducted in Australia and in Israel against the Bank and against MDB ("the banks"), relating to accounts held with the banks by certain Australian family members and by companies related to them. The essence of the said proceedings is civil lawsuits (fiscal) filed in Australia by Liquidators of the related companies, claiming damage caused to these companies due to amended tax assessments issued by the Australian Tax Authorities. The claims were based on the argument (refuted) that the said banks had provided banking services to customers, assisting them in evading the payment of taxes in Australia.

On January 31, 2021, the banks signed compromise arrangements in relation to the aforementioned proceedings for the settlement of all claims and actions of the Plaintiffs against the Discount Group, including in relation to the proceedings, the family members and the related companies, with this being without any admission of liability. According to the aforesaid arrangements, the amount of the settlement totals approx. AUD 138 million, equivalent to approx. NIS 343 million.

Concurrently, the Bank has agreed to an arrangement whereby the insurers will pay the banks an amount of approx. US$ 55 million for which an amount of approx. US$ 47.5 million (approx. NIS 151 million) was recorded as income.

For further details, see Note 26 C 11.3 to the financial statements as of December 31, 2020 (pp. 230-231).

The Bank had carried out a lesson learning process in order to avoid repetition of events of that sort, and in this framework, the Bank reassessed processes and procedures.

As required by the Supervisor of Banks, the Boards of the two banks have decided to establish a joint committee of the two Boards of Directors, which will be a special, independent committee that will be headed by her honor, Retired Judge Hila Gerstel. His honor, Retired Judge Jacob Sheinman was appointed on August 15, 2021, as joint Chairperson of the Committee, acting together with her honor, Retired Judge Gerstel. The committee will examine the administrative and control processes that allowed the conduct of the Banks that led to the proceedings for which the compromise arrangements were signed, while addressing, inter alia, to corporate governance aspects and the conduct of the Board of Directors and the senior Management including drawing conclusions and making general and personal recommendations with regard to officers and employees, where necessary, including in relation to compensation awards granted to the officers during the relevant period.

According to information in the hands of the Bank, the Committee had completed the gathering of material and the hearing of Officers and employees appearing before it, and is now forming its conclusions and recommendations.

The committee will present its conclusions and recommendations to the Boards of Directors of the banks.

The committee's conclusions and recommendations will be notified to the Supervisor of Banks, in response to the latter's request to the banks.

Group Management

Proper Conduct of Banking Business Directives regulate, among other things, the Group conduct of the banking corporation as regards various issues. Instructions have been prescribed at the Bank, among other things, with regard to group management, according to which the Board of Directors is required to determine the overall strategic goals of a banking corporation and of corporations controlled by it, including its domestic and foreign extensions, including the fundamental operating guidelines and the risk appetite. In addition, it stipulates that the Board of Directors shall determine general guidelines regarding the structure of corporate governance in such controlled corporations, in a manner that would contribute to efficient supervision over the Group.

The Proper Conduct of Banking Business Directive no. 301 includes reference to the framework of considerations of the controlled corporation, and requires that the Board of Directors of the controlled corporation must take into consideration, among other things, the overall strategic goals of the Group, the overall risk management policy of the group and the overall guidelines of the group regarding the supervision and control mechanisms over controlled corporations, determined, respectively, by the Board of Directors of the controlling banking corporation, in as much as they agree with the interests of the controlled banking corporation and with the provisions of Section 11 of the Companies Law, regarding the purpose of the company. In continuation of the above stated, Proper Conduct of Banking Business Directive No. 306, which took effect on January 1, 2019, establishes the expectations of the Supervisor of Banks for the tightening of supervision over banking extensions abroad.

On December 23, 2019, the Supervisor of Banks published amendments to Proper Conduct of Banking Business Directives Nos. 306 and 308, which are intended to strengthen the control of banking corporations over their overseas extensions.

In March 2016, the Board of Directors approved a policy document and operating procedures with investee companies ("Policy and activity procedure vis-à-vis investee companies"), which updated and replaced the work procedure with the subsidiaries that had been in force until then. The policy sets forth the work procedures between the Bank and investee companies regarding, among other matters, the appointment of directors and officers, formulating strategy and work plans, oversight and control mechanisms over risk exposures at investee companies, reporting mechanisms to enable the parent company to increase supervision on the activities of investee companies, and the professional accountability of the professional functions at the subsidiaries to the professional functions at the parent company and deciding on a management party to be responsible for each subsidiary. The material companies in the Group have completed the adoption of the policy, with required changes for their nature and scope of operations. As a supplementary tier to this document, during 2021, the Bank's Management approved a document that summarizes the spheres of responsibility of the responsible management parties at the Bank and the mapping of the management parties responsible for the subsidiaries.

The Bank operates a Group Management wing within the Strategy, Finance and Holdings Division, the purpose of which is, inter alia, is to maximize the value of the Group's subsidiaries and to assist in fulfilling the group responsibility of the President & CEO and the Group's Management. The wing plays a central role in leading and advancing group management of strategic business aspects and in utilizing synergies within the Group. Concurrently, the professional functions at the Bank fulfill accompanying, oversight and control roles in the regulatory, legal and accounting aspects, as well as in the compliance, taxation, risk management, and oversight and control spheres, and additionally it is in their authority to issue binding professional guidelines to the Group companies, and all this, in a manner that would assist Management of the Group and the Board of Directors to apply and realize in an optimal manner, the strategy of the Group, and this according to principles approved by the Bank within the framework of the investee companies policy.

For details regarding the group risk management, see "Principles for risk management" under "Exposure to risk and risk management" above. For details regarding the duty to set a policy with respect to employment and retirement terms at subsidiary companies, see "Compensation policy in a banking corporation" under "Human resources" below.

Involvement with and Contribution to the Community

Since its formation, Israel Discount Bank has been active in community affairs, having an overall management conception, according to which, activities beneficial to the community form part of a business, social and cultural obligation. In 2022, volunteers of the Bank returned to frontal voluntary activity, which had been significantly reduced during the Corona crisis. In this framework, employees contributed time and compassion to a wide range of activities, assistance and support for diverse groups of the population in Israel, including children, youth, students, military service personnel, distress population, senior citizens, persons with disabilities, the sick and more.

The granting of donations to different associations was significantly increased in 2022, with pioneering strategic cooperations, as well as sponsorships in the cultural and art fields.

"Discount Sprint for the future" – Discount Bank's flag ship project. As from the year 2005, the Bank acts in cooperation with the "Sprint for the Future" Association, adopting the program "Discount Sprint for the future", a growing partnership for a significant social yield, led by social and economic changes. The Bank is a partner both in the financial support of the Association and in promoting its activities. The voluntary work of the Discount Bank employees was expanded in 2022 within the framework of the programs of the Association, inter alia by the adoption of youth villages and schools participating in the project, to joint activities with branches and units of the Bank, financial education training, mentoring, providing courses reinforcing preparation for matriculation exams, establishment of a computer room, the donation of computers, and so forth.

Environmental, Social and Governance Report (ESG) No. 11. Environmental, Social and Governance Report (ESG) Report No. 11, for 2021, is available for perusal on the Bank's website. The report was prepared according to the GRI[9] guidelines.

"Maala" Rating for 2022. In July 2022, "Maala" published its rating for 2022. The Bank has been rated in the Platinum Plus category (distinguish companies with an absolute score of over 90) and presented a significant increase in execution and marking, which amounted to 97 points compared to 91 points in 2021. ICC has maintained its Platinum rating.

Principal environment, social and governance indices (ESG)

Environmental

Field	Index	2022	2021	2020
Carbon footprint				
	Value of emission (in tons of CO2e)	18,517	19,199	19,822
	Emission per square meter	0.13	0.14	0.14
Resources consumption				
	Electricity consumption (in KW/h)	33,894,174	33,291,103	33,773,135
	Fuel consumption (in liters)	263,768	325,228	336,238
	Paper consumption (in tons)	258	275	315
	Water consumption (cubic meters)	25,841	23,150	29,320
Green credit				
	Credit to solar projects (in NIS million)	1,902	890	1,020

Social

Field	Index	2022	2021	2020
Employees[1]				
	Number of employees	4,957	4,893	4,950
Community				
	Investment in the community (in NIS million)	23.7	25.1	17.3
	Ratio of volunteers at the Bank	53.5%	52.7%	45%
	Commitment for investment in Impact funds (in USD million)[3]	11.5	10.5	10.5
Economic performance				
	Economic value to stakeholders (in NIS million)[4]	3,30 4	8,518	7,279

Corporate governance

Field	Index	2022	2021	2020
Board of Directors				
	Independence of the Board of Directors	80%	70%	70%
	Ration of female Board members	30%	40%	30%

Footnotes:

(1) The data does not include employees on unpaid leave and on maternity leave.

(2) The data does not include 83 outsourced employees.

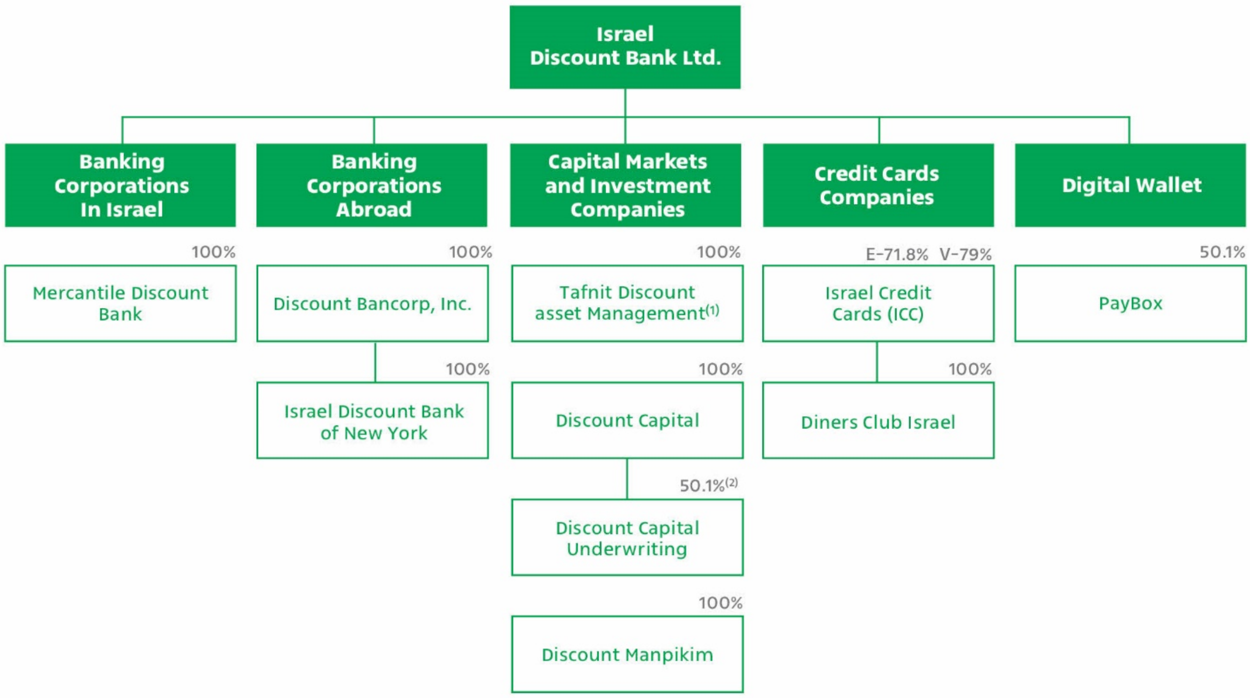
(3) Total commitments through Discount Capital within the framework of funds managing investments having a social impact alongside a financial return.

(4) Operating and other expenses with the addition of provision for taxation and dividends.

9 Global Reporting Initiative.

Additional details regarding the business of the banking corporation and management thereof

Discount Group Structure



(1) Directly and Indirectly.
(2) See Note 25 to the condensed financial statements.

Control of the Bank - Bank having no Core Controlling Interest

As of December 3, 2013, the Bank became a bank with no core controlling interest.

The Banking Law (Legislation amendments). On March 19, 2012, the Banking Law (Legislation amendments), 2012, was published in the Official Gazette, intended to regularize the activities of a banking corporation that does not have a core controlling interest therein. Within the framework of the law, special instructions have been determined in the matter of appointment of directors, their tenure of office and termination of office, which apply to a banking corporation not having a core controlling interest. According to these instructions, the appointment of directors in a banking corporation having no core controlling interest shall be made by the annual meeting of shareholders. The candidates are proposed by a statutory committee established for the appointment of directors in a banking corporation. Furthermore, candidates may also be proposed by shareholders who hold over 2.5% of the share capital of the Bank, and who comply with certain conditions determined in the instructions.

Bank Holding Permits to Entities Managing Customer Funds

The Banking (Licensing) Law requires that a holding permit be obtained from the Governor of the Bank of Israel for any holding in excess of 5% of a banking corporation’s means of control. On June 16, 2016, the Supervisor of Banks published an updated policy relating to permits for holders of control in bodies that manage clients’ funds (provident funds, insurers, mutual funds), whereby a holder of control in a body that manages clients’ funds is permitted to hold a percentage that does not exceed 7.5% of the means of control in a banking corporation, subject to obtaining a permit from the Governor of the Bank of Israel and subject to the conditions prescribed therein. The total holdings of a recipient of a holding permit, that are not holdings for "clients", shall not exceed 5% of any class of the banking corporation's means of control. The total holding of any body that is controlled by a recipient of a holding permit shall not exceed 5% of any class of the banking corporation's means of control. All holding permits shall be granted for a set term, until December 31, 2019.

Following that stated above, the Supervisor of Banks published on September 29, 2016, an amendment to Proper Conduct of Banking Business Directive No. 312 in the matter of "related parties". This amendment removes from the definition of "related party", entities which obtained a holding permit according to the new policy, and which the rate of their holdings exceeds 5% due to holdings on behalf of their customers.

Fixed Assets and Installations

Buildings and Equipment

At the end of 2022, the investment in buildings and equipment amounted to NIS 3,904 million, compared with NIS 3,401 million at the end of 2021, an increase of 14.8%. For details as to the Bank's investments in buildings and equipment, see Note 16 to the financial statements.

Establishment of the Discount Campus. In 2016, Discount Leasing, ICC and MDB began initiating the Group campus that would house the head offices of the Bank and of the principal subsidiaries in Israel – MDB and ICC. Discount Leasing (71.55%), ICC (18.45%) and MDB (10%) have purchased land of an area of 21 dunam in the "1000 compound" in Rishon LeZion. The scope of building rights relating to the land amounts approx. to 133 thousand square meters, both above ground main and service buildings. In addition, an option for the purchase of trading rights, granted within a contract for the purchase of the land, has been exercised. In consideration of the land a total amount of NIS 135 million was paid. As part of the contract for the acquisition of the land from the Rishon LeZion Municipality, it has been specified that at least 25 thousand square meters will be constructed by the acquirers for its own purposes and that construction as stated, would be carried out within five years from date of approval of the construction plan and the blueprint for the division of the site. It has also been specified that the Group can require the Municipality to repurchase part of the building rights attached to the plot until the year 2024.

Since date of acquisition of the land and thereafter, different processes have been promoted for the establishment of the Campus, including completion of defining the vision of the Discount Campus, choosing the method of operation of the Group Campus, choosing a project manager, electing an architect and a planning team. The budget for the project was approved in the last quarter of 2018, and work began on digging and reinforcement of the walls. Foundation work and casting of the first floor of the project began in the second quarter of 2019. During 2020, work on the first floor and the skeleton of the basements was completed, and construction work on the upper skeleton started, concurrently with construction work of the computer installations. During 2022, construction was completed on the skeleton and the aluminum siding, and development projects were started, with this being concurrently with the continuation of the construction and adjustment projects, including internal construction and systems for the office and joint areas in the above ground floors, in the operating floor, in the underground parking area and in the computer installations. In addition, several companies were engaged for completion of the technological and physical infrastructure of the project. It is noted that preparations for the occupancy and operation of the project began already in the reported period, including with companies providing services in the various operational fields. In January 2023, a building completion certificate was received for the project. Completion of the projects and the occupancy process, including relocating the computer installations of the Bank and MDB, are expected to be completed during the first half of the year.

The Bank estimates that the cost of establishing the Group's Campus that had been assessed at approx. NIS 1.8 billion, is expected to increase to approx. NIS 1.9 billion. Of this amount, approx. NIS 1,263 million has already been invested by the Group until December 31, 2022. The balance of the commitment for the project as of December 31, 2022, amounts to NIS 290 million (all amounts respecting the establishment of the Campus do not include VAT).

The Bank is of the opinion that the impact on capital adequacy of the Group Campus construction project is not expected to be material, as the project is to be partly financed by the sale of existing properties.

The Bank estimates that the move to the campus will increase the annual depreciation expenses by approx. NIS 100 million.

Forward looking information. The above stated includes, inter alia, assessments made by the Bank regarding the investment in the Project and its impact on capital adequacy, which are considered forward looking information. The above stated reflects the assessment of the Bank's Management, taking into consideration the information existing in its hands at date of preparation of the annual report, inter alia, with respect to the cost of construction of projects of this type, plans of the Project and the feasibility of the sale of existing properties. The above stated may not be realized in the case of changes occurring in the real estate sector in Israel and in case of unforeseen developments in the macro-economic conditions, which are not under the Bank's control.

Focus points for 2022-2023. According to the strategic plan of the Discount Group, the Bank performs operations designed to ensure the efficient and effective utilization of real estate properties, including improved leasehold terms, replacement of rented premises, etc. Alongside this activity, preparations are taking place at the Head Office and operating properties towards the planned relocation to the Discount Campus and the continuing process of sale of these properties.

As revealed by the data presented below, a downward trend is evident in the amount of real estate space used by the Bank.

Floor area at the disposal of Bank branches

As of	Sq. meters[1]	Number of brunches	Average Sq. meters per branch
December 31, 2022	48,566	97	500.7
December 31, 2021	50,034	97	515.8
December 31, 2020	52,900	103	513.6
December 31, 2019	53,457	103	519.0
December 31, 2018	54,130	106	510.7

Distribution of all floor area at the disposal of the Bank

	As of December 31				
	2022	2021	2020	2019	2018
	In Sq. meters				
Freehold	57.8	90.7	91.2	92.8	95.6
Leasehold	85.7	51.5	53.0	52.7	49.9
Total	**143.5**	**142.2**	**144.2**	**145.5**	**145.5**

Footnote:
(1) The material change in the premises breakdown in 2022 relates to the sale of the premises on Herzl Street and at 17 Yehuda Halevi Street and the transition to renting these properties.

Gain on sale of assets. In 2022 a gain from the sale of properties of NIS 326 million was recorded, net of the tax effect, compared with NIS 43 million in 2021.

Realization of assets as part of the preparations for the relocation of the Head Offices and operation of the Bank to the Discount Campus. For details, see Note 16 K to the financial statements.

New premises for the Head Office of IDB Bank. In July 2019, IDB Bank signed a twenty year lease agreement, which includes an option for termination after fifteen years, for a property in Manhattan to which the head office of the bank will be relocated. The annual rental fees (excluding taxes, insurance, and other related expenses) amount to US$8.4 million. The agreement would be recognized as an operating lease according to Standard ASC 842 (at date of initial application of the Standard by IDB Bank – December 2022), and the property is expected to be stated at a total value of US$117 million. The Head Office of the bank was moved in the second quarter of 2021 to a new building, Grace Building. This building houses now the Head Office premises as well as those of the Manhattan Branch.

Accessibility for Handicapped Persons

According to the Equal Rights for Handicapped Persons Law, the Bank has appointed an Accessibility Coordinator which leads and coordinates the accessibility operations at the Bank. The Bank conducted a "Discount accessible" project, within the framework of which, the Bank made accessibility modifications according to the regulation, both from the aspects of building, infrastructure and environmental modifications and the aspects of modifications for accessibility to service. In addition, accessibility modifications have been made at the Internet websites and on the cellular applications, training sessions are held to the Bank's employees on the accessibility subject as well as reviews and periodic tests according to requirements of the law and regulations including the periodic examination required under Regulation 28. The Bank takes action to eliminate accessibility gaps, once they become known.

Information and Computer Systems

General

The information systems stand at the core of the Bank's operations and comprise the backbone on which the Bank's operations are based. Direct banking services are provided by the Bank through a variety of lanes: Internet sites, mobile apps, information stations, automatic teller machines, computerized vocal response and more. These services interface with the overall computer system for the purpose of obtaining and updating of information, and are protected by most advanced technologies of data protection.

Most of the various computer systems serve both the Bank and MDB.

Over the years the Bank has developed qualitative and reliable computer solutions with respect to all business areas in which the Bank operates. Solutions that had been developed with respect to core systems are among the most advanced existing at present at banks in Israel. These systems are capable of serving the Bank for many years to come, subject to maintenance services being provided at an appropriate level. The Bank continues to upgrade and replace systems according to its needs, according to preferences of the budget and strategic plans.

For details as to the cost of in-house development of computer software, see Note 16 H to the financial statements.

Major suppliers. The Bank has a large number of major suppliers from Israel and abroad in the field of information systems and their development. The Bank has no significant dependence on suppliers, with the exception of IBM, Oracle, Microsoft and MED1. These companies have engagements with the Bank through their representatives in Israel.

Locations of the Operation

The technological array is operated from two different sites which are far apart from each other. The sites provide backup for each other and are capable of working independently.

Principle Projects Conducted in 2022

1. Infrastructure projects – preparations for the move to the Discount Campus, including new and advanced computer infrastructure.
2. CRM and interaction with customers – Transition of the retail CRM to the cloud, transformation of the processes, assimilation of the reform in the mortgages field, improvement of banker experience and improving efficiency of work processes.
3. Direct channels – progress has been made in a broad variety of direct channel developments, including – in the Internet sites and apps. Functionality the of the digital assets was expanded, giving added value to the Bank's customers by expanding the digital services, and providing digital consulting. Digital mortgage, setting up an aggregation infrastructure, opening a digital account, replacing the measurement system.
4. Core projects – replacing core systems in the dealing-room, the credit system for small businesses, upgrading core systems in securities, integrating open banking information within the business processes.

5. Cyber and data protection – development of proactive defense abilities, integration of Big Data analysis capabilities and orchestration and automation capabilities with the aim of increasing the effectiveness of the response provided by information systems.
6. Projects intended to ensure compliance with regulatory directives converting SWIFT notices to Standard ISO20022, savings for every child, improving guarantors' data for the credit database, open banking, account portability between banks.

Principle Projects for 2023

1. Infrastructure projects – continuing to upgrade the Bank's computing infrastructure to new and advanced computing infrastructures. Completing the setup of a generic cloud infrastructure.
2. CRM and interaction with customers – completing the retail CRM's transition to the cloud, continuing to improve the banker experience, making the work processes and the platform rollout more efficient, converting other processes in the operating division, OMNICHANNEL, and remote signing.
3. Direct channels – adding business capabilities in the various business spheres on the app and on the Internet websites for private and business customers, upgrading the websites, adding the capability for private customers to digitally execute the full range of transactions, adding digital mortgage capabilities, continuing to develop aggregation, continuing to develop digital account opening.
4. Core projects – replacing core systems in the dealing-room, continuing to develop a credit system for small businesses, upgrading the tax server, improving and upgrading systems for capital market players.
5. Cyber and data protection – continuing the development of proactive defense abilities, integration of Big Data analysis capabilities and orchestration and automation capabilities with the aim of increasing the effectiveness of the response provided by information systems. developing fraud prevention capabilities.
6. Projects intended to fulfill regulatory instructions – a pension consulting interface, a response to Proper Conduct of Banking Business Directive No. 460 "Security yields", replacing the encrypted email infrastructure, open banking, and a banking identity card.

The Bank's investment budget for 2023 for information systems and computerization, including for information system development projects, amounts to NIS 416 million (NIS 372 million in 2022).

The contents of the above section constitute a forward-looking information based on past experience in everything related to system development and technological abilities, the investment required for the development of new systems and adaptation of existing systems in order for them to comply with regulatory demands and the Bank's business requirements. The above is also based on regulatory provisions existing at date of publication of the Annual Report (even though they have not as yet become effective) and provisions expected by the Bank to apply, based, inter alia, on drafts published by the various Regulators. The above is also based on the Bank's development programs existing at date of publication of the Annual Report, and on business intentions, the realization of which would require the development of supportive computer systems.

Legislative and regulatory changes unknown at the date of publication of the reports, including changes in the details of existing initiatives and drafts, technological developments and/or activities of competitors bringing about changes in customer demands and expectations, as well as macro developments in Israel and in the world, may bring about changes in the assessments or in the ability to carry out the Bank's plans at date of publication of the reports.

ICC

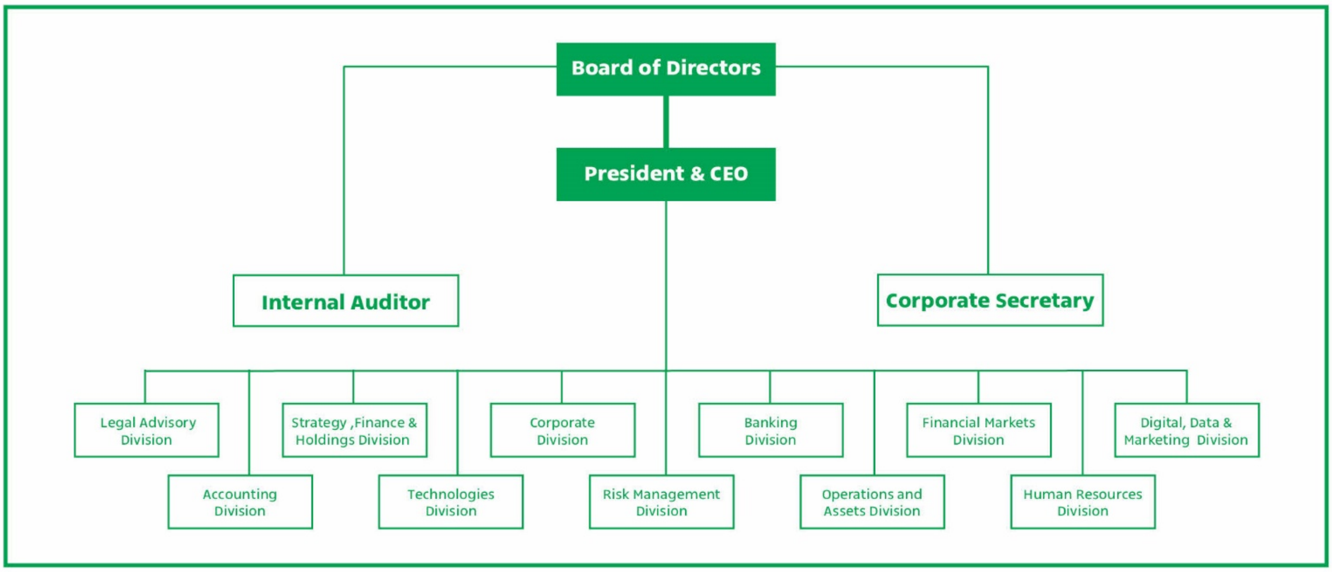
On April 5, 2017, ICC and HPE Software Israel Ltd. signed an agreement for the supply of IT services to the company, within the framework of a multiyear project to replace the company's core system infrastructure. The objective of the project is to improve the business continuity in the core activities, paying attention to the lifecycle termination date of the existing technological infrastructure, and its replacement with an advanced infrastructure with a long-term horizon. The scope of the entire project, including the internal inputs to be invested therein, is estimated to amount to approx. NIS 220 million. The completion of the project is expected in the year 2023.

Intangible Assets

Trademarks and brand names. The Bank has exclusive intellectual property rights in the following trademarks that are duly registered with the Registrar of Trademarks, and in the label accompanying each of them: "Israel Discount Bank Ltd.", "Discount Bank", "Discount" and "Israel Discount Bank", which include the Bank's logo. In addition, the Bank registers from time to time, for the purpose of its business and marketing operations, names of services and products such as: "Key", "Discount key", the trademark of the key chart, etc. In December 2018, the Bank registered the trademarks "PayBox", "PayBox App" as well as the logo. Ownership of these trademarks has been transferred to PayBox Company following its incorporation as an auxiliary corporation. During January 2022, the Bank also registered the "Discount Tech" trademark.
ICC developed a distinct symbol in order to differentiate it from the other VISA issuers, using the brand name "ICC" or "Cal". Furthermore, ICC owns many registered trademarks in Israel, including "ICC", "Cal" "Cal Choice".
Furthermore, the Bank's subsidiary companies own trademarks, related brand names and slogans registered for the purpose of their business and marketing operations.
Licenses and franchises. The Bank and ICC have the status of a "principal member" in the International VISA Organization, which grants them the license to use the trademarks of VISA as well as the right to issue and clear credit cards under this brand name in Israel. The Bank and ICC have the status of a "principal member" in the MasterCard Worldwide organization, which has granted them licenses to use the "MasterCard", "Cirrus" and "Maestro" trade marks in Israel as well as issuance and clearing licenses for credit cards under these brands in Israel. The International Diners Organization has granted Diners in Israel the exclusive franchise for the use of the brand "Diners" trade mark and for operating issuance and clearing services for Diners credit cards in Israel. The franchise is extended from time to time, and recently until December 31, 2029. See Note 36 E above.
ICC has a conditional, non-exclusive license for the clearing of credit cards of the "IsraCard" brand.
Software. The Bank also has intellectual property rights in designated software systems and various modules used in its business, which the Bank develops and/or acquires in the course of its ongoing operations for its own use and/or the use of subsidiaries and affiliates.
Data bases. The Bank and its subsidiaries have data bases regarding their various fields of operations relating mostly to their customers and employees.

The Human Capital

Organizational Structure Chart



Changes in the organizational structure

The Bank's Board of Directors approved on April 26, 2022, several organizational changes, that would comprise an infrastructure for the acceleration of the implementation of the strategy in the Group:

- The Planning, Strategy and Finance Division absorbed most of the activity of the Group Management and Regulation Division, which was abolished, within the framework of a new Wing that has been established for this purpose – the Group Management Wing – which focuses on maximizing and utilizing to the utmost the business and strategic potential in all the subsidiary companies. In addition, the Division has absorbed the Fintech and Innovation Unit, transferred from the Digital, Data and Innovation Division. This Unit focuses on leading pioneering moves, supporting the strategy of the Bank and the Group. The name of the Division has been changed to the Strategy, Finance and Holdings Division.
- The Digital, Data and Innovation Division has absorbed the Marketing Wing and the Customer Experience Administration, transferred from the Strategy Division. This with the view of strengthening and leveraging the connection between the advanced capabilities existing in the fields of digital, data and marketing, in favor of continuing the advancement of the leading customer experience. The name of the Division has been changed to the Digital, Data and Marketing Division.
- A new Wing had been established within the Operations and Assets Division – the Products and Processes Wing, which leads the operational and banking excellence area across the organization. The Wing has absorbed the operations of the current account department from the Digital Division, the processes department from the Strategy Division, and the products department from the Operations Division. In addition, this Division absorbed the foreign trade department from the Corporate Division, as part of the process of concentrating the Bank's operational activity within the Operations Division.

The above changes took effect in the middle of May.

Management of the Human Resource - General

Principal Activities in 2022

Employee experience review. In the first quarter of 2021, an employee experience survey was launched for the first time in the Bank. During that year, the survey findings were analyzed at the level of the Bank, the divisions and the managers, focus areas for improvement were selected and work plans were built that were implemented also during 2022, such as round tables, meetings of Management members with managers and employees, building managerial forums and more. In September 2022, another survey was conducted that included all Bank employees. The survey found that there are areas in which there is an increase in the perception of employees (such as "my manager") and areas where further deepening and work in the context of connectedness and employee experience is required. During the fourth quarter of 2022, the findings were analyzed, and ideas and solutions were put forward for the continued implementation of improvement and change processes.
A new leadership model. In 2022, further deployment took place of the leadership model, which defines the set of behaviors expected from managers. Three integration levels have been defined: integration in processes, training and tools, and integration by managers. The model was integrated in organizational processes, such as: employee evaluation process, employee experience survey, different management courses and more. Analysis of the data collected by these processes enables the Bank to focus on areas requiring improvement.
Providing supporting tools to the Bank's units. Providing supporting tools as regards locating, placement and supplementing knowhow, as a supplemental move of the move for the reduction in the labor force, with the aim of enabling the Bank's units to adjust to the reduction in the labor force, while making optimal use of employee mobility among the different units.
Signing of collective labor agreements. In December 2021, following prolonged negotiations with the employees representative committee, several significant collective labor agreements were signed, relating to labor relations at the Bank, including: extension of validity of the Labor Charter and the changes made therein, a wage and awards agreement for a period of three years and the transfer to the Discount Campus location. For additional details, see above "Handling by Management of current material matters".

Agreement regarding redemption of jubilee awards to entitled employees. Among the collective labor agreements signed, was also an agreement according to which, the future entitlement to a jubilee award, jubilee vacation and jubilee vacation pay for entitled employees had been abolished, and a format had been determined for computing the redemption amount of the liability of the Bank for the abolished entitlement, taking into account, inter alia, the remaining period to date of entitlement, the scope of employment, etc.

Challenges for 2023

Transfer to the Discount Campus. Completion of preparations from the aspect of human resources regarding the transfer to the Discount Campus location, including formation and integration of a culture and work environment intended to provide employees with a better and advanced work experience.

Preparations for transformation in traditional banking and for the challenges of the future.

Effective management of the labor force and its cost. The central challenge for 2022 is the strict and restraining management of the labor force and its cost, in a manner that would ensure the preservation of the achievements of the retirement plan of 2020 on the one hand, and the utilization of the natural retirement potential on the other hand. All this, with the aim of ensuring the attainment of goals, as defined in the strategic plan, for the reduction in the labor force, and respectively, creating significant efficiency.

Labor Force and Salary Expenses

There were 4,671 employees in full-time positions in the Bank in Israel at the end of 2022, compared with 4,557 at the end of 2021, an increase of 2.5%. In 2022 the average monthly number of employees, based on full-time positions, in the Bank dropped and amounted in 2022 to 4,627, as compared to 4,556 in 2021, an increase of 1.6%.

There were 8,261 full-time positions in the Group in Israel and abroad at the end of 2022, compared with 8,035 at the end of 2021, an increase of 2.8%. The average monthly number of employees in full-time positions in the Group, both in Israel and abroad, at the end of 2022, was 8,138, compared with 7,957 at the end of 2021, a decrease of 2.3%.

Labor force data of the Group and the Bank

	Employees					Positions(1)									
	As of December 31					As of December 31					Monthly average in				
	2022	2021	2020	2019	2018	2022	2021	2020	2019	2018	2022	2021	2020	2019	2018
The Bank in Israel	5,088	5,044	5,085	(2)5,447	5,489	4,671	4,557	4,607	4,905	4,968	4,627	4,556	4,889	4,951	5,157
Domestic subsidiaries	3,407	3,310	3,246	3,467	3,477	2,951	2,924	2,855	3,040	3,055	2,932	2,846	(3)2,982	(3)3,025	3,003
Group total in Israel	**8,495**	**8,354**	**8,331**	**8,914**	**8,966**	**7,622**	**7,481**	**7,462**	**7,945**	**8,023**	**7,559**	**7,402**	**7,871**	**7,976**	**8,160**
Overseas subsidiaries	630	545	557	558	522	639	554	565	564	527	579	555	560	560	508
Group total overseas	**630**	**545**	**557**	**558**	**522**	**639**	**554**	**565**	**564**	**527**	**579**	**555**	**560**	**560**	**508**
Group total overseas and Israel	**9,125**	**8,899**	**8,888**	**9,472**	**9,488**	**8,261**	**8,035**	**8,027**	**8,509**	**8,550**	**8,138**	**7,957**	**8,431**	**8,536**	**8,668**

Footnotes:

(1) The number of positions includes conversion into overtime positions with the addition of positions of software house employees who provide services to the Bank and after deduction of positions payroll cost in their respect has been capitalized to fixed assets.

(2) From conducting an examination, 83 persons, who were previously treated as service providers, have been defined as outsourced employees and have been added to the Bank's workforce numbers as of December 31, 2019. In the absence of available data, no corresponding adjustment has been made to the comparative figures or to the number of positions as of December 31, 2019 or for the prior periods. In addition, the employment costs have not been reclassified from "expenses" to "salaries".

(3) Improvement in computing of the data.

Cost per position, in NIS thousands, on the basis of costs reported in practice

	2022	2021	2020	Change in % 2022 compared to 2021	Change in % 2021 compared to 2020
The annual average direct cost(1) per employee position in the Bank in Israel	297	303	256	(2.0)	18.4
The total annual average cost(1) per employee position in the Bank in Israel	434	448	384	(3.1)	16.7
The average annual overall payroll cost(1) per employee of the Group in Israel and abroad	438	436	385	0.5	13.2

Footnotes:
(1) The payroll costs also include the cost of software house employees less payroll costs capitalized to fixed assets.

The average annual cost of the direct wage for an employee position at the Bank in Israel, decreased in 2022 by a rate of 2.0% (see Table above). With elimination of awards, the average annual cost of the direct wage for an employee position at the Bank in Israel, increased in 2022 by a rate of 5.0% (see Table below).
The total average annual cost of an employee position at the Bank in Israel, decreased in 2022 by a rate of 3.1% (see Table above). Eliminating the effect awards, the total average annual cost of an employee position at the Bank in Israel, increased by a rate of 2.2%, compared with 2021 (see Table below).
It should be noted that, in the above and below tables, the cost per position does not include salary expenses, which, according to the Public Reporting Directives, have been classified as “Other expenses”.

Cost per position, in NIS thousands, eliminating certain components

	2022	2021	2020	Change in % 2021 compared to 2020	Change in % 2020 compared to 2019
The annual average direct cost(1) per employee position in the Bank in Israel - excluding awards and reversal of excess provisions(2)	253	241	242	5.0	(0.4)
The total annual average cost(1) per employee position in the Bank in Israel - excluding awards and reversal of excess provisions(2)	379	371	367	2.2	1.1
The average annual overall payroll cost(1) per employee of the Group in Israel and abroad - excluding awards(2)	378	368	366	2.7	0.5

Footnotes:
(1) The payroll costs also include the cost of software house employees less payroll costs capitalized to fixed assets.
(2) See the effects of certain components on salaries and related expenses, in the Board of Directors and Management Report.

Total income per position In NIS thousands

	2022	2021	2020	Change in % 2022 compared to 2021	Change in % 2021 compared to 2020
Total income at the Bank to an average employee position at the Bank	1,533	1,215	1,089	26.2	11.6
Total income, consolidated to an average employee position at the Group in Israel and abroad	1,591	1,318	1,175	20.7	12.2

Human Resources according to Segments of Operation

The positions stated according to segments of operation include positions of direct employees of the segment and positions of head office staff of various levels, the cost of their employment had been allocated to the segment. The calculation of the number of positions, as stated, is based on a model for the allocation of costs used by the Bank, as adjusted in the circumstances and on the basis of assessments.

Human resources according to segments of operation

	Domestic operations								International operations	
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses	Institutional bodies	Financial management	Total Domestic operations	total International operations	total
	For the year ended December 31, 2022									
Average number of positions in the segment	3,946	114	1,796	361	829	85	428	7,559	579	8,138
	For the year ended December 31, 2021									
Average number of positions in the segment	3,845	109	1,805	349	807	79	408	7,402	555	7,957

Labor Relations

General. Labor Relations at the Bank are based on the Labor Charter, collective labor agreements and employment arrangements that are consummated mainly in negotiations between the Bank's management and the employees' representatives.

Labor Charter. "Labor Charter for the Employees of Israel Discount Bank Ltd.", which was signed in 1974 (hereinafter: "the Labor Charter") constitutes a wide base outlining and incorporating employment conditions, disciplinary provisions, arbitration procedures and additional procedures and regulations. During the last decades, dozens of collective labor agreements were consummated in addition to the Labor Charter. These other agreements include wage and other agreements intended to supplement and expand the Labor Charter, to change the Labor Charter or to cancel certain provisions of the Labor Charter. In an agreement dated December 23, 2021, the validity of the Charter was extended until December 31, 2026, subject to changes, the principal of which is the conversion of employees from a "temporary" status to a "stable" status.

Principal Categories with respect to Employment Conditions

The Bank's employees are classified into four main categories for purposes of employment conditions:

Tenured employees. The employment terms of tenured employees are arranged, as stated, according to the Labor Charter, special collective labor agreements and other employment arrangements.

The agreement with respect to extending the validity of the Labor Charter dated December 23, 2021, committed the Bank to convert 300 employees to the status of "tenured employees", this during the period of ten years from date of signing the agreement.

Temporary employees. Until date of signing the agreement with respect to extending the validity of the Labor Charter dated December 23, 2021, several types of temporary employees had existed at the Bank, including tellers and direct banking employees (a temporary period of five years), temporary employees (a temporary period of four years), temporary computer employees (a temporary period of seven years), IT computer employees (employment of 250 computer employees with no time limit).

As from date of signing the agreement, the said classification of temporary employees as existed until that date was abolished, including all contractual stipulations relating to them. Instead, a uniform temporary period was determined at the Bank (relating also to new employees recruited by the Bank) of one year for all employees, and of two years for employees of the direct channels management wing.

Steady employees. The agreement of December 23, 2021, states that at the end of the temporary period, to the extent that employment of the temporary employee had not been terminated, all these employees would be converted to the status of "steady employee" with no time limit to the period of employment, in a way allowing them to advance and develop in the organization. The agreement also states that such employees, based upon their capabilities and suitability for office, would be able to fulfill managerial duties at the Bank. It is noted, that the said collective labor agreement states that the quota of steady employees shall not exceed 2,000 employees, this within a period of ten years from date of signing the agreement. The steady employees will be unionized by way of the representative committee of employees and the Federation of Labor, though the Labor Charter and the agreements signed under it, which apply to employees of the "tenured" status, would not apply to them. The terms of employment applying to employees of the "steady" status shall be exclusively determined by the Bank's Management. Notwithstanding this, it is determined that concurrently with wage negotiations, which would be held between the Bank's Management and the employee representative committee with respect to "tenured" employees, wage negotiations would also be held between the Bank's Management and the employee representative committee with respect to the wages of "steady" employees.

In addition, the Bank's Management shall provide to the representative committee of employees a monthly cultural package contribution for each "steady" employee, similarly to the contribution provided by the Bank's Management for each "tenured" employee.

Personal employment contracts. Employees engaged under personal employment contracts sign, prior to their engagement with the Bank, a personal contract, and the provisions of the labor charter and the collective agreements, which apply to "tenured" employees, do not apply to them. The employee population engaged under a personal agreement includes the members of the Bank's Management as well as an additional quota, as determined in the agreements, at the discretion of the Bank's Management. The agreement dated December 23, 2021, extending the validity of the Labor Charter, states that "tenured" employees and "steady" employees appointed, as from date of signing of the agreement, to the office of Wing Manager (excluding a number of appointments as stated in the agreement), shall be transferred to the status of "personal employment agreement" employees. As of December 31, 2022, the Bank employed 227 personnel (including members of management) under personal employment agreements (December 31, 2021: 231 employees engaged under personal contracts).

In addition, the Bank acquires services of manpower company employees and software houses. These employees are engaged mainly in software development tasks.

Summary of employment data in the Bank in the various categories and the changes therein

	As of December 31,					Change			
Employees	2022	2021	2020	2019	2018	2022 compared to 2021	2021 compared to 2020	2020 compared to 2019	2019 compared to 2018
Tenured employees under personal contracts and members of management	2,998	3,055	3,147	3,642	3,681	(57)	(92)	(495)	(39)
Temporary employees	610	(2)1,397	1,317	1,133	1,215	(787)	80	184	(82)
Stable employees	990	–	–	–	–	990	–	–	–
Software house	359	441	(1)486	(1)507	447	(82)	(45)	(21)	60
Total	**4,957**	**4,893**	**4,950**	**5,282**	**5,343**	**64**	**(57)**	**(332)**	**(61)**
Additional – employees on unpaid leave and maternity leave	131	151	135	165	146	(20)	16	(30)	19
Total	**5,088**	**5,044**	**5,085**	**5,447**	**5,489**	**44**	**(41)**	**(362)**	**(42)**
Positions									
Tenured employees under personal contracts and members of management	3,050	3,115	3,206	3,709	3,739	(65)	(91)	(503)	(30)
Temporary employees	598	1,410	1,328	1,162	1,206	(812)	82	166	(45)
Stable employees	993	–	–	–	–	993	–	–	–
Software house	330	396	479	395	378	(66)	(83)	84	17
Total	**4,971**	**4,922**	**5,013**	**5,266**	**5,323**	**49**	**(91)**	**(253)**	**(57)**
Of which positions of Bank employees the cost of which has been capitalized to fixed assets	169	189	212	153	154				
Of which positions of software house employees of which has been capitalized to fixed assets	131	176	194	208	201				
Total positions before of which has been capitalized to fixed assets	**4,671**	**4,557**	**4,607**	**4,905**	**4,968**				

Footnotes:

(1) From conducting an examination, 83 persons, who were previously treated as service providers, have been defined as outsourced employees and have been added to the Bank's workforce numbers as of December 31, 2019. In the absence of available data, no corresponding adjustment has been made to the comparative figures or to the number of positions as of December 31, 2019 or for the prior periods. In addition, the employment costs have not been reclassified from "expenses" to "salaries"

(2) As of December 31,2021, the bank employed 933 employees having the status of 'stable employee', a status determined within the framework of a new collective labor agreement signed on December 22, 2021. Integrating the change in the Bank's systems was completed in October 2022, and it was not practicable to reclassify the data as of December 31, 2021.

Compensation Plan for Members of the Bank's Management

The Bank approved an awards plan for Officers for 2023-2025, according to the compensation policy for officers of the Bank, as approved by the Bank's General Meeting of Shareholders of March 2020 (see Note 23 E to the financial statements). For details regarding the awards actually paid to Members of the Bank's Management in the years 2020-2022, see Note 23 G, and Note 35 G, respectively.

Equity compensation for officers and senior employees

On June 27, 2022, the Bank's Board of Directors approved an outline for the granting of up to 10,000,000 nonmarketable share options to offerees, at no cost, each of which would be exercisable, upon fulfillment of certain terms, into one registered Ordinary A share of the Bank of a par value of NIS 0.1, subject to adjustments (hereinafter: "the outline" and "the pool", respectively), and it also approved, following approval by the Bank's Remuneration Committee regarding Officers of the Bank, the actual granting of up to 3,939,972 share options out of the pool, to 33 employees of the Bank, of which are 9 Executive Vice Presidents and 24 senior managers reporting to VP's, engaged by the Bank under personal employment agreements (hereinafter: "the present allotment"). On July 17, 2022, the Bank allotted the options to the offerees according to the present allotment (hereinafter: "date of allotment").
On August 11, 2022, the Board of Directors approved an additional actual allotment of 638,341 options out of the pool, to five employees of the Bank, of which, two are Executive Vice Presidents, and three are senior managers reporting to VP's, who are employed by the Bank under a personal employment agreement. On January 23, 2023, the Board of Directors approved the actual grant of an additional 966,840 options, pursuant to the outline, to 11 employees of the Bank, who are senior managers reporting to a vice president and who are employed at the Bank under a personal contract.
The aim of granting stock options is to remunerate officers and managers for their work and contribution to the Bank, and in order to maintain them for a long period of time, while creating appropriate incentives and relating them to the goals of the Bank, all this within the restrictions of the Remuneration of Officers of Financial Corporations (Special permit and the non-deductible Tax wise of exceptional compensation) Law, 5776-2016, and while maintaining the Bank's risk management framework.
For additional details, see Note 24 E to the financial statements, as well as the amended outline published by the Bank on July 13, 2022 (Ref. No. 2022-01-089110), the details contained therein in this matter are presented hereby by way of reference.

Labor Relations of the Principal Subsidiaries

ICC. On June 11, 2019, a special collective agreement was signed by ICC, the New Federation of Labor and the national committee of ICC employees, which is effective from January 1, 2019 through December 31, 2022. An agreement was signed on September 22, 2022, whereby the move of ICC's employees to the Discount Campus had been arranged. Within this framework it was established that in the course of 2023, ICC will pay to its entitled employees a onetime award for their consent to the move to the Discount Campus and the changes involved in such move. The total amount of the award is estimated at approx. NIS 25 million, most of which would be recognized in the financial statements for 2023. In addition, arrangements were made for remote work by ICC employees. Moreover, the effective period of the existing collective labor agreement was extended to December 31, 2023.
MDB. The labor relations between MDB and its employees, other than employees with a personal contract, are based on a web of collective agreements dealing with different topics.
The Management of MDB and the national committee of employees of this bank signed in December 2018, a wage agreement for the years 2019-2023, which includes new and significant items. The essence of the agreement includes: detachment of the wage, work terms, and related benefits of MDB from those prevailing at Bank Leumi during the agreement period; for the said detachment, the employees are to receive a onetime award amounting to 2.5 monthly salaries; a wage increment at the rate of 3.1% per year (excluding a seniority increment of 0.8%), for each of the years covered by the agreement; a gradual updating of the minimum monthly wage used for computing severance pay.
Special collective agreement. On February 24, 2022, a special collective agreement was signed between MDB, the New General Federation of Labor and the MDB employees' representatives, within the framework of which the labor dispute declared at this bank on February 15, 2021 was resolved.
The agreement includes several main accords:
- agreement for the move to the Discount Campus, including locations for various units in the Campus building, catering arrangements, seating placement, shuttle service and parking spaces;
- entitlement of employees, according to the workforce as of December 31, 2022, to an activity yield award and to an award for agreeing to move to the Campus ("agreement award") in an average amount of 4.15 salaries;
- arranging a scheme for remote working to the extent of at least one workday per week, for employees wishing to do so.

Compensation Policy in a Banking Corporation

Instructions in the matter of the compensation policy of a banking corporation. The Supervisor of Banks issued on November 19, 2013, a Proper Conduct of Banking Business Directive in the matter of compensation in a banking corporation as updated from time to time (hereunder: "The Directive"). According to the instruction, the Bank's Board of Directors has to approve, at least once in every three years, a compensation policy, following the recommendation of the Compensation Committee the compensation committee, as well as determine principles for a Group compensation policy, which comply with the requirements stated in the Directive is in addition to the provisions of the Companies Law, 5759-1999, and the provisions of the Compensation of Officers of Financial Corporations Law (special approval and the non-deductibility tax wise of exceptional compensation), 5776-2016 (see above).
Compensation policy for Officers of the Bank. See Note 23 D and E above.
Employees compensation policy. In March 2023 the Bank approved an updated compensation policy for all employees of the Bank has been approved, including for key employees, as well as the principals of group compensation policy.
For further disclosure in the matter of "compensation", see the document "Disclosure according to the third pillar of Basel and additional information regarding risks", available for review on the Internet.

Development of Human Resources

Managers' development programs

The main focus in 2022 was the integration of the leadership model across all the managers' development training sessions and programs. Numerous and diverse training sessions were conducted for managers, with emphasis being placed on the developing and motivating employees, enhancing their commonality of interests and leading change. Furthermore, basic management training courses were held for team leaders, team development, as well as accompaniment and consultation for some 80 managers at different career junctures.
In 2022, a unique training program was created for core managers. The training was developed for the specific needs of this population and was implemented in two training cycles.
In addition, content was created on the leadership site, within the framework of which, tools, articles, video clips regarding leadership fundamentals, etc. are presented. Also developed were leadership capsules – comprising a focused and simple management tool for the manager, the aim of which is to strengthen conduct within each leadership fundamental. In total approx. 750 managers participated in the different development activities.

Key personnel and positions

At the end of 2020, as part of the preparations for the Bank's early retirement plan, a brief but focused process took place to examine whether there were employees not included within the framework of the original plan for identifying key employees and positions. As a result of this process, seven additional employees were found who needed to be included in the plan. During 2022, all the plans drawn up for handling the gaps were finalized.

Performance assessment and feedback

The process in 2022 was based on the leadership model. Unlike the previous processes, in 2022 it was decided that the concluding evaluation would be based on a written statement (and not on a rating). Nevertheless, within the framework of the process, outlier populations were identified – superior performers (some 10 out of all the employees) and employees that needed to improve their performance (approx. 5%). The process covered approx. 99% of the Bank's employees who were evaluated by approx. 700 managers.

Professional Guidance

The study program in 2022 was drafted and implemented to actualize the concept of study as a way of life that supports the organizational culture of personal development and career, and of course with the objective of achieving the Bank's vision and to bring value to its stakeholders.
The work plan was focused on providing a response on three central axes:
Maintaining professional qualifications – With the aid of an extensive process for mapping knowledge and expertise gaps, a needs clarification was conducted in various units and in 2022, for the first time, a pilot process was utilized to map the personal qualifications of employees engaged in three central core positions: credit coordinators, economists and data analysts. In line with the gaps that were discovered, a training solution has been developed to improve professional and personal qualifications, through emphasis on professionalism in credit, regulatory aspects and the development of personal expertise to cope with the new era.
Providing a solution for employee training for the position – Basic banking training for new employees, focusing on credit positions – business coordinators and business bankers, education for the entry of a new economist taking to a position.
Providing response and support for strategic projects – as part of the business strategy and the realization of the vision of "being the best bank for its customers", numerous hours have been devoted to studying and assimilating the customer experience concept in the Banking Division and the concept of collectivity in the Corporate Division, as well as to constructing a study program for the whole Group in connection with the move to the Campus, as part of the Discount Group's preparations for the move to the new Campus.
As part of the process for deploying an organizational culture, diverse study content for self-selection by employees continued to be created in 2022. Professional learning environments for specific populations were added to the dedicated learning site for the Bank's employees. A communication program, aided by intra-organizational communications, was introduced to instill a learning culture and to encourage employee development.
In addition, the characterization and implementation of a new learning system has begun, a new module in the existing ERP system, which will assist in improving the employee's learning experience, will bring together all the learning options in a single location, will allow the creation of study communities, and automated study-recommendation system and dashboards for managers that will enable them to track the studies undertaken and to encourage their employees' development.
The measure of the rate of employee participation in learning rose to 80% in 2022. Learning days totaled 30,141, compared to 28,068 learning days in 2021. In addition, independent online learning was conducted, resulted in 21,900 interactions in 2022, compared to 26,218 interactions in 2021.

Organizational Culture

One of the layers of the Bank's strategic plan is to build organizational strength through deploying a winning organizational culture that supports constant improvement, performancism, excellence, and a high level of connectivity. Accordingly, in the third quarter of 2020, the Bank launched an organizational culture project, within the framework of which, five project teams were set up on the following topics: the employee experience and connectivity, strengthening managers, professional qualification, organizational optimization, and the culture of performance and change. A work plan was drawn up for the fourth quarter of 2020 and for 2021.
In 2022, the number of focal points was reduced to give greater attention to the following topics: development of leadership in the Discount spirit, employee experience, connectivity, and development and career. In addition, the project also deals with strengthening the link between performance and compensation with the aim of encouraging a culture of excellence. The organizational workplan is defined and executed both at the Bank level and also at the divisional level and is expressed in various management forums, meetings with employees on different platforms, expansion of the learning and development programs and handling the employee experience in various processes.
Internal communication. The Bank is investing in the development of open and two-sided communication with its employees, while strengthening their relations and commitment to the strategy and goals of the Bank, as well as to the community and the environment. With a view of broadening employees' knowledge and understanding as to the Bank's total activities and to promote performance, a variety of communication lines were also used during 2022, including: "Morning magazine" - a weekly television newscast presenting subjects standing at the core of the Bank's endeavor.

A "FaceBank" Portal. FaceBank enables access to employees, participation in know-how, a wide dialogue and contents that assist in the integration of information in a convenient manner and advanced user experience. The portal emphasizes the participation of employees in determining the contents and in increasing their involvement in leading change processes.

Communication with the Leading Forum. Within the framework of the project regarding the organizational culture, strengthening and empowerment of senior managers with a view of improving ability for execution of decisions and projects and the optimal implementation of the strategic plan, it has been decided to establish a leading Forum. The Forum numbers some ninety managers directly subject to VP's, of the grades of wing and department managers. The forum has a work plan of five levels with the duty to advance and handle cross-organization issues, strategic projects and organizational matters. The Forum meets a number of times per year in a workshop format. In between these meetings, CEO updates are held on a monthly basis, and also enrichment and development processes as well as current updates are provided through a designated WhatsApp group. In addition, work teams have been formed for the removal of bureaucratic obstructions and improvement of processes.

In order to feel the mood, challenges and questions of employees, the Bank holds meetings at various levels, discussion groups and feedback processes, including:

- "Round tables" – "face to face" meetings of the President & CEO or of one of the management members with managers and employees;
- "Management in the field" - monthly tours of management members at branches and field units accompanied by senior managers from their head offices.

The customer experience at Discount Bank

The customer experience concept of Discount Bank places customer satisfaction of the Bank at the top of the importance scale.

The Bank strives to position itself as the best bank for its customers and to lead the Israeli banking system in the recommendations index (NPS). In 2020, a multi-year strategic project was launched with the aim of implementing a series of changes that will lead to Discount Bank realizing its goal and to it becoming the best bank for its customers. The project is based on four main layers: (1) a comprehensive and varied array of tools for listening to customers; (2) an analysis of the feedback received from customers and converting this into action initiatives; (3) effective mechanisms for improving the customer experience and for handling problems that customers draw attention to, both in the field arrays – with the branches and with TeleBank, and also in the digital arrays and with the various head office units; (4) constant control and strict monitoring of the results. During 2021, the project's deployment began and this has brought about a significant improvement in the customer experience at the branches. In 2022, the deployment will continue and will be expanded to additional units of the Bank, and to additional contents. See also "Striving for a winning customer experience" in the section "Management's handling of current material issues" above.

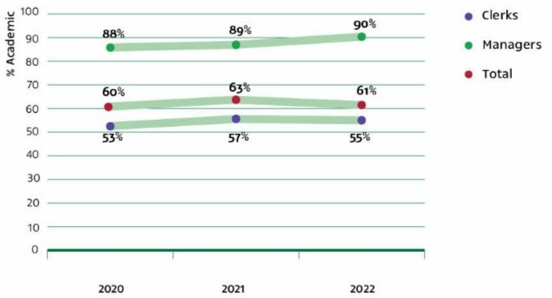
Treating Complaints

No data has yet been received from the Bank of Israel for 2022.

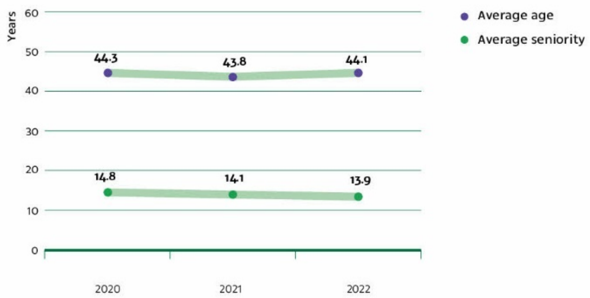
The annual report to the public regarding the treatment of complaints by the Bank in 2021, may be viewed on the Bank's website. The annual report for 2022, shall be available to the public on the Bank's website at the end of March 2023.

Number of positions at the Bank

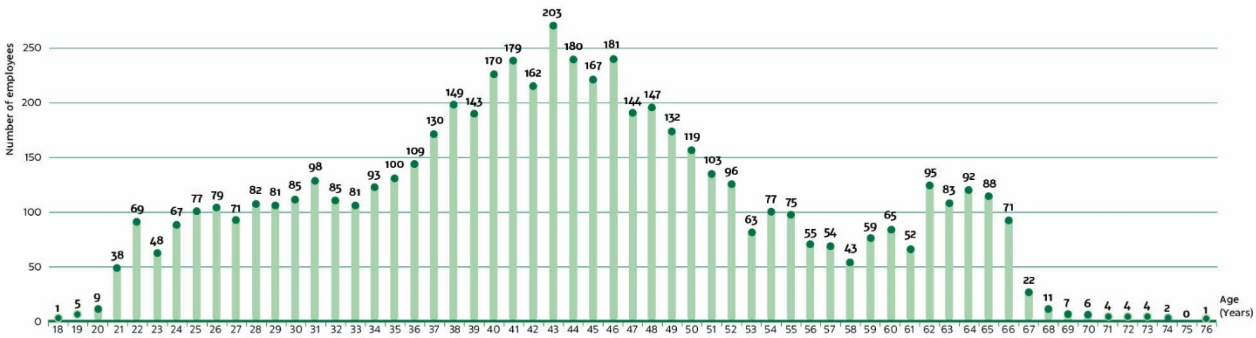
The rate of university graduates according to grade at the Bank



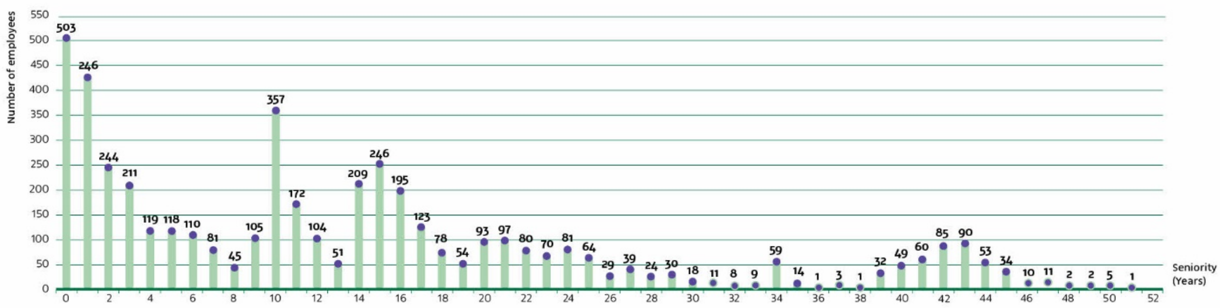
Average seniority and average age at the Bank



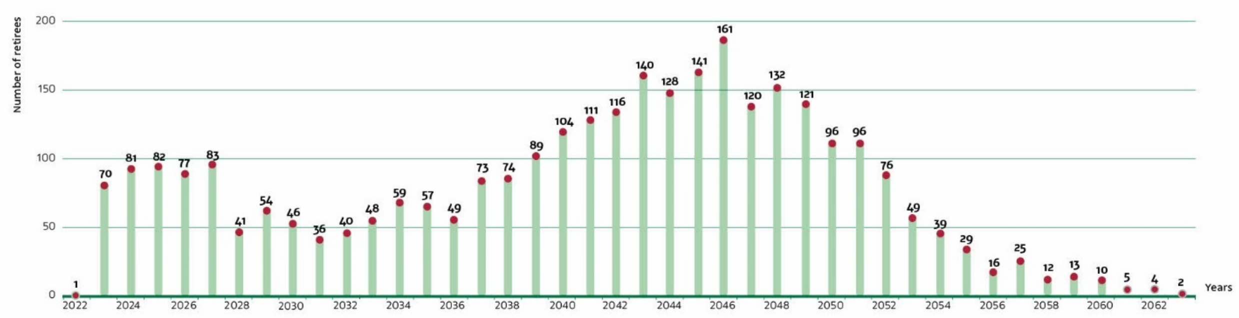
Distribution of tenured employees by age at the Bank - work force 12/22



Distribution of tenured employees by seniority at the Bank - work force 12/22



Natural Retirement by Years at the Bank (tenured employees)



Material Agreements

Hereunder is presented a summary description of agreements, entered into outside the ordinary course of business, that might be considered material, to which the Bank is a party, or which according to its best knowledge, the Bank is a beneficiary in terms thereof, including agreements that were valid in the period covered by this annual report, or which affected the Bank's operations during such period.

Obligations of the Bank with respect to capital markets operations. In October 1983, within the framework of the "bank shares arrangement", the Bank informed the Minister of Finance and the Governor of the Bank of Israel that, among other things, it would not initiate, either directly or indirectly, orders for the purchase or sale of securities within the orders submitted to the Stock Exchange prior to the beginning of trading ("Leaders"), or as part of the setoff of purchase or sale orders prior to the beginning of trading. The Bank further confirmed that it would prevent, either directly or indirectly, any transaction in securities issued or which would be issued by banks or bank holding corporations, unless such transactions are on behalf of its customers, including provident and mutual funds. However, the Bank noted that nothing in the above would avoid transactions effected in the ordinary course of business.

Exemptions of indemnification to Directors or former Directors in the Bank or investee companies of the bank. The previous version of the Articles of Association of the Bank, which was amended in March 2002, included provisions regarding the indemnification of whoever acts or has acted, at the Bank's request, as director in another company, in which the Bank has an interest. Accordingly, the Bank had issued at that time letters of indemnification, unlimited in amount, to the acting directors or who have acted at the Bank's request in other companies owned by it. For additional details, see Note 26 C 8 A to the financial statements. For details regarding this matter and the matter of exemption in advance and indemnification of Directors and other Officers of the Bank and the subsidiaries, see Note 26 C 8 to the financial statements.

Agreements with FIBI as to the holding of means of control in ICC. In December 2006, the Bank and FIBI signed an agreement securing the understandings between them and regularizing the rights and obligations towards one another as shareholders of ICC. The said agreement amends a previous agreement dated September 29, 2000. For details regarding the letter of understanding between the shareholders of ICC, see above "Israel Credit Cards Company Ltd." under "Main Investee Companies".

Labor charter. The labor charter for Israel Discount Bank Ltd. employees was signed in 1974 and it incorporates employment terms, instructions regarding discipline, etc. For details see "Labor relations" under "Human resources" above. Over the years, dozens of collective agreements have been signed, usually to supplement the contents of the Labor Charter. In an agreement dated December 23, 2021, the validity of the Charter was extended until December 31, 2026, subject to changes, the principal of which is the conversion of employees from a "temporary" status to a "stable" status.

Agreement for the construction of the Discount Campus. For details see above in "Fixed assets and installations".

A cooperation agreement with Shufersal Company for the establishment of a digital wallet for customers of all banks. For details see "Strategic cooperation for setting up a digital wallet" in Chapter A above.

Rating the Liabilities of the Bank and some of its Subsidiaries

Rating determined for the Bank and some of its subsidiaries by different rating agencies

Rating given by	Subject of rating	Rating	Rating outlook	Date of rating/ratification of rating
	Discount Bank			
Standard & Poor's, Ma'alot	Issuer rating (including deposits)	il AAA	Stable	January 22, 2023
	Issuer rating Short-term	il A-1+		January 22, 2023
	Subordinate capital notes(1)	il AA+	Stable	January 22, 2023
	Subordinated debt notes with a loss absorption mechanism (Series F, G(3), H)	il AA-	Stable	January 22, 2023
	Bonds (Series M, N, O)	il AAA	Stable	January 22, 2023
Midroog	Long-term deposits	Aaa.il	Stable	November 20, 2022
	Short-term deposits	P-1.il		November 20, 2022
	Subordinated debt notes with a loss absorption mechanism (Series F, G)	Aa3.il (hyb)	Stable	November 9, 2022
	Subordinated debt notes with a loss absorption mechanism (Series H)	Aa3.il (hyb)	Stable	November 9, 2022
	Bonds (Series O)	Aa3.il	Stable	November 9, 2022
	Bonds (Series M-N)	Aaa.il	Stable	November 9, 2022
	Commercial securities (Series 1)	P-1.il		November 9, 2022
The international rating agency S&P	Issuer rating Long-term	BBB+	Positive	January 19, 2023
The international rating agency Moody's	Long-term foreign currency deposits	A2	Stable	December 21, 2022
The international rating agency Fitch	Long-term issuer rating	A	Stable	February 23, 2023
	Mercantile Discount Bank			
Standard & Poor's, Ma'alot	Issuer rating (including deposits)	il AAA	Stable	January 22, 2023(2)
	Issuer rating Short-term	A-1		January 22, 2023
	Subordinate capital notes	il AA+	Stable	January 22, 2023
	Bonds (Series B)	il AAA	Stable	January 22, 2023
	IDB Bank			
Kroll Bond Rating agency	Deposits	A-	Stable	January 2, 2023
The international rating agency S&P	Issuer rating Long-term	BBB+	Positive	January 2, 2023

Footnotes:
(1) The rating also relates to subordinate capital notes (lower tier 2 capital) issued by Manpikim.
(2) Mercantile Discount Bank has been defined as a "core company" of the Discount Group. This determination creates a unique affinity between the Bank's rating and the rating of Mercantile Discount Bank.
(3) Date of rating: June 18, 2020.

The international rating data for the State of Israel (long-term for bonds issued in foreign currency)

Rating given by	Foreign currency - long-term*	Rating horizon*
The international rating agency Moody's	A1	Positive
The international rating agency S&P	AA-	Stable
The international rating agency Fitch	A+	Stable

* The data is taken from the website of the Accountant General at the Ministry of Finance.

Credit rating of the State of Israel. On August 1, 2022, the Fitch rating agency ratified the credit rating of the State of Israel at a level of A+, with a stable outlook. On November 24, 2022, the rating agency Moody's ratified the credit rating of the State of Israel at a level of A1 with a positive outlook. On May 11, 2022 S&P rating company ratified the State of Israel's credit rating at a level of AA- with a stable outlook.

The Fitch rating agency has recently ratified the credit rating of the State of Israel at a level of "A+", with a "Stable" rating outlook. Fitch noted, inter alia, that a number of countries that had undergone a significant institutional

reform, have reached even a decline in their credit rating, and that at this stage it is unclear whether the proposed reform in Israel will have a similar extensive effect. Moody's rating agency has noted, inter alia, that in its opinion, if the proposed reform would be fully implemented, it would weaken the authority of the legal system, thereby adversely affecting the credit of the State of Israel.
For details regarding the direct effect on the Bank's capital adequacy, in the event that the credit rating of the State of Israel would be reduced, see "Capital and Capital Adequacy" above.

Activity of the Group according to Regulatory Segments of Operation - Additional Details

Points of Emphasis for 2023

As part of the changes that the banking sector is undergoing, the Discount Group will act to accelerate the evolution in banking activity, with the aim of improving its competitive ability and increasing its market share and profitability in the banking activity. The aforesaid acceleration will be done by focusing on five areas: a winning customer experience; significant growth and a larger market share in the focus segments; innovation; banking excellence; and, a winning organizational culture. For further details see "Goals and business strategy" above.

Household segment (Domestic operations) - additional details

General

The household segment provides services and diverse financial products to the Group's private individual customers, both at Discount Bank and at MDB. These are provided by means of a chain of some 171 branches located all over the country, service centers and diverse services on the direct channels. Value offers and financial services are being offered to customers belonging to the different service layouts according to financial wealth, their dynamic needs and their preferential ways of use, alongside other parameters.

Points of Emphasis in 2022

In 2022, heightened focus was directed toward further assimilation of the customer experience in all the service layouts and at the head offices, together with further adjustment of the operating model to align it with the developing needs and priorities of customers and with market trends. The measures as a whole were implemented to support the realization of Discount's vision and strategy to be the best bank for its customers:
- Structuring a winning and cross channel customer experience – human and digital;
- The Bank continues to act towards creating an accessible array of wide services with an advanced experience, available 24/7 on digital platforms (including a digital mortgage, opening an account using the Application, and more), alongside tools and infrastructure for the support of customers adopting the advanced services;
- Expanding the service of arranging in advance a meeting with a Bank officer, teller services and consultants;
- Upgrading effectiveness and modification of the service by means of customer tailored value offers from the channel aspect;
- Development and use of advanced analytical models as a tool supporting customer-aligned initiative and decisions.

The integration of the strategy at the branches and at the regional offices will continue in 2022.

Service

General. In recent years, emphasis had been put on the upgrading of the multi-channel service experience, with the aim of offering a diverse, available, qualitative and accessible service, alongside continuing the integration of the communication management strategy based on life events, inflection points and true moments.
Among the services in the different channels may be mentioned:

Personal service TeleBank. A customer telephonic response center – automatic transfer to online banking of customer calls to the branch telephone exchange. The service enables improvement of telephone response time and clears time for branch employees to create added value for customers from the aspect of service, initiative and sales.
Activity on the Bank website and on the application – Receipt of information and the conduct of diverse banking operations, such as: depositing funds to a deposit, taking a loans and transfer of funds between accounts.
Correspondence with a banker by the application - allows the obtaining of information and effecting transactions.

Consulting Layout

SMART INVEST. In 2022, a digital advisory system was launched - SMART INVEST, which allows an advised customer who joined the service to receive investment recommendations from the investment advisor on the Discount application.
Investment banking. The Bank operate under the private banking segment – 4 investment banking units and 6 extensions spread throughout Israel that provide investment consulting services to customers having investment capital of NIS 1-4 million. The service is provided by expert investment consultants.
Consulting centers. In 2022, consultation was removed from the branch layout to designated consulting centers. Seven such centers and six extensions were deployed, providing consulting services to customers holding assets with the Bank in an amount exceeding NIS 100 thousand. Private customers, holding assets exceeding NIS 1 million, may opt to obtain consulting services also at the investment banking, as stated above.
Pension advisory services. The Bank provides pension advisory services at the Bank's branches and private banking centers. The Bank has elected a unique model of providing pension advisory services by differentiated consultants specializing in pension advisory services to all types of customer. The Bank provides pension consulting services to self-employed and salaried employees all over the country.
Portfolio management. Directing customers in need of services to authorized portfolio managers.

Bank Branches

At the end of 2022, the Discount Group has 171 branches in operation in Israel (98 branches of the Bank and 73 branches of MDB).

Direct Channels

The Bank acts on a current manner in order to provide its customers with an advanced experience regarding its direct channels, aspiring for a continuous improvement both as regards the type and variety of services and as regards user friendliness and customer experience. For additional details, see "Technological improvements and innovation" hereunder.

Competition

Competitors. The Bank's principal competitors are the four other major banks in Israel - Bank Hapoalim, Bank Leumi, the First International Bank ("FIBI") and Mizrahi-Tefahot Bank (with emphasis on the merger with Union Bank). Furthermore, competition has arisen in recent years from "off banking" financial entities, e.g. credit card companies, have entered the competitive market with respect to consumer credit, investment and insurance companies - inter alia with respect to capital market transactions, etc.
Means of handling the competition. Handling the competition is conducted while making an effort to differentiate the Bank from its competitors on several levels:
- Constructing a winning customer experience that stands apart from its competitors;
- Growth in the retail market share through the attraction of new customers, by means of the branch layout and the opening of an account using the Application;

- Utilizing to the maximum the potential of customers by intensifying operations, improving service and providing Bank customers with differentiated proposals of value;
- As part of the overall proposal of value adapted to customer needs, the Bank operates service systems specializing in investment consulting, pension consulting, credit and mortgage service.

Household Segment at MDB

The household segment is one of MDB's main segments and, accordingly, constitutes a central goal in its business development. Some of the customers belonging to this activity segment reside in settlements where the vast majority of the population are non-Jewish and where other banking corporations also operate. MDB competes for this population segment by providing a personal and devoted service by means of employees who are involved in the customs and culture of the customers belonging to this population segment and provide them with a service that meets their special needs.

Mortgage Activity

The Bank views mortgage activity as a strategic activity and as a tool for retaining existing customers and for attracting new customers. Mortgage loan services were provided in 2022 at 75 branches and one extention.
In 2022 the Bank operated two channels in the process of approving a mortgage, as follows:
- The mortgage consultants' channel at branches;
- A call center channel specializing in mortgage loans, which provides service in main areas, as follows:
  - Dealing with applications from customers interested in a new loan and enabling a conditional approval in principle to be granted (on the basis of set criteria), with the process being continued at a personal meeting with the customer at the branch;
  - Approaches by customers who do not match the criteria are dismissed, or alternatively, the customer is invited to discuss his request at the branch;
  - Response to existing customer questions regarding ongoing loans.

Moreover, the approval and underwriting powers at the TeleBank center has been expanded. In 2022, activity at the center expanded to the extent that 40% of all new mortgages were started at the center (digitally or by telephone) and the approval and underwriting powers at the TeleBank center were also expanded. In September 2022, the Bank expanded the digital center's operations, including the establishment of a unit to focus on the contact with external consultants.

Developments in the mortgage market

	December 31,		
	2022	2021	
	in NIS millions		Change in %
Total housing loans granted by the banks, excluding internal recycling of loans	117,626	116,066	1.3
Loans from State funds	398	497	(19.9)

New loans and recycled loans granted for the purchase of a residential unit and secured by a mortgage on a residential unit

	For the year ended December 31,		
	2022	2021	
	In NIS millions		Change in %
From bank funds(1)	17,765	16,955	4.8
From Treasury funds(2)	48	50	(4.0)
Total of new loans	17,813	17,005	4.8
Recycled loans	1,534	1,235	24.2
Total granted(3)	**19,347**	**18,240**	**6.1**

Footnotes:
(1) Including new loans granted, secured by housing mortgages, in the amount of NIS 270 million in 2022, compared to NIS 275 million in 2021.
(2) Including standing loans in the amount of NIS 19 million in 2022, compared to NIS 23.4 in 2021.
(3) At the Bank and MDB.

Legislative restrictions and regulations

Guidelines and directives of the Supervisor of Banks designed to restrain the mortgage market. In the years 2010 to 2015, the Supervisor of Banks published several instructions designed to restrain the mortgage loan market. For additional details, see the 2017 Annual Report (pp. 336-338).

Amendment of Proper Conduct of Banking Business Directive No. 329, "Limitations on Housing Loans". According to the Amendment, which was published on December 27, 2021, for the purpose of calculating the capital requirement, a banking corporation must increase its Common Equity Tier 1 Goal by a rate that reflects 1% of the balance of housing loans that are intended to finance real estate rights. The aforesaid increase does not apply to all-purpose loans. In addition, the recycling of an all-purpose loan for which 1% of capital has been set aside will require a 1% allocation of capital.

Consumer reform for increasing transparency of information for bank customers and improvement of the competitive environment in the mortgages market. On November 14, 2021, the Bank of Israel announced the promotion of a line of consumer moves in the mortgages field, intended to facilitate the process of obtaining mortgage loans by borrowers in three aspects: transparency and comparability, simplification, comprehension and efficiency of the borrowing process. Within the framework of these moves, banks would be obliged to provide the customer with an approval in principle in a uniform format, in which would be presented, in addition to the variety of mortgage loans offered by them, also three uniform options, the composition of which was determined by the Bank of Israel, the length of period of the loan being determined by the borrower. In each of these mortgage options would be presented: the envisaged total interest, the envisaged total repayments during the whole mortgage period and the envisaged highest monthly repayment amount according to the forecast. In addition, the time for the issue of the approval in principle would be shortened to only a few days, and all banks would allow the online submission of the request for a mortgage and obtaining of the approval. For the purpose of forming the said moves, the Governor of the Bank of Israel has established a special team, which consulted with several world renowned experts in the mortgage field and in the behavioral economics field, with factors of the Competition Authority and more. Consequently, the Banking Supervision Department has published draft amendments of Proper Conduct of Banking Business No. 451, the last of which was dated January 5, 2022.

Consumer Reform increasing transparency of information provided to bank customers and improving the competition environment in the mortgage market. In continuation of the announcement by the Bank of Israel dated November 14, 2021, regarding promotion of a series of consumer steps in the mortgages field, and Amendment to Proper Conduct of Banking Business Directive No. 451 was published on January 31, 2022, which entered into effect on August 31, 2022. In addition, on June 13, 2022, a draft Amendment to Proper Conduct of Banking Business Directive No. 449 was published, according to which, a bank is required to present to the customer the actual cost according to the computation formula recently amended as part of the Amendment to Proper Conduct of Banking Business Directive No. 451.

According to this Amendment, it is required to present the actual cost together for all the tracks of the loan, or with respect to the total framework offered to the customer. For additional details, see the 2021 Annual Report (pp. 364-366).

Amendment to Proper Conduct of Banking Business Directive No. 451, in the matter of housing loans. The Amendment, which was published on July 7, 2022, granted an extension in the implementation of a part of the reform of the principal approval. The beginning date for the presentation of a calculator that includes the forecasted change in interest rates is set for September 30, 2022. The disclosure duty regarding overall forecasted interest and interest rate for comparison purposes, upon considerations regarding advisability of premature redemption of the loan, takes effect on November 30, 2022.

Letter by the Supervisor of Banks in the matter of reverse mortgage. A letter and a draft amendment of Proper Conduct of Banking Business Directive No. 329 in the matter of reverse mortgage were published on October 2, 2022. A reverse mortgage is a loan secured by a pledged on a residential unit applying to persons aged 60 and over, the repayment date thereof is unknown with no monthly repayments of the principal amount. The financing ratio applying to a reverse mortgage is not to exceed 50% (anticipated financing ratio, whereas no repayments reducing the balance of the loan apply, is not to exceed 60%). Realization of the property is made possible only after the last borrower vacates the property, with the borrower having the option of repaying the loan at any time with no early repayment commission. Heirs of the borrower are entitled to repay the loan within a period of twelve months with no charge of interest in arrears. Limitations regarding the ratio of repayments to income, variable interest and a maximum loan period of thirty years, do not apply to a reverse mortgage.

Developments in the mortgage market

In 2022, new mortgages amounted to approx. NIS 14.7 billion, a 6% increase compared to the volume of mortgages in 2021 (that amounted to NIS 13.9 billion). Nevertheless, a distinction should be drawn between the first and second halves of 2022; the first half was characterized by continued demand in the mortgages market at a level similar to that seen in 2021, while the second half of the year was characterized by a slowdown in mortgages.
The volume of Discount Bank's housing loans portfolio increased at a higher rate that the housing loans portfolio of the whole Israeli banking system, with the Bank recording a 20% increase in 2022 compared to 13% for the whole system. In addition, market share rose from 11.9% to 12.4%.

Sectors of operation

Loans financing the purchase, renovation or construction of residential units. Loans financing the purchase of residential units, the renovation or construction thereof, taken by individuals. These loans constitute most of the activity in the mortgage loan field. These loans are financed by the Bank's funds. In addition, the Bank is engaged in the granting of loan and loan collection services, in an immaterial volume, as part of the assistance programs of the Ministry of Construction and Housing.
Multipurpose loans secured by a mortgage on an apartment unit. Loans collateralized by a mortgage on a residential unit, granted to individuals for various purposes (other than business purposes).
Acquisition groups. The Bank grants credit to groups of individuals joined together for the purpose of a joint building project by means of an acquisition group. Evaluation of the risk involved in the project and the management of the credit line, if approved, are performed by the project finance unit of the Corporate Division. Small-scale projects are performed by the Mortgages branch of the Banking Division. Approval of the individual mortgage files is conducted in designated branches. Since 2019, the Bank has resumed extending credit to purchase groups, after having discontinued activity in this sector from 2012.
Supporting activity - Mortgage related insurance. As an additional security for credit, the bank requires its customers to purchase property insurance and life assurance.
The Bank holds a subsidiary, Discount Mortgage Home Insurance Agency (2005) Ltd., which acts as an insurance broker. MDB also owns an insurance agency, Marbit Insurance Agency (1996) Ltd. These insurance agencies operate independently and sell insurance through a telephone service separate from the Bank's and MDB's telephone services, respectively.

Business strategy

The granting of mortgage loans is made under an overall view of the customer. The Bank focuses its mortgage operation on existing customers, as a preserving and maintaining product. In addition, an activity for attracting new customers is conducted through the granting of mortgage loans.
Policy regarding mortgage operations. The Bank's policy with respect to mortgage operations defines the required criteria for securing the quality of credit and reducing risks involved therein, including criteria for the screening and rating of borrowers and credit applications, examination of the repayment ability of borrowers and guarantors for the debt, the type of collateral securing the loan, safety factors, the manner of credit pricing, as well as principles for performing the monitoring and control over credit and collateral. The policy determined various limitations on mortgage operations, both at the individual borrower level and the combined credit operations level.
The Bank operates a rating model, used in the approval of the transaction and its pricing.

Additional details regarding the mortgage portfolio of the Discount Group and the risks inherent therein

For additional details regarding the mortgage loan portfolio of the Discount Group and the risk inherent therein, see Chapter C – "Risks Review" in the Board of Directors and Management Report.

Competition

This sector is characterized by high competition, which is distinctly price inclined. Among other things, the competition is affected by the bank's view of the mortgage product as a base product for the preservation of existing customers and as a tool for attracting new customers.

The Bank copes with the said competition by improving service, focusing on reducing the time required for the granting of loans and making processes more efficient. The Bank is upgrading its systems by means of computerizing of processes, with a view of improving the reaction time to customers' new mortgage loan applications, while conducting a controlled management of the risks. This, in order to improve the service to its customers, in view of the competition in the mortgage field existing between banks.

Private Banking Segment (Domestic operations) - Additional Details

General

The private banking service layout focuses on a comprehensive banking service, initiating and specializing, to wealthy customers, with a commitment to prompt service regarding all customer needs and particularly in the investment field.
Customers of private banking, both Israelis and foreign residents, are classified as private customers holding financial assets at the Bank in a minimum amount exceeding NIS 4 million in the case of Israeli customers and US$1 million, in the case of foreign residents (hereinafter: "private banking customers").
Customers of the local private banking in Israel, manage their accounts at the Bank's branches, and obtain service at four private banking centers at their disposal: in Herzliyah, in Tel Aviv, in Jerusalem and in Haifa. Private banking customers who are foreign resident obtain service at the international private banking center in Tel Aviv.
Customers active on the capital market in amounts of between NIS 1 million and NIS 4 million receive expert consulting services only, at the investment banking units that report to the private banking centers (4 units and 7 extensions spread throughout Israel).

Developments in the Segment

In 2021, the Bank continued its efforts to intensify the activity with private banking customers.
During 2022, the International wing and the Investments and Private Banking wing were merged into one wing – the Investments and Private Banking wing.
The new wing is concentrating on changing the organizational structure and aligning it with the needs of the Bank and the customers
The Israeli private banking segment focused on providing ongoing service, by means of four service centers and 6 extensions in Herzliyah, Haifa, Jerusalem, Tel Aviv, Rishon LeZion and in Ashdod, as well as on intensifying the activity with existing customers and further work in aligning customers at branches and private banking centers with the service arrangements appropriate to their needs, according to their profiles.
As part of the defined strategy, the centers operate under the concept of a designated service to private banking customers and under a wider service coverage modified to customers of this segment. According to the service concept, the Bank has conducted during the year focused online meetings with central customers with respect to different economic and current matters.
Activity in the international banking operations was focused on intensifying the operations with existing customers, while continuing the meticulous implementation of foreign residents policy adopted by the Bank, and the implementation of the directives of the Supervisor of banks regarding the obtaining signatures of foreign residents and the management of cross-border risks. In addition, as part of risk management, measures are taken to concentrate the foreign resident customers holding passive balances of US$1 million and over, in the international private banking center.
For details regarding foreign resident customer acceptance policy and the implementation of the Supervisor's instruction regarding obtaining the signatures of foreign residents, see "Exposure to cross-border risks for the activities of foreign resident customers" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

Strategic Emphasis

According to emphasized strategic items at the basis of the Bank's work plans, private banking operates in two segments: the international banking segment, serving foreign resident private banking customers and new immigrants, and the investments and private banking segment, serving Israeli resident private customers.
The international banking serves two segments of customers, a private international banking segment and a retail international banking segment, which is to foreign residents and new immigrant customers with financial assets deposited with the Bank, but of a volume lower than the minimum level required by private banking.
The private banking services, provided to Israelis and foreign residents, offers customers a comprehensive individual banking service, granted by investment consultants responsible for their account, and allows them accessibility to investment consulting and financial products, including in the global area.
The private banking centers offer customers comprehensive banking services with a focus on financial investments and custom products management, and with the possibility of obtaining credit to finance customer investments.
The private banking layouts will continue to focus on expanding the customer base and in intensifying activities with them, while placing an emphasis on cultivating hi-tech customers and the following generation with a fundamental risk management in the process of attracting new customers and handling of the existing ones.
As an integral part of the private banking business plan, emphasis is placed on the ongoing review and upgrading of the risk management processes. For several years, the Bank adopts and implements a strict, risk based policy, regarding all private banking customers, including foreign residents and new immigrants which relates to the tax payment on the funds deposited in their accounts. In addition, the risk management unit at the Banking Division will continue to intensify its operations in the fields of prohibition of money laundering, compliance and operational risks management. The compliance trustees at the branches and at the private banking centers, are responsible for the current risk management at the unit, though they report directly to the manager of the risk management unit. The staff of the units continued to participate in training sessions for widening and intensifying the knowledge in the fields of money laundering prohibition and compliance according to the work plan.

Service to Customers

A "service envelope" is being offered to private banking customers, customized to the segment's customers' needs, and which harnesses the Bank's and the Group's resources in providing an optimal response to their needs and for an initiated activity with them. Segment customers with passive investments exceeding NIS 4 million, enjoy an array of banking services at the highest professional level in the private banking centers. Consultants, experienced in the field of financial investments in Israel and abroad, pension consultants, VIP mortgage consultants, as well as experienced bankers in the fields of credit and general banking are at the disposal of the customers.
Customers with passive investments of between NIS 1 million and NIS 4 million receive investment and pension advisory services at the private banking – investment banking centers, while banking services are provided at the branch.
The private banking provides service to customers six days per week and the private banking centers in Herzliyah, Tel Aviv and Jerusalem operate from 8 AM to 7 PM (on Fridays from 8 AM to 1 PM), in order to provide service at hours convenient to customers.
The staff of international banking have a command of foreign languages, according to the language of the customer they serve.
In addition to the general banking services, additional services are at the disposal of customers, such as: direct access to dealing rooms, and complementary services by the Bank's subsidiaries: trusteeship and investment portfolios management, compatible with the needs of this segment's customers.
Customer relations unit acts to provide private banking customers with offers of value, particularly within the all-round marketing.
A product initiation unit acts to create unique products suitable for this segment of customers.
The advisory services department acts to create an infrastructure of research and local and international market surveys and in structuring investment models suitable for the needs of this segment of customers.

Development in the Segment's Markets and Competition

Foreign banks continued, also in this year, their marketing efforts to Israeli customers in the investments and credit fields, considered customers of high financial wealth. The year 2022 was characterized by extreme market volatility in the equity markets which featured steep interest hikes due to the flareup in inflation, both in Israel and globally, which led to a shift in customers' focus to the world of deposits and the transfer of current account balances to deposits.
Competition in the private banking segment, with respect to prices and commissions and to the level of service to customers, increased, mostly due to the competition against investment houses offering credit and reduced commissions on the capital market and with the Israeli banks in the interest arena.

Discount invest

As part of the business strategy focusing on the customer and the variety of his needs, the Bank operates a wide service in the capital market field – "Discount invest". This service offers the Bank's customers a wide and varied array of advanced technology and services layouts for capital market operations.
"Discount invest" offers innovative technological applications, the most noticeable of which is "Discount trade" – an advanced trading system, which enables customers active on the capital market, complete independence and direct communication with the Stock Exchange, while using decision supporting tools for executing their operations. Alongside the technological innovation, subscribers of "Discount trade" enjoy a level of service and unique availability of the Bank's dealing room. The service affords communication with a designated telephonic support center throughout the trading hours. The integration of the advanced technological tool and the telephonic support provides the ultimate solution for investors active on the capital market.
The service also includes foreign securities operations on the U.S. Stock Exchanges.
Within the framework of "Discount invest", the Bank positions a high bar for service, adapted to the type of activity of the customer, with maximum availability. The disposition of the consultation centers within the branch layout was completed this year. Consultation is provided by licensed investment consultants, offering personal service during the center's business hours – 08:00 to 17:30. Advisory services may be further obtained from the central telephonic investment support office until 22:00 hours, Sundays to Thursdays. The service provides continuous consulting services to investors, including foreign securities.
Customers having investments in amounts of between NIS 1 million and NIS 4 million, obtain services from four private banking centers, the investment banking segment and seven extensions countrywide, which provide specialized service, similar to that of an investment house. Thus, the customer enjoys a service experience distinguished from the banking industry. The investment consultants in these centers are personally available for customers throughout the market trading hours and also for prearranged appointments even after that.
Customers of the investment banking centers enjoy varied service lanes at attractive prices.
Customers having financial wealth enjoy a layout of private banking centers for Israeli customers, including a professional and specialized investment consulting service as regards both the domestic and the international capital markets.
For details regarding innovative digital services, see below in the "technological and innovative improvements" section.

Small and Minute Businesses Segment (Domestic Operations) - Additional Details

General

The Discount Group offers diverse services and financial products to customers of the small business segment, both at Discount Bank and at MDB. These are provided by means of a chain of some 176 branches located all over the country, in addition to a variety of direct channels.

Business Strategy, Goals and Points of Emphasis

The Bank applies strategic emphasis to the small businesses field, performing within this framework different moves regarding this segment that would enable assistance of the operation of the business will provide a proper response to the business' financial needs and will contribute to its growth.
The array for dealing with the small businesses segment is characterized by the granting of a comprehensive and professional banking service for business development, which includes focusing on all possible banking operations alongside the development of areas of relevant banking services, and which also includes integration of innovations and the introduction of tools, products and contact channels to provide a value offer that is as broad and distinctive as possible.
The Bank is implementing an operating model for small businesses, in which the emphasis is on offering of a modified and unique to the Bank's business customers, and attracting new qualitative business customers. In order to secure customized service, the service teams and credit coordinators at the branches have been grouped in a format forming the infrastructure for providing solutions that fit the business profile.

Business Strategy, Goals and Points of Emphasis for 2023

The focusing by the small and minute businesses segment continued with an emphasis on increasing the activity with existing customers, attracting new business customers and the basing of growth upon improving the models for the rating of business customers as a supporting tool for the granting of credit.
Goals have been set for controlled growth in the small and minute businesses segment, with focus and emphasis on existing and new quality customers, having a reasonable level of risk and having risk-adjusted profitability suitable for the Bank. Among other things, the following goals were set:

- Intensifying activity in the Small Business Segment - an increase in the number of customers, while focusing on reducing the number of customers wishing to leave the Bank, increasing the number of customers having banking products and increasing the number of customers seeking credit;
- Sale of products fitting to the segment's customers and addressing selected customer categories within the segment;
- Continuous focusing on improvement of the customer service level by improvement of staff proficiency, improving availability, measurement and control;
- Continuation of improving a rating model for business customers and the use thereof as a tool deciding or supporting a decision for the granting of credit;
- Expansion of the use of direct channels, with a focus on upgrading the designated website for customers of this segment – "Business +" and a designated application for business customers;
- Integration of the change within the branch network and the movement and concentration of business customers to appointed designated branches, thus maximizing the professional service granted to segment's customers.
- Implementation of an operating concept for small businesses while combining attractive value offers for this segment.

Competition

The existing competition in this segment is mainly in the banking sector. Nevertheless, the trend of granting finance to small business customers is increasing, which is provided by credit card companies, as well as through designated, private, off-banking companies that finance specific activity, such as: the purchase of vehicles, equipment, imports activity, and the provision of lines of credit for working capital purposes, the discounting of checks and factoring, and also by fintech entities. The principal steps that the Bank takes to cope with the competition, include timely response to customers' requests, development of personal relationships with customers and proposal of viable comprehensive professional solutions for financial requirements.

Service to Segment Customers

The small business segment provides the full variety of services to the segments' customers. The service is provided at the Bank's branches, including foreign trade services through a head office support unit. Also available to business customers is the possibility of receiving service via an Internet website and a designated application and over the telephone.
Customers transacting international trade business are being serviced by the foreign trade department according to their particular economic sector (see below under "Corporate Banking Segment").
Service to small and medium businesses. The Bank's small and middle market customers obtain services commensurate to their volume of operations, this in order to provide professional service appropriate to the customer's characteristics. Customers having a volume of operations of up to approx. NIS 15 million and indebtedness of up to approx. NIS 4-5 million, obtain services from the business banking teams at the Bank branches and with the backup and support of professional parties and content experts from the regional managements. Customers having higher volumes of operations and indebtedness than those stated above, obtain services from the Bank's business centers.
Business dealing room. This dealing room provides services for the purchase and conversion of foreign currency as well as for hedge transactions. The Bank conducts a focused activity for connecting business customers, both small and medium, to the commercial dealing room.
Business credit card. The Bank offers a "business key" credit card to its customers. This card is intended to provide business owners with a unique service through the use of a credit card of a key type, which enables the customer to obtain discounts at trading houses that are suppliers.
"Business +" website. A designated website for business customers. The website presents comprehensive data regarding the accounts of the business and allows customers to transact business independently from their place of business.
SMS business packages. A package that allows extension of current account services. Receiving messages regarding the following matters are available: notice in advance as to the termination of a guarantee, outstanding balance of guaranties relating to the account, collection of post-dated checks (balance and payments), checks serving as collateral (balance, payments and shortage vis-à-vis the defined amount), order of check books, dishonored checks, etc.
Application for business customers. A designated Application for use by business customers, offering them a wide range of services and transactions regarding their current work.

The Small and Minute Business Segment at MDB

This segment is one of MDB's most notable segments and, accordingly, constitutes a central goal in its business development. Some of the customers belonging to this activity segment reside in settlements where the vast majority of the population are "non-Jewish". In order to overcome the competition existing in providing banking services to this population, MDB invests resources in advertising, creating personal contacts with the customers, providing a personal service, and finding financial solutions to the array of its customers' business needs. It does this by providing banking services by means of employees who are involved in the customs and culture of the customers belonging to this population segment and provide them with a service that meets their special needs.

Medium businesses Segment (Domestic operations) - Additional Details

Service to Segment Customers

Customers of the group's Medium businesses segment are medium size business customers (middle market). These customers enjoy personal, professional and quality service relating to all their financial needs (one stop shop). The service includes the modification of the varied banking products to their different needs as regards credit and guarantees, currency hedge, international trade, financial instrument activity, credit card clearing settlement, specialized investments in the capital market, factoring and more. Besides these services, the Bank offers solutions for the financial needs of company owners, their executives and staff, who enjoy terms granting them the status of preferred customers.

Service to Bank customers is provided by five business centers that operate nationwide: Jerusalem, Tel Aviv, the Sharon Region, Haifa and the Lowlands.
The service provided by the business centers is integrative, provided by teams which include a business center manager, customer relations managers and credit experts, with the assistance of the team handling loans and guarantees. In order to adapt the service to the business customer, which are located at the business centers, while assisted by the branch layout.
The hi-tech department in the Corporate Division ("Discount Tech") is the banking arm of the Discount Group for hi-tech companies. This department handles startup companies and hi-tech companies from the seed stage to the hyper growth stage. Discount Tech offers credit lines and venture lending as from the primary revenues stage, subject to compliance with the relevant underwriting terms. Most of the companies that are customers of this department comprise companies of the medium business segment; however, the department serves also companies from the small and minute businesses segment and up to unicorns and fast growth companies, being members of the large business segment.
Furthermore, service to customers of the diamond sector is provided by the Diamond Exchange Branch, which specialty is the management of accounts of diamond traders, while specializing in all services unique for this sector.
The foreign trade department serves customers engaged in international trade. The Internet website "Business +" stands at the disposal of the segment's customers. (For further information, see above, "Corporate Banking Segment").
Business dealing room designed for providing operating services to middle-market and small business segments customers and provides purchase and conversion of foreign currency services and performing hedge transactions.
In addition to the middle-market activity at the Bank, included in this segment is also the middle-market activities of MDB.

Goals and Points of Emphasis for 2023

- Growth targets have been set for the medium business segment while focusing and placing an emphasis on existing and new, quality customers having a reasonable risk level and satisfactory risk-adjusted profitability for the Bank;
- The teams at the business centers offer customers of this segment many financial options, are active in devising customized solutions to customers and comprise a professional service address to all financial needs of the customer;
- Expanding the activity with customers operating in economic sectors that are preferred for growth according to the Bank's credit policy, while reducing activity with economic sectors having a high risk level;
- Continuation of professional qualification amplifying the control and monitoring processes by way of improving the quality of analyzing the monitoring results of customer condition.

Anticipated Developments in the Segment's Markets

In its last interest decision, at the beginning of 2023, the Bank of Israel raised the interest to 4.25%. The scope and raising pace of future interest in Israel and abroad are expected to have a significant impact on economic growth characteristics in the coming year.
Developments in the segment's markets in the high-tech sector and in the commerce sector – for details, see "Large Businesses Segment" in the "Developments in the Segment's Markets" section.

Competition

High competition exists among the banks operating in Israel in the granting of credit to this segment. Furthermore, competition exists also with off-banking financial institutions. The main competition is in the interest rates and commission offered to customers as well as in the collateral required and in the related terms such as the rate of financing.

Large businesses Segment (Domestic Operations) - Additional Details

General

The business segment specializes in comprehensive financial services ("one stop shop") to large corporations, including an in-depth review of the needs of the corporation and in providing customized creative financial solutions.

Business Strategy, Goals and Points of Emphasis

In 2022 the Bank continued to act in the ordinance with the work plan for the corporate banking segment, while focusing on the raising of returns on risk assets and a customer focused view. Among other things, the Bank acted towards modifying the credit spreads to risk levels, and to the reduction in exposure to high risk level operations, with the aim of improving the credit portfolio.
In addition, the Bank focused on syndication transactions in the infrastructures field, as well as the management of the credit portfolio from the aspect of pricing a risk adjusted return.
In addition, the Bank strictly monitors large customers and borrower groups at a high level of risk. For further details, see "Credit risk management" in "Exposure to risks and risk management".
In 2023, the Bank will operate in a wide variety of segments and economic sectors, whilst spreading out its credit portfolio and reducing exposure to segments in which the risk involved has been identified as higher than average. This, while shifting risk assets to usages earning a high return.
Within the framework of the focusing by the Bank on value maximization with respect to the risk asset portfolio in the corporate banking segment and attainment of the capital adequacy goals, the following principal development directions have been defined with respect to the year 2023:
- Activity in a wide range of segments, economic sectors and credit products, in order to create the most beneficial distribution within the portfolio;
- Leading syndication transactions in conjunction with institutional bodies;
- Widening the array of services to customers while increasing the risk adjusted return;
- Increasing the income derived from a risk asset while setting a risk adjusted price as well as an increase in activity related to the various products;
- A decline in the existing risk profile by means of defining the credit appetite levels to the various economic sectors;
- Utilizing the Group synergy and the existing relative advantage of each of the subsidiaries in the field of credit (targeted populations, products, geography);
- The Bank will refrain from credit operations that involve fear of damage to the goodwill of the Group or the Bank, among other things, areas related to money laundering or the finance of terror.

The above said is considered a forward looking statement. The above reflects the evaluation of the Bank's management keeping in mind the information available to it at date of preparation of the financial statements, with respect to the state of the economy and of the global economy, as discussed above in this Section and in "Main developments in Israel and around the world in 2022". The foregoing may not materialize in case of a significant decrease in demand from overseas due to a noticeable decrease in the recovery and growth rates in certain overseas markets, a significant decrease in local demand due to deterioration of the security-political situation, a decrease in available financing resources on overseas and domestic financial markets, significant volatility in interest rates and exchange rates around the world and in the global economy, and other changes in macro-economic conditions, which are not under the Bank's control.

Service to Segment Customers

Financial support to large corporations is provided by business managers and product experts of the corporate layout of the Corporate Division.
The teams are composed of a business manager, customer relation managers and credit experts, comprising an address to all the financial needs of the business customer, including the customizing of creative financial solutions and advanced banking products to the needs of the customer, in areas of credit, deposits, currency hedge, international trade, factoring, credit card clearing, specialized investments in the capital market, and more.
The teams are divided according to specialization in the different economic sectors: industry, tourism, investment

funds and financing, commerce, transportation, public institutions, financial corporations, different types of off-banking finance, communication companies, financing of complex foreign trade and financing of debtors (foreign and domestic) and more.

The services of the Tel Aviv Main Branch are at the disposal of the customers. This branch specializes in serving the Bank's large corporate customers, as well as in providing services to financial and institutional bodies, including custodian services to foreign entities. In addition, the "Business+" Application is available to business customers, a designated Application providing a wide variety of services and operations.

Discount Capital offers the customers of the corporate segment assistance in the process of public offerings and private placements, including underwriting services and securities distribution, as well as services regarding investment banking. Some of the segment's customers utilize the services of the Bank's trading desk (see below, "Finance management segment") and the Bank's overseas offices (see below, "International operations segment").

Products and Services

The services offered include current financing according to customer needs, including among other things, foreign trade activity and the trading desk, financing of investments for maintaining and expanding activity, the financing of acquisitions and mergers, granting credit to capital market operators, and the comprehensive handling of institutional bodies, providing finance for large transactions by way of organizing syndication, in which institutional bodies as well as Israeli and foreign banks participate, and granting credit to Israeli corporations operating abroad.

In addition, these include related services such as deposit accepting and investment activities, derivative financial instrument activities, granting financial guarantees, execution and so forth.

Foreign trade activity at the Bank is performed at the Foreign Trade Unit of the Operations and Properties Division and at the Complex Foreign Trade Financing Unit of the Corporate Division. The two units provide varied services to customers of the different business sectors that engage in international trade. The business activity of the foreign trade unit includes all the services in the foreign trade field that the customer requires (import, export, finance, conducting factoring of foreign guarantees, etc.). In addition to conducting the activity, intensive activity continues in the preservation and development of relations with existing customers as well as in attracting new customers, while initiating business meetings and the visiting of customers together with the business unit managers of the Bank's various divisions.

Substitutes for Products and Services of the Segment and Changes therein

As a substitute for bank credit to customers of the business segment, alternative financing products offered by off-banking financial institutions in general and institutional entities in particular have been developed. These bank credit substitutes include the raising of finance by way of the issue of shares, bonds and other securities on the capital markets in Israel and abroad, including direct credit offered by such entities. In situations of expanding business activity and improvement in business performance of companies operating in the local and foreign markets, the availability of off-banking financing sources has increased with respect to certain of the large and financially stable customers.

Wherever the possibility to raise funds on the capital market exists, off-banking finance serves as an alternative financing resource, primarily for the long and medium term credit products, thus contributing to the reduction in the volume of this kind of credit in the credit portfolio reflecting the activity of this segment.

Legislative Restrictions, Regulations and Special Constraints applicable to the Segment

The principal restrictions applicable to this segment are briefly described hereunder.

Proper Conduct of Banking Business Directive No. 313. According to the directive, the indebtedness limit for a single borrower (that is not a bank) stands at 15% of the bank's capital, the indebtedness limit for a group of borrowers stands at 25% of the bank's capital and the indebtedness limit for a group of banking borrowers or a group of credit card borrowers stands at 15% of the bank's capital. The total indebtedness of borrowers, groups of borrowers, groups of banking borrowers and groups of credit card borrowers, whose net indebtedness to the banking corporation exceeds 10% of the bank's capital, is not to exceed 120% of the bank's capital.

The definition of capital for the purpose of computing the limitation was restricted to the Tier 1 capital only (net of supervisory adjustments and deductions) within the meaning of Proper Conduct of Banking Business Directive No. 202. As of December 31, 2022, no deviations existed to the limitations as set in the directive.
The Bank classifies its investments in securities issued by U.S. federal agencies as part of credit to the public. According to a clarification received from the Supervisor of Banks, the investment of the Group in securities of U.S. federal agencies is averaged at 50% for the purpose of computing the liability according to Directive 313.
The Supervisor of Banks published on October 27, 2019, an amendment to the Directive, which adds restrictions relating to indebtedness of a borrower/groups of borrowers engaged in speculative activity. The Amendment takes effect on July 1, 2020.
A circular was issued on April 7, 2022, updating Proper Conduct of Banking Business Directive No. 313, within the framework of which, it had been determined that the calculations relating to derivative financial instruments shall be made in accordance with Directive No. 203A instead of Appendix "C" in Directive No. 203. In addition, it had been determined that deductions from the indebtedness, which were not included in the amount of exposure to derivative financial instruments, would be allowed.
On November 17, 2022, the Banking Supervision Department approached the banking corporations as part of a quantitative impact survey regarding major exposures, aimed at estimating the likely effect of updating Proper Conduct of Banking Business Directive No. 313, "Limitations on the indebtedness of a borrower and a group of borrowers". Following analyzing the results of the survey, a draft directive will be formulated that will be brought to the advisory committee for discussion. A draft amendment to the directive, which serves as the basis for conducting the survey, was published on November 17, 2022. The update to the directive deals, at a group level, with the risk of potential harm to the repayment ability in the event of default by an individual counterparty or by a group of related counterparties.
The limitation on "related persons". Proper Conduct of Banking Business Directive No. 312 imposes a restriction on the granting of credit to all "persons related to the bank", as defined in the Directive, so that it would not exceed 10% of the bank's equity. As of December 31, 2022, there were no deviations from the said limitations. A number of changes to the said Directive took effect on January 31, 2022, inter alia, in order to facilitate the implementation thereof by banking corporation, though with no change in the central principles standing at its base.

Credit risk insurance policy

The Bank has purchased an additional policy to insure Sales Law guarantees for the optimization of the insurance coverage on this type of exposure in the credit portfolio. This policy supplements the existing policies that the Bank purchases to insure credit risks on Sales Law guarantees, performance guarantees and loans to finance land purchases. Within the framework of the polices, the Bank transfers part of the credit risk to an international consortium of reinsurers. According to Proper Conduct of Banking Business Directive No. 203, the international rating of the reinsurers allows the Bank to perform a replacement of counterparty risk, thereby reducing the capital allocation for the insured assets by up to 80%.

Review of Developments in the Business Sector in 2022

Israel's economic activity has continued to indicate fair growth, with the growth level continuing to be high, but also of a decrease in growth rate recorded in the second half of 2022. For the year as a whole, business product grew by 7.8%, following a growth of approx. 10.3% in 2021. In the last quarter of the year an accelerated growth in GDP was recorded, at an annual rate of 5.8%, and of the business product at a rate of 7.3%, to a large extent on the background of a surge in car imports, while exports of other services (mainly high-tech) and industrial exports contracted sharply, and private consumption excluding vehicles recorded a moderate decrease.
Presented below are the main factors that affected development of the business product in 2022, compared to 2021:
- private consumption expanded at a rate of 7.5%, with the consumption of services recording a steep rise at a rate of approx. 16%, similar to that in 2021;
- investment in fixed assets (excluding ships and airplanes) recorded growth of approx. 10%, as a result of strong growth in the construction of residential and nonresidential projects alongside a steep rise in car imports and an increase in investments in machinery and equipment;

- concurrently, exports (excluding startup companies and diamonds) expanded by approx. 9%. Exports of other services, mostly hi-tech services, continued in a positive trend, growing at an impressive pace of 9%, while industrial exports expanded by approx. 4%. A dramatic surge was recorded in income from tourism, following the unprecedented decrease in the years 2020-2021;
- public consumption (excluding defense imports) grew by 1%, with no movement in the component regarding civilian consumption purchases, and a steep regression in local purchases by the defense establishment.

As a consequence of the aforesaid developments, growth of approx. 7% was recorded in the total applications in the economy, and concurrently, imports of goods and services (excluding defense imports and the import of ships, aircraft and diamonds) grew at a steep rate of approx. 12%, with sharp growth in the import of services and higher imports of goods.

Developments in the Debt of the Business Sector

At the end of November 2022[10], the debt of the business sector (excluding banks and insurance companies) amounted to NIS 1,220 billion, an increase of approx. 10% compared to the end of December 2021 (all rates of change are in nominal terms and are affected by changes in exchange rates and in the CPI).

Indebtedness to banks recorded growth of 14%, concurrently with a 10% rise in indebtedness to institutions, primarily by means of bond issuances. At the same time, the debt to foreign residents increased by 2%, and the debt to households increased by approx. 5%. In consequence of the said trends, the weight of the banks in the total indebtedness of the business sector increased, reaching 54% at the end of November 2022, as compared with 52.2% at the end of 2021.

In the course of 2022 the business sector raised funds (on the Tel Aviv Stock Exchange), excluding banks and insurance companies, through bond, in an amount of approx. NIS 48 billion, compared with approx. NIS 50 billion in 2021.

The margin between corporate bonds (included in the Tel-bond 60 Index) and government bonds at the end of 2022, amounted to 1.78%, as compared to 1.11% at the end of 2021. The widening of the margin is in step with the steep rise in government bond yields and the negative sentiment on the stock exchange.

Developments in Segment Markets

A rise in the geopolitical risks, the foremost of which is the Russia-Ukraine war, alongside a significant rise in inflation and the interest environment might lead to economic activity being harmed and even to concern of a recession. Further to the aforesaid, the economic activity risk level has risen, and the value of marketable assets has fallen and, in recent months, a modest rise in unemployment has been observed as well as a decline in the number of vacant positions, particularly in the high-tech sector.

Following are development directions in the principal economic sectors:

- The high-tech sector is coping with a substantial downturn in the scope of capital raisings. This has led, inter alia, to a reduction in manpower and to a reduction in the scope of employee recruitment;
- Commercial sector – The sector's performance aligns with consumer purchasing power, which is derived – inter alia – from the unemployment rate;
- Real estate sector - for details, see below ””Construction and real estate activity” in the Chapter ”Additional details regarding activity in certain products”.

Anticipated Developments in the Segment's Markets

In its last interest decision, at the beginning of 2023, the Bank of Israel raised the interest to 4.25%. The scope and raising pace of future interest in Israel and abroad are expected to have a significant impact on economic growth characteristics in the coming year.

8 The most updated data available at the time of submitting the report to print.

Construction and Real Estate activity

Service to customers of the segment

The business activity in the construction and real estate segment is conducted through the Corporate Division's real estate wing and commercial wing. These wings specialize in providing a dedicated response to both large companies and also to medium level corporations engaged in entrepreneurship and investment in residential and income generating real estate in the local market. In addition, the financing operations of the segment are performed by business centers in the Banking Division.

In the corporate layout there is a unit that handles complex transactions for the finance of investments in national infrastructure projects (energy, electricity, water and desalinization plants and toll roads, mostly by the PPP method).

MDB provides the service to customers of this segment by means of the real estate department dealing with all real estate companies conducting business with this bank and engaged in entrepreneurship that includes financing through the "closed project finance" method, for construction projects principally residential buildings (handled by the construction project finance department), contract construction, income generating real estate and real estate holdings (handled by the real estate department).

Products and services

The services that are provided include financing real estate transactions in all the segments – land financing, accompanying the setting up of projects, "Vacate and Build" transactions, income generating properties, residential rental property and the Encouragement of Capital Investments Law, as well as credit for national infrastructure projects in the construction and operational stages.

Directions of business development in the markets activities

The Bank defined the following fields of activity in preferred areas for the allocation of credit facilities:

- Closed housing project financing, including small projects in central demand areas in central Israel and in peripheral areas, while maintaining a distribution of credit to borrowers in this field;
- The purchase of new lands available for building in preferred areas in the center of the country and in peripheral areas, where for which the Bank intends to finance housing projects in the form of closed project financing;
- Financing of significant "Vacate and Build" transactions, combination/exchange transactions and "Vacate and Build" (TAMA 38/2) programs;
- The Bank is active in the leading and financing of projects in the national infrastructure field, in cooperation with other banks and/or institutional bodies, that include identified and secured long-term repayment resources having a high certainty level.

Alternatives to products and services of the operations and changes therein

Off-banking financing constitutes an alternative financing source for long and medium-term credit used for the financing of investments and/or the purchase of income producing property, while in building projects, customers generally prefer the use of medium-short term bridging finance for the set up period and/or providing Sales Law guarantees.

In the infrastructure field, where the period of operation/yielding of the project is relatively long, the banking system has an advantage in financing the initiation and construction stage (short to medium term) in contrast to the need to combine institutional bodies in the long-term financing.

Structure of the competition prevailing in the operations and changes therein

Competition exists in this sector both on the part of banking corporations and on the part of institutional and/or off-banking bodies, which in recent years have established units engaged in the granting of credit for the finance of long-term nonmarketable properties. Some of the institutional and/or off-banking bodies have even expanded their activity in providing Sales Law guarantees to purchasers of residential properties as well as performance guarantees.

Coping with competition

The Bank operates a syndication unit in the Corporate Division with a view of increasing exposure to these types of transactions, with a focus on undertaking the organizer and coordinator roll, strictly adhering to the underwriting principles, regulatory limitations and the risk appetite level. Sale of the debt is subject to the Bank of Israel instructions and the Bank's policy.
Other means for facing with the competition are the offer of professional service, timely response and establishment of a comprehensive and ongoing communication system with customers, while maintaining an overall view of their financial needs.

Credit policy in the construction and real estate activity

The credit policy for this sector focuses on the financing of operations in Israel, giving preference to borrowers having financial strength with extensive experience in this field, with whom the Bank has positive business relations.
The financing of initiating residential construction projects and income generating real-estate projects is to be executed by the closed loan method, under minimum requirements, including borrower's equity capital, required project profitability, compliance with stress tests, absorption ability, early sales and more.

Legislative and regulatory limitations and special constraints applying to the activity

The limitations described above applying to the business segment also apply to construction and real-estate operations. In addition, it should be noted in the Proper Conduct of Banking Business Directives no. 315 regarding a sectoral indebtedness limit, a limitation was set to apply to industry credit concentration, where that part of the credit being the responsibility of the banking corporation (including off-balance sheet credit) granted to a certain industry, as defined in the Directive, exceeds 20% of total credit to the public being the responsibility of the banking corporation. The rate of Bank's exposure as regards credit to the construction and real-estate industry as of December 31, 2022 reached a rate of 17.03% (17.12% at the end of 2021).
The Supervisor of Banks announced on December 7, 2020, that with the aim of continuing the support of the construction and real estate sector during the Corona crisis period and thereafter, the sectional limitation on the construction and real estate sector shall be updated, as follows: Proper Conduct of Banking Business Directives Nos. 250 and 315 in the matter of "limitation on sector indebtedness" – the effect of the relief stated in the Provisional Instruction, which allowed banks to increase exposure to the construction and real estate sector from 20% to 22% (excluding national infrastructure projects) shall be extended to the year 2025; the limitation on exposure to the construction and real estate sector (including national infrastructure projects) was increased from 24% to 26%; and it is determined that credit secured by qualified credit insurance shall be classified according to the insurer sector.
The Supervisor of Banks published on January 7, 2021, additional modifications to Proper Conduct of Banking Business Directive No. 250 (Provisional instruction for the confrontation with the Corona crisis) – within the framework of which, reference was made also in respect to Proper Conduct of Banking Business Directive No. 315 – limitation on sectorial indebtedness. The update states that the limitation on credit to the construction and real estate sector, after elimination of indebtedness of national infrastructure projects, shall be increased from a rate of 20% to 22% of total public indebtedness, and that the limitation relating to the construction and real estate sector shall be increased from a rate of 24% to 26% of total public indebtedness. The effect of the relief has been extended until the end of 24 months from December 31, 2025, provided that the rate shall not exceed the rate prevailing on December 31, 2025, or the rate of the sectorial limitation, as stated in Proper Conduct of Banking Business Directive No. 315, whichever is higher.
Requirement for a further allocation of capital. An Amendment to Proper Conduct of Banking Business Directive No. 203, was published on May 22, 2022, which states that to the list of debts averaged at the rate of 150% risk would be added loans intended to finance the purchase of land for development or building purposes at a rate exceeding 80% of the value of the purchased property (LTV). This, excludes loans financing the purchase of agricultural land having no planning horizon or intention to file a request for a change in zoning, and excluding loans financing the purchase of land for the personal use of a borrower who is not classified to the construction and real estate sector. The said Amendment took effect on June 30, 2022, though banking corporations may spread the effect of change in weight of the risk for the existing amount of loans at fixed quarterly installments until June 30, 2023.

Market developments

Residential construction. In 2022, the trend of rising housing prices continued. According to data from the Israel Central Bureau of Statistics, housing prices rose on average by approx. 17% during the year. However, in the fourth quarter of the year and at the start of 2023, a moderation was evident in the pace of price rises, together with a reduction in the number of transactions in the market and the lengthening of the time required for selling an apartment. Accordingly, a downturn has been recorded in recent months in the scope of demand for mortgages.
Income generating real-estate for office buildings. The year 2022 opened with an extremely high level of demand for office space, which led to a rise in rental prices and to high occupancy rates. Most of the demand was for large areas in prestigious properties in high demand regions. However, during the year, against the background of rising interest and concerns regarding worsening economic conditions, the scope of capital raisings in the high-tech sector began to decrease. This decrease, together with concern regarding the challenging economic environment in the year ahead, could lead to a weakening of demand for office space.
Income generating real-estate commercial buildings. Occupancy rates are currently high and stable. Looking ahead, the sectoral risk is still affected by long-term trends: an increase in the supply of properties (especially, neighborhood shopping centers) and expansion of e-commerce (an increase in demand for plots intended to be used as logistics facilities for the distribution of retail trade products). The growth potential corresponds with retail trade performance and, in a broader sphere, with the Israeli consumer's purchasing power and, hence, with growth and employment data.

Expected developments in the activity

Residential construction. In light of the rising interest, which has caused both construction costs and credit to finance apartment purchases to become more expensive, and after a prolonged period of steep rises in apartments prices, the residential units market is expected to start cooling down. However, in the Bank's opinion, there is still a surplus of demand over supply, and the long-term trend continues to support the residential market.
Office and commercial income generating real estate. In the coming years, with large volumes of new office space and commercial areas coming onto the market, most in the areas of demand, surplus supply and a reduction in rentals in certain regions may occur. The income-producing real estate market is affected to a large extent by the economy's growth and employment characteristics. In addition, this sector is highly leveraged and, accordingly, is sensitive to a rise in the rate of interest.

Institutional bodies Segment (Domestic operations) - Additional Details

Condensed description of the characteristics of the segment

The segment is engaged in the management of funds of the investor population in Israel. Most of the investments comprise long-term fund investments (the major part thereof being pension savings), a part comprises medium-term investments (through further education funds) and a part comprises short-term investments (by means of mutual funds and ETFs).

Areas of operation

At present, the Bank serves large investment bodies in the capital market, which, among other, include insurance companies, provident funds, pension funds, managers of mutual funds and ETFs. The institutional bodies are active in the following fields: deposits, securities trading, securities lending, foreign currency, interest and derivatives (marketable and non-marketable).

Competition

With respect to a share in the activity of institutional bodies, the Bank competes against local banks, foreign banks and Stock Exchange members who are not banks. A trend of diverting investments to foreign markets on the part of institutional bodies has been noticed in recent years.

A Competitive Process

Once every number of years (generally three years) institutional bodies conduct a process in which they invite offers from the various Stock Exchange members for the provision of trading services in securities and related services. In certain of the cases, a competitive process is also performed for obtaining securities custody services.

Operating Services

At the present time, the Bank does not provide operating services to institutional bodies.

Financial Management Segment (Domestic Operations) - Additional Details

Dealing room

A dealing room acts for the Bank's customers to execute transactions in the global financial and capital markets, while providing personal and professional financial services. Dealing room customers include local and foreign banks, corporations, Private customers having a large volume of activity active on the capital market and institutional entities. Dealers and professional traders, advanced technology and computer systems, enable the dealing room to provide customers with timely, professional and competitive service. The combination of several fields of activity enables customers to obtain trading services in foreign currency, interest rates, securities and derivatives under one roof.
The dealing room is engaged in two principal areas of activity:

Over the Counter (OTC) trading - Foreign Currency and Interest Rate Trading

The OTC unit develops and adapts different market risk hedge transactions according to customer needs. The unit serves also as a "principal market maker" with respect to Dollar/Shekel and government bonds transactions.
The main transactions carried out by the unit with Bank customers, are: Purchase or conversion of foreign currency, non-marketable future contracts, options on currencies, interest rates and the CPI, interest swap transactions and other derivatives.

Trading in securities

Foreign securities. The foreign securities desk operates in a wide range of markets around the world, and is conducting brokerage transactions in a wide range of instruments: shares traded on foreign stock exchanges, options, state and corporate bonds, mutual funds and hedge funds.
Brokerage regarding Israeli securities. The brokerage desk for Israeli securities engages in the brokerage of transactions involving bonds, shares, synthetic contracts, options and convertible traded in the Israeli market. The desk provides brokerage services involving both marketable and non-marketable securities (on and off the stock market) and participates in issuance. The desk develops business, markets and attracts customers transacting a considerable amount of business, both at and outside the Bank, and maintains direct communication with institutional customers, large corporations and hedge operators active in the day-trading field.

Global Treasury

The Global Treasury unit coordinates the financial management of the Discount Group. The Unit is responsible for the asset and liability management (ALM) in the Group's balance sheet, including the management of liquidity risk, management of interest risk, inflation risk and exchange rate risk management, and managing the capital. Within the framework of the Group management, the Unit has the role of providing mandatory professional guidance at the subsidiaries.
Following are details of the principal areas of operation of the Global Treasury:
Liquidity risk management and formation of the financing plan of the Bank. Liquidity risk management is performed using internal models and regulatory models, from which the volume of liquid assets required to withstand stress scenarios is derived, and by means of a current analysis of changes in the volume of assets and liabilities of the Group. In addition, the unit recommends to Management and to the Board of Directors liquidity ratios goals and forms financing plans for the Bank and for the Group companies.
Managing the Capital. Formation of recommendations to Management and to the Board of Directors with respect to the equity ratio targets, formation of a risk asset budget for Group companies and business units, and its current management.
Market exposure management. The management of market exposure is conducted by means of a designated computer system, which calculates risk indices in relation to up-to-date data, reflecting the overall business activity at the Bank. The ALM committee, headed by the President & CEO, determines the market risk exposure targets, within the framework of limitations set by the Board of Directors as regards the risk appetite.
The raising of liquidity and investment of the surplus. The Treasury Desk operates mostly through the Bank of Israel tenders, deposits by corporate customers and SWAP transactions, the government bonds market and the interest derivatives market. The desk provides interest quotations for deposits of large customers in foreign and Israeli currency, invests the surplus short-term liquidity and conducts transactions for the hedging of the Bank's interest risk.
Raising of secondary capital and bonds. The Global Treasury Unit is responsible for the raising of secondary capital and bonds according to the capital planning and the financing plan of the Bank.
Transfer prices. A daily calculation of the Bank's internal transfer prices, serving as a basis for the pricing and measuring profitability of credit and deposits. The prices are being updated according to developments in the capital and financial markets.
Development of financial models. Development of models for the pricing and hedge of complex financial transactions, including deposits with optional linkage, premature withdrawal option regarding deposits, early repayment forecasts for mortgages and more.
"Nostro" portfolio management policy. The Bank's "Nostro" Unit is subject to the decisions of investment committee and to frameworks determined by the Bank's Board of Directors.
The investment portfolio of the "Nostro" unit, manages a facility out of the surplus liquidity balances comprising investments embodying credit margin risk – inter alia, corporate bonds, state bonds and other debt instruments.
The investment activity of the subsidiary companies, in particular, IDB Bank, Discount Capital and MDB, is conducted independently, subject to the risk limitations as determined by the Bank. The Group's "Nostro" portfolios are being managed from an overall standpoint, subject to risk limitations determined by the Bank's Board of Directors.

Deposit product management

Formation of a strategy for the management of the deposit product, while providing response to changes in the business environment. The setting up and updating of products belonging to the core system of the Bank for deposit management. Production and publication of deposit interest tables.

Competition

The financial management segment includes, as stated, the Group's activity in the dealing rooms. This area is typified by a high level of competition. The principal competitors in are the four large local banking groups. Additional competitive entities in this market are foreign banks, which have opened dealing rooms in Israel, and other financial corporations engaged in foreign currency and the Shekel interest markets, the involvement of which in these markets have grown significantly in recent years.

Business Strategy and Targets

The goals for the year 2023 set for this segment are the continuation of profitability improvement in a low interest rate environment and in a challenging macro-economic environment, and a difficult competitive environment also with respect to non-banking financial entities and fintech initiatives. All this, while maintaining a risk level according to the risk appetite of the Bank.

Investments in Non-Financial Companies

Policy regarding non-financial investments

The activity is conducted within the framework of the strategic plan, which is being updated from time to time according to the Group's risk appetite and various limitations set at the level of the portfolio and the product. Investments exceeding the determined limit are brought for approval of the Bank's Board of Directors prior to their execution.

Principal areas of operation

Practically all the nonfinancial investments of the Discount Group are being made by means of the subsidiary company Discount Capital and are divided into three principal categories:

- Investment in private equity funds (PE) and in venture capital funds (VC);
- Investment in corporations, divided into investments in traditional corporations and investments in technology companies at different stages;
- Mezzanine operations.

Non-financial investments portfolio – principal data

Scope of the portfolio. The total value of the non-financial investments portfolio of Discount Capital amounted at December 31, 2022 to NIS 2,151 million, compared with a total of NIS 1,858 million in 2021. The outstanding investment commitments of Discount Capital amounted on December 31, 2022, to NIS 847 million (approx. US$241 million), compared with a total of NIS 710 million (approx. US$228 million) in 2021, most of which in Funds the investment period of which has not yet expired.

Income. Discount Capital recorded in 2022 net income from non-financial investments in a total amount of approx. NIS 135 million. This, compared to net income in a total amount of approx. NIS 241 million in 2021.

New investments. 22 investment transactions in investment funds, corporations and mezzanine loans were approved in 2022, in a total amount of approx. US$130 million, of which, investments of approx. US$105 million were concluded in 2021.

The yield of net profit on the average value of the company's investment portfolio amounted in 2022 to 5.4% (compared to 13.0% in 2021), and the five yearly average of the said yield was 9.4%.

Investments in private equity funds and in venture capital funds

Discount Capital's strategy for investing in investment funds places emphasis on the portfolio's decentralization from the aspects of management groups, the life-stage of the portfolio companies, the activity spheres of the funds and the geographical region in which they invest. As of December 31, 2022, Discount Capital was invested in some 55 funds which were spread over 25 different management groups, most of which in two main areas:

- **Private Equity Funds** – The balance of the investments of Discount Capital in Private Equity Funds at December 31, 2022, amounted to NIS 578 million, with a balance of investment commitments of NIS 484 million (approx. US$138 million).
- **Technology Funds** - the balance of the investments of Discount Capital in technology funds as at December 31, 2022, totaled NIS 371 million, with a balance of investment commitments of NIS 313 million (approx. US$89 million). The technology funds in which Discount Capital invests specialize in investments in early stage companies and in growth stage companies.

Discount Capital's investment balances in funds amounted to NIS 1,086 million as of December 31, 2022 and the balance of its liability to funds that had not yet reached the end of their investment period amounted to NIS 839 million (US$238 million).

Distribution of investments in private equity funds and in venture capital funds

Type of fund	Balance of investment[(1)]	The balance of investment commitments	A percentage of the total volume of investments[(2)]	Principal management groups
	As of December 31, 2022			
	In NIS million			
Private Equity Funds of the Fimi Group[(3)]	412	246	22%	
Other Private Equity Funds	166	238	13%	SKY, Fortissomo
Growth Funds – Venture Capital	226	180	14%	IGP, Qumra, aMoon
Early Stage Funds – Venture Caital	145	133	9%	StageOne, Vertex
Foreign funds	108	34	5%	
Other Funds	29	8	1%	
Total	1,085	839	64%	

Notes:
(1) The data is presented in terms of book value.
(2) According to the balance of the investment in the books with the addition of the balance of the investment commitment.
(3) Among the other management groups, there is no management group, the balance of investment therein at December 31, 2022, exceeded NIS 70 million (excluding investment commitment).

Direct investment in non-financial companies

The direct investments balance of Discount Capital as of December 31, 2022 amounted to NIS 867 million, in some 55 companies (as of December 31, 2021 amounted to NIS 749 million in some 50 companies).
In 2022, Discount Capital made 14 direct investments in corporations, in a total amount of approx. NIS 98 million, of which, 11 investments in technology companies at different stages of development, in a total amount of approx. NIS 77 million, including investments within the framework of the innovation plan and investments in the fintech field.

Legislative and regulatory limitations and special constraints applicable to the investments operations

Section 23 A (a) of the Banking (Licensing) Law, specifies that the amount of any means of control held by a banking corporation in non-financial corporations shall not exceed the following proportions of the capital of the banking corporation, as shall be determined for this purpose in rules prescribed by the Governor, after consultation with the Advisory Committee and with the approval of the Minister of Finance -
(1) Up to 15% of its capital - in any non-financial corporation;
(2) Up to a further 5% of its capital - provided that it does not hold in corporation more than five per cent of a certain class of means of control and it is not entitled to appoint a director;
(3) Up to a further 5% of its capital - in non-financial corporations which are foreign corporations that do not conduct any material and continuing business operations in Israel.
As of December 31, 2022, the Bank was far from reaching the restriction on investment in non-financial corporations.

Within the framework of the Banking Law (Licensing), restrictions have been prescribed whereby a banking corporation may not hold more than 1% of a certain class of the means of control of a significant non-financial corporation or in an insurer, being a significant financial entity (a significant non-financial corporation is a corporation the volume of operations of which, or the volume of its credit exceed approx. NIS 6.5 billion or on approx. NIS 2.05 billion in monopolized markets, and which is included in the list of significant non-financial corporations published according to the Concentration Law). Notwithstanding the aforesaid, a banking corporation may hold more than 1%, but not more than 10%, of a single significant non-financial corporation or of an insurer, being a significant financial entity. As of December 31, 2022, no violation of these restrictions exists.

International Operations Segment - Additional Details

General

The foreign operations of the Discount group are conducted by a subsidiary company in the United States (for details regarding the closing down or sale of operations of part of the extensions, see below).

Business Strategy, Goals and Points of Emphasis

In 2022, IDB Bank continued in the implementation of its five year strategy. The strategic plan has been updated and places emphasis, inter alia, on liquidity and growth aspects, as well as on workforce retention. As part of the strategy, IDB Bank acts to expand its activity in the field of financial wealth management, by way of establishing a joint venture with a leading American entity in this field. The operation has been granted the necessary regulatory approvals in the United States and a permit was received for it from the banking supervision.

Legislative Restrictions, Regulations and Special Constraints applicable to the International Operations

Exposure restriction with regard to overseas extensions. According to guidelines of the Supervisor of Banks, a board of directors of a banking corporation, which operates or intends to operate by means of overseas extensions, is required to discuss and approve a comprehensive policy document with respect to the operations of overseas extensions. Within the framework of the said statement of policy, the Board of the banking corporation is required, among other things, to determine a restriction or a set of restrictions as to the exposure regarding the activities of overseas extensions, which should reflect the risk appetite applying to the operations of the overseas extensions, on condition that the principal part of the operations of the banking corporation and the banking group is located in Israel.

On December 31, 2022, the calculated rate of the Bank’s exposure with respect to overseas extensions stood at 13.91% of total risk assets, as compared with 14.22% on December 31, 2021. The said exposure rate complies with the exposure limitations set by the Board of Directors, within the framework of the risk appetite declaration of the Discount Group (restriction of the exposure rate, as stated, was 25% on December 31, 2022). The Bank monitors the development of the risks assets for its operations in overseas extensions.

IDB Bank - Risk Based and Leverage Capital Ratios. Beginning on January 1, 2015, IDB Bank became subject to new Basel III capital rules based on the final rules published by the FRB in July 2013 (the “Basel III Capital Rules”). The new rules establish a new comprehensive capital framework for U.S. banking organizations.

The rules apply to all depository institutions and banks holding companies with total consolidated assets of $500 million or more, Among other things, the new rules establish a new common equity tier 1 (”CET1”) minimum capital requirement and a higher minimum tier 1 capital requirement, and assign higher risk weightings (150%) to exposures that are more than 90 days past due or are on nonaccrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real estate. The rules also limit dividend distributions by certain banking organizations as well as discretionary bonus payments if the banking organization does not hold a “capital conservation buffer”, consisting of a specified amount of common equity tier 1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer came into effect in 2016.

The Basel III Capital Rules became effective on January 1, 2015, subject to a phase-in period. The minimum capital ratios required as of January 1, 2016 are as follows:
- 4.5% CET1 to risk assets;
- 6.0% Tier 1 capital to risk assets;
- 8.0% Total capital to risk assets; and
- 4.0% Leverage ratio.

IDB Bank complies with the requirements.

U.S. legislation. Following the crossing of the US$10 billion line of total assets in 2020, IDB Bank has been defined as a "Large bank" to which different regulatory requirements apply, and accordingly, these are being prepared for by IDB Bank. Among other things, different instructions apply to it with respect to activity in derivatives and to the methodology for computing the deposit insurance. With the crossing of the line, the activity of IDB Bank is subject to supervision by the Consumer Financial Protection Bureau, the authority of which relates to compliance and to different instructions intended for the protection of customers. In addition, there is a change in the frequency and intensity of the regulatory audits of IDB Bank, performed by the FDIC and the NYDFS, making them more extensive and sequential in a way that presents a higher supervisory anticipation. Within the framework of the above stated, IDB Bank may be required to expand and intensify its internal controls, the compliance plan and the risk management. The US regulators have the authority to adopt public and non-public enforcement measures, in different circumstances, including in cases of identifying financial or operating weaknesses, deficiencies in corporate governance or other deficiencies, as well as cases of violation of Regulations. Within the framework of these enforcement measures, Regulators may order different measures, including measures to correct deficiencies or the discontinuation of certain practices, as well as increasing the capital, limiting growth, restrictions on profit distribution, termination of office of Officers, as well as the payment of penalties or civil indemnification.

BSA/AML. As required under the USA PATRIOT Act and the Bank Secrecy Act (the "BSA"), Israel Discount Bank of New York ("IDB Bank") has adopted a BSA compliance program, which includes policies, procedures and controls for the prevention of money laundering and terrorist financing. As a result of the identification of certain issues regarding IDB Bank's BSA compliance program, IDB Bank committed to applicable regulatory authorities in the US to take steps to address these issues and is working to do so, and, among other things, has approved a voluntarily-initiated comprehensive remediation plan and has taken steps in furtherance of that plan. IDB Bank is subject to ongoing oversight by these authorities on this matter and was informed that, as a result of such oversight, it will be asked to enter into consent orders with these authorities. IDB Bank expects that such orders would require IDB Bank, among other things, to further enhance its policies, procedures and controls and staffing levels and undertake a review of prior transactions. IDB Bank further expects that such orders would not impose fines or penalties. Such orders would result in additional expenses and compliance costs, could negatively influence reputation and may limit IDB Bank's ability to obtain regulatory approvals for new business initiatives that require such approval.

There is no certainty as to the nature, scope, consequences or timing of any such order. As of the date of the approval of this Report, the Bank believes that these measures, to the extent imposed, would not have a material financial impact on the Bank's results.

Forward looking information. The above information forms forward looking information constituting an assessment based on existing information at the hands of the Bank at date of publication of these reports. Such information includes, inter alia, reference to future events the materialization of which is uncertain, based on assessments and data at the hands of Management of the Bank, and is conditional upon the existence of different factors, which existence is uncertain, inter alia, in relation to the regulatory measures that might be applied, as discussed above.

Guidelines of the Supervisor of Banks. In 2016, the Supervisor of Banks published several guidelines regarding cross-border risks, which have been applied by the Supervisor of Banks also to operations of a banking corporation outside Israel. Accordingly, IDB Bank is preparing for the implementation of these guidelines with modifications required by the local laws applying to it.

Taxation

For details regarding taxation of overseas banking subsidiaries, see "Taxation" hereunder and Note 8 L to the financial statements.

Service to Segment Customers

In addition to the main branch in New York and the branches in Brooklyn, Staten Island and New Jersey, IDB Bank operates branches in South Florida, and South California. IDB Bank offers diverse private banking and commercial banking services, both to US and international customers.

Services and Principal Products of IDB Bank

Credit. IDB Bank provides bank credit to a wide array of U.S. and Israeli corporations, operating in the U.S., to their shareholders and to private banking customers.
Middle Market. IDB Bank grants credit to the middle-market segment, operating in various fields in the New York metropolitan area, Miami and Los Angeles. Customers are being offered a large variety of services, including foreign trade and financing operations in respect thereof, the financing of commercial real estate, including financing the purchase of commercial real estate and the financing of housing projects (Multi Family), as well as the financing of the health institutions, not-for-profit organizations and domestic activity of Israeli corporations.
Revolving Credits. These loans include the financing of inventory and trade receivables and allow the financing of working capital through the leveraging of the customer's current assets.
Factoring. This activity includes instituting credit facilities against trade receivables of the customer and allows him to improve the collection process from such customers.
Hi-Tech customers. Activity that includes the granting of credit to hi-tech customers (Hi-Tech lending).
Private Banking. IDB Bank provides varied private banking services to customers, who are U.S. residents (local private banking) as well as non-U.S. residents (international private banking), having a high level of personal wealth.
At the disposal of these customers are, among other things, securities management and trusteeship services as well as different credit services, and products and services of IDB Capital, as subsidiary of IDB Bank, engaged in securities transactions and insurance products in behalf of customers.

Credit Card Operations

Structure of the field of operation

Use of credit cards as means of payment is made possible upon the combination of several factors, an issuer, a clearing agent, a trader and a customer (the credit card holder), all of which are bound by separate and independent agreements (direct or indirect agreements, by virtue of the issuer and the clearing agent being members of an international organization that provides the franchise for the credit card brand name). These contractual engagements provide the infrastructure for communicating the relevant data for settling the payments relating to transactions paid by credit cards.
The card holder has a contractual engagement with the issuer, to whom he pays a fee for the issue of the card and its current operation. The trader enters into an agreement with the clearing agent. In this framework, the clearing agent, in consideration for a commission, undertakes to credit the trader related to it, in a manner secured in advance, with the consideration due to the trader for the transactions made with him by the customers holding the credit card of the brand that is being cleared approved by it and examined with the issuer. The commission collected by the clearing agent for clearing services to the trader is the "Trader commission". The clearing agent, on his part, pays the issuer an issuance commission called "Cross commission". This commission is embedded in the trader commission collected by the clearing agent. Namely, the trader commission is composed of the clearing commission and the issuer commission.
According to publications by the Central Bureau of Statistics, over 90% of the adult population of Israel uses credit cards as a means of payment, the Israeli consumer holding an average of 2.3 cards in their possession. ICC estimates the number of credit cards in Israel at December 31, 2022 was approx. 13.4 million. Furthermore, some 110 thousand trading houses and marketing chains in Israel allow purchases using credit cards.

The Operations of ICC

ICC operates in two sectors of the main activity in the credit card market: issuance of credit card (including finance to private individuals) and clearing of credit card transactions.
ICC directly issues, markets and operates credit cards of the "VISA", "Diners" (exclusively) and "MasterCard" types, valid in Israel and abroad, and also has joint issue agreements with banks that participate in the arrangement. The Bank is currently engaged in a joint issuing agreement with ICC, Diners and MAX (see Note 36 B 1).
In the issuance field, ICC issues (directly and through Diners Club, a fully owned and controlled company) credit cards that are divided into two main groups: (a) Bank credit cards - issuance of cards to customers of banks in the arrangement with which ICC has agreements for co-issuance. These cards are issued and operated by ICC, which bears the damages resulting from the counterfeiting or theft of the cards. On the other hand, the banks provide credit to the customer and bear the entire credit risk; (b) Off-banking credit cards - issuance of cards directly by ICC. As regards to these cards ICC, through subsidiary companies, provides to the customer the credit facilities and bears the overall risk relating to transactions made by use of the card.
ICC estimates that, as of September 30, 2022, based on the financial statements of its competing companies, ICC's market share of the total bank card issuance turnover is approx. 31%.
ICC offers its customers various loans for any purpose, including "no card loans" and loans to finance the purchase of a motor vehicle through Shlomo Cal Company Ltd., spreading of charges plans (such as deferral of charges, credit transactions, revolving credit, a fixed monthly debit, monthly debit at the customer's choice – "CAL Choice" and more), as well as rechargeable cards.
ICC clears "VISA", "Diners" and "MasterCard" credit cards that are valid in Israel and abroad, and "IsraCard" credit cards (in Israel only).
In the clearing field, ICC offers its customers voucher factoring services, loans, the advancing of payment dates and the granting of advances. Most of the marketing efforts in the clearing field are directed at trading houses, including chains, through focusing on their needs.
ICC estimates that, as of September 30, 2022, based on the financial statements of its competing companies, ICC's market share of the total off-banking card issuance turnover is approx. 31%.

Quantitative data regarding the activity of ICC

	December 31, 2022		December 31, 2021	
	The total number of cards	Of which: active cards	The total number of cards	Of which: active cards
	in thousands			
Bank cards	2,323	2,013	2,157	1,867
Off-banking cards	1,882	1,317	1,825	1,276
Total	**4,205**	**3,330**	**3,982**	**3,143**

Transactions turnover		
	For the year ended December 31, 2022	For the year ended December 31, 2021
	in NIS millions	
Bank cards	107,091	92,595
Off-banking cards	42,760	36,269
Total	**149,851**	**128,864**

Notes:
(1) "Bank card" - A credit card issued jointly with the banks in the arrangement and under their responsibility.
(2) "Off-banking card" - A credit card issued by ICC, separately from the banks.
(3) "Valid card" - A valid credit card which is not blocked.
(4) "Transactions turnover" - Includes transactions made using the credit card and debits for transactions payable in installments, less the credits made to the banks or their customers for the use of credit cards during the same period and fees and commissions collected for the banks or for ICC. The transaction turnover does not include withdrawals of cash through the automatic teller machines in Israel.
(5) "Active card" - a credit card through which at least one transaction was made in the last quarter.

New activities and strategic collaborations

The Strum Law. For details regarding the uncertainty stemming from the implementation of the Strum Law, see Note 36 B to the financial statements.

Arrangements following the Strum Law. For details regarding the signing of agreements between ICC and Bank Leumi and ICC and Bank Hapoalim on the one hand, and between the Bank and LeumiCard on other hand, see Note 36 B to the financial statements.

An agreement for cooperation with Electra Consumer Products and Hapoalim Bank. On March 20, 2022, ICC has reached an understanding in principle with Electra Consumer Products (1970) Ltd. ("ECP"), according to which, the parties would engage in an agreement for cooperation in the establishment of an off-banking customer club based on credit cards, covering all the retail chains of the ECP Group.

On May 10, 2022, ICC, ECP and Hapoalim Bank Ltd. ("the parties") signed an updated agreement in principle ("the updated agreement in principle"), which states that the parties would engage in a tripartite cooperation agreement for the establishment of a joint customer club based on an off-banking credit card. The agreement is based upon the renewed agreement in principle of March 2022, subject to certain modifications.

On August 9, 2022, the parties signed a tripartite agreement with ACP and with Bank Hapoalim, for cooperation in connection with the activity of a customer club based on an off-banking credit card issued by ICC, intended for BIT customers and for customers of the retail stores chains of ECP, in which customers of the BIT-Card Club and customers of the Family 365 Club would be included ("the Club"), for a period of twelve years from date of fulfillment of the conditions precedent according to the agreement. The agreement would be renewed automatically for three years each time, unless any of the parties informs of his wish not to renew the agreement, all according to the terms and accords detailed in the agreement.

The aim of the credit-card Club is to provide value and benefits to customers of the credit-card Club, while, within the framework of this cooperation, ICC, as stated, would issue credit cards of the Club to customers of ECP and its subsidiary companies and to customers of BIT who join the Club.

The agreement states, among other things: (1) ICC shall serve as the sole and exclusive issuer of the Club's credit cards, as off-banking cards, and shall act as the entity responsible for providing all the services related to the issue and the operation of the Club's card, as well as additional services as detailed in the agreement; (2) The issuance of the club cards will be carried out in ICC's digital issuance interface, to which, among other things, customers of the BIT application will be directed. Furthermore, the BIT Application would serve for the presentation to Club customers of certain data related to the Club; (3) ECP would be responsible for the management of the Club, including connection with club customers, as well as the formation of value offers to Club customers, all as detailed in the agreement; (4) ECP and Bank Hapoalim shall be entitled, each of them separately, to payments from ICC for their share in the income earned on the transaction turnover made by use of the Club's credit cards, as well as additional income related to the operations of the Club (according to the rates and conditions stated in the agreement). ECP would be entitled to additional payments, as detailed in the agreement, including for the participation of ICC and the Bank in marketing and sales promotion expenses of the Club; In the years 2023 and 2024, ECP would be entitled, according to the agreement, to receive safety net awards and goal awards, which might assure ECP net receipts of approx. NIS 32 million in each of those years. In addition, during the period of the agreement, ECP would be entitled to a bonus of up to NIS 50 million, conditional upon reaching performance goals, all as detailed in the agreement.

Entry into effect of the agreement and the execution thereof are subject to fulfillment of conditions precedent, including obtaining a permit from the Commissioner of Competition (under terms detailed in the agreement). The parties are acting to complete the said conditions precedent. No certainty exists that the cooperation would be completed or that the required permit would be obtained.

ICC estimates that the introduction of the Club would take place during the first half of 2023, subject to fulfillment of the said conditions precedent.

Agreement with El Al. On December 11, 2018, an agreement in principle was signed for ICC to enter into a new engagement with El Al with regard to the issuance and operation of branded credit cards. For further details, see Note 36 C above.

Engagement with GAMA Company. On July 6, 2017, ICC entered into an agreement with GAMA Management and Clearing Ltd. and with GAMA Personal Direct Finance Ltd. (hereinafter: "GAMA"), within the framework of which, GAMA would become an "Aggregator" enabling credit card transactions using the services of GAMA and ICC.

The signing of this agreement conforms to the provisions of the Increase in Competition and Reduction of Concentration in the Banking Market in Israel Law, which includes rules intended to increase competition in clearing operations. Management of ICC is of the opinion that the agreement would improve the value offer to the small and medium trading houses. The period of the agreement was extended in 2019 until January 5, 2025.

A tripartite agreement between ICC, Shufersal and EL AL. A tripartite agreement was signed on November 26, 2019, between ICC, Shufersal and EL AL for the establishment of the "Shufersal Flight" Club and for the accelerated accumulation of points by use of FlyCards in the Shufersal chain.

Extension of the Diners franchise. For details, see Note 36 E above.

Agreement for the issue of off-banking cards to customers of Bank Leumi. ICC and Bank Leumi Le'Israel B.M. signed an agreement on November 11, 2020, for the distribution of off-banking credit cards to private customers of Bank Leumi, which would be issued and operated by ICC and under ICC's responsibility. The agreement was signed for a period of twenty-four months, and was supposed to be automatically renewed for additional periods of twelve months. The parties are endeavoring to bring the agreement to an early conclusion.

Moreover, in December 2021, ICC and Bank Leumi acted to enter into an agreement for the distribution of off-banking credit cards to business customers, with this being further to the Bank's obligation to reduce credit facilities according to the provisions of the Strum Law. On December 13, 2021, a request was submitted to the Competition Authority for exemption from the need for approval of a restrictive agreement with regard to this agreement, and said exemption was granted in a decision dated January 19, 2022.

Cooperation agreement with Hapoalim Bank with respect to BIT. On March 16, 2022, ICC and Hapoalim Bank signed a cooperation agreement for the extensions of credit to customers of the BIT Application, owned by Hapoalim Bank. The credit would be extended by ICC at its full responsibility. The agreement states the consideration to which Hapoalim Bank would be entitled for its share in the joint venture. The agreement states conditions precedent to its taking effect, including obtaining regulatory approvals. The parties had applied to the Competition Authority for exemption from approval of a restrictive agreement in respect with this agreement. In view of the position of the Competition Authority, ICC and Hapoalim Bank informed the Competition Authority on December 29, 2022, of the withdrawal of the said application.

Cooperation agreement with PAZ. On February 20, 2022, ICC signed an agreement for the cooperation with PAZ Oil Company Ltd. ("PAZ"), in the marketing of loans extended by ICC at its responsibility, through the "Yellow" Application, to members of the Yellow Customer Club. The agreement is in effect for a period of three years, and PAZ has the option of extending the agreement by two additional periods of twelve months each. It would be possible to terminate the agreement at an earlier date upon existence of certain causes of action relating to the volume of operations. The agreement regulates the consideration payable by ICC to PAZ, based upon the actual profits of ICC earned on loans extended within the framework of the operation.

Extension of a joint issuing agreement with Hapoalim Bank. For details, see Note 17 B 2 to the condensed financial statements.

Extension of a joint distribution agreement with Shufersal Company. For details, see Note 17 D to the condensed financial statements.

Agreement with PayBox. On March 29, 2022, ICC and PayBox signed an agreement for the issue of designated credit cards, entitling the holders thereof to various benefits. The issue of digital credit cards started in the course of the second quarter. At the first stage, cards would be issued only as virtual cards by ICC and at its responsibility.

Updates and extension of operational issuance agreement with Bank Yahav. On March 31, 2022, an agreement was signed between ICC, Diners and Bank Yahav for Government Employees Ltd. to extend the validity of the previous agreements signed between the parties, while updating certain terms. The agreement will be valid through December 2026.

Agreement to operate credit cards that are charged to an employer's account. On July 21 ICC signed an agreement with a third-party for the issuance of charge cards that will serve corporations, bodies and organizations in Israel that wish to provide various budgets for the benefit of their employees and/or service providers ("the End-Users"), by means of off-banking credit cards having a user interface linked to a designated app, which will be issued to the End-Users and will allow them to make use of the employer's budget and, if so selected, to also receive an additional personal credit facility from ICC.

Success in a tender by the Accountant General. On September 19, 2022, the Tender Committee in the matter of means of payment at the Department of the Accountant General informed of the success of ICC in a tender for the management and issue of advanced means of payments. The aim of the tender was to simplify and improve efficiency of the acquisition and payment processes of Government offices, and which is expected to provide response both crosswise for acquisitions in small volumes by Government offices and for acquisitions regarding designated units and projects, such as: policemen, school headmasters, persons supported by the Welfare Ministry and more. The tender defines an innovative fast and digital payment mechanism that would significantly shorten for the Government the length of the acquisition and payment processes alongside increasing the control and transparency mechanisms. Success in the tender is expected to induce growth in the scope of activity of ICC's charge cards, in a volume, that at this stage cannot be estimated.

A cooperation agreement with Hamashbir 365 Ltd. On May 2022, ICC engaged in an agreement in principle with Hamashbir 365 Ltd. ("the agreement in principle"), by which the parties agreed to act towards the signing of a cooperation agreement for the continuation of the operation of the customer credit club owned jointly by ICC, Hamashbir 365 Ltd. and Electra Retail Ltd., following the split-up thereof. The agreement shall remain in effect for a period of ten years. Hamashbir 365 Ltd. shall be entitled to different payments by the company in accordance with the mechanism determined in the agreement in principle, inter alia, for the number of active credit cards as well as earnings from the granting of credit to club members. Moreover, ICC shall pay to Hamashbir 365 Ltd. additional payments for goals attained.

Agreement with High Biz Company for expanding cooperation. On November 6, 2022, ICC and High Biz Ltd., which operates the "Hitechzone" Club, signed an agreement expanding the cooperation between the parties by means of the issue of charge cards that would serve corporations, bodies and organizations in Israel, interested in providing their staff and/or providers of services ("end users") with different budgets by means of off-banking credit cards having a user interface linked to a designated Application, which would be issued to end users enabling them to make use of the employer's budget, and if chosen, obtain also from the company an additional personal credit facility.

Additional developments in Operations

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

Support agreements with Visa Europe Limited. In February 2020, ICC and Visa Europe Limited signed a support agreement. The scope of the support funds depends on different stipulations stated in the agreement, and mainly on the volume of operation of ICC. This agreement has been signed following the announcement of VISA Europe regarding the increase in commission tariffs payable to it. ICC estimates that, the anticipated effect of the support agreement, on the one hand, and the raising of the VISA rates, on the other hand, is not expected to be material. This assessment might change in case the volume of transactions using the "VISA" brand would be materially different than that existing on date of signing the agreement.

Agreement with Apple. On September 8, 2020, ICC and Apple Distribution International Ltd. ("Apple") signed an engagement agreement, according to which Apple will allow holders of ICC cards the use of the payment platform "Apple Pay". The payment platform Apple Pay is intended for the use by ICC customers using the variety of Apple devices based on the IOS operating system of Apple. The Apple Pay payment platform serves for credit card based transactions, both in the physical world by means of contactless supporting EMV smart terminals, and in the online world in applications and in different websites. The agreement defines the commercial terms for the engagement between the parties, including the commission fee to which Apple would be entitled.

Provision for benefit campaigns to holders of credit cards. In recent years, ICC informed its customers that the validity of certain benefit plans that had been offered to them would be limited in time. The validity of certain benefit programs expired during the third quarter of 2021. For these benefits, ICC includes a provision in its books, and accordingly, expiry of the benefits resulted in a decrease in the said provision.

Changes regarding competition in the credit card market

The competitive environment in the credit cards field, which is growing constantly fiercer in recent years, is affected, inter alia, from the following factors:

- The increased competition between the clearing agents, inter alia, on ground of the detachment of Isracard and MAX from the banks, alongside the impact of the regulatory measures taken by the Supervisor of Banks, and also in view of the steps taken by the credit card companies, has been reflected in the decline in clearing commissions;
- Banking corporations have launched payment solutions which may operate outside the debit cards framework. Among these, the following apps should be mentioned: PAYBOX (Discount Bank), BIT (Bank Hapoalim) and PAY (Bank Leumi), as well as progress on a system for immediate account-to-account debiting and crediting, which is being promoted by BCC, and which is likely to constitute an alternative to the debit cards framework;

- The technology giants offer financial services in Israel. In 2021 Apple introduced its payments Application "ApplePay", and Google introduced the digital wallet "Google Pay". Entry into the local payments market of the technology giants is expected to increase competition and comprise a catalyst for innovation and technology in this field;
- In addition, fierce competition exists in the customer clubs field, which, inter alia, was expressed in the commercial terms of a number of agreements signed in the credit card field;
- Competition in the off-banking credit field in recent years has also increased in view of the significant increase in the number of financial entities offering loans to households, such as: provident funds, further education funds or inter-personal loan platforms (P2P). Various regulatory measures, introduced by the Supervisor of Banks, such as the establishment of a credit data base, are expected to increase the volume of competition and enable providers of off-banking credit (including credit card companies, including ICC) to obtain more reliable information regarding existing and potential customers;
- The Financial Information Service Law, 5782-2021, published in November 2021, and Proper Conduct of Banking Business Directive No.368 on Open Banking, published on February 24, 2020, require banks, credit card companies, and other financial entities to share information about their customers (with the customer's consent). The Directive will even allow initiation of payments. Open banking constitutes an opportunity for ICC but will also permit other entities to receive the unique information that the credit card companies hold, as well as increasing competition in the payments field by means of payments initiation.

ICC had prepared and is preparing for such changes, and has formed a strategy aimed at enabling it to handle these changes in an optimal manner (for additional details, see above "Main Investee Companies").

Regulations, Legislation and Arrangements

General. The activities of ICC are regularized under the Credit Card Law, 1986 and various rules under the general law also apply to it. Upon the Payment Services Law taking effect, the Debit Cards Law was revoked. For details regarding the Payment Services Law, see "Legislation and Supervision" below. In addition, due to the fact that ICC is a subsidiary of a banking corporation, it is defined also as an "auxiliary corporation" under the Banking Law (Licensing), 1981, and as such, a set of Laws, Regulations and Orders under the banking laws also apply to it including various directives issued by the Supervisor of Banks.

Among other things, ICC is subject to duties relating to the prohibition of money laundering and the finance of terror, including the duties of identification, maintenance of records and reporting to the Money Laundering Prohibition Authority, as regards everything relating to holders of credit cards and to trading houses with which ICC has clearing agreements. Likewise, ICC is bound to operate according to the rules of the international organizations of which it is a member (VISA International organization, MasterCard Worldwide organization and Diners Club International). These rules are updated from time to time and determine international standards.

The Competition Commissioner. The Competition Commissioner is involved extensively in the field of credit card activity. For details as to the arrangements between the credit card companies and for details regarding an amended cross-clearing arrangement, see Note 36 B 1 and 2 to the financial statements.

Reduction of the cross-commission rate. For details regarding the outline for the reduction of the cross-commission rate, for deferred debit transactions and for immediate debit transactions, published by the Governor of the Bank of Israel, and regarding the draft of the exemption terms for the new agreement in this field, published by the Competition Commissioner, see above Note 36 A 1 to the financial statements.

Statement by the Ministry of Finance in the matter of an exclusive issue and clearing brand. On August 11, 2021, the Bank of Israel notified ICC that the possibility of cross-clearing the Diners brand and the significance thereof were being examined, and it requested ICC to furnish information that, in its opinion, would assist in formulating a position on this matter. On December 21, 2021, the Ministry of Finance informed ICC that the examination of possibly allowing the cross-clearing of the Diners and AMEX brands had begun.

In continuation thereof, in a letter dated August 1, 2022, the Ministry of Finance presented to ICC an outline, by which, issuers of the closed brands ("Diners" and "American Express") shall allow each licensed clearing agent to engage in an aggregator agreement with them, and to summarize debits and credits of trading houses for transactions made by way of charge cards of the closed brands. The position of the Treasury is that, to the extent that the said outline would take effect within 120 days, there will be no need to apply the authority of the Minister of Finance according to the law, to determine that an issuer with Wide-Ranging Activity (which includes ICC) shall not refuse to engage with a clearing agent in order to settle cross-clearing of transactions made by use of charge cards issued by him, based on unreasonable arguments, also with respect to the closed brands. According to the letter, the Ministry of Finance intends to examine the state of affairs in the market, and the progress made by the parties in applying the said outline, and accordingly, reach conclusions with respect to the need to apply the authority of the Minister. It is noted, that according to the outline, ICC might serve as an aggregator for the "American Express" brand.

It is noted that at date of this Report, the subsidiary of ICC, Diners Club Israel Ltd. is engaged in agreements with several aggregators granting them the ability to offer trading houses clearing services for the "Diners" brand under terms agreed with each aggregator.

According to assessments of ICC and the Bank, implementation of the outline may on the one hand increase competition in the clearing sector in general and in the closed brands ("American Express" and "Diners") in particular, and respectively, might bring a decline in income from the clearing segment of ICC. On the other hand, the outline may widen the coverage of the closed brands in the clearing market to additional trading houses.

ICC signed an agreement with Tranzila Ltd. as well as an agreement in principle with Isracard Ltd. for the latter's operation as an "Aggregator" in the Diners brand, and also signed an agreement with Premium Express Ltd. to regulate ICC's activities as an aggregator in the "American Express" brand. ICC also conducted discussions with representatives of the Ministry of Finance with respect to such engagements.

ICC estimates that the implementation of the outline may increase competition in the clearing sector in general, and in the closed brands "American Express" and "Diners" in particular, and accordingly, may lead to a decrease in income from the clearing sector. On the other hand, the outline may lead to the expansion of the coverage of the closed brands in the clearing market to additional businesses.

Strengthening Competition and Reducing Concentration in the Israeli Banking Industry, (legislation amendments) act, 5776-2017. For details, see "Legislation and Supervision" below.

Draft Proper Conduct of Banking Business Directive in the matter of retail credit management. For details, see "Legislation and Supervision" below.

Circular regarding Proper Conduct of Banking Business Directive No. 472 and the EMV liability shift mechanism. On January 15, 2020, the amendment to the Proper Conduct of Banking Business Directives on this topic was published, which deals with the advancement of the EMV standard in Israel and includes, inter alia, an outline for execution Sunset that will gradually stop, making transactions in the old credit protocol/Fake EMV (executing transactions by means of a smart card but without a PIN), and a transition to executing transactions using Full EMV, as well as the obligation to issue Contactless cards. On March 25, 2021, the Bank of Israel's Payment Systems Supervision Unit sent out a letter regarding the deployment of the EMV standard, in which the members of the Charge Cards Committee were requested to take immediate action to update the old terminals to EMV terminals, and to define a work plan for completing the conversion of all the trading houses that require this, by the next milestone date. On June 20, 2021, the Supervisor of Banks announced that the credit card companies are allowed, in certain instances, to continue clearing trading houses even if these have not gone over to the EMV standard and even after July 31, 2021 (the date when these trading houses were meant to have gone over to the aforesaid standard). This approval was valid until December 31, 2021. On December 30, 2021, an outline for extending the trading houses' transition to the EMV standard was received from the Banking Supervision Department.

Daily accounts settlement. According to the decision of the Competition Commissioner from April 25, 2018, with effect from July 1, 2021, money transfers between an issuer and a clearing agent with respect to transactions executed in a single payment are carried out not later than the day following the date of the trading house transmitting the transaction.

Position of the Ministry of Justice – fraud in circumstances of impersonating a payment services provider. On September 30, 2021, the company received the Ministry of Justice's opinion regarding fraud in circumstances of impersonating a payment services provider. According to that stated in the opinion, when a payer has made the essential component of the payment means available, in circumstances where the payer is convinced that he is making the essential component available to a payment services provider, the payer is entitled to the protections provided in the Payment Services Law with regard to his limited liability. Moreover, on December 29, 2021, a legislative memorandum was published on this subject that proposed, among other things, enacting that stated in the opinion.

Draft of a new Proper Conduct of Banking Business Directive, "Distribution of credit cards of issuers associated with a banking corporation through a distribution agreement". On November 17, 2021, a draft was published that sets out rules for distribution agreements of off-banking cards by the banks, an obligation prescribed within the framework of the "Strum" Law. Provisions were prescribed within the framework of the draft with regard to the terms of the distribution agreement, including in relation to the topic of collecting a consideration; the manner of distribution; the details the bank is required to present to the customer; obligations for reporting to the Banking Supervision Department, etc.

Letter of the Supervisor of Banks in the matter of payment Applications. On November 16, 2022, the Supervisor of Banks published a letter dealing in the supervision over the cross-clearing service for transactions made through the banking Applications, based on agreements with the international agencies (VISA and MasterCard). The letter relates to two categories of transactions effected through the Applications:

1. Payment transactions to suppliers made by means of the payment Application (P2B transactions) – these transactions are subject to the existing regulatory regime and to the rate of the cross-commission determined by the Supervision Orders over charge cards and immediate debit cards. In this respect, it is clarified that the clearing agent has to verify, including by means of an appropriate arrangement vis-à-vis the Application, that the beneficiary in the transaction is indeed the supplier (trading house). This is in order to comply with the provisions of the Prohibition of Money Laundering Order.
2. Transferring a payment to a beneficiary who is not a supplier, involving a charge card (P2P transactions) – in the case of such transactions, the Bank of Israel will consider examining the issue of charging a commission, inter alia, according to developments in the payment market, including attention to time schedules for the promotion of the possibility of transferring payments directly from account to account. This possibility is expected to become viable until the end of 2023.

Critical Success Factors

The issuance field. There are several positive factors that affect the competitive position in the sector: products and services that appeal to varied population of customers, ICC's image and brand names, quality and experienced human resources, an efficient and well developed risk management layout, information systems and advanced infrastructure, long-term agreements with banks for credit card issue arrangements, the ability to issue leading brand name credit cards ("VISA", "MasterCard" and "Diners"), an extensive layout of agreements with customer clubs of varied population segments, a solid capital structure, the ability to borrow funds from financial institutions at beneficial terms.

On the other hand, several factors have a negative effect on the company's competitive position, headed by: the development of alternative means of payment, which may reduce the demand for the issue of credit cards, entry of retail factors into the credit card issue market, and frequent and significant regulatory changes, mostly on the part of the Supervisor of Banks and the Competition Commissioner, such as the lowering of the cross commission rate, issue arrangements for the issue of immediate debit cards, and more.

The clearing field. There are several positive factors that affect the competitive position of the company in the sector: cumulative experience in the field of credit card clearing; an efficient service layout providing suitable solutions for trading houses; advanced information and infrastructure systems; a professional and efficient risk management layout; experienced and quality human resources; an extensive and efficient marketing and sales layout, which enables the attraction and preservation of customers; a reputable and powerful brand name; constant development and expansion of the product and services basket; the existence of cross-clearing agreements between all clearing agents in the country; holding a license from international organizations allowing clearing of their brand products; existence and distribution of a communication layout enabling clearing or communication with ABS; a solid capital structure and a positive cash flow.

Negative factors affecting the competitive position of the company, are: technological improvements creating alternative means of payment, which might reduce the use of credit cards; regulatory guidelines regarding the clearing switch and the possibility of trading houses changing clearing entities at their own discretion, as regards the leading brands: "VISA", "MasterCard" and "IsraCard".

Market entry barriers

The issuance field. An entity interested in entering the credit card issuance market faces several barriers, the principal of which are: attaining certain qualifying terms required for obtaining a license from any brand name international credit card issuing organization; maintaining an extensive and costly operating layout, including advanced information and customer service systems; a continuous and considerable investment in marketing channels; countrywide distribution and sales, especially distribution channels regarding banks and customer clubs; financial soundness allowing the raising of funds at advantageous terms; the holding of control over the issuer by a financially stable corporation enabling recognition by and membership of international organizations; obtaining guarantees from the controlling corporation; maintaining an efficient and advanced credit risk rating system; the requirement of minimum equity capital in order to comply with the instructions of the Supervisor of Banks regarding the ratio of capital to risk components.

The clearing field. The main barriers facing a company wishing to enter the clearing segment are: obtaining a license from the international organization owning the credit card brand, which the new entrant wishes to clear. Obtaining such a license requires compliance with business and financial standards securing such an operation; distribution of an extensive communication layout allowing online clearing, or alternatively, engagement with ABS, which has such a layout; existence of a reliable and stable information system for billing management; financial means, experience and knowhow required for investment in technology, operating systems, advertising and marketing; considerable clearing turnover allowing the recoupment of amounts invested in clearing infrastructures; minimum equity capital requirements; customer service layout and extensive and efficient attraction of customers layout.

Alternative Products

There are numerous alternative payment means to credit cards, from cash, to standing orders, bank transfers, purchase vouchers and checks, through to payment using a smart phone and a “digital wallet” on a designated app. Bank and off-banking credit and check discounting services also constitute alternative products to the credit and other financial services provided by ICC.

Marketing and Distribution

The issuance field. Marketing and distribution in the issue segment are achieved mostly by increasing cooperation with banks participating in the arrangement as well as with customer clubs. The said banks serve as a ”recruitment base” for ICC in attracting bank customers to its ranks, while the customer clubs serve to attract off-banking customers. Joining the customer clubs, generally grant participants with discounts and benefits in a variety of trading houses. In addition, ICC cooperates in marketing drives with leading businesses in the country and operates advertising and marketing channels using the different media and through sales stalls. The principal customer clubs at present are Shufersal, FlyCard, Cal-365, Cal-H&O, PowerCard and Hitechzone. In addition, ICC has established different clubs serving professionals such as certified public accountants and lawyers.

Distribution of non-bank cards is based, usually, on sales-promotion agreements with companies, which operate distribution stands on their sales floors.

ICC has an active Internet website that provides information regarding its products and services, marketing drives, discounts and benefits, and allows access to accounts of card holders for the purpose of monitoring and control of their activity. In addition, ICC has launched an application for smart phones that allows the monitoring of customer transaction as well as information regarding ICC’s services, benefits and various discounts.

The clearing field. Sales representatives market clearing services to the traders, and serve as liaison officers with the trading houses, also following their joining. In addition, ICC operates a unique Internet website for trading houses, which includes information regarding previous and future settlement of accounts, ordering of reports and invoices at the single trading house level and chain level and receiving them in a secured safe, and more. The marketing of clearing services is also performed by means of GAMA Company (for details of the agreement with it, see above ”New activities and strategic collaborations”) and also by means of a company engaged in the field of supplying credit terminals.

The company's main objectives in its marketing operations are: the retention of existing trading houses as customers; improving and enhancing its image; recruiting new businesses for its services; and, enlarging the basket of services that it offers.

Competition

The issuance field. The competitors of ICC in the issuing field are the IsraCard and MAX IT Finance Ltd.. As part of the competition in this segment, ICC competes over new customers having no credit cards, or over customers holding credit cards of competitor companies, as well as acting in various ways in order to preserve existing customers and preventing their leaving to join its competitors. Furthermore, ICC makes considerable efforts in marketing and the granting of discounts and benefits to its card holders, in order for them to use the company's credit card for most of their purchases, and also offers them varied credit services as an alternative to or addition to regular bank credit.

The scope of credit card usage in Israel is constantly rising (except for a certain slowdown in 2020 due to the impact of the Corona crisis). In particular, e-commerce activity on the Internet has grown in recent years, with the volume of purchases made online, including purchases made using smart phones, having grown considerably in recent years.

The clearing segment is characterized by a high level of competition between the clearing agents. Participating in this segment are: the ICC group clearing "VISA", "MasterCard", "Diners" (exclusively) and "IsraCard" credit cards; the IsraCard group clearing the brands "IsraCard", "MasterCard", "VISA", and "American Express" (exclusively), and MAX clearing the brands "VISA", "MasterCard" and "IsraCard".

Various regulatory changes may bring about the entry of additional clearing agents and increase competition in this segment.

ICC is competing in order to expand the range of businesses that receive clearing and supplementary services from it and is focusing on recruiting new businesses to sign clearing agreements and on retaining existing trading houses as its customers, through investing in considerable marketing and sales efforts.

Another aspect of the competition in the segment relates to the development of financial and operational products and services for trading houses, which will lead to a rise in the scope of those businesses' turnover with ICC.

In order to cope with the competition in the segment and to strengthen trading houses' loyalty toward it, ICC is implementing the following measures: a competitive tariffs policy, investment of resources for the improvement of service to trading houses and for their retention, while aligning the products and services to the business' needs; strengthening cooperation with trading houses; activating an efficient service array and marketing and sales array that will be able to provide solutions to trading houses and to respond to their changing needs; and, marketing a comprehensive basket of products to trading houses, while enlarging market share in the segment.

Business Goals and Strategy

The issuance field. Leading the market through the exhaustion of the banking lane and through offering solutions adapted to customer needs, issuance of charge cards in the off-banking lane in existing customer clubs, as well as through the cooperation with various entities for the establishment of additional customer clubs.

Moreover, ICC is active in becoming a significant player in the consumer credit market, the attraction of off-banking card holders being the infrastructure for the creation of consumer credit and the positioning of ICC as a factor providing diverse credit services (including by means of credit cards).

The clearing field. The principal goal of ICC is to market an overall array of products to trading houses, while enlarging its market share in the clearing sector. Furthermore, ICC is taking steps towards developing and market additional products to be offered to traders, in addition to those offered at the present time.

For additional details, see Note 36 to the financial statements.

Technological Improvements and Innovation

General. Among the goals of the Bank's strategic plan, is the goal of the implementation of technological means and increasing customer experience.

Expanding the open banking services. The Bank has defined the open banking field as a strategic field, which embodies an opportunity for the creation of new and valuable financial solutions, products and services for customers, and was the first to introduce, in 2018, an API (Application Programming Interface) platform. Alongside abiding by the regulatory requirements in this field, the Bank is acting to expand the activity and services offered within the framework of the platform. Within the framework of the Bank's actions to expand its open banking services, several FinTech companies have joined the Bank's API platform: iCount offers account management services to small businesses, RiseUp Moments Ltd. offers a cash flow management service to private customers and assists customers' economic growth through effectively managing monthly cash flows, and Amir CashFlow Ltd. offers cash flow management services to small and medium businesses and assists them through data-based smart management. All these are presented by means of the partners avenue in the application for private individuals, as well as the partners avenue in the business application and business website.

Strategic cooperation for setting up a digital wallet. For details see "Management's handling of current material issues" above.

Strategic cooperation for the establishment of a new fintech company granting digital credit. For details see "Management's handling of current material issues" above.

Direct channels

In 2022, the emphasis for the digital platform continued to be on the importance of receiving extensive information and on executing a variety of banking transactions independently, simply, conveniently, and securely for customers. In practice, the digital channels have become the main platform for customers.

During 2022, innovations and updates were made in the following areas:

Current accounts and foreign currency

Immediate transfers. An option has been added both for private and business customers, for making an immediate transfer of funds through the website and the Application, also to beneficiaries who are not customers of Discount Bank, and the funds are being immediately transferred to their account.

Signed confirmation form regarding a bank account. The confirmation form regarding a bank account issued through the digital, would now include a digital signature, as required by different entities. Bank customers may now obtain the signed form through the digital with no need to visit the branch.

Tax confirmations for year-end 2021. The option of digitally issuing the 2021 tax confirmation has been added on all the platforms.

Updating the maximum amount for shekel transfers. The maximum limit for a single transfer have been increased to NIS 150 thousand and the maximum monthly amount to NIS 300 thousand.

An OTP for every transfer in any amount. In line with data security guidelines, the customer is required to enter an OTP (a verification code) for every transfer.

Updating the maximum digital payment amount of an invoice. The maximum limit for the digital payment of a single invoice has been raised to NIS 400 thousand.

Ordering account balance confirmations in English. An option has been added for the ordering of value confirmation of account balances in the English language, on the private and business websites.

Deposits

Addition of a new deposit through the Application. Depositing funds in a designated deposit - a customer may choose a goal and its amount for a savings deposit and deposit funds therein until the goal is reached. The developed application presents a bar showing the progress towards the final goal, and notices are sent encouraging additional deposits to get nearer the defined goal.

Placement of funds on deposit – link to additional deposits. Due to higher demand to deposit funds in deposits, a link has been added on the app to additional deposits that are available on the website.

Digital for business

Dashboard for the management of SMS messages on the business website. A screen has been added in which customers may manage themselves SMS messages regarding receipt of foreign currency or transactions pending signature or correction. It allows them to choose whether to receive an SMS for each receipt or transaction awaiting their signature, or choose whether to receive messages relating to certain matters (the default option is the acceptance of messages).

Payment of wages and payment to suppliers through an Excel file format. Until now, it was possible to use files only in a bookkeeping software format. Following requests by customers, the possibility of using also Excel files was added to the website.

Foreign trade on the English website. Foreign trade information has also been added to the business website in English.

Innovations in the foreign trade world – on the business website. (1) calculating the tax-exempt balance amount – for customers performing foreign currency transfers in the course of foreign trade, the calculation of the tax-exempt balance amount will already be presented in the transaction itself. (2) attaching files in the foreign currency receipts process – an option has been added for files to be attached in the approval process and the files will be transferred directly to the banker. (3) improving the presentation of transactions awaiting signature – customers entering the application for approving transactions will receive a focused display of foreign trade transactions awaiting signature.

Immediate transfer of funds – opening the service also to business customers. Opening the service of immediate transfer also on the business website.

Transactions on the business website in English. A possibility has been added to conduct transactions on the website, including signatures. Business customers may conduct the following transactions also on the English website: different transfers (transfer to a number of beneficiaries, to permanent beneficiaries, a single transfer, RTGS with permanent beneficiaries and "between my accounts"); payment of bills; payment of wages; foreign currency conversion; submitting a request for authorized charges; confirmation regarding foreign currency receipts; signing on foreign trade transactions; status of transactions (English names of signatories).

Customer experience

Identified call from the Bank. On joining the "identified call" service on the application for private individuals and then after, each time the customer receives a call from the Bank or misses a call, the screen will show that this is a call from Discount. The service is provided free of charge but is only available for customers with android devices.

Updating of addresses in "My profile". The possibility has been added for the immediate updating on the digital of the address of a customer, with no involvement by a banker.

Correspondence with a banker – authorization for receiving messages to the mobile phone (push message). At each entry to the private Application for correspondence with a banker, if the customer had not authorized receipt of a message to the mobile, a notice will appear requesting him to authorize such authorization.

Beginning and ending on the digital. In order to facilitate customers and to allow them to receive information in one place without having to leave the application, four information queries have been added to the application menu for private individuals. The customer will select the desired topic from the menu in the application and will be transferred automatically to the appropriate website: payments made; inflows and outflows; payments forecast; or foreign currency inflows and outflows.

Answer from the banker – notice on entering the application. When a banker responds to correspondence on the application for private individuals, a push message is sent to the customer. Henceforth, if the customer has not yet opened the message and the application is launched, a prominent notice is displayed on entering the application that a message from the banker is awaiting the customer. The innovation is aimed at improving the service to the customer and to shorten the time for closing the circle on every query.

Opening an additional account for an existing customer. An existing Discount customer can open an additional account on the app.

Sending files to a banker. Customers will be able to send requests, including an RTGS transfer request via the app and such messages will be routed directly to the parties that handle the request. In addition, it will be possible to send general documents to the banker (insurance policies and driving licenses, documents for the removal of foreclosures, documents for investment counseling, identification documents, etc.).

Butterfly – Fighting to prevent family violence. Discount Bank has joined the fight to prevent family violence. On the help page prior to connecting, a link has been added that will open the Butterfly website anonymously. On the website, one can find tips to cope with violence in the family, as well as a link to request help from professionals.

Accessibility of correspondence button on the dashboard. The correspondence button is displayed immediately on entering the app.

Capital market

Digital investment consultation ”Smart Invest”. Introduction of an advanced service providing private customers the option of receiving investment recommendations from their personal consultant, directly to the Application. The recommendations are personal and adapted to each customer. They are delivered immediately, and the customer approves the transaction through the Application. The project is still at distribution stages and becomes gradually operative.

Extension of the ”Session” time regarding the capital market screen. The time period in which a customer may remain on the capital market screen without operating the mouse or keyboard, has been extended from eight to twenty minutes before being cutoff.

Updating the maximum amount when sending a securities order. The maximum amount has been increased to NIS 500 thousand, except in the case of foreign bonds and derivatives, where the maximum amount remains NIS 250 thousand.

Open banking

The world of open banking is expanding and combining new capabilities. The open banking platform on the website and the Application, allows customers of the Bank, both private and business, to share, with their consent, their financial-banking data through a fully digital process, and allow the delivery to third parties of information regarding their balances and credit card transactions. A new possibility has been added – initiating a payment by way of the open banking interface. This possibility would enable a third party to direct his customer to Discount Bank, where he would be identified and would be able to approve the transfer of the consideration in accordance with the payment details provided by that third party.

Expansion of the “Partners’ Avenue”. A new partner has been added to the application for private individuals: “FamilyBiz” – an app for financial management tool for personal and family use. Selecting this option will take the customer to the relevant page on the marketing website.

”Partners’ Avenue” – now also for business customers. Links have been added to the business website and application connecting to services offered by business partners of Discount Bank: PayBox, Icount and Amir Cash Flows.

Mortgage

External refinancing. Customers can submit a request for external refinancing via the portal. The request will be sent to the relevant parties at the Bank for further attention.

Mortgage calculator tool. The new mortgage calculator tool, based on the Banking Supervision Department’s guidelines. The new improved calculator tool enables customers to obtain extensive information: Several mortgage tracks can be selected and, enter the loan amount, number of years and the interest, and the anticipated monthly repayment, interest amount, the predicted interest and the amount of the first repayment will be displayed for the customer at the both the track and mortgage levels. The improved calculator tool is identical to that of the other banks, which enables customers to make a true comparison against the other banks before submitting a request for approval in principle.

Transactions on an existing mortgage. When requesting receipt of insurance documents, customers are no longer required to contact the branch or the mortgage center in the case of reducing the pledge clause or in the case of release from liability.

Mortgage portal for agents. Agents that work with the Bank can submit requests to obtain approval in principle for their clients, can upload the required documents, can enter request details, and can track the status of the request.

Improvements to the mortgage portal. Improvements have been made to the portal, such as: previously, it was possible to submit a request digitally only for first-or secondhand transactions or for transactions under the "price for the home purchaser" program; now it is possible to submit a request to obtain approval in principle for all types of transactions.

Main developments in Israel and around the world in 2022

Developments in Global Economy

General. The year 2022 was characterized by a global downturn in economic activity, which occurred against the background of the continuing war between Russia and Ukraine, the energy crisis in Europe and the slowdown in China. During the year disruptions were evident in the supply chain, which led to an acceleration in inflation, a severe monetary tightening and a slowdown in the pace of economic activity.

For the year as a whole, the US economy grew at a rate of 2.1%, concurrently with the recovery in the labor market, and the eurozone economy grew by 3.5%. However, while data for the last quarter shows strong growth in the United States at a rate of 2.7%, stagnation was recorded in the eurozone. Against the background of high inflation, the central banks are continuing to pursue a monetary policy of rapid restraint. In the end of the year, the FED's interest rate reached a level of 4.25%-4.5%, concurrently with shrinking the balance sheet, while the eurozone interest rate rose to 2%.

Financial markets. The year 2022 was characterized by a high level of volatility and closed with price falls, in contrast to the rises that were recorded in 2021. This was the result of the central banks' monetary policy, which was intended to rein in inflation, and the global economic downturn.

Changes in the leading equities indices recorded during the years 2021 and 2022

Index	2022	2021
S&P 500	(19.4%)	26.9%
DAX	(13.1%)	6.6%
MSCI Emerging Markets	(22.4%)	(4.6%)

Trade in US bonds was also characterized by volatility, with this being due to the steep interest hikes that were intended to rein in inflation. At the end of the year, 10-year bonds were being traded at a yield level approx. 240 basis points higher than that at the end of 2021. This was due primarily to the rise in real interest, alongside heightened inflation expectations. The corresponding bond yield in Germany rose by approx. 270 basis points.

Returns on government bonds

10Y Government Bond Yields	December 31, 2022	December 31, 2021
U.S.A.	3.9%	1.5%
Germany	2.56%	(0.18%)

In 2022, the dollar basket ("the Dollar Index") strengthen at a rate of 8%, in light of the rapid rise in interest and the opening of a gap in real yields.

Changes in the U.S. dollar against selected currencies

Exchange rate	2022	2021
EUR	(3.2%)	(7.0%)
JPY	13.8%	11.4%
GBP	(5.4%)	(0.9%)

In the second half of the year, concerns of a recession increased and, as a result, oil prices fell and commodity prices suffered a sharp turnaround. Thus, a moderate price increase was recorded during the year. The price of gold, that had risen at the start of the year, subsequently plummeted, due to the steep rise in real interest. By year-end, gold was being traded at a similar level to that at the beginning of the year.

Changes in selected commodities indexes

	2022	2021
The commodities index - GSCI	8.7%	37.1%
The oil price (BRENT)	9.7%	50.2%
The oil price (WTI)	4.2%	55.0%
Gold	0.4%	(3.4%)

Main Developments in the Israeli Economy

General

The year 2022 closed with GDP growth at 6.5%, against the background of rapid growth at the end of 2021 and in the first half of the year. This notwithstanding, the second half of the year saw a significant downturn. Particularly noticeable during this period was the downturn in the export of high-tech services and in industrial exports, and additionally a decline in private consumption, primarily due to a reduction in vehicles.
Against a background of a rise in the participation rate and relatively slow employee absorption, the second half of the year saw a rise in the rate of unemployment to a level of 4.2%, as compared to the prevailing level at the end of the first half when Israel's unemployment had returned to its pre-corona crisis level of 3.4%. Concurrently, there has been a fall in the rate of vacant positions.

Main developments in economic sectors

The business product expanded by 7.8% in 2022, following the 10.3% rise that was recorded in 2021. The information and communications sector recorded relatively rapid growth, albeit at a more moderate rate than in 2021. On the other hand, the industrial sector recorded accelerated growth. These sectors contributed the bulk of the growth in 2022.

Developments in the activity of the Israeli economy with overseas markets

Direct investments in Israel, through the banks, by foreign residents rose in 2022. This notwithstanding, a steep decline was recorded in foreign residents' financial investments in marketable securities, as a result of a fall in all the components thereof. A significant decline was recorded in foreign investments in government bonds and short-term loans (MAKAMs) on TASE.
Concurrently, net realizations were recorded in the financial investments of Israel residents in overseas marketable securities, compared to the high level of investments recorded in 2021.

Changes recorded in investments of the Israeli economy abroad

Investments in Israel by foreign residents	January-December 2022	January-December 2021
	US$ billion	
Total direct investments	18,761	16,839
Total financial investments	9,584	31,123
Of which: Government bonds and MAKAM	4,139	17,017
Shares	5,262	10,985

Investments abroad by Israeli residents	January-December 2022	January-December 2021
	US$ billion	
Total direct investments	(36)	2,122
Total financial investments	(4,512)	15,536

Developments in Foreign Exchange Rates and Inflation Rates

Global inflation, which began as supply-side inflation, permeated domestic demand during the year, and recorded, as stated, acceleration. In Israel too, the acceleration in inflation has been widespread, with acceleration in the items steaming from domestic demand. In Israel, the year 2022 ended with inflation at a rate of 5.3%, compared to 2.8% in 2021. At the end of December, one-year CPI contracts incorporated inflation at a rate of 2.75%.
Concurrently, the shekel weakened during 2022 by approx. 13% against the dollar and by approx. 7% against the currency basket. This was due to the steep declines in the overseas markets for equities and the global strengthening of the dollar.

Fiscal and Monetary policy

Fiscal policy. The State budget surplus for 2022 amounted to 0.6% of GDP, compared to a deficit of 4.4% of GDP in 2021. The budgetary surplus arises from the State's higher tax revenues (approx. 8%) and, in particular, the rise of approx. 13% in direct tax revenues. This, concurrently with the termination of the economic support program instigated during the corona crisis.
Monetary policy. During 2022, the Bank of Israel raised interest by a cumulative rate of 3.15%, from a level of 0.1% that had prevailed since 2020, to a level of 3.25%. In addition, within the framework of its policy of monetary restraint, the Bank of Israel broadened the scope of short-term loan (MAKAM) issuances, from NIS 14 billion at the beginning of the year to NIS 48 billion in December.
Changes in the monetary base. During 2022, the M1 money supply (cash in the hands of the public and shekel current account deposits) contracted by 11%, compared to an 18% expansion in 2021. The narrowing in 2022 arose from a reduction in current account balances during the months June through December. This, against the background of the rising interest. The monetary base expanded during 2022 by approx. NIS 6 billion, compared to approx. NIS 27 billion in 2021, a trend that is in alignment with the change in the monetary policy. During this period, there was an inflow of cash from the government that was partly offset by absorption by the Bank of Israel.

Sources for the change in the monetary base

	2022	2021
	In NIS billion	
Operations on the Capital Market	(94,525.1)	9,141.7
The Shekel deposits tender	71,000.0	(109,000.0)
Foreign currency conversion	1,107.0	112,143.0
Government activity	24,155.6	(6,544.2)

The Capital Market

In contrast to 2021, the Israeli capital market was characterized by price falls, similar to the global trend. During 2022, the TA-125 Index fell by approx. 12%, a more moderate fall than the S&P 500. In this period, the TA-Real Estate Index fell steeply, following its steep rise in 2021.

Changes in selected share indices in the years 2021 and 2022

Index	2022	2021
TA 35	(9.2%)	32.0%
TA 125	(11.8%)	31.1%
TA banks	(3.0%)	67.3%
TA Global-Blutech	(36.2%)	1.6%
Real-estate 15	(27.0%)	51.6%

As a result of global trends and macroeconomic conditions, 10-year Israeli government bonds were traded at a yield of approx. 3.6%, a significant rise compared to the beginning of the year and similarly to US bonds, while maintaining a negative differential of approx. 25 basis points between the Israeli and US bonds. The rise in yields was accompanied by a steep rise in real interest.

Changes recorded in selected bond indices during 2021 and 2022

Index	2022	2021
General bonds	(7.7%)	3.9%
General Government bonds	(8.8%)	2.7%
Shekel Government bonds	(8.6%)	(0.5%)
Linked Government bonds	(9.1%)	8.0%
General Corporate bonds	(5.7%)	7.4%
Linked Corporate bonds	(6.6%)	8.7%
Shekel Tel-Bond	(7.1%)	3.0%

Decreases were recorded during 2022 on the corporate bonds market, at a rate of 6% for the Shekel Tel-Bond Index and the Tel-Bond 60 Index, with margins increasing. The scope of issuances by Israeli companies amounted to approx. NIS 83 billion, of which approx. NIS 48 billion excluding banks and insurance and financial companies, compared to NIS 77 billion and NIS 50 billion, respectively, in 2021.

The asset portfolio held by the public

The value of the financial assets portfolio held by the public fell by approx. 4% during the period January through November 2022[11], with decreases in most of the linkage segments, amounting at the end of the period to NIS 4.85 trillion. Most of the decrease arose from the shortfall in the Israeli equity component (approx. 13%), with the foreign equities component also recording a sharp decrease (approx. 17%). The non-linked component recorded an increase of approx. 3%, the foreign currency linked component recorded an increase of approx. 6%, while the CPI-linked component recorded a fall of approx. 6%.

Distribution of the asset portfolio held by the public

	December 31, 2022	December 31, 2021
Shares	24.9%	28.0%
Non-linked assets	38.9%	36.4%
CPI linked assets	24.6%	25.1%
Foreign currency linked assets	11.6%	10.5%

11 The latest data available at the time of the report going to print.

Principal Economic Developments in January-March 2023[12]

Since the start of 2023, strong US labor market data have shown the difficulty in restraining inflation, and support further interest hikes, as well as keeping interest at a restraining level for a prolonged period. Furthermore, retail sales and industrial production have also demonstrated strength, and it seems that the US economy will be prevented from going into recession in the first quarter. At the same time, the eurozone data indicates a moderation in inflation, although it is still at a high level.

In Israel, the Integrated State of the Economy Index for January indicates a downturn, and the unemployment data reflects a further rise to 4.3%, with a further rise in the participation rate.

Israel's cumulative budget surplus for the 12 months ended in February stood at 0.2% of GDP, compared to a surplus of 0.6% of GDP in December.

Inflation accelerated and is above the upper target limit – at an annual rate of 5.4% in January 2023. Concurrently, the Bank of Israel continues to signal that it is endeavoring to bring inflation within the target range and raised interest in February by 50 basis points, to a level of 4.25%. This, concurrently with the FED's interest raised to 4.5%-4.75% and to 2.5% in the eurozone.

Yields on ten year Israel government bonds rose to 3.97%, thus erasing the negative yield margin against the US bonds, which at the end of 2022, stood at approx. 25 basis points. During the period, real yields have risen steeply over all the ranges, as have inflationary expectations too. In the contracts market, one-year CPI contracts were being traded at 3.4% at the end of the period, compared to 2.8% at the end of December.

The Shekel has weakened sharply since the beginning of the year – by approx. 2% against the dollar and approx. 1% against the basket of currencies. In addition, the TA-125 Index has declined by approx. 1% in this period, compared to a rise of approx. 2% in the S&P 500 and of approx. 8% in the NASDAQ.

During January 2023, the Government started to promote a plan for the implementation of material changes in the legal system in Israel, which raises a significant dispute in the Israeli public. In the opinion of various economic entities in Israel and globally, such changes may have an adverse effect on the financial markets and on the stability of the economy in Israel. The said implications may have a negative impact also on the Bank and its customers.

It is noted that Fitch rating agency has recently ratified the credit rating of the State of Israel at a level of "A+", with a "Stable" rating outlook. Fitch noted, inter alia, that a number of countries that had undergone a significant institutional reform, have reached even a decline in their credit rating, and that at this stage it is unclear whether the proposed reform in Israel will have a similar extensive effect. Moody's Rating Agency has issued a report regarding the move promoted by the Government of Israel, in which it notes, inter alia, that in its opinion, if the proposed reform would be fully implemented, it would weaken the authority of the legal system, thereby adversely affecting the credit of the State of Israel.

At this stage, it is not possible to estimate what would be the components of the plan proposing changes in the legal system, if completed at all, and accordingly foresee what would be the implications on the condition of the financial markets and on the state of the economy in Israel.

On March 10, 2023, the Federal Deposit Insurance Corporation ("FDIC") announced that Silicon Valley Bank ("SVB") had been shut down by the Regulator in California, who appointed the FDIC as a Receiver for SVB. The receivership proceedings in respect of SVB, being a bank that mostly serves hi-tech companies, may have an adverse effect upon the hi-tech industry in Israel, which, at this stage, is difficult to assess. The Bank does not expect a material effect on its results as a result of this matter.

Legislation and Supervision

General

The Bank operates within the framework of Laws, Regulations and Directives, certain of which are exclusive for the banking industry, and others, though even not exclusive as above, do have an effect on certain sections of its operations. This framework is based mostly on the Israeli law and its various layers, however, the Bank's conduct in certain areas is also affected by the provisions of foreign law, as long as these are effective over its activity.

12 All the data in this chapter refer to the period from January 1, 2023 to March 9, 2023.

The Banking Ordinance, various banking laws and the Proper Conduct of Banking Business directives issued from time to time by the Supervisor of Banks, constitute the central legal basis for the operations of the Bank Group. These, among other things, define the limits of the Bank's operations, the permitted operations of subsidiaries and companies related to the bank and the terms for owning and controlling them, the relations between the Bank and its customers, the use made of the Bank's assets and the mode of reporting to the Supervisor of Banks and the public as to the Bank's said operations.
Alongside these, the Bank is subject to a wide legislation that regulates its capital market operations both on behalf of customers and on its own behalf (for example: investment consulting and customer portfolio management, pension consultation, mutual investments funds, the overall activities of provident funds and restrictions on insurance business activity).
Additional legislation as regards special subjects imposes on banks specific duties and rules. Thus for instance, the legislation relating to the prohibition of money laundering and the prohibition of financing of terror activities, the credit data law, legislating relating to housing loans, guarantees, etc. The Bank is subject also to Laws imposing duties and rules involving aspect that are not singular to banks, such as the Privacy Protection Law, the Economic Competition Law, etc.
In addition to these, a supplementary legislation exists, which because of its connection to the Bank's operations, has a considerable implication on the way the Bank is being managed. In this respect it should be mentioned, among other things, the debt execution laws, insolvency laws, laws relating to specific economic sectors (local authorities, mortgagees, the agricultural sector) and various tax laws.
The Bank's and its subsidiaries' operations are subject to supervision and audit by the Supervisor of Banks as well as by other supervisory authorities regarding specific fields of operations, such as the Securities Authority, the Capital Market, Insurance and Savings Authority, the Competition Authority and the Privacy Protection Authority. These parties are authorized to conduct audits at the Bank and the subsidiaries or to require information from the Bank, relating to various fields of operation.
The Bank and its subsidiaries are taking steps towards complying with the duties imposed upon them under the said provisions of the law.
A monetary sanction by most of the laws applying to the Bank's operations exists, for violations of the provisions of the laws and secondary legislation (including guidelines and circulars) issued or to be issued under them. Some of the laws include penal clauses.
Following is a summary of legislation changes and relevant legislation initiatives during the reported period, which have a significant effect or might have a significant effect on the Bank's or the Group's operations.

Legislation for increasing competition in banking and financial services

Increase in Competition and Reduction in Concentration in the Banking Market in Israel (legislation amendments) Law, 5777-2017

The recommendations of the Committee for the increase in competition in banking and financial services ("the Strum Committee") were published on September 1, 2016. In continuation thereof, the Increase in Competition and Reduction in Concentration in the Banking Market in Israel Law (legislation amendments), 5777-2017, ("the Law" or "the Strum Law") was published on the Official Gazette on January 31, 2017. The major part of its provisions is based upon the recommendations of the Strum Committee.
The Law enters into effect on date of its publication ("the beginning date"); however, certain of the provisions have later effective dates.
Following are the principal issues of the Law:

1.1 Prohibiting of a bank, the value of its balance sheet assets on a consolidated basis exceeds 20% of the total balance sheet assets of the banking industry ("a bank with Wide-Ranging Activity"), from engaging in operating the issue of debit cards, from clearing of transactions made by debit cards and from controlling or holding means of control in a corporation engaged in the said operations. This instruction does not derogate from the possibility of a bank having a Wide-Ranging Activity to engage with another entity for the purpose of operating the issue of debit cards or to engage with a clearing agent as a supplier. The prohibition takes effect at the end of three years from the beginning date, and with respect to a large banking corporation, which had sold at least 60% of the shares held by it in a credit card company and on condition that at least 25% of its shares had been offered to the public – at the end of four years from the beginning date. At the time of publishing the Strum Law, the Bank was not defined as a "Bank with wide-ranging activity", as this term was defined in the law.

1.2 In the period that began on February 1, 2021 and ending on January 31, 2023, the Minister of Finance is authorized to determine, with the consent of the Governor of the Bank of Israel and with the approval of the Finance Committee of the Knesset, that, restrictions shall apply also to a banking corporation which holds less than 20%, though not under 10%, and this taking into consideration, inter alia, the state of competition existing in the credit market.

In accordance with this, the Banking Licensing (Bank with Wide-Ranging Activity) Regulations, 5783-2023 were published in the Official Gazette on January 31, 2023 ("the Bank with Wide-Ranging Activity Regulations" or "the Regulations"), which reduced the assets value percentage in the definition of a "Bank with wide-ranging activity" to a rate in excess of 10% of the value. Therefore, the Bank is subject to an obligation to sell the means of control that it holds in ICC, with this to be done by the end of three years from the publication date of the Regulations or by the end of four years in certain circumstances, should an outline for a public offering be decided upon.

1.3 Various instructions applying to banking corporations were set, with the aim of ensuring increased competition in the granting of financial services, as detailed below:

1.3.1 A banking corporation shall not change to the worse the terms of engagement with a customer, only due to the fact that the customer has engaged or intends to engage with another financial body in an agreement for the provision of financial services.

1.3.2 A banking corporation is prohibited from preventing, either by an act of commission or omission, from a financial body engaged in operating the issue of debit cards issued by the banking corporation ("an operating body"), the granting of financial services, including the granting of credit, to customers of the banking corporation. A banking corporation shall also not restrict an operating body in providing of services, as stated above.

1.3.3 A banking corporation shall not prevent, either by commission or omission an operating body which is supervised under statutory provisions, the making use of information reaching the operating body while issuing or conducting the issue operation of debit cards, for the purpose of granting services as an issuer, for the purpose of granting credit, and for the purpose of operations related to the granting of services as an issuer or for the granting of credit, this on condition that the customer gave his consent in advance to the said use.

1.3.4 Starting with the end of two years from the beginning date, the banking corporation shall, at the request of the customer, present, on a daily basis or at longer intervals, the balance of the current account of the customer to a financial body supervised by law.

For the implementation of this directive, on December 25, 2017, the Amendment of Proper Conduct of Banking Business Directive No. 367 regarding online banking was published, deals with the transmission of information regarding the current account balance of a customer by a banking corporation to a financial body for the purpose of granting credit, made at the request of the customer. The Amendment took effect on July 31, 2018.

1.3.5 Starting with the end of two years from the beginning date, where a customer approached a banking corporation requesting entry into an agreement for the issue of a credit card, or where the banking corporation has approached a customer offering to engage in a credit card agreement, the banking corporation shall be required to distribute also credit cards of issuers engaged with the banking corporation in a distribution agreement (for details regarding the draft Proper Conduct of Banking Business Directive in the matter of distribution, see below).

1.3.6 A banking corporation shall not unreasonably refuse to engage with an issuer in a distribution agreement. In this respect it is proposed that stating unreasonable terms would be considered an unreasonable refusal.

1.3.7 Starting with the end of two years from the beginning date, the banking corporation shall present, at the request of the customer, starting with the end of two years from the beginning date, the banking corporation shall present, at the request of the customer, information regarding transactions made by means of a debit card of the customer (including transactions made using debit cards issued by another issuer, which is not the banking corporation) and that the payment therefore is settled by way of charging the current account of the customer at the banking corporation. On January 31, 2019, an order was published that deferred the application date of the aforesaid directive to January 31, 2020.

On November 13, 2018, an amendment to Proper Conduct of Banking Business Directive No. 470, "Debit Cards", was published, within the framework of which provisions regarding the presentation of the aforesaid information were added. In addition, on February 3, 2019 the Banking Regulations (Customer Service) (Transfer of Information from an Issuer to a Banking Corporation), 2019 were published which prescribe the obligations to which issuers are subject in relation to the types of information and the dates for transferring the information from the issuers to the banking corporations.

1.3.8 Starting with the end of two months from the beginning date, a banking corporation is not permitted to unreasonably refuse a request of the borrower for consent to register an additional pledge on an asset, a subordinate pledge on an asset, in favor of another creditor. It is also determined that the realization of a pledge in favor of another creditor shall be effected only with the consent of the banking corporation. The banking corporation shall not withhold such consent, unless on reasonable grounds.
These instructions do not apply to a pledge registered prior to the termination of two months from the beginning date.

1.4 It was established that during a transitional period beginning on the beginning date and ending at the end of five years from the said date, and with respect to a bank having a Wide-Ranging Activity – until the end of three years from date of separation or until the end of five years from the beginning date, whichever is later ("the transitional period"), restrictions shall apply to a bank issuing debit cards and which immediately prior to date of publication of the Law had controlled or held means of control in a debit card company. Under the Bank with Wide-Ranging Activity Regulations, an additional transition period is prescribed that will commence on the publication date of the Regulations and will terminate at the end of five years from the aforesaid date and, with regard to a bank with wide-ranging activity – by the end of three years from the separation date or by the end of five years from the date of the Regulations taking effect, whichever is the later ("the Additional Transition Period"). With regard to the transition periods, the following restrictions have been prescribed:

1.4.1 A bank shall conduct the issuance operation of charge cards issued by it by means of an operating company, and shall allow the operating company to become a part to the charge card agreement.

1.4.2 As from the termination of a period of two years from date of publication of the Law and until the end of the transitional period and also from the end of one year from the publication date of the Regulations through to the end of the additional transition period, the bank shall not conduct, by means of one operating company, the issuance operation of more than 52% of the total new credit cards issued by the bank to its customers. The Minister of Finance is authorized to change the said rate at any time during the transitional period under the terms prescribed in the Law. The engagement of a bank with an operating company, for the purpose of conducting the issue operation of new credit cards issued by the bank to its customers shall be made only after conducting a process which allows every operating company the proper and fair opportunity to offer its services.

1.5 During the transitional period and the additional transition period, the following instructions will apply to a bank having a Wide-Ranging Activity which issues charge cards, additional instructions, inter alia, with respect to the division of income derived from issue operations of charge cards and from the activity of customers using charge cards, between a bank, as stated, and the charge card company; to the date of approach to the customer regarding the renewal of the Credit card; to restrictions regarding the total of credit facilities in charge cards of its customers (see below).

1.6 From the termination of one year from the beginning date and until a date to be determined by the Minister of Finance, and also from the end of one year from the publication date of the Regulations through to the date to be prescribed by the Minister of Finance, an operating company shall not unreasonably refuse to engage with a bank or with a license holder under the Supervision over Regulated Financial Services Law, in order to operate the issue of charge cards for the Bank or for the license holder.

1.7 During the transitional period and the additional transition period, a charge card company is entitled to make use of the engagement details of a customer, which had legally reached it prior to date of publication of the Law or during the transitional period, while conducting issue operations of a debit card on behalf of a bank, in order to approach a customer offering service as an issuer or for the purpose of offering credit, even without obtaining the consent of the customer.

1.8 Instructions have been determined with respect to the prohibition on the acquisition of means of control in a credit charge cards company. Thus, among other things, a bank may not acquire from a bank with Wide-Ranging Activity, means of control in a charge card company. In addition, a person holding over 5% of a certain class of means of control in a single charge card company, shall not control another charge card company and shall not hold over 5% of a certain class of means of control therein. In this respect, charge card companies, which at eve of the beginning date were controlled by the same person, shall be considered as one charge card company.

1.9 Instructions have been determined in matters of control, the holding of means of control, and the appointment of directors in an interface system operator between the issuer and the clearing agent for confirming of charge card transactions – it is determined that one factor shall not control and shall not hold over 10% of a certain class of means of control in an interface system operator as stated. The Governor, under conditions specified in the Law, is entitled to determine a rate different than that stated above. Whoever was the owner of means of control in the operator at the beginning date, shall be permitted to hold such means of control until the end of four years from date of publication, provided that the means of control held by him exceeding 10%, shall not entitle him to any voting rights and the right to appoint directors in the operator as from June 1, 2017.
(Due to these restrictions, the Bank is required to sell its holdings in Automatic Banking Services Ltd. that exceed 10%, with this having to be done by June 1, 2021. Accordingly, the Bank sold within the framework of a public offering of shares of ABS, completed on June 5, 2019, shares comprising approx. 9.3% in ABS. On September 4, 2019, the Bank transferred to Mizrahi Tefahot Bank Ltd. shares comprising 0.7% of ABS. Following the said sale and transfer, the rate of holdings of the Bank in ABS was reduced to 10%).

1.10 Within the framework of the Law, amendments were made to the Supervision over Financial Services Law (Regularized Financial Services) Law, 5776-2016, and a chapter was added thereto in the matter of service for comparing financial costs. The Bank of Israel informed on August 6, 2018 that it had started the project of regularizing the API Standard for open banking in Israel, which allows third parties, with the consent of the customer, to receive from the banks financial information regarding the customer (see below).

1.11 Prohibition on the unreasonable refusal of engagement between a clearing entity and an aggregator or the prevention of engagement between an aggregator and a supplier.

1.12 By January 31, 2018, the Ministry of Finance is to implement one of these: to publish, in consultation with the Bank of Israel, a tender for establishing a technological infrastructure to provide and operate computerization services to financial bodies; to prescribe criteria for conferring grants, loans or guarantees that will enable the provision and operation of computerization services to financial bodies (see hereunder "Letter of principles for increasing the competition in the financial system" regarding the provision of assistance for establishing a banking service and computerization bureau).

1.13 At the end of eighteen months from the beginning date, if certain conditions determined in the Law are fulfilled, the Minister of Finance, in consultation with the Governor and the Antitrust Commissioner, is entitled to determine that a bank not having a narrow-ranging activity (bank having a narrow-ranging activity - a bank, the value of balance sheet assets of which on a consolidated basis does not exceed 10% of the total value of balance sheet assets of the banking industry), is obligated to sell and operate computer services in use mostly by this bank, and rent out property in use by the bank for this purpose, to financial bodies.

In a draft of proposals for Government decision regarding structural changes, which were raised for discussion within the framework of the discussions on the economic plan for 2023 and 2024, several proposals for additional legislative amendments in the matter were included. It is proposed to cancel the directive that requires a bank with wide-ranging activity that issues charge cards to reduce the credit facilities on the credit card it issues to its customers with effect from 2025 (see below); it is also proposed that a banking corporation be required to allow the operational charge card issuing body to obtain the customer's consent for the transfer of the information received by the operational body incidental to its issuing operation, within the framework of the documents that the customer signs with the banking corporation at the time of the charge card's issuance. In addition, it is proposed that a banking corporation should not be able to prevent the operational body, either by an act of commission or omission, from obtaining the customer's consent to make use of the information received by the body incidental to issuing the charge card or to the issuing operation, for the purpose of providing services according to the operational body's permitted fields of activity, including the provision of credit. For further details regarding a draft of proposals for Government decision, see below.

The Committee for the examination of competition in the credit market. According to the law, a committee was formed for the examination of competition in the credit market has been determined, which would monitor the implementation of the Law since the beginning date, and until the end of six years since the said date. The duties of the committee are: conduct periodic examinations regarding the state of competition in the credit market and locate barriers for development of competition in this market; to monitor the implementation of the provisions of the Law; to recommend in the matter of activating the authority of the Minister of Finance for extending to additional banking corporations the prohibition on engagement in the operation of issuance and clearing of charge cards, on the control of or on the holding of means of control in a corporation engaged in the said operations.

The fourth report by the Committee examining competition in the credit market. On February 2, 2023, the Committee's concluding report was published. Among other matters, the report indicated that the government and the various regulators have acted in recent years to remove barriers to competition, with the vast majority of the measures that the Committee prescribed for the removal of barriers having been completed. During the period of the Committee's work low-level indications favoring competition were recorded in the consumer credit market, the concentration of the banking system has decreased, and there has been a rise in the supply of charge cards driven by the off-banking market.

Rate of cumulative change in the actual balances of credit. The Discount Group's credit has grown at a rate of 35.9% during the years 2016 through 2020 (total credit, net of large businesses and overseas), while the four major banking groups and the two separated credit card companies grew at a rate of 18% in the same period. Namely, the rate of cumulative change in the aforesaid credit balances of the Discount Group was 17.9% higher than the system.

Amendment to Proper Conduct of Banking Business Directives. For the purpose of implementing the provisions of the Strum Law, the Supervisor of Bank published further amendments to Proper Conduct of Banking Business Directives. See below "Directives of the Supervisor of Banks".

Letter of principles for increasing the competition in the financial system - Continuation of the plan for strengthening competition in the banking market. On December 13, 2017, the Ministry of Finance and the Bank of Israel published a continuation of the plan for strengthening competition in the banking market. The plan includes three measures: mobility between banks at the "press of a button", making it possible for the consumer to compare costs relating to his personal financial products, reliefs for new banks by means of assisting in setting up an office for banking computerization services.

The implementation of the aforesaid measures has been achieved, inter alia by means of carrying out the "portability" plan for the transfer of a customer's financial activity between banks, and measures to set up a banking service and automation bureau that will serve new banks and credit deposit unions.

Bill Memorandum of the Regulation of Engagement in Payment Services, 5782-2022. The Bill Memorandum regulates the granting of a payment services license and/or of a payment initiation services license, states mechanisms for the mode of operation of license holders, and states also instructions relating to the granting to a provider of a payment initiation service access to a payment account of a customer, for the purpose of issuing payment orders by means of an interface system for the issue of payment orders.

Credit facilities provided by bank cards. The Strum Law prescribes that as from the end of four years since the Law took effect and up to seven years since the Law took effect, credit facilities provided by credit cards held by customers of the major banks shall not exceed 50% of the total credit facilities provided by credit cards of those banks, as existed in 2015. In November 2020, with the consent of the Governor of Bank of Israel and with the approval of the Economic Committee of the Knesset, The Minister of Finance issued an Order, in effect for a limited period of one year, within the framework of which it was determined that the total of all credit facilities provided by credit cards held by customers of a bank with Wide-Ranging Activity, which issues debit cards during that year, shall not exceed 55% of the total credit facilities provided by credit cards held by customers of that bank, as existed in 2015; in computing the total credit facilities , as stated above, only credit facilities of the bank's customers exceeding NIS 7,500 , should be taken into account; and the credit facility of a customer shall not be reduced to less than NIS 7,500, only because of that stated in this Section.

On January 31, 2022, the Minister of Finance, with the agreement of the Governor and with the approval of the Knesset Economic Affairs Committee, issued an additional order on this subject. The order extends the validity of the previous order's provisions by one additional year.

In accordance with the Bank Having Wide-Ranging Activity Regulations, which were published on January 31, 2023, the period of this provision has been extended so as to commence from the end of four years from the publication date of the Regulations through to the end of seven years from their publication date.

On February 1, 2023, a further order was published in this matter. According to this order, the total of the credit card facilities of customers of a bank with wide-ranging activity that issues charge cards, in any year, shall not exceed 75% of the total credit card facilities of the bank's customers as of 2015. In calculating the aforesaid total credit facilities, credit facilities of the bank's customers exceeding NIS 10,000 are to be taken into account. A customer's credit facility is not to be reduced to an amount below NIS 10,000, purely to take advantage of the contents of this section.

A draft of the proposals for a government decision with regard to structural changes, which will be brought for discussion within the framework of the hearings on the economic plan for 2023 and 2024. In February 2023, a draft was circulated for public comments, referring to various areas, including fields that have implications for the banking system. In addition to the proposals described above, the draft also relates to the reform of the payments market and the reform of the credit market for small and medium businesses. Inter alia, it is being proposed to require payment app operators to allow individual customers to make transfers by means of an identifying detail (connectivity obligation), and to authorize the Ministry of Finance, in coordination with other government parties, to add the connectivity obligation (wholly or partly) also with regard to all or some of the payment account managers; to amend the Banking Law (Customer Service) so that any banking corporation that refuses to provide any of the services mentioned in the Law to bodies holding licenses in the financial field will be obliged to submit a report to the Banking Supervision Department stating the reasons for its decision; to require the banks to send the customer a monthly notice regarding the amounts of commission and interest charged by the bank in the previous month; as well as canceling the possibility of determining minimum price tariffs; requiring the Governor to report to the public once a year regarding progress on the project to set up a credit database for small and medium businesses; and to amend the Banking (Licensing) Law in such a way that a bank with narrow-ranging activity will be permitted to have control of a single corporation that is an insurance agent engaged in general insurance.

Report of the Interministerial Team Examining Chapter 4 - Law for Promotion of Competition and Reduction of Concentration, 5774-2013

On September 22, 2022, the report regarding the separation of non-financial corporations from financial entities was published. The team, which was set up in accordance with the provisions of the Law for Promotion of Competition and Reduction of Concentration, delivered its conclusions to the chairman of the Knesset's finance committee. Inter alia, the team is recommending prescribing that a significant non-financial corporation not be allowed to hold an auxiliary banking corporation, which is considered to be a significant financial entity. If the recommendation progresses to legislation, this could impact on the holding of Shufersal in PayBox.

Policy for establishing new banks and guidelines for license applicants

On June 3, 2018, the Bank of Israel published a policy that arranges, clarifies and simplifies the process for establishing a bank and creates regulatory certainty at an early stage of the licensing process for the entrepreneur interested in establishing a bank.
The new policy enables an entrepreneur to receive a restricted bank license, under which it will be possible to conduct limited deposit receipt and credit granting operations. Following completion of all the processes required according to the outline to be agreed with it, the restricted license will be exchanged for a permanent license.
The policy prescribes reduced regulation over new banks that conduct noncomplex operations, such as retail operations. On March 8, 2020, the Supervisor of Banks issued Proper Conduct of Banking Business Directive No. 480 regarding modifications to the rules of Proper Conduct of Banking Business Directives relating to a new banking corporation. The Directive includes modifications regarding compliance requirements, which would burden a new banking corporation.

Announcement by the Bank of Israel regarding permission for the establishment of a digital bank in Israel

On September 24, 2019, the Bank of Israel announced the granting of a permit for the establishment of a new bank in Israel. The Digital Bank ”One-Zero” obtained a license to begin operations as from March 1, 2021, and restrictions regarding its operations were removed on January 10, 2022.
In December 2022, it was announced that another digital bank, Bank Esh, had been granted an operating license in Israel.

Developments and guidelines regarding controlled payment systems

2022 was characterized by abundance of guidelines relating to clearing services and the regulation of the activity of ABS and BCC, in each of which the Bank holds 10% and 25%, respectively.
Clearing default arrangements in payment systems - BCC, ABS ATM branding and ABS debit cards. Clearing default arrangements in each of the payment systems, which aim to ensure the completion of the daily clearing on time, will be transferred to the management of the payment systems, and this until April 2023. The payment systems and its participants are in the final stages of formulating an arrangement that will ensure the completion of the clearing on time and revised system rules accordingly.
Immediate payment. On February 28, 2022, the Bank of Israel issued a press release, according to which, the Bank of Israel is preparing for the promotion of immediate payments in Israel, in order to provide an answer to market requirements, as well as to remove identified obstructions within the framework of supervision over immediate payments. As part of the measures, The Supervisor of the payment systems has guided the players to make preparations for accepting R2P payment requests until the end of 2023. This in continuation of previous guidelines requiring preparations for accepting immediate credits and the development of the immediate payments according to internationally accepted standards. The Bank of Israel’s Payments and Clearing Systems Department, BCC (the Bank Clearing Center), the banking system, and other financial entities are preparing to advance and implement the aforementioned guideline.
Announcement by the Supervisor of Banks regarding the charge card agreement and the mutual recognition agreement. On May 9, 2021, the Bank received two letters from the Payments and Settlement Systems Department at the Bank of Israel with respect to the intension to declare each of the following: the agreement regarding automated bank machines (mutual recognition agreement) and the charge card agreement (local agreement), as a controlled payment system, as defined by the Payments Systems Law, 5768-2008. During the year, the Bank of Israel’s payment systems department, ABS and the letter’s addressees discussed how these matters are to be implemented insofar as they relate to the domestic agreement.
The Bank of Israel’s announcement regarding opening the Israeli payment systems to activity by international providers of payment services. On February 28, the announcement was published, according to which, the Bank of Israel is allowing the opening of the regulated payment systems in Israel (the RTGS system operated by the Bank of Israel, systems operated by ABS: the “charge card services” system and the ATM “branding” system, and the systems operated by BCC (“the debits, credits and payment transfers (batch)” system and the “immediate payments (online)” system to activity by international providers of payment services that meet the exemption conditions prescribed in Section 3(7) of the Financial Services Supervision (Organized Financial Services) (Exemption from Licensing Obligation) Regulations, 2022. This will be done on the basis of a foreign license and without waiting for the Regulating the Engagement in Payment Services Law to be legislated and to take effect; said law is currently being drafted. The outline relates to two tracks (connecting to a test environment and connecting to a production environment) and sets out the conditions for participation therein.

Financial Information Service Law, 5781-2021

The Law was published on the Official Gazette on November 18, 2021. The Law regulates the activity included in providing a financial information service, both from the aspect of the entity providing the service and also from the aspect of the entities where customers’ financial information is centralized.

Legislation and Standards in the matter of Debt Collection

A trend of increasing legislation and standards in the matter of debt collection has been noticed in recent years. The intensive regulation in the realm of debt collection, the aim of which is relief for the borrower could result in the rights of creditors being harmed, and in particular, the "powerful" lenders, such as the banks, to recover their loan from the borrower. On the one hand, the sympathizing approach to insolvent debtors, with a less sympathizing approach to the banks on the other hand, alongside the accessible possibility of obtaining a discharge, and the fact that many proceedings are conducted with no judiciary control but by only an administrative body, may lead to it that many debtors will choose insolvency proceedings in order to get rid of past debts.
In this framework, the following legislation matters should be mentioned:
- Debt Execution Law (Amendment No. 46), 5775-2015;
- Banking Law (customer service)(Amendment No. 19), 5774-2014;
- Proper Conduct of Banking Business Directive No. 450 of the Supervisor of Banks - debt collection procedures.

The Insolvency and Economic Recovery Law, 5778-2018

On February 28, 2023, a government bill was published- Insolvency and Economic Recovery (Amendment No. 4 – Temporary Provision) (Amendment – Extension of Validity) Law Memorandum, 5783-2023, according to which it is proposed that the validity of Amendment No. 4 to the Insolvency and Economic Recovery Law, 5778-2018, which was due to expire on March 17, 2023, be extended by 12 months (to March 17, 2024). It is proposed that the validity of the stay of proceedings track be extended to allow the drawing up of a debt restructuring, which is included in the temporary provision. The extension is intended to allow the formulation of long-term recommendations in relation to the need for a special track to encourage debt restructurings.
In addition, on December 25, 2022 the Ministry of Justice published an open call for the public's positions regarding encouragement aimed at economic rehabilitation in order to examine whether retention of the amendment, or parts thereof, is justified.
For further details, see the 2021 Annual Report (pp. 415-416).

Economic Competition

The Economic Competition Law (Amendment No. 21), 5779-2019. The Amendment to the Law, which was published on January 10, 2019, determines, inter alia, the duty imposed upon an Officer of a corporation to supervise and do everything possible to prevent the violation of the Law by the corporation or its employees. Violation of this duty will be considered a criminal offence carrying imprisonment and a monetary penalty, and this even if the corporation itself has not violated the Law. In the event that an offence has been committed under the Law, the Officer may be deemed to have violated the said supervisory duty, unless he can prove that he had done the utmost to fulfill his duty. An Officer is an active manager in the corporation, a partner, excluding a limited partner, or a clerk responsible on behalf of the corporation for the area in which the offence had been committed. Furthermore, the amount of the monetary sanctions, which the Commissioner is authorized to impose upon a corporation, has been increased; the duty to report mergers has been reduced; and the definition stated in the Law of an owner of a monopoly has been updated, so as to apply also to a person who holds a significant share of market power in a particular market.
Extension of exemption from approval of a restrictive arrangement in connection with a holding and joint activity within the framework of BCC. The Competition Commissioner issued on June 18, 2020, his decision regarding a conditional exemption from a restrictive arrangement between Bank Clearing Center Ltd. (BCC) and the banks. The exemption would be valid for a period of five years since date of publication. The exemption allows a provider of payment services to join BCC as a participant, subject to the terms detailed therein.
Signing of the mutual recognition agreement. The agreement represents mutual consent for the customers of every party to the agreement to use the automated bank devices of the other parties, organization of the operational facet of this activity and determining the level of fees to be charged for the use of such devices. The agreement was amended in 2020 in light of the Competition Commissioner's exemption from July 30, 2018 and enables every supervised issuer and operator of automated devices to be party to the agreement. During the year, Casponet Ltd. and A.T.M.S. Matrix Ltd. Joined the agreement.

Agreed outline for the complete separation of ABS and BCC. On February 27, 2022, the competition authority announced that the Commissioner of Competition in conjunction with the Bank of Israel had reached an agreed outline for the complete separation of ABS and BCC, and accordingly, an agreed application for approval of the separation outline has been submitted to the Competition Tribunal, so that the restrictive agreement would be approved under agreed terms.

On April 12, 2022, the Competition Authority made an announcement, according to which, the Competition Tribunal had fully endorsed the agreed outline for the separation of the companies, formed in cooperation with the Payments Division of the Bank of Israel. According to the outline, the staff and offices of these companies would be separated by August 2022, most of the applicative developments enabling increasing competition between the companies would be separated by the end of 2023, the infrastructure of the companies would be separated by the end of 2024, and the computer hardware of the companies would be separated by the end of 2027.

For further details, see the 2021 Annual Report (p. 416-417).

Extension of exemption from approval of a restrictive agreement in connection with a holding and joint activity within the framework of ABS. On December 28, 2022, the Competition Commissioner published a decision to exempt from approval of a restrictive agreement with regard to ABS ("the Exemption Decision"). The Exemption Decision renewed the approval of the restrictive agreement for ABS's operations, which was published on September 24, 2017. The terms of the extended exemption were adjusted to reflect changes in the ownership structure of ABS and other regulatory changes that apply to the company. In addition, the Commissioner rejected ABS's request to operate in additional fields other than the fields in which it currently operates and retained the condition that requires that the Commissioner's approval be obtained for any new field of activity that ABS wants to operate in. The arrangement was approved for six years and will be reviewed before its expiry at the end of 2028.

Draft Opinion of the Competition Authority in the matter of information obtained by the Competition Authority and its perusal by factors other than those providing the information. The draft presents for the first time, the policy of the Authority in its relations with entities that are required, under the Economic Competition Law, to provide it with data and information, as well as with respect to having such information available to entities entitled to it under the Administrative Tribunals Law. Inter alia, the draft states that the Authority has the power to require "any information held" by a corporation.

Privacy protection

Privacy Protection Bill (Amendment No. 14), 5782-2021. The Bill, which has passed the first reading by the previous Knesset, includes, inter alia, the following changes: expansion of the administrative and criminal enforcement tools of the Privacy Protection Authority; authorization of the Authority to impose monetary sanctions; reducing the bureaucratic burden by means of a significant reduction in the duty of registering data bases; adaptation of the definitions contained in the Law to up to date technological developments, inter alia, by way of expansion of the definition for 'data' and expansion of the principle of 'linkage to the purpose', with a view of limiting the ability of making use of data for a purpose other than that for which the data had been rendered.

During 2022, the Privacy Protection Authority published several drafts of position papers and guidelines, including: an opinion regarding the interpretation of Regulation 3 of the Privacy Protection (Transfer of Information to Databases Outside the Borders of the State) Regulations; an opinion regarding the interpretation of the terms "information" and "knowledge of one's personal affairs" in the Privacy Protection Law; a recommendations document concerning the appointment of a privacy protection officer in organizations; a document dealing with the freedom of information obligation within the framework of the collection and use of personal information; a draft guidelines document dealing with aspects of the monitoring of employees engaged in remote working; and, a draft guidelines document relating to the transfer of database ownership.

Prohibition of money laundering and Prohibition of Financing Terror Activities

Prohibition of Money Laundering

Promotion of reform of the Prohibition of Money Laundering Law. On February 4, 2021, the Money Laundering Prohibition Authority issued an approach to the private sector, including the Bank, stating that the Authority – in cooperation with the Consultation and (Criminal) Legislation Department at the Ministry of Justice and all the financial regulators – is promoting a major reform of the money Prohibition of laundering and the prohibition of terror financing regime in Israel. According to the approach, this will be done through a comprehensive amendment of the legislation aimed at prescribing uniform fundamental provisions, which will be part of the Money Laundering Prohibition Law or will be promulgated thereunder, and which will apply to all financial entities.
In continuation, on October 3, 2021, the Money Laundering Prohibition Authority issued a draft of Money Laundering Prohibition Order (Identification, Reporting and Record Keeping Obligations of a Provider of Financial Services to Prevent Money Laundering and Terror Financing), 2021. This is a draft of a uniform order that will apply to all the financial entities in the economy (including banking corporations and providers of financial services, as defined in the Providers of Regulated Financial Services Law) and will specify basic, identical and uniform provisions for all the financial bodies that report to the Authority. In conjunction with the uniform order, the regulator for each of the financial bodies to which the uniform order applies will issue directives that are specific to the bodies that it oversees. This is in contrast to the current situation, where separate orders exist for different financial bodies in the economy. The draft of the uniform order sets out various provisions regarding the "know your customer" obligation, identification and verification, recording electronic transfers and transfers of virtual assets, and reporting to the Money Laundering Prohibition Authority.
Amendment to Proper Conduct of Banking Business Directive No. 411 – Prohibition of money laundering and finance of terror risk management. An updated version of the Directive was published on October 26, 2021. This version includes amendments of various issues, including the addition of Annex B2 – an arrangement determined by the Supervisor of Banks according to Section 7A of the Money Laundering Prohibition Order (the duty of identification, reporting and maintaining records by banking corporations for the prevention of money laundering and the finance of terror). The Annex defines reliefs in identification and verification duties according to Chapter B to the Order, when providing payment services, as defined in the Annex, by a banking corporation for the recipient of the service. It is stipulated that the reliefs will also apply when the payment service is given to the recipient of the service by an auxiliary corporation controlled by the banking corporation managing the payment account, subject to the terms detailed in the Annex. The annex went into effect on January 15, 2023. For additional details, see the 2020 Annual Report (pp. 400-401).
Amendment of Proper Conduct of Banking Business Directive No. 411 – management of prohibition of money laundering and finance of terror risks. On May 9, 2022, an amendment was made to the directive dealing with the management of prohibition of money laundering and terror financing risks involved in the provision of payment services incidental to activity in virtual currencies. Inter alia, it was determined that banking corporations conduct risk evaluation regarding the transfer of funds, the origin thereof or their purpose is connected to virtual currencies, and on the basis of such risk evaluation, adopt policy and procedures. It is further determined that a banking corporation shall not refuse to provide payment services related to activity in virtual currencies only because it is related to virtual currencies, to the extent that the provider of the service in virtual currencies, who is a party to the transaction, holds a license for providing such service in Israel. Also determined is an instruction prohibiting in certain cases the provision of payment services related to virtual currencies, and instructions regarding the requirement for documentation respecting the payment of taxes as required by law. The Bank is acting accordingly.
Prohibition of Money Laundering Order (Duties of identification, reporting and maintenance of records by providers of credit service avoiding money laundering and the finance of terror) (Amendment), 5781-2021. On February 2, 2021, the Constitution, Law and Justice Committee approved the amendment to the Order, as part of the implementation of the Law for the supervision of regulated providers of financial services. The amended Order imposes, on providers of a financial asset service, identification, reporting and record keeping obligations in relation to their customers (in addition to the existing requirements under the existing order on providers of credit services), and also relates to activities in a virtual currency. The order took effect eight months after its publication.
Amendment of Proper Conduct of Banking Business Directive regarding salary payments to Palestinian employees. On December 5, 2022, the directive was amended so as to include the Banking Supervision Department's

circular from June 30, 2022. According to the circular, on the background of different actions promoted by the State of Israel, including increased restrictions on the use of cash and imposing a duty on employers to pay wages to Palestinian employees using payment means other than cash, the Supervisor of Banks informed that the Bank of Israel is promoting a move that would allow the banking system accessibility to information existing in the hands of the Population Authority with respect to Palestinian workers having a permit to work in Israel. According to the circular, banks are required to verify information regarding Palestinian employees upon making a bank transfer with the information existing in the data base of the Population Authority, made available to them (It is determined that this examination may replace the examination required under Section 13A(3)(b) of the Prohibition of Money Laundering Order). To the extent that a duty would be imposed on employers to pay wages by means of a bank transfer, the Supervisor would consider the money transfer service as part of conducting the account, and refusal to provide the service shall be examined in the light of the Banking Law (Customer service). It has been clarified that the circular's provision does not apply to workers employed in areas of Judea and Samaria and East Jerusalem. The Population and Immigration Authority has made it obligatory for employers to pay salaries by bank transfer with effect from January 1, 2023. The Bank has completed the required preparations.

Legislation and Regulation Amendments relating to the Capital Market

Provision of financial consulting services over digital channels. On June 22, 2022, a government bill – Supervision of Financial Services Law (Pension Consulting, Marketing and Clearance System) (Amendment No. 11), 5782-2022, was brought before the Knesset, the aim of which is to enable banking corporations to provide pension consulting services also over digital channels and not solely in a face-to-face format. Furthermore, on July 21, 2022, the Capital Markets, Insurance and Savings Authority renewed its announcement that it will not take enforcement measures against banking corporations that will provide pension counseling services by digital means or by telephone to existing customers in the pension counseling field. The validity of this position ended in February 2023.

Draft Proper Conduct of Banking Business Directive regarding a banking corporation's activity as a broker-dealer. An updated draft of the directive was distributed on April 10, 2022. The draft regulates the activity of the banking corporations in the field of financial brokering, with regard to the receipt and transfer of orders for executing transactions in securities for customers, both in their activities as brokers and also by way of trading on their own account (broker-dealer activity). The draft includes adjustments to the Bill Memorandum for Regulating Activity in Broker-Dealer Services, published by the Israel Securities Authority in 2018, with the aim of applying uniform principles for all the bodies engaged in broker-dealer activities in Israel. The directive is expected to replace Proper Conduct of Banking Business Directives Nos. 461 and 419.

Temporary directive for mutual fund managers and trustees pursuant to Section 65A of the Joint Investment in Trusts Law regarding assets that may be acquired and held in a hedge fund trust. The temporary directive was published by the Israel Securities Authority on July 14, 2022, in order to encourage public accessibility to investment in hedge funds within the supervised framework of a trust fund. The directive sets out a framework of rules for the activity of a hedge fund trust, including removing the investment, diversification and leverage restrictions that currently apply to a trust fund. The temporary directive will be in effect for a year and a half, with an option to be extended for a further year, with this being subject to the time constraints prescribed in Section 65A of the Joint Investment Trusts Law. In order to allow customers to purchase the security and hold it, operational preparation of the banks is required.

Proposal to amend the Securities Law, 5728-1968, the joint Investment Trust Laws, 5754-1994 and the Regulation of Investment Counseling, Marketing and Investment Portfolio Management Law, 5755-1995. On December 29, 2022, the Israel Securities Authority published the bill, which is intended, inter alia to regulate the supervision over certain activities in digital assets within the framework of these laws.

U.S. Legislation

As owners of a U.S. bank, IDB Bank, the Bank is subject to a number of U.S. legislation provisions, which apply to entities, and companies related to them, and which have banking operations in the U.S., whether as a bank or as a branch office.
Within the framework of these provisions, significant exceptions have been determined with respect to non U.S. banking entities, such as the Bank, so that the regulation under these provisions relating to operations and investments, applies mostly to the said operations and investments of the bank in the U.S..
The operations of the Bank conform to the U.S. legislation provisions, to the extent that these apply to its operations, including conforming to the restriction imposed on the Bank under the Volcker Rule, enacted as part of the U.S. Dodd Frank reform.
Subject to certain exceptions the Volker Rule includes prohibition of proprietary trading and investment and sponsoring operations in private equity funds of certain types.
Following amendments made to the Dodd Frank reform, the Bank, including its subsidiaries, is no longer subject to enhanced prudential standards determined by the Dodd Frank reform.
The amendments to the Volcker Rule, are in effect from January 1, 2020, are expected to be applied as from January 1, 2021. The purpose of these amendments is to simplify, clarify and modify the provisions of the law, on the basis of experience gathered since its enactment, while maintaining the purpose of this legislation. The amendments are not expected to affect the Bank's operations and even allow for certain mitigating factors in the operations of the Bank concerning US parties.
In addition, a series of amendments to the Law, which became effective on October 1, 2020, relates to limitations detailed in the Law regarding self operations by financial institutions and regarding investment and sponsoring activities for particular funds, with a view of preventing speculative activities by financial institutions and maintaining their stability. The amendments exclude from the limitations stated in the Law certain classes of funds, amend existing exceptions, and exclude the prohibition of providing credit to certain funds, with a view of simplifying existing rules and compliance therewith, defining the exterritorial effectiveness of the Law, and permitting the activity of funds that do not have the risk characteristics, which the original Law intended to deal with.
The Bank is studying these changes and their consequences, if there are, on the Discount Group.
The US Congress passed on January 1, 2021, an amendment to the National Defense Authorization Law, within the framework of which was also enacted the Money Laundering Prohibition Law 2020, which establishes a wide change in the prohibition of money laundering acts and the campaign against the financing of terror in the US. The Bank and MDB both hold correspondents accounts with IDB Bank. Inter alia, an amendment entered into effect, which widens the power of the US Authorities to demand documentation from foreign banks having correspondent accounts in the US. This power is exercisable with respect to any interrogation of violations of the Federal Criminal Law, to civil forfeiture proceedings and to any investigation under the prohibition of money laundering laws, even where the correspondent account had not been used for the potential investigated violation. Additional amendments to the Law shall apply to banks operating in the US and to their customers, and are relevant to the compliance activity of IDB Bank with respect to the prohibition of money laundering and the finance of terror. On January 1, 2024, rules are expected to go into effect that will require US and foreign companies operating in the United States to report to the US financial information agency, FinCEN, regarding the company's beneficiaries.

Various Legislation Matters

Credit Data Law, 5776-2016

The Law was published on the Official Gazette on April 12, 2016. The Law is intended to regularize a central credit data base in Israel, with a view of increasing competition in the retail credit market. According to the Law, the Bank of Israel is to establish and manage a central credit data base. Data would be assembled from sources determined in the Law and including banking corporations, would be maintained and transferred to credit offices by the Bank of Israel. The credit offices would process the data and pass it on, among others, to the providers of credit according to the regulations stated in the Law. On March 4, 2021, the Credit Providers Regulations (Amendment), 2021 were published, thereby complimenting the provisions of the Credit Providers Law and outlining the supporting provisions in relation to arrangements not included in the Law. Following the publication of the Law, further regulations have been published

intended to supplement the regulations stated in the Law, as well as the setting out of supporting regulations with respect to specific arrangements which are not regulated by the Law itself. For the purpose of implementing the Law, the Bank of Israel has taken measures to establish a system for sharing credit information, which includes setting up a central credit database.
It is noted, that providing of detailed data regarding Bank customers may expose the Bank to various claims, including customer arguments regarding the quality of the data in certain cases. The Bank is making timely preparations for the delivery of the data, according to the Bank of Israel instructions, and acts to improve such data, where required (for details regarding a lawsuit together with a motion for its approval as a class action suit, regarding the implementation of the Credit Providers Law, see above Note 26 C to the financial statements, section 12.5).
Amendment of the Credit Providers Regulations (Amendment No. 1), 5781-2020. On January 6, 2021, the Knesset's Economic Affairs Committee approved a proposal to amend the Credit Providers Regulations, 2017, including amendments relating to ways of identifying the customer, obtaining his consent to transfer credit data relating to him and its documentation. The regulations have not yet been published and will go into effect within six months of their publication in the Official Gazette. Following this Amendment, Amendments to Proper Conduct of Banking Business Directives Nos. 405, 401 and 401A were also published. The Directives took effect in March 2022. The Bank is preparing accordingly.

Payment Services Law, 5779-2019

The Law entered into effect in 2020. The Law amalgamates the majority of the "payment services" that are currently provided and that will be provided in the future to the general public (payers, on the one hand, and beneficiaries – the recipient of the payment, on the other hand) by "providers of payment services", including the banks, the credit card companies, off-banking operators of advanced payment applications, etc. The Law prescribes consumer regulation which will apply uniformly (subject to the secondary legislature of each regulator) to all the providers of payment services in the market.
The Bank acted to implement the provisions of the Law for its operations, inter alia, by way of updating agreements with customers, operational preparations, updating procedures and work processes.
The Ministry of Justice published on September 30, 2021, an opinion regarding the responsibility for the misuse of payment means in cases of impersonation as a provider of payment services. The opinion extends the limits of responsibility of providers of payment services in case of misuse of means of payment, so that in the event that a customer had delivered to an imposter, presenting himself as a provider of payment services, the essential component of the means of payment, the customer would be entitled to the protection of the responsibility arrangement stated in Section 24 of the Law, including limited liability.
Payment Services (Exemption from the provisions of the Law) Regulations, 5782-2022. The Regulations took effect on April 13, 2022, in which it is stated that the prohibition to deduct a commission or any other charge from the funds for which a payment order was issued, does not apply when the payment operation is carried out from a payment account or to a payment account managed by a supervised payment service provider, for which the payment order is transmitted through the 'Swift' system. Furthermore, a temporary exemption has been added, until October 14, 2023, from various provisions in the Payment Services Law, for an immediate debit payment method that meets the characteristics specified in the regulations.
Bill for the Prevention of Economic Damage to Consumers (Legislation amendments), 5782-2021. The Bill was published on December 29, 2021, following a Government decision to approve an emergency plan intensifying the campaign against defrauding and abuse of senior citizens and other vulnerable consumers. Legislation amendments have been proposed for the Consumer Protection Law, the Payment services Law, and the Debt Execution Law, the aim of which is to eliminate the phenomenon of economic damage to consumers, caused by traders breaking the law in aggravating circumstances.

Customer Protection Law (Amendment No. 57) (Human professional response on the automatic answering service), 5778-2018

On July 25, 2018, the Amendment was published in the Official Gazette. The subject matter of the Amendment requires businesses that operate a phone call service that includes an automatic call routing system, to enable customers to transfer to a human voice response already at the first menu of the conversation and limiting the waiting time for a human response, as regards certain matters (treatment of failure, account information and termination of engagement) to six minutes. This requirement takes effect by way of an amendment of the Banking Law (Customer service).

Draft Banking Order (Dormant deposits), 5766-2000. The Banking Supervision Department is examining the replacement of the existing order with a new order that will include changes in relation to the investment channels of inactive deposits.

Bill Memorandum of the Economic Efficiency Law (Legislative Amendments to Achieve the Budget Goals for the 2023 and 2024 Budget Years), 5783-2023 – Broadening Tax Collection and Strengthening Enforcement. On February 15, 2023, the Ministry of Finance published the above memorandum. It is proposed that a reporting obligation be prescribed for financial bodies and clearing agents, such that data regarding the revenues and expenses of their customers in all the business accounts managed by them would be reported twice a year to the Israel Tax Authority. In addition, it is proposed that the Israel Tax Authority's director be authorized to demand specific information from the financial bodies and clearing agents with regard to a group of customers having common features, based on characteristics of the accounts or of the customers who are members of the group, in circumstances where a suspicion has arisen that customers in the group are in violation of any of the provision of the tax laws that results in a loss of tax in a not insignificant scope.

Bill Memorandum of the Economic Efficiency Law (Legislative Amendments to Achieve the Budget Goals for the 2023 and 2024 Budget Years), 5783-2023 – Limiting Black Capital. On February 26, 2023, the Ministry of Finance published the above memorandum, the aim of which is to reduce black capital. The memorandum proposes to amend the Law for the Reduction in Use of Cash, 5778-2018 and to prescribe a prohibition on holding cash in an amount of more than NIS 200,000 and to impose a reporting obligation on the holding of cash in an amount of more than NIS 100,000. In addition, it is being proposed to limit the receipt of a cash loan to an amount of NIS 6,000. Furthermore, several amendments are being proposed to Section 131A of the Income Tax Ordinance, including a reporting obligation on providers of financial services to report to the Israel Tax Authority with regard to transactions in an amount of more than NIS 50,000.

Memorandum of the Determination of Interest and Linkage Law (Amendment No. 9), 5782-2021. The Memorandum was published on November 11, 2021, in the framework of which it is proposed to amend the rate of interest added under the Law to a determined debt, so that the added interest would be either a shekel interest or linked interest. It is also proposed to change the interest on arrears mechanism, inter alia, in order to create an incentive for the repayment of the debt, so that the interest and the interest on arrears would be separated, and a mechanism separate from the interest would be formed, named "arrears fees". It is proposed that the charging of arrears fees on the debt shall be made once in each quarter, instead of on a daily basis. It is further proposed to cancel the application of "compound interest" mechanism to the arrears fees. On February 8, 2023, the Government notified the Knesset of its intention to apply the Continuity Law to the bill.

Banking Bill (Licensing)(Amendment No. 28)(Expanding financing sources for non-banking corporations engaged in extending credit), 5781-2021. The Legal Office of the Knesset published on January 24, 2022, an updated version of the Bill, intended to expand the credit sources for non-banking entities, in order to increase competition in the credit market. The updated version is in the course of preparation for the second and third readings by the Knesset. It is proposed to amend Section 21 of the Banking Law (Licensing), so that the definitions existing with respect to the exclusivity of operations to banking corporations shall be amended, in particular, the definition of "issue" and "extending credit".

Amendment of the Regulations Regarding Equal Rights to Persons with a Disability (Accessibility adjustments to service). In January 2022, the Amendment, was approved by the Labor and Welfare Committee of the Knesset, in the framework of which the population entitled to exemption from standing in line was enlarged, and it was also determined that for a service that has accessible means allowing arrangement of an appointment in advance, the bank has to provide the service to a person with a disability, who had arranged an appointment in advance, at a time near to the time of ordering the appointment. The Amendment enters into effect after three months from date of publication.

Position of the Commission for Equal Rights of Persons with a Disability from December 1, 2022. The position of the Commission is that reports filed by public companies constitutes information with regard to a public service and, as such, there is an obligation to make them accessible. The obligation to make the information accessible falls on the reporting corporations. The Israel Securities Authority and TASE are the owners of the platform on which the reports are published and are therefore required to make the platform accessible and to provide an accessible infrastructure. The Commission will begin enforcing the accessibility obligations in relation to such reporting from

April 1, 2023. On February 8, 2023, the Israel Securities Authority published an announcement that the Commission had informed it that reporting corporations are also able to publish on MAGNA reports that have not been made accessible, and to fulfill the accessibility reporting requirement by means of referencing a link to an identical accessible report that will appear on the Internet website of the reporting corporation.

Amendment No. 23 to the Equal Rights to Persons with a Disability Law. The Amendment took effect on July 13. 2022, with the aim of improving the enforcement abilities of the Commissioner of Equal Rights to Persons with a Disability. In this framework, the authority of the Commissioner had been extended to include the filing of an action on behalf of a person with a disability; supervisory authority and the Commission has been granted powers to impose monetary sanctions in the event of violation of the accessibility provisions. The amounts of the monetary sanctions may vary between NIS 12,500 and NIS 37,500. To these amounts may be added additional sanctions in cases of prolonged violation and recurring violation. The power to impose monetary sanctions will go into effect within a year of publishing the law, provided that the regulations and procedures required for its implementation will have been completed by that time.

Accordingly, on November 13, 2022, a draft of the Equal Rights of Persons with a Disability (Reduction of Amounts of Monetary Sanctions – Accessibility) Regulations, 2022-5783 was published, in which it is proposed to prescribe the circumstances in which the amount of the monetary sanction imposed on a person in breach of an obligation imposed by the law can be reduced. The circumstances relate, inter alia to the conduct of the person in breach and to his financial turnover.

Draft Amendment of the Banking Rules (Customer service) (Commissions), 5768-2008. A draft Amendment of the Rules was distributed in December 2022, the essence of which is the updating of the system of charging current account commissions ("the optimal track mechanism"), in a way that banks would be required to calculate for the customer what would be the cheapest monthly payment charged to him for his current account activity made in a particular month, and to collect the payment accordingly; extension of the group of small businesses, to which the cheaper pricelist would apply, from a business the turnover of which is up to NIS 5 million, to a business the turnover of which is up to NIS 10 million. In addition, the default option would be changed, so that corporations would be defined as a "small business" entitled to the cheaper pricelist, unless the Bank has in their respect, financial statements showing a turnover of over NIS 10 million. The expanded plus channel would be updated so as not to limit the number of teller and direct channel transactions included therein.

Draft Banking Order (Customer service) (Control over basic track, extended track and extended plus track services, direct channel transactions and teller transactions), 5782-2022. A draft Order was distributed in December 2022, declaring the following services as service under control: teller transaction, direct channel transaction, basic track, extended track, extended plus track. The meaning of the declaration is that it would not be possible to raise the price of these services without approval of the Supervisor of Banks. In addition, the draft Order establishes the current account commission charge system presented in the draft Amendment of the Banking Rules ("the optimal track mechanism"). This Order will replace the previous Order published in September 2022, the main point of which is the declaration of the above services as supervised services.

Draft amendment to the Banking Rules (Customer Service) (Full Disclosure and Delivery of Documents), 5752-1992. On December 8, 2022, a draft amendment to the Rules was published. The amendment includes a proposal for the extensive amendment of the full disclosure rules, including the addition of a chapter dealing with "Principles of full disclosure to customers", as well as the inclusion of comprehensive revisions with regard to full disclosure rules in relation to the cost of services.

Memorandum of the Payment Services (Initiated payments) Bill, 5783-2022. The Bill Memorandum, published on October 11, 2022, proposes to amend the Payments Services Law, 5779-2019, regulating two additional payment services. The one, basic initiation services, which include initiation of payment orders and initiation of authority to charge an account, where the initiator of the payment order only passes on the payment order from the trading house to the bank and the customer has to confirm the transaction on the website of the bank. The other, advanced initiation services that include initiation services by power of an authorization, within the framework of which, the customer grants the initiator of the service an authority to act on his behalf vis-à-vis the bank and confirm the payment order or the authority to charge his account. It is proposed that the Law shall take effect at the end of one year following its publication.

Directives of the Supervisor of Banks

Proper Conduct of Banking Business Directive no. 368 - implementation in Israel of the open banking standard. The Directive was published on February 25, 2020, and details the requirements of the Bank of Israel from the banks and credit card companies regarding this field, with the aim of defining the infrastructure for open banking in Israel.

The dates for the entry into effect of the Directive are as follows: Implementation of open banking for information viewing purposes only – March 31, 2021; Conducting a single payment operation and information regarding credit cards – October 10, 2020; Information regarding savings deposits, deposits, credit and securities – March 31, 2022. Among other things, the Directive regulates the open banking duties applying to banking corporations and credit card companies. According to the Directive, the Boards of Directors and Managements are required to review and approve the policy for the management of open banking risks, and the Management is required to implement such policy and determine areas of responsibility and allocation of resources, including for the purpose of risk management. The Directive further deals with the manner in which consent of the customer and its cancellation is obtained, with the list of services that a bank would be obliged to provide to the customer and with data protection. The Directive entitles banks to act as consumers of data on condition that no conflict of interests with other activities of the bank, of corporations controlled by it or of corporations in the group to which it relates exists, as the case may be. The Directive also states in detail the manner in which customer inquiries are to be dealt with, and regulates who is required to respond and/or compensate the customer in case of flawed information.

For details regarding the preparations made by the Bank in the field of open banking, see the 2018 Annual Report (p. 355) and the Section "Technological improvements and innovation" above.

The Supervisor of Banks issued a circular on April 5, 2021, whereby the entry into effect of parts of the above Directive is being deferred for a number of months.

On February 23, 2022, the directive was amended, inter alia, to align it with the Provision of Financial Information Service Law, 5782-2021. On May 15, 2022, a further amendment was published that prescribes provisions with regard to prohibiting the receipt of benefits as required by the Financial Information Service Law, 2021-5782. On January 23, 2023, the final text was published of an amendment to the directive, which relates to providing access also to information concerning securities, and adds an appendix to the standard, which relates to the manner of implementing the technology of providing access to this information. Further revisions have also been made, inter alia, on matters relating to the level of availability, the correction of faults and the handling of inquiries, the manner in which the certificate is to be used and its safeguarding, and the Supervisor's approval for payment-initiated activity pursuant to the standard. Dates have been set for the amendment's implementation.

Letter regarding the replacement in foreign interest rate benchmarks. For details, see "Marker Risks" in Chapter C above.

Letter of the Supervisor of Banks regarding the encouragement of innovation at banks and at clearing agents. See above "Initiatives concerning the banking sector and its operations".

Amendment of Proper Conduct of Banking Business Directive No. 420 – Sending Notices via Means of Communication. An Amendment to the Directive was published on February 25, 2021, within the framework of which, instructions were added regarding the delivery of notice to customers regarding the need to deposit funds to cover the payment of a check, this following the Dishonored Checks Law (Amendment No. 14), 5780-2020. An amendment to the Directive was published on June 6, 2021, which expands the possibility of delivering notices via diverse communication channels. According to the amendment, a banking corporation may choose a communication channel suitable for delivering a certain notice to the customer under terms detailed in the Directive. The decision as to whether a certain notice is suitable for delivery via a certain communication channel, shall be taken according to the level of materiality of the data and the required delivery speed, while maintaining a balance between the need to deliver the information to the customer and the need to protect the customer's privacy. Also determined is the duty to deliver to the customer, who had joined the service for delivery of notices regarding certain matters as detailed in the Directive, also via a channel allowing the delivery of information in an immediate and accessible format, such as SMS. The directive entered into effect on January 1, 2023.

Amendment of Proper Conduct of Banking Business Directive No. 336 – pledging the assets of a banking corporation. In view of the growth in scope and diversity of operations requiring banking corporations to pledge their assets (according to the law, regulation or market practice), the Supervisor of Banks published on June 15, 2021, an amendment to the Directive, by which the quantitative limitation on pledged assets had been removed, being replaced by defined requirements for the proper management of the pledging of assets. The amendment takes effect on January 1, 2022.

Draft Amendment to Proper Conduct of Banking Business Directive No. 422 – Opening and Managing a Current Account with Credit Balances. On December 26, 2022, an updated draft of the amendment was published for public comments. Within the framework of the amendment, it is proposed to clarify that no sweeping rules are to be prescribed to block a customer's activity on his account solely due to the customer belonging to a certain population group, and that every application should be assessed on its own merits, with discretion being exercised. In addition, the list of the basic payment services defined in the directive has been broadened. It is prescribed that, generally, customers should be allowed to make payments and receive services and information on their accounts, including by means of E-Banking channels. The content of the directive has been broadened, beyond the management of a Shekel current account with a credit balance, to also include the management of Shekel current account with a debit balance that does not exceed the approved credit facility on the account.

Draft of Proper Conduct of Banking Business Directive in the matter of distribution of credit cards by issuers engaged with the banking corporation in a distribution agreement. On December 5, 2022, a draft directive was published, which prescribes that – in accordance with the Banking Law (Customer Service), 5741-1981, at the time of a customer requesting a banking corporation to enter into a credit card contract with him or at the time of the banking corporation proposing to the customer that such a contract be entered into, the banking corporation should distribute the credit cards of the issuers with which it is linked through a distribution agreement. The draft prescribes the credit card distribution processes, including the terms of the distribution agreement, the manner of distribution, the details that the banking corporation is required to present to the customer, and provisions regarding reporting on this topic to the Bank of Israel.

Amendment of Proper Conduct of Banking Business Directive No. 366 – reporting of technological failure events and cyber events. On January 23, 2023, a new version of the draft was published, following the amendment to the Financial Information Service Law, which adds a reporting obligation with respect to a serious security event.

Amendment of Proper Conduct of Banking Business Directive No. 362 – cloud computing. The Amendment, published on June 13, 2022, clarifies that cloud computing services comprise a private case of outsourcing. Therefore, Proper Conduct of Banking Business Directive No. 362, as well as Proper Conduct of Banking Business Directive No. 359A in the matter of outsourcing, shall apply to a banking corporation that uses cloud computing services (except in certain matters).

Draft Proper Conduct of Banking Business Directive on Information Technology Risks, Data Security and Cyber Protection. On February 28, 2023, the draft was published, dealing with three key issues: corporate governance in the field of information technology; Information technology risk management processes as part of the risk management process and business continuity; Data security risk management processes. The Banking Supervision Department clarifies within the draft that information technology risks, including data security risks, may constitute a significant stability risk for the banking corporation and jeopardize its continued existence, and therefore, the banking corporation is expected to adequately safeguard its information assets and to implement an organizational culture that promotes the management of information technology risks.

Proper Conduct of Banking Business Directive in the matter of measurement and capital adequacy. During December 2021, the Supervisor of Banks published Amendments to Proper Conduct of Banking Business Directive No. 203 in the matter of the standardized approach – credit risk, as well as promulgated new Proper Conduct of Banking Business Directives - No. 203A in the matter of treatment of counterparty credit risk, No. 204A in the matter of IRB approach – risk components, and No. 208A in the matter of value adjustment for credit risks. The Amendment was made in order to modify the Directives of the Supervisor to a work framework document, published by the Basel Committee, which incorporates and reedits the Standards dealing with the allocation of capital for derivative financial instruments. The update relates to the computation of the capital allocation for the activity in derivatives by a third party. Some of the amendments and the new directives entered into effect on July 1, 2022 and the remainder, due to the postponement of the application date of Directive No. 208A, have been postponed until January 2, 2025. The Bank is preparing for the implementation of the Amendments and Directives.

Letter of the Supervisor of Banks in the matter of disclosure of the cost of service – Part 11 of the full pricelist. On February 16, 2022, the Supervisor of Banks delivered to the Banks and to the credit card companies his position with respect to the interpretation of Part 11 of the full pricelist, as provided within the framework of public approaches and class actions. According to this position, expenses included in Chapter 11 of the full pricelist, relating to third party expenses, should reflect the "actual expenses" payable by the banking corporation to a third party in connection with the particular service offered to the customer. To the extent that the manner of computing the expense payable by the banking corporation to a third party is not uniform for each transaction or for each customer, the banking corporation has to find a way of reflecting to the customer in the pricelist the maximum actual expense relevant to the service in question. It is required to act in a similar manner also upon presentation of a price for a transaction under Section 26(a) of the Banking Rules (Service to customers) (Proper disclosure and delivery of documents), 5752-1992.

Proper Conduct of Banking Business Directive No. 427, in the matter of "advanced payments services". The Directive, published on June 13, 2022, contains rules applying to those managing current accounts and issuing charge cards with respect to the manner of presentation of information regarding payment transactions made through the payments application, aimed at improving the disclosure concerning the payment transactions executed by means of the aforesaid applications. The information regarding payment operations shall be presented on the page showing movement in the account and on the communication channels available to the customers. Within the framework of the directive, the data to be displayed concerning the payment transactions are set forth and rules are prescribed for transferring information between the banking corporations and the customers and between the banking payment applications and the banking corporations. The date on which the directive entered into effect was reset for February 1, 2023.

Proper Conduct of Banking Business Directive No. 460, in the matter of "presentation of activity data in a securities deposit". The Directive, published on December 26, 2021 and amended on June 13, 2022, states a uniform format for the presentation to the customer of information and data regarding his securities deposit with the banking corporation. In this framework, it is stated how information should be presented to customers regarding yields on their securities deposit, the assets included therein, the commissions paid by the customer for the service, the manner of delivery of information to customers who are not subscribers to online services, the reporting currency, the manner of calculating yields on the securities deposit and more. In addition to the presentation of current information, a uniform framework was defined for more extensive quarterly information provided to customers, including customers obtaining consultation. The Directive took effect on January 1, 2023, and the first report would be presented for the first quarter of 2023.

Draft Proper Conduct of Banking Business Directive in the matter of management of the customers' service and support layout. The draft that was published on November 7, 2022, establishes principles for the providing of adequate service to bank customers using the different service channels, including the Internet website, Application, Call Center, Chat with a banker, Automated Teller Machines, personal service at the branches, and more. The principles established by the draft are: maintaining an optimal service and support layout, useful communication with the customers, avoidance of damage and deception, availability and quality all along the engagement period, customer adapted service and support and provision of service through various tracks. The draft also establishes the duty of publishing details concerning the customer service and support layout, including details of all the services available on each of the service tracks, including details concerning the termination of engagement, ways of fixing appointments and service-level agreements (SLA) regarding service and support for particular matters.

Letter of the Supervisor of Banks in the matter of "business regarding cryptographic assets" and Amendment of Proper Conduct of Banking Business Directive No. 310 in the matter of risk management. On February 26, 2023, the letter and the amendment to the directive were published, which prescribe that banks have to exercise extra care in considering operations in the crypto field, apply a new product process, check that the operation in question is included in the areas of operation permitted to banks, conduct a risk evaluation process and refer to the Supervisor of Banks with a detailed application prior to starting business regarding the new product, with requests for operations of banks in the crypto field being examined with the desired caution by the Banking Supervision Department.

Draft Q&A file in the matter of – whether a banking corporation is required to include an internal decision to approve future credit to a customer in calculating exposure for regulatory purposes. The draft, published on August 17, 2022, proposes, inter alia, to require examination as to whether the internal decision creates a legal liability to the banking corporation for extending credit on the basis of an opinion. Moreover, parameters were proposed for optimal monitoring and management of the risks arising from an internal decision to extend credit.

Letter of the Supervisor of Banks regarding "clarifications in the matter of third-party expenses incurred while extending credit". The letter was published on August 11, 2022, and according to which, banking corporations and credit card companies must see to it that Section 11 of the full commission pricelist should not include consulting services provided while extending credit, including professional fees paid to lawyers, regarding the core service – unless it is, at the most, a special consulting service, as defined in the Regulation of Off-Banking Loans (Exclusion of certain types of credit transactions from the provisions of the Law, and exclusion of expenses from the contents of "Addendum"), 5779-2019. It has been explained that the above stated is intended, inter alia, to promote a fair and structured presentation of the commissions and increase the ability for cost comparison.

Letter of the Supervisor of Banks in the matter of opening bank accounts for new immigrants from Russia and their transfer of funds. The letter dated August 16, 2022, states that on the background of information conveyed to the Bank of Israel on difficulties regarding the transfer of funds made by new immigrants arriving in Israel and the deposit thereof with the banking system, the Supervisor of Banks expects banking corporations to apply a high level of sensitivity with respect to the opening and management of bank accounts for new immigrants, to verify the existence of a uniform and swift response, to the extent possible, on the part of the bank branches to the needs of the new immigrants, and should provide accessibility in the Russian language to the basic bank services on all the various channels of activity. The Bank is acting towards the implementation of the above. On February 2, 2023, a further letter was sent on this topic, in which, the Banking Supervision Department again requested that the banks act sensitively when opening accounts for immigrants from Russia and the Ukraine, alongside managing risks.

Corporate governance

Amendment of Proper Conduct of Banking Business Directive No. 301 regarding the "Board of Directors". The Directive was amended on December 26, 2021, stating that the Audit Committee of the Board of Directors, within the framework of its duty to supervise the work of the Independent Auditor, has to apply the guidelines of the Basel Committee with respect to the independent audit of banking corporations. The Directive applies to audit of financial statements as from January 1, 2023.

An Amendment to the Directive was published on January 18, 2022, stating that both genders should be properly represented on boards of directors of banking corporations. Accordingly, the Board of Directors will determine a policy regarding the ratio for the gender diversity, including the time limit and milestones to achieve this goal.

Amendments of Proper Conduct of Banking Business Directive No. 301 in the matter of the board of directors and Proper Conduct of Banking Business Directive No. 301A in the matter of compensation and the letter of the Supervisor of Banks. A letter by the Supervisor of Banks was received on June 22, 2021, addressed to the Bank's Board of Directors, in the matter of principles for determination of the terms of office of the chairman of the board of a bank having no core control interest, and with respect to the qualifying terms for the appointment of a director of a banking corporation having no core control interest (lack of affinity). Among these, maintaining the principle according to which the duties and authority of the chairman of the board shall not deviate from the duties and authority bestowed upon him by law, and that the organs that approve the terms of office must verify that the compensation components (including all rights and duties relating to them) do not create an affinity or impair the independence of the chairman of the board. It is further emphasized that the need to establish the status of the chairman of the board and to segregate him from the Management of the bank, including by means of determining compensation in relation to the other members of the board of directors (and according to Proper Conduct of Banking Business Directive No. 301A), is of double importance in a banking corporation having no core control interest. On April 10, 2022, the Supervisor of Banks also published amendments to Proper Conduct of Banking Business Directive No. 301 in the matter of the board of directors and Proper Conduct of Banking Business Directive No. 301A in the matter of compensation – the instructions have been modified according to the legislation requirements applying to chairmen of boards of banking corporations in general and of banking corporations having no core control interest in particular. In addition, instructions have been stated relating to the duties of the chairman of the board and the time resources required for the fulfillment thereof. Amendment of the instructions is intended to allow, inter alia, a banking corporation having no core control interest to pay the chairman of the board appropriate compensation, on condition that this would not create affinity or impair his independence as regards the banking corporation.

Companies Bill (Amendment No. 36) (Corporate Governance in Public Companies not Having a Controlling Shareholder), 5782-2022. The bill was brought before the Knesset for its first reading on June 20, 2022. The bill amends the corporate governance rules that apply to companies having no core controlling interest, with the aim of providing a better solution to the representative problem that characterizes companies of this kind. Most of the proposed amendments deal with the definition of control, the composition of the board of directors, including replacing the obligation to appoint external directors with an obligation for there to be a majority of independent directors on the board of directors, as well as improving the process for appointing directors and the manner of approving transactions with dominant shareholders. The bill does not relate to the relationship between the proposed arrangements and the arrangements prescribed in the Banking Ordinance and in Proper Conduct of Banking Business Directive No. 301.

ESG risks

Climate Bill, 5783-2023

On February 2, 2023, the Minister of Environmental Protection made an announcement that the Climate Bill had been passed to the relevant government ministries for comments. According to the bill's text, it is proposed that a target be set for the reduction of greenhouse gas emissions with effect from 2030, with the annual target amount of greenhouse gas emissions reaching a maximum of 50% of the amount of greenhouse gas emissions for 2015. This compared to the previous version, which anchored the reduction targets for 2030 on Government Decision No. 171 on the subject, in which it is written that the annual amount of greenhouse gas emissions for 2030 is to be reduced by at least 27% compared to 2015 (the base year). The bill proposes a national target of a net-zero emissions economy by the year 2050. It was also announced that the bill ensures that government ministries and other bodies will draw up a climate change preparedness plan, will build and implement capabilities, and will report on these once a year. It is prescribed that a ministerial committee for climate matters be established and that a Climate Council be set up, which will be composed of representatives from the relevant government ministries responsible for formulating and implementing Israel's climate policy, as well as representatives of public-interest groups, such as a representative from the Manufacturers Association of Israel, representatives of environmental organizations as well as representatives from the younger generation. It was also announced that the bill would prescribe an obligation for conducting a climate risk assessment with regard to relevant plans that would be submitted by the public authority for approval by the government or by one of its ministers, and which are deemed likely to have a significant impact on greenhouse gas emissions or on climate change or which might be affected by climate change. Also provided for by the bill is the establishment of a reporting and control mechanism, within the framework of which the government will report to the Knesset regarding its attainment of the bill's targets and the implementation of its provisions. The bill has not yet been publicly published.

On October 24, 2022, the Government approved a decision to amend a previous Government decision No. 4079 from 2018, on the "preparations for the adaptation of the State of Israel to climate changes – implementation of the recommendations submitted to the Government on strategy and a national plan of action". According to the amendment, a final date is to be set by the end of 2023 for conclusion of the drafting of preparation plans by the different government ministries regarding this issue, and within the framework of the preparation plans, the ministries would be required to relate to the climatic reference scenarios defined by the National Emergency Authority.

Amendment to Public Reporting Directive no. 665 on the topic "Disclosure to the public regarding environment, social and governance (ESG) aspects". The Directive was published on December 13, 2022 and broadens the obligation for disclosure relating to the degree of involvement of the banking corporation's Board of Directors and its Management in material ESG issues.

Draft Proper Conduct of Banking Business Directive on the topic "Principles for the effective management of climate-related financial risks". On December 28, 2022, the Banking Supervision Department published a draft of a Proper Conduct of Banking Business Directive on the topic "Principles for the effective management of climate-related financial risks". The draft sets out the principles pursuant to which the banking corporations are required to act in order to optimally manage their exposure to climate-related financial risks, and it is based on a document that the Basel Committee published in June 2022. The draft sets out the principles related to: the field of corporate governance, deployment of processes for assessing the effects of risk factors in the ESG field, adapting the risk strategies and Bank's risk appetite to conform with the principles, considering changes in the compensation policy with respect to the inclusion of material financial risks relating to climate, clearly allocating responsibility for this field to the members of Management and the Board of Directors; controls, procedures and audits for the effective management of the risks; updating the capital adequacy and liquidity processes, the management processes, the monitoring and reporting of the risks. The application date for implementing the principles ranges between six months and a year and a half from the date of publishing the directive.

The Israel Securities Authority's directive to fund managers and large license holders regarding the

integration of environment, social and governance considerations in taking investment decisions or managing risks. On December 18, 2022, the directive was published, according to which, inter alia, a large license holders should examine whether, in their view, it is fitting to place weight on environment, social and governance considerations within the framework of their work, and particularly in relation to the risk assessment process, the investment selection process, analyzing the effect on yields, clarifying clients' needs and in any other area. A large license holder will state in a non-public immediate report whether its policy includes the integration of environment, social and governance considerations within the framework of its service and, if so – in what manner, and the considerations in setting its policy on this topic. Inter alia, this obligation applies to the banks' consulting arrays.

Different instructions

Taking consumer measures in a changing financial environment. In his letter dated February 26, 2023, the Supervisor of Banks related to the changes in the interest and inflation environment that is causing a rise in household expenses. In his letter, the Supervisor expressed the expectation that the banking corporations would look at alternative ways for customers to meet their monthly repayments and that they would provide an appropriate, timely and professional response to customers' requests and needs, while providing comprehensive disclosure to customers about the short-term and long-term implications associated with these steps. At the same time, the supervisor clarified that it is expected that the banking corporations will continue to work to adapt the banking products and services to the customer's needs, with emphasis on the investment products at their disposal. Even prior to this letter, the Bank was set up to examine customers' needs, paying attention to the aforesaid changes, and to offer alternatives to customers wishing to change and adjust their repayments schedule, including in relation to mortgage borrowers. The Bank continues to work to adapt its banking products and services to customers' needs.

A Government program accelerating digital services to the public and promoting digital learning. The program was approved by Government decision of July 22, 2020, and is intended to accelerate the characterization and establishment of the required infrastructure, in order to enable the public to conduct at distance operations involving Government offices and additional public institutions. It is proposed by the program to promote the use of simple and easy digital identification means for the electronic signature in the financial system, and advance a digital process of submitting and saving guarantees issued to Government offices by financial institutions.

Position of the Bank of Israel in the matter of payments and activity of digital wallets. In a press release dated February 14, 2021, the Bank of Israel stated its position in view of developments in the field of payments and activity of digital wallets. According to the Bank of Israel position, the new initiatives in this field may encourage competition, develop the payments world and create value for the Israeli consumer; therefore the Bank of Israel does not consider it proper to curb the entities involved in the matter, provided, inter alia, that at this stage in the developments in the payments market, no use should be made of the data collected within the framework of the digital wallet, for the purpose of providing financial services or sale of other financial products to customers having a charge card issued for them by issuers who are not owners of the wallet service, and this until this issue in all its aspects, would be examined; as well as that in the case of an "open wallet", within a short period of time, there would be the possibility to hold numerous cards of different issuers, so that customers would be able, easily and conveniently, to make use of a number of cards of their own choice. Also to be examined is the limitation imposed on the two large banks by the Concentration Law, regarding cooperation initiatives in this field, in which the two large banks are involved. The Bank of Israel shall continue to follow developments in this field, and where required will act for appropriate regulation.

Legislation and regulation initiatives

The year 2022 was characterized by new legislative initiatives, including private bills, and the passing of new legislation. The implementation of the various instructions requires, on more than one occasion, preparations involving the investment of resources, and sometimes it has a possible adverse impact on the income of banking corporations from various sources. The Bank expects that this state of affairs will also continue in the future. See above also, "Legal and Regulatory Risks" in Chapter "Risks Review" above.

Details regarding additional new Proper Conduct of Banking Business Directives (or draft Directives) were also provided in the chapters "Description of the Activity of the Group According to Segments of Operation – additional details", "Human Capital" above and in the Document "Disclosure according to the third pillar of Basel and additional information regarding risks" available for review on the Internet.

Taxation

General. The Bank and most of its subsidiaries in Israel are considered a financial institution under the Value Added Tax Law, 5735-1975, and as such are chargeable to payroll tax and to profit tax at the rate of 17.0% of the payroll expense and of the profit, respectively.
Tax aspects of the Directive regarding impaired debts. An agreement was signed with the Tax Authority in February 2012, regarding the timing of the recognition for tax purposes of credit loss expenses recognized in the books according to the Directive regarding "measurement and disclosure of impaired debts, credit risk and allowances for credit losses".
Among other things, the agreement states that with respect to large debts (over NIS 1 million), the allowance will be allowed as an expense, and in the event of a collection being made settling of accounts will be done with the tax authorities. With respect to small debts, the allowance will not be recognized as an expense, although actual write-offs will be recognized in the two years following the year in which the allowance was made. On July 9, 2017, the validity of the agreement was extended up to and including the 2020 tax year.
In addition, on July 9, 2017, an agreement was signed with the Israeli Tax Authority regarding the timing of the recognition for tax purposes of allowances in respect to housing loans. As part of this agreement, which is valid up to and including the 2020 tax year, it is prescribed, inter alia, that 65% of the closing balances in respect problematic debts regarding housing loans granted, and for which an allowance was first recorded on January 1, 2014, will be adjusted for tax purposes. The tax authority has not yet published new directives for 2021 and thereafter. At this stage, the Bank is continuing to act according to the old directives.
A Qualified Intermediary (Q.I.) status. The Bank has been granted the status of Qualified Intermediary (QI), as defined by the U.S. Tax Authorities. The significance of this is that the Bank has entered into an agreement with the U.S. Tax Authorities, whereby it is entitled to withhold tax with regards to its customers' securities transactions.
Changes in global legislation regarding the prevention of tax offences. For details regarding changes in tax legislation in the United States – the FATCA legislation – and the Group's preparations to implement its provisions, see "exposure to cross-border risks" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

For additional details regarding "taxation", see Note 8 to the financial statements.

Legal Proceedings

Material claims outstanding against the Bank and its consolidated subsidiaries are described in Note 26 C to the financial statements.

Additional Legal Proceedings

1. **Approach according to Section 198A of the Companies Law.** On December 14, 2016, the Bank received an approach headed "approach according to Section 198A of the Companies Law, 5759-1999 – request for clarifications and documents regarding the conduct of the Bank and of MDB regarding Australian customers, prior to the filing of a derivative action". The Bank responded to the approach on December 26, rejecting the request and the arguments raised therein (see Note 26 C to the financial statements, section 11.3).
   On June 6, 2017, a motion was filed with the Tel Aviv District Court for the disclosure of documents under Section 198A of the Companies Law, in which the Court was asked to instruct Discount Bank and MDB to deliver to the petitioner the documents named in the motion, required by him in order to decide whether to file a motion for approval of a derivative action or a derivative defense in the name of Discount Bank and/or MDB.
   On June 24, 2018, the power of a Court ruling was awarded to the agreement by the parties, according to which the motion shall be struck off with no order for expenses, while securing an exclusive right for the Appellant to file anew a disclosure motion under Section 198A of the Companies Law, and/or a motion for approval of a derivative action, this within ninety days from date of the ruling and/or approval of a compromise arrangement within the framework of one or more of the proceedings being conducted against the Respondents in Australia.

On February 6, 2020, a motion for the disclosure of documents under Section 198A of the Companies Law was resubmitted to the Tel Aviv District Court. The motion requests the Court to instruct Discount Bank and MDB to deliver documents listed in the motion for perusal by the Plaintiff, in order to study the possibility of filing a request for approval of a derivative action or derivative defense on behalf of Discount Bank and/or MDB.

The Bank and MDB filed on October 20, 2020 a motion for the stay of proceedings regarding the motion and alternatively for the deferral of the date for submission of their response. The Court fixed a hearing for March 3, 2021, in the presence of the parties, regarding the motion for the stay of proceedings and has exempted the banks from providing a response, at this stage. During the hearing held on March 3, 2021, the Bank's position was admitted, and the proceedings were stayed by mutual consent. A memorandum hearing on the case is set for June 4, 2023.

2. **Petition under Section 198A of the Companies Law.** On October 4, 2020, the Bank received notice of a petition requesting the Bank to deliver to the Petitioner documents regarding the "money laundering affair", as defined in the petition. As alleged by the Petitioner, material that had been leaked and published on the Buzzfeed Internet website raises suspicion of global money laundering, within the framework of which, foreign factors including felons and foreign states used different banks, including Israeli banks and the Bank, for the purpose of unlawful money transfers in considerable amounts. A Court ruling was handed on April 11, 2021, admitting the motion of the Bank for the in limine dismissal of the motion. The Petitioner had filed an appeal against the ruling. On September 21, 2022, the Supreme Court dismissed the appeal.
3. **Petitions for disclosure of documents under Section 198A of the Companies Law.** On December 22 and 23, 2020, two different petitions under Section 198A of the Companies Law were delivered to the Bank regarding the disclosure of documents prior to a derivative action concerning the proceedings described in Note 26 C sub section 12.1. The two petitions are identical in substance. The first petition was filed with the Haifa District Court while the second petition was filed with the Tel Aviv District Court. On January 11, 2021, the Supreme Court instructed that the hearing of the first petition be transferred to the Tel Aviv District Court and be consolidated there with the hearing of the second petition. Each of the Petitioners has filed a petition with the Tel Aviv district Court requesting to delete the competing request. At the hearing of the petitions held on May 2, 2021, the Court decided that the two Petitioners would file a unified petition within thirty days. The Petitioners had filed a consolidated petition. Hearing of the petition was delayed by consent of the parties.
4. On March 26, 2017, a claim was filed with the Central-Lod District Court, together with an application for its approval as a class action, against the Bank. In the application, it is alleged that the Bank charges customers with a correspondent fee, but it does not credit customers with benefits should any be received from the correspondent; It is stated that the total damages for all members of the group amount to more than NIS 2.5 million. Similar applications have been filed against MDB, as well as against Bank Hapoalim, Bank Leumi, Bank Mizrahi-Tefahot, Union Bank, and FIBI. On February 16, 2023, a decision was given approving the claims against all the banks to be conducted as class-actions. Within the framework of an application for a stay of execution of the ruling, the banks have notified the court that it is their intention to file an application for leave of appeal against the ruling.
5. On March 27, 2017, ICC received notice of a lawsuit filed against it with the Lod-Central District Court, together with a motion for approval of the action as a class action suit. The Plaintiff claims that according to the letter of the agreement between it and ICC, where a transaction had been cancelled prior to the crediting of the trading house, ICC is not entitled to charge the trading house with the full amount of the clearing commission, unless in cases where the transaction had been effected manually and not by use of the electronic POS instrument. Alternatively, the Plaintiff argues that a contractual instruction permitting ICC to charge in full the clearing commission also where the clearing service had not been rendered in full (due to cancellation of the transaction), comprises a "discriminating term in a uniform contract", that has to be abolished or changed. The Plaintiff estimates the damage caused to all class members at NIS 45 million.

   A preliminary hearing of the case was held on March 28, 2019. The parties had conducted mediation proceedings in which they were not successful in concluding the dispute by agreement. Therefore, summing-up briefs have been filed with the Court.

   On May 25, 2020, the Court admitted the motion for the conduct of the case as a class action suit.

   According to the Court's recommendation, the parties entered into mediation, and, on January 6, 2022, the Court was presented with a motion to approve a settlement arrangement with regard to the case, and on November 6, 2022, a ruling was granted approving the compromise arrangement.

6. On August 7, 2017, a claim and a motion for its approval as a class action were filed at the District Court in Tel-Aviv against MDB. It is alleged in the motion that MDB charges fees for drawing up guarantee documents when extending a guarantee's validity, contrary to the contractual arrangement between the customer and the Bank, and it was notes that the estimated amount damages by all the members of the class is approx. NIS 24 million. On January 11, 2022, a ruling was given approving the conduct of the claim as a class action. On February 3, 2022, MDB filed with the Supreme Court a motion for permission to appeal against the decision to approve the action as a class action suit, and at the same time a motion for the stay of execution of the decision was also filed. On March 6, 2022, the Supreme Court ruled that the motion for permission to appeal requires an answer and issued a temporary stay of execution Order. On June 8, 2022 a decision was taken according to which, the motion for permission to appeal would be set for hearing before a composition of judges, and a stay of execution Order was issued until the Court decides in the matter. The parties referred to mediation proceedings.
7. **A motion for disclosure of documents for the purpose of considering the filing of a derivative suit in the matter of violation of the exemption provisions regarding cross-clearing.** On September 13, 2022, a motion was submitted to the Economic Department of the Haifa District Court, under Section 198A of the Companies Law, 5759-1999, against ICC, against the Bank and against Diners. The motion alleges that on September 12, 2022, it was published on the website of the Competition Authority that ICC had signed on an agreed Order, in which it was obliged to pay an amount of NIS 10 million. See below "Proceedings regarding authorities" (Section 4). The appellant claims that the readiness of ICC to pay the amount of the agreed Order stems from violation of the exemption provisions regarding cross-clearing. On February 12, 2023, ICC, Diners and the Bank submitted their response to the application. A hearing of the application is set for May 18, 2023.

For additional details regarding different legal proceedings, see Note 26 C, sections 11 and 12.

Significant Legal Proceedings settled in 2022

1. For details regarding the motion for approval of a claim as a class action suit, in which the Court decided on January 26, 2022, to admit the motion for withdrawal of the Claimant, see section 10.3 in the 2021 Annual Report (p. ___).
2. For details regarding a motion for approval of an action as a class action suit, which the Court had dismissed, and with respect to an appeal filed against this decision with the Supreme Court, see Note 26 C section 10.4 to the financial statements.
3. For details regarding the decision of the Supreme Court to admit the motion of the Bank for permission to appeal in the matter of approval of an action as a class action, see "Legal proceedings" in the report for the third quarter of 2022, section 3.
4. For details regarding a motion for approval of a legal action as a class action, regarding which a ruling was given on August 21, 2022, dismissing the motion for approval, and whereas on November 13, 2022, an appeal was filed with the Supreme Court against the said ruling, see Note 10, section 3.4 to the condensed financial statements.
5. For details regarding an application for approval of an action as a class action, where the Court had approved the compromise arrangement, see "Legal proceedings" in the report for the third quarter of 2022, Section 1.
6. For details regarding an application for approval of an action as a class action, for which on March 9, 2023 a ruling was issued confirming the compromise arrangement between the parties, see Note 26 C, section 10.8 to the financial statements.

Proceedings regarding Authorities

1. For details regarding various proceedings by the Competition Commissioner and the Competition Tribunal concerning the Group's activities in the credit card field, see Note 36 A 1 and 2 to the financial statements.
2. **Demand for data – The Competition Authority.** A request for further data was received in 2022, by MDB and by the Bank, with respect to banking services provided to customers in the Arab sector. Moreover, the Bank and MDB received a request in the matter of deposits. In June 2022, the Bank received a request for data relating to an investment transaction that a subsidiary performed in another company. In February 2023, a further demand for data was received on this subject.
3. **Privacy Protection Authority.** The Authority announced on February 16, 2020, the starting of a regulatory administrative process under the Privacy Protection Law, for the examination of circumstances of the PayBox event. On October 1, 2020, the Authority sent the Bank a letter determining allegedly breach of the Privacy Protection Law. The Bank submitted its response in writing on December 9, 2020 and had requested an additional oral hearing. The Privacy Protection Authority has consented to the request of the Bank to hold a viva voce hearing. The hearing was held on October 21, 2021.
4. **Competition Authority – Agreed Order.** On February 6, 2020, ICC received a demand for information from the Competition Authority, under Section 46(b) of the Economic Competition Law, 5748-1988, with respect to trading houses receiving from ICC or from a related entity, debit card clearing services. In continuation thereof and following the data that had been delivered, further demands were received, this within the framework of an investigation that was conducted by the Authority in the matter. ICC provided the required data.
   On September 12, 2022, ICC informed the Competition Authority of its consent for the payment of NIS 10 million, to the State's Treasury, within the framework of an agreed Order, this according to Section 50B of the Law. Subject to the payment of the said amount, the Competition Commissioner would not take any enforcement actions against ICC or against anyone on its behalf, with respect to events that had taken place in the period from 2018 to 2020, in which, as alleged, beneficial commercial terms regarding clearing services for charge cards of the "Diners" brand, had been offered to customers who would purchase or would continue to purchase from ICC clearing services for charge cards of other brands.
   It is clarified that there is nothing in the agreed Order or in ICC's signature thereon, that denotes a statement, admission or consent on the part of ICC, or on the part of anyone on its behalf, regarding violation of the Law, of decisions of the Commissioner, or of any other provision of the law in any way whatsoever.
   On March 2, 2023, the Competition Authority submitted the agreed order to the Competition Tribunal for approval.
5. **Imposition of monetary sanction.** On December 28, 2021, the Supervisor of Banks notified ICC of his intention to impose on it a financial sanction of NIS 1 million for its alleged violation of Section 11(a) of Proper Conduct of Banking Business Directive No. 470, pursuant to which a card issuer shall not charge a customer for transactions conducted after termination of the charge card contract. The Supervisor of Banks informed ICC on May 8, 2022, of his decision to impose upon it a monetary sanction in the amount of NIS 650 thousand.
6. **Notice regarding the removal of pledges.** On July 4, 2022, the Bank and MDB received a notice pursuant to Section 8A(a) of the Banking Ordinance with regard to repeated deficiencies in the removal of pledges following the settlement of the charges, for which the pledges were registered. The banks have taken the necessary steps to comply with the requirements specified in the notice.
7. **Imposition of monetary sanction.** On February 6, 2023, the Bank was informed of the decision of the Supervisor of Banks to impose upon the Bank two monetary sanctions in a total amount of NIS 1.2 million, this under Section 14H(a)(1) of the Banking Ordinance, 1941, and according to the Banking Rules (Rates of maximum reduction of monetary sanction amounts), 5771-2011. The monetary sanctions had been imposed on the Bank for violation of the provisions of sections 25 and 26 of Proper Conduct of Banking Business Directive No. 450 in the matter of "Debt collection procedures", the subject matter of which was reports to the Debt Execution Office regarding amounts collected not by means of the Office, and respecting arrangement with customers regarding collections on account of the debt, all as detailed in an Immediate Report dated February 7, 2022 (Ref. No. 2023-01-014925), the details included therein in this matter are presented hereby by way of reference.
8. For details regarding proceedings concerning certain matters relating to IDB Bank's compliance plan, see above "Legislative Restrictions, Regulations and Special Constraints applicable to the International Operations" in section "International Operations Segment - Additional Details".

Appendices to the Annual Report

Appendices - List of tables

Appendix no. 1 - Rates of Financial Income and Expenses on a consolidated basis and analysis of the changes in interest and expenses

Part "A" - Average balances and interest rates - assets

	2022			2021			2020		
	Average balance(2)	Interest income	Rate of income	Average balance(2)	Interest income	Rate of income	Average balance(2)	Interest income	Rate of income
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Interest bearing assets:									
Credit to the public:(3)									
In Israel	191,730	8,875	4.63	165,628	6,090	3.68	151,501	5,439	3.59
Abroad	28,146	1,301	4.62	24,842	781	3.14	23,851	855	3.58
Total credit to the public	**219,876**	***10,176**	**4.63**	**190,470**	***6,871**	**3.61**	**175,352**	***6,294**	**3.59**
Credit to the Government:									
In Israel	2,523	86	3.41	3,142	63	2.01	3,895	76	1.95
Total credit to the Government	**2,523**	**86**	**3.41**	**3,142**	**63**	**2.01**	**3,895**	**76**	**1.95**
Deposits with banks:									
In Israel	4,796	40	0.83	3,246	9	0.28	3,431	17	0.50
Abroad	258	2	0.78	507	-	-	512	-	-
Total deposits with banks	**5,054**	**42**	**0.83**	**3,753**	**9**	**0.24**	**3,943**	**17**	**0.43**
Deposits with central banks:									
In Israel	49,866	668	1.34	35,526	36	0.10	27,128	36	0.13
Abroad	1,056	12	1.14	730	1	0.14	564	1	0.18
Total deposits with central banks	**50,922**	**680**	**1.34**	**36,256**	**37**	**0.10**	**27,692**	**37**	**0.13**
Securities borrowed or purchased under agreements to resell:									
In Israel	1,278	12	0.94	1,243	-	-	738	-	-
Total securities borrowed or purchased under agreements to resell	**1,278**	**12**	**0.94**	**1,243**	**-**	**-**	**738**	**-**	**-**
Bonds held for redemption and available for sale:(4)(5)									
In Israel	31,798	455	1.43	32,850	337	1.03	28,163	327	1.16
Abroad	9,358	186	1.99	8,963	142	1.58	8,828	206	2.33
Total bonds held for redemption and available for sale	**41,156**	**641**	**1.56**	**41,813**	**479**	**1.15**	**36,991**	**533**	**1.44**
Trading bonds:(5)									
In Israel	1,689	42	2.49	1,528	12	0.79	1,720	9	0.52
Abroad	70	1	1.43	67	1	1.49	66	1	1.52
Total trading bonds	**1,759**	**43**	**2.44**	**1,595**	**13**	**0.82**	**1,786**	**10**	**0.56**
Other assets:									
Abroad	813	20	2.46	698	19	2.72	666	20	3.00
Total other assets	**813**	**20**	**2.46**	**698**	**19**	**2.72**	**666**	**20**	**3.00**
Total interest bearing assets	**323,381**	**11,700**	**3.62**	**278,970**	**7,491**	**2.69**	**251,063**	**6,987**	**2.78**
Debtors for credit card operations	7,302			8,878			9,519		
Other non-interest bearing assets(6)	28,986			21,376			19,684		
Total assets	**359,669**			**309,224**			**280,266**		
Of which: Total interest bearing assets attributable to operations abroad	39,701	1,522	3.83	35,807	944	2.64	34,487	1,083	3.14
* Fees and commissions included in interest income from credit to the public		309			319			317	

For footnotes see page 433.

Appendix no. 1 - Rates of Financial Income and Expenses on a consolidated basis and analysis of the changes in interest and expenses (continued)

Part "B" – Average balances and interest rates – liabilities and equity

	2022			2021			2020		
	Average balance[2]	Interest expenses	Rate of expense	Average balance[2]	Interest expenses	Rate of expense	Average balance[2]	Interest expenses	Rate of expense
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Interest bearing liabilities:									
Deposits from the public:									
In Israel - On call	67,794	251	0.37	54,541	5	0.01	52,494	11	0.02
In Israel - Time deposits	118,216	1,703	1.44	95,634	418	0.44	94,618	503	0.53
Total deposits from the public in Israel	**186,010**	**1,954**	**1.05**	**150,175**	**423**	**0.28**	**147,112**	**514**	**0.35**
Abroad - On call	21,536	262	1.22	20,241	70	0.35	16,031	125	0.78
Abroad - Time deposits	5,951	89	1.50	3,686	14	0.38	6,504	92	1.41
Total deposits from the public outside Israel	**27,487**	**351**	**1.28**	**23,927**	**84**	**0.35**	**22,535**	**217**	**0.96**
Total deposits from the public	**213,497**	**2,305**	**1.08**	**174,102**	**507**	**0.29**	**169,647**	**731**	**0.43**
Deposits from the Government:									
In Israel	102	1	0.98	216	2	0.93	156	-	-
Abroad	70	1	1.43	68	-	-	71	3	4.23
Total deposits from the Government	**172**	**2**	**1.16**	**284**	**2**	**0.70**	**227**	**3**	**1.32**
Deposits from central banks:									
In Israel	9,731	7	0.07	8,300	6	0.07	2,083	2	0.10
Total deposits from central banks	**9,731**	**7**	**0.07**	**8,300**	**6**	**0.07**	**2,083**	**2**	**0.10**
Deposits from banks:									
In Israel	3,599	62	1.72	3,615	18	0.50	4,407	21	0.48
Abroad	1,570	23	1.46	1,198	11	0.92	1,810	29	1.60
Total deposits from banks	**5,169**	**85**	**1.64**	**4,813**	**29**	**0.60**	**6,217**	**50**	**0.80**
Securities lent or sold under agreements to repurchase:									
In Israel	1,599	65	4.07	-	-	-	-	-	-
Abroad	-	-	-	41	-	-	402	5	1.24
Total securities lent or sold under agreements to repurchase	**1,599**	**65**	**4.07**	**41**	**-**	**-**	**402**	**5**	**1.24**
Bonds and subordinated debt notes:									
In Israel	13,089	543	4.15	11,170	417	3.73	11,813	296	2.51
Total bonds and subordinated debt notes	**13,089**	**543**	**4.15**	**11,170**	**417**	**3.73**	**11,813**	**296**	**2.51**
Other liabilities:									
In Israel	79	-	-	66	1	1.52	60	2	3.33
Total other liabilities	**79**	**-**	**-**	**66**	**1**	**1.52**	**60**	**2**	**3.33**
Total interest bearing liabilities	**243,336**	**3,007**	**1.24**	**198,776**	**962**	**0.48**	**190,449**	**1,089**	**0.57**
Non-interest bearing deposits from the public	65,822			67,204			49,069		
Creditors for credit card operations	11,817			11,230			10,027		
Other non-interest bearing liabilities[7]	13,926			11,333			11,663		
Total liabilities	**334,901**			**288,543**			**261,208**		
Total capital resources	**24,768**			**20,681**			**19,058**		
Total liabilities and capital resources	**359,669**			**309,224**			**280,266**		
Interest spread		**8,693**	**2.38**		**6,529**	**2.21**		**5,898**	**2.21**
Net return on interest bearing assets:[8]									
In Israel	283,680	7,546	2.66	243,163	5,680	2.34	216,576	5,069	2.34
Abroad	39,701	1,147	2.89	35,807	849	2.37	34,487	829	2.40
Total net return on interest bearing assets	**323,381**	**8,693**	**2.69**	**278,970**	**6,529**	**2.34**	**251,063**	**5,898**	**2.35**
Of which: Total interest bearing liabilities attributable to operations abroad	29,127	375	1.29	25,234	95	0.38	24,818	254	1.02

For footnotes see page 433.

Appendix no. 1 - Rates of Financial Income and Expenses on a consolidated basis and analysis of the changes in interest and expenses (continued)

Part "C" - Average balances and interest rates - additional information regarding interest bearing assets and liabilities attributed to operations in Israel

	2022			2021			2020		
	Average balance(2)	Interest income (expense)	Rate of income (expense)	Average balance(2)	Interest income (expense)	Rate of income (expense)	Average balance(2)	Interest income (expense)	Rate of income (expense)
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Non-linked shekels:									
Total interest bearing assets	235,755	7,752	3.29	202,133	5,160	2.55	178,220	5,077	2.85
Total interest bearing liabilities	(169,036)	(1,178)	(0.70)	(143,012)	(309)	(0.22)	(132,396)	(381)	(0.29)
Interest spread		**6,574**	**2.59**		**4,851**	**2.33**		**4,696**	**2.56**
CPI-linked shekels:									
Total interest bearing assets	25,024	1,826	7.30	21,909	1,055	4.82	19,733	413	2.09
Total interest bearing liabilities	(12,640)	(714)	(5.65)	(10,798)	(468)	(4.33)	(10,960)	(233)	(2.13)
Interest spread		**1,112**	**1.65**		**587**	**0.49**		**180**	**(0.04)**
Foreign Currency (including foreign currency-linked shekels):									
Total interest bearing assets	22,901	600	2.62	19,121	332	1.74	18,623	414	2.22
Total interest bearing liabilities	(32,533)	(740)	(2.27)	(19,732)	(90)	(0.46)	(22,275)	(221)	(0.99)
Interest spread		**(140)**	**0.35**		**242**	**1.28**		**193**	**1.23**
Total operations in Israel:									
Total interest bearing assets	283,680	10,178	3.59	243,163	6,547	2.69	216,576	5,904	2.73
Total interest bearing liabilities	(214,209)	(2,632)	(1.23)	(173,542)	(867)	(0.50)	(165,631)	(835)	(0.50)
Interest spread		**7,546**	**2.36**		**5,680**	**2.19**		**5,069**	**2.23**

For footnotes see next page.

Appendix no. 1 - Rates of Financial Income and Expenses on a consolidated basis and analysis of the changes in interest and expenses (continued)

Part "D" – Analysis of changes in interest income and expenses

	2022 Compared to 2021			2021 Compared to 2020		
	Increase (decrease) due to change[9]			Increase (decrease) due to change[9]		
	Quantity	Price	Net change	Quantity	Price	Net change
	In NIS millions					
Interest bearing assets:						
Credit to the public:						
In Israel	1,208	1,577	2,785	519	132	651
Abroad	153	367	520	31	(105)	(74)
Total credit to the public	**1,361**	**1,944**	**3,305**	**550**	**27**	**577**
Other interest bearing assets:						
In Israel	204	642	846	73	(81)	(8)
Abroad	11	47	58	5	(70)	(65)
Total other interest bearing assets	**215**	**689**	**904**	**78**	**(151)**	**(73)**
Total interest income	**1,576**	**2,633**	**4,209**	**628**	**(124)**	**504**
Interest bearing liabilities:						
Deposits from the public:						
In Israel	376	1,155	1,531	9	(100)	(91)
Abroad	45	222	267	5	(138)	(133)
Total deposits from the public	**421**	**1,377**	**1,798**	**14**	**(238)**	**(224)**
Other interest bearing liabilities:						
In Israel	116	118	234	92	31	123
Abroad	5	8	13	(8)	(18)	(26)
Total other interest bearing liabilities	**121**	**126**	**247**	**84**	**13**	**97**
Total interest expenses	**542**	**1,503**	**2,045**	**98**	**(225)**	**(127)**
Net interest income	**1,034**	**1,130**	**2,164**	**530**	**101**	**631**

Footnotes:

(1) The data is presented after the effect of hedge derivative instruments.

(2) Based on monthly opening balances, except for the non-linked shekels segment for which the average balances are based on daily data.

(3) Before deduction of the average stated balance of allowances for credit losses. Including impaired debts that do not accrue interest income.

(4) From the average balance of bonds held to maturity was deducted (added) the average balance of profits (losses) included in equity as part of accumulated other comprehensive income in the item "Adjustments regarding the presentation of available-for-sale securities at fair value" for bonds transferred from the available-for-sale portfolio, in the amount of NIS 259 million.

(5) From the average balance of trading bonds and of available-for-sale bonds was deducted (added) the average balance of non-realized gains (losses) from adjustment to fair value of trading bonds as well as gains (losses) on available-for-sale bonds included in shareholders' equity as part of accumulated other comprehensive income, in the item "Adjustments for available-for-sale securities according to fair value" in the amount of NIS 5 million and NIS 929 million, respectively; 2021 – NIS 1 million and NIS 382 million; 2020 - NIS 7 million and NIS 583 million respectively.

(6) Including derivative instruments and other assets that are not interest bearing and net of allowance for credit losses.

(7) Including derivative instruments.

(8) Net return – net interest income divided by total interest bearing assets.

(9) The quantitative impact has been computed by multiplying the interest spread by the change in the average balance between the periods. The price impact has been calculated by multiplying the average balance for the corresponding period last year by the change in the interest spread between the periods.

Appendix no. 2 - Consolidated statement of profit and loss for each quarter - multi quarter data

Quarter	4	3	2	1
	In NIS millions			
	2022			
Interest income	3,930	3,113	2,573	2,084
Interest expenses	1,390	833	500	284
Net interest income	**2,540**	**2,280**	**2,073**	**1,800**
Credit loss (expenses release)	230	106	131	(60)
Net interest income after credit loss expenses	**2,310**	**2,174**	**1,942**	**1,860**
Non-interest Income				
Non-interest financing income (expenses)	248	151	(27)	45
Fees and commissions	857	871	851	825
Other income	9	5	-	416
Total non-interest income	**1,114**	**1,027**	**824**	**1,286**
Operating and other Expenses				
Salaries and related expenses	988	881	844	855
Maintenance and depreciation of buildings and equipment	313	309	307	303
Other expenses	666	637	565	549
Total operating and other expenses	**1,967**	**1,827**	**1,716**	**1,707**
Profit before taxes	1,457	1,374	1,050	1,439
Provision for taxes on profit	516	472	371	447
Profit after taxes	**941**	**902**	**679**	**992**
Bank's share in profit (loss) of associates, net of tax effect	(3)	11	14	5
Net Profit:				
Before attribution to non-controlling interests in consolidated companies	938	913	693	997
Attributed to the non-controlling interests in consolidated companies	1	(20)	(13)	(14)
Net Profit attributed to bank's shareholders	**939**	**893**	**680**	**983**

	2021			
Interest income	1,871	1,912	1,997	1,711
Interest expenses	188	255	312	207
Net interest income	**1,683**	**1,657**	**1,685**	**1,504**
Credit loss expenses release	(10)	(126)	(410)	(147)
Net interest income after credit loss expenses	**1,693**	**1,783**	**2,095**	**1,651**
Non-interest Income				
Non-interest financing income	180	198	89	298
Fees and commissions	809	807	785	724
Other income	50	10	1	11
Total non-interest income	**1,039**	**1,015**	**875**	**1,033**
Operating and other Expenses				
Salaries and related expenses	970	867	830	801
Maintenance and depreciation of buildings and equipment	293	292	308	294
Other expenses	676	497	473	557
Total operating and other expenses	**1,939**	**1,656**	**1,611**	**1,652**
Profit before taxes	793	1,142	1,359	1,032
Provision for taxes on profit	269	401	493	353
Profit after taxes	**524**	**741**	**866**	**679**
Bank's share in profit of associates, net of tax effect	4	-	16	-
Net Profit:				
Before attribution to non-controlling interests in consolidated companies	528	741	882	679
Attributed to the non-controlling interests in consolidated companies	1	(19)	(22)	(17)
Net Profit attributed to bank's shareholders	**529**	**722**	**860**	**662**

Appendix no. 3 - Condensed Consolidated balance sheet - multi quarter data

	2022				2021			
Quarter	4	3	2	1	4	3	2	1
	In NIS millions							
Assets								
Cash and deposits with banks	65,713	71,510	63,449	60,997	59,638	46,334	47,405	50,307
Securities								
Held-to-maturity bonds	14,847	14,662	14,713	10,161	10,197	9,043	9,118	9,026
Available- for- sale bonds	25,858	24,679	25,945	29,413	31,027	33,722	34,758	32,256
Not for trading shares	1,767	1,865	1,840	1,746	1,613	1,505	1,519	1,414
Trading securities	2,322	1,427	1,428	1,598	1,032	1,692	1,454	1,516
Total Securities	44,794	42,633	43,926	42,918	43,869	45,962	46,849	44,212
Securities borrowed or purchased under agreements to resell	857	1,271	1,330	1,156	1,207	1,142	1,377	1,135
Credit to the public	244,288	240,032	235,510	220,733	216,196	206,944	202,258	196,901
Provision for credit loss	(3,209)	(3,151)	(3,045)	(2,882)	(3,040)	(3,117)	(3,272)	(3,609)
Net credit to the public	**241,079**	**236,881**	**232,465**	**217,851**	**213,156**	**203,827**	**198,986**	**193,292**
Credit to Governments	2,599	2,574	2,607	2,553	2,664	3,127	3,217	3,520
Investments in associates	486	502	493	455	462	392	345	355
Buildings and equipment	3,904	3,724	3,573	3,441	3,401	3,203	3,117	3,012
Intangible assets and goodwill	162	163	163	163	163	163	164	164
Assets for derivative instruments	11,420	13,601	11,023	5,732	5,522	4,367	4,670	5,099
Other assets	5,740	6,215	5,392	5,392	5,006	4,894	4,604	5,046
Total Assets	**376,754**	**379,074**	**364,421**	**340,658**	**335,088**	**313,411**	**310,734**	**306,142**
Liabilities and Equity								
Deposits from the public	292,293	290,646	283,423	267,731	260,907	245,393	240,691	240,787
Deposits from banks	15,376	16,719	14,760	13,183	12,534	13,635	15,291	12,241
Deposits from the Government	117	120	124	159	346	285	287	293
Securities loaned or sold under buy-back arrangements	3,739	3,038	1,946	-	-	-	-	-
Bonds and Subordinated debt notes	12,308	13,491	13,863	12,211	15,071	11,170	11,203	10,136
Liabilities for derivative instruments	9,348	11,718	9,303	5,892	6,323	4,570	4,876	4,919
Other liabilities	18,095	18,624	16,909	17,773	17,759	16,352	17,040	17,368
Total liabilities	**351,276**	**354,356**	**340,328**	**316,949**	**312,940**	**291,405**	**289,388**	**285,744**
Equity capital attributed to the Bank's shareholders	24,880	24,112	23,490	23,027	21,483	21,346	20,704	19,836
Non-controlling rights in consolidated companies	598	606	603	682	665	660	642	562
Total equity	**25,478**	**24,718**	**24,093**	**23,709**	**22,148**	**22,006**	**21,346**	**20,398**
Total Liabilities and Equity	**376,754**	**379,074**	**364,421**	**340,658**	**335,088**	**313,411**	**310,734**	**306,142**

Appendix no. 4 - Consolidated statement of profit and loss for the last five years

	As at December 31				
	2022	2021	2020	2019	2018
	in NIS millions				
Interest income	11,700	7,491	6,987	7,567	7,053
Interest expenses	3,007	962	1,089	1,674	1,527
Net interest income	**8,693**	**6,529**	**5,898**	**5,893**	**5,526**
Credit loss expenses (expenses release)	407	(693)	1,718	690	540
Net interest income after credit loss expenses	**8,286**	**7,222**	**4,180**	**5,203**	**4,986**
Non-interest Income					
Non-interest financing income	417	765	1,142	742	586
Fees and commissions	3,404	3,125	2,826	2,972	2,851
Other income	430	72	39	57	57
Total non-interest income	**4,251**	**3,962**	**4,007**	**3,771**	**3,494**
Operating and other Expenses					
Salaries and related expenses	3,568	3,468	3,242	3,343	3,385
Maintenance and depreciation of buildings and equipment	1,232	1,187	1,185	1,098	1,039
Other expenses	2,417	2,203	2,254	1,858	1,724
Total operating and other expenses	**7,217**	**6,858**	**6,681**	**6,299**	**6,148**
Profit before taxes	5,320	4,326	1,506	2,675	2,332
Provision for taxes on profit	1,806	1,516	549	932	789
Profit after taxes	**3,514**	**2,810**	**957**	**1,743**	**1,543**
Bank's share in profit of associates, net of tax effect	27	20	50	16	6
Net Profit :					
Before attribution to non-controlling interests in consolidated companies	3,541	2,830	1,007	1,759	1,549
Attributed to the non-controlling interests in consolidated companies	(46)	(57)	(32)	(57)	(44)
Net Profit attributed to bank's shareholders	**3,495**	**2,773**	**975**	**1,702**	**1,505**
Total earnings per share attributed to Bank's shareholders	**2.87**	**2.38**	**0.84**	**1.46**	**1.29**

Appendix no. 5 - Consolidated balance sheets as of the end of the last five years

	As at December 31				
	2022	2021	2020	2019	2018
	In NIS millions				
Assets					
Cash and deposits with banks	65,713	59,638	42,936	26,044	21,858
Securities					
Held-to-maturity bonds	14,847	10,197	7,923	4,753	6,722
Available- for- sale bonds	25,858	31,027	32,633	29,562	28,930
Not for trading shares	1,767	1,613	1,092	967	-
Trading securities	2,322	1,032	1,137	2,463	2,246
Total Securities	44,794	43,869	42,785	37,745	37,898
Securities borrowed or purchased under agreements to resell	857	1,207	1,074	531	774
Credit to the public	244,288	216,196	192,479	182,991	167,078
Provision for credit loss	(3,209)	(3,040)	(3,761)	(2,524)	(2,274)
Net credit to the public	**241,079**	**213,156**	**188,718**	**180,467**	**164,804**
Credit to Governments	2,599	2,664	3,473	3,515	3,336
Investments in associates	486	462	348	171	135
Buildings and equipment	3,904	3,401	2,995	2,577	2,437
Intangible assets and goodwill	162	163	164	164	160
Assets for derivative instruments	11,420	5,522	6,400	4,545	3,726
Other assets	5,740	5,006	5,076	4,064	4,048
Total Assets	**376,754**	**335,088**	**293,969**	**259,823**	**239,176**
Liabilities and Equity					
Deposits from the public	292,293	260,907	226,118	201,450	188,916
Deposits from banks	15,376	12,534	13,107	6,419	6,886
Deposits from the Government	117	346	344	181	257
Securities loaned or sold under buy-back arrangements	3,739	-	161	346	1,126
Bonds and Subordinated debt notes	12,308	15,071	10,201	13,129	8,476
Liabilities for derivative instruments	9,348	6,323	7,365	4,839	3,249
Other liabilities	18,095	17,759	16,946	14,266	12,597
Total liabilities	**351,276**	**312,940**	**274,242**	**240,630**	**221,507**
Equity capital attributed to the Bank's shareholders	24,880	21,483	19,182	18,678	17,151
Non-controlling rights in consolidated companies	598	665	545	515	518
Total equity	**25,478**	**22,148**	**19,727**	**19,193**	**17,669**
Total Liabilities and Equity	**376,754**	**335,088**	**293,969**	**259,823**	**239,176**

Appendix no. 6 - Additional details - securities portfolio

1. Available for sale bonds - data according to economic sectors

Details regarding to the distribution of bonds in the available-for-sale portfolio according to economic sectors

	December 31 ,2022			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Non government bonds				
Various sectors*	2,125	2,065	14	74
Financial services(1)	6,461	5,793	6	674
Total non government bonds	**8,586**	**7,858**	**20**	**748**
Government bonds				
U.S. government	5,286	5,178	1	109
Israel Government	13,251	12,625	57	683
Other Governments	221	197	2	26
Total government bonds	**18,758**	**18,000**	**60**	**818**
Total bond in the available-for-sale portfolio	**27,344**	**25,858**	**80**	**1,566**
	December 31 ,2021			
Total non governmental bonds and bills	**9,701**	**9,748**	**142**	**95**
Total government bonds and bills	**21,032**	**21,279**	**318**	**71**
Total available-for-sale bonds	**30,733**	**31,027**	**460**	**166**

* Including the investment of IDB Bank in the U.S.A. municipal bonds. Of which, the three largest investments are in the amount of NIS 82-155 million, each, in municipal bonds of Washington state, in bonds of Texas state and in bonds of the New York state .

(1) Details regarding bonds in the financial services sector in the available-for-sale portfolio

	December 31 ,2022			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Banks and banking holding companies(2)	524	515	5	14
Ginnie Mae	4,191	3,606	1	586
Freddie Mac	51	44	-	7
Fannie Mae	62	56	-	6
Other	1,633	1,572	-	61
Total financial services	**6,461**	**5,793**	**6**	**674**

Appendix no. 6 - Additional details - securities portfolio (continued)

1. Available for sale bonds - data according to economic sectors (continued)

(2) Details according to geographical areas of investment in bonds of banks and banking holding companies in the available-for-sale portfolio

	December 31 ,2022			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Western Europe[3]	313	308	4	9
Israel	81	77	-	4
Australia	130	130	1	1
Total banks and banking holding companies	**524**	**515**	**5**	**14**

(3) Details by countries of investment in bonds of banks and bank holding companies in the available-for-sale portfolio in Western Europe

Britain	68	68	2	2
Sweden	17	18	1	-
France	181	175	-	6
Netherlands	47	47	1	1
Total	**313**	**308**	**4**	**9**

Appendix no. 6 - Additional details - securities portfolio (continued)

2. Held-to-maturity securities - data according to economic sectors

Details regarding the distribution of bonds in the held-to-maturity securities portfolio according to economic sectors

	December 31 ,2022			
	Amortized cost	Fair value	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value
	In NIS millions			
Non government bonds				
Public and community services	93	89	-	4
Financial services*	3,257	2,850	1	408
Total non government bonds	**3,350**	**2,939**	**1**	**412**
Total Government bonds	**11,497**	**10,655**	**1**	**843**
Total bonds in the held-to-maturity portfolio	**14,847**	**13,594**	**2**	**1,255**
	December 31 ,2021			
Total non governmental bonds and bills	**1,677**	**1,673**	**7**	**11**
Total government bonds and bills	**8,520**	**8,704**	**209**	**25**
Total held-to-maturity bonds	**10,197**	**10,377**	**216**	**36**

*Following are details of Held-to-maturity bonds in the financial services sector:

Ginnie Mae	3,118	2,720	1	399
Freddie Mac	59	54	-	5
Fannie Mae	80	76	-	4
Total financial services	**3,257**	**2,850**	**1**	**408**

Appendix no. 6 - Additional details - securities portfolio (continued)

3. Trading Bonds - data according to economic sectors

Details regarding the distribution of bonds in the trading securities portfolio according to economic sectors

	December 31 ,2022			
	Amortized cost	Fair value	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value
	In NIS millions			
Non government bonds				
Various sectors	15	14	-	1
Total non government bonds	**15**	**14**	**-**	**1**
Total government bonds	**2,294**	**2,282**	**-**	**12**
Total bonds in the trading portfolio	**2,309**	**2,296**	**-**	**13**
	December 31 ,2021			
Total non governmental bonds	**40**	**41**	**1**	**-**
Total government bonds	**986**	**985**	**2**	**3**
Total trading bonds in the trading portfolio	**1,026**	**1,026**	**3**	**3**

Appendix no. 7 - Additional details

1. Activity in derivative financial instruments

Credit risk involved in financial instruments. The Bank's activity in derivative financial instruments involves special risk factors including credit risks. The uniqueness of the credit risk in such transactions stems from the fact that the stated amount of the transaction does not necessarily reflect its entailed credit risk. For further details see "General disclosure regarding exposure related to credit risk of a counterparty" under "Credit risk management".
Note 28 to the financial statements presents details of operations in derivative instruments - scope, credit risk and maturities. Part B of the aforementioned Note presents details of credit risk with respect to derivatives by counter party, on a consolidated basis. Following are further details regarding data presented in part B of the aforementioned Note.

(1) Details according to rating of balances of assets derived from transactions in derivative instruments where the counterparty is a bank

	As of December 31	
	2022	2021
	In NIS million	
Balance-sheet balances of assets deriving from derivative instruments against foreign banks		
With an AAA rating	-	-
With an AA- rating	228	154
With an A+ rating	259	1,542
With an A rating	5	172
With an A- rating	148	79
With a BBB+ rating	-	14
With a B+ rating	-	2
Not rated	1	70
Total against foreign banks	**641**	**2,033**
Total against Israeli banks	**-**	**403**
Total Balance-sheet balances of assets deriving from derivative instruments	**641**	**2,436**

Appendix no. 7 - Additional details (continued)

1. Activity in derivative financial instruments (continued)

(2) Details according to rating of off balance sheet credit risk for transactions in derivative instruments where the counterparty is a bank

	As of December 31	
	2022	2021
	In NIS million	
Off balance sheet balances of assets deriving from derivative instruments against foreign banks		
With an AAA rating	-	2
With an AA- rating	269	88
With an A+ rating	893	129
With an A rating	186	40
With an A- rating	118	-
With an BBB+ rating	5	-
With an B+ rating	-	1
Not rated	8	2
Total against foreign banks	**1,479**	**262**
Total against Israeli banks	**258**	**9**
Total Off Balance-sheet balances of assets deriving from derivative instruments	**1,737**	**271**

Appendix no. 7 - Additional details (continued)

1. Activity in derivative financial instruments (continued)

(3) Details of the column "Other" in Note 28 B to the financial statements according to the overall credit to the public risk per economic sectors

	As of December 31, 2022		As of December 31, 2021	
	in NIS million			
Agriculture		3		2
Industry:				
Machines, electrical and electronic equipment	287		28	
Mining, chemical industry and oil products	173		52	
Other	39		36	
Total industry		499		116
Construction and real estate:				
Acquisition of real estate for construction	151		79	
Real estate holdings	43		194	
Other	8		9	
Total Construction and real estate		202		282
Electricity and water		569		489
Commerce		253		482
Hotels, hotel services and food		68		15
Transportation and storage		93		42
Communications and computer services		51		17
Financial services:				
Financial institution (excluding banks)	226		873	
Private customers active on the capital market	2,067		691	
Financial holding institutions	424		827	
Insurance and provident fund services	-		-	
Total financial services		2,717		2,391
Business and other services		21		45
Public and community services		29		55
Private individuals - housing loans		-		-
Private individuals - other		8		8
Total credit risk for derivative instruments		**4,513**		**3,944**
Credit risk mitigation for financial instruments and for a cash collateral received.		-		(1,302)
Total credit risk for derivative instruments (after deduction of financial instruments and for a cash collateral received)		**4,513**		**2,642**

Appendix no. 7 - Additional details (continued)

2. Credit levels in excess of NIS 800 million - additional details

Note 31 D presents details regarding composition of credit to the public and off-balance-sheet credit risk, by size of credit to individual borrower, according to public reporting instructions published by the Supervisor of Banks.

General details regarding the largest borrowers included in the upper levels (over NIS 800 million) of the said Note[1] (Consolidated)

	As at December 31	
	2022	2021
	in NIS thousands	
Field of activity:		
Financial services[2]	6,723,137	6,672,999
Industry	2,072,808	1,527,396
Electricity and water	1,060,258	1,066,795
Financial services	2,718,691	2,359,543
Real estate	1,484,262	1,259,546
Financial services	807,284	751,253
Real estate	844,097	713,761
Financial services	853,191	-
Financial services	874,573	536,407
Financial services	1,608,249	328,182
Real estate	1,368,237	1,470,985
Industry	893,918	507,385
Financial services	104,500	1,040,319
Real estate	854,418	903,607
Real estate	905,934	1,066,876
Public and Community Services	985,822	989,845
Commerce	1,610,556	943,010

Footnotes:

(1) The above data represent "indebtedness" data (also including unutilized credit facilities) and before allowance for credit losses.

(2) Including mortgage backed securities issued by GNMA.

Appendix no. 7 - Additional details (continued)

3. Details of the investment in government bonds

Note 12 to the financial statements includes, among other things, details regarding investments in government bonds included in the "held to maturity" portfolio, the "available-for-sale" portfolio and the "trading" portfolio, divided into bonds and loans of the Government of Israel and bonds and loans of foreign governments.

Details divided by governments with respect to the total securities portfolio

	December 31, 2022		December 31, 2021	
	Book value	Fair value[1]	Book value	Fair value[1]
	In NIS millions			
Of the Israeli Government	26,328	25,486	27,204	27,388
Of the U.S. government	5,254	5,254	3,318	3,318
Other governments	197	197	262	262
Total	**31,779**	**30,937**	**30,784**	**30,968**

Footnote:

(1) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

Appendix no. 8 - Glossary

Option	A contract between two parties within the framework of which one of the parties (the option writer) grants the counterparty a right to acquire or a right to sell an asset specified in the contract, in consideration for a predetermined price on a date set in advance or prior thereto.
Bond	A security that includes a commitment by the issuer to pay the holder of the security (the bond) the principal specified in the bond with the addition of interest, on the dates prescribed or upon fulfillment of a certain condition (according to the terms prescribed in the bond).
Least developed countries - LDC	Countries classified by the World Bank in a low or medium income group.
Regulatory capital	The capital components used in calculating the stability ratios (e.g., capital adequacy) and consisting of two tiers: Tier 1 capital that comprises the accounting common equity after regulatory adjustments (as defined in Proper Conduct of Banking Business Directive No. 202). Tier 2 capital that mainly comprises capital debt instruments and other regulatory adjustments.
Indebtedness	Credit and commitments to provide credit (balance-sheet and off-balance-sheet) as defined in Proper Conduct of Banking Business Directive No. 313. Special Mention Debt - A debt that has potential weaknesses for which Management's special attention is required, and which, if not attended to, might adversely affect the repayment of the credit or the position of the Bank as a creditor.
Special mention debt	A debt that has potential weaknesses requiring Management's special attention, which – if not dealt with – might result in deterioration of the chances of the credit being repaid or in the Bank's status as a creditor.
Problematic debt	A debt that is classified as "non-accruing", "substandard" or under "special mention".
Substandard debt	A debt that is inadequately safeguarded by collateral or by the solvency of the debtor, and for which there is a distinct possibility that the Bank will sustain a loss, if the deficiencies are not rectified.
Non-accruing debt	A debt for which the Bank expects that it will be unable to collect the amounts due to it from the debtor, on the dates prescribed under the debt agreement.
Collateral dependent debt	A non-accruing debt whose repayment, in the Bank's opinion, is expected from the realization of only the collateral provided to secure the said debt, since the debtor has no other available resources for its repayment.
Total capital adequacy ratio	The ratio of the total capital resources (Tier 1 and Tier 2) to the Bank's total risk weighted assets.
Liquidity Coverage Ratio (LCR)	The ratio between the high-quality liquid assets and the net cash outflows for the next 30 days in a stress scenario. The ratio serves as a measure of the Bank's ability to meet its liquidity needs for a future 30-day period.
Net Stable Funding Ratio (NSFR)	The ratio between all the stable funding sources, which are expected with a high likelihood, that are available to the Bank in the coming year, and all the applications that the Bank expects to continue to fund in the coming year.
Leverage Ratio	The ratio (as a percentage) between the "capital measure" and the "exposure measure".
Recorded amount of a debt	The balance of a debt, including accrued interest that has been recognized, any premium or discount that has not yet been amortized, deferred net fees and commissions or deferred net costs that have been added to the debt balance and have not yet been amortized, net of any part of the debt that has been subject to an accounting write-off.
Basel instructions	The instructions for the management of banks risks that have been prescribed by the Basel Committee that deals with supervision and the setting of standards for the supervision of the world's banks.
Subordinated debt notes	Debt notes, in which the rights conferred thereunder are subordinate to claims by the rest of the Bank's creditors, except for other debt notes of the same class.
Off-balance-sheet credit instruments	Debt instruments such as commitments to provide credit and guarantees (not including derivative instruments).
Derivative instrument	A financial instrument or other contract that contains three cumulative features: a. A basis and nominal value that determine the settlement amount of the instrument. b. The net initial investment required is less than that that would be required in other types of contracts that are exposed in a similar manner to changes in market factors (or where no investment is required). c. Its terms require or permit net settlement.

Appendix no. 8 – Glossary (continued)

Forward looking information	Some of the information detailed in the directors' report, which does not relate to historical facts, comprises forward-looking information, as defined in the Securities Law, 5728-1968. The Bank's actual results might differ materially from those indicated in the forward-looking information, due to a large number of factors, including, among other things, macro-economic changes, changes in the geo-political situation, regulatory changes and other changes not under the Bank's control, and which may result in the non-realization of the estimates and/or in changes in the Bank's business plans. Forward-looking information is typified by terms and words like: "believe", "anticipate", "estimate", "intends", "prepares to…", "might" and similar expressions, in addition to nouns such as: "desire", "anticipation", "intention", "expectation", "assessment", "forecast", etc. Such forward-looking expressions involve risks and uncertainties as they are based on evaluations by management as to future events, which include, among other things, evaluations as to the state of the economy, public preferences, domestic and foreign interest rates, inflation rates, etc. as well as regarding the effects of new legislative and regulatory provisions relating to the banking industry and the capital market and to other fields that have an impact on the Bank's activity and on the environment in which it operates, and that by the nature of things, their realization is uncertain. The information presented below relies, among other things, on information in the Bank's hands, inter-alia, publications by other entities such as the Central Bureau of Statistics, the Ministry of Finance, the Bank of Israel, the Ministry of Housing and other entities that publish data and assessments as to the Israeli and global financial and capital markets. The above reflects the Bank's and its subsidiaries point of view at the time of preparation of the financial statements as to future events, based on evaluations that are uncertain. The evaluations and business plans of the Bank and its subsidiaries are derived from such data and assessments. As stated above, actual results might differ materially and impact the realization of the business plans or bring about changes in these plans.
Financial instrument	Cash, evidence of the rights of ownership in a corporation, or a contract that fulfills the following two conditions: A. The instrument imposes a contractual obligation on one party to transfer cash or another financial instrument to the second party, or to exchange other financial instruments with the second party under terms that might be unfavorable to the first party. B. The instrument grants the second party a contractual right to receive cash or another financial instrument from the first party, or to exchange other financial instruments with the first party under terms that might be beneficial to the second party.
Average maturity	A weighted average of the time to the principal repayment and to the interest payments of interest-bearing financial instruments.
Over-the-counter (OTC) derivative	Derivative instruments which are not traded on an official stock exchange and are created within the framework of an agreement between two counterparties.
Counterparty credit risk - CVA (Credit Valuation Adjustment)	The exposure to a loss that might arise if the counterparty to a derivative instrument transaction does not fulfill the terms of the transaction.
Active market	A market in which transactions in an asset or a liability take place with sufficient frequency and volumes as to provide information regarding the pricing of the assets or liabilities on a current basis.
Financing rate - LTV (Loan To Value Ratio)	The ratio of the approved debt facility, at the time of granting the facility, to the value of the asset that secures the debt, as approved by the Bank at the time of granting the facility, which is used in calculating the "capital adequacy".
ICAAP (Internal Capital Adequacy Assessment Process)	The Bank's internal capital adequacy assessment process. The process combines, among other things, setting capital targets, capital planning measures and examining the capital position under a variety of stress tests.

Appendix no. 9 - Index

Main Office

Tel Aviv, 23 Yehuda Halevi Street
website: www.discountbank.co.il

Subsidiaries In Israel

Banking

Mercantile Discount Bank

Capital Market And Investments

Tafnit Discount Asset Management
Discount Capital
Discount Capital Underwriting
Discount Manpikim

Credit Cards

Israel Credit Cards
Diners Club

Digital Wallet

PayBox

Subsidiary Bank Abroad

Israel Discount Bank of New York, USA
website: www.idbbank.com
Head Office: 1114 6th Avenue, New York
Staten Island, NY Branch:
201 Edward Curry Avenue, Suite 204
Brooklyn, NY Branch:
705 Avenue U
Short Hills, NJ Branch:
150 JFK Parkway
Beverly Hills, CA Branch:
9401 Wilshire Boulevard, Suite 600
Downtown Los Angeles, CA Branch:
888 South Figueroa Street, Suite 550
Aventura, FL Branch:
Harbour Centre, 18851 NE 29th Avenue,
Suite 600

Representative Offices: Israel /
Chile / Uruguay / Local representative office in
Long Island