BANK LEUMI LE-ISRAEL B.M.
AND ITS INVESTEE COMPANIES

Annual Report for 2023

This is a translation from the Hebrew. It has been made for convenience purposes alone.
In case of any discrepancy, the Hebrew version shall prevail

The Bank received the Banking Supervision Department's approval to publish its annual financial statements on a consolidated basis only, with condensed (non-consolidated) financial statements in Note 35 to the financial statements. The Bank's separate data are available upon request at the Bank's offices at 3 Abba Hillel Silver, Lod or on its website: www.bankleumi.co.il.

BANK LEUMI LE-ISRAEL B.M. AND ITS INVESTEE COMPANIES
2023 Annual Financial Statements
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A Word from the Chairman of the Board

Without a doubt, 2023 was one of the most complex years in the history of the State of Israel from a geopolitical, social, economic and security perspective:

Around the world and in Israel, the effects of the Russia-Ukraine war are still reflected in the prices of gas, oil and commodities, as well as in supply chains. The increase in inflation and in interest rates resulted in a global and local slowdown and led to decrease in private consumption. The social unrest in Israel led to volatility in the foreign exchange rates and in the capital market.

But everything was dwarfed, of course, by the brutal attack on October 7 and the ensuing Iron Swords War.

Even in this difficult period, as throughout the history of the State of Israel, Bank Leumi continues to serve as an anchor for the Israeli economy, for its employees, customers and for the community.

I am proud of the fact that - as the oldest and leading bank in Israel - Leumi has operated exceptionally well since the outbreak of the War, standing by its customers across the various segments at this difficult juncture while maintaining optimal business continuity and meticulous risk management; the Bank has been conducting itself in this way throughout the entire War period. In this context, the Bank offered extensive reliefs and services adapted to our customers' needs.

We have also taken a series of groundbreaking social responsibility measures, including the support of Kibbutz Be'eri until its full rehabilitation and provision of scholarships to students who volunteered to assist farmers for substantial periods of time.

Our extensive activity in this area during the War is part of the Bank's decision to place environmental, social and governance (ESG) aspects at the core of the organization's strategic achievements. Two years ago, to accomplish this strategy, we set long-term quantitative targets for providing green financing and investments totaling NIS 35 billion by 2030. In 2023, the balance is approx. NIS 23.8 billion. In the past year, we also deepened the strategic and exclusive collaboration with the European Investment Bank (EIB), from which the Bank received a line of credit amounting to a total of EUR 750 million (of which EUR 250 million at the beginning of 2024) for the purpose of providing environmental and social credit.

In the past year as well, we resolutely implemented the Bank's strategy: (a) We continued with the Bank's targeted growth strategy in both credit and passive activities. We achieved impressive business results and an increase in market share and profitability in the segments defined as strategic; (b) We initiated a noticeable service revolution across all service channels for the targeted population groups while adjusting the service model and various service channels to suit each customer; (c) We made another significant leap forward in the development of financial technological capabilities and data capabilities that are among the most advanced in Israel, which have been used to realize the customer service revolution. As a central part of this journey, towards the end of the year, we announced a project that will replace several central core systems with advanced and flexible systems that will operate on cloud infrastructures. For this purpose, we have made structural changes in the Bank's technology that will enable us to build an advanced infrastructure allowing fast and flexible product development. (d) We took another step forward in improving the efficiency ratio, achieving a good efficiency ratio compared to the competition both in Israel and by international comparison.

More than anything, the impressive financial results we achieved in 2023 which we present in this report reflect the strength and resilience of Bank Leumi. They illustrate the Bank's ability to support Israel's activity and society even in difficult times and during a period of recovery and growth.

Nevertheless, as we look towards 2024, especially against the backdrop of the many twists and turns we experienced in Israel over the past year, we must remember that we should be prepared for any scenario. The effects of the War will accompany us for a long time and we must continue to stand by our customers in this sensitive period and to continue to drive the Israeli economy. We will do this through the business and operational flexibility we have created for ourselves and through Leumi's professional and committed human capital. I am greatly appreciative of the Bank's management and its employees for the dedication, caring and professionalism they have demonstrated during the past year, and I am confident that they will also continue to steer the Bank in an informed and responsible manner through current and future challenges.

During these difficult times, our hearts are with the IDF's commanders and soldiers and with the security forces operating on all fronts to ensure the safety of us all. We pray for the speedy return of all the hostages and the recovery of all those injured and embrace the families of the fallen and murdered and share in their grief.

May we soon know good and peaceful times.

Sincerely,

Dr. Shmuel (Muli) Ben Zvi
Chairman of the Board

March 18, 2024

Report of the Board of Directors and Management
Overview, Goals and Strategy
Description of the Leumi Group's Business

The Bank is a "Banking Corporation" in accordance with the Banking Law (Licensing), 1981. The Bank is governed by laws, ordinances and regulations, as well as by rules, guidance and positions issued by regulators.

Leumi's Vision

"To lead proactive, innovative and responsible banking for the customers and to grow expeditiously with the customers in focus"

In the spirit of Leumi's vision, Bank Leumi shall be the financial home that provides the most suitable, straightforward, swift and smart solution for target customers.

Underlying this vision - which combines both business leadership and convenience - is the aim to provide the best possible solution for the financial needs of our customers in a dynamic business environment, based on the values of transparency, responsibility and fairness. These values are implemented by nurturing our human capital and by integrating innovation and creativity, while maintaining the Bank's stability and achieving adequate profitability.

As Israel's leading financial group, with significant impact on the entire public, Leumi evaluates the trends and changes in the business environment in which it operates and implements strategies that address these changes. In addition, and out of understanding of the Group's or impact on the business and public space, Leumi also regards its commitment to the community as a social and ethical anchor it will continue to cultivate.

Objectives and Business Strategy

Leumi has adopted an accelerated growth strategy - both on the credit side and passive side - across selected segments. As part of the consistent application of the Bank's strategy, the Bank is promoting strategic projects focused on the creation of significant business value, leading in customer experience and promoting innovation. In this context, in 2023, Leumi continued to develop a series of services and processes that promote a state-of-the-art customer experience adapted to the customer's needs alongside measures that preserve the Bank's technological and digital leadership.

Leading in service while leveraging digital capabilities - Making most banking products accessible on the Bank's digital platforms with 24/7 availability, while constantly improving user experience and expanding functionality. Meanwhile, in the past year, the Bank launched a business app and website in English.

Leveraging advanced data capabilities - Leveraging advanced data capabilities is a central layer in the decisive implementation of the Group's strategy. The Bank promotes banking based on advanced data and models that are used in underwriting and pricing processes, in service models and in the personalization of value propositions for the customer, while adhering to our customer privacy policy and complying with regulations.

Service and customer experience - The Bank is in the midst of a transformation process in the service provided to its customers. At the same time, the Bank promoted a series of significant steps, including closing the treatment process within a banking business day, banker by Zoom, increasing the service center hours of operation and more.

Innovation and collaboration with FinTech companies - In 2023, Leumi continued to collaborate with FinTechs, leveraging these connections to promote product and service innovation on or outside of the Bank's platforms. In addition, the Bank promotes synergistic collaborations with startups in the FinTech, cyber, data and AI domains through its investment in a venture capital fund - Garage Ventures - opening its doors to the fund's portfolio companies.

ESG - As part of the Group's strategy, the Bank promotes the decisive implementation of environmental and social initiatives and their integration into business activity, while adapting processes and measurement and reporting mechanisms in accordance with international standards.

The Bank's ESG vision and strategy are derived from the Bank's vision and strategy, and at their core is leadership in the ESG field through three main anchors: establishing strategic goals, standardization according to best practices, and collaboration with international and local entities.

For more information, please see below in the chapter Principal trends in the operating environment.

How the strategy is implemented

In order to support the implementation of the Bank's strategy, the Bank operates four main business lines, which specialize in providing banking and financial services to certain customer segments:

1. **Retail banking -** focuses on providing banking services, mainly to households, high-net-worth customers (Private Banking), and micro- and small business customers. The retail banking offers personal service to its customers in various channels, such as: in the app, website, face-to-face meeting at a branch nationwide, by phone and in a chat on the Bank's app, banking centers, service centers, information machines and ATMs.

2. **Mortgages -** This line of activity is a strategic focus for growth. The Mortgage Division was established on January 1, 2022, in order to ensure that the strategy in this domain is implemented with the utmost managerial, operational and service attention and support.

3. **Corporate Banking -** focuses on providing services to Israeli and international corporations with varying scope of activities from a wide range of sectors. Corporate banking is constantly promoting adjustments in products and services with the aim of optimally match the value proposition to the varied needs of its customers.

4. **Capital Markets and Financial Management -** focuses on the management of the Bank's own (nostro) funds, assets and liabilities management (ALM) as well as the operation of the Bank's trading rooms, aiming to provide services to customers involved in the capital market activities, including institutional customers.

In addition to the Bank's business lines, which are managed directly by the Bank, the Leumi Group operates through its Israeli and foreign subsidiaries:

Activity of Israeli subsidiaries – non-financial investments, underwriting and investment banking activities, carried out mainly by subsidiary Leumi Partners. Another operation is subsidiary Leumi Capital Markets, which is Israel's leading provider of full-range operating services to financial entities.

Activity of the UK-based subsidiary (LUK) - This activity began in 1902, and in 1959 Bank Leumi (UK) PLC (BLUK) was established.

During to the first half of 2023, all the terms and conditions for restructuring, including returning the regulatory license were met, enabling LUK to serve as a lender. To this end, BLUK was merged into LABL, a BLUK subsidiary (hereinafter – "Leumi UK Group").

Leumi UK Group provides credit primarily in the fields of real estate, hotels and ABL, only to commercial customers in the UK and Europe, including Israeli customers active in these geographic areas, including investments and development of residential real estate and financing for commercial real estate.

For more information, please see under "Major Investee Companies".

It should be noted that strategic planning involves a considerable degree of uncertainty; the implementation of long-term strategic plans depends on several variables, including the performance of markets in Israel and abroad, the security situation, and the effects of ongoing regulatory changes whose scope and foci in the long-term cannot be predicted with a high degree of certainty.

The information in this section constitutes forward-looking information. For the meaning of the term, please see under "Forward-Looking Information".

Principal Trends in the Operating Environment

The abovementioned strategy adopted by Leumi is based on, and takes into account, inter alia, the following trends:

A. Macro/geopolitics

1. Geopolitical instability, with an emphasis on an ongoing war in Ukraine, which led to a global increase in prices.
2. The Iron Swords War, which broke out following the surprise attack by Hamas on October 7, has consequences for the population and the economy in Israel and therefore, for households and businesses. Due to the War, the Bank has prepared to provide reliefs, deferrals and payment cancellations in accordance with Bank of Israel guidelines and even went beyond compliance. In addition, the Bank has taken steps to ensure business continuity and to provide continuous service to its customers with greater sensitivity to the needs of the customers and the difficulties they face.
3. An inflationary macroeconomic environment that leads to increases in interest, decreases and high volatility in financial markets, and strengthening of the USD, may lead to a global slowdown and even a recession - that will negatively affect the banks' profits. On the other hand, the increase in interest has positive effects on the banks, such as: an increase in interest revenues.
4. Global regulation - The trend of legislation for the encouragement of competition in the credit market continues, with an emphasis on retail credit and payments. The field of digital currencies is also in the focus of regulatory attention in the United States and in the European Union, and since the drops in value of the crypto-currencies in 2022 - even more so.

   In addition, recognition of the climate crisis is strengthening, and in various countries around the world plans of action are being formed to deal with the subject. The regulators are involved in these plans, mainly with the demand to integrate climate-related risks into the following areas: risk management processes, credit policy and investment policy of financial institutions.
5. The regulation in Israel continues to promote competition while implementing initiatives such the Central Credit Register, publishing interest rate data on deposits and credit, publishing fees and commissions data and Open Banking.

B. Competition/consumer environment

1. The competitive environment continues to expand on the part of FinTechs, neo banks and other technological entities that offer personal, advanced customer experience. In FinTech there is a significant decrease in capital raising in view of the situation in the markets. Open banking is advancing and strengthening the customer's control of his information and increasing competition in the field of financial services.
2. In retail banking, the coronavirus crisis accelerated the adoption of digital banking. At the same time, it is clear that there is no substitute for human-facing, professional service in complex matters, where the customer's preference is for a human representative. Therefore, service leadership requires providing a full and convenient digital experience from end to end, available 24/7, providing human and personal customer service as needed.

Additional information on competition:

Local banks

- The competition between the local banks continues to focus on households and on the small business and mid-market business segments. All the banks advertise and launch value propositions to customers, based on technological and digital innovation, customer loyalty programs and diverse product offerings.

Non-banking competitors

- Loans provided by institutional entities – in recent years, we have witnessed a trend of increase in loans extended to the business and commercial sector by institutional entities, including funding for infrastructure projects and income-generating assets and even funding the construction of residential projects. These entities are gradually entering the retail credit domain as well. On the investment side, these entities are also launching products which compete with traditional banking products, such as investment provident funds or savings policies.
- Furthermore, as a result of regulatory changes in recent years, which have encouraged such non-banking financial entities to extend consumer and commercial loans, the activity of non-bank entities has expanded consistently, including loans to households.
- Fintech and BigTech solutions which compete with specific banking areas of activity - in recent years, with the growing use of advanced technologies by consumers (primarily through smartphones and tablet devices), the choice and quality of innovative initiatives and high-tech financial services have grown significantly. These initiatives speed up innovation in the financial industry; while most do not compete head-to-head with the traditional banks, they threaten to reduce the banks' market share in certain areas of activity.
- At the same time, in the payments market, Apple and Google provide mobile payments services. Leumi customers can use their bank cards to enjoy these services. This constitutes an additional competitive domain.

Open Banking

The open banking is a regulatory initiative that encourages the use of innovative and secure technologies, and its aim is to encourage the development of innovative financial products and services for the banks' customers. The initiative is built in stages, which allow customers of the banks and credit card companies to share their financial information with third parties, so they can receive competing value propositions from other entities.

Leumi is working to maximize the potential benefits of the Open Banking initiative for its customers, including by making the advanced products and services accessible to them.

Environmental, social and governance (ESG) aspects

- The subject of sustainability is gaining momentum among the public, investors and regulators both in Israel and around the world.
- This constitutes forward-looking information, the materialization of which is uncertain and not under the Bank's sole control, taking into account that this is an "evolving" domain.
- As part of Leumi's effort to boost its work and contribution to ESG aspects, the Bank developed an environmental management strategy, which was approved by management and the Board of Directors. While approving the strategy, Leumi decided to incorporate and boost ESG aspects in the Bank's business activity, inter alia, by increasing financing and investment in projects advancing a "greener" environment and development of environmentally-friendly financial products.
- The Bank actively identifies and promotes business opportunities that advance the implementation of the strategy and works to develop products for the financing of green activity.

  These opportunities include, inter alia:
  1. Providing business credit for "green" ventures and companies
  2. Investing in "green" through the nostro account
  3. Investing in "green" companies and projects by subsidiary Leumi Partners
  4. Developing trading capabilities in "green" contracts
- Coping with the climate crisis requires cooperation and an effective effort that includes governments, regulators, financial institutions and businesses. In view of the above, the Bank has defined the collaborations with local and global entities in the ESG domains as one of the key layers in the implementation of the Bank's ESG strategy.
  - One of the world's central and leading entities in this area is the European Investment Bank (EIB), which focuses on climate and the environment, the development of infrastructure and support for small-sized and mid-market businesses.

- Leumi has a strategic partnership with the EIB. under which the EIB will provide Leumi with a line of credit totaling EUR 750 million to be used for providing credit on preferential terms to small-sized and mid-market businesses in Israel, with emphasis on green credit and financing for green and social projects. (Please see the immediate report dated February 1, 2024 (Ref. No. 2024-01-012258).

In addition, the Bank has set targets to reduce its own emissions (cutting down areas, reducing its carbon footprint, transitioning to hybrid and electric transportation).

Some of the above information constitutes "forward-looking information". For the meaning and implications of the term, please see under "Forward-Looking Information".

Changes in the regulatory environment

- As aforesaid, the effect of regulation on the banking sector continues to grow. The frequent changes and regulatory complexity limit the sources of income, lead to increased expenses for regulatory compliance and require constant improvement in the Bank's work processes and in technological and digital means.
- The growing regulation is reflected in directives (expressly) addressing competitive issues. For example, various legislative initiatives were developed, with the aim to ease the entry of new players into the market, inter alia, by increasing the resources available to them, providing tiered regulatory reliefs, and granting reliefs for connecting to the payment and clearing systems, as well as transfer and sharing of information stored by banks. In this context, the following may be mentioned: the Open Banking Reform, the reform for spinning off the credit card companies from the large banks, the account transfer reform and the Central Credit Register Law.
- In addition to more extensive and stricter regulation, the Bank is also subject to stringent compliance requirements, as well as risk management requirements.
- The regulatory environment is not applied uniformly in terms of its applicability to the various entities operating in the system, such that while the banking regulation is becoming increasingly onerous, there is no similar development in respect of regulation applicable to entities that are not banking corporations. This has led to a material difference and significant gaps between the various players.
- Thus, regulation has an immediate effect on a series of business and strategic decisions of the Bank, including with regard to the Bank's various areas of activity.

  For more information regarding the regulatory environment and the consequences of the main regulatory changes, please see the section entitled "Legislation and Regulations Governing the Banking System".

Condensed Financial Information and Key Performance Indicators

Following are the key performance indicators (in %)

	For the year ended December 31				
	2023	2022	2021	2020	2019
Return on net income attributable to the Bank's shareholders	**13.7**[k]	17.0[j]	15.0	5.7	9.8[f]
Return on net income attributable to the Bank's shareholders to average assets[d]	**1.0**	1.2	1.0	0.4	0.8
Ratio of income[b] to average assets[d]	**3.02**	2.72	2.70	2.55	3.02
Efficiency ratio	**32.6**	37.5	46.8	53.8	56.8[g]
Ratio of net interest income to average assets[d]	**2.28**	1.97	1.76	1.70	1.92
Ratio of fees and commissions to average assets[d]	**0.53**	0.53	0.60	0.64	0.70
Rate of tax provision from profit, before taxes	**33.5**	32.7	35.4	38.8	33.9
Net interest income to average balance of interest-bearing assets (NIM)	**2.57**	2.21	1.95	1.90	2.14
Total income to total average assets under management by the Group[b][c]	**1.06**	0.89	0.83	0.81	0.91
Total operating and other expenses to average total assets under management by the Group[c]	**0.34**	0.33	0.39	0.44	0.52

	As at December 31				
	2023	2022	2021	2020	2019
CET1 capital ratio[i]	**11.66**	11.46	11.50	11.87	11.88
Total capital ratio to risk-weighted assets[a][i]	**14.72**	14.29	14.21	15.58	15.67
Leverage ratio[e]	**6.65**	6.36	6.06	6.57	7.35
Liquidity coverage ratio[e]	**124**	131	124	137	123
Net stable funding ratio (NSFR)[h]	**118**	128	131		
Equity attributable to the Bank's shareholders to total assets	**7.5**	7.1	6.3	6.8	7.6

Key credit quality indicators (in %)

	For the year ended December 31				
	2023	2022[l]	2021	2020	2019
Percentage of loan loss expense (income) out of the average outstanding loans to the public	**0.58**	0.13	(0.25)	0.88	0.22
Percentage of collective loan loss expense (income) out of the average outstanding loans to the public	**0.50**	0.25	(0.10)	0.65	0.20
Percentage of balance of the loan loss provision for loans to the public out of outstanding loans to the public	**1.58**	1.28	1.30	1.76	1.16
Percentage of non-performing loans to the public in arrears of 90 days or more out of outstanding loans to the public	**0.88**	0.52	1.02	1.42	1.09
Percentage of net charge-offs out of average loans to the public	**0.13**	0.07	(0.03)	0.18	0.24

Comments:

(a) Equity - including non-controlling interests and various adjustments.

(b) Total income - net interest income and noninterest income.

(c) Including off-balance-sheet operations.

(d) Average assets are the total assets - income-generating and others. For more information, please see Appendix 1 - Income and Expenditure Rates and Analysis of Changes in Interest Income and Expenses.

(e) For more information regarding the leverage ratio, please see "Equity and Capital Adequacy" under "Structure and Development of Assets, Liabilities, Equity and Capital Adequacy". For more information regarding the liquidity coverage ratio, please see section entitled "Risk Exposure and Management Thereof".

(f) Return on equity in 2019, net of the effect of Leumi Card, was 9.2 percent.

(g) The efficiency ratio in 2019, net of the effect of Leumi Card was 58.1 percent.

(h) NSFR calculated as of the financial statements as at December 31, 2021. For more information, please see the Liquidity Risk and Financing Risk.

(i) For further details, including anticipated regulatory changes regarding the measurement of capital adequacy, please see the section entitled Equity and Capital Adequacy.

(j) Return on net income attributable to the Bank's shareholders for 2022, net of the profit from the merger transaction with Valley is 15.6 percent.

(k) The return on the net income attributable to the Bank's shareholders to equity was affected, in the second half of 2023 by a substantial increase in loan loss expenses as a result of the estimated expected effect of the War; see under the section entitled "Material Developments in Income, Expenses and Other Comprehensive Income", Loan Loss Expenses.

(l) Includes the results of Bank Leumi USA, which as from April 1, 2022 is not consolidated in the Bank's consolidated financial statements due to the merger transaction with Valley. For more information, please see Note 15.A to the financial statements as at December 31, 2022.

Main Environmental, social and governance (ESG) aspects

	2023
Green financing and investments[(a)]	Approx. NIS 23.8 billion
Social financing and investments[(b)]	Approx. NIS 67 billion
Gender equality	Women account for approx. 62.2 percent of all employees, approx. 52.5 percent of top management
Women on the Board of Directors	40%

(a) Including off-balance-sheet credit risk.

Following are the main income statement data for the reporting year

	2023	2022	2021	2020	2019
	In NIS million				
Net income attributable to the banking corporation's shareholders	**7,027**	7,709	6,028	2,102	3,522
Interest income, net	**15,997**	13,211	10,346	8,723	8,841
Loan loss expenses (income)	**2,383**	498	(812)	2,552	609
Noninterest income	**5,181**	5,018	5,511	4,366	5,081
Of which: fees and commissions	**3,737**	3,535	3,506	3,281	3,225
Total operating and other expenses	**6,894**	6,835	7,428	7,046	7,908
Of which: Salaries and related expenses	**3,484**	3,935	4,242	3,742	4,325
Net earnings per share attributable to the banking corporation's shareholders (in NIS):					
Basic earnings	**4.58**	5.14	4.15	1.44	2.37
Diluted net earnings	**4.58**	5.14	4.15	1.44	2.37

Following are the main balance sheet data as at the end of the reporting year

	2023	2022	2021	2020	2019
	In NIS million				
Total assets	**731,497**	699,166	656,454	556,035	468,781
Of which: cCash and deposits with banks	**105,476**	186,569	197,402	136,194	76,213
Securities	**160,048**	82,950	86,927	92,297	84,949
Loans to the public, net	**419,486**	384,782	342,879	295,341	282,478
Total liabilities	**676,995**	649,723	614,402	517,940	432,907
Of which: deposits by the public	**567,824**	557,084	537,269	447,031	373,644
Deposits by banks	**20,776**	22,306	25,370	15,143	6,176
Bonds, promissory notes & subordinated notes	**32,114**	27,805	15,428	16,303	19,958
The banking corporation's shareholders' equity	**54,497**	49,438	41,610	37,664	35,406
Additional data:					
Price per share (in NIS)	**29.5**	29.3	33.5	18.9	25.1
Dividend per share (in agorot)[(a)]	**135.56**	111.52	137.48	20.29	93.48
Average number of jobs	**7,962**	8,173	8,664	9,080	9,621

(a) According to the declaration date.

Forward-Looking Information in the Report of the Board of Directors and Management

The Report of the Board of Directors and Management includes, in addition to data relating to the past, information and assessments relating to the future, defined in the Securities Law, 1968 (hereinafter: the "Law") as "Forward-Looking Information". Forward-looking information relates to a future event or matter, the materialization of which is uncertain and not under the Bank's exclusive control.

Forward-looking information is generally worded using the following words or phrases: "the Bank believes", "the Bank foresees", "the Bank expects", "the Bank intends", "the Bank plans", "the Bank estimates", "the Bank's policy", "the Bank's plans", "the Bank's forecast", "expected", "strategy", "targets", "likely to impact", "estimate", "scenarios", "likely", "may", "can", "will be", "optimistic", "pessimistic" and additional phrases indicating that the matter in question is a forecast of the future rather than past facts.

Forward-looking information included in the Report of the Board of Directors and Management is based, inter alia, on forecasts of various matters related to economic developments in Israel and abroad, especially the currency markets and capital markets, legislation, regulators' directives, competitors' behavior, technological developments, the geopolitical and security situation in Israel, and human resources issues.

As a result of the inability to foresee with certainty that these forecasts will be materialized, and the fact that, in reality, events may differ from those forecasted, users should treat information defined as "forward-looking" with caution, since reliance on such information involves risks and uncertainty and the future financial and business results of the Leumi Group may be materially different.

The Bank does not undertake to publish updates on forward-looking information included in its reports. This does not derogate from the Bank's reporting obligations pursuant to any law.

Main Risks Inherent in the Operations of the Bank

Credit risk is the Bank's risk of loss as a result of the possibility that a counterparty fails to meet its agreed commitments towards the banking corporation.
This risk is embodied in the Group's core business and is reflected in its activities with corporate, commercial and retail customers, as well as in the Group's own portfolio activity. The Bank applies a comprehensive risk management policy in line with the requirements of Proper Conduct of Banking Business Directive No. 311, Proper Conduct of Banking Business Directive 311A, "Management of Consumer Credit" and Proper Conduct of Banking Business Directive No. 314, "Sound Credit Risk Assessment and Valuation for Debts", including the accountability of management and the Board of Directors. In addition, the Bank is meticulous about managing risk in compliance with further guidelines and requirements included in the Banking Supervision Department's directives.

For more information on the Bank's credit risk and its management, please see the section entitled "Credit Risks".

Market risks and liquidity risk - Market risk is the risk of a loss arising from a change in the value of assets and liabilities due to changes in the price level in markets, interest rates, exchange rates, inflation rate and stock prices. Liquidity risk is the risk arising from uncertainty regarding the possibility of raising sources and/or disposing of assets, unexpectedly and within a very short time, without incurring a substantial loss. Ongoing market risk management plays a supporting role in the achievement of the Bank's business objectives and assesses the expected profit against the damages and losses that may result from exposure to these risks. Management of market risk exposures is carried out on a dynamic basis in compliance with a set of restrictions prescribed by the Board of Directors and Risk Committees, in order to contain the effects of market exposures on fair value, accounting profit, capital reserves and liquidity position.

For more information on market risk and market risk management, please see the section entitled "Market Risks". For more information on liquidity risk and liquidity risk management, please refer to the "Liquidity Risk and Financial Risk" section.

The Bank's function as a financial intermediary involves operational risks, including, inter alia, information security and cyber risks, IT risks, embezzlement and fraud risks, business continuity risks, legal and compliance risks.

Operational risk is the risk of loss as a result of inadequate, or failure of, internal processes, people and systems, or external events.

Information security and cybersecurity risks - potential for material damage arising from a cyber event, which may result in information theft, in theft of financial assets and/or disruption to the operational continuity (by disrupting information and/or compromising availability).

In addition, the Bank's activity involves other risks that include, among others, macroeconomic risk, regulatory risk, strategic risk, model risk, conduct risk, climate and environmental risk and reputational risk.

The Bank applies a comprehensive risk management policy in line with the requirements of Proper Conduct of Banking Business Directive No. 350 and while applying risk identification and risk management processes, as well as control, monitoring and reporting mechanisms.

For more information regarding operational risk and the management thereof, please see the section entitled "Operational Risks".

Trends, Phenomena, Developments and Material Changes

Main Developments in the Israeli Economy[1]

General Background

On October 7, 2023, a lethal attack was waged on the State of Israel, especially on civilians. As a result of the attack, the State of Israel declared the Iron Swords War. The War has led to significant disruptions in economic activity, especially in its initial weeks. This was due to the widespread rocket firing, which targeted most highly populated localities throughout the country, the evacuation of more than 100 thousand civilians from southern and northern Israel, substantial drafting of reservists, a sharp decrease in availability of nonresident workers and ongoing disruptions in the educational system. The effects of the War have led to a substantial decrease in GDP in the fourth quarter of 2023, at an annualized rate of 20.7%.

In recent months, especially subsequent to the reporting period, economic activity across most sectors and regions appears to be recovering. This was due to a substantial decrease in rocket firing into most regions, a decline in the number of reservists on active duty, the educational system resuming routine activity across most regions and the public's adaptation to the "war routine." The recovery is reflected, inter alia, in a significant rise in consumer spending using credit cards, higher turnover in businesses across most sectors, etc. On the other hand, activity in some economic sectors is still substantially lower than its pre-war levels, such as in the construction and incoming tourism sectors, as well as in areas adjacent to the northern and southern borders.

After the War, a process of civil and security rehabilitation is expected, which will be manifested in the public expenditure, with investment in fixed assets, in healthcare services and social services, as well as private consumption. On the other hand, geopolitical risks remained high. This was on the back of the possibility of escalation into additional fronts and due to the risks associated with the sentiment towards Israel in global financial markets.

The Global Economy

On January 30, 2024, the International Monetary Fund (IMF) revised its economic activity estimates for 2023 and its forecast for 2024. Relative to the previous estimate of October 2023, the estimates of global growth for 2023 were revised slightly upwards, in particular an upwards revision was recorded for growth in the US, Chinese and Indian economies. According to the current estimate, the gross world product expanded by approx. 3.1 percent in 2023, compared with an increase of 3.5 percent in 2022. As for the large Western economies - the GDP of the US economy grew by approx. 2.5 percent, compared to 2.1 percent in the previous estimate. The IMF's growth forecast for 2024 was slightly revised upwards compared to the previous forecast. The growth forecast for 2024 reflects the IMF's estimates for a "soft landing" of the global economy, with emphasis on the United States, expectations for the continued moderation of inflation in most of the world, which will accompany a reduction of interest rates by central banks around the world alongside extensive government support in China, which are expected to boost economic activity and support growth. According to the current growth forecasts, the gross world product is expected to grow at a rate of approx. 3.1 percent in 2024, similarly to the growth rate in 2023. There are several risks to the growth forecast, primarily: the fragility of the real estate market in China and the possibility of commodity prices rising due to climate-related risks and geopolitical risks around the world, alongside supply disruptions and global trade restrictions. We also note that the IMF warns of the expansion of the Iron Swords War to additional fronts, which could lead to a significant increase in the defense spending of the world's largest economies and place a strain on growth.

1 Data sources: publications by the Israel Central Bureau of Statistics, Bank of Israel, Ministry of Finance, Tel Aviv Stock Exchange, the IMF.

Global growth/real change rate
Source: IMF - World economic outlook/January 2024

	2024	2023
World	**3.1%**	3.1%
USA	**2.1%**	2.5%
Eurozone	**0.9%**	0.5%
Japan	**0.9%**	1.9%
UK	**0.6%**	0.5%
China	**4.6%**	5.2%

Inflation rose in 2022 in many countries - to rates unseen for many years - partially due to excess aggregate demand, on the back of economic recovery following the coronavirus pandemic and with government support, and due to restrictions, which exacerbated the situation on the supply side and included significant effects of the war between Russia and Ukraine on commodity prices. During the second half of 2022, with the reduced effect of the factors mentioned, and against the backdrop of the worldwide contractionary monetary process, inflation began to moderate, a process which also continued during 2023. We note that, in the United States, the inflation moderation process, as measured according to its annual rate of the last twelve months at any point in time, was halted since the third quarter of 2023, among other things on the back of the increase in energy prices and slower decrease in service prices. In the US, the annual rate of price increase was approx. 3.4 percent in December 2023; the rate is lower compared with December 2022 (approx. 6.5 percent) and the record of June of last year (approx. 9.1 percent), but relatively high compared with June 2023 (approx. 3.0 percent). In the Eurozone, inflation reached a peak of approx. 10.6 percent in October 2022, and in December 2023 was approx. 2.9 percent, and in the UK, inflation was approx. 4.0 percent in December 2023 after reaching a peak of approx. 11.1 percent in October 2022. On the other hand, the core inflation rate (excluding food and energy) declined more moderately, as in the Eurozone and UK.

Multiple central banks continued the process of raising interest rates during 2023, but with the convergence of the inflation back towards the target during 2024, an interest rate reduction process is expected to begin around the world. The interest rate reduction process has already begun in Israel, with the Bank of Israel reducing the interest rate in January 2024 by 0.25 percent to a level of 4.50 percent, following a long process of raising interest rates that began in April 2022 and continued for ten consecutive interest rate decisions up to and including the May 2023 meeting).

Starting in March 2022, the Federal Reserve’s Open Market Committee decided, as it did in most subsequent meetings since until September 2023, to raise the short-term interest rate. In the May 2023 interest rate decision, the interest rate was raised by 0.25 percent, instead of increases of 0.50-0.75 percent at most of the previous meetings, due to which the interest rate rose to 5.00-5.25 percent. At the July 2023 meeting, it was decided to raise the interest rate by 0.25 percent to 5.25-5.50 percent; the interest remained unchanged subsequent to the January 2024 decision. It should also be noted that on August 1, 2023, rating agency Fitch downgraded the rating of the United States from AAA to AA+ against the backdrop of the budget deficit and difficulties in managing the policy. On November 10, 2023, rating agency Moody’s changed the rating outlook of the US from “stable” to “negative”, while reiterating the AAA rating. The ECB continued the process of raising the interest rate, and in its decision until its September 2023 meeting, in which the interest was raised by and additional 0.25 percent to 4.50 percent, and left unchanged in the March 2024 decision. In August 2023, the Bank of England raised the interest rate by an additional 0.25 percent to a level of 5.25 percent, and left it unchanged in its February 2024 decision.

In late February 2022, a war broke out between Russia and Ukraine, which is continuing at this time. Due to the characteristics of the commercial relations between these countries and Israel, the direct effect on the Israeli economy may be limited to only a few industries which have production operations in Ukraine and Russia and/or which may have major customers in these countries. The indirect effects that are already materializing, as a result of global processes, such as lower global growth rates for 2023, in addition to a sharp increase in the prices of commodities imported into Israel (such as food) and the sharp increase in energy prices around the world, which affect prices in Israel. However, it should be noted that the effects on prices have decreased considerably. In addition, the growing uncertainty is adversely affecting financial markets globally as well as asset values and - as a result –households and businesses in Israel.

Risk factor severity in the economy

2023 was characterized by higher risk for the Israeli market. This is due to the legislative and social events which took place in Israel during the first nine months of the year. Since the beginning of the fourth quarter of 2023, the main risk for the economic and financial activity in Israel stems from the War and its consequences. Against this backdrop, the world's leading credit rating agencies addressed the issues and took steps regarding Israel's credit rating and credit outlook.

On March 1, 2023, Fitch reiterated the State of Israel's credit rating at A+ with a stable outlook.

On April 14, 2023, rating agency Moody's announced a change in the rating outlook of the State of Israel from positive to stable, while reiterating the rating at a level of A1. Moody's report noted that the change reflects assessments regarding the economic effects of the legislative and social public events in Israel.

In May 2023, S&P published a report on the credit rating of the State of Israel. The agency reiterated the credit rating and the rating outlook, at a level of AA- with a stable outlook. The report includes reference to the political, social and security risks that may affect the future rating outlook and/or credit rating.

On May 29, 2023, Fitch published a review and analysis of the Israeli economy, outlining Israel's expected budgetary trajectory and possible impacts of the public events in Israel - legislative and social.

At the end of July 2023, an amendment to the basic law: The Judiciary was approved by the Knesset and entered into effect. Immediately thereafter, rating agencies Moody's and S&P published special reports, which emphasized the risks to the Israeli economy posed by the continuation of the legislative process.

On October 17,2023, rating agency Fitch announced it was placing the State of Israel on Rating Watch Negative. The rating watch is intended for cases where sudden material changes may result in a credit downgrade within a relatively short period of time. On October 19, 2023, Moody's announced a similar measure to that of Fitch's, with a Rating Watch Negative. Israel's placement on the "negative" watch lists stems from the deterioration in the geopolitical situation, which may result in a credit downgrade within a short period of time. These changes are applicable not only to the debt of the State of Israel, but to privately-held companies, including the banking system.

On October 24, 2023, rating agency S&P announced a change in the rating outlook of the State of Israel from stable to negative, while reiterating the rating at AA-. This is on the back on the onset of the Iron Swords War and the adverse effects the agency expects for the Israeli market in 2023-2024. According to the S&P report, the agency may downgrade Israel's rating if the War will expand so as to increase the security and geopolitical risks facing Israel and/or if the harm to economic growth, fiscal profile and balance of payments turns out to be higher than expected.

On February 9, 2024, Moody's downgraded Israel's credit rating from A1 to A2 (comparable to A in other agencies), changing Israel's rating outlook to negative, which opens the possibility for further downgrades down the line. Moody's report emphasizes the weaknesses stemming from the current situation in Israel in several aspects. Moody's estimates that Israel's debt burden will be significantly higher than expected prior to the War. The negative rating outlook reflects Moody's assessment that the risk of an escalation of the conflict with Hezbollah in northern Israel remains significant, which has a potentially significant negative effect for Israel's economy. On the other hand, the rating process also takes into account the Israeli economy's long-standing strengths.

Following the downgrading of the State of Israel's rating, on February 13, 2024, Moody's downgraded the rating of long-term deposits and the counterparty risk for Israel's five major banks, including Leumi, from A2 to A3. At the same time, Moody's reiterated the banks' ratings on matters such as baseline credit assessments and short-term counterparty risk.

For the non-impact of downgrading the State of Israel's rating on the Bank's capital adequacy ratios, see under "Equity and Capital Adequacy".

Growth in the Israeli Economy

The Israeli economy grew by a real rate of approx. 2.0 percent in 2023, after growth of approx. 6.5 percent in 2022. The sharp decline in the growth rate occurred mainly on the back of the adverse effects of the Iron Swords War, which broke out early in the fourth quarter of 2023. During the quarter, GDP contracted by an annualized rate of approx. 20.7 percent compared with the third quarter. This follows a decline across all GDP components - private consumption, investment in fixed assets and exports - with the exclusion of public consumption, which rose sharply due to the substantial increase mostly in defense spending, but also in civilian spending. Against the backdrop of the War, there was also a sharp decrease in imports of goods and services for the economy. The manifest weakness in the fourth quarter of 2023 is producing a substantial negative “edge effect” for the expansion rate of economic activity in 2024, which may be lower than that of 2023.

The Bank of Israel estimates that, on the eve of the War, there was full employment in the job market. With the outbreak of the War, the unemployment rate rose sharply under its broad definition (which also includes, in addition to the unemployed, who are included in the regular definition, workers who are temporarily absent from work for economic reasons, workers who do not participate in the workforce who were let go in the last two years and who have stopped looking for work, but not including workers who are not working for non-economic reasons, such as: reserve duty, care of children in the absence of child care solutions, and more); however, unemployment under the regular definition remains low. The unemployment rate in the usual definition (unemployed) in 2023 was 3.4 percent (annual average) compared to 3.8 percent in 2022. The unemployment rate under its broad definition rose sharply in October 2023 - from 4.2 percent to 10.4 percent, and decreased in December 2023 to approx. 7.5 percent. This decrease stems mainly from a significant decrease in those temporarily not working for economic reasons although that remains significantly higher than usual. The decrease in the unemployment rate, in its broad definition continued into January of 2024.

The State Budget and its Funding

2023 ended with a deficit of approx. NIS 77.5 billion (approx. 4.2 percent of GDP, based on the estimate of the Ministry of Finance) in the state budget compared to a surplus of approx. NIS 9.9 billion (approx. 0.6 percent of GDP) in 2022. According to the original budget for 2023, a deficit of 0.9 percent of GDP was planned (the deficit target was updated in December 2023 to 3.7 percent of GDP). The deterioration in the budget implementation compared to 2022 began in the period preceding the Iron Swords War and was exacerbated due to it.

The 2024 budget reflects an increase in government spending compared to the 2023 budget, mainly due to an increase in the defense budget for due to the fighting, but also expenses for the evacuation and rehabilitation of settlements, health-related expenses and support for specific sectors. At the same time as this increase, the budget proposal also presented a horizontal cut in the expenses of government ministries at a rate of approx. 3-5 percent and selected measures to increase government revenues, some in the short-term and some starting in 2025. According to the estimate of the Chief Economist at the Ministry of Finance, the loss of income in 2024 due to the War will amount to approx. NIS 25 billion. In view of the above, the deficit ceiling in 2024 is expected to be 6.6 percent of GDP, significantly higher than the original target for this year, which was approx. 1 percent of GDP.

Foreign Trade and Service Exports Data

In 2023, Israel's trade deficit reached approx. USD 31.3 billion versus approx. USD 39.8 billion in deficit in 2022. The decrease in the deficit stems from a sharper decrease in imports, of approx. USD 15.9 billion, in nominal USD terms, than in exports, which recorded a moderate decrease of approx. USD 8.6 billion. The decline in imports stems mainly from a decrease in imports of raw materials and a more moderate decrease in the import group of consumer products. This is against the background of the decrease in commodities prices around the world in part of 2023, alongside a weakening in global demand. Israel’s service exports (net of startup companies) was down by approx. 4.9 percent in 2023, compared to a sharp increase of approx. 17.4 percent in 2022. A moderation was recorded in the annual growth rate of each of the sub-groups of service exports (tourism, high-tech, etc.) and exports of other transport service exports were down sharply. The Iron Swords War has had a negative contribution to the decline in service exports during 2023 - since October of last year, there has been a sharp decrease in total service exports, with the effects of the War exacerbating the slowdown trajectory which characterized all sub-categories in the service exports prior to the War. In a summary of 2023, the decrease in the surplus in the services account was moderate compared to the decrease in the deficit in the goods account. Against this backdrop, there was an increase in the surplus of the balance of payments current account, which totaled approx. 5 percent of GDP in 2023 from approx. 3.9 percent of GDP in 2022.

Exchange Rate and Foreign Exchange Reserves

After its appreciation in 2022, the NIS depreciated against the USD in 2023 by a rate of approx. 3.1 percent, depreciating against the EUR at a higher rate of approx. 6.9 percent with a depreciation of the NIS was also recorded against the currency basket at a more moderate rate of approx. 2.0 percent. The depreciation is partially explained by the continued increase in the demand for currencies perceived as global “anchors” - in terms of the risk level embodied therein, such as the USD - into 2023. In addition, the Bank of Israel noted that the foreign exchange market in Israel is heavily influenced by the investments of institutional entities abroad and the results in global financial markets, while on the other hand there are offsetting effects, such as the elite industry and investments therein. In addition, the political uncertainty in Israel, against the backdrop of the public events - legislative and social - also contributed to the weakening of the NIS.

The Bank of Israel noted that since early 2023, the NIS has been weakened compared to most of the world’s main currencies, with exchange rates being highly volatile. With the outbreak of the War, and in October 2023 in particular, there was another significant depreciation in the NIS exchange rate. From mid-November until the end of 2023, the NIS appreciated. However, the fluctuation in the shekel’s exchange rate continued into the beginning of 2024.

At the end of December 2023, the Bank of Israel's foreign exchange reserves stood at approx. USD 204.6 billion compared to approx. USD 194.2 billion as at the end of December 2022. The increase in balances is mainly explained by the revaluation effects. In the reporting period, the Bank of Israel sold foreign currency in October and November in the amount of approx. USD 8.4 billion. This is part of the plan announced on October 9, 2023 by the Bank of Israel to sell up to USD 30 billion in foreign currency, in view of the effects of the War and in order to stabilize the markets. The Bank of Israel emphasized that it will take as many measures as needed in order to mitigate the NIS’s volatility and to provide the needed liquidity for the markets’ adequate ongoing activity. In addition, and as needed, liquidity will be provided to the market by activating the Bank of Israel’s swap mechanisms for a total of up to USD 15 billion.

Inflation and Monetary Policy

The “in lieu” consumer price index (CPI) was up 3.0 percent in 2023, compared to 5.3 percent in 2022. This brought the inflation within the price stability target range (1-3 percent) for the first time since it exceeded this target in January 2022. The CPI, net of energy prices, was up 2.9 percent. The main explanations for the rapid rise in inflation in recent year are horizontal price adjustments to the increase in the inflationary environment and other factors whose impact has moderated to a considerable extent in 2023, which include: higher demand in the economy (some of which was pent up) due to the full reopening of, and improvement in, the job market, which is reflected in wage increases in some market sectors, in addition to greater global trends of higher raw material and transport prices (“supply effects”), particularly in food and energy prices, on the back of the Russia-Ukraine war, but also due to bottlenecks in the supply chains across the world and particularly in China. During the fourth quarter of 2023, the War generated opposing effects, some of which supported a rise in inflation, while others curbed it.

Annual inflation moderated to a rate of 2.5 percent in February 2024, and is expected to continue this trajectory during the rest of the year and approach the center of the target band (2 percent) against the backdrop of various factors: a moderation in inflation expectations, a decrease in commodity prices, a tightening monetary policy and the adverse effects of the War on the job market and on consumer trust. However, the risks to the forecast are biased upward: Escalation of the War to additional fronts at the same time as an increase in Israel’s risk premium, which will be reflected in a weakness in the exchange rate, an increase in the cost of imports to Israel and a shortage of supply of products, in view of the various disruptions, including in maritime traffic; and taxation measures on products or services measured in the CPI, with the aim of dealing with the fiscal consequences of the War.

In 2023, the “known” CPI was up 3.3 percent.

In 2023, the Bank of Israel interest rate was raised by 1.50 percent and it stood at 4.75 percent at the end of the year.

There were interest rate increases during the first four Monetary Committee meetings in 2023 (in January-May), a continuation of the interest rate increase process that has persisted since April 2022. In the remaining four meetings in 2023 (starting from the July decision until the interest rate decision at the end of November), the 4.75 percent rate remained unchanged. In the January 1, 2024 interest rate decision, the Monetary Committee decided to reduce the interest rate by 0.25 percent - to 4.50 percent. The interest remained at this level, without change, even after the decision of February 26, 2024. At that meeting, the Monetary Committee noted that against the backdrop of the War, its policy focuses on stabilizing the markets and on reducing uncertainty alongside price stability and support for economic activity. The interest rate path will be determined according to the continued convergence of inflation to the target, continued stability in the financial markets, economic activity and fiscal policy. The interest rate reduction process is expected to continue through 2024. According to the Bank of Israel Research Department, the interest rate is expected to be 3.75-4.00 percent in the fourth quarter of 2024.

Israel’s Capital Market

The Shares and Convertible Securities Index was up by approx. 4.9 percent during 2023, following a 15.5 percent decrease in 2022. Despite the decrease, it is noted that, in the reporting period, the stock market was impacted by the effects of the inflation, which during most of the period, remained higher than the price stability target in Israel and in many countries in the developed world, which led to the continued process of interest rate increases by central banks around the world, including in Israel. In addition, the political uncertainty in Israel, against the backdrop of the public events - legislative and social, also appears to have contributed to the weakening of the stock market, which was evident in relation to the world’s leading stock indices.

At the beginning of the fourth quarter of 2023, in the days following the onset of the War, financial markets responded with price slumps and higher risk indicators for the Israeli economy, with the NIS weakening. Later in the quarter, a certain improvement was recorded in these indices.

The average daily trade volume of shares and convertible securities in 2023 totaled approx. NIS 1.998 billion, a decrease of approx. 12.9 percent over the average level in 2022.

The CPI-Linked Government Bond Index was down last year by approx. 0.4 percent, while the Unlinked Government Bond Index was up approx. 1.4 percent.

The CPI-linked non-government bond market (corporate bonds) rose in 2023 by approx. 6.3 percent.

Major and Emerging Risks in the Operating Environment

In recent years, major emerging risks arise from the Bank's operating environment, which has been highly affected by risks related to regulation and legislation, a volatile macroeconomic environment, and changes in the business model - including the transition to digital "new banking" and new social and consumer trends. In recent years, due to the changes in the competitive environment, consumer environment, regulatory environment and technological environment, non-financial risks have been on the rise.

Following are the most material leading and emerging risks:

- Macroeconomic Risk
- Information security and cyber risk
- Strategic Risk
- Technology risk
- Construction and real estate industry risk
- Regulatory Risk
- Climate and Environmental Risk

For more information regarding these risks, please see section “Risk Exposure and Management Thereof”.

Main Changes in the Reporting Year

The Iron Swords War

On October 7, 2023, a lethal attack was waged on the State of Israel, especially on civilians; as a result of the attack, the State of Israel declared the Iron Swords War. The War has led to significant disruptions in economic activity, especially in its initial weeks. This was due to the widespread rocket firing, which targeted most highly populated localities, the evacuation of more than 100,000 civilians from southern and northern Israel, substantial drafting of reservists, a sharp decrease in availability of nonresident workers and ongoing disruptions in the educational system. The effects of the War have led to a substantial decrease in GDP in the fourth quarter of 2023, at an annualized rate of 20.7%.

In recent months, especially subsequent to the reporting period, economic activity across most sectors and regions appears to be recovering. This was due to a substantial decrease in rocket firing into most regions, a decline in the number of reservists on active duty, the educational system resuming routine activity across most regions and the public's adaptation to the "war routine." The recovery is reflected, inter alia, in a significant rise in consumer spending using credit cards, higher turnover in businesses across most sectors, etc. On the other hand, activity in some economic sectors is still substantially lower than its pre-war levels, such as in the construction and incoming tourism sectors, as well as in areas adjacent to the northern and southern borders.

After the War, a process of civil and security rehabilitation is expected, which will be manifested in the public expenditure, with investment in fixed assets, in healthcare services and social services, as well as private consumption. On the other hand, geopolitical risks remained high. This was on the back of the possibility of escalation into additional fronts and due to the risks associated with the sentiment towards Israel in global financial markets.

Against the backdrop of the War and its immediate and long-term effects on economic activity and on Israel's fiscal situation, on February 9, 2024, Moody's downgraded Israel's credit rating to a level of A2 with a negative outlook. Following the downgrading of the State's rating, on February 13, Moody's downgraded the rating of Israel's five largest banks by one notch to A3, changing the rating outlook to negative.

For more information, please see the section entitled "Main Developments in the Israeli Economy".

Against the backdrop of the War, the Bank of Israel issued directives and supervisory emphases for the banking system.

For more information on all the relevant publications of the Bank of Israel, please see the section entitled "Laws and Regulations Governing the Banking System" in the Corporate Governance Report.

Reliefs for coping with the War's ramifications

On October 15, 2023 and on November 8, 2023, the Banking Supervision Department published an outline to support bank customers in coping with the consequences of the Iron Swords War in three operating segments (mortgages, consumer credit and business credit) for three months, while distinguishing between the First Circle Customer Group - population living within 30 km of the Gaza Strip, the population evacuated from their homes by an official government authority, reservists on duty, and those with first kinship with the War dead or hostages or missing persons, and other customers of the banks (hereinafter - the "**First Outline**"). On December 17, 2023, the Banking Supervision Department published a notice regarding the extension of the outline by three months, from January 1, 2024, which, among other things, added hostages and missing persons to the First Circle (who were also included, in effect, in the First Outline), as well as participants of the Nova party at Re'im (hereinafter - the "**Second Outline**"). On March 4, 2024, the Banking Supervision Department issued an notice regarding the extension of the Outline for an additional 3 months from April 1, 2024, under which, from that date additional groups will be included in the First Circle, including the residents of eight localities in the north for whom a government decision has been made to evacuate them and they have not yet been evacuated, reserve soldiers who have been hospitalized for a period of at least 7 days for war-related injuries, victims of the Psyduck Festival and victims of the preparation meeting for the Midburn Festival (hereinafter - the "**Third Outline**"). The First Outline, the Second Outline and the Third Outline will be termed hereinafter - the "**Bank of Israel Outline**").

The Bank adopted the Bank of Israel Outline and implemented additional reliefs for its customers, as follows:

Mortgage-related reliefs

(a) In the period from November 1, 2023 to February 15, 2024, an exemption was given from mortgage payments for three months to customers with a Leumi mortgage who are residents of the Gaza Envelope (up to 7 km from the border with Gaza Strip) or whose asset that was pledged to the Bank to secure the loan is located in one of the localities (applicable to first apartment and upsized apartment owners).

(b) In the period spanning from October 29, 2023 to December 31, 2023, an opportunity was given to customers in the First Circle, members of the Israel Police and customers whose property had been pledged in favor of the loan is in front line localities in the north or south to defer, without interest and without fees and commissions, mortgage payments for a period of up to five months (applicable to upsized apartment owners and to owners of first apartments, the price of which at the time the mortgage was taken was up to NIS 2 million).

(c) In the period spanning from October 31, 2023 to December 31, 2023, an opportunity was given to customers in the First Circle to defer, without interest and without fees and commissions, mortgage payments for a period of three months; as from January 1, 2024 for three months, an opportunity is given to customers in the First Circle, members of the Israel Police and customers whose property had been pledged in favor of the loan is located in front line localities in the north or south to defer, without interest and without fees and commissions, mortgage payments for an additional three months, such that the total maximum deferral period (including the months of exemption) will be six months; as from April 1, 2024 for a period of three months, an opportunity will be given to customers in the First Circle to defer, without interest and without fees and commissions, mortgage payments for an additional three months, such that the total maximum deferral period (including the months of exemption) will be nine months (all the above applies to first apartment owners and to upsized apartment owners).

(d) In the period spanning from October 31, 2023, to March 31, 2024, an opportunity was given to all customers - to defer, without fees and commissions, mortgage payments for a total period of up to six months (from October 2023); as from April 1, 2024 for three months, an opportunity will be given to defer mortgage payments, without fees and commissions, for an additional period of three months such that the total maximum deferral period will be nine months. In addition, from October 8, 2023, an opportunity was given to defer part of the mortgage payments for a total period of up to twenty four months (from October 2023).

Reliefs in loan payments for retail and business customers

(a) As from October 31, 2023 until March 31, 2024, an opportunity was given to retail customers in the First Circle to defer, without interest and without fees and commissions, payments for loans with a total balance of up to NIS 100,000, such that the total deferral period will be six months; as from April 1, 2024 for a period of three months, the opportunity to defer payments will be extended for an additional period of three months such that the total maximum deferral period will be nine months.

(b) As from October 31, 2023 until March 31, 2024, an opportunity was given to business customers in the First Circle with a turnover of up to NIS 25 million to defer, without interest and without fees and commissions, payments for loans with a total balance of up to NIS 2,000,000, such that the total deferral period will be six months; as from April 1, 2024 for a period of three months, the opportunity to defer payments will be extended for an additional period of three months such that the total maximum deferral period will be nine months.

(c) As from October 31, 2023 until March 31, 2024, an opportunity was given to all customers (retail and business) to defer, without fees and commissions, payments for loans, such that the total deferral period will be six months; as from April 1, 2024 for a period of three months, the opportunity to defer payments will be extended for an additional period of three months such that the total maximum deferral period will be nine months.

(d) In the period spanning from October 31, 2023, to December 31, 2023, an exemption from loan repayments was given for two months, up to a monthly payment ceiling of NIS 2,000 for retail customers who are residents of the Gaza Envelope (up to 7 km from the border with the Gaza Strip) who do not have a mortgage with the Bank, and up to a monthly payment ceiling of NIS 3,000 for small business owners who are residents of the Gaza Envelope (up to 7 km from the border with the Gaza Strip) who do not have a mortgage with the Bank, instead of a deferral of payments.

Bridge loans and the aid fund

(a) Bridge loans to finance working capital for business customers (small-sized and mid-market) up to the monthly turnover of the business and no more than NIS 500,000;

(b) An aid fund in the amount of NIS 1 billion for interest-free bridge loans for a period of one year (up to NIS 25,000 per customer) for small-sized and mid-market businesses located within 30 km of the Gaza Strip or evacuated by an official entity.

(c) An aid fund in the amount of NIS 250 million for interest-free bridge loans for a year (up to NIS 10,000 per customer) for retail customers residing within 30 km of the Gaza Strip or for population groups evacuated from their homes by an official entity.

Exemption from overdraft interest

(a) As of October 31, an exemption was given from overdraft interest, for three months, in the amount of up to NIS 10,000 that is within the approved credit facility in a current account for retail customers in the First Circle, with the exception of soldiers called up to the reserves, who had an overdraft on October 15, 2023; the benefit was extended for an additional three months and was given to such customers who had an overdraft on December 16, 2023; on April 1, 2024, the benefit will be extended for an additional three months for retail customers in the First Circle, including soldiers called up to the reserves, who had an overdraft on March 3, 2024.

(b) As of January 1, 2024, an exemption was given from overdraft interest of up to NIS 30,000 for three months, that is within the approved credit facility in a current account (overdraft) for business customers in the First Circle with a turnover of up to NIS 5,000,000 per year, who had an overdraft on that is within the approved credit facility in a current account for customers who had an overdraft on December 16, 2023; on April 1, 2024, the benefit was extended for an additional three months for customers who had an overdraft on March 3, 2024.

Exemption for fees and commissions for retail customers and small businesses

As of October 31, 2023, retail customers and small businesses in the First Circle were given an exemption from fees and commissions, with the exception of fees and commissions in respect of foreign exchange activity, securities, foreign trade and diamonds for a maximum period of nine months.

Donations and bonuses

Bank Leumi donated funds to aid residents in the conflict areas, to regular and reserve soldiers, to hospitals as well as to medical emergency organizations. In addition, the Bank announced that it will provide continuous support to Kibbutz Be'eri until it is rehabilitated.

In addition, the Bank introduced a unique project, under which college students who volunteer to assist farmers in harvesting crops on an ongoing basis, receive a full year's tuition.

The following is a breakdown of the expected quantitative effect in respect of the reliefs provided for dealing with the War, close to the report publication date.

	Housing	Private individuals - other	Micro- and small- businesses	Mid-market businesses	Corpo-rations	Total
	In NIS million					
Effect of benefits granted by the Bank as part of dealing with the War						
Changes in debt terms and conditions	52	23	19	-	-	94
Zero interest loans	-	1	2	-	-	3
Waiver of fees and commissions	6	23	14	-	-	43
Other benefits[(a)]	-	16	-	-	-	16
Total benefits granted by the Bank	58	63	35	-	-	156
Unutilized benefits	174	177	68	-	-	419
Total economic estimate of benefits granted by the Bank as part of dealing with the War, assuming full utilization	232	240	103	-	-	575
Additional information on activities for the benefit of borrowers as part of dealing with the War						
Credit balance with changes in debt terms and conditions	9,754	2,196	6,713	2,976	3,250	24,889
Amount of payments deferred	317	155	528	202	634	1,836
Average deferral of payments in months	3	3	4	4	2	3
Of which: Troubled credit	-	168	332	36	116	652
Of which: Credit that underwent debt restructuring of troubled debt	-	65	81	7	-	153
Outstanding balance of zero-interest loans	-	117	98	-	-	215
Average Prime interest rate in said period - 6.18%						
Loans granted as part of state-backed funds						
Outstanding loan balance	-	-	2,057	276	49	2,382
Average interest rate (%)	-	-	6.69	7.49	7.63	6.80
Of which:						
Outstanding balance of credit funded by the Bank of Israel	-	-	1,090	-	-	1,090
Average interest rate (%)	-	-	6.00	-	-	6.00
Outstanding balance of loans funded by the Bank of Israel (including through state-backed funds)						
Outstanding loan balance	-	-	3,003	-	-	3,003
Average interest rate (%)	-	-	5.98	-	-	5.98

(a) Donations and grants provided were presented under the “private individuals - other” segment.

The estimate and the above assessment and quantitative effects on the Bank's financial results in respect of the above reliefs is considered forward-looking information, within its meaning in the Securities Law, based on significant judgments, assumptions and assessments that were applied, characterized by substantial uncertainty in view of the economic and security situation, its continuity and immediate and cumulative effect on the economy as a whole and on the Bank's customers in particular. Therefore, the above information and data may not fully materialize or may materialize in part, depending on the actual materialization of the above assumptions and assessments and/or changes in the reliefs that may occur in the future.

With respect to credit risk, according to the Bank's assessments, the economic sectors whose activities are particularly exposed to the War's damages are: construction, agriculture and leisure sectors (tourism, restaurants, entertainment, etc.), as well as some industrial and commercial sectors, depending on their location. Due to the high rate of uncertainty regarding the War's impact, it is impossible to accurately estimate the extent of its effect on the Bank's loan portfolio due to the War's continuation and possible escalation. In view of the increase in the risk level, emphases were sharpened in relation to credit and in the various business lines.

These implications were reflected in the calculation of the collective loan loss provision and accordingly, led to applying more stringent macroeconomic and industry-specific indicators and other necessary adjustments.

For more information, please see the section entitled "Credit Risks".

Additional implications

Upon the outbreak of the War, there was a sharp, immediate slump in the Israeli stock market, widening bond spreads of local companies, and causing a sharp depreciation of the NIS against the USD, which was significantly moderated later on, inter alia, following the Bank of Israel's intervention in the foreign exchange market. Uncertainty still prevails in the markets, and volatility in financial markets may persist, mostly on the back on the continued fighting, the expected increase in government spending and related debt raising.

Israel's credit downgrading was expected; therefore, most of its effect was embodied in the markets even prior to the actual downgrading. Following the downgrading of the State's rating, Moody's downgraded the rating of Israel's five largest banks by one notch to A3, changing the rating outlook to negative. The rating downgrading may have an adverse effect beyond that embodied in the markets, inter alia, due to the State's recruitment costs and for Israeli banks.

The Bank estimates that a further downgrade (by one notch) in the credit rating of the State of Israel by one or even several of the rating agencies that rate the State of Israel, will not affect the Bank's capital adequacy ratios.

For more information, please see under Liquidity Risk and Equity and Capital Adequacy.

For more information, please see the section entitled "Main Developments in the Israeli Economy".

Leumi - a vital enterprise in times of emergency - operates in accordance with its business continuity policies and continues at all times, including in the early days of the War, to provide financial services to the branch system, call centers and digital platforms, with the required adjustments to increase the possibility of remote work in order to provide solutions for the changing needs and enable full business continuity across all units.

The Bank continues to examine ways to provide assistance to its customers, as needed, boosting its processes for monitoring and follow-up of risk focal points, while preparing to adjust the activity and provide solutions to needs arising from the current situation.

The Bank's assessments regarding the implications of the War on the severity of all risk factors - future profitability of the Bank, capital and liquidity ratios - are uncertain and may change in accordance with the developments, duration and ramifications of the War on the economy and the Bank's business.

Some of the above information constitutes "forward-looking information". For the meaning and implications of the term, please see under "Forward-Looking Information".

Impairment of the investment in Valley's shares

On September 23, 2021, BLC, a US-incorporated corporation (85 percent of which is held by the Bank), which wholly owns BLUSA, entered into a merger agreement with Valley. On April 1, 2022, the merger was completed.

In view of the significant decreases in the share prices of the banking segment in the United States in general and in mid-sized banks including, Valley, in particular, in the first quarter of 2023, the Bank recorded an impairment of the investment in Valley as of March 31, 2023 in the amount of approx. NIS 1.1 billion, after tax. The impairment loss was recorded to the income statement under the "Bank's share in profits (losses) of associates" item. The impairment was allocated in accordance with the fair value of net identifiable assets arising from the Bank's investment in Valley.

The reduction in the value did not have a significant effect on the Bank's regulatory capital adequacy.

For further details, please see Note 15.A.

The Bank continues to consider Valley a long-term strategic investment, which serves as a significant layer in the Bank's overall strategy.

The market value of the Valley shares held by the Bank as at December 31, 2023 is approx. NIS 2,831 million. Subsequent to the balance sheet date and up to shortly before the report's publication date, the market value of Valley's shares held by the Bank was in the NIS 1.9-2.4 billion range.

Following is the consolidated income statement, presenting Bank Leumi USA's[(a)(b)] results in a separate line (comparative figures)

	For the year ended December 31	
	2022	2021
	In NIS million	
Interest income	18,590	10,863
Interest expense	5,579	1,298
Interest income, net	13,011	9,565
Loan loss expenses (income)	483	(842)
Interest income, net after loan loss expenses (income)	12,528	10,407
Noninterest income		
Noninterest finance income	1,388	1,694
Fees and commissions	3,487	3,335
Other income	74	281
Total noninterest income	4,949	5,310
Operating and other expenses		
Salaries and related expenses	3,842	3,861
Buildings and equipment - maintenance and depreciation	1,323	1,392
Other expenses	1,512	1,558
Total operating and other expenses	6,677	6,811
Profit before taxes	10,800	8,906
Provision for profit tax	3,537	3,188
Profit after taxes	7,263	5,718
The banking corporation's share in associates' profits, after tax*	446	310
Profit attributable to the Bank's shareholders	7,709	6,028
*Of which: The banking corporation's share in Bank Leumi USA's profits[(b)]	59	209

(a) Excluding offsetting of inter-company transactions between the Bank and Leumi USA.
(b) Bank Leumi USA includes the results of BLC and BLUSA.

Following is the consolidated balance sheet, presenting BLUSA's[(a)(b)] balances in a separate line in (comparative figures)

	December 31	
	2022	2021
	In NIS million	
Assets		
Cash and deposits with banks	186,569	195,722
Securities	82,950	81,778
Loans to the public	389,768	329,201
Loan loss provision	(4,986)	(4,245)
Loans to the public, net	384,782	324,956
Loans to governments	1,109	940
Investments in associates[(c)]	4,947	1,113
Buildings and equipment	2,735	2,618
Assets for derivatives	26,638	13,953
Other assets	6,402	6,935
Securities borrowed or purchased under reverse repurchase agreements	3,034	2,447
Investment in subsidiary BLUSA		2,340
Total assets	699,166	632,802
Liabilities and equity		
Deposits by the public	557,084	514,968
Deposits by banks	22,306	25,370
Deposits by Governments	247	299
Securities loaned or sold under repurchase agreements	3,952	2,046
Bonds, promissory notes and subordinated notes	27,805	15,428
Liabilities for derivatives	23,311	15,475
Other liabilities	15,018	17,601
Total liabilities	649,723	591,187
Equity attributable to the Bank's shareholders	49,438	41,610
Non-controlling interests	5	5
Total equity	49,443	41,615
Total liabilities and equity	699,166	632,802

(a) Excluding offsetting of inter-company transactions between the Bank and Leumi USA.
(b) Bank Leumi USA includes the operating results of BLC and BLUSA.
(c) As of April 1, 2022, the balance of the investment in associates includes the balance of the investment in Valley, which amounts, as of December 31, 2022 - approx. NIS 3,567 million.

Material Changes in Financial Statement Line Items

On April 16, 2023, the Bank signed a special collective agreement with the Workers' Union for 2023-2026.

For further details, please see Note 23.A.

On October 7, 2023, a lethal attack was waged on the State of Israel, especially on civilians; as a result of the attack, the State of Israel declared the Iron Swords War. The War is expected to have a significant adverse effect on the Israeli economy, especially while the fighting is going on, and as a result - on the Bank's performance. The adverse economic potential is substantial, on the back of the possibility of escalation to other areas; in any case, this event harms Israel's economic activity and financial markets. The severity of the effect depends, inter alia, on the duration of the War and the extent to which further areas in Israel are directly affected by the War.

For further information regarding the impact of the War on the Israeli economy and on the Bank's financial performance, please see the sections entitled "Main Developments in the Israeli Economy" and "Credit Risks".

2023 was characterized by higher risk for the Israeli market. The legislative and social events which took place in Israel during the first nine months of the year have been somewhat halted since the onset of the Iron Swords War, but will need to be addressed after the War. At this time, the main risk for the economic and financial activity in Israel stems from the War and its consequences. Against this backdrop, the world's leading credit rating agencies addressed the issues and took steps regarding Israel's credit rating and credit outlook.

For further details, please see the section entitled "Main Developments in the Israeli Economy".

Regarding the possible impact of downgrading the State of Israel's rating on the Bank's capital adequacy ratios, please see under "Equity and Capital Adequacy".

For information regarding the impairment of the investment in Valley, please see the section entitled Main Changes in the Reporting Year and Notes 15.A and 36.A.

Sale of Beit Lin

On March 28, 2023, the Bank engaged (through a wholly owned subsidiary) in an agreement with JTLV 3 (Beit Lin) Limited Partnership (hereinafter - the "Acquirer") for the sale of 50 percent of its rights in an office tower at 35 and 37 Yehuda Halevi St., Tel Aviv, known as Beit Lin, which is currently used by the Bank (hereinafter - the "Property"), according to a total asset value (100 percent) of NIS 650 million. The consideration payable to the Bank is NIS 325 million plus VAT (hereinafter - the "Consideration"; the "Sale Agreement"). At the same time, the parties entered into an agreement to regulate the cooperation in the property for its improvement.

If and to the extent that the transaction will be completed, the Bank is expected to record a profit (pre-tax) in the amount of approx. NIS 271 million, which will be recorded in the financial statements that are expected to be published close to the date of the property's transfer, which is expected in the first quarter of 2024, upon completion of the transfer of the Bank's headquarters and main management units to Lod.

The information regarding delivery of the property, completion of the transaction, and its effects on the Bank's financial statements constitutes forward-looking information, which may not materialize in whole or in part or on the date mentioned above, due to circumstances beyond the Bank's control, including non-compliance with the Sale Agreement by the buyer or changes in the final data relevant to the calculation of the Bank's profit.

Sale of Beit Mani

Further to the Bank's Annual Financial Statements for 2022, on February 29, 2024, the Beit Mani transaction was completed, the Bank was paid the remaining consideration and Beit Mani was delivered to the buyer. For the Beit Mani transaction, the Bank is expected to record a capital gain (before tax) of approx. NIS 559 million in the financial statements of the first quarter of 2024.

Below is an analysis of the results for 2023:

Net income attributable to the banking corporation's shareholders (hereinafter - the "net income") was approx. NIS 7,027 million in 2023, compared with approx. NIS 7,709 million in 2022.

The Iron Swords War, which broke out on October 7, 2023, led, among other things, to a sharp increase in uncertainty in the Israeli economy, in the volume of activity and to a higher risk regarding the main economic indicators of financial activity in Israel, including a downgrade of the State of Israel's credit rating and of the banks. The estimate of the loan loss provision, recognized in the Bank's financial statements as of December 31, 2023, includes the uncertainty and worsening of the macroeconomic indicators and parameters used for the assumptions underlying the model for predicting customers' future default rates until shortly before the Report's publication date.

Return on equity in 2023 was approx. 13.7 percent compared with approx. 17.0 percent in 2022.

The return on equity, net of impairment, in respect of the investment in Valley, which was recorded in the first quarter of 2023, and net of the profit resulting from the merger of BLUSA with Valley in 2022, amounted to a rate of 15.9 percent in 2023 compared to a rate of 15.6 percent in 2022.

The decrease in the return on equity stems from the impairment of the investment in Valley (as stated above) and the increase in loan loss expenses (mostly due to the outbreak of the Iron Swords War), that were partially offset by a significant increase in net interest income resulting from growth in the credit portfolio and the increase in interest rates.

Return on equity in the fourth quarter of the year was approx. 13.8 percent, compared with approx. 19.0 percent in the fourth quarter of last year, mostly on the back of the increase in loan loss expenses following the outbreak of the Iron Swords War, the decline in noninterest finance income - which was partly offset by an increase in interest income, net, due to a growth in the credit portfolio and higher interest, as described above.

Net interest income in 2023 amounted to approx. NIS 15,997 million compared to approx. NIS 13,011 million in 2022, net of the results of Bank Leumi USA, an increase of approx. 22.9 percent. The increase in the interest income stems from the increase in the Bank's loan portfolio, higher interest rates and deposit spreads. This increase was partly offset by the erosion of credit spreads. In the reporting period, the CPI was positive, at approx. 3.3 percent, compared with a positive rate of approx. 5.3 percent in the corresponding period last year. The index in the fourth quarter of the year was approx. 0.1 percent, compared with an index of approx. 0.9 percent in the corresponding quarter last year.

Loan loss expenses in 2023 reflect an expense rate of approx. 0.58 percent of the average outstanding loans to the public compared to an expense rate of approx. 0.13 percent in 2022, net of the results of Bank Leumi USA. The higher expense in 2023 stems from an increase in the specific and collective provision. The specific loan loss expense rate in 2023 was 0.08 percent compared to an income rate of 0.12 percent in 2022. The collective expense rate for loan losses in 2023 was 0.50 percent, compared with 0.25 percent last year.
The rate of outstanding loan loss provision relative to the outstanding loans to the public as at December 31, 2023 was approx. 1.58 percent.

The substantial increase in the loan loss expense stems from the sharp increase in uncertainty in the Israeli economy due to the outbreak of the War and reflects a worsening in the macroeconomic indicators as well as the indicators used for the assumptions underlying the model predicting customers' future default rates, on which the collective provision is based - which represents approx. 85 percent of the total loan loss provision during the reporting period.

For further details, please see section entitled "Credit Risks".

Noninterest finance income, totaled approx. NIS 1,279 million in 2023, compared to approx. NIS 1,388 million in 2022, net of the results of Bank Leumi USA. The income in 2022 includes gross profit in respect of the merger transaction with Valley in the amount of approx. NIS 782 million, most of which was recorded in the second quarter of the year. The difference between the years is due mainly to the profit recorded in respect of the merger with Valley, which was partially offset by the effect of derivatives and exchange rate differentials.

The operating and other fees and commissions increased by approx. NIS 250 million compared to 2022, net of the results of Bank Leumi USA. Most of the increase stems from fees, from financing activities and credit processing fees which was partially offset by a decrease in fees and commissions from securities activity.

Operating and other expenses were up by approx. NIS 217 million in 2023 compared to 2022, net of the results of Bank Leumi USA, a 3.2 percent increase. The increase stems mainly from maintenance expenses, depreciation for buildings and equipment and pension expenses with respect to actuarial liabilities. The increase was partially offset by salary expenses, mostly on the back of a decrease in return-based bonuses.

The efficiency ratio in 2023 improved and was approx. 32.6 percent compared to 37.2 percent in 2022, net of the results of Bank Leumi USA.. The improvement in the efficiency ratio in 2023 stemmed mostly from growth in the Bank's business activity and from the interest rate increase.

Basic earnings per share attributable to shareholders of the banking corporation in 2023 totaled NIS 4.58 compared to NIS 5.14 in 2022.

The Common Equity Tier 1 (CET1) to risk-weighted components ratio as at December 31 2023 was 11.66 percent. The total capital ratio as at December 31, 2023 was 14.72 percent.

For further details, please see Note 25B.

On May 22, 2023, the Bank's Board of Directors approved a share buyback plan for a total of up to NIS 800 million. By the report publication date, a share buyback was carried out, totaling approx. NIS 600 million.

For further details, please see Note 25A.

On March 18, 2024 the Board of Directors approved a dividend distribution totaling NIS 365 million, which represents approx. 20 percent of the profit for the fourth quarter of 2023, in addition to the dividend distributed for the profits of the first three quarters of 2023, totaling NIS 1,383 million.

For further details, please see section entitled "Equity and Capital Adequacy".

Regarding quarterly results, please see the appendix "Consolidated Income Statement - Multi-Quarter Information".

Material Developments in Income, Expenses and Other Comprehensive Income

Interest Income, Net

	For the year ended December 31			
	2023		2022[a]	
	Interest income (expenses)	% of income (expense)	Interest income (expenses)	% of income (expense)
	In NIS million	In %	In NIS million	In %
Interest income	**33,655**	**5.41**	18,590	3.14
Interest expense	**(17,658)**	**(4.00)**	(5,579)	(1.69)[b]
Interest income, net	**15,997**	**1.41**	13,011	1.45[b]
Net yield on interest-bearing assets (NIM)		**2.57**		2.20

Additional information:		
Credit spread[c]	**9,109**	8,107[e]
Deposit spread[c]	**7,990**	3,220[e]
Other[d]	**(1,102)**	1,884[e]

(a) Net of the results of Bank Leumi USA, which as from April 1, 2022 is not consolidated in the Bank's consolidated financial statements due to the merger transaction with Valley. For more information, please see Note 15.A to the financial statements as at December 31, 2022.
(b) During the first quarter of 2023, a change in classification was made between interest-bearing and non-interest-bearing deposits. For comparability reasons, the Bank made an immaterial adjustment to the comparative figures. The effect of the adjustment on the interest gap in 2022 was 0.38; this had no effect on the Bank's profit and loss and equity.
(c) Spread from credit granting activity is the difference between the interest received from credit and the cost of raising the sources used to grant the credit (hereinafter - "transfer prices"). These transfer prices are subject to the period, currency and type of interest in the transaction. Transfer prices are the Bank's internal pricing tool and are based on internal models and the Bank's judgment. Spread from deposit taking activity is the difference between the transfer prices and the interest paid to customers for these deposits.
(d) "Other" is attributed to the financial management segment and includes the segment's interest income and expenses transferred to or from the Bank's divisions in respect of the sources and uses.
(e) The data presented include the results of Bank Leumi USA.

Net interest income in 2023 totaled approx. NIS 15,997 million, compared the 2022 total of approx. NIS 13,011 million in the corresponding period last year (net of the results of Bank Leumi USA), an increase of approx. 23 percent. The increase in net interest income was due mainly to growth in the credit portfolio and from an increase in deposit spreads, on the backdrop of the increase in interest rates; this increase was partially offset by a decrease in net interest income for the financial management segment.

During 2022 and 2023, the prime interest rate rose sharply - from an average of 1.6 percent in the first quarter of 2022 to an average rate of 6.25 percent in the second half of 2023. The average interest rate in 2023 was 6.0%. The average interest rate in 2022 was 2.75%. The effect of this rise, which was partially moderated by turning interest bearing deposits to interest-bearing deposits, caused an increase in the deposits spread. The deposit spread is affected by the mix of interest bearing and non-interest bearing deposits, and therefore - as long as the trend for the transfer to interest bearing deposits continues, an erosion in the deposit spread is expected.

The CPI in the reporting period was a positive rate of approx. 3.3 percent, compared with a positive CPI of approx. 5.3 percent in the corresponding period last year. Net interest income in the reporting period was positively affected by the positive CPI in the amount of approx. NIS 1,226 million, while in the corresponding period last year, the results were positively affected by the positive CPI by a total of approx. NIS 1,708 million.

Income rate was up 2.27 percent from one period to another, mainly due to the increase in interest rates, which was partially offset by an erosion of credit spreads and due to a lower positive CPI in the reporting period compared to the corresponding period last year.

Expense rate was up 2.31 percent from one period to the next, mainly due to the effect of the increase in interest rates and from the move from current accounts to deposits. This increase was offset by a lower positive CPI in the reporting period compared to the corresponding period last year.

The total interest rate spread in the reporting period is approx. 1.41 percent, compared to a spread of approx. 1.45 percent in the corresponding period last year, net of the balances of Bank Leumi USA.

The growth in net interest margin (NIM) in the reporting period, as mentioned, mainly stems from the growth in the credit portfolio and increase in interest income.

The following table presents interest spread information from activity in Israel by linkage segment in the reporting period:

In the non-linked NIS segment, the interest rate spread in 2023 was 1.96 percent, compared with 1.71 percent in 2022. In the CPI segment, the interest rate spread in 2023 was 1.68 percent, compared with 1.74 percent in 2022. In the foreign exchange segment, the total interest spread in 2023 was (0.56) percent, compared with (0.27) percent in 2022.

Net interest income in the fourth quarter of the year totaled approx. NIS 3,850 million, compared to approx. NIS 3,773 million in the corresponding quarter last year. The CPI in the fourth quarter of the year was a positive 0.1 percent, and in the corresponding quarter last year, it was a positive rate of 0.8 percent. The increase in the net interest income compared to the corresponding quarter last year stems mainly from growth in the loan portfolio, from the increase in interest rates and from an offsetting effect of the differences in the CPI between the quarters. This effect was partly offset by the erosion of the credit spreads.

For more information regarding interest income and expenses, please see Appendix 1 - “Income and Expenditure Rates and Analysis of Changes in Interest Income and Expenses”.

For more information, please see “Main changes in the operating results of the regulatory segments” under “Regulatory operating segments”.

Loan loss expenses

	For the year ended December 31			
	2023	2022[(a)]	Change	
	In NIS million			In %
Loan loss expense (income) - specific	**350**	(454)	804	177.1
Collective loan loss expense	**2,033**	937	1,096	117.0
Total loan loss expense	**2,383**	483	1,900	393.4
Of which:				
Loan loss expenses in respect of commercial credit risk	**1,550**	226	1,324	585.8
Loan loss expenses for credit risk in respect of housing loans	**221**	111	110	99.1
Loan loss expenses for other credit risk for private individuals	**649**	112	537	479.5
Loan loss expenses (income) for credit risk for banks, governments and bonds	**(37)**	34	(71)	(208.8)
Total loan loss expense	**2,383**	483	1,900	393.4
Ratios (in %):				
Percentage of the specific loan loss expense (income) out of the average outstanding loans to the public	**0.08**	(0.12)		
Percentage of collective loan loss expense out of the average outstanding loans to the public	**0.50**	0.25		
Percentage of loan loss expenses out of average outstanding loans to the public	**0.58**	0.13		
Percentage of net write-offs for loans to the public out of the average outstanding loans to the public	**0.13**	0.06		
Percentage of net write-offs for loans to the public out of the outstanding loan loss provisions for loans to the public	**7.85**	4.55		

For more information regarding loan loss expenses, please see "Disclosure, Measurement, Classification and Loan Loss Provision Rules" under "Credit Risks", Note 13 and Note 30.

(a) Net of the results of Bank Leumi USA, which as from April 1, 2022 is not consolidated in the Bank's consolidated financial statements due to the merger transaction with Valley. For more information, please see Note 15.A to the financial statements as at December 31, 2022.

Following the sharp rise in uncertainty in the economy since the onset of the War, during the reporting period, the loan loss expenses increased substantially; most of the increase is due to commercial loans, which include loans to micro- and small businesses, and loans to mid-market businesses and corporations. Of the total loan loss expenses in the amount of approx. NIS 2,383 million in 2023, approx. NIS 2,033 million is in respect of a collective expense, which increased substantially in the third quarter of 2023 due to the worsening in the macroeconomic indicators that were taken into account for the calculation of the collective loan loss expense and includes an examination of the risk profile of the various economic sectors, especially those the Bank believes to be more exposed to the War damages. In the fourth quarter of 2023, there were additional deteriorations in the macroeconomic coefficients. The increase in the provision is intended, among other things, to cover a possible increase in the specific provision in the coming quarters and possible negative developments in terms of arrears days, given the current high level of uncertainty regarding the impact of the War on the Bank's customers.

In addition, in the year ended December 31, 2023, there was a deterioration in most of the above indicators, mostly in the other private segment. The Bank continues to closely and meticulously follow the developments in the state of the economy, and their possible implications for credit risks.

For further details regarding credit risks and their effect on the loan loss provision, please see the section entitled "Credit Risks".

Noninterest income

	For the year ended December 31			
	2023	2022	Change	
	In NIS million			In %
Noninterest finance income[(a)]	**1,279**	1,408	(129)	(9.2)
Fees and commissions[(b)]	**3,737**	3,535	202	5.7
Other income[(c)]	**165**	75	90	120.0
Total	**5,181**	5,018	163	3.2

(a) Based on the results net of Bank Leumi USA in the comparative figures, noninterest finance income decreased by approx. NIS 109 million compared to 2022.

(b) Based on the results net of Bank Leumi USA in comparative figures, fees and commissions increased by approx. NIS 250 million compared to 2022.

(c) The results of Bank Leumi USA (BLUSA) in this line item in the comparative figures are immaterial.

The weight of noninterest income out of total income (i.e., net interest income and noninterest income) in 2023 was at a rate of 24.5 percent, compared to 27.6 percent in 2022, net of the results of Bank Leumi USA. The income in 2022 includes gross profit in respect of the merger transaction with Valley in the amount of approx. NIS 782 million, most of which was recorded in the second quarter of the year. The difference between the years, except with respect to the merger transaction, stems mostly from the effect of derivatives and exchange rate differentials.

Breakdown of noninterest finance income

	For the year ended December 31		Change	
	2023	2022		
	In NIS million			In %
Net income for derivatives and net exchange rate differentials for non-held-for-trading activities	**585**	236	349	147.9
Losses on sale of available-for-sale bonds, net[b]	**(331)**	(178)	(153)	86.0
Realized and unrealized gains, net[a] and dividend from equity securities not held for trading	**335**	373	(38)	(10.2)
Gain on sale of investees' equity[d]	**-**	830	(830)	(100.0)
Details on interest income from bonds, on accrual basis	**-**	57	(57)	(100.0)
Net income for derivatives for trading activities[c]	**600**	254	346	136.2
Realized and unrealized gains (losses) from adjustments to fair value of held-for-trading bonds and equity securities, net[a] and dividend from held-for-trading equity securities	**90**	(164)	254	(154.9)
Total	**1,279**	1,408	(129)	(9.2)

(a) Realized and unrealized gains from fair value adjustments of held-for-trading and not held for-trading bonds and equity securities, net also include the effect of exchange rate differentials and impairments. 2022 include realized losses on ironSource shares totaling approx. NIS 53 million (before the tax effect), most of which was recorded in the first half of the year.

(b) Based on the results net of Bank Leumi USA in comparative figures, the net losses from the sale of net available-for-sale bonds increased by approx. NIS 143 million compared to 2022.

(c) Based on the results net of Bank Leumi USA in comparative figures, the net income in respect of derivative instruments for trading activities increased by approx. NIS 356 million compared to 2022.

(d) On April 1, 2022, the merger transaction was completed and an investment was recorded in Valley according to the equity method. As a result of the merger in the first half of 2022, a gross profit of approx. NIS 782 million, was recorded, of which NIS 30 million are from income from derivative instruments activity as a result of economic hedging of the aforementioned transaction. For further details regarding an impairment recorded in the first quarter of 2023 in respect of the investment in Valley, please see Note 15.A.

Breakdown of fees and commissions

	For the year ended December 31		Change	
	2023	2022[a]		
	In NIS million			In %
Account management	**616**	639	(23)	(3.6)
Activity in securities and certain derivatives	**591**	650	(59)	(9.1)
Credit cards	**383**	382	1	0.3
Credit handling	**248**	205	43	21.0
Fees and commissions for distribution of financial products[b]	**225**	250	(25)	(10.0)
Exchange rate differentials	**501**	477	24	5.0
Financing fees and commissions	**801**	547	254	46.4
Other fees and commissions	**372**	337	35	10.4
Total fees and commissions	**3,737**	3,487	250	7.2

(a) Net of the results of Bank Leumi USA, which as from April 1, 2022 is not consolidated in the Bank's consolidated financial statements due to the merger transaction with Valley. For more information, please see Note 15.A to the financial statements as at December 31, 2022.

(b) Including management fees and commissions on life and home insurance.

The 7.2 percent increase in fees and commissions compared to 2022, stems primarily from financing fees and commissions, fees and commissions on exchange rate differentials and credit processing fees, in the context of the increase in the volume of activity, an increase that was partially offset by a decrease in fees and commissions from activity in securities and certain derivative instruments ad well as fees and commissions on distribution of financial products.

Breakdown of other income

	For the year ended December 31		Change	
	2023	2022[a]		
	In NIS million			In %
Gains (losses) on central severance pay fund	**2**	(12)	14	116.7
Other income, including on sale of buildings and equipment, net[b]	**163**	87	76	87.4
Total	**165**	75	90	120.0

(a) The results of Bank Leumi USA are immaterial.
(b) The increase stems mainly from income from bonuses from international credit card companies.

Operating and other expenses

	For the year ended December 31			
	2023	2022[a]	Change	
	In NIS million			In %
Salaries and related expenses	**3,484**	3,842	(358)	(9.3)
Depreciation and amortization	**675**	593	82	13.8
Maintenance expenses for buildings and equipment	**866**	730	136	18.6
Other expenses	**1,869**	1,512	357	23.6
Total operating and other expenses	**6,894**	6,677	217	3.2

(a) Net of the results of Bank Leumi USA, which as from April 1, 2022 is not consolidated in the Bank's consolidated financial statements due to the merger transaction with Valley. For more information, please see Note 15.A to the financial statements as at December 31, 2022.

In 2023, there was an increase of approx. NIS 217 million in operating and other expenses compared to 2022; the increase stems mainly from an increase in advertising expenses, maintenance expenses, depreciation of buildings and equipment, and from an increase in pension expenses, which was partially offset from a decrease in salary expenses in respect of return-based bonuses. **The efficiency ratio** in 2023 improved and was approx. 32.6 percent compared to 37.2 percent in 2022, net of the results of Bank Leumi USA. Excluding the revenue from the Valley merger transaction, the efficiency ratio in 2022 was 38.9 percent. The material improvement in the efficiency ratio stems from a material increase in income, net of the results of Bank Leumi USA, that stems mostly from the growth in the loan portfolio and from the increase in interest rates.

Total operating and other expenses constitute 0.94 percent of the total balance sheet, compared with 0.95 percent in 2022, net of balances and results of Bank Leumi USA.

Salary expenses

	For the year ended December 31			
	2023	2022[a]	Change	
	In NIS million			In %
Salaries and related expenses	**3,132**	3,511	(379)	(10.8)
Pension, severance and retirement expenses	**352**	331	21	6.3
Total salary expenses	**3,484**	3,842	(358)	(9.3)

(a) Net of the results of Bank Leumi USA, which as from April 1, 2022 is not consolidated in the Bank's consolidated financial statements due to the merger transaction with Valley. For more information, please see Note 15.A to the financial statements as at December 31, 2022.

The salary and related expenses constitute approx. 50.5 percent of total operating and other expenses in 2023, compared to approx. 57.5 percent in 2022, net of the results of Bank Leumi USA. The decrease in salary expenses is mainly a result of the decrease in return-based bonus expenses.

For further details please see Note 23.B.1.

Expenses and Investments Relating to the IT Function

Set forth below is a breakdown of expenses and investments relating to the IT function

	For the year ended December 31, 2023			
	Software	Hardware[(a)]	Other	Total
	In NIS million			
Expenses for the IT function, as included in the income statement:				
Expenses for salaries and related expenses	485	85	-	570
Expenses for acquisition or usage licenses not capitalized to assets	227	30	-	257
Outsourcing expenses	39	-	3	42
Depreciation expenses	532	71	9	612
Other expenses	43	4	37	84
Total expenses	1,326	190	49	1,565
Additions to assets for the IT function, not recorded as an expense:				
Costs of salaries and related expenses	388	-	-	388
Outsourcing costs	128	-	-	128
Costs of acquisition or usage licenses[(b)(c)]	48	104	-	152
Costs of equipment, buildings and land	-	-	13	13
Total costs	564	104	13	681
Balances of assets for the IT function				
Total amortized cost	929	160	376	1,465

	For the year ended December 31, 2022			
	Software	Hardware[(a)]	Other	Total
	In NIS million			
Expenses for the IT function, as included in the income statement:				
Expenses for salaries and related expenses	444	100	-	544
Expenses for acquisition or usage licenses not capitalized to assets	106	17	-	123
Outsourcing expenses	44	-	2	46
Depreciation expenses	451	65	9	525
Other expenses	37	15	26	78
Total expenses	1,082	197	37	1,316
Additions to assets for the IT function, not recorded as an expense:				
Costs of salaries and related expenses	327	-	-	327
Outsourcing costs	172	-	-	172
Costs of acquisition or usage licenses[(b)(c)]	94	75	-	169
Costs of equipment, buildings and land	-	-	8	8
Total costs	593	75	8	676
Balances of assets for the IT function				
Total amortized cost	900	142	378	1,420

(a) Including communications infrastructures.
(b) Costs of acquisition or usage licenses for the IT function, which were not classified as property, plant and equipment (costs of equipment, buildings and land) in the financial statements, but rather as a prepaid expense.
(c) Including purchases of software and hardware and licenses to use them for all banking corporation's divisions.

Following is the condensed comprehensive income statement

Comprehensive income in 2023 totaled NIS 7,733 million compared to NIS 7,233 million in 2022.

The difference between the comprehensive income and the net income in 2023 arose mainly from the positive adjustments for available-for-sale bonds in the amount of NIS 641 million, before tax. In addition, positive adjustments for employee benefits in the amount of NIS 378 million before tax, primarily as a result from the increase in the discount interest rate and from reduction of the capital reserve. These adjustments were stated directly in other comprehensive income.

It should be noted that the change in the value of the bonds is immediately recorded in regulatory capital. Regarding the manner of measuring the pension liabilities and assets designated for hedging, for regulatory capital purposes, as of July 1, 2022, see the section entitled Capital and Capital Adequacy.

For the year ended December 31

	2023	2022
	In NIS million	
Net income attributable to the Bank's shareholders	7,027	7,709
Changes in other comprehensive income (loss) attributable to the Bank's shareholders:		
Adjustments in respect of presentation of available-for-sale bonds at fair value, net	641	(4,265)
Adjustments of liabilities for employee benefits	378	3,133
Other adjustments[(a)]	60	417
Related tax effect	(373)	335
Less other comprehensive income attributable to non-controlling interests	-	96
Other comprehensive income (loss) attributable to the Bank's shareholders, after taxes	706	(476)
Comprehensive income attributable to the Bank's shareholders	7,733	7,233

(a) For the composition of the other adjustments, please see Note 10.

Structure and Development of Assets and Liabilities, Equity and Capital Adequacy

The total assets of the Leumi Group as at December 31, 2023 amounted to NIS 731.5 billion, compared to NIS 699.2 billion at the end of 2022, a 4.6 percent increase; as at December 31 2023, the Bank's total assets amounted to NIS 732.3 billion compared with NIS 700.7 billion at the end of 2022, a 4.5 percent increase.

The main increase in assets was in securities, which were up by approx. 93 percent. This increase was funded mainly by a decrease in deposits in the Bank of Israel and by an increase in the issuance of bonds and subordinated notes. In addition, there was an increase of approx. 9 percent in the outstanding loans to the public, net.

This increase, alongside the increase in Federal Reserve interest rate and Bank of Israel's interest rate compared to the previous year, contributed to a significant rise in net interest income during the period.

The value of financial assets denominated in, and linked to, foreign currency out of the Group's total assets as at December 31, 2023 is approx. NIS 135.0 billion, approx. 18.5% of the total assets. In 2023, the shekel devalued against the US dollar by 3.1 percent, 6.9 percent against the euro, and 9.0 percent against the GBP. The change in the shekel's exchange rate against all foreign currencies contributed to an increase of approx. 0.6 percent in the Group's total assets.

Total assets under the Group's management – total balance sheet and securities portfolios of customers, provident funds and study funds for which operational management and deposit management services are provided - reached approx. NIS 2,082 billion as at December 31, 2023, compared with a total of NIS 1,969 billion as at the end of 2022, an increase of approx. 5.8 percent.

1. Following are the changes in the main balance sheet line items

	Consolidated			
	December 31			
	2023	2022	Change	
	In NIS million			In %
Total assets	**731,497**	699,166	32,331	4.6
Cash and deposits with banks	**105,476**	186,569	(81,093)	(43.5)
Securities	**160,048**	82,950	77,098	92.9
Loans to the public, net	**419,486**	384,782	34,704	9.0
Buildings and equipment	**2,874**	2,735	139	5.1
Deposits by the public	**567,824**	557,084	10,740	1.9
Deposits by banks	**20,776**	22,306	(1,530)	(6.9)
Bonds, promissory notes and subordinated notes[(a)]	**32,114**	27,805	4,309	15.5
The Bank's shareholders' equity	**54,497**	49,438	5,059	10.2

(a) For additional information, please see section entitled "Bonds, capital notes and subordinated notes".

2. Changes in the main off-balance-sheet items

	Consolidated			
	December 31			
	2023	2022	Change	
	In NIS million			In %
Documentary credit, net	**639**	1,150	(511)	(44.4)
Guarantees and other commitments, net	**70,514**	69,003	1,511	2.2
Unutilized credit card credit facilities, net	**13,882**	8,377	5,505	65.7
Unutilized current loan account facilities and other credit facilities in demand accounts, net	**18,986**	16,420	2,566	15.6
Irrevocable loan commitments approved but not yet granted and commitments to issue guarantees, net	**93,726**	75,291	18,435	24.5
Derivative instruments[(a)(b)]	**1,221,136**	1,076,372	144,764	13.4
Options - all types[(b)]	**223,871**	170,427	53,444	31.4
Customers' off-balance-sheet financial assets	**1,350,872**	1,269,629	81,243	6.4

(a) Including forward transactions, financial swap contracts, swaps, futures and credit derivatives.
(b) For more information, please see Note 28B.

Loans to the Public, Net

Gross loans to the public increased by 9.3 percent in 2023, compared to the balance at the end of 2022.

Net loans to the public in the Leumi Group as at the end of 2023 totaled NIS 419.5 billion versus NIS 384.8 billion as at the end of 2022, an increase of approx. 9.0 percent. Net of the effect of the change in the shekel's exchange rate against all foreign currencies, loans to the public, net as at December 31 2023 increased by 18.4 percent over 2022.

Total loans to the public, net constitute 57.3 percent of total assets, compared with 55.0 percent at the end of 2022.

In addition to loans to the public, the Group invests in corporate securities, which total NIS 25,922 million as at the end of 2023 compared to NIS 22,315 million as at the end of 2022, and which also embody credit risks.

Net non-linked shekel loans to the public constitute as at December 31, 2023 approx. 75 percent of total loans compared with approx. 76.7 percent as at the end of 2022. Linked loans constitute, as at December 31, 2023, 14.5 percent of total loans, compared with approx. 14.1 percent as at the end of 2022.

The Iron Swords War

Upon the outbreak of the War, the Bank took various measures to provide service to its customers. A dedicated call center has been established - a hotline for residents of southern Israel and areas of hostilities that provides a quick banking solution for banking transactions as well as information and individual approval of special requests. In addition, as part of handling the accounts of missing persons and hostages, a dedicated team has been formed which handles inquiries of family members and friends or reaches out to them according to information obtained by the Bank.

The reliefs implemented by the Bank since the outbreak of the War stem in part from directives and emphases published by the Bank of Israel due to the War.

For more information of all the relevant publications of the Bank of Israel and details regarding the reliefs provided, please see under "Main Changes in the Reporting Year- of the Iron Swords War" and the section entitled "Laws and Regulations Governing the Banking System" in the Corporate Governance Report.

Development in loans to the public, after loan loss provision by main economic sector

	December 31			
	2023	2022	Change	
	In NIS million			In %
Private individuals - housing loans	**130,002**	119,302	10,700	9.0
Private individuals - Other	**28,903**	29,724	(821)	(2.8)
Construction and real estate	**116,722**	98,368	18,354	18.7
Commercial[(a)]	**32,701**	31,856	845	2.7
Industry	**21,924**	22,969	(1,045)	(4.5)
Other[(b)]	**89,234**	82,563	6,671	8.1
Total	**419,486**	384,782	34,704	9.0

(a) Includes a loan loss provision - which is mostly collective - as at December 31, 2023, of approx. NIS 712 million, including for areas such as retail and wholesale commerce in goods and textile, wholesale commerce in electrical goods for households and wholesale building materials, according to the Bank's assessment, their activity is particularly exposed to the damages of the War.

(b) Including the loan loss provision - which is mostly collective - as at December 31, 2023, in the agriculture and hotel, accommodation and food service economic sectors in the amount of approx. NIS 156 and 124 million, respectively; according to the Bank's assessments, their activities are particularly exposed to the War's damages.

For more information regarding the loan loss provision due to the War and information regarding the development of credit and credit risk by economic sector, please see under "Credit Risks".

Troubled Credit Risk

Following is the troubled credit risk after specific and collective provisions

	December 31					
	2023			2022		
	On-balance-sheet	Off-balance-sheet	Total	On-balance-sheet	Off-balance-sheet	Total
	In NIS million					
Non-performing credit risk, net	**2,718**	**115**	**2,833**	1,466	93	1,559
Performing credit risk, net	**2,779**	**577**	**3,356**	3,191	621	3,812
Total	**5,497**	**692**	**6,189**	4,657	714	5,371

	December 31	
	2023	2022
	In NIS million	
Troubled credit risk - Commercial	**6,604**	5,435
Troubled credit risk - retail	**1,808**	1,395
Total	**8,412**	6,830
Balance of loan loss provision	**2,223**	1,459
Troubled credit risk after loan loss provision	**6,189**	5,371

For more information regarding troubled loans, please see section entitled "Credit Risk" and Note 30.

Securities

Policy for management of investments in securities (own portfolio)

The Group's policy for management of investment in securities (own portfolio) is set out in the Group's annual and multi-year work plan. The policy defines the approved risk appetite for achieving the Group's business targets. The risk appetite includes principles and quantitative limits for the losses which the Group is willing to absorb under scenarios representing different risk levels. The main limits pertain to investment amounts, risk levels (credit rating, average duration, interest, etc.), exposure to the issuing entity, exposure to investment manager/fund manager, geographical exposure, etc. All investments are made using a list of approved investment instruments.

Management of the Group's own portfolios is carried at the Bank and Group level, since the Bank's own (nostro) portfolios play a crucial role in the management of liquidity and market risks.

Therefore, the Group prefers investments with a partial/low correlation with other activities of the Bank and the Group. Accordingly, the Group takes into account the inherent advantage of its own investments in foreign securities, which contribute to diversifying the risks arising from investment outside Israel.

Risk diversification in the Group's own portfolios is multi-dimensional: By geographic regions, economic sectors, issuing entities, investment managers, investment instruments, etc.

Investments are carried out with a view to obtain on risk-adjusted profitability taking into account the adequate capital requirements.

Avoiding tail risks (leading to significant losses) plays a significant role in the Group's investment management decisions.

The Bank's own activity focuses mainly on key markets, which operate in a developed and effective regulatory environment.

The decision to approve the Bank's use of an investment instrument takes into account various aspects, such as transparency and accessibility to an independent and reliable source for revaluation/pricing of instruments and minimizing the complexity and the operating and legal risks.

The Group's investments in securities as of December 31, 2023 totaled NIS 160 billion, compared with NIS 83 billion as of the end of 2022, a 93 percent increase.

The Group's securities are divided into four classes: held-for-trading securities, not held-for-trading equity securities and mutual funds, available-for-sale bonds and held-to-maturity bonds.

Securities purchased by the Bank are classified, on the date of their purchase, to one of the following portfolios: held-for-trading equity securities, available-for-sale bonds, not held-for-trading equity securities and mutual funds, or held-to-maturity bonds - according to the manner in which the Bank intends to use the securities. Securities purchased for trading purposes (or for the purpose of hedging other components of the held-for-trading portfolio), for market-making purposes or as part of the trading room activity are classified to the held-for-trading portfolio. Securities purchased as part of managing the Bank's assets and liabilities are classified to the available-for-sale portfolio or as not held-for-trading equity securities. Bonds purchased to be held to maturity are classified to the held-to-maturity portfolio.

Held-for-trading securities are stated in the balance sheet at fair value, and the difference between the fair value and the amortized cost is recorded in the income statement. Available-for-sale bonds are stated in the balance sheet at fair value, and the difference between the fair value and the amortized cost is stated under a separate item entitled "Adjustments in respect of presentation of available-for-sale bonds at fair value" less related tax, in other comprehensive income. In any case of an impairment, the difference is recorded to profit and loss. Held-to-maturity bonds are stated in the balance sheet at amortized cost. Not held-for-trading equity securities and mutual funds for which there is an available fair value are presented in the balance sheet according to their fair value and the difference between the fair value and the cost is recognized in the income statement. Not held-for-trading equity securities and mutual funds for which there is no available fair value are presented in the balance sheet at cost, less impairment plus or net of changes in observable prices in orderly transactions in similar or identical investments of the same issuer. Unrealized gains or losses from adjustments to changes in observable prices are stated, as aforesaid, in the income statement.

Starting from January 1, 2022, the Bank applies US GAAP for measuring loan losses arising from financial instruments as outlined in ASC 326, "Financial instruments - Credit Losses". These guidelines apply, among other things, to bonds; for additional information, see Note 1.H.

Fair value calculation method

The fair value of Israeli securities is based mainly on quoted prices on the Tel Aviv Stock Exchange; the fair value of foreign securities is based on prices received from external sources. Equity securities and mutual funds for which no fair value is available are presented at cost less impairment, adjusted upwards or downwards for observable prices in similar transactions or identical transactions of the same issuer.

Non-marketable Israeli bonds denominated in NIS are revalued using a fair value model, since these bonds do not have an active market.

Following is the classification and analysis of the securities line item in the consolidated balance sheet

	December 31									
	2023					2022				
	Held-to-maturity bonds[e]	Available-for-sale bonds[a][e]	Not held-for-trading equity securities and mutual funds[b]	Held-for-trading securities[c]	Total	Held-to-maturity bonds[e]	Available-for-sale bonds[a][e]	Not held-for-trading equity securities and mutual funds[b]	Held-for-trading securities[c]	Total
	In NIS million									
Bonds										
Of the Israeli Government	8,093	74,888		12,905	95,886	9,631	21,842		1,263	32,736
Of foreign governments[d]	-	26,916		-	26,916	-	16,995		-	16,995
Of Israeli financial institutions	-	45		436	481	-	46		580	626
Of foreign financial institutions[f]	1,389	8,882		26	10,297	1,321	9,627		53	11,001
Asset-backed (ABS) or mortgage-backed (MBS)	5,591	9,951		25	15,567	3,256	7,710		33	10,999
Of other Israeli entities	-	823		159	982	-	670		257	927
Of other foreign entities	333	4,632		37	5,002	320	4,919		71	5,310
Equity securities and mutual funds			4,828	89	4,917			4,353	3	4,356
Total securities	15,406	126,137	4,828	13,677	160,048	14,528	61,809	4,353	2,260	82,950

(a) Including unrealized losses, net from fair value adjustments in the amount of NIS (3,013) million recorded in other comprehensive income (December 31, 2022 - net losses of NIS (3,812) million).
(b) Including unrealized gains, net from fair value adjustments in the amount of NIS 317 million recorded in profit and loss (December 31, 2022 - net gains of NIS 256 million).
(c) Including net unrealized losses from fair value adjustments in the amount of NIS (14) million recorded in profit and loss (December 31, 2022 - losses of NIS (113) million).
(d) Of which: The US government - NIS 21.9 billion (December 31, 2022 – NIS 12.5 billion).
(e) The outstanding balance of held-to-maturity bonds are presented net of a NIS 3 million loan loss provision. The outstanding balances of available-for-sale bonds are presented net of the loan loss provision. As of December 31, 2023, there is no loan loss provision balance.
(f) Most bonds of foreign financial institutions are SSA-rated (Super-nationals, Sovereign and Agencies) or state-backed.

As of December 31, 2023, approx. 78.8 percent of the Group's own (nostro) portfolio was classified as available-for-sale, approx. 8.5 percent as held-for-trading, approx. 3.0 percent as not held-for-trading equity securities and mutual funds and approx. 9.6 percent as held-to-maturity. Approx. 3.1 percent of the securities' value is investments in corporate equity securities or mutual funds that are not equity-accounted, but rather stated at cost or according to the listed share and listed mutual funds' prices.

For more information regarding the value of securities by type of measurement, please see Note 33A.

Available-for-sale portfolio

1. In 2023, there was a NIS 641 million increase (before tax) in other comprehensive income in respect of available-for-sale bonds (before tax), compared with a decrease of NIS (4,265) million (before tax) in 2022.
2. In 2023, net losses on the sale of available-for-sale bonds, stated in profit and loss, amounted to NIS 331 million (before tax), compared with net losses of NIS 178 million (before tax) in 2022.

The net accumulated balance of fair value adjustments of available-for-sale bonds portfolio as at December 31, 2023 totaled a negative NIS (1,517) million (after tax) compared with a negative NIS (1,944) million as at the end of 2022. These amounts represent net unrealized losses (after tax) as at the reporting dates.

For information regarding fair value adjustments of available-for-sale securities recognized in equity, please see Note 12.

Held-for-trading portfolio

As of December 31, 2023, the held-for-trading portfolio has approx. NIS 13.6 billion in bonds, compared with NIS 2.3 billion as at December 31, 2022. As at December 31, 2023, the held-for-trading portfolio constitutes approx. 8.5 percent of the Group's total nostro (own) portfolio, compared with 2.7 percent as at December 31, 2022.
Realized and unrealized gains in respect of held-for-trading bonds in the amount of NIS 85 million were recorded in the income statement, compared with losses of NIS (166) million in 2022.

Investments in equity securities and mutual funds

As at December 31, 2023, investments in equity securities and mutual funds totaled approx. NIS 4,917 million, of which NIS 2,100 million was marketable and NIS 2,817 million - non-marketable.

Of the total investment, approx. NIS 4,828 million is classified to the not held-for-trading portfolio and approx. NIS 89 million to the held-for-trading portfolio.

As at December 31, 2023, the regulatory capital required in respect of these investments is NIS 731 million.

Realized and unrealized gains (including dividend) in respect of the equity securities and mutual funds in the amount of NIS 340 million were recorded net in the income statement in 2023, compared with net gains of NIS 375 million in 2022.

For more information on the portfolio's composition, please see Note 12.

Investments in foreign securities

A. Investments in foreign asset-backed securities

The Group's asset-backed (mortgage and non-mortgage) securities portfolio, all investment-grade, amounted to approx. NIS 15.6 billion (approx. USD 4.3 billion) as at December 31, 2023, compared to approx. NIS 11.0 billion as at the end of 2022. Out of the above portfolio, as at December 31, 2023, approx. NIS 10 billion (approx. USD 2.8 billion) was classified to the available-for-sale portfolio and the remainder - to the held-for-trading and held-to-maturity portfolios.

As of December 31, 2023, the available-for-sale foreign asset-backed securities, including investment in mortgage-backed bonds, totaled approx. NIS 5.5 billion. 94.1 percent of all mortgage-backed bonds in the available-for-sale portfolio was issued by US federal agencies (FNMA, FHLMC, GNMA) and all were rated AAA as of the reporting date.

As of December 31, 2023, the aggregate net impairment carried to equity from the mortgage-backed bonds portfolio totaled approx. NIS 502 million.

Total mortgage-backed bonds that are neither government-backed (USA) nor backed by US federal institutions total approx. NIS 344 million.

The weighted average maturity for the entire mortgage-backed bond portfolio is approx. 4.94 years (average duration). In addition to the mortgage-backed bonds, the Group's available-for-sale portfolio also includes other non-mortgage asset-backed bonds totaling approx. NIS 4.5 billion, of which CLO bonds account for approx. NIS 3.1 billion. The weighted average maturity for the entire non-mortgage asset-backed bond portfolio is approx. 4.8 years.

For more information on investments in asset-backed bonds, please see Note 12.

B. Investments in foreign non-asset-backed securities

As of December 31, 2023, the Group's securities portfolio includes approx. NIS 55.3 billion (USD 15.3 billion) in foreign non-asset-backed securities. Out of the above portfolio, NIS 47.1 billion (about USD 13.0 billion) is classified to the available-for-sale portfolio and the remainder - to the held-for-trading and held-to-maturity portfolios. 98.81 percent of the total securities are investment grade and include mainly securities of the US government, banks and financial institutions as well as bonds of investment-grade corporations, and the remainder are mainly securities issued by the Israeli government.

For more information regarding exposure to foreign financial institutions, please see the section entitled "Credit Risks".

As at December 31, 2023, the aggregate decrease in the value of the capital reserve for securities which are not backed by assets issued abroad within the available-for sale portfolio amounted to NIS 1,406 million (NIS 925 million after tax).

As aforesaid, in addition to the available-for-sale portfolio, the held-for-trading portfolio and held-to-maturity portfolio also include non-asset-backed securities. The held-for-trading portfolio mainly includes securities issued by governments, banks and financial institutions. 81.88 percent of the securities in the held-for-trading portfolio are investment-grade.

As of December 31, 2023, the value of the non-asset-backed held-for-trading portfolio was NIS 263.0 million (USD 72.5 million).

Investments in bonds issued in Israel

As at December 31, 2023, investments in bonds issued in Israel amounted to NIS 87.7 billion, of which NIS 86.2 billion was in shekel-denominated bonds issued by the Israeli Government and the remainder - in corporate bonds. Approx. 59.3 percent of corporate bonds investments - which are approx. NIS 0.9 billion - were included in the available-for-sale portfolio, and the remainder - in the held-for-trading portfolio.

The available-for-sale portfolio corporate bonds - which total NIS 0.9 billion - include a negative capital reserve of NIS (45) million.

All corporate bonds in the held-for-trading portfolio are listed and traded on the Tel Aviv Stock Exchange.

For more information regarding pledging of securities, please see Note 27.

Deposits by the public

The balance of deposits by the public in the Leumi Group as of December 31, 2023 totaled approx. NIS 567.8 billion compared to NIS 557.1 billion as of December 31, 2022, an increase of 1.9 percent.

Following are balances of deposits by the public

	December 31		
	2023	2022	Change
	In NIS million		In %
Demand deposits			
Non-interest bearing[(a)]	**150,365**	197,264	(23.8)
Interest-bearing[(a)]	**137,351**	121,969	12.6
Total demand deposits	**287,716**	319,233	(9.9)
Fixed deposits	**280,108**	237,851	17.8
Total deposits by banks	**567,824**	557,084	1.9

(a) Reclassified; during the first quarter of 2023, a reclassification was made between interest-bearing and non-interest-bearing deposits. For comparability reasons, the Bank made an immaterial adjustment to the comparative figures. The effect of the adjustment as of December 31, 2022 amounted to deposits in the amount of approx. NIS 62.7 billion, respectively, from interest-bearing to non-interest bearing. The aforementioned had no effect on the Bank's profit and loss and equity. Please see Note 19.

The increase in the balance of deposits in the reporting period stems mainly from an increase in deposits of private individuals and of capital market customers. The increase was offset by a decrease in deposits of business customers.

Starting from July 1, 2023, the Bank began granting its customers interest on their current account balances; the first level of the benefit includes an interest rate of 1 percent for retail customers whose salaries are transferred to Leumi (including pensioners) with a current account balance of up to NIS 10,000 who have one other product with Leumi: a mortgage, monthly transactions of at least NIS 3,000 on a Leumi credit card or a securities portfolio.

Starting from August 1, 2023, Leumi published another level: an interest rate of 2 percent will be paid on a balance of up to NIS 25,000 starting from the first NIS for retail customers whose salaries are transferred to Leumi (including pensioners) who have two additional banking products with the Bank of the following three: a mortgage at Leumi, monthly transactions of at least NIS 4,000 on a Leumi credit card or a securities portfolio at Leumi.

Set forth below is the mix of deposits by the public by type and linkage segments

	December 31			
	2023	2022	Change	
	In NIS million			In %
NIS:				
Non-linked	**406,980**	393,715	13,265	3.4
CPI-linked	**11,941**	9,809	2,132	21.7
Foreign currency:				
Including foreign currency-linked	**142,065**	146,108	(4,043)	(2.8)
Non-monetary	**6,838**	7,452	(614)	(8.2)
Total	**567,824**	557,084	10,740	1.9

Deposits by the public in non-linked NIS increased by NIS 3.4 percent, compared to December 31, 2022. The increase stems mainly from an increase in fixed deposits, that was partially offset by a decrease in demand deposits.

Customers' off-balance-sheet financial assets

Following are the changes in customers' balances of off-balance-sheet financial assets in the Leumi Group

	December 31		Change	
	2023	2022		
	In NIS million			In %
Securities portfolios[(a)]	964,128	907,086	57,042	6.3
Assets for which operating services are provided:[(a)(b)(c)]				
Provident and pension funds	210,734	198,329	12,405	6.3
Advanced study funds	176,010	164,214	11,796	7.2

(a) Including changes in the market value of securities and value of securities of mutual funds and provident funds in the Group's custody, for which operational management and custody services are provided.
(b) The Group does not manage mutual funds, provident funds or study funds in Israel.
(c) Assets of customers to which the Group provides operational management services, including provident fund balances of customers who receive consulting services from Leumi.

Deposits by Governments

Deposits by governments amounted to approx. NIS 160.0 million at the end of 2023 compared with NIS 247.0 million as at the end of 2022, a NIS 87.0 million decrease compared to 2022.

Deposits with Banks and by Banks

A. Deposits with banks (central and commercial)

	December 31			
	2023		2022	
	With central banks	With commercial banks	With central banks	With commercial banks
	In NIS million			
NIS:				
Non-linked	**82,246**	**2,576**	165,814	1,353
CPI-linked	**-**	**1**	-	-
Foreign currency including foreign currency-linked	**683**	**16,969**	273	16,595
Total deposits with banks	**82,929**	**19,546**	166,087	17,948

Total deposits with banks decreased by 44.3 percent, mainly due to a decrease in the balance of deposits in the Bank of Israel.

B. Deposits by banks (central and commercial)

	December 31			
	2023		2022	
	By central banks	By commercial banks	By central banks	By commercial banks
	In NIS million			
NIS:				
Non-linked	**10,121**	**2,522**	16,912	2,865
Foreign currency including foreign currency-linked	**-**	**8,133**	-	2,529
Total deposits by banks	**10,121**	**10,655**	16,912	5,394

For more information, please see Note 27.

On December 31, 2023 the Group's deposits with the Bank of Israel totaled approx. NIS 83 billion.

The Group's level of liquidity is high and the Group has net deposits with banks amounting to approx. NIS 81.7 billion.

Bonds, Commercial Securities, Capital Notes and Subordinated Notes

	December 31			
	2023	2022	Change	
	In NIS million			In %
Bonds	**22,379**	19,251	3,128	16.2
Subordinated notes and capital notes	**9,735**	8,554	1,181	13.8
Total	**32,114**	27,805	4,309	15.5

Shelf Prospectus and Issuance of Bonds and Commercial Securities

On May 27, 2021, the Bank published a shelf prospectus in accordance with a permit granted by the Israel Securities Authority. On May 18, 2023, the Israel Securities Authority approved the application to extend the issuance period under the Bank's shelf prospectus to May 26, 2024.

On January 18, 2023, the Bank issued a total of USD 500 million in par value “Green” Subordinated Notes Series Leumi $ 2033 TACT Institutional. The series was listed for trading on the TACT Institutional on the Tel Aviv Stock Exchange.

The Subordinated Notes (Series Leumi $ 2033) are repayable in one payment, after ten years and six months from their issuance date, where the Bank has the option of early redemption in the period from 5 years and three months to five years and six months from the issuance date, subject to certain conditions.

Subordinated Notes Series Leumi $ 2033 TACT Institutional bear a fixed annual interest rate of 7.129 percent per year to be paid semi-annually until July 18, 2028. At that time and if early redemption has not been made, the interest rate will be updated according to the government yield in the United States on the same date plus the margin agreed in the issue, as detailed in the issue documents.

If circumstances of a trigger event (a point of non-viability or trigger event for absorption of the principal loss amount, the earlier of the two) were to occur, the Series Leumi $ 2033 TACT Institutional Subordinated Notes shall be converted into shares according to the average closing prices of the Bank's shares on the Tel Aviv Stock Exchange in the 14 consecutive trading days preceding the date on which the conversion notice (translated into USD according to the exchange rate as of that date) was issued or according to the set minimum rate (USD 4.21053, subject to adjustments), the highest of the two.

Subordinated Notes Series Leumi $ 2033 TACT Institutional are eligible for inclusion in Tier 2 capital as of the issue date.

For more information, please see the immediate reports dated January 11, 2023 and January 18, 2023.

On May 30, 2023, the Bank issued a total of approx. NIS 1.492 billion p.v. in bonds by way of an expansion of Series 183 Bonds for a consideration of approx. NIS 1.419 billion, as well as a total of approx. NIS 2.428 billion p.v. in commercial securities (CS Series 4).

The principal of the Commercial Securities and interest in respect thereof shall be payable in one lump sum on May 28, 2024; it is not linked to the Consumer Price Index, and carries a spread of 0.19 percent over the Bank of Israel's interest rate.

For more information, please see the immediate report dated May 30, 2023.

On August 7, 2023, the Bank issued a total of approx. NIS 0.5 billion p.v. in credit linked notes (CLN) (Series 1).

The series was listed for trading on the TACT Institutional on the Tel Aviv Stock Exchange.

A credit-linked note is a financial instrument that is associated with a number of loans given by the Bank and bears the credit risk of these loans.

The Bank undertakes to repay the note amount (including interest in accordance with the terms and conditions of the note), with the Bank's undertaking conditioned upon non-materialization of the credit risk embodied in such loans, according to the note. The payment by the Bank to the note holder will be reduced accordingly if any of the loans to which it is linked shall be defaulted upon, or if the borrower defaults or is under bankruptcy, and the repayment to the note holder shall only be made against amounts the Bank has been able to collect in their respect, according to the terms and conditions of the note.

The proceeds of the issuance is recognized as a qualifying financial collateral in accordance with Proper Conduct of Banking Business Directive No. 203, as well as collateral deductible in calculating indebtedness of a customer under Proper Conduct of Banking Business Directive No. 313.

The Notes' principal will be payable in one payment on December 24, 2026, as long as the Bank does not carry out early redemption, as detailed in the terms of the issuance. The unpaid balance of the Note's principal will bear annual interest at the Bank of Israel interest rate plus 2.3 percent, which will be paid in 40 monthly installments, from September 24, 2023 to December 24, 2026, the final repayment date of the Note's principal. The Notes (principal and interest) will not be linked to any linkage basis.

Series 183 Bonds, Credit Linked Notes (Series1) and Commercial Securities (Series 4) are not recognized for regulatory capital purposes.

For more information, please see the immediate report dated August 6, 2023.

On December 21, 2023, the Bank issued a total of approx. NIS 1.228 billion p.v. in Series 185 Bonds, and a total of approx. NIS 2.123 billion p.v. in Bonds (Series 186) as well as approx. NIS 1.369 billion p.v. in commercial securities (CS Series 5).

The principal of Series 185 Bonds is repayable in ten equal semiannual payments, from February 28, 2025 to August 31, 2029. The bonds are linked to the Consumer Price Index and bear an annual interest rate of 1.86 percent.

The principal of Series 186 Bonds is repayable in sixteen equal semiannual payments, from May 31, 2026 to November 30, 2033. The bonds are linked to the Consumer Price Index and bear an annual interest rate of 2.02 percent.

The principal of the Series 5 Commercial Securities and interest in respect thereof shall be payable in one lump sum on December 21, 2024; it is not linked, and carries interest at a rate of 0.10 percent over the Bank of Israel's interest rate.

The Bonds (Series 186 and 185) and Commercial Securities (Series 5 CS) are not recognized for regulatory capital purposes.

For more information, please see the immediate reports dated December 19 and December 21, 2023.

Early redemption of subordinated notes

On July 5, 2023, the Bank's Board of Directors decided to exercise full early redemption of Subordinated Notes (Series 401), which were issued to the public in July 2018. Accordingly, on July 31, 2023, subordinated notes totaling approx. NIS 681 million were redeemed (including linkage differences).

For more information, please see the immediate reports dated July 5, 2023, July 16, 2023 and August 1, 2023.

Equity and Capital Adequacy

Equity attributable to the Bank's shareholders totaled NIS 54,497 million on December 31, 2023 compared with NIS 49,438 million as at the end of 2022.

This capital serves as the basis for calculating the regulatory capital which, in turn, is used to calculate the Bank's capital adequacy ratio, with the addition of capital instruments and regulatory adjustments, as set out in the Banking Supervision Department's Proper Conduct of Banking Business Directive No. 202.

The shareholders' equity to total assets ratio as of December 31, 2023 is 7.5 percent.

Capital Adequacy Structure[a]

	December 31	
	2023	2022
	In NIS million	
Capital base for capital ratio purposes		
CET1 capital, after regulatory capital deductions and adjustments[c][f]	**53,892**	48,797
Tier 2 capital, after deductions	**14,141**	12,020
Total capital - total	**68,033**	60,817
Balances of risk-weighted assets		
Credit risk[c][d][e]	**426,399**	392,658
Market risks	**5,834**	6,610
Operational risk	**29,943**	26,375
Total balances of risk-weighted assets	**462,176**	425,643
Capital to risk-weighted assets ratio		
Ratio of CET1 capital to risk-weighted components	**11.66%**	11.46%
Total capital to risk-weighted assets	**14.72%**	14.29%
Minimum CET1 capital ratio set by the Banking Supervision Department[b]	**10.22%**	10.21%
Minimum total capital ratio set by the Banking Supervision Department[b]	**13.50%**	13.50%

(a) For more information regarding the capital adequacy structure, please see Note 25B.

(b) The minimum Common Equity Tier 1 capital ratio required and the minimum total capital ratio required as of December 31, 2023 are 10 percent and 13.5 percent, respectively. In addition to the Common Equity Tier 1 capital is a capital requirement of 1 percent of the outstanding housing loans, excluding housing loans granted during the temporary order term. For more information regarding the temporary order for dealing with the coronavirus crisis, please see under Capital Adequacy below in this chapter.

(c) These data include adjustments in respect of the effect of first-time application of GAAP for current expected credit losses, which are gradually reduced until December 31, 2024. For further details, please see Note 1.X.1 to the financial statements as of December 31, 2022.

(d) Credit risk was calculated after implementing the revisions to Proper Conduct of Banking Business Directives 203 and 203A, "Measurement and Capital Adequacy - The Standardized Approach - Credit Risk". For further details, see directives pertaining to the attribution of capital for derivative financial instruments in this chapter.

(e) These figures include adjustments in respect of high-risk loans for the purchase of land. For further details, please see Regulatory and other changes in measuring the capital requirements in this chapter.

(f) The data include adjustments in respect of the efficiency plans in accordance with the directives of the Banking Supervision Department, which decrease gradually until June 30, 2024.

In 2023, the Common Equity Tier 1 capital was mainly affected by the net income for the period, net of the dividend and buyback, and from the increase in the loan portfolio. Total capital ratio was mainly affected by the issue of "green" subordinated notes in the first quarter and the increase in the collective provision balance. The impairment recorded in the first quarter of 2023 in respect of the investment in Valley shares had an immaterial effect on the Bank's capital ratios.

For more information on additional regulatory changes in the reporting period and anticipated changes regarding the measurement of capital adequacy, please see below in this chapter.

Regulatory capital structure

In May 2013, the Banking Supervision Department published the final directives for the implementation of Basel III in Israel, by amending Proper Conduct of Banking Business Directives Nos. 201-211 (hereinafter in this section - the "Directives"). The Directives went into effect on January 1, 2014, subject to the transitional provisions included in the Banking Supervision Department's Proper Conduct of Banking Business Directive No. 299.

Pursuant to the Directives, the Group's capital components for the purpose of calculating capital adequacy are attributed to two tiers:

1. Tier 1 capital, which includes CET1 capital (CET1) and Additional Tier 1 capital.
2. Tier 2 capital.

The sum of these tiers is also known as "capital basis for capital adequacy purposes" or "regulatory capital" or "total capital".

CET1 capital

Common Equity Tier 1 capital includes the banking corporation's shareholders' equity less goodwill, other intangible assets and regulatory adjustments and additional deductions. In addition to these, the following are included: adjustments to Common Equity Tier 1 capital, which arise from the implementation of operational efficiency programs, measurement of the pension liabilities and assets designated for hedging, for regulatory capital purposes, as of July 1, 2022, as outlined above, as well as the application of various regulatory provisions, as outlined below.

A breakdown of the minimum Common Equity Tier 1 capital regulatory requirement appears in the section entitled "Capital Adequacy".

Tier 1 capital

According to the Banking Supervision Department's directives, Tier 1 capital will include - in addition to CET1 capital - Additional Tier 1 capital, which is comprised of equity instruments complying with the criteria set forth in Proper Conduct of Banking Business Directive No. 202.

To date, Israel has set no regulatory requirement regarding minimum Tier 1 capital ratio, and the Leumi Group has no Additional Tier 1 capital instruments.

Tier 2 capital

Tier 2 capital includes equity instruments and the outstanding balance of the collective loan loss provision, subject to the ceiling prescribed by the directives.

Capital instruments must comply with the criteria set forth in Proper Conduct of Banking Business Directive No. 202 in order to be included in capital. The main criteria that the instrument must include are: (1) A mechanism for principal loss absorption through conversion into ordinary shares or amortization of the instrument when the banking corporation's Common Equity Tier 1 capital ratio falls below 5 percent; (2) A clause determining that, on the occurrence of the defining event for non-viability (as defined in Appendix E to Proper Conduct of Banking Business Directive No. 202), the instrument shall be immediately converted to ordinary shares or written off.

For a description of the main features of issued regulatory capital instruments, please see the Bank's website at: https://english.leumi.co.il.

Capital Adequacy

Capital ratios are calculated as the ratio of capital to risk-weighted assets. The CET1 capital ratio is calculated as the ratio of CET1 capital to the risk-weighted assets, and the total capital ratio is calculated as the ratio of total capital to the risk-weighted assets.

The Bank of Israel's capital adequacy targets

Under Proper Conduct of Banking Business Directive No. 201, Capital Measurement and Adequacy - Introduction, Application and Calculation of Requirements, a large banking corporation whose consolidated on-balance sheet assets total at least 24 percent of the Israeli banking system's total assets, is required to meet a Common Equity Tier 1 capital ratio of at least 10 percent and a total capital ratio of at least 13.5 percent. This requirement applies to Leumi.

In addition to the Common Equity Tier 1 capital is a capital requirement of 1 percent of the outstanding housing loans, for the purpose of financing rights in land, excluding housing loans for which a relief was granted during the temporary order for dealing with the coronavirus crisis for the period ended September 30, 2021.

Accordingly, the minimum capital requirements applicable to the Bank as of December 31, 2023 are 10.22 percent for Common Equity Tier 1 capital ratio (including capital requirement for outstanding housing loans) and 13.50 percent for total capital ratio.

Circular on Adjustments to Proper Conduct of Banking Business Directives for Dealing with the Coronavirus Crisis (Temporary Order) - Proper Conduct of Banking Business Directive No. 250

In accordance with the circular published by the Banking Supervision Department on February 7, 2024, the temporary order was revoked.

The Bank's capital planning and capital adequacy targets

The Leumi Group's capital planning reflects a forward-looking view of its risk appetite and profile, business strategy and the capital adequacy required as a result. The capital plan is approved by the Bank's management and Board of Directors and takes into account the Group's various P&L centers and other factors that affect the Bank's compliance with the capital requirements, such as: profit forecasts, changes in other comprehensive income, regulatory adjustments, the effect of the transitional provisions and the rate of increase in risk-weighted assets. The capital ratios forecast is also subject to various sensitivity tests and stress scenarios.

The Group's policy, which was approved by the Board of Directors, is to maintain a capital adequacy level that is higher than the minimum threshold set by the Bank of Israel from time to time and no less than the rate of capital required to cover the risks as assessed using the ICAAP process. In addition, the Group has set capital targets in case of a stress scenario event. For more information on the ICAAP process and the use of stress tests, please see the Risk Management Report as at December 31, 2023.

On November 29, 2023, the Bank's Board of Directors approved an increase in the Bank's internal Tier 1 capital target to 10.6 percent instead of 10.5 percent.

Dividend distribution policy

On March 6, 2019, the Bank's Board of Directors approved a dividend distribution policy, under which the Bank will distribute, each quarter, a dividend of up to 50 percent of the Bank's net income in accordance with the Bank's financial statements for the previous quarter. and subject to, inter alia, the Bank's meeting its capital adequacy targets, even after the dividend distribution. The actual dividend distribution is subject to the specific resolutions being passed by the Board of Directors prior to each distribution, and to the provisions of the law which apply to dividend distribution, including the provisions of the Companies Law and directives of the Bank of Israel.

On March 18, 2024, the Board of Directors approved a dividend distribution in the amount of approx. NIS 365 million, which constitutes approx. 20 percent of the net income for the fourth quarter of 2023. The dividend approved per each NIS 1 p.v. share amounted is approx. 23.97 agorot. The final dividend amount per share is subject to changes due to exercise of the Bank's convertible securities. The Board of Directors designated March 27, 2024 as the record date for purposes of dividend payment and April 11, 2024 as the payment date.

Regarding the Banking Supervision Department's letters dated November 12, 2024 and March 5, 2024 on capital planning and profit distribution policies, please see Note 25A.

Details of paid dividend

Declaration date	Payment date	Dividend per share	Cash dividend
		In agorot	In NIS million
March 9, 2022	April 6, 2022	40.48	588
May 24, 2022	June 15, 2022	22.14	322
August 16, 2022	September 6, 2022	25.82	399
November 29, 2022	December 19, 2022	23.08	356
March 14, 2023	April 4, 2023	45.20	698
May 23, 2023	June 15, 2023	19.10	294
August 15, 2023	September 7, 2023	48.05	736
November 29, 2023	December 17, 2023	23.21	353

The Bank's share buyback plan

On May 22, 2023, the Bank's Board of Directors approved a share buyback plan for a total of up to NIS 800 million, according to the safe harbor mechanism published by the Israel Securities Authority (Legal Position No. 199-8) for execution in three phases, as from May 24, 2023 until the earlier of May 15, 2024 or until the total buyback amount has been reached.

Approval by the Banking Supervision Department for the buyback plan, as required according to Proper Conduct of Banking Business Directive No. 332, was received on May 17, 2023, subject to compliance with restrictions and capital targets, including the condition that the plan be immediately terminated if, during the period of the plan, it appears that, according to the most recent financial statements published, the Bank is not in compliance with the Common Equity Tier 1 capital ratio of at least 10.9 percent.

In 2023, Phases A and B of the plan were executed. The implementation of Stage A began on May 24, 2023 and ended on August 1, 2023, during which time the Bank purchased (through the independent Stock Exchange member) 10,740,308 shares totaling approx. NIS 300 million. The implementation of Stage B began on August 16, 2023 and ended on October 18, 2023, during which time the Bank purchased (through the independent Stock Exchange member) 10,208,701 shares totaling approx. NIS 300 million.

On the back of the Banking Supervision Department's letter on capital planning and profit sharing policies, as outlined in Note 25A, a decision was made not to implement the third and last part of the buyback plan.

Total number of shares purchased under the said plan was 20,949,009 for which NIS 600 million were paid.

As of the reporting date, the Bank owns 92,773,267 treasury shares.

Adjustments to CET1 capital:

Measurement of the employee benefits liability and hedging assets

Starting from July 1, 2022, calculation of the pension liabilities for the purpose of regulatory capital is as follows: Each quarter, the Bank calculates the change in the pension liability as a result of changes in the discount rate, net of the change in the value of assets designated in advance for hedging these liabilities. The change in the net pension liability, after tax, is spread in a linear manner over four quarters, beginning in the quarter for which the calculation was made. This method shall be in effect until the earlier of the following: a) the financial statements as at December 31, 2029 (inclusive) or b) the date of the financial statements in which the average pension liability amount for the past four quarters is lower than NIS 10 billion, linked to the CPI (from the known CPI as of July 1, 2022 until the known CPI on the date of the relevant financial statements).

For information regarding the discounting methodology, please see "Critical Accounting Policies and Estimates".

Relief for operational efficiency plans

In 2016 and 2017, the Banking Supervision Department published letters entitled "Operational Efficiency of the Banking System in Israel" - workforce and real estate. According to the letters, a banking corporation which meets the terms and conditions prescribed, will be granted a relief, according to which it may spread the effect of the plans, on a straight-line basis, over a period of five years.

As part of the understandings regarding the special collective agreement signed with the Workers' Union in July 2019, the Bank's Board of Directors approved a voluntary retirement plan, which amounted to approx. NIS 167 million (after tax). As of December 31, 2023, 90 percent of the plan's costs are attributable to regulatory capital.

Regulatory and other changes in measuring the capital requirements

Developments in the guidance of the Basel Committee on Banking Supervision regarding capital adequacy measurement

In 2017, the Basel Committee on Banking Supervision completed its revision of the total capital adequacy Basel III framework. As part of the revisions, also known as Basel IV, significant revisions were made in the manner of calculating risk-weighted assets for the purpose of the Tier 1 capital requirements. Implementation of the various standards included in the revision, as determined by the Basel Committee, was January 1, 2023, but in the EU the implementation is expected to begin in mid-2025.

In accordance with the policy for the adoption of accepted international standards, the Banking Supervision Department is adopting the Basel Committee provisions from 2017 on the calculation of capital requirements in respect of operational risk. On December 29, 2022, the Banking Supervision Department published a draft update to the Proper Conduct of Banking Business Directive 206 "Capital Measurement and Adequacy - Operational Risk". The draft established an updated definition of the calculation of the capital allocation in respect of operational risk so that it is based, among other things, on the business indicator components stipulated in the draft and on the internal loss multiplier based on the average historical losses of the banking corporation. Implementation of the Directive will become effective on January 1, 2026. However, according to the draft revision to the Directive of March 13, 2023, until December 31, 2027 the internal loss multiplier will be set at one.

Directives pertaining to the attribution of capital for derivative financial instruments

On December 1, 2021, the Banking Supervision Department published a circular revising directives on capital allocation for derivative financial instruments (application of the provisions of Proper Conduct of Banking Business Directives Nos. 203A and 208A), in an effort to adjust the directives of the Bank of Israel to the revised Basel Committee provisions regarding counterparty credit risk.
As of July 1, 2022, the Bank applies Directive No. 203A, Treating Counterparty Credit Risk.

The application date of Directive 208A, Value Adjustment for Credit Risk, will be January 1, 2025.

Circular entitled "Regulatory Capital - Effect of Implementation of Accounting Principles regarding Current Expected Credit Losses", Proper Conduct of Banking Business Directive No. 299 and circular entitled "Expected Loan Losses from Financial Instruments"

As of January 1, 2022, the Bank applies the transitional provisions published by the Banking Supervision Department - "Regulatory Capital - Effect of Application of GAAP on Current Expected Credit Losses" as of December 1, 2020, as well as additional revisions, as part of adjustments to additional Proper Conduct of Banking Business Directives adjusted to the new rules on current expected credit losses. Among other things, since January 1, 2022, the Bank is applying Proper Conduct of Banking Business Directive No. 202, "Capital Measurement and Adequacy - Regulatory Capital", and deducts from Common Equity Tier 1 amounts to cover for housing loans classified over time as non-performing.

According to the transitional provisions published by the Banking Supervision Department, and since following the first-time application there was a decrease in the Common Equity Tier 1 capital of the Bank as at January 1, 2022, the Bank partially added to the Common Equity Tier 1 capital 75 percent of the decrease in the Common Equity Tier 1 capital as of the first-time application (as a result, at the beginning of each year from the first-time application, the addition to the Common Equity Tier 1 capital decreased by 25 percent, until 0 percent is added on January 1 of the fourth application year). Accordingly, on January 1, 2023, 50 percent of the decrease in Common Equity Tier 1 capital on the date of first-time application was added to the Common Equity Tier 1 capital.

For the effect of the application of the new directives on the Bank's financial statements, please see Note 1.X.1. in the financial statements as of December 31, 2022.

Circular amending Proper Conduct of Banking Business Directive No. 203, "The Standardized Approach - Credit Risks"

The Bank applied, for the first time, the circular amending Proper Conduct of Banking Business Directive 203, "The Standardized Approach - Credit Risk" in its financial statements as at December 31, 2022, according to which the weight of the risk attributable to credit provided for the sale of land for development and construction purposes at a loan to value (LTV) ratio of over 80 percent, was increased to 150 percent; the effect of the first-time application on the Common

Equity Tier 1 capital was a 0.15 percent decrease. As clarified by the Banking Supervision Department, the change was implemented starting from the third quarter of 2022, over 4 quarters, such that in the quarter ended June 30, 2023, the capital requirement was fully reflected.

Following is a sensitivity analysis of the main factors affecting the capital adequacy of the Leumi Group:

- Change in the amount of risk-weighted assets – Leumi's risk-weighted assets – amounted to approx. NIS 462.2 billion as at December 31, 2023. Every NIS 1 billion increase in risk-weighted assets will reduce the CET1 capital ratio and total capital ratio by approx. 0.03 percent.
- Change in CET1 - as of December 31, 2023, CET1 totals approx. NIS 53.9 billion. A NIS 100 million decrease in CET1 capital will decrease the CET1 capital and total capital ratio by approx. 0.02 percent.
- Change in the foreign exchange rate - a 1 percent depreciation in the shekel’s exchange rate against all currencies will decrease the CET1 capital and total capital ratio by approx. 0.02 percent.
- A 1 percent increase in the risk-free interest rate curve across all currencies for the regulatory capital exposure signifies a decrease of approx. 0.06 percent in the Common Equity Tier 1 capital ratio and total capital ratio.
- The rating of the State of Israel has an effect on the capital requirements in respect of the Bank’s exposures to the Israeli government and exposure to banks, institutional entities and public sector entities in Israel. The Bank estimates that a further downgrade (by one notch) in the credit rating of the State of Israel by one or even several of the rating agencies that rate the State of Israel, will not affect the Bank’s capital adequacy ratios.

For more information, please see The Credit Rating in the Corporate Governance Report and the immediate report dated February 11, 2024.

The above information regarding capital adequacy and its management refers to the Bank's future activities and constitutes forward-looking information. For the meaning of the term, please see under “Forward-Looking Information”.

Leverage Ratio

Leverage ratio is expressed as a percentage and defined as measured regulatory capital divided by the measured exposure. The regulatory capital for the purpose of leverage ratio measurement is Tier 1 capital, as defined in Proper Conduct of Banking Business Directive No. 202, according to regulatory adjustments regarding the capital calculation. A banking corporation's exposure is the sum of on-balance sheet exposures, exposure to derivatives, exposure to securities financing transactions and off-balance-sheet items. The leverage ratio complements the capital ratio and constitutes yet another restriction on the banking sector's leverage level.

	December 31	
	2023	2022
	In NIS million	
Consolidated data		
Tier 1 capital[(c)]	**53,892**	48,797
Total exposures[(b)]	**810,014**	766,895
Leverage Ratio		
Leverage Ratio	**6.65%**	6.36%
Minimum total leverage ratio set by the Banking Supervision Department[(a)]	**5.50%**	5.50%

For additional information regarding capital adequacy and leverage, please see directives pertaining to the attribution of capital for derivative financial instruments above and Note 25.B.

(a) According to Proper Conduct of Banking Business Directive No. 218, "Leverage Ratio", the relief in the requirement for a minimum leverage ratio of 5.5 percent (instead of 6 percent) is in effect until December 31, 2025. A corporation which will utilize the relief until that date will be required to once again meet the required leverage ratio that was in place prior to the relief in two quarters' time, by June 30, 2026. It was also determined that taking advantage of the relief shall not prevent the distribution of dividends, subject to an total capital planning aimed at reverting to the required leverage ratio.

(b) Total exposures was calculated after implementing the revisions to Proper Conduct of Banking Business Directive No. 218, "Leverage Ratio", following the revision of Directives 203 and 203A, "Measurement and Capital Adequacy - the Standardized Approach - Credit Risk". For further details, please see directives pertaining to the attribution of capital for derivative financial instruments above.

(c) When calculating the leverage ratio, the effect of implementation of the efficiency plan and adjustments in respect of the implementation the new measurement method in respect of certain actuarial liabilities, were taken into account. For further details regarding the effect of the transition to the new method, please see Note 25B.

Operating Segments - Management Approach

An operating segment is a component of the banking corporation engaged in activities from which it may generate income and bear expenses. The operating results of the operating segment are reviewed on an ongoing basis by the Bank's management and Board of Directors in order to make decisions regarding the allocation of resources and the assessment of its performances. Furthermore, separate financial information is available for operating segments.

Operating segments reporting according to management approach presents the Bank's results by business line, in accordance with the Bank's organizational structure.

The Bank's business lines specialize in providing services to customer segments with similar characteristics and needs.

The Bank's activity in Israel is managed as follows:

1. Banking – provision of banking services to retail customers and small businesses. The business line. Comprises three departments: Retail, Small Businesses, and Private Banking. The services and products are adapted to all the customer segments according to the nature of their banking activity, their characteristics and their needs.
2. Mortgages - provision of loans intended to purchase residential apartments or loans pledged by a residential apartment or another asset.
3. Commercial - providing banking and financial services to middle-market companies and interested parties in these companies.
4. Corporate banking - providing banking and financial services to large Israeli corporations and international corporations, supporting their domestic and foreign activities.
5. Real estate – providing banking and financial services to the construction and real estate sector.
6. Capital markets – management of the Bank's own portfolio, management of assets and liabilities and management of investments in financial assets.
7. Other – activities not attributed to the other business lines.

Results of operations are attributed to the line of business in charge of the customer's account.

- Net interest income – interest on loans extended by the business line is credited to the business line, net of the cost of raising the loans (transfer price). Furthermore, the business line is credited with a transfer price for deposits raised net of interest paid to customers.
- Noninterest income (noninterest finance income, fees and commissions and other income) – is allocated to the business lines according to the customer's activity.
- Business line expenses – include the direct expenses of business lines; in addition, expenses of corporate units providing services to those business lines are also charged to the business lines.

The results of business lines' activities, both in terms of their balance sheets and in terms of profit and loss, are regularly reviewed by the Board of Directors and management. The results are compared to objectives set in an annual work plan and to the corresponding period last year. Furthermore, the Bank measures a range of other metrics relating to the business lines' activities.

For more information on the main operating segments according to Management Approach, please see under "Main operating segments according to Management Approach" in the Corporate Governance Report.

Following is a summary of financial performance according to management approach

	For the year ended December 31, 2023											
	The Bank									Subsidiaries in Israel	Foreign subsidiaries	Total
	Private individuals	Small businesses	Banking - total	Mortgages	Commercial	Corporate	Real estate	Capital markets	Other and adjustments			
	In NIS million											
Interest income, net:												
From external	(2,113)	1,113	(1,000)	6,689	1,577	2,098	3,829	2,045	24	141	594	15,997
Inter-segmental	7,732	1,051	8,783	(5,270)	1,372	(996)	(2,453)	(1,120)	1	27	(344)	-
Interest income, net	5,619	2,164	7,783	1,419	2,949	1,102	1,376	925	25	168	250	15,997
Noninterest income	1,558	496	2,054	15	580	331	391	1,395	67	296	52	5,181
Total income	7,177	2,660	9,837	1,434	3,529	1,433	1,767	2,320	92	464	302	21,178
Loan loss expenses (income)	844	389	1,233	261	354	59	430	(35)	(4)	65	20	2,383
Total operating and other expenses	2,833	929	3,762	385	721	290	170	384	858	193	131	6,894
Profit (loss) before taxes	3,500	1,342	4,842	788	2,454	1,084	1,167	1,971	(762)	206	151	11,901
Provision (benefit) for taxes	1,197	459	1,656	269	839	371	399	674	(337)	44	73	3,988
Net income (loss) attributable to the Bank's shareholders	2,303	883	3,186	519	1,615	713	768	403[(a)]	(425)	170	78	7,027
Balance as at December 31, 2023												
Loans to the public, net	30,180	26,159	56,339	132,074	62,567	60,667	66,692	25,655	5,987	1,103	8,402	419,486
Deposits by the public	216,898	56,087	272,985	-	88,206	36,305	10,107	160,215	6	-	-	567,824

(a) Including the impairment loss from the investment in Valley shares in the amount of approx. NIS 1.1 billion. For more information, please see Note 15.A.

Condensed results of operations according to management approach (cont.)

	For the year ended December 31, 2022											
	The Bank									Subsidiaries in Israel	Foreign subsidiaries[c]	Total
	Private individuals	Small businesses	Banking - total	Mortgages	Commercial	Corporate	Real estate	Capital markets	Other and adjustments			
	In NIS million											
Interest income, net:												
From external	786	1,254	2,040	5,168	1,535	1,336	1,776	741	14	121	480	13,211
Inter-segmental[b]	2,328	248	2,576	(3,832)	473	(529)	(696)	2,108	(5)	6	(101)	-
Interest income, net	3,114	1,502	4,616	1,336	2,008	807	1,080	2,849	9	127	379	13,211
Noninterest income[b]	1,430	471	1,901	14	552	245	378	563	778[a]	484	103	5,018
Total income	4,544	1,973	6,517	1,350	2,560	1,052	1,458	3,412	787	611	482	18,229
Loan loss expenses (income)	131	126	257	114	115	(16)	(57)	113	(21)	(7)	-	498
Total operating and other expenses	2,697	1,006	3,703	377	723	278	148	415	682	199	310	6,835
Profit before taxes	1,716	841	2,557	859	1,722	790	1,367	2,884	126	419	172	10,896
Provision (benefit) for taxes	587	288	875	294	589	270	467	986	(64)	101	46	3,564
Net income attributable to the Bank's shareholders	1,129	553	1,682	565	1,133	520	900	2,207	190	396	116	7,709
Balance as at December 31, 2022												
Loans to the public, net	32,498	26,688	59,186	120,927	60,820	54,807	54,669	21,310	5,747	871	6,445	384,782
Deposits by the public	202,991	55,415	258,406	-	95,839	39,617	14,423	148,773	7	-	19	557,084

(a) Including income in the amount of NIS 782 million in respect of the Valley merger.
(b) As of the third quarter of 2023, a change was introduced to the allocation of profitability resulting from the Bank's asset and liability management activity, such that as from that date, all profitability from this activity is attributed to the "Capital Markets" P&L center. To present comparative information, the comparative figures were reclassified.
(c) As from April 1, 2022 BLUSA is not consolidated in the Bank's consolidated financial statements due to the merger transaction with Valley. For more information, please see Note 15.A to the financial statements as at December 31, 2022.

Regulatory Operating Segments

Regulatory operating segments are reported according to the format and classifications prescribed by the Reporting to the Public Directives of the Banking Supervision Department, as follows:

1. Households segment – private individuals excluding Private Banking customers.
2. Private Banking segment – private individuals with a financial portfolio with the Bank whose balance (including monetary deposits, securities portfolios and other financial assets) exceeds NIS 3 million.
3. Micro businesses segment – businesses with a turnover (annual sales turnover or amount of annual revenues) of less than NIS 10 million.
4. Small businesses segment – businesses with a turnover (annual sales turnover or amount of annual revenues) of more than NIS 10 million and less than NIS 50 million.
5. Mid-market segment – businesses whose turnover (or annual revenues) is equal to or higher than NIS 50 million and lower than NIS 250 million.
6. Corporate segment – businesses with a turnover (annual sales turnover or amount of annual revenues) is equal to or higher than NIS 250 million.
7. Institutional entities segment - includes institutional clients as defined by the Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Law, 1995, including provident funds, pension funds, study funds, mutual funds, exchange-traded notes (ETNs), insurers, members of the TASE managing customers' money.
8. Financial management segment – includes the following activities:
   - **A.** Trading activities - investment in tradable securities, market-making activity involving securities and derivatives, activity in derivatives not designated as hedges and not used by the Bank in its Asset and Liability Management (ALM) activities, repurchase and lending transactions involving held-for-trading securities, short selling of securities, securities' underwriting services.
   - **B.** Asset and Liability Management (ALM) activities - including investment in available-for-sale bonds and held-to-maturity bonds not allocated to other operating segments (when the borrower has no indebtedness to the Bank, other than securities), hedging derivatives and derivatives used in asset and liability management, deposits with and by domestic and foreign banks, foreign currency hedges of exchange rate differentials in respect of investments in foreign offices, deposits with and by governments.
   - **C.** Non-financial investment activity – investment in not held-for-trading equity securities and investments in associates of businesses.
   - **D.** Other – management, operating, trust and custodial services to banks, advisory services, sale and management of loan portfolios and development of financial products.
9. Other segment – including discontinued operations, profit from reserves and other results related to employee benefits which were not attributed to other operating segments, activities that were not allocated to other segments and adjustments between all items attributed to segments and all items in the consolidated financial statements.

Customer classification

In accordance with the circular, when a banking corporation has no information regarding the total income of a business customer which has no indebtedness towards the banking corporation (including credit lines, etc.), the banking corporation may classify them into the relevant regulatory segment according to their total financial assets multiplied by a factor of 10. In addition, when the Bank believes that the total income does not represent the customer's activity volume, the customer should be classified as follows: A customer whose indebtedness is less than NIS 100 million - according to the business's total assets, as stated in the FAQ file, and a customer whose indebtedness exceeds NIS 100 million - shall be classified to the corporate segment.

During the period, measures were taken to complete missing information, mainly regarding business customers' turnovers. In cases where the information has not yet been completed, customers were classified using estimates and other information in the Bank's possession. The Bank continues to collect additional information and improve the data.

For more information, please see Note 29A.

Summary of activities by regulatory operating segment

	For the year ended December 31, 2023										
	Activity in Israel									Foreign operations	Total
	Households										
	Housing loans	Other	Private banking	Small- and micro-businesses	Mid-market businesses	Corporations	Institutional entities	Financial management	Other		
	In NIS million										
Interest income, net	1,571	4,377	398	3,878	2,109	3,543	590	(758)	39	250	15,997
Noninterest income	46	1,046	159	931	359	875	181	1,491	41	52	5,181
Total income	1,617	5,423	557	4,809	2,468	4,418	771	733	80	302	21,178
Loan loss expenses (income)	221	649	-	681	160	673	(9)	(12)	-	20	2,383
Total operating and other expenses	379	2,352	104	1,560	459	519	228	300	862	131	6,894
Profit (loss) before taxes	1,017	2,422	453	2,568	1,849	3,226	552	445	(782)	151	11,901
Provision (benefit) for taxes	348	837	156	891	638	1,146	192	(25)	(268)	73	3,988
Net income (loss) attributable to the Bank's shareholders	669	1,585	297	1,677	1,211	2,080	360	(416)[b]	(514)	78	7,027
Balance as at December 31, 2023											
Loans to the public, gross	130,410	29,946	330[a]	66,554	40,038	142,404	8,046	-	-	8,475	426,203
Deposits by the public	-	137,230	32,558	103,573	62,171	93,814	138,478	-	-	-	567,824

	For the year ended December 31, 2022										
	Activity in Israel									Foreign operations[(d)]	Total
	Households										
	Housing loans	Other	Private banking	Small- and micro-businesses	Mid-market businesses	Corporations	Institutional entities	Financial management	Other		
	In NIS million										
Interest income, net	1,365	2,423	206	2,720	1,365	2,430	335	1,964	24	379	13,211
Noninterest income	49	947	148	894	344	700	186	798	849[(c)]	103	5,018
Total income	1,414	3,370	354	3,614	1,709	3,130	521	2,762	873	482	18,229
Loan loss expenses (income)	112	111	-	184	(12)	20	(1)	84	-	-	498
Total operating and other expenses	377	2,307	91	1,626	435	511	254	358	566	310	6,835
Profit before taxes	925	952	263	1,804	1,286	2,599	268	2,320	307	172	10,896
Provision (benefit) for taxes	320	334	93	634	451	907	95	777	(93)	46	3,564
Net income attributable to the Bank's shareholders	605	618	170	1,170	835	1,692	173	1,930	400	116	7,709

Balance as at December 31, 2022											
Loans to the public, gross	119,495	30,683	440[(a)]	65,803	39,473	126,628	759	-	-	6,487	389,768
Deposits by the public	-	128,394	29,612	100,557	70,077	97,741	130,685	-	-	18	557,084

(a) Including outstanding housing loans as at December 31, 2023 in the amount of NIS 158 million as at December 31, 2022 totaling NIS 195 million.
(b) Including the impairment loss from the investment in Valley shares in the amount of approx. NIS 1.1 billion. For more information, please see Note 15.A.
(c) Including income in the amount of NIS 782 million in respect of the Valley merger.
(d) As from April 1, 2022 BLUSA is not consolidated in the Bank's consolidated financial statements due to the merger transaction with Valley.. For more information, please see Note 15.A to the financial statements as at December 31, 2022.

Following are the main changes in the operating results of the regulatory segments:

On October 7, 2023, a lethal attack was waged on the State of Israel, especially on civilians; as a result of the attack, the State of Israel declared the Iron Swords War. The rocket fire, that reached the center of Israel, the evacuation of localities in southern and northern Israel, extensive mobilization of reserves and shutdown of the education system - all led to disruptions in economic activity in the Israeli economy. The War has a significant adverse effect on the Israeli economy and, as a result, on the Bank's performance. The adverse economic potential is substantial, on the back of the possibility of further escalation to other fronts. The severity of the effect depends, inter alia, on the duration of the War and the extent to which further areas in Israel are directly affected by the War. It appears that the areas of activity which suffered the most harm were: Tourism, culture and leisure, agriculture, construction, commerce, etc. Subsequent to the War, a process of civil and security rehabilitation is expected, which will be manifested in the public expenditure, with investments in fixed assets, healthcare services and social services, as well as private consumption.

Following the sharp rise in uncertainty in the economy since the onset of the War, during the reporting period, the loan loss expenses increased substantially; most of the increase is due to commercial loans, which include loans to micro- and small businesses, and loans to mid-market businesses and corporations. Most of the increase is in respect of the collective expense, which increased substantially in the second half of 2023 due to the worsening in the macroeconomic indicators that were taken into account for the calculation of the collective loan loss expense and includes an examination of the risk profile of the various economic sectors, especially those the Bank believes to be more exposed to the War damages.

Households segment

Net income attributable to shareholders in respect of the households segment in the reporting period totaled approx. NIS 2,254 million, compared to NIS 1,223 million in the corresponding period last year. The increase in profit is mainly due to the increase in interest income, net, partially offset by an increase in the loan loss expense.

Net interest income in the reporting period totaled approx. NIS 5,948 million, compared to approx. NIS 3,788 million in the corresponding period last year. The increase stems mainly from an increase in the amount of deposits and from an increase in deposit spreads due to the increase in interest rates, and from growth in housing loans.

Noninterest income for the reporting period totaled approx. NIS 1,092 million, compared to NIS 996 million in the corresponding period last year. Most of the increase stems from other income.

In the reporting period, loan loss expenses were recorded in the amount of approx. NIS 870 million, compared to an expense of approx. NIS 223 million in the corresponding period last year. The increase stems mainly from the collective provision due to macroeconomic adjustments stemming from the consequences of the War and from an increase in the interest environment.

Operating and other expenses in the reporting period totaled approx. NIS 2,731 million, compared to approx. NIS 2,684 million in the corresponding period last year, mainly due to an increase in operating expenses, which was partially offset by a decrease salary expenses due to return-based bonuses.

Outstanding loans to the public as at December 31, 2023 totaled NIS 160.4 billion compared to NIS 150.2 billion as at the end of 2022. The increase stems from growth in the housing loan portfolios.

Balance of deposits by the public as at December 31, 2023 totaled NIS 137.2 billion compared to NIS 128.4 billion at the end of 2022.

Private banking segment

Net income attributable to shareholders in respect of the private banking segment in the reporting period totaled approx. NIS 297 million, compared to NIS 170 million in the corresponding period last year. The increase stems mainly from net interest income.

Net interest income in the reporting period totaled approx. NIS 398 million, compared to approx. NIS 206 million in the corresponding period last year. The increase stems mainly from the increase in deposit amounts and deposit spreads, due to the rise in interest rates.

Micro- and small-business segment

Net income attributable to shareholders in respect of the micro- and small business sector in the reporting period totaled approx. NIS 1,677 million, compared to approx. NIS 1,170 million in the corresponding period last year. The increase stemmed mainly from an increase in net interest income, which was partially offset by an increase in loan loss expenses.

Net interest income in the reporting period totaled approx. NIS 3,878 million, compared to approx. NIS 2,720 million in the corresponding period last year. The increase stems mainly from the increase in deposit spreads, due to the rise in interest rates.

Noninterest income for the reporting period totaled approx. NIS 931 million, compared to approx. NIS 894 million in the corresponding period last year. Most of the increase stems from income from fees and commissions on financing activities.

In the reporting period, loan loss expenses were recorded in the amount of approx. NIS 681 million, compared to an expense of approx. NIS 184 million in the corresponding period last year. The increase stems both from the collective provision due to macroeconomic adjustments stemming from the consequences of the War and from an increase in the interest environment and the specific expense.

The operating and other expenses in the reporting period totaled approx. NIS 1,560 million, compared to approx. NIS 1,626 million in the corresponding period last year, mostly due to a decrease in salary expenses with respect to return-based bonuses.

Outstanding loans to the public as at December 31, 2023 totaled NIS 66.6 billion compared to NIS 65.8 billion as at the end of 2022.

Balance of deposits by the public as at December 31, 2023 totaled NIS 103.6 billion compared to NIS 100.6 billion at the end of 2022.

Mid-market segment

Net income attributable to shareholders in respect of the mid-market segment in the reporting period totaled approx. NIS 1,211 million, compared to NIS 835 million in the corresponding period last year. The increase stemmed mainly from an increase in net interest income, which was partially offset by an increase in loan loss expenses.

Net interest income in the reporting period totaled approx. NIS 2,109 million, compared to approx. NIS 1,365 million in the corresponding period last year. The increase stems mainly from the increase in deposit spreads, due to the rise in interest rates, which was partially offset by a decrease in the deposit amount.

Noninterest income for the reporting period totaled approx. NIS 359 million, compared to approx. NIS 344 million in the corresponding period last year.

In the reporting period, loan loss expenses were recorded in the amount of approx. NIS 160 million, compared to income of approx. NIS 12 million in the corresponding period last year. Most of the increase stems from the specific provision, mainly due to lower collections during the reporting period compared to the corresponding period last year and from the collective provision - due to macroeconomic adjustments arising from the War and interest rate increases.

Operating and other expenses in the reporting period totaled approx. NIS 459 million, compared to approx. NIS 435 million in the corresponding period last year arose mainly from an increase in operating expenses.

Outstanding loans to the public as at December 31, 2023 totaled NIS 40.0 billion compared to NIS 39.5 billion as at the end of 2022.

Balance of deposits by the public as at December 31, 2023 totaled NIS 62.2 billion compared to NIS 70.1 billion at the end of 2022.

Corporate segment

Net income attributable to shareholders in respect of the corporate segment in the reporting period totaled approx. NIS 2,080 million, compared to NIS 1,692 million in the corresponding period last year. The increase stemmed mainly from an increase in net interest income and an increase in income from fees and commissions, which was partially offset by an increase in loan loss expenses.

Net interest income in the reporting period totaled approx. NIS 3,543 million, compared to approx. NIS 2,430 million in the corresponding period last year. The increase stems mainly from growth in credit activity in the construction and real estate sectors and from an increase in deposit spreads, due to the rise in interest rates.

Noninterest income for the reporting period totaled approx. NIS 875 million, compared to approx. NIS 700 million in the corresponding period last year. The increase stems mainly from fees and commissions from financing fees and commissions from handling credit and contracts, in view of the increase in the volume of activity.

In 2023, loan loss expenses were recorded in the amount of approx. NIS 673 million, compared to income of approx. NIS 20 million in the corresponding period last year. The increase stems mainly from the collective provision due to macroeconomic adjustments stemming from the consequences of the War and from an increase in the interest environment.

Operating and other expenses for the reporting period totaled approx. NIS 519 million, compared to NIS 511 million in the corresponding period last year.

Outstanding loans to the public as at December 31, 2023 totaled NIS 142.4 billion compared to NIS 126.6 billion as at the end of 2022. Most of the increase stems from growth in construction and real estate balances.

Balance of deposits by the public as at December 31, 2023 totaled NIS 93.8 billion compared to NIS 97.7 billion at the end of 2022.

Financial management segment

Net loss of the financial management segment attributable to the Bank's shareholders for the reporting period totaled approx. NIS (416) million compared to a net income of approx. NIS 1,930 million in the corresponding period last year. The results of this segment in the current period include the expense for impairment of the investment in associate Valley, which was made in the first quarter of 2023.For more information, please see Note 15.A.

Total income in the reporting period amounted to approx. NIS 733 million, compared to finance income of approx. NIS 2,762 million in the corresponding period last year. The decrease stems from exposure to the increase in interest rates with respect to fixed-interest rate assets (mostly securities and mortgages), the increase in the price of sources in the segment resulting from the higher interest rate and the move from current accounts to deposits, as well as a decrease in income from the CPI due to the CPI's lower rate of increase this year.

It is emphasized that most of the decrease in finance income in this segment is against the increase in finance income in other segments.

Operating and other expenses in the reporting period totaled approx. NIS 300 million, compared to approx. NIS 358 million in the corresponding period last year arose mainly from a decrease in salary expenses with respect to return-based bonuses.

Information by Geographic Region[a]

Main figures by Geographic Region

	Total assets			Loans to the public, net			Deposits by the public		
	December 31			December 31			December 31		
	2023	2022	Change	**2023**	2022	Change	**2023**	2022	Change
	In NIS million		In %	In NIS million		In %	In NIS million		In %
Israel	**722,775**	692,327	4.4	**411,084**	378,337	8.7	**567,824**	557,065	1.9
UK	**8,688**	6,798	27.8	**8,402**	6,445	30.4	**-**	19	(100.0)
Other foreign operations	**34**	41	(17)	**-**	-	-	**-**	-	-
Total	**731,497**	699,166	4.6	**419,486**	384,782	9.0	**567,824**	557,084	1.9

Following is a breakdown of the net income by geographic region

	Net income			
	For the year ended December 31			
	2023	2022	Change	
	In NIS million			In %
Israel	**6,402**	7,454	(1,052)	(14.1)
USA[b]	**-**	56	(56)	(100.0)
UK	**622**	199	423	212.6
Other foreign operations	**3**	-	3	-
Total	**7,027**	7,709	(682)	(8.8)

(a) Classified by office's location.

(b) As from April 1, 2022 BLUSA is not consolidated in the Bank's consolidated financial statements due to the merger transaction with Valley. As of March 31, 2022, these balances were classified as held-for-sale. For more information, please see Note 15.A to the financial statements as at December 31, 2022.

For more information, please see sections "Major Investee Companies", "Credit Risk" and Note 29A.b.

Major Investees[1]

As of the report's publication date, the Leumi Group is mainly active in Israel, through the Bank and subsidiaries which serve as financial services companies. In addition, the Group continues to invest both in financial and non-financial corporations which do not engage in banking.

For information regarding the merger of the subsidiary Bank Leumi USA with Valley on April 1, 2022, see the section "Major Investee Companies" in the Report of the Board of Directors and Management for 2022 and for information regarding a restructuring in Bank Leumi UK (BLUK), please see details later in this section, under "Consolidated Companies Outside Israel".

As of December 31, 2023, the Bank's total investments in investees (including in capital notes) was approx. NIS 15.5 billion, compared with NIS 13.7 billion as at December 31, 2022. The increase in 2023 stems mainly from the following changes: In the first quarter of 2023: Issuance to the Bank of a capital note totaling approx. GBP 701 million by subsidiary Leumi UK Group, which was offset from the impairment of the investment in associate Valley. The contribution of the investees to the Group's net income in 2023 amounted to a loss of approx. NIS 444 million, compared to a profit of approx. NIS 868 million in 2022. The loss is mostly due to the impairment of the Bank's investment in Valley in the first quarter of 2023, as stated above.

For information regarding the investment and contribution of each major Group company to the Group's profit and for more information regarding the impairment of the investment in Valley, please see Note 15.

Consolidated Companies in Israel

The Bank's total investments (including in capital notes) in its Israeli consolidated subsidiaries was NIS 8,560 million as of December 31, 2023, compared with NIS 8,292 million as of December 31, 2022. Their contribution to the Group's net income in 2023 was approx. NIS 170 million, compared with NIS 396 million in 2022. In 2023, the Group's return on investment in the Israeli consolidated companies was 2.1 percent compared with 5.1 percent in 2022.

Leumi Partners Ltd.

Leumi Partners is the Leumi Group's investment and merchant banking arm.

Leumi Partners ended 2023 with a net income of approx. NIS 120 million, derived mainly from investments, fees and commissions, compared to a net income of approx. NIS 350 million in 2022.

Leumi Partners' equity totaled NIS 4,853 million as of December 31, 2023, compared to NIS 4,657 million as of the end of 2022.

On July 19, 2020, the Bank of Israel informed the Bank that regarding the group limit on non-financial investments, the Bank should follow the risk appetite to be set for that purpose, subject to assessment and challenging procedures to be executed by the lines of defense, including the Internal Audit Division and subject to meeting the regulatory non-financial investment limit, in accordance with Section 23A of the Banking Law (Licensing).

Leumi Partners focuses on four main areas of activity:

1. **Managing the Leumi Group's non-financial investment portfolio**
   Leumi Partners initiates, identifies and executes direct and indirect investments in companies, projects and private equity funds.

   The Leumi Group's non-financial investment policy is in line with the Group's risk appetite and the restrictions of the Banking Law (Licensing) and therefore only includes minority interests (up to 20 percent of each means of control, with no controlling interest). The Company focuses on mid-term and long-term investments, according to its policy. The non-financial investment strategy dictates a preference for private companies and high probability of disposal.

[1] For a definition of investees, please see Note 1.B.

During 2023, Leumi Partners made, and committed to make new investments in companies, funds, convertible loans, and mezzanine loans totaling approx. NIS 1.3 billion. The Company's balance of non-financial investments as of December 31, 2023 is approx. NIS 4.7 billion compared to approx. NIS 4.3 Billion as of December 31, 2022. As of December 31, 2023, Leumi Partners has investment commitments totaling approx. NIS 1.5 billion, compared to approx. NIS 1.2 billion as of December 31, 2022.

2. **Underwriting, consulting and management of private and public capital raising in Israel**
Leumi Partners provides a wide range of underwriting and consulting services to companies and interested parties through its subsidiary, Leumi Partners Underwriters Ltd.

In 2023, Leumi Partners Underwriters participated in several public offerings where approx. NIS 11 billion were raised and led 13 public offerings where approx. NIS 12 billion were raised.

3. **Consulting for and management of M&As and capital raising**
The services are provided to Israeli and foreign companies wishing to expand strategically through mergers and acquisitions or to investors or controlling shareholders wishing to sell or reduce their holdings.
The services offered in this field include: assistance in characterizing the client's strategic needs and objectives; characterizing the optimal investment or investor to meet them; identifying targets and investors globally; assisting in contacting the target company; assisting through the negotiation process; deal structuring so as to meet the client's objectives; and support in accessing financing resources for the transaction.

Leumi Partners cooperates with investment houses and other entities in Israel and abroad.

4. **Conducting economic analyses and preparing valuations**
Through its subsidiary Leumi Partners Research, the Company performs economic analyses and valuations mainly for the Leumi Group and for external clients.

Foreign Consolidated Companies (Offices)

The Bank's total investments (including in capital notes) in its foreign offices as at the end of 2023 was NIS 4,209 million, compared with NIS 1,772 million as at the end of 2022. In 2023, the foreign offices' contribution to the Group's shekel net income was NIS 279 million, compared with NIS 163 million in 2022.

For more information regarding the affiliates' contribution to the Group's profit, please see Note 15.

The Bank's Subsidiary in the UK

The Bank's activity in the UK began in 1902, and in 1959 Bank Leumi (UK) PLC (BLUK) was established.

During to the first half of 2023, all the terms and conditions for restructuring, including returning the regulatory license were met, enabling LUK to serve as a lender. To this end, BLUK was merged into LABL, a BLUK subsidiary (hereinafter – "**Leumi UK Group**").

Leumi UK Group provides credit primarily in the fields of real estate, hotels and ABL, only to commercial customers in the UK and Europe, including Israeli customers active in these geographic areas, including investments and development of residential real estate and financing for commercial real estate.

Leumi UK Group's net income in 2023 was approx. GBP 27 million, compared with the amount of approx. GBP 12 million in 2022.

Risk Exposure and Management Thereof

Risk Management at Leumi

The Bank's business activity involves managing financial and non-financial risks. The key financial risks managed by the Bank are as follows: credit risks, which are integral to the Bank's core business, as well as market and liquidity risks. In addition to financial risks, the Bank's activity poses non-financial risks, the management of which is a necessary precondition to meeting the Group's ongoing and long-term goals. These risks include operational risks, such as technology risks, cyber risks, regulatory risk, compliance risk, legal risk, reputational risk, strategic risk, model risk, climate-related risk, conduct risk, and macroeconomic risk.

Leumi's risk strategy management is to maintain the Group's stability and support the achievement of its business objectives. These objectives are achieved while meeting the predefined risk appetite, the policy and the limitations deriving therefrom, which form the boundaries for the Bank's business activity. The risk management framework includes mechanisms for identifying and estimating risks, defining the corporate structure and areas of responsibility for managing risk as well as putting in place adequate control and reporting mechanisms.

The Bank continually upgrades its risk management infrastructure and analyzes the risk outlook, to enable informed decision-making.

Organizational Structure of Leumi Group's Risk Management Function

Leumi's risk management is based on three lines of defense, as required by Proper Conduct of Banking Business Directive No. 310 - "Risk Management".

1. First line of defense – the managements of the business lines, including supportive functions and LeumiTech, bear full responsibility for managing the risks embodied in the products, operations, processes and systems under their purview, and for implementing an adequate control environment over their activities, through processes of identification, measurement, monitoring, control, mitigation and reporting.

2. Second line of defense – The Risk Management Division is an independent function responsible for planning and developing a comprehensive risk management framework for the Bank. The Risk Management Division's main areas of responsibility conform to the requirements of the Proper Conduct of Banking Business Directive No. 310, including: Responsibility for risk management at the Group and Bank levels; creating an up-to-date overall picture of each risk for decision-making purposes; leading the drafting of Leumi's risk policy for all major risks; assisting the Board of Directors in determining the Bank's risk appetite; and leading the process of evaluating the Internal Capital Adequacy Assessment Process (ICAAP), including its various components.

   The second line of defense involves additional functions, such as: the Bank's Chief Legal Counsel - who is responsible for the management of legal risk and the Chief Accountant - who is responsible for financial reporting and SOX.

3. Third line of defense - The Internal Audit Division, which reports directly to the Board of Directors. The Internal Audit Division is responsible for conducting an independent, objective audit and for challenging controls, processes and automated systems in the banking corporation. The audit is usually performed retrospectively on the first and second lines of defense, ensuring implementation of the legal provisions and instructions of management and the Board of Directors.

The Bank's Board of Directors is responsible, inter alia, for developing the overall risk strategy, including: The risk appetite; supervision of the Group's risk management framework; approval of the corporate structure; approval of the risk management policy for each material risk; overseeing and challenging the risk levels to which the Group and the Bank are exposed, while ensuring compliance with the risk appetite and the provisions of the law and regulations.

The Chief Risk Officer, who is a member of the Bank's management and heads the Risk Management Division, is responsible for managing the Group's and Bank's main risks.

Reporting to the Chief Risk Officer are department managers and managers of the following risk management units (second line of defense), which report to the Risk Management Division – including credit risks, market risks, compliance risks, operational risks, and models risks.

The Bank strives to apply a risk management framework at the Group level, which includes corporate governance and control principles that are in line with the provisions of the law and local regulations. A chief risk officer is appointed for each of the main Israeli subsidiaries and the UK office, reporting to the subsidiary's CEO and professionally (dotted line) to the Group's Chief Risk Officer.

Changes in the Risk Environment and their Effect on the Group

The Bank's activity is affected, inter alia, by macroeconomic developments and the business environment. The tightening of financial conditions, as a result of measures taken by the central banks continued into 2023. This, combined with the economic effects of the Russia-Ukraine war and the increase in global geo-political risks, in the Middle East in particular have already resulted in a considerable reduction in economic growth forecasts for 2023 and 2024 by large international entities, such as the OECD.

Leumi's risk profile is examined on a quarterly basis, as part of the risk exposure report reported to the Board of Directors. The risk profile is examined, inter alia, by using a methodology for classifying the severity level of exposures to different risks. The methodology is based on quantifying the effect of various scenarios materializing on the Group's capital, i.e. its stability, and includes "expert assessments" by relevant functions in the Bank.

For changes in the severity of the risk factors, please see the risk factor severity table.

The Internal Capital Adequacy Assessment Process (ICAAP)

The Capital Adequacy Assessment Process (ICAAP) is aimed at calculating the capital required to support the various risks to which the Group is exposed - both in the ordinary course of business and under stress scenarios - in order to ensure that the Group's effective capital exceeds the capital requirements at any given time. As part of the process, the risk appetite and the risk tolerance were examined, and a comprehensive mapping and assessment process was conducted for the risks to which the Group is exposed.

According to the process, the Bank is in possession of adequate capital and liquidity to handle all of the risks identified - both in the ordinary course of business and under extreme stress scenarios.

The products of the process are summarized in the ICAAP paper that is submitted to the Banking Supervision Department each year.

For more information regarding risk exposure and assessment, please see the Risk Management Report as at December 31, 2023.

The Group's Risk Appetite

The Group's risk appetite outlines the boundaries for its business activity, both on an ongoing basis and under stress scenarios. The risk appetite is adjusted to Leumi's strategy and to the boundaries of its current and future business focal points. The risk appetite addresses Leumi's risk identification, measurement, control, management and mitigation practices, which have direct impact on the Group's residual risk profile. The risk appetite boundaries are re-examined each year in the various dedicated frameworks and approved from an overall perspective at the Board of Directors' level as part of the ICAAP process.

The risk appetite paper constitutes a reference point for all risk-specific policy papers, which outline additional risk boundaries and risk management guidelines.

The Group's risk appetite statement covers the scope and types of aggregate risk the Bank is willing to take in order to achieve its business goals. Quantitative and qualitative measures were set, based on forward-looking assumptions which reflect the Group's aggregate risk appetite statements.

Using Stress Testing as Part of Risk Management

Using a uniform stress test is an accepted global practice; it is required under the Basel Committee rules and contributes to understanding the risks which the banking system and a single bank are exposed to. The process strengthens the banking system’s transparency, allows to examine the resilience of banking corporations under adverse market conditions and draw comparisons. The process supports methodology improvements and the understanding of the risk factors by banking corporations as well as by the Banking Supervision Department.

As of 2012, the Bank of Israel’s Banking Supervision Department conducts macroeconomic stress tests for the banking system, based on a uniform scenario. In the framework, the Bank estimates the results of the test using a variety of models and methodologies based on subjective “expert assessments”.

The Banking Supervision Department incorporates the results of the uniform stress scenario as a complementary component of the Supervisory Review and Evaluation Process (SREP), including a quantitative and qualitative analysis. At the same time, the banking corporations are required to integrate the uniform stress test into a single process to assess the capital adequacy (ICAAP).

The Leumi Group also implements a set of internal stress tests, updated on a regular basis, with the aim of assessing key risk focal points, taking into account various developments in the Bank’s environment.

The impact of the most severe stress tests is also examined with respect to the Group's capital planning, in order to ensure the Group’s compliance with all of the regulatory and internal restrictions set for the materialization of the various scenarios.

For more information regarding risk exposure and assessment, please see the Risk Management Report as at December 31, 2023.

Some of the above information constitutes “forward-looking information”. For the meaning and implications of the term, please see under “Forward-Looking Information”.

Credit Risks

Credit provision is a core activity of the Bank and Group and is conducted in a decentralized manner by various business lines.

Credit risk is the Bank's risk of loss as a result of the possibility that a counterparty fails to meet its agreed commitments towards the banking corporation.

Activities which embody credit risk include on-balance sheet and off-balance sheet credit risk, such as: Loans to the public; loans to banks; loans to governments; deposits with banks; investments in bonds and exposures for activity in derivatives.

The Bank applies a comprehensive risk management policy in line with the requirements of Proper Conduct of Banking Business Directive No. 311, "Credit Risk Management", Proper Conduct of Banking Business Directive 311A, "Management of Consumer Credit" and Proper Conduct of Banking Business Directive No. 314, "Sound Credit Risk Assessment and Valuation for Debts", including the accountability of management and the Board of Directors. In addition, the Bank is meticulous about managing risk in compliance with further guidelines and requirements included in the Banking Supervision Department's directives, implementing corporate governance which includes three "lines of defense".

As part of its credit risk management, the Bank monitors the quality of its credit portfolio, including the overall adequacy of its loan loss provision to cover losses embodied in the loan portfolio; the credit portfolio concentration level and activity by main products, such as: credit granted to the construction and real estate sector; housing loans; credit granted to private individuals; housing loans and leveraged credit. In addition, as part of an organizational concept for comprehensive management of credit risk, climate-related and environmental risk and the extent of their impact on the risk profile must be taken into account. The Bank formulated a multi-year plan for the construction and assimilation of processes that will enable the identification, measurement, evaluation, monitoring, reporting and control of these risks, including ways of managing them and reducing their impact on the credit exposures. For more information, please see the Environment chapter in the Bank's Environmental, Social and Governance (ESG) Report for 2023.

As part of the credit risk management, on a regular basis, adjustments are made to the credit risk management and risk appetite, as necessary.

In 2023, there were no material changes in the corporate governance structure related to credit risk.

For more information about regulatory revisions, please see Laws and Regulations Governing the Banking System in the Corporate Governance Report.

Macroeconomic effects and the Iron Swords War

The Bank's activity is affected, among other things, by macroeconomic developments in the local business environment and the slowdown in global economic activity.

In the first nine months of 2023, economic activity in the local economy continued to grow, albeit at a slower pace. The slowdown is reflected, among other things, in a real decrease in the pace of new apartment sales, as well as in the consequences of the increase in the interest on borrowers, with an emphasis on leveraged borrowers and private individuals. There is also a slowdown in Israel's high-tech export activity.

In the last quarter of 2023, there was significant damage to economic activity due to the War, and the growth rate in 2024 is expected to be lower than that expected in the main scenario on the eve of the War .Since the beginning of the War, the moderation of inflation has accelerated, which began as early as the beginning of 2023. However, it is not unlikely that down the road the inflation will also be affected by factors supporting its increase, such as the increase in shipping costs to Israel and an increase in indirect taxes. The degree of volatility of the NIS has increased since the beginning of 2023, and the War initially led to a weakening of the NIS and increased volatility in its rate. As a result, the Bank of Israel has acted from the start of the War to mitigate the volatility in the NIS exchange rate.

The economic sectors whose activities are particularly exposed to the War's damages are: construction, agriculture and the culture and leisure sectors (tourism, restaurants, entertainment, etc.), as well as some industrial and commercial sectors, depending on their location.

The War and its immediate and long-term effects on economic activity and Israel's fiscal situation also have an effect on Israel's credit rating.

For more information, please see the section entitled "Macroeconomic Risk" under "Other Risks" later in this report.

Due to the high rate of uncertainty regarding the War's impact, it is impossible to accurately estimate the extent of its expected effect on the Bank's loan portfolio due to the War's continuation and possible escalation. In view of the increase in the risk level, emphases were honed in relation to credit and in the various business lines.

Loan loss expenses

On November 9, 2023, the Banking Supervision Department published a circular with emphases to the Banking Supervision Department with respect to reporting to the public with respect to the third quarter. In this circular, the Banking Supervision Department clarified that when calculating the current expected credit losses for the third quarter reports, the expected impact of the Iron Swords War should be included as close as possible to the report publication date, and accordingly increase the amounts included in the loan loss provision. This is in order to ensure that the loan loss provisions will be sufficient to cover the updated estimate of the current expected credit losses from the banking corporation's loans portfolio. The Bank's loan loss provision reflects the Bank's estimates. The provision is an estimate based on judgment, which was applied during the reporting period in a changing environment characterized by uncertainty. In order to estimate the current expected credit losses, the Bank consistently takes into account the directives of the Banking Supervision Department in its forecasts, scenarios, assumptions and estimates pertaining to the possible consequences of the War.

The estimation process, which was adapted to forecasts relevant to the War conditions, includes the Bank's expected collective loss. In this context, the Bank relies on assessing the risk profile of the various economic sectors, especially economic sectors the Bank believes to be more exposed to the War, using measurement tools at its disposal, such as: the amount of write-offs, the risk profile of the economic sector, debt period, debt classification, risk appetite, macroeconomic models for estimating credit losses reflecting the effects of changes in forecasts for the main economic parameters in the coming year (such as: forecasts for growth, private consumption, foreign exchange rates, unemployment rate in the economy, and interest rate).A further worsening of any of these criteria may bring about an increase in the loan loss provision.

Due to the rapid changes in the financial and economy-wide conditions, in the fourth quarter of 2023 and until shortly before the publication date of the report, the Bank examined the key indicators used in the provision process and revised them accordingly, as mentioned above.

Loan loss expenses increased, amounting to NIS 668 million in the fourth quarter, of which NIS 476 million was for the collective expense, which increased in the quarter due to the worsening of various macroeconomic parameters and indicators, as detailed below.

In order to test the sensitivity of the collective provision to hypothetical changes at the risk level of economic sectors and in terms of the estimate's underlying macroeconomic parameters, the Bank assessed the effect of a uniform change in the macroeconomic parameters (worsening and improvement by a uniform rate of 1%) and a revision of an expert assessment of the change in the risk profile of the economic sectors compared to the base scenario underlying the provision, without taking into account effects of offsetting or a correlation between the macroeconomic variables. The key macroeconomic parameters for which the base scenario was altered are, among others, the GDP, the exchange rate, the Bank of Israel's interest rate, the unemployment rate and private consumption.

The worsening will reflect an addition to the collective loan loss provision in the amount of approx. NIS 570 million in the fourth quarter of 2023.A relief will lead to a decrease of approx. NIS 530 million in the collective loan loss provision in the fourth quarter of 2023 compared to the base scenario.

Some of the above information constitutes "forward-looking information". For the meaning and implications of the term, please see under "Forward-Looking Information".

Reliefs and changes in credit terms and conditions as part of coping with the War's ramifications

The Bank has adopted the Bank of Israel Outline and is implementing the guidelines determined by the Banking Supervision Department and other regulators.

For more information on all the relevant publications of the Bank of Israel, please see the section entitled "Laws and Regulations Governing the Banking System" under "Regulatory measures following the Iron Swords War", in the Corporate Governance Report.

The Bank is also implementing additional reliefs for its customers with the aim of making it easier for them to deal with the consequences of the War.

For information regarding the reliefs given by the Bank and details of the expected quantitative effect in respect of the reliefs, until shortly before to the report publication date, please see under "Main Changes in the Reporting Year - The Iron Swords War" in the Report of the Board of Directors and Management.

Credit risk and non-performing assets

	December 31, 2023			
	Commercial	For housing	Private individuals - other	Total
	In NIS million			
Credit risk in credit performance rating[a]:				
On-balance-sheet credit risk	276,981	125,825	27,195	430,001
Off-balance-sheet credit risk[c]	143,904	4,993	17,326	166,223
Overall credit risk in credit performance rating	420,885	130,818	44,521	596,224
Non-investment grade credit risk				
a. Non-troubled	570	4,087	1,579	6,236
b. Total troubled	5,809	712	1,053	7,574
Troubled performing	3,230	24	710	3,964
Troubled non-performing	2,579	688	343	3,610
Total on-balance-sheet credit risk	6,379	4,799	2,632	13,810
Off-balance-sheet credit risk[c]	956	1	170	1,127
Total non-investment grade credit risk	7,335	4,800	2,802	14,937
Of which: Performing debts, in arrears of 90 days or more	69	-	80	149
Total overall credit risk incl. of the public[b]	428,220	135,618	47,323	611,161
More information on non-performing assets				
a. Non-performing debts	2,579	688	343	3,610
b. Assets received in respect of settled loan	10	-	-	10
Total non-performing assets of the public	2,589	688	343	3,620
Percentage of non-performing loans to the public (NPL) out of total loans to the public				0.85%

(a) Credit risk whose credit rating at the reporting date matches the credit rating for granting new credit in accordance with the Bank's policy.
(b) On-balance sheet and off-balance sheet credit risk, including for derivatives. Including debts, bonds, securities borrowed or purchased under purchase agreements.
(c) Credit risk for off-balance sheet financial instruments as calculated for the purpose of per borrower credit indebtedness limitations.

Credit risk and non-performing assets (cont.)

	December 31, 2022			
	Commercial	For housing	Private individuals - other	Total
	In NIS million			
Credit risk in credit performance rating[a]:				
On-balance-sheet credit risk	251,751	118,050	28,305	398,106
Off-balance-sheet credit risk[c]	127,164	5,140	13,089	145,393
Overall credit risk in credit performance rating	378,915	123,190	41,394	543,499
Non-investment grade credit risk				
a. Non-troubled	1,295	1,044	1,394	3,733
b. Total troubled	4,629	626	739	5,994
Troubled performing	3,502	67	517	4,086
Troubled non-performing	1,127	559	222	1,908
Total on-balance-sheet credit risk	5,924	1,670	2,133	9,727
Off-balance-sheet credit risk[c]	1,285	-	116	1,401
Total non-investment grade credit risk	7,209	1,670	2,249	11,128
Of which: Performing debts, in arrears of 90 days or more	36	-	76	112
Total overall credit risk incl. of the public[b]	386,124	124,860	43,643	554,627

More information on non-performing assets				
a. Non-performing debts	1,127	559	222	1,908
b. Assets received in respect of settled loan	8	-	-	8
Total non-performing assets of the public	1,135	559	222	1,916
Percentage of non-performing loans to the public (NPL) out of total loans to the public				0.49%

(a) Credit risk whose credit rating at the reporting date matches the credit rating for granting new credit in accordance with the Bank's policy.
(b) On-balance sheet and off-balance sheet credit risk, including for derivatives. Including debts, bonds, securities borrowed or purchased under purchase agreements.
(c) Credit risk for off-balance sheet financial instruments as calculated for the purpose of per borrower credit indebtedness limitations.

Change in Non-Performing Loans to the Public

Change in non-performing loans to the public[1]

	For the year ended December 31					
	2023			2022[(a)]		
	Com-mercial	Private indivi-duals[(c)]	Total	Com-mercial	Private indivi-duals[(c)]	Total
	In NIS million					
Outstanding balance of non-performing debts at the beginning of the year	**1,127**	**781**	**1,908**	2,047	225	2,272
Effect of first-time application of rules for identification and classification of troubled debts[(b)]	**-**	**-**	**-**	21	583	604
Outstanding balance of non-performing debts at the beginning of the year	**1,127**	**781**	**1,908**	2,068	808	2,876
Loans classified as non-performing debts during the period	**2,249**	**1,125**	**3,374**	711	446	1,157
Debts reclassified as performing	**(177)**	**(554)**	**(731)**	(834)	(243)	(1,077)
Written-off non-performing debts	**(267)**	**(174)**	**(441)**	(393)	(86)	(479)
Repaid non-performing debts	**(347)**	**(147)**	**(494)**	(425)	(144)	(569)
Other	**(6)**	**-**	**(6)**	-	-	-
Outstanding balance of non-performing debts at the end of the year	**2,579**	**1,031**	**3,610**	1,127	781	1,908

[1]Of which: Change in the restructuring of non-performing credit

	For the year ended December 31					
	2023			2022(a)		
	Commercial	Private individuals(c)	Total	Commercial	Private individuals(c)	Total
	In NIS million					
Outstanding balance of non-performing debts under restructuring at the beginning of the year	**617**	**284**	**901**	1,570	185	1,755
Effect of first-time application of rules for identification and classification of troubled debts(b)	**-**	**-**	**-**	1	94	95
Outstanding balance of non-performing debts under restructuring at the beginning of the year	**617**	**284**	**901**	1,571	279	1,850
Restructuring of non-performing debts carried out during the period	**600**	**525**	**1,125**	215	337	552
Restructured debt reclassified as performing	**(184)**	**(230)**	**(414)**	(672)	(167)	(839)
Written-off non-performing debts under restructuring	**(101)**	**(145)**	**(246)**	(146)	(62)	(208)
Repaid non-performing debts under restructuring	**(219)**	**(39)**	**(258)**	(351)	(103)	(454)
Outstanding balance of non-performing debts under restructuring at the end of the year	**713**	**395**	**1,108**	617	284	901

(a) The figures do not include the balances of Bank Leumi USA, which from April 1, 2022 is not consolidated in the Bank's consolidated financial statements due to the merger transaction with Valley. For more information, please see Note 15.A to the financial statements as at December 31, 2022.

(b) Cumulative effect in respect of first-time application of US GAAP's ASU 2016-13, "Financial Instruments - Current Expected Credit Losses". Please see Note 1.H.

(c) Including outstanding debts for private individuals - other and including housing loans.

Disclosure, Valuation, Classification and Rules for Loan Loss Provision

For loan loss expenses and classification of troubled debts, the Bank applies the Banking Supervision Department's directives, which became effective on January 1, 2022 and adopt US GAAP for loan loss expenses (CECL) as well as additional specific directives regarding housing loans and additional revised directives of the same date on debt classification. According to the revised methodology, the loan loss provision is comprised both of a quantitative element and a qualitative element. As a rule, the Bank's estimates are based on past losses after adjustment due to credit characteristics, adjustment for current economic conditions and reasonable future forecasts. Depending on the credit portfolio, the quantitative components are based, inter alia, on net charge-offs, probability of default and loss given default. These estimates take into account several risk and economic characteristics, such as past losses, the risk groups' risk profile, debt classification, composition of the credit portfolio, state of collateral, risk appetite, current economic and expected conditions, etc. The Bank's estimates include assessments which reflect, inter alia, conditions of uncertainty and may naturally change from time to time. For more information on the application of the new accounting rules, please see Note 1.X.1 to the financial statements as of December 31, 2022.

Following is a breakdown of qualitative analysis indicators of loans to the public, expenses and loan loss provision

	December 31							
	2023				2022[a]			
	Commercial	Housing	Private individuals - other	Total	Commercial	Housing	Private individuals - other	Total
	In %							
Analysis of quality of loans to the public								
Percentage of non-performing loans (NPL) to the public out of outstanding loans to the public	**0.97**	**0.53**	**1.15**	**0.85**	0.47	0.47	0.73	0.49
Percentage of non-performing loans to the public or in arrears of 90 days or more out of outstanding loans to the public	**1.00**	**0.53**	**1.42**	**0.88**	0.49	0.47	0.98	0.52
Percentage of troubled loans to the public out of outstanding loans to the public	**2.19**	**0.55**	**3.53**	**1.78**	1.93	0.52	2.43	1.54
Percentage of non-investment grade credit risk out of outstanding loans to the public	**2.40**	**3.67**	**8.83**	**3.24**	2.47	1.39	7.01	2.50
Analysis of expenses for loan losses for the reporting period								
Percentage of loan loss expenses out of the average outstanding balance of loans to the public	**0.60**	**0.18**	**2.14**	**0.58[b]**	0.10	0.10	0.38	0.13[b]
Percentage of net write-offs for loans to the public out of average outstanding loans to the public	**0.04**	**-[d]**	**1.40**	**0.13**	0.03	0.02	0.44	0.06
Analysis of the loan loss provision in respect of loans to the public								
Percentage of balance of the loan loss provision for loans to the public out of outstanding loans to the public	**1.95**	**0.48**	**3.08**	**1.58**	1.61	0.35	2.34	1.28
Percentage of balance of the loan loss provision for loans to the public out of non-performing outstanding loans to the public	**200.70**	**90.41**	**267.93**	**186.07**	342.24	74.78	320.27	261.32
Percentage of balance of the loan loss provision for loans to the public out of outstanding non-performing loans to the public or in arrears of 90 days or more	**195.47**	**90.41**	**217.26**	**178.69**	331.64	74.78	238.59	246.83
Ratio of outstanding loan loss provision for loans to the public out of the net charge-offs for loans to the public[c]	**53.36**	**103.67**	**2.17**	**12.75**	49.41	24.53	5.51	22.54

Please see comments below.

Comments:

(a) Net of the results of Bank Leumi USA, which as from April 1, 2022 is not consolidated in the Bank's consolidated financial statements due to the merger transaction with Valley. For more information, please see Note 15.A to the financial statements as at December 31, 2022.

(b) Including loan loss expenses for loans to the public, banks, governments and bonds.

(c) Not presented as percentage.

(d) Rate of less than 0.01 percent.

Following the sharp rise in uncertainty in the economy since the outbreak of the War, there was a deterioration in most of the abovementioned indicators, and loan loss expenses increased substantially. Most of the increase is due to a collective expense, which increased due to the worsening of macroeconomic parameters and various indicators. Accordingly, there was a year-on-year increase in the expense rate and the rate of balance for loan losses from the average balance across all segments.

The Bank continues to closely and meticulously follow the developments in the state of the economy, and their possible implications for credit risks.

For more information and details regarding macroeconomic effects, please see the section Macroeconomic effects at the beginning of this chapter.

Credit Concentration

Concentration risk is defined as a single exposure or group of exposures having a common attribute, which creates the potential to cause significant losses. Concentration risk is mainly managed by setting limitations and monitoring and controlling compliance therewith.

The sources of concentration relevant to the Bank's loan portfolio are as follows: Economic sectors, single borrowers and groups of borrowers.

The concentration risk is managed by ensuring compliance with all regulatory restrictions, as well as by defining and regularly monitoring compliance with all internal restrictions (which are mostly more stringent than regulatory ones).

Credit portfolio diversification among various economic sectors

To diversify the risk embodied in a high concentration in one sector, the Bank's credit portfolio is split between the various economic sectors. In relatively low risk economic sectors, we aim to reach a higher share than our share of the banking system.

The Bank's credit policy on various operating segments and economic sectors changes from time to time in accordance with the business environment, the Bank's business focus and risk appetite, as well as the Bank of Israel's general and specific directives.

Total Credit Risk by Economic Sector

	December 31, 2023						
					Loan losses[c]		
	Overall credit risk[a]	Of which: credit performance rating[e]	Of which: Troubled credit risk[d]	Of which: Non-performing credit risk	Loan loss expenses (income)	Charge-offs, net	Balance of loan loss provision
	In NIS million						
In respect of borrower activity in Israel - public - commercial							
Industry	35,530	34,515	912	174	48	(41)	(514)
Construction & real estate - construction[f]	120,160	118,420	1,479	1,113	708	62	(1,697)
Construction and real estate - real estate activity	51,813	51,213	412	149	152	(13)	(1,039)
Commercial[g]	40,570	39,763	775	282	303	54	(749)
Financial services	54,350	54,276	73	40	29	(1)	(250)
Agriculture[g]	2,555	2,372	159	25	17	-	(158)
Hotels, accommodation and food services[g]	4,496	4,338	97	19	11	(2)	(56)
Other industries	52,381	51,164	1,161	222	230	49	(1,053)
Commercial - total	361,855	356,061	5,068	2,024	1,498	108	(5,516)
Private individuals – housing loans	135,561	130,761	713	688	221	6	(634)
Private individuals - Other	47,308	44,507	1,094	343	649	424	(957)
Total loans to the public - activity in Israel	544,724	531,329	6,875	3,055	2,368	538	(7,107)
Banks and governments - in Israel	100,194	100,194	-	-	(1)	-	(2)
Total activity in Israel	644,918	631,523	6,875	3,055	2,367	538	(7,109)
For borrowers activity outside Israel							
Total, public – activity outside Israel	66,437	64,895	1,537	728	42	(11)	(358)
Foreign banks and governments	68,887	68,887	-	-	(26)	-	(14)
Total activity outside Israel	135,324	133,782	1,537	728	16	(11)	(372)
Total activity in and outside Israel	780,242	765,305	8,412	3,783	2,383	527	(7,481)

(a) On-balance sheet credit risk and off-balance sheet credit risk, as revised in the Reporting to the Public Directives in a circular dated July 24, 2022 following the publication of Directive 203A (for further details, see under Capital and Capital Adequacy), including in respect of derivatives. Including debts,[b] bonds, securities borrowed or purchased under reverse repurchase agreements, credit risk for derivatives and credit risk embodied in off-balance-sheet financial instruments, as calculated for the purpose of per-borrower indebtedness limitations in the amounts of NIS 435,814, 155,133, 3,053, 41,957 and 144,285 million, respectively.
(b) Loans to the public, loans to governments, deposits with banks (excluding deposits with the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(c) Including for off-balance-sheet credit instruments (presented in the balance sheet under “other liabilities”).
(d) On-balance sheet credit risk and off-balance-sheet credit risk that is non-performing, substandard or special mention.
(e) Credit risk whose credit rating at the reporting date matches the credit rating for granting new credit in accordance with the Bank's policy.
(f) Including housing loans extended to certain purchasing groups currently in the process of construction.
(g) The Bank believes that these industries are particularly exposed to the damage from the War.

Total Credit Risk by Economic Sector (cont.)

	December 31, 2022						
					Loan losses[c]		
	Overall credit risk[a]	Of which: credit performance rating[e]	Of which: Troubled credit risk[d]	Of which: Non-performing credit risk	Loan loss expenses (income)	Charge-offs, net	Balance of loan loss provision
	In NIS million						
In respect of borrower activity in Israel - public - commercial							
Industry	35,409	34,410	903	143	106	(24)	(471)
Construction & real estate - construction[f]	102,609	101,088	1,259	154	217	(2)	(1,041)
Construction and real estate - real estate activity	45,236	45,000	151	67	(188)	(122)	(884)
Commerce	39,513	38,946	545	128	148	51	(501)
Financial services	45,990	45,916	73	54	64	(15)	(219)
Other industries	57,579	55,919	1,082	435	(83)	54	(1,056)
Commercial - total	326,336	321,279	4,013	981	264	(58)	(4,172)
Private individuals - housing loans	124,827	123,158	626	559	112	17	(419)
Private individuals - Other	43,572	41,326	768	222	111	129	(732)
Total loans to the public - activity in Israel	494,735	485,763	5,407	1,762	487	88	(5,323)
Banks and governments – in Israel	35,329	35,329	-	-	-	-	(3)
Total activity in Israel	530,064	521,092	5,407	1,762	487	88	(5,326)
For borrowers activity outside Israel							
Total, public - activity outside Israel	59,892	57,736	1,423	300	(11)[g]	176[g]	(260)
Foreign banks and governments	53,523	53,523	-	-	22	-	(39)
Total activity outside Israel	113,415	111,259	1,423	300	11	176	(299)
Total activity in and outside Israel	643,479	632,351	6,830	2,062	498	264	(5,625)

(a) On-balance sheet credit risk and off-balance sheet credit risk, as revised in the Reporting to the Public Directives in a circular dated July 24, 2022 following the publication of Directive 203A (for further details, please see under Capital and Capital Adequacy), including in respect of derivatives. Including debts,[b] bonds, securities borrowed or purchased under reverse repurchase agreements, assets for derivatives and credit risk embodied in off-balance-sheet financial instruments, as calculated for the purpose of per-borrower indebtedness limitations in the amounts of NIS 397,991, 78,597, 3,034, 38,804 and 125,053 million, respectively.

(b) Loans to the public, loans to governments, deposits with banks (excluding deposits with the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.

(c) Including for off-balance-sheet credit instruments (presented in the balance sheet under “other liabilities”).

(d) On-balance sheet credit risk and off-balance-sheet credit risk that is non-performing, substandard or special mention.

(e) Credit risk whose credit rating at the reporting date matches the credit rating for granting new credit in accordance with the Bank's policy.

(f) Including housing loans extended to certain purchasing groups currently in the process of construction.

(g) Regarding the results without Bank Leumi USA, loan loss income from total foreign operations - public amounted to approx. NIS 25 million and net charge-offs amounted to approx. NIS 136 million.

Risks to the construction and real estate industries

Activity and risk boundaries in the construction and real estate industry

The construction and real estate sector is an area of activity to which the Bank has a significant credit exposure. As with other economic sectors, the bank's credit policy outlines internal methodologies and criteria for financing transactions in each of the real estate industry's sub-industries.

A significant part of the Bank's activity in the real estate credit domain is concentrated in a dedicated function specializing in serving customers in this area. The Construction and Real Estate Department finances some of the most extensive and/or complex transactions in this field, leveraging its credit officers' expertise and practical experience.

A significant portion of construction and infrastructure loans are extended under the construction loan model, which is characterized by periodic assessment and close monitoring of relevant criteria (such as: Sales, construction progress, staying within budget, etc.). This is done by relying in part on certified outsourced construction supervisors.

Credit granted to the real estate sector is in line with the Bank's risk appetite, in accordance with strict underwriting, a stringent financing and supervision method, property collateral and adequate pricing.

The Bank closely monitors the real estate credit portfolio, while following macroeconomic trends and the development of the segment's risk characteristics.

Leumi continues to focus on the housing segment and on selected, financially resilient, customers. The Bank is careful to maintain geographical diversification of the projects, according to demand and macroeconomic forecasts.

The Bank insures the guarantees portfolio under the Sales Law (Apartments), part of the financial loan portfolio for the financing of land, as well as part of the performance and formalities guarantee portfolio associated with the construction and real estate sectors. On December 27, 2021, the Bank of Israel revised Proper Conduct of Banking Business Directive No. 315, which extends the relief provided by the temporary orders to the real estate and construction industry in the banking system, as follows:

- The exposure restriction to the real estate and construction industry was extended from 20 percent to 22 percent of the loan portfolio (excluding national infrastructure).
- The exposure restriction to the real estate and construction industry (including national infrastructure) was extended from 24 percent to 26 percent of the loan portfolio.

The reliefs will be in effect for a period of up to 24 months as of December 31, 2025, provided that the rate of indebtedness shall not exceed the higher of: the rate as at December 31, 2025 or the rate of the industry-specific restriction prior to the relief.

It was determined that credit for which eligible credit insurance was provided would be classified according to the insuring industry. Such that in order to measure the industry limitation, credit for real estate and construction covered by eligible credit insurance will be deducted from the indebtedness of the real estate and construction industry.

As of December 31, 2023, the Bank complies with the regulatory limitation pertaining to the concentration ratio. In addition, the Bank set internal limitations that are in line with the Bank's assessment of the risk in the various sub-industries. Nevertheless, considering the significant credit needs in the sector on the one hand and the regulatory limitation on the other, the Bank is working on implementing a plan to reduce the concentration ratio in the sector.

Some of the above information constitutes "forward-looking information". For the meaning and implications of the term, please see under "Forward-Looking Information".

Macroeconomic effects and the Iron Swords War

After a significant surge in demand for housing purchases in the period of exit from the coronavirus crisis, starting from the second half of 2022 and thereafter, there has been a significant weakening in demand, on the back of a significant deterioration in the macroeconomic environment, a rapid rise in inflation and in interest rates, as well as the slowdown in growth.

At its beginning, the Iron Swords War led to a further weakening in demand in the housing market as a result of the increased uncertainty in the economy and the damage to the confidence of consumers and investors. In recent months, however, there has been a gradual recovery in terms of demand and number of transactions. According to the Bank's estimates, demand is expected to continue to recover gradually in the coming quarters, along with the recovery of the economy from the damages of the War, the process of reducing the Bank of Israel interest rate (that began in January 2024) and against the backdrop of continued high population growth.

On the supply side, on the eve of the Iron Swords War, the number of finished apartments continued to be relatively low for the yearly ongoing housing needs of the economy, while housing starts remained relatively high compared to their levels during most of the last decade. The War caused considerable damage to residential construction activity (due to availability of workers and raw materials, accessibility to construction sites adjacent to conflict areas), which is expected to be reflected in a decrease in both housing completions and in housing starts.

On the eve of the War, there was a moderate decrease in apartment prices, led by the prices of new apartments on the "free market" (i.e. excluding "Apartment at a Discount" transactions).

The Bank estimates that, in the coming quarters, that trend is expected to continue, impacted by the weakness in demand. However, looking forward, a renewed increase in apartment prices is expected. The demand is expected to recover from the War faster than the supply (as is reflected in residential construction activity).

The Bank is regularly monitoring the real estate portfolio and the development of the segment's risk characteristics and is also closely monitoring the effects of the War, rise in interest rates and slowdown in demand for housing on real estate companies, and is closely examining the effect of the macroeconomic situation on the credit portfolio.

In the commercial real estate domain, as of the eve of the War, there was a slowdown in retail sectors, due to the deterioration in the macro environment (the damage from inflation and rising interest rates on the public's purchasing power, along with the increasing economic uncertainty and the weakening consumer sentiment), and continued expansion in the share of online commerce. The War may cause a further weakening of the retail commerce sectors' activity and, as a result, in the demand for commercial space given the damage to consumer trust and to growth. These processes may impede the growth of shopping centers' activity in the coming year. Most of the adverse effect may be felt in large shopping centers, while neighborhood shopping centers may continue to fare better.

In the office space sector, since the second half of 2022, a slowdown in market activity is being felt, including a substantial decrease in rental prices in Tel Aviv and a decline in occupancy rates in some of Tel Aviv's suburbs. The Bank estimates that the slowdown in demand for office space is expected to continue in the coming year, in light of the effects of the War on economic growth as well as the slowdown in the high-tech service industry. The slowdown in demand alongside an expected substantial growth in the supply of new office space (especially in the suburbs of Tel Aviv and Jerusalem) are factors that are expected to put pressure on prices and occupancy rates in the coming year and even result in their decrease.

Due to the War, and in order to reflect the uncertainty regarding its impact on the construction and real estate sectors in the second half of 2023, the loan loss expenses in the construction and real estate sectors increased, mostly due to a collective expense.

It is clarified that the uncertainty regarding the trajectory of the War's development and its ramifications is still high, such that the provision may change - increase or decrease - in the future in accordance with the developments.

In view of the aforementioned, emphases were sharpened in relation to credit and in the various business lines.

Some of the above information constitutes "forward-looking information". For the meaning and implications of the term, please see under "Forward-Looking Information".

Development of overall credit risk for the construction and real estate industry (in and outside Israel)

	December 31		Change compared to December 31, 2022	
	2023	2022		
	In NIS million		In NIS million	In %
On-balance-sheet credit risk	**119,714**	100,500	19,214	19.1
Guarantees for apartment buyers[(a)]	**9,915**	9,767	148	1.5
Other off balance sheet credit risk[(a)]	**55,023**	47,127	7,896	16.8
Total overall credit risk	**184,652**	157,394	27,258	17.3

(a) In credit risk terms.

Following are the details on overall credit risk in the real estate and construction sector in Israel, by LTV and absorption capacity - the Bank

	December 31, 2023			
	Overall credit risk(a)			
	Land	Housing real estate under construction	Finished real estate properties	Total
	In NIS million			
LTV ratio(b)(e)				
Up to 45%	**1,267**		**8,831**	**10,098**
More than 45% to 65%	**6,384**		**16,156**	**22,540**
More than 65% to 80%	**22,668**		**16,350**	**39,018**
More than 80%	**8,950(d)**		**5,771**	**14,721**
Absorption capacity(c)				
Up to 25%		**799**		**799**
More than 25% and up to 50%		**10,472**		**10,472**
More than 50% and up to 75%		**4,824**		**4,824**
More than 75%		**14,554**		**14,554**
Project starts		**10,203**		**10,203**
Other(f)				**44,744**
Total credit risk for construction and real estate in Israel				**171,973**

	December 31, 2022			
	Overall credit risk(a)			
	Land	Housing real estate under construction	Finished real estate properties	Total
	In NIS million			
LTV ratio(b)(e)				
Up to 45%	1,378		10,848	12,226
More than 45% to 65%	4,523		12,018	16,541
More than 65% to 80%	12,755		12,041	24,795
More than 80%	14,224(d)		5,598	19,822
Absorption capacity(c)				
Up to 25%		883		883
More than 25% and up to 50%		6,959		6,959
More than 50% and up to 75%		4,346		4,346
More than 75%		13,011		13,011
Project starts		6,278		6,278
Other(f)				42,984
Total credit risk for construction and real estate in Israel				147,845

(a) On-balance sheet credit risk and off-balance-sheet credit risk are stated before the effect of loan loss provision and the effect of permitted collateral for borrower indebtedness.
(b) LTV rate - the ratio between the balance of total credit risk as of the reporting date and the value of the real estate security guaranteeing the credit risk as of the reporting date.
(c) Absorption capacity – an indicator reflecting the maximum rate of erosion of apartment inventory prices such that it provides adequate coverage to the project's costs, taking into account own capital invested and presale.
(d) Most of the outstanding balance is in respect of credit that is also backed by non-land collateral and/or another repayment source.
(e) Starting from the financial statements for 2022, the Bank is implementing the revision of the Bank of Israel circular on the subject of credit risk, with reference to the calculation of the financing rates of land. For further details, please see Regulatory and other changes in measuring the capital requirements.
(f) Other credit refers to all credit that does not meet the definition above and includes, among other things, credit provided against collateral that is not real estate and that is non-residential real estate under construction and real estate under construction that is not available for sale.

Following is the composition of credit secured by real estate properties in Israel (in NIS million) - the Bank

	December 31	
	2023	2022
	Overall credit risk[(a)]	
	In NIS million	
Housing	**86,065**	69,002
Office space	**23,253**	20,803
Industry	**7,993**	6,542
Commerce and services	**25,146**	23,200
Total credit secured by real estate properties in Israel	**142,457**	119,547

(a) On-balance sheet credit risk and off-balance-sheet credit risk are stated before the effect of loan loss provision and the effect of permitted collateral for borrower indebtedness.

Analysis of total credit risk in the construction and real estate sectors (in Israel and abroad)

	December 31		
	2023	2022	
	In NIS million		Change in %
Credit risk in credit performance rating			
Non-troubled Credit Risk	**182,080**	155,309	17.2
Non-investment grade credit risk			
Non-troubled	**450**	407	10.6
Troubled performing	**744**	1,363	(45.4)
Non-performing	**1,378**	315	337.5
Total non-investment grade credit risk	**2,572**	2,085	23.4
Total	**184,652**	157,394	17.3

Borrower groups[1]

The Bank conducts orderly monitoring processes to ensure it complies with the restrictions imposed by Proper Conduct of Banking Business Directive No. 313, “Restrictions on Indebtedness of a Borrower or Group of Borrowers”.

As at December 31, 2023, the Bank complies with these Directive’s restrictions.

In accordance with the policy for the adoption of accepted international standards, the Banking Supervision Department is adopting the Basel Committee provisions regarding supervision of large-scale exposures. In this context, the Banking Supervision Department published a draft revision of Proper Conduct of Banking Business Directive No. 313, “Limitations on the Indebtedness of a Borrower and of a Group of Borrowers”. In accordance with this draft, new definitions will be established for a borrower / borrower group, and also adjustments were made to measure the exposure. In accordance with the Banking Supervision Department’s requirement, the Bank conducted a quantitative survey, which was reported to the Banking Supervision Department.

No effective date has yet been set for the update.

1 A group of borrowers are all of the following together: the borrower, a person controlling it and all those controlled by them. If a corporation is controlled by more than one person, it is necessary to include in the same group of borrowers the controlling parties for which the controlled corporation is material (such as from an equity standpoint), including the corporation or any other entity under their control. An investee which is material to a holder that is not a controlling shareholder, and any entity under their control. Borrowers that are associated with the investee in such a manner that harming the financial stability of any one of them could affect the financial stability of the other or that the same factors could affect the financial stability of both.

Below are additional data regarding the overall credit

Following is a breakdown of total loans to the public and off-balance-sheet credit risk by individual borrowers' loan amount

Maximum credit in NIS thousands		December 31					
		2023			2022		
		% of total no. of borrowers	% of total on-balance sheet credit	% of total off-balance-sheet credit	% of total no. of borrowers	% of total on-balance sheet credit	% of total off-balance-sheet credit
From	To	In %					
-	80	**72.1**	**2.4**	**8.1**	73.6	2.8	7.6
80	600	**20.1**	**13.7**	**6.1**	19.2	15.1	5.1
600	1,200	**4.7**	**14.3**	**2.6**	4.4	14.2	2.8
1,200	2,000	**1.9**	**9.4**	**2.4**	1.7	9.1	2.6
2,000	8,000	**0.9**	**8.7**	**3.9**	0.8	8.9	4.1
8,000	20,000	**0.1**	**5.3**	**3.5**	0.1	5.8	3.9
20,000	40,000	**0.07**	**5.2**	**3.9**	0.06	5.5	4.3
40,000	200,000	**0.08**	**17.1**	**17.7**	0.07	16.7	18.2
200,000	800,000	**0.02**[(a)]	**14.4**	**23.9**	0.02[(a)]	13.6	22.1
Over 800,000		**-**[(b)]	**9.5**	**27.9**	-[(b)]	8.3	29.3
Total		**100.0**	**100.0**	**100.0**	100.0	100.0	100.0

(a) In 2023 - 277 borrowers and in 2022 - 240 borrowers.
(b) In 2023 - 51 borrowers and in 2022 - 46 borrowers (in percentages - less than 0.01).

For more information regarding credit granting by size - please see Note 30.C.

Following is the credit risk by size of credit totaling more than NIS 800 million extended to a borrower

Maximum credit in NIS millions		December 31					
		2023			2022		
		No. of borrowers	On-balance-sheet credit	Off-balance-sheet credit risk	No. of borrowers	On-balance-sheet credit	Off-balance-sheet credit risk
From	To		In NIS million			In NIS million	
800	1,200	**21**	**10,649**	**9,679**	22	9,205	12,578
1,200	1,600	**11**	**8,613**	**6,845**	11	8,115	6,892
1,600	2,000	**8**	**7,039**	**7,133**	4	3,482	3,405
2,000	2,400	**3**	**3,656**	**3,373**	2	3,954	316
2,400	2,800	**2**	**4,107**	**1,001**	2	2,085	3,203
2,800	3,200	**1**	**958**	**2,027**	1	1,701	1,300
3,200	5,741	**5**	**4,797**	**16,680**	4	2,705	15,299
Total		**51**	**39,819**	**46,738**	46	31,247	42,993

Exposure to Foreign Countries

Information regarding total exposure to foreign countries and to countries where the total exposure to each country is the lower of the following: More than 1 percent of consolidated total assets or more than 20 percent of total capital for the purpose of calculating the capital ratio:

	December 31					
	2023			2022		
	Exposure[a][b][c][e]			Exposure[a][b][c][e]		
	On-balance-sheet	Off-balance-sheet[d]	Total	On-balance-sheet	Off-balance-sheet[d]	Total
	In NIS million					
USA	**45,373**	**9,412**	**54,785**	30,031	9,930	39,961
UK	**16,890**	**24,137**	**41,027**	16,860	21,602	38,462
France	**1,529**	**1,418**	**2,947**	748	1,582	2,330
Switzerland	**4,184**	**3,967**	**8,151**	2,942	3,880	6,822
Germany	**5,531**	**4,381**	**9,912**	6,334	3,590	9,924
Other	**26,229**	**8,569**	**34,798**	22,019	6,402	28,421
Total exposure to foreign countries	**99,736**	**51,884**	**151,620**	78,934	46,986	125,920
Of which: total exposure to GIPS countries[e]	**253**	**174**	**427**	427	170	597
Of which: total exposure to LDC countries[f]	**1,264**	**1,726**	**2,990**	1,175	1,445	2,620
Of which: total exposure to countries with liquidity issues[g]	**440**	**1,599**[i]	**2,039**	250	317	567

(a) Exposure to foreign countries is presented based on the final risk.

(b) On-balance sheet credit risk and off-balance-sheet credit risk are stated before the effect of loan loss provision and the effect of deductible collateral for the purpose of restricting indebtedness of individual borrowers and borrower groups.

(c) On balance-sheet credit risk and off-balance-sheet credit risk for derivatives are presented after deducting credit risk.

(d) Credit risk for off-balance sheet financial instruments as calculated for the purpose of per borrower credit indebtedness limitations.

(e) Exposure to the GIPS countries includes: Greece, Italy, Portugal, and Spain.

(f) The Exposure to LDCs line item includes total exposure to countries defined as Less Developed Countries (LDCs), which are classified by the World Bank as low- or mid-income countries.

(g) The Bank set several criteria, according to which a list of several countries was drawn, where the current conditions may reflect liquidity problems and which may have an effect on their solvency. The balance applies to 24 countries (as of December 31, 2022 - 16 countries). The measurement does not include exposures to investment-grade countries, unless they were individually identified as having liquidity issues which may have a material effect on their solvency.

(h) On-balance sheet credit risk and off-balance sheet credit risk, as revised in the Reporting to the Public Directives in a circular dated July 24, 2022 following the publication of Directive 203A (for further details, see under Capital and Capital Adequacy).

(i) The balance includes exposure for insurance policies backing mortgage portfolios in Israel, with the Barbados-based insurance company being a subsidiary of a global Canadian-based insurance group.

Credit Exposure to Foreign Financial Institutions

Credit exposure to foreign financial institutions relates to banks, investment banks, brokers/dealers, insurers and institutional entities.

The Bank closely monitors the position of banks worldwide and frequently analyzes their financial robustness. The Bank maintains a shortlist of high-quality banks to which it has collective credit exposures and as a rule, adequately distributes exposures among the various banks.

The geopolitical events, as well as the measures taken by central banks across the world, may impact the financial position of financial institutions with which the Bank cooperates. The Bank monitors the financial position of the foreign financial institutions as part of the management of its exposure to foreign financial institutions and is adjusting its exposure in accordance with changes in the risk environment and assessment of the effect of these changes on the various financial institutions.

Credit exposure to foreign financial institutions[(a)]

	December 31, 2023[(e)]		
	On-balance-sheet credit risk[(b)(f)]	Current off-balance-sheet credit risk[(c)]	Current credit exposure
	In NIS million		
Current credit exposure to foreign financial institutions[(d)]			
AA- to AAA	**26,281**	**1,257**	**27,538**
A- to A+	**2,980**	**1,414**	**4,394**
BBB- to BBB+	**109**	**171**	**280**
B- to BB+	**50**	**10**	**60**
Lower than: B-	**13**	**-**	**13**
No rating	**363**	**-**	**363**
Total current credit exposure to foreign financial institutions[(g)]	**29,796**	**2,852**	**32,648**

	December 31, 2022[(e)]		
	On-balance-sheet credit risk[(b)(f)]	Current off-balance-sheet credit risk[(c)]	Current credit exposure
	In NIS million		
Current credit exposure to foreign financial institutions[(d)]			
AA- to AAA	28,509	1,233	29,742
A- to A+	3,605	1,247	4,852
BBB- to BBB+	204	221	425
B- to BB+	31	21	52
Lower than: B-	10	-	10
No rating	572	-	572
Total current credit exposure to foreign financial institutions	32,931	2,722	35,653

(a) Foreign financial institutions include the following: banks, investment banks, brokers/dealers, insurers and institutional entities, as well as entities under their control.
(b) On-balance-sheet credit risk includes: Deposits with banks, loans to the public, securities borrowed or purchased under reverse repurchase agreements, other assets in respect of derivatives, and investments in bonds, including subordinated bonds of banks totaled NIS 776 million as at December 31, 2023 and NIS 603 million as at December 31, 2022.
(c) Mainly guarantees and commitments to extend credit (excluding off-balance-sheet derivatives).
(d) The Bank uses ratings of well-known rating agencies (ECAIs).
(e) As of December 31, 2023 and December 31, 2022, there is no troubled credit risk vis a vis foreign financial institutions.
(f) On-balance sheet credit risk, as revised in the Reporting to the Public Directives in a circular dated July 24, 2022 following the publication of Directive 203A (for further details, see under Capital and Capital Adequacy). Comparative figures were not restated.
(g) Of which: to the US - on-balance sheet credit risk of NIS 4,040 million and off-balance sheet credit risk of NIS 328 million. The vast majority of institutions for which there is credit risk are rated A- and higher and they are not regional banks.

Comments:
1. The credit exposures do not include investments in asset-backed securities (for more information, please see Note 12).
2. Some of the banks received various forms of government support, including by way of direct equity investment, government guarantees for certain asset portfolios, guarantees for raising funds for the banks, etc.
3. For more information regarding the composition of credit exposures for derivatives with banks and brokers/dealers (local and foreign), please see Note 28B.C.

Housing Loans Portfolio Risks

Credit risk developments

In the past quarters, there was a moderate decline in apartment prices, led by the free market new apartment segment (i.e., excluding apartments sold under government programs such as "Affordable Housing").

This trend comes on the back of a continued increase in the inventory of unsold apartments available from contractors, as a result of a marked decrease in demand for housing during the past year, inter alia due to the higher interest rate and to housing prices, which remained high.

The first to moderate their market activity were investors, followed by other households, with emphasis on young couples who are waiting for new government programs.
At the beginning of the War, there was a significant decrease in the volume of apartment purchases; however, in December, the decrease appeared to have been halted.

Accordingly, there is a decline in new housing loan performance in Israel in 2023 compared to the corresponding period last year. In addition to the effects described, there is further negative economic potential also in respect of the War, particularly if the War continues for a long time.

During the year, in view of the increase in the interest rate, and in order to assist customers, a proactive appeal was made to the customers in a public advertisement and in targeted contact with customers for whom the change in the interest rate affected the amount of their payments, with a proposal to consider a freeze/recycling.

In addition, against the backdrop of the Iron Swords War, reliefs were approved for mortgages, including a freeze on mortgage payments.

As a result, the loans frozen as of the end of December 2023 total approx. NIS 12.8 billion.

For more information and details regarding macroeconomic effects and the War, please see the sections entitled "Macroeconomic effects" and "Iron Swords War".

For more information of all the relevant publications of the Bank of Israel and additional reliefs provided by the Bank, please see under "Main Changes in the Reporting Year - the Iron Swords War" in the Report of the Board of Directors and Management and the section entitled "Laws and Regulations Governing the Banking System" in the Corporate Governance Report.

The Bank continues to adhere to a underwriting policy that takes into consideration the borrower's repayment capacity, linkage base and interest, loan-to-value ratio (LTV), etc., while complying with all of the requirements of the Banking Supervision Department.

The housing loan portfolio is monitored on a regular basis, including analysis of the trends in terms of characteristics and risk.

In case of default, the risk of default is managed by the Bank in two ways - the first is preventive, to mitigate the risk of default and the second - collecting debt in case of default.

The first stage - Actions for reducing the probability of default:

- Underwriting - based on regulatory restrictions (Directive No. 329 - examining repayment capacity, LTV and credit mix) and is backed by models testing credit risk, which rely - inter alia - on information from the customer's Leumi account or the Bank of Israel's Central Credit Register.
- Building a mix customized to the customer's needs, which allows meeting monthly repayments.
- Real estate collateral - credit is subject to providing collateral to the Bank's satisfaction, according to the nature of the credit and property. The collateral are examined by the mortgage consultants; in complex cases - additional an review is conducted.
- Payment deferment (grace) - partial grace is optional, in accordance with the provisions of the Banking Law - Service to Customers.

Second stage - collection:

- "Soft collection" - a call center which contacts customers experiencing repayment difficulties immediately when the first default event occurs; assistance is provided to customers, reaching debt settlement arrangements and support until the debt is repaid.
- Legal claim
  - Collection of debt through the Collection System Authority.
  - Disposal of the property through the collateral provided.

Performance of new loans and refinancing loans for the purchase of residential apartments and mortgaging of residential apartments in Israel

	2023	2022	
	Total for the year	Total for the year	Rate of change
	In NIS million		In %
By the Bank	**21,209**	28,607	(25.9)
By the government of Israel	**174**	140	24.3
New loans	**21,383**	28,747	(25.6)
Recycled loans[(a)]	**9,131**	1,871	388.0
Total performance	**30,514**	30,618	(0.3)

(a) Including freezes that were carried out for a period of more than three months.

The average loan extended by the Bank in 2023 was NIS 946 thousand, compared to NIS 966 thousand in 2022 and NIS 900 thousand in 2021.

Development of total outstanding housing loans in Israel, net

	Outstanding loans portfolio	Rate of change
	In NIS million	In %
December 31, 2021	103,109	15.1
December 31, 2022	119,272	15.7
December 31, 2023	**129,987**	**9.0**

As part of its monitoring of risk centers in the housing loans portfolio, the Bank also monitors characteristics of the portfolio and new credit, including the new credit's breakdown by loan-to-value ratios (loan-to-value ratio (LTV) is the ratio of total credit approved for the borrower - even if it has not yet been actually extended either in full or in part - out of the value of the mortgaged property during the approval of the credit line) and the repayment ratio (the repayment ratio is defined as the ratio between the available monthly income and monthly repayment).

Development of the outstanding housing loans portfolio based on linkage bases and as a percentage of the Bank's outstanding loans portfolio

	Non-linked segment				CPI-linked segment				Foreign exchange segment		
	Fixed interest		Variable interest		Fixed interest		Variable interest		Variable interest		
	Balance in NIS million	Percent-age of the loans portfolio	Balance in NIS million	Percent-age of the loans portfolio	Balance in NIS million	Percent-age of the loans portfolio	Balance in NIS million	Percent-age of the loans portfolio	Balance in NIS million	Percent-age of the loans portfolio	Total loans portfolio, in NIS million
December 31, 2021	23,325	22.6	42,655	41.4	15,203	14.7	21,440	20.8	486	0.5	103,109
December 31, 2022	29,061	24.3	49,991	41.9	16,050	13.5	23,694	19.9	476	0.4	119,272
December 31, 2 023	**32,114**	**24.7**	**54,005**	**41.5**	**18,313**	**14.1**	**25,119**	**19.3**	**436**	**0.3**	**129,987**

Development of new housing loans by interest track, in Israel

The following table outlines the development of the new credit performance by variable and fixed interest tracks (a variable-interest loan's interest rate may change over the loan period):

	2023				2022	2021
	Q4	Q3	Q2	Q1	Annual average	Annual average
	Rate of performance					
	In %					
Fixed - linked	**16.2**	**16.9**	**20.3**	**16.8**	9.9	13.9
Variable every 5 years or more - linked	**6.7**	**8.1**	**9.9**	**9.8**	8.4	15.3
Variable up to 5 years - linked	**4.2**	**3.4**	**3.9**	**6.9**	7.5	1.2
Fixed - non-linked	**29.0**	**25.6**	**22.0**	**25.0**	31.2	28.2
Variable every 5 years or more - non-linked	**24.1**	**24.4**	**15.3**	**5.3**	1.2	1.5
Variable up to 5 years - non-linked	**19.6**	**21.4**	**28.1**	**35.9**	41.8	39.7
Variable - Foreign currency	**0.2**	**0.2**	**0.5**	**0.3**	0.2	0.1

The percentage of new variable-interest housing loans granted by the Bank during 2023 was 55.7 percent compared to approx. 58.9 percent in 2022.

Following is a balance of the housing loans portfolio and balances of non-performing debts or in arrears of over 90 days, in Israel

	Recorded outstanding debt	Amount in arrears	Percentage of amount in arrears
	In NIS million		In %
December 31, 2021	103,599	609	0.59
December 31, 2022	119,690	559	0.47
December 31, 2023	**130,609**	**652**	**0.50**

The outstanding on-balance sheet loan loss provision, as of December 31, 2023, for the housing loans portfolio is NIS 622 million, constitutes 0.48 percent of the housing loans' outstanding on-balance sheet balance as of that date, compared with NIS 419 million as at December 31, 2022, which constitutes 0.35 percent of the outstanding housing loan balance as of that date. The increase was recorded mostly in the second half of 2023 and is primarily due to the potential effect of the War.

Development of LTV ratio for new loans over 60 percent, in Israel

Following is the development in new credit granted by the Bank at an LTV ratio of over 60 percent, (LTV ratio is the ratio of the total loan granted to the borrower - even if it has not yet been granted in effect either in full or in part - out of the value of the pledged property during the approval of the credit facility):

	2023				2022	2021
	Q4	Q3	Q2	Q1	Annual average	Annual average
LTV ratio	In %[(a)]					
Over 60 and up to 70, inclusive	**21.0**	**22.0**	**20.4**	**20.9**	22.6	21.6
Over 70 and up to 75, inclusive	**19.6**	**20.6**	**22.5**	**25.0**	25.3	23.1
Over 75	**0.1**	**0.2**	**0.2**	**0.2**	0.3	0.1

(a) Out of total new credit granted by the Bank.

Development of the loan-to-value (LTV) ratio, outstanding loans portfolio in Israel

The average LTV of the outstanding loan portfolio as at December 31, 2023 stands at 48 percent, similar to that of 2022.

Development of new loans, in which the repayment ratio is lower than 2.5, in Israel

Repayment ratio is defined as the ratio between the monthly available income and the monthly repayment amount. The percentage of loans with a repayment ratio of less than 2.5 on the loan approval date in 2023 was 0.78 percent of the total number of new loans granted compared with 0.36 percent in 2022.
The calculation is in accordance with the Bank of Israel's Reporting Directive No. 876.

Development of new loans, for which the loan term is longer than 25 years, in Israel

In 2023, the percentage of new housing loans in which the loan terms under the loan agreements are longer than 25 years, stood at an average of approx. 58 percent of the total new loans, compared with an average of approx. 49.6 percent in 2022.

Credit Risk for Loans to Private Individuals (Excluding Housing Loans)

Credit granted to private individuals whose repayment capacity is largely based on their household's earning capacity is characterized by a very significant diversification of borrowers and a variety of credit products (various types of loans, current accounts, credit cards) and - to a lesser extent (on average) - credit per individual customer.
Individual customers' activity is almost entirely concentrated in the Retail Banking Division.

In recent years, the Retail Banking Division has operated special-purpose units. Following are the key ones:

Credit and risk management center - The Bank operates a single credit center which coordinates the handling of all non-automated credit applications that do not come under the purview of the branches, creating a silo between account managers and parties which challenge the granting of the credit; the center serves as a professional resource for loan officers at the branches; regularly monitor and control the provision of credit at the branches, with lessons drawn and conveyed both to the field (branches) and to the Division's management.

Early collection units and troubled debt centers - coordinate the handling of debts in arrears before classifying the borrower as troubled as well as handling borrowers classified as troubled. These units provide professional services of handling, making arrangements and collection, including through external law firms.

The Risk Management Division monitors and maintains a second line of defense, which includes - inter alia - identification of trends and segments in the private loans portfolio; monitoring the prediction quality of risk estimation models for borrowers; examining the quality and integrity of business entities' control procedures; reviewing samples of individual portfolios, as needed, etc.

The retail credit policy, formulated by the Risk Management Division in collaboration with the Retail Banking Division, constitutes a key element in outlining the risk appetite and ongoing management of this domain.

The Bank extended and boosted the ongoing monitoring of its entire consumer credit portfolio, while adhering to strict underwriting, there is ongoing monitoring at the individual borrower and aggregate level, based, inter alia, on an internal set of indicators.

From time to time, the set of internal measures was updated, for developments of the entire portfolio ("inventory") and for the new credit risk profile, with the aim of tightening the connection between the thresholds and the development of the portfolio risk, the Retail Banking Division's strategy and the macroeconomic situation. The set of measures is regularly monitored, at least once per quarter. The parameters under consideration address numerous aspects and characteristics which reflect diverse and complementary points of view regarding the new credit risk profile and reflect the limits of the desired risk appetite at the level of the private credit portfolio.

The potential effects of the War, in addition to the macroeconomic trends of the past two years (mainly the increase in interest rates and inflation) affect the repayment capacity of private borrowers; the severity of the effect depends, among other things, on the duration and extent of areas which will be directly affected by the War.

The Bank closely monitors, on an ongoing basis, the credit portfolio and the effects of these developments on the portfolio's risk profile.

For more information and details regarding macroeconomic effects and the War, please see the sections entitled "Macroeconomic effects" and "Iron Swords War" at the beginning of this chapter.

Developments in outstanding overall credit risk (excluding derivatives) for loans granted to private individuals (in Israel, excluding housing loans)

	Balance of credit risk
	In NIS million
December 31, 2021	40,121
December 31, 2022	43,561
December 31, 2023	**47,287**

Following is a distribution of the on-balance sheet credit risk (excluding derivatives) for loans to private individuals, by term to maturity (in Israel, excluding housing loans)

	December 31			
	2023		2022	
	In NIS million	% of portfolio	In NIS million	% of portfolio
Up to one year	**6,210**	**20.8**	5,443	17.9
Over one year to 3 years	**4,634**	**15.5**	5,113	16.8
Over 3 years to 5 years	**7,104**	**23.8**	7,675	25.3
Over 5 years to 7 years	**4,890**	**16.4**	6,618	21.8
Over 7 years	**4,045**	**13.6**	2,624	8.7
No repayment term[a]	**2,933**	**9.9**	2,896	9.5
Total	**29,816**	**100.0**	30,369	100.0

(a) The amount includes outstanding overdrafts in current accounts and outstanding loans in arrears.

Following is a distribution of the overall credit risk (excluding derivatives) for loans granted by the Bank to private individuals, by individual borrower's indebtedness (in Israel, excluding housing loans)

		December 31			
Credit risk amount in NIS thousands		**2023**		2022	
From	To	In NIS million	% of portfolio	In NIS million	% of portfolio
-	25	**6,627**	**14.0**	6,654	15.2
25	50	**6,793**	**14.4**	5,990	13.8
50	75	**5,606**	**11.9**	5,077	11.7
75	100	**4,752**	**10.0**	4,027	9.2
100	150	**6,878**	**14.6**	6,471	14.9
150	200	**5,025**	**10.6**	4,992	11.5
200	300	**6,244**	**13.2**	5,644	12.9
Over 300		**5,362**	**11.3**	4,706	10.8
Total overall credit risk		**47,287**	**100.0**	43,561	100.0

Following is a distribution of the overall credit risk (excluding derivatives) for loans granted by the Bank to private individuals, by main credit products (in Israel, excluding housing loans)

	December 31			
	2023		2022	
	In NIS million	% of portfolio	In NIS million	% of portfolio
Current account balances and utilized credit card balances	**6,925**	**14.6**	6,669	15.3
Car purchase loans (secured)	**1,431**	**3.0**	1,440	3.3
Other loans	**21,460**	**45.4**	22,260	51.1
Total on-balance-sheet credit risk	**29,816**	**63.0**	30,369	69.7
Unutilized current account credit facilities	**7,467**	**15.8**	7,172	16.5
Unutilized credit card facilities	**9,547**	**20.2**	5,636	12.9
Other off-balance-sheet credit risk	**457**	**1.0**	384	0.9
Total off-balance-sheet credit risk	**17,471**	**37.0**	13,192	30.3
Total overall credit risk	**47,287**	**100.0**	43,561	100.0

Distribution of on-balance-sheet credit risk (excluding derivatives) for loans granted by the Bank to private individuals, by linkage segment and interest track (in Israel, excluding housing loans)

	December 31, 2023				
	Non-linked	Linked	Foreign currency	Total on-balance-sheet credit risk	% of portfolio
	In NIS million				In %
Variable interest loans[(a)]	**27,092**	**33**	**64**	**27,189**	**91.2**
Fixed interest loans	**2,589**	**11**	**27**	**2,627**	**8.8**
Total on-balance-sheet credit risk	**29,681**	**44**	**91**	**29,816**	**100.0**

	December 31, 2022				
	Non-linked	Linked	Foreign currency	Total on-balance-sheet credit risk	% of portfolio
	In NIS million				In %
Variable interest loans	28,069	33	97	28,199	92.9
Fixed interest loans	2,121	11	38	2,170	7.1
Total on-balance-sheet credit risk	30,190	44	135	30,369	100.0

(a) Variable interest loans are exposed to an increase in interest rates, which could affect borrowers' repayment capacity. As stated above, the Bank monitors the private individuals loan portfolio on an ongoing basis, including analysis of the expected effects in case the interest rate continues to rise.

Balances of financial assets portfolio of private individuals with the Bank, with an overall credit risk (in Israel, excluding housing loans)

	December 31	
	2023	2022
	In NIS million	
Deposits by the public	**111,020**	104,855
Securities portfolios	**59,343**	51,419
Total financial asset portfolio	**170,363**	156,274
Total indebtedness to customers with financial asset portfolios	**34,464**	31,779

Distribution of on-balance-sheet credit risk (excluding derivatives) for loans granted by the Bank to private individuals, by fixed income amount[a] (in Israel, excluding housing loans)

	December 31			
	2023		2022	
Level of income	In NIS million	In %	In NIS million	In %
Accounts without fixed income	**3,447**	**11.6**	3,258	10.7
Of which: loan accounts[b]	**1,616**	**5.4**	1,786	5.9
Less than NIS 10 thousand	**5,958**	**20.0**	7,091	23.4
More than NIS 10 thousand and less than NIS 20 thousand	**10,524**	**35.3**	10,381	34.2
NIS 20 thousand or more	**9,887**	**33.1**	9,639	31.7
Total	**29,816**	**100.0**	30,369	100.0

(a) The fixed income amount deposited in a customer's current account (by ID number) includes the fixed credits to the customer's account, such as salary, transfers from another bank or bank account, cash deposits, checks, etc. The fixed monthly income is calculated according to the average income on several consecutive months, net of exceptional credits.

(b) A loan account is an account whose only purpose is to repay a loan, while most of the customer's current account activity takes place in another bank.

As aforesaid, the Bank's credit policy towards private individuals is based on a borrower's repayment capacity in relation to his/her income. As a result, over 85 percent of balance-sheet credit is from fixed-income earners.

Distribution of the on-balance-sheet credit risk (excluding derivatives) for loans granted by the Bank to private individuals (in Israel, excluding housing loans)

	December 31	
	2023	2022
	In NIS million	
Non-troubled credit	**28,763**	29,631
Troubled performing loans	**710**	516
Troubled non-performing loans	**343**	222
Total on-balance-sheet credit risk	**29,816**	30,369
Percentage of troubled credit risk out of total on-balance sheet credit risk to private individuals	**3.5%**	2.4%
Net accounting charge-offs (for the year ended)	**424**	129
Balance of loan loss provision	**919**	711

As of December 31, 2023, the outstanding on-balance sheet loan loss provision for private individuals (net of housing) is NIS 919 million, constituting 3.08 percent of the outstanding loans for private individuals (net of housing, on-balance sheet) as of that date, compared with a loan loss provision of NIS 711 million as at December 31, 2022, which constitutes 2.34 percent of the outstanding loans to private individuals (net of housing, on-balance sheet) as of that date. The increase stems, among other things, from an increase in the second half of 2023, which is also due to the potential effects of the War.

For more information, including regarding troubled debt and loan loss expenses, please see Note 13, Note 30, and the section entitled Risk Exposure, Credit Risk, under the Total Credit Risk to the Public by Economic Sector.and in the Credit Risks section in the Report of the Board of Directors and Management.

The Bank's Exposure to Leveraged Loans

According to Proper Conduct of Banking Business Directive No. 311, the Bank's credit policy should also address leveraged finance. The Bank's credit policy for this segment is subject to unique principles, including with respect to financial criteria, credit authorizations, etc.

As of December 31, 2023, leveraged finance is defined by the Bank in line with the Bank of Israel's directives, and includes loans, borrowers or borrower groups which meet one of the following criteria (the gross indebtedness of each of which does not exceed 0.5 percent of the Bank's Tier 1 capital):

1. Credit for the purpose of equity transactions as defined for the restriction in Proper Conduct of Banking Business Directive No. 323, with credit for acquiring a means of control or against means of control held without recourse is included in each LTV ratio (even if it is lower than prescribed by the Directive).
2. Financing for holding companies the sole purpose of which is to hold subsidiaries (without significant independent operations), as defined by the Bank's policy.
3. Financing for borrowers, by various predefined economic sectors, characterized by significant unusual values of certain parameters in relation to the norms in their respective economic sector.

As of December 31 2023, the gross outstanding balance of the leveraged credit, as defined by the Bank, stands at approx. NIS 2.67 billion, a decrease of approx. NIS 1.56 billion compared with the previous year. The Bank complies with the Bank of Israel's requirements.

Outstanding aggregated credit granted to leveraged borrowers

	December 31					
	2023			2022		
	On-balance-sheet	Off-balance-sheet	Total	On-balance-sheet	Off-balance-sheet	Total
Economic sector	In NIS million					
Commerce	-	-	-	372	319	691
Transportation and storage	**1,038**	**23**	**1,061**	1,511	33	1,544
Hotels, accommodation and food services	**431**	**-**	**431**	413	-	413
Construction and real estate	**211**	**318**	**529**	152	334	486
Supply of water, sewage services, solid waste and other waste treatment and purification services	-	-	-	256	270	526
Provision of power, gas, steam and A/C	**157**	**491**	**648**	234	343	577
Total	**1,837**	**832**	**2,669**	2,938	1,299	4,237

For additional qualitative and quantitative information regarding credit risks, please see the Risk Management Report as at December 31, 2023.

Market Risks

Market risk is defined as the risk of loss arising from a change in the value of assets and liabilities due to changes in market prices, interest rates, exchange rates, inflation rate and stock prices. Market risk exposure is reflected in the financial performance, in the fair value of the assets and liabilities, in shareholders' equity and in cash flows.

The Bank complies with the Banking Supervision Department’s directives regarding management of the Group's market risks, including Proper Conduct of Banking Business Directives No. 333, “Interest Rate Risk Management”, and No. 339, “Market Risk Management”. To implement these directives, the Bank established basic principles and control mechanisms for these risks, including defining the purviews of management and the Board of Directors, the means of control and tools for measuring risk and the means of control as well as oversight of these risks, while implementing corporate governance which includes three lines of defense. For a description of the organizational structure and responsibility for the risk management, please see the Additional Information regarding the Exposure to Risk and its Assessment in the Risk Management Report.

In 2023, there were no significant changes in the corporate governance structure, policies and market risk management.

From the end of 2021, there has been a step up with regard to the price increases in the developed countries with an emphasis on the United States and Europe.

The increase in inflation rates and inflation forecasts has resulted in central banks launching sharp interest rate increases in 2022-2023. At present, it appears that the central banks have halted the interest rate hikes and the forecasts are for an interest rate reduction trend during 2024.

The Iron Swords War

Upon the outbreak of the War led to a sharp, immediate slump in local stock markets, widening bond spreads of local companies, and causing a sharp depreciation of the NIS against the USD - which was significantly moderated, inter alia, on the back of the Bank of Israel’s intervention in the foreign exchange market. Uncertainty still prevails in the markets, and volatility in financial markets may persist, mostly on the back on the continued fighting, the expected increase in government spending and related debt raising.

On February 9, 2024, Moody’s downgraded Israel’s credit rating by one notch, to a level of A2 with a negative outlook. The credit downgrading was expected; therefore, most of its effect was embodied in the markets even prior to the actual downgrading. Following the downgrading of the State’s rating, Moody’s downgraded the rating of Israel’s five largest banks by one notch to A3, changing the rating outlook to negative. The rating downgrading may have a further adverse effect beyond that embodied in the markets, inter alia, due to the State’s recruitment costs and for Israeli banks.

The Bank tracks and closely monitors developments, applying stringent risk management practices, applying stress scenarios, and continuously examining the development of events and modes of operation in order to prepare in advance and adapt its activity as needed.

Market Risk Management Policy

The market risk management policy is an expression of the Group's market risk management strategy, alongside existing procedures for identifying, measuring, monitoring, developing and controlling market risk. The policy is designed, on the one hand, to support the achievement of business objectives while assessing the risks and rewards that may arise from exposure to the risks compared with the expected gains therefrom and, on the other hand, to mitigate the risk level arising from the Bank's ongoing activities, including by maintaining a high level of liquidity.

The policy constitutes an important tool for defining the Bank's risk appetite for its own (nostro) account, trading rooms and market exposure across the entire Leumi Group. The policy outlines the corporate governance, division of organizational responsibilities and escalation mechanisms. The risk appetite is reflected in the established restrictions.

As part of the market risk management policy, the Board of Directors prescribed restrictions for each material market risk. In addition, restrictions were placed at the Chief Risk Officer level as well as additional restrictions complementing them. The purpose of the restrictions is to limit the damage that can be caused as a result of unexpected changes in various market risk factors, such as interest rates, inflation, exchange rates, marketable credit spreads and stock prices.

The market risks are routinely managed at the Group level.

In order to oversee and monitor the implementation of the market risk management policy, the Board of Directors receives, once every quarter, a report on the main market risk exposures vs. the restrictions placed and main risks by business line, the Group's product and risk focal points, as well as reports on unusual events.

Market risk management is performed in two risk centers – the banking portfolio and the held-for-trading portfolio.

Exposure to market risks arising from the employee pension liabilities

The Bank applies US GAAP to employee benefits, as prescribed by the Bank of Israel. The long average duration actuarial obligation to employees is significantly impacted by changes in the discount rate. The discount rate used for calculating the actuarial liabilities for employee benefits is based - according to the directives of the Bank of Israel - on the Government of Israel's bond yield curve plus the fixed spread curve of globally rated AA corporate bonds which match the average durations of the liabilities for employee benefits.

Interest Rate Risk

Interest rate risk is the risk of gains or capital arising from interest rate fluctuations and stems from several sources, as follows: repricing risk (timing differences in terms to maturity and repricing dates of assets, off-balance-sheet liabilities and positions); yield curve risk (unexpected fluctuations in the yield curve); basis risk (less than perfect correlation between interest rate changes in various financial markets or in various instruments with similar repricing characteristics); and optionality risk (change in the timing or scope of cash flows from a financial instrument due to changes in market interest rates).

The Bank manages the interest rate risk and its effect on profitability, equity, assets and liabilities, under various assumptions of interest rate changes, including severe interest rate stress scenarios based on historic scenarios and hypothetical simulations. The Bank also uses a model which estimates the change in the expected finance income as a result of changes in the interest rate and future interest rate spread as well as the sensitivity of regulatory capital, which includes the effects on capital and capital reserve of a sudden change in the interest rate. These indicators are restricted by various hierarchical levels.

In effect, the interest rate risk is measured and managed on the basis of various behavioral assumptions regarding repayment dates of the assets and liabilities. According to past experience, the Bank treats some of the current account balances as a long-term liability. In addition, assumptions about early repayments of mortgages are based on a statistical model that attempts to forecast early repayment based on interest rates. Such estimates are of great significance in managing interest rate risks, inter alia, due to the marked increase in these balances in recent years. In the context of the sharp interest rate increases, several adjustments were made in these models along with ongoing monitoring and follow-up.

The tools for managing the exposures in the banking portfolio are: the price policy; the management of the Bank's own bonds portfolio; the issue of debt instruments; off-balance sheet transactions, and more. In addition, the exposures management relies, inter alia, on forecasts and work assumptions regarding the expected developments in the money and capital markets in Israel and abroad.

The exposure to interest rate changes is measured for both increases and decreases in interest rates in each linkage segment. The measurement is designed to test the sensitivity of the current value structure of assets and liabilities, including pension liabilities, to an interest rate change.

As a rule, interest rate sensitivity is measured at least once a month.

On March 12, 2023, the draft Proper Conduct of Banking Business Directive 333, Interest Rate Risk in the Banking Portfolio was published and in December 20, 2023, the final directive was published. The directive is expected to enter into effect in July 2025. The Bank is studying the directive and preparing for its implementation.

For more information, please see the section entitled Interest Rate Risk, please see the Risk Management Report as at December 31, 2023.

Quantitative information about interest rate risk - sensitivity analysis

Net adjusted fair value[(a)] of financial instruments of the Bank and its consolidated companies

	December 31					
	2023			2022		
	NIS	Foreign currency	Total	NIS	Foreign currency	Total
	In NIS million					
Adjusted net fair value[(a)]	**50,738**	**(5,029)**	**45,709**	40,072	(7,824)	32,248
Of which: banking portfolio	**37,356**	**(5,295)**	**32,061**	38,933	(7,823)	31,110

(a) Net fair value of the financial instruments, excluding non-monetary items, including liability for employee benefits, offset against all underlying plan assets and attribution of demand deposits to periods.

For more information regarding the assumptions used to calculate the adjusted fair value of the financial instruments, please see Note 33A.

The effect of scenarios of interest rate changes on the net adjusted fair value[(a)] of the Bank and its consolidated companies

	December 31					
	2023			2022		
	NIS	Foreign currency	Total*	NIS	Foreign currency	Total*
	In NIS million					
Simultaneous changes						
Simultaneous increase of 1%	**(1,464)**	**(592)**	**(2,056)**	(697)	(475)	(1,172)
Of which: banking portfolio	**(1,397)**	**(574)**	**(1,971)**	(613)	(474)	(1,087)
Simultaneous decrease of 1 percent	**684**	**583**	**1,267**	235	398	633
Of which: banking portfolio	**626**	**570**	**1,196**	147	398	545
Non-simultaneous changes						
Steepening[(b)]	**(459)**	**(497)**	**(956)**	(317)	(368)	(685)
Flattening[(c)]	**205**	**187**	**392**	236	(41)	195
Short-term interest rate increase	**(174)**	**(230)**	**(404)**	157	(323)	(166)
Short-term interest rate decrease	**192**	**261**	**453**	(152)	165	13

(a) Net fair value of the financial instruments, excluding non-monetary items, including liability for employee benefits, offset against all underlying plan assets and attribution of demand deposits to periods.
(b) Steepening - a short-term decrease in the interest rate and long-term increase in the interest rate.
(c) Flattening - increase in interest rate in the short-term and decrease in the long-term.

* After netting effects.

Comment: The table presents the change in the net adjusted fair value of all the financial instruments, under the assumption that the noted change occurred for all interest curves in all linkage segments.

Effect of scenarios of interest rate changes on net interest income and on noninterest finance income

	December 31					
	2023			2022		
	Interest income	Noninterest finance income	Total*	Interest income	Noninterest finance income	Total*
	In NIS million					
Simultaneous changes						
Simultaneous increase of 1 percent	**441**	**276**	**717**	1,098	(150)	948
Of which: banking portfolio	**441**	**359**	**800**	1,098	(69)	1,029
Simultaneous decrease of 1 percent	**(625)**	**(289)**	**(914)**	(1,098)	153	(945)
Of which: banking portfolio	**(625)**	**(359)**	**(984)**	(1,098)	69	(1,029)

* After netting effects.

The sensitivity of the income in the above table is a theoretical estimate calculated based on a parallel change in all the interest rate curves using assumptions regarding changes in the spreads on deposits, with no change in the asset and liability mix, with the exception of update of the rescheduling of the behavioral models resulting from a change in interest rates.

During 2023, the Group complied with all interest exposure restrictions set by the Board of Directors.

For more information, please see the Risk Management Report as at December 31, 2023.

Basis Risk (Foreign Currency and CPI)

Linkage basis risk is the risk of loss as a result of changes in the consumer price index or foreign exchange rates, due to the difference between the value of the assets and the value of the liabilities, including in respect of future transactions in each of the linkage segments.

Leumi is active in currency markets through spot, forward and option transactions both for its customers and its own account. Transactions in derivatives in the banking portfolio are mainly used to financially hedge the on-balance sheet activity. These, however, most are not considered a perfect hedge under accounting principles, and therefore affect the accounting profit and loss as a result of the difference in accounting for on-balance sheet assets and liabilities and derivatives. The effect is managed, monitored and reported to the Investment Committee and Assets and Liabilities Management committee.

The linkage basis exposure is managed according to the Board of Directors' restrictions.

The actual group-level economic exposure; the data are presented as a percentage of the accounting capital

	Actual situation	
	December 31	
	2023	2022
	In %	
Non-linked	**(42.0)**	(41.1)
CPI-linked[(a)]	**41.3**	42.6
Foreign currency	**0.7**	(1.5)

In 2023, the effect of the change in foreign currency rates on the net income was immaterial since the Bank does not have substantial Forex exposures.

For quantitative information regarding balances in the linkage bases, please see Note 31.

The sensitivity to changes in the exchange rates of the main currencies as at December 31, 2023. The measurement relates to the effect of the changes on the Bank's capital and includes the on-balance sheet and off-balance-sheet instrument activity

	USD	EUR	GBP	CHF	YEN
	In NIS million				
10 percent increase in the exchange rate	1	37	8	(1)	9
10 percent decrease in the exchange rate	72	(16)	(8)	1	(8)

The sensitivity to changes in the CPI as at December 31, 2023. The measurement relates to the effect of the changes on the Bank's capital and includes the on-balance sheet and off-balance-sheet instrument activity

	Effect of the changes on the Bank's capital
	In NIS million
3% increase in the CPI	681
3% decrease in the CPI	(681)

Investment in Equity Securities and Mutual Funds

The Bank has defined the Group's investment policy, including restrictions both on the overall investment amount and the amount per company, the investment mix and the different risk levels for various types of investments.

Exposure of the investments in equity securities and mutual funds in the banking portfolio

	Book balance and fair value	
	December 31	
	2023	2022
	In NIS million	
Marketable equity securities and mutual funds in the not held-for-trading portfolio	**2,011**	2,020
Non-marketable shares in the not held-for-trading portfolio	**2,817**	2,333
Total	**4,828**	4,353

For additional qualitative and quantitative information regarding market risks, please see the Risk Management Report as at December 31, 2023.

Liquidity Risk and Financial Risk

Liquidity risk is the risk to the banking corporation's profits and stability resulting from the inability to meet its liquidity needs.

The Leumi Group's liquidity risk management policy is part and parcel of its strategic business management and is adapted to the requirements of Proper Conduct of Banking Business Directive No. 342, Liquidity Risk Management, and also the requirements of Proper Banking Management Directive No. 221, Liquidity Coverage Ratio, and the requirements of Proper Conduct of Banking Business Directive 222 - Net Stable Funding Ratio, which adopt the recommendations of the Basel III Committee, with adjustments for the Israeli economy.

Proper Conduct of Banking Business Directive 221 - Liquidity Coverage Ratio is intended to ensure that a banking corporation will hold an adequate inventory of high quality unencumbered liquid assets, comprised of cash or assets that can be converted into cash in private markets with little or no loss of value, in order to meet the banking corporation's liquidity needs in an extreme liquidity scenario lasting 30 days.
The regulatory requirement is compliance with the liquidity coverage ratio of at least 100 percent.

Proper Conduct of Banking Business Directive No. 222, Net Stable Funding Ratio, demands that banking corporations maintain a stable funding profile according to their asset composition and off-balance sheet operations. Maintaining a sustainable financing structure over time is intended to reduce the chances that disruptions in the banking corporation's permanent sources of financing will erode its liquidity situation in a way that will increase its risk of default and lead to a broader systemic scenario.
The regulatory requirement is to meet an NSFR of at least 100 percent. The Net Stable Funding Ratio must be reported to the senior management and Board of Directors at least once each quarter.

Starting January 1, 2023, for the first time the Bank has applied revisions to Proper Conduct of Banking Business Directives 221 and 222 regarding the treatment of currency swap transactions that are not transactions of differences in all currencies (according to the revision, the cash flow is presented from the first quarter of 2023 on a gross basis) and a renewable line of credit. In accordance with Proper Conduct of Banking Business Directive 221, at the beginning of May 2023, the Bank received approval from the Bank of Israel to recognize the liquidity coverage ratio in funds for operational purposes (hereinafter - "operational deposits"), this approval from the Bank of Israel entered into effect on the date of its receipt.

The average liquidity coverage ratio for the three months ended December 31, 2023 is low compared to the average liquidity coverage ratio for the three months ended September 30, 2023 mainly resulting from the effect of business activity for providing credit that was partially offset by deposits by the public.

In the fourth quarter of 2023, the LCR in foreign exchange and across all currencies was above the regulatory requirement.

The Iron Swords War

Since the outbreak of the War, there has been closer monitoring of the Bank's liquidity situation subject to the various scenarios. As of the report publication date, the Bank's liquidity coverage ratio was up across all segments, mainly due to higher deposits by the public.

Liquidity coverage ratio

	For the three months ended December 31	
	2023	2022
	In %	
a. Consolidated data		
Liquidity coverage ratio	**124**	131
Minimum liquidity coverage ratio required by the Banking Supervision Department	**100**	100
b. According to the banking corporation's data		
Liquidity coverage ratio	**120**	129
Minimum liquidity coverage ratio required by the Banking Supervision Department	**100**	100

Note: Based on an average of daily observations.

For more information, please see the section entitled Liquidity Risk in the Risk Management Report as of December 31, 2023 and Note 25.B.

Net stable funding ratio

	As at December 31	
	2023	2022
	In %	
a. Consolidated data		
Net stable funding ratio	**118**	128
Net stable funding ratio set by the Banking Supervision Department	**100**	100
b. According to the banking corporation's data		
Net stable funding ratio	**117**	127
Net stable funding ratio set by the Banking Supervision Department	**100**	100

The Bank set internal Net stable funding ratio restrictions, in addition to the Liquidity Risk Management restrictions.

On the back of the business activity for the provision of credit, beyond the effect of the increase in deposits and raising of bonds, the stable funding ratio in December 2023 was lower than in December of 2022. During the fourth quarter of 2023, no material change was recorded in the stable funding ratio.

For qualitative and quantitative information regarding financing and liquidity risk, please see under "Additional Information on Liquidity Risk and Financing Risk" in the Risk Management Report as at December 31, 2023 and Note 32.

Linkage Status, Repayment Periods and Liquidity Position

A. Linkage Status

Following is a summary of the linkage balances, according to Note 31 to the financial statements

	December 31					
	2023			2022		
	Non-linked	CPI-linked	Foreign currency[b]	Non-linked	CPI-linked	Foreign currency[b]
	In NIS million					
Total assets[a]	**501,707**	**65,358**	**182,884**	498,325	58,869	166,641
Total liabilities[a]	**475,220**	**44,405**	**189,415**	474,383	37,620	175,684
Surplus (deficit) of segment assets	**26,487**	**20,953**	**(6,531)[c]**	23,942	21,249	(9,043)[c]

(a) Including forward contracts and options.
(b) Including foreign currency-linked.
(c) The excess foreign currency liabilities stems from the financing of investments abroad, investments in funds classified as a non-monetary item and from the insurance coverage transaction against a tax exposure for the investment in the Bank's branch abroad.

The ongoing management and reporting of the Bank's exposure to basis risks are made in line with the economic approach, which includes adjustments and additions to the accounting approach presented above. The basis exposure calculated according to the economic approach is detailed in the section entitled "Risk Exposure and Management Thereof".

In 2023, the deposits by the public grew by a total of approx. NIS 15 billion (including subordinated bonds and capital notes). Loans to the public increased by approx. NIS 35 billion; investments in bonds increased by approx. NIS 77 billion; deposits with banks, net (including with the Bank of Israel), increased by a total of approx. NIS 3 billion.

b. Repayment Periods

In 2023, the Bank was characterized by a high level of shekel liquidity, due to the increase in deposits by the public, and mainly as a result of the Bank's express policy to raise funds from stable and diverse resources, by raising deposits from a large number of customers for various time frames, including long-term.

Approx. 32 percent of the Bank's assets are deposited for short terms in banks and invested in marketable securities, especially government bonds.

In 2023, the Bank met all of the liquidity restrictions in the various scenarios. pursuant to the policy, which aims to secure resilience even under theoretical severe stress scenarios.

Following are the future cash flows of the assets and liabilities by repayment periods and linkage basis (including derivatives and excluding non-monetary items) (for more information, please see Note 32):

According to the directives of the Bank of Israel, cash flows for a liability with several repayment dates shall be classified according to management's assessment, at its discretion, or according to the earliest contractual payment date.

A banking corporation is required to present its cash flows for assets and liabilities separately for shekels (including shekels linked to foreign currencies) and foreign currencies. In addition, cash flows for net settled derivatives shall be classified into shekels or foreign currencies according to the currency in which it is settled. Off-balance-sheet amounts of these derivatives may not be reported.

Excess assets over liabilities*

	As at December 31, 2023		
	NIS	Foreign currency	Total
Term to maturity:	In NIS million		
Up to one month	**(136,974)**	**(56,190)**	**(193,164)**
From one month to one year	**(4,800)**	**(821)**	**(5,621)**
From one year to 5 years	**106,789**	**31,593**	**138,382**
5-10 years	**68,367**	**20,212**	**88,579**
Over 10 years	**103,481**	**20,301**	**123,782**
Without repayment date	**2,104**	**1,398**	**3,502**
Total	**138,967**	**16,493**	**155,460**

	As at December 31, 2022		
	NIS	Foreign currency	Total
Term to maturity:	In NIS million		
Up to one month	(78,611)	(51,340)	(129,951)
From one month to one year	(44,542)	(3,095)	(47,637)
From one year to 5 years	88,779	28,043	116,822
5-10 years	63,763	16,999	80,762
Over 10 years	87,508	15,538	103,046
Without repayment date	3,028	2,311	5,339
Total	119,925	8,456	128,381

* Less excess (deficit) in balances for derivatives.

c. Liquidity Position and Raising Financial Sources

Liquidity position and raising financial sources from the Bank

In 2023, there was a decrease in liquidity surplus levels of the banking system in Israel, among other things in the context of the increased volume of the Bank of Israel's short-term loan issuances. The balances of the banking industry (current accounts and monetary deposits) in the Bank of Israel as at the end of December 2023, was approx. NIS 349 billion, compared with approx. NIS 476 billion as at the end of December 2022. To absorb the surplus in the system, the Bank of Israel conducts monetary tenders each day, week and liquidity period. The short-term loan is a supplementary monetary tool used by the Bank of Israel.

The composition of the Bank's assets and liabilities continues to indicate a high level of liquidity, as a result of a policy intended to raise funds from stable and diverse resources, with emphasis on raising resources from a large number of customers, diverse customer segments, for different time frames and in various currencies.

The Bank monitors its liquidity position using indicators capable of providing early warning of changes in the liquidity position, inter alia, by using a regulatory model, as well as internal models developed by the Bank in accordance with the Bank of Israel's directives and accepted international standards.

Leumi's balances (current accounts and monetary deposits) in the Bank of Israel as at the end of December 2023 was approx. NIS 82 billion, compared with approx. NIS 166 billion as at the end of December 2022. The net balance of cash and deposits with banks as at December 31, 2023 was approx. NIS 85 billion, compared with approx. NIS 164 billion as at the end of December 2022.

In addition, the Bank has a securities portfolio valued at approx. NIS 155 billion, which is invested primarily in Israeli government bonds, foreign government bonds and bonds of foreign banks. compared with a balance of approx. NIS 79 billion as at December 31, 2022.

During the reporting period, the customers' off-balance-sheet financial assets were up by approx. NIS 95 billion, amounting to a total of NIS 1,365 billion.

Main regulatory restrictions on the transfer of liquid means or regulatory capital between the Group's companies in Israeli and foreign operations are as follows

The Bank of Israel does not restrict the Bank's deposits with the Group's subsidiaries in Israel and abroad, but has imposed restrictions on the Bank's capital investments and bonds in foreign companies abroad. Any increase in investment or a decrease in holding any type of means of control to less than 80 percent requires prior approval by the Bank of Israel.

Operational Risks

Operational risk is the risk of loss as a result of inadequate, or failure of, internal processes, people and systems, or external events.

The Leumi Group engages in a wide range of financial activities and is therefore exposed to operational risks which include, inter alia: Information security and cyber risks, technological risk, business continuity risk as well as embezzlement and fraud risks.

The risk management approach is consistent with the Leumi Group's strategy, constitutes a basis for defining its risk tolerance, the manner of managing risk and corporate governance and determining the focus and emphases in operational risk management processes, allowing for informed and well-focused risk management as well as prioritizing tasks and resources.

In 2023, there were no significant changes in the corporate governance structure, policies and operational risk management.

The regulatory capital required for operational risks is calculated using the standardized approach in the capital adequacy measurement directives of the Banking Supervision Department. It should be noted that the Bank of Israel published a revision to this directive that adopts the Basel directive.

For more information on regulatory changes in the reporting period and anticipated changes regarding the measurement of capital adequacy, please see Capital and Capital Adequacy in the Report of the Board of Directors and Management.

Corporate governance structure

In addition to information about the corporate governance structure of risk management in the Bank, which is described in the section entitled "Additional Information about Risk Exposure and Assessment Thereof", following is more information regarding operational risk management:

First line of defense - The business lines' managements, support units and Leumi Technologies are responsible for managing the operational risks in their respective purviews, both on an ongoing basis and for new projects and products.

Second line of defense - the Operational, IT and Cybersecurity Risk Department in the Risk Management Division is responsible for, and leads, the operational risk management process, while developing risk policy and risk tolerance recommendations, formulating methodologies, as well as professional responsibility for, guidance of and challenging of the effectiveness level (subject to materiality) the first line of defense in the risk management process.

Third line of defense - Internal Audit. The Internal Audit Division is responsible for conducting an independent, objective audit and for challenging controls, processes and automated systems in the banking corporation. The audit is usually performed retrospectively on the first and second lines, ensuring implementation of the guidance of management and the Board of Directors.

Management and board of directors' committees - Each quarter, the committees hold a discussion on the material exposures to operational risks. The operational risk management policy is brought before the Board of Directors for discussion and approval once a year.

The operational risk policy and management framework

The Group's operational risk management policy outlines Leumi's operational risk management principles, guidelines and framework, including: Risk-oriented management adapted to each business line and a focus on risks with potentially significant consequences for the Bank's activity.

To allow the Board of Directors and management to exercise appropriate corporate governance, operational risk tolerance was defined through quantitative restrictions and qualitative declarations.

The operational risk profile is periodically monitored and reported on a quarterly basis to the Bank's management and Board of Directors, serving as a basis for decision-making.

The Bank revises the operational risk map from time to time. The revision is made by the first line units, with the Risk Management Division providing guidance, challenging, and assistance. The process includes identification and (qualitative and quantitative) assessment of the risks and recommendations for minimizing the risks (risk mitigation plans). In addition, there is a system in place supporting risk reporting, documentation of controls, mitigation plans and failure events.

The Bank manages risks in material new projects and products on the basis of a methodology which includes risk identification and mitigation with the aim of complying with Leumi's business and operating goals.

Since the operational risks are cross-organizational, the Risk Management Division is taking steps to instill an advanced risk management culture, including reporting on incidents and drawing conclusions.

Main operational risk areas:

The Iron Swords War

In order to preserve functional continuity and comply with regulatory requirements and the Bank's policy in an emergency situation, the Bank regularly monitors the events and their development. In view of the fighting, when necessary, adjustments are required along with careful and meticulous risk management.

Leumi operates in accordance with its policy and business continuity plans and continues to provide financial services to the branch system (including dedicated mobile branches), call centers and digital platforms.

Information security and cyber risk

The increase in cyber-attacks on financial organizations in Israel and around the world, as well as on entities in their supply chains continues. The outbreak of the War led to an additional increase in attacks and in risk, for which Leumi increased its preparedness.

There were no direct attacks on Leumi, except for DDOS attempts on the Bank's websites. These attempts had no effect, with very few having a negligible effect on service.

The characteristics of the potential attacks are varied and include ransomware attacks, phishing and social engineering attempts. The probability of exposure to a cyber event materializing increases as a result of a wider use of digital channels by customers and extensive and remote work by employees and suppliers.

Leumi takes several steps to mitigate the risks, including: implementing preventive and detective controls, conducting information security surveys, boosting monitoring to remove fictitious websites, rendering authorization management and control processes more stringent, and increasing awareness to information security guidance among the employees.

During 2023, no cyber incidents were discovered which affected Leumi's financial statements.

Technological risk

Leumi attributes great importance to ensuring that the technological infrastructure servicing its customers and employees will enable business and operational availability and continuity, and invests considerable resources to that end. The Bank implements a new product policy, which outlines the risk management processes involved in introducing new products, including new technological initiatives and innovation.

Leumi is implementing a business-technological plan to achieve its business goals in the coming years. The plan is subject to stringent corporate governance.

Business continuity risk

Leumi manages and implements processes with the purpose of allowing quick recovery in case of emergency and stress events, while minimizing the damage to the business activity. The processes include the following:

- A business continuity policy that defines corporate governance, principles, and the key principles and processes in case of an emergency, including a set of responses and redundancy.
- A work framework that includes business continuity plans, business impact analysis based on risk surveys, recovery strategies and a drill methodology.
- Maintaining stability of technological infrastructures, recovery capabilities, including backup and recovery.

A preparedness plan was formulated and implemented for the various emergency scenarios. The policy, means, processes and solutions were adjusted to a wide range of emergency scenarios. A redundancy solution was defined, including resource redundancy (defining critical units and classifying the necessity of employees; training employees on versatility and back-up); physical redundancy; defining back-up facilities for critical units and technological redundancy: expanding infrastructure for emergency work and telecommuting.

Outsourcing and supplier risk

Leumi contracts suppliers and sub-suppliers for various business needs and adopts new products and services developed by external entities. Among other things, Leumi is expanding the use of cloud computing in general and with the supplier AWS in particular while implementing a protection concept and intelligent management of the technology and business risks.

Its dependence on suppliers exposes the Bank to various risks, including business continuity, disruption and information leakage. Such risks are managed on an ongoing basis through risk management and a new product, procurement processes, information security, business continuity and cyber security workflows and anchored accordingly in policy papers and procedures.

An outsourcing policy was formulated and is being implemented and the operational risk policy includes reference to third party risk issues.

Embezzlement

To address the embezzlement risk, the Bank works on several levels to increase awareness among all Bank employees, with emphasis on risk managers and heightened monitoring of employees on the verge of leaving the Bank, a speakup mechanism which encourages employees to report breaches, etc.

A chapter was dedicated to managing fraud and embezzlement risks as part of the operational risk management policy and a special embezzlement forum was appointed to handle the issue.

Fraud

The expanded use of digital channels could increase exposure to embezzlement risks in terms of identity, money and information theft, as well as compromise functionality and cause customer information leaks and misuse of information. Leumi invests significant resources in identifying and mitigating these risks through focused, ongoing monitoring, including a fraud forum to coordinate the issue.

The human resource risk

The changes in the business and banking environment have had a bank-wide effect of the human capital domain as well, among other things, due to the need to adjust and preserve the work force, while motivating and engaging the employees. Leumi uses various means to address the risk.

Climate and Environmental Risk

Climate-related and environmental risks to the Bank are exposure to potential damage which may be caused as a result of events or processes related to the environment and climate change.

Environmental risks arise from the Bank's exposure to activities which may potentially cause environmental damage or be effected therefrom, such as: air pollution, soil contamination, water shortage, desertification, loss of biodiversity, deforestation, and earthquakes.
Climate-related risks arise from exposure to physical risks or transition risks caused by or related to climate change. Environmental and climate-related risks are usually divided into three types:

- Physical risks - financial risks due to the exposure to damage from acute extreme events related to climate or weather (such as heat waves, droughts, avalanches, floods, fires, storms and more) and/or exposure to damage from gradual chronic processes related to climate change (such as a rise in the sea level, an increasing average temperature).
- Transition risks - financial risks due to exposure to the transition process to an economy with low greenhouse gas emissions, which may include changes in climate and environmental policy, technological changes or changes in the public's preferences.
- Liability risk - financial risks due to the exposure to legal claims, in which the plaintiffs demand the imposition of responsibility and/or request compensation for damages or losses related to climate change.

The Bank is exposed to these risks both directly and indirectly.

Environmental risks may have a financial and non-financial impact on the Bank, such as: credit risk, market risk and liquidity risk, as well as operational risk, compliance risk, legal risk, regulatory risk, reputational risk (such as in a case where the Bank is attributed a connection to an environmental hazard, either directly as the creator of the hazard or indirectly as the financier of the hazard).

The Bank's Board of Directors considers the management of environmental and climate-related risks an integral part of the Bank's business strategy and goals, to preserve the Bank's stability, in view of its centrality and importance for the economy and the Israeli society and as a business-strategic opportunity. Leumi recognizes the economic, social and environmental responsibility assigned to it in accompanying and supporting our customers in the transition process through the provision of credit and supporting investments. Focus on the management and assessment of exposure to climate-related risk along with identification of the opportunities is an integral part of the process.

On June 12, 2023, the Banking Supervision Department published Proper Conduct of Banking Business Directive No. 345, "Principles for Effective Management of Climate-Related Financial Risks". The Directive establishes "fundamental principles" for effective management and supervision of climate-related financial risks, according to which the banking corporations are required to operate to optimally manage their exposure to these financial risks. The Directive will apply from June 2025, and the Bank is preparing for its implementation.

Climate-related risk management framework and policy

The Bank has formulated a policy for managing environmental and climate aspects, which establishes principles for identifying and managing risks and defines the areas of responsibility and reporting mechanisms. In addition, a work plan was formulated that includes improved methodologies and measurement methods, alongside actions taken by the Bank to identify and map the exposure to climate and environmental risks and to reduce them.

This constitutes forward-looking information, the materialization of which is uncertain and not under the Bank's sole control, taking into account that this is an "evolving" domain.

For more information, please see the Environment chapter in the Bank's Environmental, Social and Governance (ESG) Report for 2023.

Identification and management of climate-related risks in principal risk management

The Bank recognizes that the identification and assessment of the environmental risk is part of an adequate risk assessment process and is working to implement environmental risk exposure management, including climate-related risk (physical risk and transfer risk), as follows:

- **Risk management as part of the credit activity** - The Bank has formulated, with the help of a global consulting firm, a methodology for assessing the potential exposure of Israeli economic sectors to key risk factors associated with climate-related and environmental risks, as well as tools and methodology for assessing specific credit risks to borrowers from specific economic sectors for the purpose of identifying, measuring, monitoring, reporting and controlling the risk, including manners of managing the risk and mitigating its effect on the credit exposures.

  Implementation of the specific measurement will be carried out according to the multiyear work plan.

- **Investments and nostro risk** - market and investment risk management policy determines guidelines for managing the risk, including combining environmental and climate-related risks in the investment decision making process and in the management of existing investments. The work plan to improve the methodologies and measurement tools for managing environmental and climate-related risks also include investments; the aim is to develop tools and expertise to promote environmentally-friendly measures and business opportunities.

- **Operational risk** - The Bank has set itself a goal that the direct and indirect impact of its activity will lead to a reduction in the negative effects of the environment. From 2013 until now, the Bank's carbon footprint has cumulatively declined by approx. 49 percent.

  For that purpose, for the past decade, the Bank has, among other things, held ISO 14001 certification, under which regulations related to environmental risks are managed and monitored, the Bank set long-term targets which aim to reduce the Bank's carbon footprint.

- **Reputational risk** - A policy has been formulated for the management of reputational risk, which is adapted to the Bank's strategy and includes reference to the issue of environment and climate. The annual work plan includes communication of business moves on the subject.

The following table presents the share of the economic sectors with high emissions, that have increased exposure to transition risks, from all credit risk balances - Bank.

Exposure to economic sectors with high emissions, characterized by increased transition risk[(a)] - the Bank

	Chemical industry and cement manufacturers[(b)]	Transportation, shipping and vehicle manufacturing[(c)]	Manufacturers of metal products and wood and paper products[(d)]	Electricity generation from fossil fuels[(e)]	Agriculture Livestock[(f)]	Fossil fuels[(g)]	Total
December 31, 2023	**1.42%**	**1.22%**	**0.55%**	**0.71%**	**0.16%**	**1.03%**	**5.08%**
December 31, 2022	1.72%	1.34%	0.61%	0.62%	0.17%	1.31%	5.77%

(a) In order to define high emission sectors, which are characterized by increased exposure to some of the transition risks related to the extent of the emissions (such as carbon taxation, regulations for the reduction of emissions, legal liability and exposure to disruptive technology and innovation risks), the Bank used lists of high emission sectors from leading global work frameworks on the subject - SBTI, PACTA, UNEP-FI.
(b) Manufacture of chemicals and their products, pharmaceutical industry, rubber and plastic products industry and cement manufacturers.
(c) Economic sectors of land transport, sea transport, air transport, postal services and national couriers, the motor vehicle industry and ship and boat building.
(d) Economic sectors of the manufacture of wood and paper products (except furniture) and the manufacture of metal products (iron and steel, non-ferrous metals).
(e) Economic sector of the supply of electricity, gas, steam and air conditioning, transmission and distribution of electricity.
(f) The livestock, fishing and marine agriculture, including mixed farming.
(g) Activities of producing oil, natural gas and coal mining, including the supply, transport and retail trade of fuel.

Scenario analysis

The Bank has begun to prepare for a significant increase in its analytical capabilities for assessing and quantifying climate-related risks and their effects on financial risks, in accordance with the requirements of Proper Conduct of Banking Business Directive No. 345. In this context, the Bank launched a process for analyzing climate-related extreme scenarios and stress tests, in accordance with leading global practices, and for purchasing a science-based analytical tool that will enable it to independently test the effects of various climate scenarios on credit and investment risks from time to time. As part of the process, the effects of various climate-related scenarios are tested. (Both scenarios developed by NGFS and ones developed by IPCC), as well as various climate-related risks (both physical risks and transition risks).

Climate risk is an "emerging" risk. Evolving risks are characterized by lack of quantitative data of adequate historical depth for their estimate and by high variance compared to other risks over time; this requires well-structured processes to adjust their management and measurement tools.

The Bank is monitoring regulatory, technologies and company-based developments, studying them and adjusting the risk management tools and methodologies on an ongoing basis.

The information in this section constitutes forward-looking information. For the meaning of the term, please see under "Forward-Looking Information".

For more information, please see the Environment chapter in the Bank's Environmental, Social and Governance (ESG) Report for 2023.

Other Risks

Regulatory Risk

Regulatory risk is the risk that changes in regulation will have an effect on the Group's income and expenses, its capital, areas of activity or on the business environment in which it operates.

The Leumi Group operates in a complex and multi-dimensional environment. Continuous material changes in a variety of regulatory fields require adequate, ongoing preparations by the Bank.

Recently, the emphasis had been placed mainly on guidance in the following areas:

Directives for boosting competition in the financial sector, including in the area of Open Banking and payments, directives regarding bank-customer relations and conduct, including directives addressing fees and commissions, risk management directives, especially environmental, social and governance (ESG) risk management and risks regarding the prohibition of money laundering and terror financing, as well as privacy protection and information security directives.

In addition, several legislative initiatives are being promoted in various contexts regarding the activities of banks in Israel, among other things, limiting fees and commissions amounts for certain services, and limiting the difference between the interest on credit and interest on deposits. In addition, as part of the balancing plan to achieve the budget targets for 2024, a law providing for a special payment by banks that are not banks with a minor scope of activity (a bank whose assets under management value is less than 5 percent of the asset value of all the banks in Israel) in 2024 and 2025 in order to reach the budgetary targets, as a temporary order due to the Iron Swords War.

Against the backdrop of the War and its consequences for the Israeli population and economy, including for households and businesses, the Banking Supervision Department and other regulators established a series of regulatory measures - including adjustments, expedients and deferral of dates in various regulatory provisions - with the aim of ensuring business continuity and provision of ongoing services by the banking system, in accordance with the limitations of the security situation for the purpose of providing the assistance required by customers of the banking system, with heightened sensitivity to the customers' needs and difficulties. Various arrangements were also approved in legislation to meet the needs of the economy, certain population groups and the public during the War period, and some have an impact on the Bank's activities.

These trends and changes affect, and are expected to continue to affect, the Israeli banking system in the coming years. The Bank monitors and identifies relevant regulatory provisions, and examines its preparedness for the following: changing market conditions; increased competition and transparency; entry of new players into traditional banking domains; use of databases and information of the Bank's customers by non-banking entities; and providing customers with tailored value propositions. At the same time, the regulation erodes income, increases compliance expenses and requires constant improvement of the service and innovation levels.

For more information, please see Laws and Regulations Governing the Banking System in the Corporate Governance Report.

Compliance Risk

Compliance risk is the risk of a sanction being imposed, or a material financial loss or a reputational damage incurred, by the banking corporation as a result of failing to comply with the provisions of the law or regulations.

Proper Conduct of Banking Business Directive No. 308, "Compliance and the Compliance Function in Banking Corporations", formally defines the compliance function's areas of responsibility at the Group level. The directive stipulates that a bank must assess the effectiveness of its compliance risk management, and find means to measure it, with the risk derived from the entire body of laws governing the Bank's activity.

According to the Bank's policy, compliance risk is managed at the Group level. In this context, various steps are taken to supervise and control foreign office and subsidiaries in order to monitor implementation of compliance aspects as a whole and apply the Group's compliance policy. To effectively manage compliance risk, Leumi has in place a compliance and enforcement function, headed by the Chief Compliance Officer. The Chief Compliance Officer is responsible, among other things, for meeting the legal requirements of the prohibition on money laundering and terror financing and implementation of the international sanction regimes in accordance with the Bank's policy.

As part of the purview of the Compliance Officer regarding the implementation of the international sanction regimes, a regular review is carried out and the necessary adjustments are made. For example, following geopolitical changes that have occurred during the past two years, the international sanction regimes against Russia and Belarus have expanded significantly, and accordingly, updates have been made in the enforcement plan on the subject.

The Chief Compliance Officer also serves as the securities law enforcement officer, the privacy protection officer, and the officer responsible for FATCA implementation, the CRS and the QI agreement.

The Compliance and Enforcement Department reports to the Chief Risk Officer.

A. Prohibition on money laundering and prohibition on financing of terrorism

Maintaining proper compliance culture across the entire organization requires an effective control and enforcement framework. To this end, strict work procedures and control and enforcement processes have been established for all workflows and their relevant compliance risks. The purpose of the control and enforcement framework is, among other things, to identify existing and potential gaps and exposures in order to determine whether work processes and training programs should be revised.

The Compliance Department is in regular contact with subsidiaries in Israel and abroad, for the purpose of monitoring the implementation of compliance issues as a whole as well as the implementation of the Group's compliance policy.

Among other things, the Bank focuses on risk areas in financial technology domains (such as FinTech, P2P, hedge funds, financial service providers, virtual currencies, etc.) – managing compliance risk and prohibition on money laundering risk in an evolving financial technology environment characterized by professional complexity and a lack of practices incorporated into the control processes due to the novelty of the issues at hand.

On October 11, 2023, shortly before the Israeli Government's announcement of the Iron Swords War against the Hamas in Gaza, the Authority for the Prohibition of Money Laundering published guidelines to increase attention to and devote all the necessary resources for the monitoring, detection and reporting to the Authority, effectively and immediately, regarding activities seen as having a potential risk of terror financing and support. In addition, the banks were required to report to the Authority and to the Police immediately regarding any transaction or attempted transaction that takes place in Gaza. In view of the above, on October 16, 2023, the Compliance Officer published guidance for the business units and Operations Division, which include a series of actions for increased monitoring and identifying events that may pose an increased terror-related risk, with daily reporting to the Compliance Officer. Suspicious activity is regularly reported to the Authority and to the Police and steps are taken up to the blocking of an account.

B. Administrative enforcement

The Law of Efficiency of Enforcement Procedures in the Israel Securities Authority (Legislative Amendments), 2011 was designed to streamline the enforcement of legislative provisions in the securities domain. The law allows the regulator to impose various sanctions on a corporation, its officers and employees if they have violated the relevant provisions.

The Group's Chief Compliance Officer also serves as the Chief Compliance Enforcement Officer, responsible for the implementation of the internal enforcement program in the area of securities and investment management which was approved by the Bank's Board of Directors.

C. Foreign Account Tax Compliance Act (FATCA) - Common Reporting Standard (CRS) and the reported funds policy and Declared Money Policy (DMP)

On July 14, 2016, the Income Tax Ordinance Amendment Law (No. 227), 2016 was published, on the implementation of the FATCA agreement between the State of Israel and the United States and agreements for information exchange between Israel and other countries, pursuant to the Standard for Automatic Exchange of Financial Account Information published by the OECD.

The Income Tax (Implementation of a Uniform Standard for Reporting and Due Diligence of Information on Financial Accounts) Regulations, 2019, were published on February 6, 2019. Pursuant to the regulations, the Bank is required to authenticate customers who are residents of foreign countries, and to report customers identified as residents of countries with which Israel has information exchange agreements to the Israel Tax Authority, which will forward the information to the competent authorities in the customers' countries of residence.

The Bank reports to the Israel Tax Authority according to the provisions of the said law.

The Bank implements a Declared Money Policy (DMP) while ensuring that there are no funds managed by the Bank that are not reported to the relevant tax authorities; in this context, various measures were taken to locate and identify the relevant target audiences. If needed, customers are required to provide various statements and approvals.

On February 12, 2024, a financial sanction was imposed on the Bank by the Banking Supervision Department. For additional information regarding the financial sanctions, please see Note 26.D.

Legal Risk

The legal risk is defined as exposure to damage or loss resulting from claims against the Bank, provision of a defective legal opinion, preparation of defective agreements, non-provision of appropriate instructions following changes in legislation or rulings and/or as a result of fines and supervisory activity.

Legal risks arise from five main areas:

- Legislation risks - risks attributable to the Bank's activity in case such activity does not comply with a primary or secondary legal provision, a Bank of Israel directive or a directive issued by other competent authorities.
- Contractual risks - risks attributable to the Bank's activity with customers, suppliers and other parties with whom the Bank contracts, if the activity is not backed by an agreement that fully establishes the Bank's interests, or the agreement is not fully enforceable or includes illegal terms and conditions.
- Court ruling risks – risks arising from the Bank's activity if it does not comply with case law.
- Risks attributable to legal proceedings conducted against the Bank.
- Risks arising from changes in enforcement policy.

Legal risk policy and management framework

The Chief Legal Counsel, who is a member of the Bank's management and Head of the Legal Counsel Division, is responsible for leading legal risk management.

The Group implements a program for managing legal risk, which aims to identify, prevent, manage and mitigate legal risk. The program includes policy papers and an interface between the Legal Counsel Division and units of the Bank, as well as internal procedures applicable to the Legal Division, the purpose of which is to ensure that legal counseling provided within the Bank is professional and up-to-date. The Bank's subsidiaries, domestic and foreign, implement a policy for legal risk management as part of dedicated policy papers and internal procedures for managing legal risks in with its activity and the Group's policy on the subject. According to the legal risk procedures in the subsidiaries, they are required to seek adequate legal advice for certain issues. In addition, the subsidiaries send periodic and immediate reports to the Bank's Legal Risk Manager, as required by the policy papers. In 2023, the legal risk management processes and the legal stress scenario were updated.

In the context of the legal risk management program, the following points have been emphasized:

- Identifying and handling sources of material legal risks.
- Preventing and mitigating legal risk, inter alia, through:
  - Preparing adequate agreements, guidelines and procedures.
  - Reviewing regulatory and legal provisions (including judgments), and their implications for the Bank's activity.

- Drawing conclusions on various topics and implementing the conclusions drawn in legal documents used by the Bank, as well as providing opinions on these topics to the relevant units in the Bank.

The parties responsible for executing the legal risk management program include various officials and committees within the Legal Counsel Division, special purpose factors and committees - whose function is to review, coordinate and handle new legislation and rulings applicable to the Bank's activities.
In addition, the Legal Counsel Division identifies and handles, as needed, new regulation (primary legislation, secondary legislation, regulatory directives), as early as the proposed law or regulation formulation stage.

The activity of each of the abovementioned officials and committees is prescribed by internal work procedures of the Legal Counsel Division. The procedures stipulate, inter alia, the information interfaces between each of these parties and the legal risk team of the division, the division's management and the Legal Risk Manager.

General legal exposure

There is a general legal exposure, which cannot be assessed or quantified, arising, inter alia, from the complexity of the services rendered by the Bank and the consolidated companies to their customers. The complexity of these services embodies, among other things, a potential for claims relating to commercial and regulatory terms and conditions. It is impossible to foresee all of the types of claims which may be raised in this area and the exposure deriving from these and other claims in connection with the services provided by the Bank and its consolidated companies, which are filed, inter alia, in respect of motions to certify class actions.

There is also legal exposure due to regulatory changes and guidance issued by the Banking Supervision Department, the Israel Securities Authority and other regulators to which the Bank is subjected.

Some engagements with customers last many years, in the course of which policies, regulations and legal trends, as well as court rulings, may change. The Bank and the consolidated companies use complex automated systems, which are adjusted on a regular basis according to the changing reality. All the above create an increased operating and legal exposure.

There is also a general legal exposure arising from complaints filed from time to time with the Banking Supervision Department against the Bank and the consolidated companies, which may, under certain circumstances, result in legal proceedings against the Bank. Currently, it is impossible to assess whether there is exposure in respect of such complaints and whether the Banking Supervision Department will issue an industry-wide decision about the complaints and/or whether class actions or other type of lawsuits will be brought as a result of these proceedings. It is therefore impossible to assess the potential exposure for the such complaints. As a result, no provision was made for the said exposure.

Reputational Risk

Reputational risk is the risk of compromising the trust of various stakeholders of Bank Leumi (such as customers, investors, bondholders, shareholders, suppliers, regulatory entities, the public, etc.) in the Leumi Group, as a result of conduct, an act, or an omission by the Group, officers in the Group, its employees or other involved parties.

The reputational risk management framework supports bank-wide management by coordinating the various parties in the Bank who manage the risk with the various interested party groups.

The Spokesman's Department regularly monitors the media discourse regarding the Bank and manages a regular interface with all the Bank's units in order to enable optimal media relations when events occur that could have a potential adverse effect on the Bank's reputation.

Strategic Risk

The financial industry and banking sector are experiencing significant changes affecting strategic risk and requiring adjustment to the business model, including:

Entry of new actors, such as BigTechs, FinTechs, insurance companies, non-banking credit companies and digital banks, regulatory changes supporting and encouraging competition, such as the Central Credit Register, transitioning between banks and open banking initiatives.

The Bank’s strategic plan is for three years, and has been approved by management and the Board of Directors. The strategic plan is set following an extensive process of examining trends and changes in the business environment, competitive environment, technological environment and customer preferences, in an effort to identify threats and opportunities. In addition, an annual refresher process is undertaken, in which the key external trends are examined, as well as their potential impact on Leumi; the strategic risk is managed by the Bank’s Board of Directors and management.

Models Risk

Models risk is the risk of a loss or harm to the Bank’s reputation due to erroneous, model-based decision-making, as a result of using an erroneous model, reliance on non-representative data, errors in implementing the model or faulty use of the model.

The models risk management policy was approved by the Bank’s management and Board of Directors with the approach that the nature and quality of models are vital to ongoing business activity. The policy covers principles of model risk management, definition of corporate governance, officers and reporting hierarchies.
Under the policy, a multi-year risk-based work plan was developed to manage and mitigate model risks; the Bank continues to apply the risk mitigation work plan.
The Bank’s strategy for transitioning to using digital tools and models-based processes increase the reliance on models in work processes. This trend increases the efficiency, transparency and objectivity of the processes, thereby mitigating fair conduct, service, credit underwriting risks but increasing models risks. The work plan to manage and monitor models risks has been adjusted to these heightened risks.

In view of the increase in the interest and inflationary environment and the macroeconomic changes, during the year, the Bank tightened the model risk management processes, the ongoing monitoring processes were increased by the model owners, who validated, performed adjustments that were found to be required and performed a model risk assessment adjusted for the increased risk at the Bank level.
In addition, from the beginning of the Iron Swords War, mapping of models and/or model-based processes was performed to examine the need for their adjustment in view of the period.

Conduct Risk

Conduct risk is the risk that the Bank’s conduct will lead to an unwanted outcome for a customer due to inadequate service, inappropriate service or unfair conduct. The risk also includes inappropriate conduct affecting market integrity (the public’s trust in the banking sector). The materialization of the risk may cause the Bank losses as a result of lawsuits (including class action lawsuits), sanctions or fines imposed (due to violating conduct-related provisions) and/or reputational damage.

The Bank adheres to transparent and fair practices in an effort to provide its customers with valuable services and products. This principle is reflected in the Bank's vision – to champion proactive, innovative and responsible banking for the customers and to grow expeditiously with the customers in focus. In addition, the proactive and sale processes are subject to procedures and controls that support proper conduct and which are assessed on a regular basis, with the aim of continuously upgrading them.

The consumer-focused regulation trend continues, with emphasis on conduct. In this context, the Bank continues to adhere to the principles of fairness and is working to implement Bank of Israel Directive No. 501, “Managing a Customer Service and Support System”.

The Bank continues to promote the provision of financial services using digital platforms and models; the assumption is that this measure will, among its other advantages, mitigates the conduct risk.

Macroeconomic Risk

Globally, the main macroeconomic changes relate to the cumulative effects of the contractionary monetary process that took place in most countries around the world, in response to the acceleration of inflation. The inflation is moderating in most countries. A year of relatively slow economic growth is expected, although in some countries, the growth rate is especially high. For example, in the fourth quarter of 2023, the US’s GDP was significantly higher than expected, while throughout 2023, growth stood at 2.5 percent compared with 1.9 percent in 2022. Similarly, the US job market continues to show strength. According to the Fed’s Senior Credit Officer Opinion Survey, banks are significantly less impacted by the SVB crisis than last year. In the Eurozone, England and Japan, there was a slight contraction in economic activity, albeit limited in scope. The stock markets completed a year of hikes, commencing 2024 with additional hikes. Specific issues in several banking systems (such as the US and Switzerland) were efficiently addressed. There are significant risks arising from climate change and various geopolitical risks, including the Ukrainian-Russian crisis and the situation in the Middle East, which increase the potential for volatile global economic processes, especially on the back of the threat on global shipping routes, especially around the Red Sea.

The Iron Swords War is a significant event which casts a heavy shadow on the business and economic activity and is accompanied by substantial uncertainty. The War has brought about an adverse effect on economic activity and a rise in unemployment under its broad definition, with the severity of the impact depending, inter alia, on the duration and extent to which further areas in Israel are directly affected by the War, the extent of harm to the population and the various components of the economic response. The damage to economic activity reflects adverse effects both on the supply side of the economy, and on the demand side. On the supply side, several factors can be pointed out, including lengthy recruitment of employees to reserve duty and damage to the economic infrastructure in various fields. On the demand side, an example can be given of the substantial harm to consumer trust and business confidence, with a substantial adverse effect on the aggregate demand in the economy. These effects were reflected with the outbreak of the War and gradually moderated in November-December 2023.

At this stage, according to the Bank's initial assessments, the economic sectors whose activities are particularly exposed to the War's damages are: agriculture, construction and the culture and leisure sectors (tourism, restaurants, entertainment, etc.), as well as some industrial and commercial sectors, depending on their location.

2023 was characterized by public events - legislative and social, with an emphasis on the legislative processes led by the government. Against the backdrop of the War, the risk level from these events has decreased for the time being.

On March 1, 2023, Fitch reiterated the State of Israel's credit rating at A+ with a stable outlook. Subsequently, on May 29, 2023, the agency published a review and analysis of the Israeli economy, particularly regarding Israel's expected budgetary trajectory and possible effects of the public events in Israel - legislative and social.

In May 2023, S&P published a report on the credit rating of the State of Israel. The agency reiterated the credit rating and the rating outlook, at a level of AA- with a stable outlook. The report includes reference to the political, social and security risks that may affect the future rating outlook and/or credit rating.

On October 17,2023, rating agency Fitch announced it was placing the State of Israel on Rating Watch Negative. The rating watch is intended for cases where sudden material changes may result in a credit downgrade within a relatively short period of time. Israel's placement on the rating watch stems from the deterioration in the geopolitical situation, which may result in a credit downgrade within a short period of time.

On October 24, 2023 the S&P rating agency changed the State of Israel's rating outlook from stable to negative due to the War. Following the steps taken by the rating agencies in connection with the State of Israel's rating, Moody's and Fitch also placed the Israeli banks on Negative Rating Watch and on October 31, 2023 S&P Maalot reiterated the Bank's issuer rating, ilAAA, and the ratings of its issuances, as well as the stable outlook.

On February 9, 2024, Moody's downgraded the State of Israel's credit rating from A1 to A2, changing the State of Israel's rating outlook to negative. Moody's report emphasizes the weaknesses stemming from the current situation in Israel in several aspects. Moody's estimates that Israel's debt burden will be significantly higher than expected prior to the War. The negative rating outlook reflects Moody's assessment that the risk of an escalation of the conflict with Hezbollah in northern Israel remains significant, which has a potentially significant negative effect for Israel's economy. On the other hand, the rating process also takes into account the Israeli economy's long-standing strengths.

Following the downgrading of the State of Israel's credit rating from A1 to A2 with a negative outlook, on February 13, 2024, Moody's announced that it was also downgrading long-term deposits to A3 and the short-term to P-2 of the Bank and other Israeli banks, as well as the CRR rating of the Bank and other Israeli banks to A2, with a negative outlook.

Risk Profile - Defining Risk Factors' Severity

The methodology for classifying the severity of the exposures to various risks, as depicted in the risk factors' severity table below, is based on quantifying the effect of various scenarios materializing on the Group's capital, i.e. its stability. There are five levels of severity, with a highly severe risk defined as damage leading to a decrease of the capital adequacy ratio of CET1 capital under the risk appetite level (a CET1 capital ratio of 6.5 percent). The classification into other risk levels is made as a function of the potential damage to the Group's CET1 capital adequacy and a relevant subjective assessment. Factors affecting the assessments include various considerations, such as: Risk management processes, effect of interaction with other risks and changes in the external risk environment which can increase or decrease the severity of the risks beyond the quantitative damage to the Bank's capital. The subjective assessment also includes expert assessments by relevant functions in the Bank. In cases where a specific quantitative scenario does not adequately express the severity of a risk factor, greater weight will be given to a qualitative estimate.

In light of the above, it should be emphasized that the effect of the various risk factors varies among the banks, so extra care should be exercised in making various comparisons.

Some of the information in this section constitutes "forward-looking information". For the meaning of the term, please see under "Forward-Looking Information".

Table of risk factor severity

	Risk	Definition	Level of severity* 2023	2022
1	Overall credit risk**	The Bank's risk of loss as a result of the possibility that a counterparty fails to meet its commitments towards the banking corporation. This relates to on-balance-sheet and off-balance-sheet credit risk.	Moderate-high	Moderate
1.1	Borrower- and collateral quality risk**	Risk for default by a borrower or counterparty which causes them to fail to meet their contractual financial obligations, such as default by a borrower or counterparty in derivatives and the residual risk for failure to realize a collateral.	Moderate-high	Moderate
1.2	Concentration risk of a large borrower or group of borrowers	The credit risk arises from the borrowers' relatively large portion of the Bank's loan portfolio.	Low	Low
1.3	Concentration risk per industry or segment	The credit risk arises from concentration of loans to borrowers in certain economic sectors or segments.	Moderate	Moderate
2	Overall market risk	Risk of exposure of the Group's assets to changes in foreign exchange rates, inflation and asset prices, the correlation between them and their volatility.	Low-moderate	Low-moderate
2.1	Basis Risk	The risk arising from exchange rate fluctuations, including inflation (held-for-trading and banking portfolios).	Low	Low
2.2	Interest rate risk	The risk arising from interest rate fluctuations (held-for-trading and banking portfolios).	Low-moderate	Low-moderate
2.3	Interest spread and share price risk	The risk arising from fluctuations in share and bond prices in the commercial and banking portfolios for assets revalued to market prices.	Low-moderate	Low-moderate
3	Liquidity Risk	The risk arising due to the inability to withstand uncertainty as to the ability to raise funding and/or dispose of assets, unexpectedly and within a very short time, without incurring a substantial loss.	Low-moderate	Low-moderate
4	Operational risk	The risk of loss as a result of inadequate, or failure of, internal processes, people and systems, or external events.	Moderate	Moderate
4.1	Information security and cyber risk	A risk arising from attack on the IT systems and/or IT infrastructure, which may result in information theft, in theft of financial assets (cash and cash equivalents) and/or disruption to the operational continuity (by disrupting information and/or compromising availability).	Moderate-high	Moderate-high
4.2	Technology risk	The risk of loss as a result of malfunctions and mechanical failures, as a result of processes for advancing and implementing technological innovation/innovative products and services and/or projects	Moderate	Moderate
5	Models Risk	The exposure to loss or harm to the Bank's reputation due to erroneous, model-based decision-making, as a result of: Using an erroneous model, reliance on non-representative data, errors in implementing the model or faulty use of the model.	Moderate	Moderate

	Risk	Definition	Level of severity*	
			2023	2022
6	Legal and regulatory risk	Total risks included in the legal risk and regulation risk outlined in the report.	Moderate	Moderate
7	Compliance Risk	Risk arising from non-compliance with legal provisions and binding regulations.	Moderate	Moderate
8	Reputational Risk	The risk that negative publicity will reduce the customer base, cause a decline in income or liquidity or lead to high legal expenses.	Low-moderate	Low-moderate
9	Strategic Risk	Strategic risk is the risk of significant harm to current and future financial resilience and a result of harmful business decisions, faulty implementation of strategic decisions or failure to respond to changes in the banking sector and operating environment.	Moderate	Moderate
10	Global systemic risk***	Risks caused due to global external events which may bring about the materialization of several risks at once.	Moderate	Moderate-high
11	Local systemic risk**	Risks resulting from local events which may lead to the materialization of several risks at once.	High	Moderate-high

* In reference to a possible damage to the capital adequacy and subjective assessment of risks that are not easily quantifiable. The level of risk does not express the probability for its materialization but rather the damage to the Bank if the scenario were to materialize.

** On the back of the War's adverse economic potential, the severity level of the local macroeconomic risk was raised from "moderate-high" to "high" in the third quarter of 2023. In this context and in view of the continuing trend of rising interest rates, the level of severity of the overall credit risk and of the borrower and collateral quality risk was increased from "moderate" to "moderate-high".

*** With regard to the global systemic risk, despite projections for a year of relatively slow growth, macroeconomic parameters indicate moderation and recovery, and in view of that, in the fourth quarter of 2023, the level of severity was reduced from "moderate-high" to "moderate".

Critical Accounting Policies and Estimates

Overview

The preparation of the consolidated financial statements in accordance with generally accepted accounting principles and directives of the Banking Supervision Department requires Management to use estimates and assessments which affect the reported amounts of assets and liabilities (including contingent liabilities) as well as income and expense amounts.

In most cases, the estimates and assessments are based on economic forecasts, assessments regarding different markets and past experience, while exercising discretion, and which Management believes to be reasonable at the time of preparing the financial statements. Some of these estimates and assessments embody a high level of uncertainty and may be affected by, or highly sensitive to, future changes. These estimates and assessment, the level of change in which may materially affect the Bank's financial results, are considered critical estimates and assessments.

The actual results of these line items may differ from the estimates and/or assessments.

Note 1 provides a detailed description of the significant accounting policies applied by the Leumi Group.

Set forth below is a condensed description of principal critical accounting issues which required management to make estimates and assumptions and which were discussed by the Board of Directors, management and the joint auditors:

Loan Loss Provision and Classification of Troubled Debts

As of January 1, 2022, the Bank is implementing the directives of the Banking Supervision Department on Current Expected Credit Losses (CECL) ASC 326, Financial Instruments - Credit Losses. The new rules present a new methodology for recording loan losses, which primarily results in earlier recognition of loan losses. The purpose of the new rules is to improve the quality of reporting on a banking corporation’s financial position by early recording of the loan loss provisions so as to in order to support a swifter response by banks to a deterioration in borrowers’ credit quality and enhance the correlation between credit risk management and the manner in which these risks are reflected in the financial statements. The rules are based on existing methods and processes.

As a result of applying the new rules, the Bank updated and adjusted the loan loss provision methodology; according to the revised methodology, the loan loss provision is comprised both of a quantitative element and a qualitative element. As a rule, the Bank’s estimates are based on past losses after adjustment due to credit characteristics, adjustment for current economic conditions and reasonable future forecasts. Depending on the credit portfolio, the quantitative components are based, inter alia, on net charge-offs, probability of default and loss given default. These estimates take into account several risk and economic characteristics, such as past losses, the risk groups’ risk profile, debt classification, composition of the credit portfolio, state of collateral, risk appetite, current economic and expected conditions, etc. The Bank’s estimates include assessments which reflect, inter alia, conditions of uncertainty and may naturally change from time to time.

The Bank has set procedures to maintain a loan loss provision adequate for covering the current expected credit losses arising from its loan portfolio, including off-balance sheet credit risk.

As a rule, the estimate of a current expected credit losses is calculated over the contractual period of the financial asset, taking into account early repayment estimates according to quantitative methods formulated by the Bank, and taking into account expected restructuring of troubled debt with the borrower, as applicable. A provision calculated on a collective basis for loans is based, as a rule, on the recorded outstanding debt, net of interest accrued as at the reporting date.

The measurement of the loan loss provision is based on segmenting the Bank’s credit portfolio into groups sharing similar risk characteristics (a process called “segmentation”). Following is a summary of the Bank’s approach to segmentation relating to portfolios, economic sectors and business functions: The Bank segments the loans to the public to four main portfolios, each of which is divided into sub-groups: (1) Business-commercial credit in the Corporate Division; (2) Commercial credit, which mainly reflects credit to small businesses, in the Retail Banking Division; (3) Non-housing loans to private individuals; and (4) Housing loans. In general, commercial credit is segmented into economic sectors, while credit to private individuals is segmented into main business lines. As for housing loans, the measurement is based on characteristics at the individual loan level. In the next stage, the Bank distinguishes between non-troubled and troubled credit.

The provision to cover the current expected credit losses in the loan portfolio is estimated through one of the two tracks: a collective provision and an individual provision. For information, please see Note 1.H.

Collective provision

1. In non-housing segments, the provision is usually estimated using the loss-rate method. This process is initially based on average past losses in the portfolio, represented by net charge-offs as from 2011 and until the quarter preceding the reporting date. Past losses are adjusted later in the process, using a series of risk and economic characteristics, such as past losses, the risk groups' risk profile, debt classification, composition of the credit portfolio, state of collateral, risk appetite, concentration of the credit portfolio, risk ratings, the Bank's credit provision policy and procedures, and additional terms and conditions. The process is intended to adjust the historic information so as to reflect the level at which the current term conditions and reasonable supportable forecasts may be different than the terms and conditions prevalent during the period in which the historic information was assessed. In the next stage, the Bank incorporates reasonable and well-substantiated forecasts for one year, followed by one year for historical data, adjusting for current conditions, on a linear basis. At the end of the process, the provision for estimates is adjusted for expected recoveries in respect of charged off debts. Changes in these estimates are recognized as incurred against the loan loss provision.

   The provision for off-balance sheet credit is recognized for obligations that may not be unconditionally terminated by the Bank, and is based on the segmentation described above, taking into account the Bank's estimates regarding the reasonableness of utilizing the various off-balance sheet items (i.e., credit conversion coefficients). These estimates are based both on past experience of the Bank - which indicates utilization rates - and on subjective judgment. The provision is presented in the balance sheet under "Other liabilities".

   This process involves significant judgment and expert assumptions, in order to reflect the best expectations and assessments of management regarding current expected credit losses.

2. In the housing loans segment, the Bank measures the current expected credit losses based on the probability of default and loss given default. The process also begins with historic information, which is adjusted for current conditions and reasonable substantiable forecasts or a period of one year. Following this period, the Bank reverts to three years of historic information adjusted for current conditions on a linear basis. The provision for off-balance sheet credit is recognized based on the Bank's estimates relating to the probability of utilizing the binding credit facilities. Changes in the loan loss provision for housing loans, including for housing loans classified as non-performing, are presented as loan loss expense for debts examined on a collective basis.

Classification of troubled debts and specific provision

The Bank assesses the loan portfolio on an ongoing basis and in accordance with procedures in order to identify, as soon as possible, borrowers whose risk level and exposure increased and who require special supervision and close monitoring by management. either due to risk characteristics or as a result of economic/market conditions that might have an adverse effect on the borrowers, aiming to improve their condition. As to corporate customers, judgment is exercised by corporate department's employees dealing with the borrower in order to assess the extent of the problem, which is then assessed by the Credit Risk Management units of the Risk Management Division with the aim of making an objective assessment, to the extent possible, of the identified problems in order to determine the borrower's risk rating.

As a rule, a commercial debt with a contractual balance of NIS 1 million or more is examined on an individual basis by the competent functions at the Bank regarding their classification as troubled debts, including recording a charge-off if relevant. As a rule, other Bank customers are examined for the purpose of their classification on the basis of their extent of arrears and according to certain automated defined negative indicators.

Non-performing debts, excluding housing loans, are debts which the Bank believes do not share the risk characteristics with performing debts, and therefore assesses their respective provision on a specific basis.

As part of its credit risk management activities, the Bank applies measures to identify troubled debts across each business line (in accordance with its unique characteristics) as early as possible. In the Corporate Division, the assessment is based, inter alia, on criteria which constitute red flags for troubled debts. Accordingly, if needed, the risk rating is updated and the debt is defined as sensitive. The Retail Banking Division identifies sensitive customers mainly in an automated manner, based on criteria predefined for this type of customers.

Customers identified as sensitive are reassessed each quarter, prior to the publication of the financial statements.

The methodology for dealing with troubled debts requires, among other things, a methodical assessment of the adequacy of the loan loss provision for debts classified as non-performing. The provision is assessed according to the difference between the recorded outstanding debt and the present value of the future cash flows expected to service the debt from the customer's activity and the realization of collaterals and other assets, discounted at the effective interest rate of the debt. For debts the repayment of which relies on collateral (collateral-contingent debts) and for which there are no other available and reliable sources of repayment, the provision is determined based on the fair value of the collateral less costs of disposal and after triggering buffers for the collateral's value such that it will be possible to realize the collateral and have the debt repaid therefrom. In this context, it should be noted that the Bank is implementing the requirements of the Bank of Israel, according to which debts are classified based on the debtor's repayment capacity; i.e. – the expected strength of the primary repayment source of the debt, despite support by secondary and tertiary repayment sources, such as collateral and guarantors.

Similarly, to examining the adequacy of the classifications, the liability adequacy was also tested on a quarterly basis, in accordance with the requirements of the Bank of Israel.

According to revised Proper Conduct of Banking Business Directives, the Risk Management Division is responsible for setting appropriate classifications and allowances for credit losses. In addition to the discussions held with the participation of business divisions' managements and by representatives of the Risk Management Division, the Bank's Provisions Committee, headed by the President and CEO, holds quarterly discussions as to the aggregate amount of the provisions required for that quarter and the classification of specific provisions (in excess for a stipulated threshold amount).

For more information regarding first-time application of the directives of the Banking Supervision Department on Current Expected Credit Losses (CECL), please see Note 1.X.1 to the to the financial statements as at December 31, 2022.

Fair value measurements

The Bank applies the rules set in ASC 820, which defines fair value and sets a consistent basis for fair value measurement by defining fair value valuation techniques to be used to measure the value of assets and liabilities, setting the fair value hierarchy and providing detailed implementation guidelines. In addition, the Bank applies the directives of the Banking Supervision Department on the subject. The main items measured at fair value by the Bank in each period are available-for-sale bonds, held-for-trading securities, not held for trading equity securities for which there is an available fair value and derivatives.

Fair value is the amount/price that would be received to sell an asset or the price that would have been paid to transfer a liability in an orderly transaction between knowledgeable, willing parties at measurement date. Among other things, the provisions require to maximize the use of observable inputs and minimize the use of unobservable inputs in fair value measurement. Observable inputs represent market data obtained from independent sources, whereas unobservable inputs reflect, as a rule, the banking corporation's assumptions.

ASC 820 outlines a hierarchy of measurement techniques based on the assertion whether the input used to determine the fair value are observable or non-observable. The following types of inputs create a fair value hierarchy:

- Level 1 inputs: Quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2 inputs: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; prices derived from fair value measurement models whose principal data are observable or corroborated market inputs.
- Level 3 inputs: Unobservable inputs for the asset or liability.

The categorization of a financial instrument's fair value measurement within the fair value hierarchy is determined based on the lowest level input that is significant to the entire fair value measurement.

The fair value of Israeli securities is based mainly on quoted prices on the Tel Aviv Stock Exchange; the fair value of foreign securities is based on prices received from external sources. As to fair value of foreign securities, most of the portfolio is calculated on a daily basis by a reputable international entity engaged in fair value measurement of financial assets for purposes of disclosure in financial statements. This entity is not dependent on issuing and marketing entities. The calculation is mainly based on transaction prices in active markets and on revaluation of similar transactions. The calculation reflects the price that a willing buyer would pay for securities based on current observable market inputs. Since only some of the securities are traded worldwide on a daily basis, the revaluing entity establishes its data for purposes of determining a price by applying a pricing algorithm to actual transactions and quotes from global and domestic banks, brokers and stock exchanges. If little or no market inputs are available, the revaluing entity uses sophisticated valuation models, taking into consideration the issuing entity's identity and the relevant industry.

Fair value of non-marketable bonds of Israeli companies is based on inputs received from Fair Spread Ltd. The Bank validated the model and verified the fair value to a reasonable degree of certainty.
Sometimes, for reasons of conservatism, when there are indicators justifying such adjustments, the Bank adjusts the model and/or market price in order to establish a more accurate fair value. As for derivatives, the Bank applies Topic 815 and the Banking Supervision Department's directives on the subject.

In particular, the Bank reflects the credit risk and nonperformance risk in the measurement of fair value of debt, including derivatives, issued by it and measured at fair value. Non-performance risk includes, but is not limited to, the banking corporation's credit risk.

Specific guidelines were set as to the methodology and inputs to be used in the calculation of derivatives' fair value. The Bank calculates the credit risk provision at customer level, using a credit quality index, based on internal valuation models or market inputs.

For more information regarding the effect of the credit risk on derivatives, see Note 28B.C.

For more information regarding measurement of fair value, please see Note 1.G.

Impairment of securities in the available-for-sale portfolio

The Bank estimates the current expected credit losses for bonds in the available-for-sale portfolio at each reporting date if the fair value of the security is lower than its amortized cost. In any such case, the Bank examines whether there is an intent to sell the security or whether the Bank believes that it is more likely than not that it will be required to sell the security before recovering its carrying amount. If the answer is positive - the entire difference between the carrying amount and the fair value is recognized in profit and loss. If the answer is negative, the Bank examines whether the fair value impairment arises from loan losses or other factors, and if the Bank believes that the impairment arises from loan losses - it is recognized through the loan loss provision, while any other impairment is recognized against other comprehensive income. A loan loss exists when the Bank does not expect principal and interest inflows to adequately recover the entire amortized cost of the security. The loan loss provision is limited to the amount in which it exceeds the security's amortized cost over its fair value. The provision amount is updated upwards or downwards according to changes in assessments in subsequent periods.

As part of the Bank's assessment regarding the existence of a loan loss, the Bank examines data, assessments and various information items.

According to the new rules, the Bank does not take into consideration the time during which the security's fair value was lower than its cost.

If the Bank decides to carry out a quantitative test, the latter shall be done using the PD LGD method. As part of the test, a comparison is made between the discounted cash flows and the fair value and amortized cost. If the expected discounted cash flow amount is lower than the amortized cost, the difference is recognized as a loan loss provision. If the fair value of the bond is higher than the discounted cash flow amount, the provision is recognized up to the minimum fair value.

For more information regarding impairment testing, please see Note 1.H.

For more information, please see under "Structure and Development of Assets and Liabilities, Equity and Capital Adequacy", under "Securities".

Liabilities for Employee Benefits

Retirement and pension benefits are determined according to a classification of different employment periods at the Bank: Employees who began working at the Bank from January 1 1999 and have yet to receive permanent employee status as of the date of signing the special collective agreement in 2000 regarding the pension arrangement, make ongoing contributions to an external pension plan, for which the Bank has no pension liability, except for supplementary severance pay in some cases (Generation B). Employees who began working at the Bank prior to January 1 1999 and have received permanent employee status by the signing of the agreement may choose, on reaching retirement age, to either receive severance pay and compensation from the Bank or a pension annuity, all in accordance with, and subject to, the provisions of the various agreements applicable to these employees (Generation A employees). For these employees, the Bank deposits contributions for pension and severance pay in the Bank employees' provident fund, which is managed by a management company held by the fund's planholders.

The Bank makes, from time to time, contributions for severance pay and pension which accumulated or will be accumulated in the severance and pension funds of employees who have opted for or will opt for a social security arrangement to a paying fund. The Bank also purchases, from time to time, an insurance policy for its retirees, at its own expense.

The calculation of the pension liabilities amounts is based on actuarial models. The discount rate used to calculate the actuarial liability for employee benefits is based on market yields under the directives of the Bank of Israel from among, according to which the yield curve is composed of yields of Israeli Government bonds plus a spread curve of AA-rated corporate bonds which match the average durations of the liabilities for employee rights.

Based on past experience, the actuarial calculations also take into account the forecasted nominal pay raises that change according to the employee's age.

Moreover, according to the Reporting to the Public Directives, the Bank estimates the expected long-term rate of return on plan assets by using historic rates of return over the long term in a portfolio with a similar asset composition.

The actuarial models include, inter alia, assumptions about: Life expectancy, departure rates, exit rates with preferential terms and conditions, percentage of utilizing retirement benefits and percentage of withdrawal of pension and severance pay, etc. These criteria were set using judgment and based on internal and external estimates; it is clarified that a change in any or several of the actuarial criteria and/or discount rate and/or pay raise rates may result in a material change in the Bank's liabilities amount.

The calculation of the actuarial liability is affected by assumptions based on multiple studies and estimates; the actuarial assumptions are validated by studies conducted at least every three years. The criteria for determining the actuarial assumption include:

- External sources - in certain criteria, such as mortality schedules published by the Commissioner of the Capital Market or express assumptions by the Banking Supervision Department on the discount rate, the Bank uses external sources.
- Internal estimates - in certain criteria specific to the Bank, the Bank uses internal estimates that are mainly based on past experience (such as studies regarding pay raise rates, studies on departures, etc.) and the Bank’s work plans that are approved by the management and board of directors of the Bank.

Calculation of the actuarial liability is validated independently, by the Bank’s validating actuary.

During 2023, adjustments were made to the actuarial assumptions, the main one being the early retirement assumption (benefits paid upon retirement beyond the contractual liability).

Set forth below is a quantitative sensitivity analysis of the impact of principal assumptions on the calculation of the actuarial liability

A 1.0 percent increase/decrease in the discount rate of the abovementioned liabilities will result in a decrease/increase of approx. NIS 2.1/2.5 billion, respectively, in total liabilities. A 1.0 percent increase/decrease in pay raise will result in a decrease/increase of approx. NIS 0.4/0.4 billion in total liabilities. A 5 percent increase in life expectancy will result in a approx. NIS 298 million increase in total liabilities.

The actuarial assessment of the employee benefits is on the Israel Securities Authority's website, on the following address www.magna.isa.gov.il.

As at December 31, 2023, the balance of accumulated other comprehensive income for employee benefits amounted to a negative post-tax balance of NIS 1,147 million, compared to a negative post-tax reserve of NIS 1,397 million as at December 31, 2022.

The outstanding balance of the liability for employee benefits as at December 31 2023, according to a discount rate based on Israeli corporate bonds ("deep market according to the Israel Securities Authority's approach") is approx. NIS 1,511 million less than the actual outstanding balance of the liability.

Liabilities for Legal Claims

The Bank's liabilities also include provisions for various legal claims lodged against the Bank, including motions to approve class action suits. The provisions are determined based on management's estimates according to legal opinions.

The Bank's Provisions Committee, headed by the Company's President and CEO, and the Board of Directors' Audit Committee hold quarterly discussions on provisions for legal claims lodged against the Bank whose amounts exceed a certain threshold.

In order to assess the risks arising from legal claims lodged against the Bank, management relies on the opinion of external legal advisors representing the Bank in those legal claims.

These legal opinions are issued by the external legal advisors according to the best of their judgment, based on the facts presented to them by the Bank and based on the legal position (set out in law and case law) as known on assessment date, and which are quite often subject to interpretation and to potential conflicting arguments.

Assessment of the risks inherent in motions to certify class actions is complex, among other things due to the unique characteristics of the procedure. Furthermore, there are claims in which external legal advisors are unable to assess the risk arising therefrom, in view of the stage in which the procedure is at.

In view of the above, the actual outcomes of the legal claims may be different than the provisions made in respect thereof.

Income Tax

Current and deferred taxes are carried to the income statement or directly to equity if they arise from items that are recorded directly in equity.

As from January 1, 2017 the Group applies US GAAP to taxes on income pursuant to a circular published by the Banking Supervision Department on October 22, 2015 on "Reporting by banking corporations in Israel according to US GAAP on the subject of taxes on income" and pursuant to a circular published on October 13, 2016 on "Reporting by Banking Corporations Pursuant to US GAAP".

Current taxes

Current tax is the amount of income taxes payable (recoverable) for the taxable income for the tax year calculated at the applicable tax rates under tax laws that have been enacted as at the end of the reporting period. A law shall be considered as having been enacted only after its publication in the Official Gazette.

Deferred taxes

Deferred taxes receivable/payable are recognized for temporary differences between the carrying amount of assets and liabilities as reported in the financial statements and those taken into account for tax purposes. Deferred tax balances are measured at the tax rates expected to be in effect at the time the deferred tax asset is utilized, based on the tax rates and tax laws enacted as at the end of the reporting period. A law shall be considered as having been enacted only after its publication in the Official Gazette.

Deferred tax assets for carryforward losses, tax benefits and deductible temporary differences are recognized in the books of accounts when it is more likely than not that the Group will have future taxable income against which it will be able to utilize its deferred tax assets.

Uncertain tax positions

The Bank applies the recognition and measurement rules prescribed by ASC 740 regarding uncertain tax positions; as a result, the Bank recognizes the effect of tax positions only if it more likely than not that the positions will be accepted by the tax authorities or court. Recognized tax positions are measured at the highest amount that has a greater than 50 percent likelihood of being realized.

Controls and Procedures Regarding Financial Statements Disclosures

The Banking Supervision Department’s directives impose the requirements of Sections 302 and 404 of the SOX Act on banking corporations. The SEC and the Public Company Accounting Oversight Board have established provisions with regard to the abovementioned sections, on management's responsibility for instating and maintaining disclosure controls and procedures and for exercising internal control over financial reporting and the opinion of the independent auditors on the audit of internal control over financial reporting.

The Banking Supervision Department’s directives require the following:

- Banking corporations shall apply Sections 302 and 404 and the SEC directives issued thereunder.
- Adequate internal control requires an auditing system that follows a predefined, recognized framework, and the COSO (Committee of Sponsoring Organizations of the Treadway Commission) meets these requirements and can be used to evaluate the internal controls.

The Bank regularly applies the directive to the Leumi Group.

During 2023, the Bank validated and updated material control processes and conducted effective evaluations of its entire system of internal control over financial reporting.

Evaluation of disclosure controls and procedures

The Bank's management, with the cooperation of the President and CEO and Head of the Finance and Accounting Division and Chief Accountant, have evaluated the effectiveness of the Bank's disclosure controls and procedures as at the end of the reporting period. Based on this evaluation, the Bank’s President and CEO and the Head of the Finance and Accounting Division and the Chief Accountant have concluded that, as at the end of the reporting period, the Bank’s disclosure controls and procedures are effective for the purpose of recording, processing, summarizing and reporting the information the Bank is required to disclose in its financial statements pursuant to the Banking Supervision Department’s Reporting to the Public Directives and as at the date prescribed by the Directives.

Internal control changes

In the quarter ended December 31, 2023, no material change has occurred in the Bank’s internal control over financial reporting which has had a material effect, or is reasonably expected to have a material effect, on the Bank's internal control over financial reporting.

The Board of Directors

In 2023, Leumi's Board of Directors held 39 plenum meetings and its committees held 55 meetings.

At a meeting held on March 18, 2024, the Board resolved to approve and publish the Group's consolidated audited financial statements as at December 31, 2023 and for the period then ended.

The Bank's Board of Directors would like to express its appreciation and gratitude to the employees and managers of the Bank and the Group's subsidiaries - both in Israel and overseas - for their dedicated work and contribution to the Group's business.

Dr. Shmuel (Muli) Ben Zvi
Chairman of the Board

Hanan Friedman
President and Chief Executive Officer

March 18, 2024

Certification

I, Hanan Friedman, hereby certify as follows:

1. I have reviewed the annual report of Bank Leumi le-Israel B.M. (hereinafter - the “Bank") for 2023 (hereinafter - the “Report").

2. To my knowledge, the Financial Statements do not contain any misrepresentation of a material fact, nor do they omit a representation of a material fact that is necessary in order for the representations included therein - under the circumstances in which such representations were included - to be misleading as to the reporting period.

3. To my knowledge, the financial statements and other financial information included in the report fairly represent, in all material aspects, the Bank’s financial position, financial performance and changes in shareholders' equity and cash flows as at the dates and for the periods presented in the Report.

4. I and others at the Bank signing this certification are responsible for the establishment and implementation of controls and procedures regarding the Bank's disclosure and internal control over financial reporting (as defined in the Reporting to the Public Directives regarding “Report of the Board of Directors and Management"). In addition:

   A. We have established such controls and procedures, or caused such controls and procedures to be established under our oversight, with the aim of ensuring that material information about the Bank and its consolidated companies is brought to our attention by others in the Bank and said companies, especially during the preparation of the Financial Statements;

   B. We have established such internal control over financial reporting or have caused such internal control to be established under our oversight, with the aim of providing reasonable assurance as to the reliability of the financial reporting and that the financial statements for external purposes have been prepared in accordance with the generally accepted accounting principles and the directives and guidance of the Banking Supervision Department;

   C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in the report our conclusions regarding the effectiveness of the disclosure controls and procedures as at the end of the reporting period according to our evaluation; and

   D. The Report discloses any change in the Bank’s internal control over financial reporting which occurred during the fourth quarter and has materially affected, or is reasonably expected to affect, the Bank’s internal control over financial reporting; and

5. I and others at the Bank signing this certification have disclosed to the joint independent auditors, the Board of Directors, and the Board of Directors’ committees, based on our most recent evaluation of the internal control over financial reporting, the following:

   A. All significant deficiencies and material weaknesses in the establishment or implementation of the internal control over financial reporting that are reasonably expected to harm the Bank’s ability to record, process, calculate and report financial information; and

   B. Any fraud, whether or not material, involving management or other employees who have a significant role in the Bank's internal control over financial reporting.

Nothing in the foregoing shall derogate from my responsibility or the responsibility of any other person, under any law.

March 18, 2024

Hanan Friedman
President & Chief
Executive Officer

Certification

I, Hagit Argov, hereby certify as follows:

1. I have reviewed the annual report of Bank Leumi le-Israel B.M. (hereinafter - the “Bank") for 2023 (hereinafter - the “Report").

2. To my knowledge, the Financial Statements do not contain any misrepresentation of a material fact, nor do they omit a representation of a material fact that is necessary in order for the representations included therein - under the circumstances in which such representations were included - to be misleading as to the reporting period.

3. To my knowledge, the financial statements and other financial information included in the report fairly represent, in all material aspects, the Bank’s financial position, financial performance and changes in shareholders' equity and cash flows as at the dates and for the periods presented in the Report.

4. I and others at the Bank signing this certification are responsible for the establishment and implementation of controls and procedures regarding the Bank's disclosure and internal control over financial reporting (as defined in the Reporting to the Public Directives regarding “Report of the Board of Directors and Management"). In addition:

   A. We have established such controls and procedures, or caused such controls and procedures to be established under our oversight, with the aim of ensuring that material information about the Bank and its consolidated companies is brought to our attention by others in the Bank and said companies, especially during the preparation of the Financial Statements;

   B. We have established such internal control over financial reporting or have caused such internal control to be established under our oversight, with the aim of providing reasonable assurance as to the reliability of the financial reporting and that the financial statements for external purposes have been prepared in accordance with the generally accepted accounting principles and the directives and guidance of the Banking Supervision Department;

   C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in the report our conclusions regarding the effectiveness of the disclosure controls and procedures as at the end of the reporting period according to our evaluation; and

   D. The Report discloses any change in the Bank’s internal control over financial reporting which occurred during the fourth quarter and has materially affected, or is reasonably expected to affect, the Bank’s internal control over financial reporting; and

5. I and others at the Bank signing this certification have disclosed to the joint independent auditors, the Board of Directors, and the Board of Directors’ committees, based on our most recent evaluation of the internal control over financial reporting, the following:

   A. All significant deficiencies and material weaknesses in the establishment or implementation of the internal control over financial reporting that are reasonably expected to harm the Bank’s ability to record, process, calculate and report financial information; and

   B. Any fraud, whether or not material, involving management or other employees who have a significant role in the Bank's internal control over financial reporting.

Nothing in the foregoing shall derogate from my responsibility or the responsibility of any other person, under any law.

March 18, 2024

Hagit Argov
Executive Vice President
Chief Accounting Officer
Head of Finance and Accounting Division

Report of the Board of Directors and Management regarding the Internal Control over Financial Reporting

The Board of Directors and management of Bank Leumi le-Israel B.M. are responsible for the creation and existence of adequate internal control over financial reporting (as defined in the Reporting to the Public Directives regarding the "Report of the Board of Directors and Management"). The Bank's internal control system was designed to provide a reasonable degree of assurance to the Bank's Board of Directors and management regarding adequate preparation and presentation of financial statements published in accordance with Generally Accepted Accounting Principles and the directives and guidance of the Banking Supervision Department. Regardless of the level of their design, all internal control systems have inherent limitations. As a result, even if it has been established that these systems are effective, they can provide only a reasonable degree of assurance regarding preparation and presentation of financial statements.

Management, under the Board of Directors' supervision, has in place a comprehensive system of controls designed to ensure that transactions are carried out in accordance with management's authorizations, that assets are protected and that the accounting entries are reliable. In addition, management, under the Board of Directors' supervision, takes steps to ensure that the information and communication channels are effective and monitors execution, including the execution of internal control procedures.

The Bank's management, under the Board of Directors' supervision, has assessed the effectiveness of the Bank's internal control over financial reporting as at December 31, 2023, based on criteria established by the internal control model of the COSO (Committee Of Sponsoring Organizations of the Treadway Commission); based on this assessment, management believes that, as at December 31, 2023, the Bank's internal control over financial reporting is effective.

The effectiveness of the Bank's internal control over financial reporting as at December 31, 2023 was audited by the Bank's joint independent auditors - Brightman Almagor Zohar & Co. and Somekh Chaikin, as noted in their report, which included an unqualified opinion regarding the effectiveness of the Bank's internal control over financial reporting as at December 31 2023.

March 18, 2024

Dr. Shmuel (Muli) Ben Zvi
Chairman of the Board

Hanan Friedman
President & Chief Executive Officer

Hagit Argov
Executive Vice President
Chief Accounting Officer
Head of Finance and Accounting Division

Report of the Joint Independent Auditors to the Shareholders of Bank Leumi le-Israel B.M.

In accordance with the Reporting to the Public Directives of the Banking Supervision Department regarding Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Bank Leumi le-Israel B.M. and its subsidiaries (hereinafter, jointly - the “Bank”) as at December 31, 2023, based on criteria established by the Internal Control - Integrated Framework published by the COSO (Committee of Sponsoring Organizations of the Treadway Commission) (hereinafter - “COSO”). The Bank’s Board of Directors and management are responsible for the existence of effective internal control over financial reporting and for their assessment of the effectiveness of the internal control over the financial statements, which is included in the Report of the Board of Directors and Management regarding the Internal Control over the attached financial report. Our responsibility is to express an opinion regarding the internal control over financial reporting of the Bank’s based on our audit.

We have prepared our audit in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) in the US regarding auditing of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel. According to these standards, we are required to plan and perform the audit so as to obtain a reasonable degree of assurance that effective internal control over financial reporting has been exercised, from all material respects. Our audit included obtaining an understanding regarding internal control over financial reporting, assessment of the risk of a material weakness as well as consideration and assessment of the effectiveness of the planning and operation of internal control based on the assessed risk. Our audit also included implementation of other procedures we believed necessary under the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A bank’s internal control over financial reporting is a process designed to provide reasonable assurance as to the reliability of the financial reporting and that the financial statements for external purposes have been prepared in accordance with generally accepted accounting principles in Israel (hereinafter – "Israeli GAAP) and the directives and guidance of the Banking Supervision Department. A bank’s internal control over financial reporting includes policies and procedures which: (1) Relate to management of records which, if reasonably detailed, precisely and adequately reflect the transactions and transfers of the Bank’s assets (including their removal from its possession); (2) Provide a reasonable degree of assurance that transactions are adequately recorded in order to enable the preparation of financial statements in accordance with Israeli GAAP and the directives and guidance of the Banking Supervision Department and that accepting and spending the bank’s money is made only in accordance with the authorizations of the bank’s Board of Directors and management; and (3) Provide a reasonable degree of assurance regarding the timely prevention or disclosure of an unauthorized purchase, use or transfer (including removal from possession) of the bank’s assets, which may have a material effect on the financial statements.

Due to its inherent limitations, internal control over financial reporting may not prevent or identify misstatement. In addition, drawing conclusions regarding the future based on any current effectiveness assessment is exposed to the risk that the controls become inadequate due to changes in circumstances or that the level of compliance with the policies or procedures may adversely change.

In our opinion, the Bank has exercised, from all material respects, effective internal control over financial reporting as at December 31, 2023, based on criteria determined by the Internal Control - Integrated Framework published by the COSO.

We have also, in accordance with Israeli GAAP and certain auditing standards applied to the auditing of banking corporations in accordance with the directives and guidance of the Banking Supervision Department, audited the Bank's consolidated balance sheets as at December 31, 2023 and 2022 and the consolidated income statements, comprehensive income statements and the consolidated statement of changes in equity and the consolidated statements of cash flows for each of the three years ended on December 31, 2023 and our report dated March 18, 2024 included an unqualified opinion regarding these financial statements.

Somekh Chaikin
A registered partnership in Israel and a partner firm in the global KPMG network, which is comprised of independent firms affiliated with to KPMG International Limited, a privately-owned limited liability British company
Certified Public Accountants

Brightman Almagor Zohar & Co.
A Firm in the Deloitte Global Network
Certified Public Accountants

Joint Independent Auditors

March 18, 2024

KPMG Somekh Chaikin

Deloitte.

Report of the Joint Independent Auditors to the Shareholders of Bank Leumi le-Israel B.M. - Annual Financial Statements

We have audited the attached consolidated balance sheets of Bank Leumi le-Israel B.M. and its consolidated companies (hereinafter - the “Bank”) as at December 31, 2023 and 2022 and the income statements, comprehensive income statements, statements of changes in equity and the statements of cash flows - of the Bank and consolidated - for each of the three years ended December 31, 2023. These financial statements are the responsibility of the Bank's Board of Directors and management. Our responsibility is to express an opinion of these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those standards set forth in the regulations for Certified Public Accountants (Modus Operandi of an Auditor), 1973 and certain auditing standards applied to the auditing of banking corporations in accordance with the directives and guidance of the Banking Supervision Department. According to these standards, it is required that we plan and perform the audit in order to obtain a reasonable degree of assurance that the financial statements are not materially misstated. An audit includes examining, on a sample basis, evidence supporting the amounts and disclosures in the financial statements. An audit also involves 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 statements’ presentation. We believe that our audit provides a reasonable basis for our opinion.

It is our opinion, the said financial statements adequately represent, in all material aspects, the Bank’s financial position as at December 31, 2023 and 2022 and the financial performance and changes in shareholders' equity and cash flows of the Bank for each of the two years ended December 31, 2023, according to Israeli GAAP; in addition, in our opinion, the said financial statements are prepared in accordance with the directives and guidance of the Banking Supervision Department.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) in the US regarding auditing of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the Bank’s internal control over financial reporting as at December 31, 2023, based on criteria established by the Internal Control - Integrated Framework published by COSO (Committee of Sponsoring Organizations of the Treadway Commission), and our report dated March 18, 2024 included an unqualified opinion of the effectiveness of the Bank’s internal control over financial reporting.

Key audit matters

The key audit matters outlined below are the matters that have been communicated, or were required to be communicated, to the Board of Directors of the Bank and which, according to our professional judgment, were the most significant in the audit of the consolidated financial statements for the current period. These matters include, inter alia, any matter that: (1) relates to material line items or disclosures in the financial statements and (2) our judgment of which was challenging, subjective or especially complex. These matters were addressed in our audit and in formulating our opinion of the consolidated financial statements as a whole. The communication of these matters below does not alter our opinion of the consolidated financial statements as a whole and we do not provide therein a separate opinion on these matters or on the line items or disclosures to which they relate.

Loan loss provision

Why the matter was designated as a key audit matter.

From January 1, 2022, the Bank applies accepted accounting principles in the United States regarding expected loan losses (ASC 326) - CECL, according to which the Bank makes an estimate of the loss expected over the life time of the credit. This estimate is reflected in methodology formulated by the Bank in accordance with the Standard’s principles, based on historical data and additional adjustments required in order to predict the expected loan losses (hereinafter - “collective provision”).

In addition, the Bank performs a specific assessment of the expected loss based on the borrower’s situation, anticipated collection and collateral for each borrower (hereinafter - “individual provision”).

The total loan loss provision of the Bank, for off-balance sheet and off-balance sheet credit, is NIS 7,464 million as at December 31, 2023 and includes a specific provision and a collective provision, as detailed in Notes 13 and 30 the Consolidated Financial Statements. The accounting policy is detailed in Note 1 to the Consolidated Financial Statements.

The process of evaluating the expected loss in the credit portfolio is based on significant estimates which involve uncertainty and on subjective assessments both at the identification and classification stages of the debts as troubled or non-troubled debts, both at the stage of measuring the specific provision and the collective provision. Changes in these estimates or assessment may have a substantial effect on the loan loss provision presented in the Bank's financial statements.

Main estimates serving as the basis for calculating the loan loss provision:

- When identifying and classifying the debts, judgment is exercised to identify troubled debts according to predefined criteria which may be evidence that a debt has become troubled, estimate of a possible or actual impairment of the primary repayment source of the borrower, the existence of an expected cash flow for the borrower to repay debt in its entirety and on time, as well as assessment of other financial data of the borrower which may be indicators of weaknesses or potential weaknesses of the borrower.
- In calculating the specific provision, judgment is exercised regarding the expected future cash flows to service the debt from the borrower's activity and from realizing collateral and guarantees.
  - When calculating the collective provision, judgment is exercised in estimating the provision expected in the loan portfolio while implementing methodologies and assumptions, based on the average of past losses for various economic sectors and the required adjustments, based on indicators defined by the Bank, which should reflect the changes in the default rates and current expected credit losses as of the balance sheet date compared to average past losses due to macroeconomic factors, specific qualitative adjustments as well as internal factors.
  - We have identified the estimates serving as the basis for calculating the loan loss provision as a key audit matter.
  - Audit on the loan loss provision requires the independent auditor to exercise judgment, as well as knowledge and experience in order to examine the reasonableness of the methodology, assumptions and data used by management to estimate the provision.

Response given to key audit matter

Following are the main procedures we have executed to address this key matter in our audit:
We have examined the process of calculating the provision, design, implementation and effectiveness of certain internal controls over financial reporting related to determining the provision estimate, including controls addressing the following matters:

- Examining the adequacy of the methodology used to determine the provision.
- Identifying debts with negative indicators.
- Classification of debts in accordance with Banking Supervision Department directives.
- Setting a specific provision for non-performing debts.
- Analyzing the reasonableness of the provision as a whole.

We have executed substantive procedures to examine the provision based on internal and external representation we received. These procedures included, inter alia:

- Examination of the methodology used to determine the provision and examine whether it is consistent with the accounting principles applicable to the Bank.
- Checking the main models used to determine the collective provision, including their underlying assumptions.
- Examining the completeness and accuracy of the information and data used in the collective provision model.
- Examining the adequacy of the classification for the sample of non-troubled and troubled debts.

- Examining the adequacy of the provision for non-performing debts on a sample of debts.
- Examining the reasonableness of the estimated loan loss provision as a whole.

Management's assumptions used for the actuarial calculation of the estimated liability for employee benefits

Why the matter was designated as a key audit matter.

As outlined in Note 23 to the consolidated financial statements, the Bank presents a liability for severance pay and pension of employees (hereinafter - the "Liability") according to an actuarial calculation based on significant estimates, including the expected rise in the CPI, discount rate and life expectancy, as well as on management's assumptions, including departure rates and rate of increase in compensation (hereinafter - "Management's Assumptions" or "Assumptions"). The gross liability for employee benefits totaled NIS 17,210 million as at December 31, 2023.

We have identified Management's Assumptions used to calculate the Liability as a key audit matter.

In establishing these Assumptions, management exercises significant judgment and relies on past experience, current economic forecasts and management's expectations, in order to estimate the data of the Assumptions during the forecast period for which the Liability is calculated.

An audit of the Liability requires the independent auditor to exercise judgment in order to examine how management substantiated the Assumptions, as well as knowledge and expertise, in order to examine the adequacy of the Assumptions used for the actuarial calculation of the Liability.

Response given to key audit matter

Following are the main procedures we have executed to address this key matter in our audit:

We have examined the work procedures regarding the determination of Management's Assumptions and the effectiveness of the design, implementation and the effectiveness of certain internal controls over financial reporting associated with substantiating Management's Assumptions and their implementation, including controls for the following matters:

- Assessing the methodology used to determine the Assumptions.
- The underlying data used to determine the Assumptions.
- The process for determining the Assumptions.
- Implementing the Assumptions in calculating the Liability

As part of our audit, we implemented substantive procedures to examine the reasonableness of Management's Assumptions based on internal and external representations we received. To implement the procedures, we engaged, inter alia, an expert actuary. These procedures included, inter alia:

- Interviewing the Bank and the actuary regarding material changes in the data, Assumptions and actuarial methods compared to the estimate for the previous year.
- Carrying out sensitivity analyses for Management's Assumptions used as a basis for estimating the Liability in order to assess the effect of changes in these Assumptions on the Liability.
- Assessing the reasonableness of Management's Assumptions according to past data and management's expectations about the future.
- Examining the databases on which Management's Assumptions are based.

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Certified Public Accountants
Serving as the Bank's independent auditors since 2020

Joint Independent Auditors

March 18, 2024

BANK LEUMI LE-ISRAEL B.M. AND ITS CONSOLIDATED COMPANIES
Consolidated Income Statement for the Year Ended December 31

	Note	2023	2022	2021
		In NIS million		
Interest income	2	**33,655**	18,795	11,672
Interest expenses	2	**17,658**	5,584	1,326
Interest income, net	2	**15,997**	13,211	10,346
Loan loss expenses (income)	13, 30	**2,383**	498	(812)
Interest income, net after loan loss expenses (income)		**13,614**	12,713	11,158
Noninterest income				
Noninterest finance income	3	**1,279**	1,408	1,714
Fees and commissions	4, 4A	**3,737**	3,535	3,506
Other income	5	**165**	75	291
Total noninterest income		**5,181**	5,018	5,511
Operating and other expenses				
Salaries and related expenses	6	**3,484**	3,935	4,242
Buildings and equipment - maintenance and depreciation	16	**1,541**	1,357	1,535
Other expenses	7	**1,869**	1,543	1,651
Total operating and other expenses		**6,894**	6,835	7,428
Profit before taxes		**11,901**	10,896	9,241
Provision for profit tax	8	**3,988**	3,564	3,275
Profit after taxes		**7,913**	7,332	5,966
The Bank's share in associates' profits (losses), net, after tax	15	**(886)**	387	101
Net income				
Before attribution to non-controlling interests		**7,027**	7,719	6,067
Attributable to non-controlling interests		**-**	(10)	(39)
Attributable to the Bank's shareholders		**7,027**	7,709	6,028
Basic and diluted earnings per share (in NIS)				
Basic diluted earnings attributable to the Bank's shareholders	9	**4.58**	5.14	4.15

The notes to the consolidated financial statements form an integral part thereof.
For the Bank's separate condensed financial statements, please see Note 35.

Dr. Shmuel (Muli) Ben Zvi
Chairman of the Board

Hanan Friedman
President & Chief Executive Officer

Hagit Argov
Executive Vice President
Chief Accounting Officer
Head of Finance and Accounting Division

Date on which the financial statements were approved: March 18, 2024

BANK LEUMI LE-ISRAEL B.M. AND ITS CONSOLIDATED COMPANIES
Consolidated Comprehensive Income Statement For the Year Ended December 31

	2023	2022	2021
	In NIS million		
Net income before amount attributable to non-controlling interests	**7,027**	7,719	6,067
Less net income attributable to non-controlling interests	-	10	39
Net income attributable to the Bank's shareholders	**7,027**	7,709	6,028
Other comprehensive income (loss), before taxes:			
Adjustments in respect of presentation of available-for-sale bonds at fair value, net	**641**	(4,265)	(438)
Adjustments from translation of financial statements, net,[(a)] after the effect of hedges[(b)]	-	436	(24)
Net gains (losses) for cash flow hedges	**5**	(3)	(40)
Adjustments of liabilities for employee benefits[(c)]	**378**	3,133	392
Other comprehensive income (loss) of equity-accounted investees	**55**	(16)	(11)
Other comprehensive income (loss), before taxes	**1,079**	(715)	(121)
Related tax effect	**(373)**	335	4
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	**706**	(380)	(117)
Less other comprehensive income (loss) attributable to non-controlling interests	-	96	(32)
Other comprehensive income (loss) attributable to the Bank's shareholders, after taxes	**706**	(476)	(85)
Comprehensive income before attribution to non-controlling interests	**7,733**	7,339	5,950
Less comprehensive income attributable to non-controlling interests	-	106	7
Comprehensive income attributable to the Bank's shareholders	**7,733**	7,233	5,943

(a) Adjustments from translation of the financial statements of a foreign operations the functional currency of which is different from the Bank's functional currency.
(b) Hedges - net gains (losses) for hedging a net investment in foreign currency.
(c) Mostly reflects adjustments in respect of actuarial estimates, as at the end of the year, of defined benefit pension plans and deduction of amounts previously recorded in other comprehensive income. Please see also Note 23.

Please see also Note 10, under accumulated other comprehensive income.

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

BANK LEUMI LE-ISRAEL B.M. AND ITS CONSOLIDATED COMPANIES
Consolidated Balance Sheet as at December 31

	Note	2023	2022
		In NIS million	
Assets			
Cash and deposits with banks	11	105,476	186,569
Securities:			
Held-to-maturity bonds		15,406	14,528
Available-for-sale bonds		126,137	61,809
Equity securities not held for trading		4,828	4,353
Held-for-trading securities		13,677	2,260
Total securities[(a)(b)]	12	160,048	82,950
Securities borrowed or purchased under reverse repurchase agreements		3,053	3,034
Loans to the public	13, 30	426,203	389,768
Loan loss provision	13, 30	(6,717)	(4,986)
Loans to the public, net		419,486	384,782
Loans to governments	14	1,806	1,109
Investments in associates	15	4,014	4,947
Buildings and equipment	16	2,874	2,735
Assets in respect of derivatives	28A, 28B	27,410	26,638
Other assets	18	7,330	6,402
Total assets		731,497	699,166
Liabilities and equity			
Deposits by the public	19	567,824	557,084
Deposits by banks	20	20,776	22,306
Deposits from governments		160	247
Securities loaned or sold under repurchase agreements		13,776	3,952
Bonds, promissory notes and subordinated notes	21	32,114	27,805
Liabilities for derivatives	28A, 28B	26,636	23,311
Other liabilities[(a)(c)]	22, 30D	15,709	15,018
Total liabilities		676,995	649,723
Shareholders’ equity	25A	54,497	49,438
Non-controlling interests		5	5
Total equity		54,502	49,443
Total liabilities and equity		731,497	699,166

(a) For additional information regarding amounts measured at fair value, please see Note 33A.
(b) Of which: securities totaling NIS 13,624 million (December 31, 2022 - NIS 17,405 million) pledged to lenders. Please see also Note 27.
(c) Of which: A provision for loan losses for off-balance-sheet credit instruments of NIS 747 million (as at December 31, 2022 - NIS 585 million).

The notes to the consolidated financial statements form an integral part thereof.
For the Bank’s separate condensed financial statements, please see Note 35.

BANK LEUMI LE-ISRAEL B.M. AND ITS CONSOLIDATED COMPANIES
Statement of Changes in Equity for the year ended December 31

		Capital reserves	
	Share capital	From premiums	From stock-based payment and other benefits[a]
	In NIS million		
Balance as at January 1, 2021	7,041	184	53
Net income	-	-	-
Other comprehensive loss, net of tax effect	-	-	-
Dividend paid	-	-	-
Employee benefit for stock-based compensation transactions	-	-	-
Balance as at December 31, 2021	7,041	184	53
Cumulative effect for first-time application of US GAAP[c]	-	-	-
Net income	-	-	-
Other comprehensive loss, net of tax effect	-	-	-
Dividend paid	-	-	-
Issuance of shares	91	2,645	-
Employee benefit for stock-based compensation transactions	-	-	3
Sale of equity of a consolidated company to non-controlling interests[d]	-	-	-
Balance as at December 31, 2022	7,132	2,829	56
Net income	-	-	-
Other comprehensive income, net of tax effect	-	-	-
Dividend paid	-	-	-
Share buyback	(21)	(579)	-
Employee benefit for stock-based compensation transactions	-	-	7
Balance as at December 31, 2023	**7,111**	**2,250**	**63**

(a) Including NIS 10 million in other capital reserves.

(b) Including NIS 5,253 million that are non-distributable as dividend, of which NIS 2,250 million in respect of share buyback (2022 - NIS 5,287 million, of which NIS 1,650 million for share buyback, 2021 - NIS 5,656 million, of which NIS 1,650 million for share buyback); the remaining distributable amount is subject to the Bank of Israel's directives and to the restrictions set out in the Proper Conduct of Banking Business Directives.

(c) Cumulative effect in respect of first-time application of US GAAP's ASU 2016-13, "Financial Instruments - Credit Losses". See Note 1.X.1. in the financial statements as at December 31, 2022.

(d) For more information, please see Note 15.A to the financial statements as at December 31, 2022.

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

Total share capital and capital reserves	Accumulated other comprehensive income (loss)	Retained earnings[b]	Total	Non-controlling interests	Total equity
7,278	(2,792)	33,178	37,664	431	38,095
-	-	6,028	6,028	39	6,067
-	(85)	-	(85)	(32)	(117)
-	-	(1,997)	(1,997)	-	(1,997)
-	-	-	-	4	4
7,278	(2,877)	37,209	41,610	442	42,052
-	-	(479)	(479)	(4)	(483)
-	-	7,709	7,709	10	7,719
-	(921)	-	(921)	(21)	(942)
-	-	(1,665)	(1,665)	-	(1,665)
2,736	-	-	2,736	-	2,736
3	-	-	3	1	4
-	445	-	445	(423)	22
10,017	(3,353)	42,774	49,438	5	49,443
-	-	7,027	7,027	-	7,027
-	706	-	706	-	706
-	-	(2,081)	(2,081)	-	(2,081)
(600)	-	-	(600)	-	(600)
7	-	-	7	-	7
9,424	(2,647)	47,720	54,497	5	54,502

BANK LEUMI LE-ISRAEL B.M. AND ITS CONSOLIDATED COMPANIES
Consolidated Statement of Cash Flows for the Year Ended December 31

	2023	2022	2021
	In NIS million		
Cash flows from operating activities			
Net income for the year	**7,027**	7,719	6,067
Adjustments:			
Group's share in undistributed losses (profits), net of associates[(a)]	**1,103**	(282)	114
Depreciation of buildings and equipment (including impairment)	**675**	598	694
Loan loss expenses (income)	**2,383**	498	(812)
Gains on sale of loan portfolios	**-**	(57)	-
Net losses (gains) on sale of available-for-sale bonds	**298**	136	(231)
Net realized and unrealized losses (gains) from fair value adjustments of held-for-trading securities	**(90)**	164	19
Gain on sale of investees' equity	**-**	(830)	-
Gains on disposal of buildings and equipment - Net	**(22)**	(52)	(119)
Provision for impairment of available-for-sale bonds	**33**	42	-
Realized and unrealized gains, net from fair value adjustments of equity securities not held-for-trading	**(279)**	(338)	(881)
Provision for impairment of equity securities not held-for-trading	**16**	5	66
Expenses for stock-based compensation transactions	**7**	4	-
Deferred taxes - net	**(694)**	(312)	422
Severance pay and pension – increase in excess of provision over fund	**170**	48	225
Excess of interest received (receivable) for available-for-sale bonds and held-to-maturity bonds over interest accrued during the period	**(2,211)**	(127)	379
Accrual differences and rate in respect of bonds and subordinated notes	**379**	934	(41)
Effect of exchange rate differentials on cash and cash equivalent balances	**(173)**	(740)	557
Other, net	**(2)**	(1)	(4)
Net change in current assets:			
Assets in respect of derivatives	**(772)**	(12,667)	1,224
Held-for-trading securities	**(11,327)**	698	892
Other assets	**(272)**	(603)	442
Net change in current liabilities:			
Liabilities for derivatives	**3,213**	8,728	(1,516)
Other liabilities	**405**	2,527	(2,299)
Net cash provided by (for) current activities	**(133)**	6,092	5,198

(a) Net of dividend received.

The notes to the consolidated financial statements form an integral part thereof.
For the Bank's separate condensed financial statements, please see Note 35.

BANK LEUMI LE-ISRAEL B.M. AND ITS CONSOLIDATED COMPANIES
Consolidated Statement of Cash Flows (cont.)
For the year ended December 31

	2023	2022	2021
	In NIS million		
Cash flows for investing activities			
Net change in deposits with banks with original maturities of more than three months	**2,927**	(2,699)	292
Net change in loans to the public[(a)]	**(35,392)**	(62,038)	(47,480)
Net change in loans to the Israeli Government	**(696)**	(171)	(308)
Net change in securities borrowed or purchased under reverse repurchase agreements	**(19)**	(592)	572
Purchase of held-to-maturity bonds	**(3,164)**	(8,550)	(1,510)
Proceeds from redemption of held-to-maturity bonds	**2,311**	418	1,130
Purchase of available-for-sale bonds and equity securities not held-for-trading	**(175,653)**	(114,657)	(106,548)
Proceeds from sale of available-for-sale bonds and equity securities not held-for-trading	**87,816**	96,945	86,553
Proceeds from redemption of available-for-sale bonds and equity securities not held-for-trading	**25,929**	19,487	24,626
Purchase of associates' equity	**(2)**	(285)	(442)
Proceeds from disposal of investment in associates	**-**	158	-
Proceeds from disposal of investment in previously-consolidated subsidiaries (Appendix B)	**-**	(904)	-
Purchase of loan portfolios	**(1,556)**	-	-
Proceeds from sale of loan portfolios	**42**	562	217
Purchase of buildings and equipment	**(833)**	(765)	(543)
Proceeds from disposal of buildings and equipment	**41**	112	179
Central severance pay fund	**17**	91	(9)
Net cash for investing activities	**(98,232)**	(72,888)	(43,271)
Cash flow from financing activities			
Net change in deposits by banks with original maturities of more than three months	**(1,530)**	(3,149)	10,232
Net change in deposits by the public	**10,616**	41,560	91,073
Net change in deposits by the government	**(87)**	(53)	92
Net change in securities loaned or sold under repurchase agreements	**9,824**	1,665	1,673
Proceeds from issue of bonds and subordinated notes	**10,758**	11,435	2,262
Redemption of bonds and subordinated notes	**(6,874)**	(61)	(3,096)
Dividend paid to shareholders	**(2,081)**	(1,665)	(1,997)
Issuance of shares	**-**	2,736	-
Share buyback	**(600)**	-	-
Net cash from financing activities	**20,026**	52,468	100,239
Increase (decrease) in cash and cash equivalents	**(78,339)**	(14,328)	62,166
Balance of cash and cash equivalents at the beginning of the year	**180,637**	194,225	132,616
Effect of exchange rate fluctuations on cash and cash equivalent balances	**173**	740	(557)
Balance of cash and cash equivalents at the end of the year	**102,471**	180,637	194,225

(a) Including operating activities from invoice factoring. Please see Note 30F.

The notes to the consolidated financial statements form an integral part thereof.
For the Bank's separate condensed financial statements, please see Note 35.

BANK LEUMI LE-ISRAEL B.M. AND ITS CONSOLIDATED COMPANIES
Consolidated Statement of Cash Flows (cont.)
For the year ended December 31

Interest and taxes paid and/or received and dividends received

	2023	2022	2021
	In NIS million		
Interest received	**29,677**	15,821	10,806
Interest paid	**(14,078)**	(3,462)	(1,414)
Dividends received	**208**	145	243
Income tax paid	**(4,397)**	(2,508)	(3,043)
Income tax received	**116**	200	88

Appendix A - Non-Cash Investments and Financing Activities in the Reporting Period:

For the year ended December 31, 2022

On September 23, 2021, Bank Leumi Corporation (hereinafter - "BLC"), a US-based corporation (85 percent of which is held by the Bank), which wholly owns BLUSA, entered into a merger agreement with Valley.

On April 1, 2022, the merger was completed and, part of the consideration - approx. NIS 3,047 million in Valley shares - was received.

For more information, please see Note 15.A to the financial statements as at December 31, 2022.

For the year ended December 31, 2021

On March 1, 2021, a balance of approx. NIS 750 million was reclassified from the available-for-sale bonds portfolio to the held-to-maturity bonds portfolio.

Appendix B - Proceeds from Disposal of Investments in a Previously-Consolidated Subsidiaries:[a]

Assets and liabilities of the previously consolidated subsidiaries and inflow from disposal of investments in previously consolidated subsidiaries as of the sale date

	For the year ended December 31, 2022
	In NIS million
Derecognized cash	1,210
Assets (excluding cash)[b]	24,855
Liabilities	(23,378)
Identified assets and liabilities	2,687
Assets and liabilities attributable to non-controlling interests	(423)
Derecognized assets and liabilities	2,264
Capital gain on disposal of investment in previously-consolidated subsidiaries[c]	1,089
Total proceeds from disposal of previously-consolidated subsidiaries	3,353
Net of non-cash proceeds from disposal of investments in previously-consolidated subsidiaries	3,047
Cash proceeds	306
Less derecognized cash	1,210
Inflows from disposal of investments in previously consolidated subsidiaries	(904)

(a) For more information, please see Note 15.A to the financial statements as at December 31, 2022.
(b) Including goodwill totaling NIS 14 million.
(c) Profit after elimination of capital reserves and taxes totaling NIS 752 million.

The notes to the consolidated financial statements form an integral part thereof.
For the Bank's separate condensed financial statements, please see Note 35.

List of Notes

Note 1 - Significant Accounting Policies

A. Overview

The Group's consolidated financial statements as at December 31, 2023 include those of the Bank and its subsidiaries, as well as the Group's interests in associates. The financial statements are prepared in accordance with the generally accepted accounting principles in Israel (Israeli GAAP) and the directives and guidelines of the Banking Supervision Department.

These financial statements are presented on a consolidated basis only. The Bank's separate financial statements are presented in Note 35.

The Bank's Board of Directors approved the publication of the financial statements on March 18, 2024.

B. Definitions

In these financial statements -

The Bank - Bank Leumi le-Israel B.M.

The Group – the Bank and its subsidiaries.

Consolidated companies – companies whose financial statements were fully consolidated, whether directly or indirectly, with those of the Bank.

Associates – companies, excluding consolidated companies, including partnerships or joint ventures, the Bank's direct or indirect investment in which is presented in the financial statements according to the equity method.

Investees – consolidated companies and associates.

Foreign offices – representative offices, agencies, branches or consolidated companies of the Bank based overseas.

Functional currency – the currency of the primary economic environment in which the Bank operates; this is generally the currency of the environment in which a bank generates and expends most of its cash.

Presentation currency – the currency in which the financial statements are presented.

Related parties and interested parties – as defined in Section 80 of the Reporting to the Public Directives.

The CPI – The Israeli Consumer Price Index as published by the Israel Central Bureau of Statistics.

Adjusted amount – nominal historical amount adjusted to reflect the CPI in respect of December 2003, pursuant to the provisions of Opinions 23 and 36 of the Institute of Certified Public Accountants in Israel.

Reported amount – adjusted amount as of the Transition Date (December 31, 2003) plus amounts in nominal values that were added after the Transition Date, less amounts derecognized after the Transition Date.

Nominal financial reporting – financial reporting based on reported amounts.

Adjusted financial reporting – reporting in amounts adjusted for the changes in the general purchasing power of Israeli currency pursuant to the provisions of the Opinions of the Institute of Certified Public Accountants in Israel.

Cost – costs in reported amounts.

Fair value - the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Note 1 - Significant Accounting Policies (cont.)

US GAAP for banks - Accounting principles set by the banking regulatory agencies in the USA, the Securities and Exchange Commission, the Financial Accounting Standards Board and other entities in the USA. The principles are implemented according to the hierarchy established in ASC 105-10, FASB Accounting Statements Codification, of the Financial Accounting Standards Board (FASB) in the USA and the hierarchy of generally accepted accounting principles. Additionally, according to the Banking Supervision Department's guidance, despite the hierarchy prescribed by FAS 168, any position published by the US banking regulators or by their teams regarding the implementation of US GAAP, constitutes part of US GAAP.

International Financial Reporting Standards (IFRS) – standards and interpretations adopted by the International Accounting Standards Board (IASB), including International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and interpretations issued by the Standing Interpretations Committee (SIC).

Note 1 - Significant Accounting Policies (cont.)

C. Basis of Preparation of the Financial Statements

1. Reporting principles

The Bank’s financial statements are prepared in accordance with the generally accepted accounting principles in Israel (Israeli GAAP) and with the Reporting to the Public Directives and the guidance of the Banking Supervision Department. In most areas, the directives are based on US GAAP for Banks. In other, less material, topics, the directives are based on IFRSs and on Israeli GAAP.

When IFRSs allow for several alternatives, or do not include a specific reference to a particular situation, the Banking Supervision Department’s directives provide specific application guidelines that are usually based on US GAAP for Banks.

2. Functional currency and presentation currency

Unless otherwise stated, the consolidated financial statements are presented in New Israeli Shekels (NIS) and are rounded to the nearest million.

The New Israeli Shekel (NIS) is the currency representing the primary economic environment in which the Bank operates.

For information regarding the functional currency of banking offices abroad, please see Section (d) below.

3. Measurement basis

The financial statements were prepared in accordance with the historical cost, excluding the assets and liabilities outlined below:

- Derivatives and other financial instruments measured at fair value through profit and loss.
- Financial instruments classified as available-for-sale.
- Noncurrent held-for-sale assets.
- Deferred tax assets and liabilities.
- Provisions.
- Assets and liabilities for employee benefits.
- Investments in associates.

The value of non-monetary assets and equity items measured at historic cost, adjusted for changes in the Consumer Price Index until December 31, 2003. As of January 1, 2004, the Bank prepares its financial statements using reported amounts.

4. Use of estimates

The preparation of the financial statements in conformity with Israeli GAAP and the directives and guidance of the Banking Supervision Department requires the Bank’s management to use estimates and assumptions and to exercise judgment that affect the reported amounts of assets and liabilities and disclosure of assets and contingent liabilities and income and expense amounts during the reporting period. It is clarified that the actual results may differ from those estimates.

When developing accounting estimates used in the preparation of the Bank's financial statements, the Bank's management is required to make assumptions regarding circumstances and events involving significant uncertainty. In exercising its judgment to determine the accounting estimates, the Bank's management relies on past experience, various facts, external factors and reasonable assumptions, in accordance with each estimate’s particular circumstances.

Change in estimates

The underlying estimates and assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognized in the period in which the estimates were adjusted and for any future affected period.

Note 1 - Significant Accounting Policies (cont.)

5. Reclassifications

From time to time, the Bank makes immaterial adjustments to classifications in the comparative figures in order to adjust them to the classification in the current financial statements for comparability. These classifications do not have an effect on profit and loss.

D. Foreign Currency and Linkage

Foreign currency transactions

Assets and liabilities denominated in foreign currency or linked thereto are translated according to the representative exchange rates published by the Bank of Israel as of the balance sheet date, or another appropriate date, as follows:

- Assets and liabilities denominated in foreign currency or linked thereto are translated into the functional currency at the exchange rate as of reporting date.
- Non-monetary assets and liabilities denominated in foreign currency or linked thereto and measured at fair value are translated into the functional currency at the exchange rate as of the date on which the fair value was determined. Non-monetary assets and liabilities denominated in foreign currency or linked thereto and measured at historical cost are translated at the exchange rate as of the transaction date.

  In the income statement, foreign currency income and expenses and gains and losses are stated at the current representative exchange rates as of the transaction dates; exchange rate differentials on assets and liabilities in respect of which the aforesaid income and expenses arose are also included in the income statement, excluding:

  - Profit or loss for a hedging instrument in a hedge of a net investment in a foreign operations or cash flow hedge, excluding fair value changes of components excluded from the hedge effectiveness assessment and we will choose to recognize them in profit and loss.
  - Exchange rate differentials for items that form part of the net investment.

  According to the transitional provisions for 2023, exchange rate differentials for available-for-sale debt instruments will continue to be recognized in the income statement until January 1, 2025. As of that date - they will be recognized in other comprehensive income. In the case of other-than-temporary impairment, translation differences recognized in other comprehensive income shall be reclassified to profit and loss.

Functional currency of foreign offices

An entity's functional currency is the currency of the primary economic environment in which the entity operates. This is usually the currency of the environment in which an entity generates cash.
The functional currency of foreign offices is determined according to the following criteria:

- The office generates and expends cash in foreign currency and the scope of its NIS-denominated operations is insignificant.
- The office acquired its customers independently, such that its activities with the Bank's customers or parties closely affiliated therewith are insignificant.
- The office's activity with the Bank and related parties thereof is insignificant and the foreign office is not dependent, among other things, on the Bank's funding resources or related parties thereof.
- The office's activity is independent and does not constitute an extension of the Bank's domestic activity, nor is it complementary to this activity.

When it is clear that one of the aforementioned criteria is not met, the office should be accounted for as a foreign operations whose functional currency is the NIS.

Note 1 - Significant Accounting Policies (cont.)

Foreign operations

Assets and liabilities for foreign operations, including goodwill and fair value adjustments arising on acquisition, were translated into NIS at exchange rates in effect on reporting date. Income and expenses and gains and losses of foreign operations were translated into NIS at exchange rates in effect on transaction dates.

Exchange rate differentials are recognized in other comprehensive income and presented in equity under "Adjustments from translation of financial statements".

Upon disposal, the cumulative amount in the translation reserve arising from the foreign operations is reclassified to profit and loss as part of the profit or loss from disposal.

When the Group disposes of part of its investment in an associate that includes a foreign operations while maintaining significant influence, the proportion of the cumulative amount in the translation reserve is reclassified to profit and loss.

Hedges of a net investment in a foreign operations

The Group applies hedge accounting to exchange rate differentials between the foreign operations's functional currency and the Bank's functional currency (NIS).

The exchange rate differentials arising from translation of a financial liability hedging a net investment in a foreign operations are carried to other comprehensive income and presented in equity under "Adjustments from translation of financial statements". Upon disposal of the hedged investment, the relevant amount that has accumulated in "Adjustments from translation of financial statements" is transferred to profit or loss as part of the profit or loss on disposal of the investment.

CPI-Linked assets and liabilities not measured at fair value

CPI-linked assets and liabilities are stated according to the linkage terms and conditions set for each balance.

Set forth below are data regarding the representative exchange rates and CPI and changes therein:

	December 31			Rate of change in		
	2023	2022	2021	**2023**	2022	2021
	(In NIS)			(%)		
Exchange rate of:						
USD	**3.627**	3.519	3.110	**3.07**	13.15	(3.27)
Euro	**4.012**	3.753	3.520	**6.90**	6.62	(10.75)
Pound sterling	**4.621**	4.238	4.203	**9.04**	0.83	(4.30)
Swiss franc	**4.314**	3.815	3.405	**13.08**	12.04	(6.71)
Consumer Price Index:	**(Points)**	(Points)	(Points)			
November – known CPI	**111.3**	107.7	102.3	**3.3**	5.3	2.4

E. Basis of Consolidation

1. Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control is obtained until the date on which control ceases.

Intercompany balances and transactions between the consolidated companies were eliminated in the consolidated financial statements.

The financial statements of two wholly-owned asset and service subsidiaries of the Bank have been consolidated in the Bank's separate financial statements.

Note 1 - Significant Accounting Policies (cont.)

Non-controlling interests

Non-controlling interests are that portion of subsidiaries' equity that is not attributable, whether directly or indirectly, to the parent company and that include additional components, such as stock-based compensation that will be settled using an equity instrument of the subsidiaries. These interests, which confer upon their holder a share of the net assets of the acquiree, are measured at fair value on acquisition date.

Profit or loss and any other component of other comprehensive income are attributed to the Bank's shareholders and to non-controlling interests. The total amount of profit, loss and other comprehensive income is attributed to the Bank's owners and to non-controlling interests even if this results in the non-controlling interests having a negative balance.

Transactions with non-controlling interests that do not result in change of control are accounted for as equity transactions. Any difference between the consideration paid or received and the change in non-controlling interests is recognized directly in equity, to the portion attributable to the Bank's shareholders.

When the Bank's interest in a subsidiary changes without loss of control, the Bank reallocates the accumulated amounts recognized in other comprehensive income between the Bank's shareholders and non-controlling interests.

On loss of control of a subsidiary, the Bank derecognizes the subsidiary's assets and liabilities as well as other equity components attributed to the subsidiary. Any retained investment in a former subsidiary is measured at fair value on the date on which control is lost. The difference between the consideration received and the fair value of the retained investment in the former subsidiary and any derecognized balances is recognized in profit and loss. Amounts recognized in equity through other comprehensive income in respect of that subsidiary are reclassified to profit or loss. As of that date, the remaining investment is equity-accounted or treated as a financial asset according to the Bank's influence on the relating company.

2. Associates

Associates are entities in which the Group has significant influence, but not control, over the financial and operating policies. There is a presumption that the holding of 20% to 50% in an investee confers significant influence, but in addition to the rate of holding, the Bank uses other indicators to check the existence of significant influence, such as significant representation on the Board of Directors and its committees and the ability to influence and make decisions.

Investments in associates' shares is accounted for by the equity method; such investment is initially recorded as cost. When the Bank first obtains significant influence over an investment that was not equity-accounted until significant influence was attained, then the equity method is applied prospectively.

The consolidated financial statements include the Group's share in profit or loss and other comprehensive income of equity-accounted entities.

When there is a decrease in the Group's interest in an associate accounted for by the equity method, but the Group retains significant influence, the Group derecognizes a proportionate share of its investment and recognizes a profit or loss from the disposal. Furthermore, when such decrease occurs, a pro rata share of the amounts recognized in capital reserves through other comprehensive income in respect of that associate is reclassified to profit and loss.

Upon loss of significant influence, the Group stops using the equity method and accounts for the remaining investment as a financial asset according to its nature.

The Bank assesses the need to record impairment in respect of its investments in associates; please see Section (V.4) below.

Note 1 - Significant Accounting Policies (cont.)

3. Treatment in the Bank's separate financial statements

In the preparation of its separate financial statements, the Bank accounts for its investees according to the equity method in accordance with Banking Supervision Department directives and guidelines. According to the Reporting to the Public Directives, the Bank's separate financial statements include the financial statements of asset and service companies that are wholly-owned by the Bank, and whose assets are mostly used by the Bank.

F. Basis of Recognition of Income and Expenses

Income and expenses are stated on accrual basis, except as described below:

- Income and expenses from held-for-trading securities, equity securities not held for trading, and derivatives are recognized according to changes in fair value.
- Interest income and expenses are stated on an accrual basis, except as described below:
  - Interest accrued on troubled debts that were classified as non-performing debts is recognized as income on a cash basis when it is certain that the remaining recorded balance of a non-performing debt will be collected. In such situations, an amount collected on account of interest that will be recognized as interest income will be the amount that would have accrued during the reporting period on the remaining recorded balance of the debt according to the contractual interest rate. Cash-basis interest income is classified as interest income within the relevant line item of the income statement. When there is significant doubt as to the collection of the remaining recorded balance, all collected payments are used to reduce the loan's principal. Furthermore, interest payable on amounts in arrears in respect of housing loans is recorded in the income statement on the basis of actual collection.
- Loan origination fees – fees charged in respect of issuing the loan, except for loans for a period of up to three months, are recognized over the term of the loan as an adjustment of the return, except in cases of troubled debt restructuring, where the fees and commissions are recognized immediately in profit and loss.
- Early repayment fees - fees charged in respect of early repayment are recognized immediately in interest income, except such fees and commissions that are included as part of the net investment in the new loan and recognized as return adjustment.
- Changes to the debt's terms and conditions - in cases of refinancing or restructuring of non-troubled debts, the Bank assesses whether or not the changes made to the terms and conditions of the loan are minor. Changes to the terms of the debt instrument are not minor when the present value of the cash flows of the new loan is at least 10 percent different than the present value of the cash flows according to the original loan terms. If the loan terms and conditions change is minor, all unamortized fees and commissions as well as early repayment fees that were collected from the customer in respect of changes to the loan terms and conditions are included within the net investment in the new loan and recognized as adjustment of return as stated above. If the change in the loan terms and conditions is other than minor, the fees and commissions will be stated directly in profit and loss.
- Credit service charges are accounted for according to the likelihood that the undertaking to extend the loan will be fulfilled. If the likelihood is remote, the fee is recognized on a straight-line basis over the term of the undertaking; otherwise the Bank defers the revenue recognition from those fees until the undertaking is fulfilled or until it expires, the earlier of the two. If the undertaking is fulfilled, then the fees and commissions are recognized by way of adjusting the return over the term of the loan as stated above. If the undertaking has expired unexercised, the fees are recognized on expiry date and reported in income from fees and commissions.
- Income from fees and commissions in respect of provision of services is charged to profit and loss when the service is provided.
- Other fees and commissions, such as for guarantees and granting facilities to projects, are recognized pro rata over the transaction period.

Note 1 - Significant Accounting Policies (cont.)

G. Fair Value of Financial Instruments

The Bank applies the rules set in ASC 820, which defines fair value and sets a consistent basis for fair value measurement by defining fair value valuation techniques to be used to measure the value of assets and liabilities, setting the fair value hierarchy and providing detailed implementation guidelines. Furthermore, the Bank implements the Banking Supervision Department's directive regarding fair value measurement, which integrates the rules that were set in ASU 2011-04 - "Fair Value Measurement" into the Reporting to the Public Directives.

The standard requires to maximize the use of observable inputs and minimize the use of unobservable inputs in fair value measurement. Observable inputs represent market data obtained from independent sources, whereas unobservable inputs reflect the Bank's assumptions.

Subtopic 820-10 established a hierarchy of valuation techniques, which are based on whether the inputs used to measure fair value are observable or unobservable.

The following types of inputs create a fair value hierarchy:

- Level 1 inputs: Quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2 inputs: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; prices derived from fair value measurement models whose principal data are observable or corroborated market inputs.
- Level 3 inputs: Unobservable inputs for the asset or liability.

This hierarchy requires the use of observable market inputs, where such inputs are available. Where possible, the Bank takes into account relevant observable market inputs when measuring fair value. The scope and frequency of transactions, the size of the bid-ask spread and the amount of adjustment necessary when comparing similar transactions are all factors in determining the liquidity of markets and the relevance of observable prices in these markets.

The categorization of a financial instrument's fair value measurement within the fair value hierarchy is determined based on the lowest level input that is significant to the entire measurement.

The valuation techniques used by the Bank in measuring fair value are assessed while taking into consideration the relevant circumstances of the various transactions, including last transaction prices, indicative prices of pricing services and results of back-testing of similar transactions.

Credit risk and nonperformance risk assessment

FASB Accounting Standard Codification Topic 820 requires incorporating the credit risk and nonperformance risk into the fair value measurement of a debt, including derivatives issued by the Bank and measured at fair value. Non-performance risk includes, but is not limited to, the Bank's credit risk.

For additional information regarding the principal methods and assumptions used in measuring the fair value of the financial instruments, please see Note 33A - "Balances and Fair Value Estimates of Financial Instruments".

Securities

The fair value of held-for-trading securities, equity securities not held for trading (for which there is readily available fair value), and available-for-sale bonds is determined based on quoted market prices in the principal market. The quoted price is not adjusted due to the size of the Bank's position in relation to the trading volume (holding size factor). Where quoted market prices are unavailable, the fair value estimate is based on the best available information while maximizing the use of observable inputs and taking into account the risks inherent in the financial instrument. Fair value is determined using generally acceptable pricing models, based on valuations carried out by financial instruments valuation experts or based on the Bank's independent system. The valuation techniques include using various parameters, such as interest curves, exchange rates and standard deviations, taking into consideration the risks inherent in the financial instrument (market risk, credit risk, lack of marketability, etc.).

Note 1 - Significant Accounting Policies (cont.)

Most of the portfolio is calculated on a monthly basis by a reputable international entity which is engaged in fair value measurement and is not dependent on issuing and marketing entities. The calculation is mainly based on transaction prices in active markets. The portfolio's balance is revalued based on quotes from brokers or the issuers of the instruments, or based on the Bank's system.

Derivatives

The fair value of derivatives with an active market is determined based on quoted market prices in a principal market.

Where a quoted market price is not available, the fair value is estimated using models that incorporate the risks inherent in the derivative instrument.

Non-derivative financial instruments

Most financial instruments included in this category do not have an active market in which they are traded. Accordingly, fair value is measured using generally accepted pricing models, such as the present value of future cash flows discounted at an interest rate reflecting the level of risk inherent in the financial instrument. For this purpose, pursuant to Banking Supervision Department's guidelines, future cash flows in respect of non-performing debts and other debts were calculated after deducting the effect of charge-offs and loan loss provisions in respect of the debts.

H. Non-performing debts, credit risk and current expected credit losses

The accounting framework

The Bank applies the Banking Supervision Department's guidelines on measurement and disclosure of non-performing debts, credit risk, and loan loss provision, the positions of the US banking supervisory authorities and the Securities and Exchange Commission, as adopted by the Banking Supervision Department's Reporting to the Public Directives. According to these guidelines, inter alia, a banking corporation shall apply US GAAP for Banks for measuring loan losses arising from financial instruments as outlined in ASC 326, "Financial instruments - Credit Losses".

These guidelines are applied to all outstanding receivables, such as deposits with banks, bonds, securities borrowed or purchased under reverse repurchase agreements, loans to the public, and loans to the Israeli Government.

Provision for CECL: measurement

The Bank has set procedures to maintain a loan loss provision able to cover current expected credit losses arising from its loan portfolio, including off-balance-sheet credit risk.

As a rule, the estimate of a current expected credit losses provision is calculated over the contractual period of the financial asset, taking into account early repayment estimates according to quantitative methods formulated by the Bank, and taking into account expected restructuring of troubled debt with the borrower, as applicable. A provision calculated on a collective basis for loans is based, as a rule, on the recorded outstanding debt, net of interest accrued as at the reporting date.

The measurement of the loan loss provision is based on segmenting the Bank's credit portfolio into groups sharing similar risk characteristics (a process called "segmentation"). Following is a summary of the Bank's approach to segmentation relating to portfolios and economic sectors: The Bank segments the loans to the public to four main portfolios, each of which is divided into sub-groups: (1) Business-commercial credit in the Corporate Division; (2) Commercial credit, which mainly reflects credit to small businesses, in the Retail Banking Division; (3) Non-housing loans to private individuals; and (4) Housing loans. As a rule, commercial credit is divided into economic sectors, while in housing loans, the measurement is based on characteristics at the individual loan level. In the next stage, the Bank distinguishes between non-troubled and troubled credit.

The loan loss provision is comprised both from a quantitative level and a qualitative level, as follows: past losses, loss given default, a comprehensive framework for qualitative adjustments (Q-factor) and one-year macroeconomic forecasts.

The provision to cover the current expected credit losses in the loan portfolio is estimated through one of the following tracks:

Specific loan loss provision

Non-performing debts are debts which the Bank believes do not share the risk characteristics of performing debts and therefore estimates the provision for them on a specific basis.

With regards to commercial debt, the outstanding contractual balance of which (without deducting: charge-offs not involving legal waiver, deferred interest, loan loss provisions and collateral) is NIS 1 million or more, the provision is measured based on the present value of the expected cash flow discounted by the original effective interest rate of the debt, or when the debt is a collateral-dependent debt or when an asset is expected to be foreclosed, according to the fair value of the collateral that was pledged to secure that loan (net of costs to sell).

Collective loan loss provision

1. In non-housing segments, the provision is usually estimated using the loss-rate method. This process is initially based on average past losses in the portfolio, represented by net charge-offs over the appropriate period. Past losses are adjusted later in the process, using a series of risk and economic characteristics, such as past losses, the risk groups' risk profile, debt classification, composition of the credit portfolio, state of collateral, risk appetite, concentration of the credit portfolio, risk ratings, the Bank's credit provision policy and procedures, and additional terms and conditions. The process is intended to adjust the historic information so as to reflect the level at which the current term conditions and reasonable supportable forecasts may be different than the terms and conditions prevalent during the period in which the historic information was assessed. In the next stage, the Bank incorporates reasonable and well-substantiated forecasts for one year, followed by one year for historical data, adjusting for current conditions, on a linear basis. At the end of the process, the provision for estimates is adjusted for expected recoveries in respect of charged off debts. Changes in these estimates are recognized as incurred against the loan loss provision.

   The provision for off-balance-sheet credit is recognized for obligations that may not be unconditionally terminated by the Bank, and is based on the segmentation described above, taking into account the Bank's estimates regarding the reasonableness of utilizing the various off-balance-sheet items (i.e., credit conversion coefficients). These estimates are based both on past experience of the Bank - which indicates utilization rates - and on subjective judgment. The provision is presented in the balance sheet under "Other liabilities".

   This process involves significant judgment and expert assumptions, in order to reflect the best expectations and assessments of management regarding current expected credit losses, in a manner that is in line with the Bank's risk management regime.

2. In the housing loans segment, the Bank measures the current expected credit losses based on the probability of default and loss given default. The process also begins with historic information, which is adjusted for current conditions and reasonable substantiable forecasts or a period of one year. Following this period, the Bank reverts to three years of historic information adjusted for current conditions on a linear basis. The provision for off-balance-sheet credit is recognized based on the Bank's estimates relating to the probability of utilizing the binding credit facilities. Changes in the loan loss provision for housing loans, including for housing loans classified as non-performing, are presented as loan loss expense for debts examined on a collective basis.

Held-to-maturity securities and additional exposures

The current expected credit losses provision for the held-to-maturity bonds portfolio is based on the probability of default and loss given default methods. The Bank does not recognize a loan loss provision for certain government bonds and credit agencies for which the Bank believes the probability of non-payment is zero.

Note 1 - Significant Accounting Policies (cont.)

In addition, the Bank's exposure for securities loaned or sold under reverse repurchase agreements relates to agreements most of which include retention of collateral by the counterparty. In this context, the Bank determines that the expectation of non-payment based on amortized cost of these exposures is zero if the entity which transferred the financial assets to the Bank continuously replenishes the collateral amount in response to fair value changes. The Bank ensures, on a regular basis, that the entity complies with the provision to retain a collateral and reasonably expects the borrower to continue to renew the collateral as needed.

Liability adequacy testing of the entire provision and finalizing its quantification process

The process of liability adequacy testing is entwined in the process of developing various components in estimating the loan loss provision, such as adjustments of historic information from past periods for current conditions, assessing the risk of various economic sectors, economic forecasts for reasonable and substantiable periods, assessment of the recovery amounts expected for debts under financial difficulties, estimates of expected recoveries from previous charge-offs, and estimate of early repayment in respect of the contractual period of the credit provided.

However, the Bank is examining the overall adequacy of the loan loss provision based on management's judgment, taking into account the risks embodied in the credit portfolio, in order to ensure that the provision estimates over the entire reporting period adequately represent the best expectations and estimates of management. To this end, management reviews a wide range of data - both factors specific to the borrower and factors relevant to the entire operating environment. In this context, management examines the loss estimates against managerial and financial information at its disposal. In addition, as part of quantifying the provision, the Bank may use scenarios which represent circumstances that management believes are within a reasonable range, and to which management attributes weights for the purpose of obtaining the best estimate.

Impairment of available-for-sale bonds

The Bank estimates the current expected credit losses for bonds in the available-for-sale portfolio at each reporting date when the fair value of the security is lower than its depreciated cost. In any such case, the Bank examines whether there is an intention to sell the security or whether the Bank believes that it is more likely than not that it will be required to sell the security before recovering its carrying amount. If the answer is positive - the entire difference between the carrying amount and the fair value is recognized in profit and loss. If the answer is negative, the Bank examines whether the fair value impairment arises from loan losses or other factors, and if the Bank believes that the impairment arises from loan losses - it is recognized through the loan loss provision, while any other impairment is recognized against other comprehensive income. A loan loss exists when the Bank does not expect to receive principal and interest inflows that are sufficient to recover the entire amortized cost of the security. The loan loss provision is limited to the amount by which it exceeds the amortized cost of the security over its fair value. The provision amount is revised upwards or downwards according to changes in assessments in subsequent periods.

When testing for loan losses, the Bank reviews various inputs, assessments and information items. The main criteria for determining whether the impairment stems from the existence of a credit loss pertain both to factors specific to the issuer and to other factors, as follows:

- Credit rating downgrade
- Adverse legal or regulatory event (such as imposition of a regulatory restriction on the issuer, the issuer is unable to obtain a significant patent or meet its requirements)
- Unpaid interest or principal payments or default
- Deterioration in the issuer's or analysts' expectations regarding the future functioning of the issuer
- Increase in the credit spreads at the rating group level
- Adverse legal or regulatory changes affecting the issuer's industry
- Significant deterioration in the market environment which may affect the value of the collateral (such as a decline in prices of real estate properties)
- A significant deterioration in economic conditions
- Disruptions in the business model as a result of technological changes or new competitors in the industry

Note 1 - Significant Accounting Policies (cont.)

For this purpose, the Bank does not take into consideration the time during which the security's fair value was lower than its cost.

If the Bank decides to carry out a quantitative test, the test is conducted using PD and LGD estimates. In this context, a comparison is made between the discounted cash flows and the fair value and amortized cost. If the expected cash flows are lower than the amortized cost, the difference will be recognized as a loan loss provision. If the fair value of the bond is higher than the discounted cash flow amount, a provision will be recognized up to the fair value amount.

If the Bank expects that the bond shall not be collectible, the loan loss provision amount will be recognized as a charge-off.

Identification and classification of troubled debts

The Bank has set procedures for identifying troubled loans and for classifying debts as non-performing (see definition in subsection (1) below) Interest income According to these procedures, the Bank classified the outstanding on-balance-sheet troubled debts and the off-balance-sheet items as follows: special mention, substandard or non-performing. Non-performing debts were classified and presented in periods preceding January 1, 2022 as part of impaired debts.

The Bank implements the directives included in the Banking Supervision Department's FAQ file "Implementation of the Reporting to the Public Directives regarding Impaired Debts, Credit Risk and Loan Loss Provision", including directives regarding the determination of a debt's classification, based on the debtor's repayment capacity; i.e. the expected strength of the primary repayment source of the debt, despite support by secondary and tertiary repayment sources, such as collateral and guarantors. In this matter, primary repayment source – a sustainable source of cash which must be under the borrower's control, must be reserved, explicitly or implicitly, to cover the debt. For a source of repayment to be considered primary, the Bank must show that the borrower is highly likely to generate, within a reasonable period of time, an adequate cash flow from a continuing business operation, which shall be used to repay all of the required installments in full and according to the repayment schedule set in the agreement.

Past due debts are considered delinquent if their principal or interest were not paid after becoming due. In addition, revolving debitory accounts or current accounts are reported as in arrears of 30 days or more, when the account remains continuously in deviation from the approved credit facility for 30 days or more or if within the credit limit, no amounts were credited to that account to cover the debt within a period of 365/366 days. As of January 1, 2022, after applying the new rules on loan losses, housing loans are managed according to the number of calendar days in arrears, while in previous periods, the extent of arrears of housing loans was determined using the extent of arrears method, in according with Proper Conduct of Banking Business Directive No. 314.

To classify and treat troubled debt (including charge-off), the Bank distinguishes, in accordance with the Reporting to the Public Directives, between:

1. Commercial credit for debt whose contractual balance (without deducting: charge-offs not involving a legal waiver, unrecognized interest, loan loss provisions and collateral) is at least NIS 1 million or more, except for certain exclusions:

Note 1 - Significant Accounting Policies (cont.)

Such credit is mainly classified based on the repayment capacity of the debtor, as described above, while distinguishing between potential weaknesses and existing or well-defined weaknesses. A debt is classified as non-performing when it is expected that the Bank will not be able to back all the amounts it due, based on the contractual terms and conditions of the debt agreement, based on up-to-date information and events, such as: The debt's extent of arrears; the borrower's financial position and solvency; an assessment of the primary repayment source for the debt; status of the collateral; the guarantors' financial position, etc. A debt shall be classified as non-performing whenever the principal or interest has been in arrears of 90 days or more, unless it is both well secured and in the process of collection. A well-secured debt is one that is secured by a collateral by placing a lien on a tangible or personal asset, including securities, the realization value of which is sufficient to repay the debt (including accrued interest) or collateral of a party with proven financial responsibility. A debt is "under collection processes" if its collection is properly conducted through a legal proceeding, under the proper circumstances, collection efforts that are non-legal but which are expected to bring about, in the near future, the repayment of the debt or its return to a performing status.
Off-balance-sheet credit are classified depending on the probability of realizing the contingent liability and if the debts that may be recognized as a result of the realization of the contingent liability meet the criteria for classification into the adequate category.

2. Credit to private individuals, housing loans, and commercial credit in respect of debt the outstanding contractual balance of which (as defined above) is lower than NIS 1 million, except for certain exclusions: Such credit is classified based on the extent of arrears and according to certain negative symptoms that are defined and automatically activated. Housing loans are classified as non-performing debt when the principal or interest thereof are in arrears of 90 days or more.

Restructured troubled debts

A troubled debt which underwent formal restructuring is considered a debt for which, for economic or legal reasons related to the debtor's financial difficulties, the Bank had granted a concession by changing the terms and conditions of the debt to alleviate the burden of the debtor's near-term cash payments or by accepting other assets in satisfaction of the debt. In order to determine whether a debt restructuring carried out by the Bank constitutes restructuring of a troubled debt, the Bank carries out a qualitative assessment of the debt restructuring's terms and conditions and circumstances with the aim of determining whether (1) the borrower has financial difficulties and (2) the Bank granted a concession to the borrower as part of the debt restructuring.

In order to determine whether the debtor has financial difficulties, the Bank assesses whether there are indications that the borrower has difficulties as of restructuring date or whether it is reasonably probable that the borrower will have financial difficulties were it not for the restructuring.

Among other things, the Bank assesses whether one or more of the following criteria are met:

- As at the restructuring date, the borrower is in financial difficulties;
- With regards to debts which are not in arrears as of restructuring date, the Bank assesses whether - under the customer's current repayment capacity - it is probable that the customer will default in the foreseeable future and will fail to meet the original contractual terms and conditions of the debt;
- The debtor has declared bankruptcy, is under receivership, or there are significant doubts as to the borrower's continued existence as a going concern;
- If the terms and conditions of the debt are not changed, the borrower will be unable to raise debt from other sources at the market interest rate applicable to borrowers who have not defaulted.

The borrower was granted a concession even if - as part of the restructuring - the contractual interest rate was increased, provided that one or more of the following criteria are met:

- As a result of the restructuring, the Bank is not expected to collect all outstanding amounts (including interest accrued) according to contractual terms and conditions;
- The up-to-date fair value of the collateral for collateral-dependent debts does not cover the outstanding contractual debt and indicates that it will be impossible to collect all amounts due;
- The borrower is unable to raise debt at prevailing market interest rate for a debt with terms, conditions and characteristics, such as those of the debt extended as part of the restructuring.

The Bank does not classify a debt as a restructured troubled debt if - as part of the restructuring - the borrower was granted an immaterial payments deferral, given the frequency of payments, contractual term to maturity and expected average duration of the original debt. In this regard, if several restructurings were carried out that involve changing the debt's terms and conditions, the Bank takes into account the cumulative effect of the previous restructurings when determining if the payments deferral is immaterial.

In accordance with the Bank of Israel's guidance, when a debt that was not considered non-performing previously is restructured and it is determined to be compliant with the definition of a troubled debt under restructuring, with no partial charge-off, it is usually inadequate to decrease the loan loss provision estimate at the restructuring date as a result of changing the impairment measurement method.

As a rule, a restructured troubled debt will be classified as such until it is fully repaid, excluding housing loans. However, the debt was restructured (without forgiving the principal) and subsequently the banking corporation and the debtor entered into another restructuring agreement (a process called "subsequent restructuring"), provided that on the date of the subsequent restructuring, the borrower is no longer experiencing financial difficulties and, under the terms and conditions of the subsequent restructuring agreement, the banking corporation granted no concession to the borrower; in this case, the subsequent restructured debt will no longer be classified as restructuring of troubled debt. This section applies to restructuring carried out or renewed as of December 31, 2016.

A troubled debt under restructuring the terms and conditions of which have been changed may be classified as performing or non-performing at the change date. As a rule, a troubled debt which has formally undergone restructuring of terms and conditions so as to give rise to reasonable assurance that the debt will be repaid (principal and interest income) and perform according to its new terms and conditions, it need not be classified as non-performing debt, provided that the restructuring and any charge-off made to the debt are supported by an up-to-date and well-documented credit assessment of the debtor's financial status and the repayment capacity under the new terms and conditions. The assessment includes a review of ongoing historic repayment performance of the debtor for a period of at least six months. Accordingly, a debt the terms and conditions of which have been changed under restructuring of troubled debt, and which was adequately classified as performing debt prior to the restructuring, can continue to accrue interest provided that subsequent the restructuring: (1) The collection of the principal and interest in accordance with the new rules is reasonably assured, based on an up-to-date and well-substantiated analysis; (2) The debtor has a reasonable history of ongoing repayment performance for a reasonable period prior to the change of the terms and conditions that does not exclusively rely on interest payments; and (3) the restructuring improves the collection odds of the loan, according to a reasonable repayment schedule.

Classification of a debt as restructured troubled debt does not automatically require the debt to be classified as troubled. However, at the date on which the terms and conditions were changed, the required classification should be reassessed. All the relevant parties, including the extent of the debtor's financial difficulties, should be taken into account when conducting the risk assessment. Classifying a debt as non-troubled or troubled shall be conducted in accordance with the Bank's procedures.

Note 1 - Significant Accounting Policies (cont.)

As of January 1, 2022, the rules described above also apply to housing loans, with the necessary adjustments. As a rule, rescheduling or recycling of a defaulted housing loan shall be defined as troubled debt under restructuring. The same applies to restructuring which includes rescheduling late charges. The Bank applied also these directives to restructurings conducted prior to January 1, 2022 that have yet to be repaid.

For information regarding the adoption of ASU 2022-02, Troubled Debt Restructurings and Vintage Disclosures please see under Reporting to the Public Directives, Section (y.1) below.

Reinstatement of non-performing debt as performing debt

Non-performing debt is reclassified as performing debt if one of the following is met:

- Principal or interest are no longer past due and unpaid and the Bank expects full repayment of the outstanding principal and interest pursuant to the terms and conditions of the contract (including charge-offs or amounts that have been provided for).
- The debt is both well secured and in the process of collection.

In addition, in order to reinstate a non-performing loan as performing - following restructuring of troubled debt - an up-to-date and well-documented credit analysis of the debtor's financial position and the repayment odds under the updated terms and conditions should be made. The analysis takes into account the debtor's history of ongoing repayment performance for a reasonable period prior to debt's reinstatement as performing, but may taken into account payments made during a reasonable period prior to the restructuring, if the payments are in line with the updated terms and conditions. A period of ongoing repayment performance is usually at least six months as of the assessment date. Reclassification of a non-performing debt shall entail classifying the debt as non-troubled or troubled in accordance with the Bank's procedures.

Revenue recognition

As at the date of the debt's classification as non-performing, the Bank no longer accrues interest income therefrom. Furthermore, when the debt is classified as non-performing debt, the Bank cancels all interest income which has been accrued but not yet collected which had been recognized as income in profit and loss. The debt is classified as non-performing as long as its "non-performing" classification has not been canceled.. As for performing debts examined and provided for on a collective basis, excluding housing loans, that are in arrears of 90 days or more, the Bank continues to accrue interest income.

Charge-off

The Bank performs charge-offs in the following cases:

- Any debt or part thereof which is assessed on a specific basis and is considered uncollectible and has a low value such that maintaining it as an asset is unjustifiable or a debt which the Bank has attempted to collect over a considerable period of time (normally for more than two years).
- In the case of a collateral-dependent debt, any portion of such debt in excess of the value of the collateral which is identified as uncollectible shall be written off immediately against the loan loss provision.
- Troubled debts which are tested on a collective basis (i.e., non-housing loans for private individuals and commercial credit for a debt the contractual outstanding balance of which, as defined above, is less than NIS 1 million, except for certain exclusions) and their extent of arrears is 150 days or more, except in case of debts under restructuring, for which the need for immediate write-off is examined. In addition, troubled debts under restructuring which were tested collectively and failed, are written off when in arrears of 60 days or more under the restructuring terms and conditions and are classified as non-performing. As for housing loans, an up-to-date assessment of the value of the collateral should be made no later than the date in which the debts are in arrears of 180 days or more, and charge off the portion of the recorded outstanding balance that exceeds the collateral's value (less costs to sell).

It should be clarified that charge-offs do not involve a legal concession and reduce the reported outstanding debt for accounting purposes only, while establishing a new cost basis for the debt in the Bank's books of accounts.

Note 1 - Significant Accounting Policies (cont.)

Disclosure requirements

The Bank applies the disclosure requirements to the credit quality of debts and to the loan loss provision set forth by ASC 310, "Receivables", and ASC 326, "Financial instruments - Credit Losses", with the required adjustments and as adopted by the Reporting to the Public Directives. The Bank adjusted the disclosure format to the new rules, and reclassified comparative figures as needed.

I. Securities

1. The securities in which the Bank invests are classified into four portfolios, as follows:

A. Held-to-maturity bonds

Bonds that the Bank intends to and can hold to maturity, with the exception of bonds that may be repaid early or settled otherwise, such that the Bank will not cover substantially all of its recorded investment. Held-to-maturity bonds are stated on their balance sheet at their par value plus accrued interest, exchange rate and linkage differences, taking into account the premium or discount, pro rata.

Available-for-sale bonds

Bonds not classified as held-to-maturity or held-for-trading. Available-for-sale bonds are stated in the balance sheet at fair value as at the reporting date. The differences between the fair value and amortized cost net of tax reserve are carried to a separate line item in shareholders' equity under other comprehensive income. Realized gains or losses and impairment are stated in the income statement.

Unrealized gains or losses from fair value adjustments in respect of available-for-sale bonds designated as being hedged by fair value hedges were carried to the income statement over the hedging period in respect of the hedged risk.

B. Held-for-trading securities

Securities that were purchased and are held with the intent of selling them within a short period of time. Held-for-trading securities are stated at fair value on the balance sheet as at the reporting date. Realized and unrealized gains and losses are carried to the income statement.

C. Equity securities not held for trading

Equity securities with an available fair value are stated in the balance sheet at their fair value as at the reporting date. Unrealized gains or losses from fair value adjustments are stated in the income statement.

Equity securities with no available fair value are stated in the balance sheet at cost, less impairment, with the addition or deduction of changes in observable prices in orderly transactions in similar or identical investments of the same issuer. Unrealized gains or losses from adjustments to changes in observable prices are stated, as aforesaid, in the income statement.

2. Dividend income, accrued interest, linkage and exchange rate differentials, amortization of premium or discount (according to the effective interest method) and impairment losses from amortization are carried to the income statement.

3. Interest income in respect of purchased beneficial interests - e.g. asset-backed financial instruments such as CDO, CLO, MBS and CMO (except for instruments with high quality credit) - is recognized according to the prospective interest method (the future interest rate which also incorporates prospective changes), while adjusting the interest rate used to recognize interest income to reflect changes in the estimated future cash flows. Beneficial interests of high credit quality are beneficial interests issued by the US Government and are guaranteed thereby or by US Government agencies, as well as asset-backed securities whose international credit rating is at least A.

4. Fair value measurement

For additional information about the methods applied to determine fair value, please see Section (G) above.

Note 1 - Significant Accounting Policies (cont.)

5. Fair value designation

The Banking Supervision Department's directives allow to elect, on specified dates, to measure financial instruments at fair value, such that unrealized gains and losses in respect of the changes in the fair value of items for which the fair value option was selected, are reported in the income statement on each subsequent reporting date, except for certain exceptions. Furthermore, prepaid costs and fees, which are related to items for which the fair value option was selected, shall be recognized in profit and loss as incurred. The fair value option selection is made on an instrument-by-instrument basis and is irrevocable. Regarding the measurement of a hybrid instrument at fair value, see Section (j) below.

6. Impairment

Regarding the treatment of impairment of available-for-sale or held-to-maturity bonds, please see Section (H) above.

For equity securities not held for trading for which there is no available fair value, the Bank makes a qualitative assessment in order to test the equity securities for impairment, and if needed - assesses the fair value of the investment to determine total impairment loss.

J. Derivatives Including Hedge Accounting

The Bank holds derivative financial instruments in order to hedge foreign currency, interest rate risks and CPI risks; the Bank also carries out derivative activity for purposes other than hedging, including embedded derivatives that have been bifurcated.

Hedge accounting

As part of the Bank's overall strategy for managing the above risk exposures, the Bank designates certain financial instruments as fair value hedges, cash flow hedges and foreign currency hedges. The Bank formally documents the hedge relationships at the hedge's inception. The documentation includes: The hedging instrument, the hedged instrument, the nature of the hedged risk and the method for assessing the hedge effectiveness.

1. Fair value hedges

   The Bank designates derivatives as hedging the exposure to changes in the fair value of an asset or liability. Changes in the fair value of derivatives designated to hedge fair value are carried to the income statement on a current basis and presented in the same line item as effects of the hedged item. The hedged item is also stated at fair value and changes in fair value that can be attributed to the hedged risk are carried to the income statement.

2. Cash flow hedges

   The Bank designates derivatives as hedging the exposure to the change in future expected cash flows which is attributable to a certain risk. Changes in the fair value of a derivative designated as cash flow hedges are carried to the other comprehensive income.

3. For hedges of foreign operations – please see Section (d) above.

If the hedging instrument no longer meets the hedge accounting criteria, or if it expires, sold, terminated or exercised, or if the Bank cancels the designation of the hedge ratios, then it is no longer accounted for using hedge accounting.

Economic hedging

Hedge accounting is not applied to derivatives used by the Bank in its Asset and Liability Management (ALM) activities. Changes in the fair value of these derivatives are recognized in profit and loss as incurred.

Other derivatives

Derivatives which do not serve for hedging purposes, are measured at fair value with the changes in the fair value of these derivatives carried immediately to profit and loss.

Note 1 - Significant Accounting Policies (cont.)

Embedded derivatives

Embedded derivatives are bifurcated from the host contract and accounted for separately as derivatives in accordance with ASC 815-10 if: (a) There is no clear and close connection between the economic characteristics and risks of the host contract and embedded derivative, including credit risks arising from certain embedded credit derivatives, (b) a separate instrument with the same terms and conditions as the embedded instrument would have qualified as a derivative, and (c) the hybrid derivative is not measured at fair value through profit and loss.

Bifurcated embedded derivatives are presented in the balance sheet together with the host contract and changes in their fair value are carried immediately to profit and loss.

In certain cases, (such as when the Bank is unable to bifurcate an embedded derivative from the host contract), the Bank elects not to bifurcate the embedded derivative and to measure the fair value of the hybrid instrument in its entirety and carry any changes in fair value to the income statement as incurred. Such election is made when the hybrid instrument is purchased or upon the occurrence of certain events in which the instrument is subject to re-measurement (a re-measurement event), such as a result of business combinations or material changes in debt instruments. Such fair value election is irrevocable.

Fair value

For additional information about the methods applied to determine fair value, please see Section (G) above.

K. Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

The Bank applies the measurement and disclosure principles prescribed in Subtopic 860-10 – Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, for the purpose of dealing with transfers of financial assets and extinguishment of liabilities. According to these rules, the transfer of an entire financial asset, a group of financial assets or a participating interest in an entire financial asset will be accounted for as a sale, if and only if, all of the following conditions are met: (1) The transferred financial asset has been isolated from the transferor, even under bankruptcy or other type of receivership; (2) each transferee may pledge or exchange the assets it had received, and no condition also restricts the transferee or holder from exercising its right to pledge or exchange and confers upon the transferor more than a trivial benefit to the transferor; (3) the transferor does not maintain effective control over the transferred financial assets.

In this context, a participating interest has all of the following attributes: (1) As of the transfer date, it represents a pro rata ownership interest in the entire financial asset; (2) as of the transfer date, all of the cash flows received from the entire financial asset are divided pro rate between the holders of the participating interests relative to their respective ownership holdings; (3) the interests of each of the participating interest (including the transferor in its capacity as a holder of participating interests) have the same preference, and none of the interests of any particular interest holder is subordinate to the interest of another holder; and (4) no party has the right to pledge or replace the entire financial asset, unless all of the holders of the participating interests agree to pledge or replace the entire financial asset.

If the transfer meets the criteria for accounting for it as a sale, the transferred financial assets are derecognized from the Bank's balance sheet. The difference between the proceeds and the value of the derecognized asset will be recognized in the income statement. If the transfer does not meet the conditions for accounting as a sale, it shall be accounted for as a secured debt. The financial assets shall continue to be stated in the Bank's balance sheet, without change to their value, and the proceeds of the sale are recognized as a liability of the Bank.

Securities lending transactions

The Bank applies specific provisions included in the Reporting to the Public Directives regarding lending or loaning of securities. The securities are not derecognized from the balance sheet and continue to be presented in the securities line item; the collateral put up to secure the securities is presented in the securities loaned or sold under repurchase agreements line item or under the securities borrowed or purchased under reverse repurchase agreements line item or securities borrowed under repurchase agreements, as applicable and according to their value on the transaction date.

Note 1 - Significant Accounting Policies (cont.)

The Bank monitors changes in fair value on a daily basis and where applicable demands collateral. Interest received or paid in respect of such securities is reported under net interest income (expense).

Pursuant to the directives of the Banking Supervision Department, unsecured securities lending or borrowing transactions in which the borrower does not provide the banking corporation with a security margin relating specifically to the securities lending transaction, are accounted for as follows:

A. Unsecured lending out of the Bank's available-for-sale bonds and equity securities not held for trading or from the held-for-trading portfolios – when the Bank lends securities, it derecognizes the borrowed securities and recognizes a loan at the transferred securities' market value as of the transfer date. In subsequent periods, the Bank measures the loans in the same way in which the securities were measured prior to the lending thereof. Income on accrual basis is recognized as interest income on loans; changes in market value (other than accrual basis changes) are classified as noninterest finance income if the relevant securities are held-for-trading securities and equity securities not held for trading or as other comprehensive income if the relevant securities are available-for-sale bonds. At the end of the lending period, the Bank derecognizes the loan and re-recognizes the security.

B. Unsecured borrowing of securities – when the Bank borrows a security in an unsecured borrowing transaction, the Bank recognizes the security and a deposit against that security, at the security's market value as of the borrowing date. Such securities are classified to the held-for-trading portfolio. In subsequent periods, changes in the reporting period arising from changes in the security's market value are classified as noninterest finance income. When the Bank sells a borrowed security short, the Bank recognizes, in noninterest finance income at each reporting date, the difference - only if positive - between the market value of the shorted security at the reporting date and the balance for the unsecured borrowing transaction included in the deposits line item.

Extinguishing of a liability

The Bank derecognizes a liability if it has been extinguished. The Bank derecognizes a liability if one of the two following conditions has been met: (1) The Bank paid the lender and was released from its obligation in respect of the liability, or (2) the Bank was legally released, through legal proceedings or by obtaining the lender's consent, from being the principal debtor in respect of the liability.

L. Employee Benefits

Retirement benefits - pension, severance pay and other benefits - defined benefit plans

Pension benefit is part of the compensation paid to employees for their services. In a defined benefit pension plan, the Bank undertakes to pay employees' salaries during years of employment as well as post-retirement pension annuities. The amount of the benefit paid depends on certain future events taken into consideration in the plan's benefit formula, including, inter alia, the remaining life of the employees or his/her survivors, the number of the employees' years of service and his/her salary in the work years preceding his/her retirement.

Definitions:

- Discount rate applied to employee benefits liabilities – The discount rate used to calculate the actuarial liability in respect of the Bank's employee benefits is based on market yields according to the option selected by the Bank out of the alternatives set forth by the Bank of Israel, which is the Government of Israel's bonds yield curve plus the spread curve of corporate bonds rated AA or more in the U.S.

- Actuarial gain/loss – the change in the value of a projected obligation or plan assets resulting from the fact that actual payments differ from estimated amounts or arising from a change in an actuarial assumption.

- Expected return on plan assets – the Bank calculates the expected long-term rate of return on plan assets using historical rates of return over a long period of time for a portfolio comprising similar assets.

- Expected benefit obligation – the actuarial present value of all benefits attributed to the employee's service provided prior to the balance sheet date in accordance with the plan's benefit formula.

Note 1 - Significant Accounting Policies (cont.)

- Cost of pension, net - the amount recognized in the Bank's financial statements as the cost of a pension plan for a specific period. This cost includes costs charged to profit and loss: Cost of service, interest cost, expected return on plan assets and amortization of net actuarial gain/loss and costs charged to other comprehensive income: Actuarial profit and loss.

Actuarial gains and losses stated in comprehensive income arise, inter alia, from:
Current changes in the discount rates.
Changes arising from the difference between the actual experience and the actuarial assumption used to calculate the liability.
From the difference between the expected return and the actual return on plan assets.

Actuarial gains and losses as outlined below are amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits according to the plan. When all or almost all of the plan participants shall no longer be active, the average remaining life expectancy of the inactive employees shall replace the average remaining service period.

The expected benefit obligation in the balance sheet is recorded net of the fair value of plan assets. When the expected benefit obligation exceeds the fair value of plan assets, the Bank will record in the balance sheet a liability at the total amount of the said difference. If the fair value of plan assets exceeds the expected benefit obligation, the Bank will record in the balance sheet an asset at the total amount of the said difference.

The Bank carries out an actuarial measurement on a quarterly basis.

Retirement benefits – defined contribution plans

A defined contribution plan is a plan which pays retirement benefits for services rendered. The plan provides an individual account for each participant in the plan and defines how employee's contributions will be determined. In this type of plan, the benefits paid to a participant will receive contingencies depending solely on the amounts contributed to the participant's account, the returns accumulated from investing these contributions, and forfeitures of benefits of other participants that may be allocated to the account of that participant. In this case, the net benefit cost for the period is the contribution required for that period.

The Bank's liability to pay severance pay under Section 14 of the Severance Pay Law is accounted for as a defined contribution plan.

Other post-employment benefits

The Bank accrues the liability across the employment period, under the predetermined terms and conditions.

Paid absences

The Bank accrues a liability for employees' compensation in respect of future absences, if all of the following conditions are met:

- The Bank's obligation is related to services already provided by the employees.
- The obligation relates to vested or accrued rights.
- Payment of the expected compensation.
- The amount can be reasonably estimated.

Paid leave

The liability in respect of paid leave is measured on a current basis without using discount rates and actuarial assumptions. Changes in the liability are carried immediately to the income statement.

Jubilee vacation leave

Discount rates and actuarial assumptions are taken into account in the calculation of the liability in respect of long-service (jubilee) leave.
Changes in the liability in respect of long-service leave (jubilee) are carried immediately to the income statement.

Note 1 - Significant Accounting Policies (cont.)

Sick leave

The Bank is accruing the liability as absences qualifying for compensation. To calculate the liability, discount rates and actuarial assumptions are taken into account. Changes in the liability are carried immediately to the income statement.

Discharges

The Bank recognizes gains or losses in respect of discharges in its defined benefit plans, with the non-recurring payments relating to the plan expected to be - cumulatively during the year - higher than the cost of service and cost of annual interest. The loss is calculated at the rate on which the actuarial obligation decreases as a result of the discharge, multiplied by the balance of actuarial gains and losses accrued in other comprehensive income.

Stock-based compensation transactions

Stock-based compensation transactions are transactions in which the Bank receives services from the employee and the consideration is provided in equity instruments.

As a rule, the Bank recognizes an expense in respect of the stock-based compensation it grants to its employees on the date in which the services are provided. An expense is recorded if it is probable that the conditions for performance will be met.

The Bank recognizes an increase in capital or liability depending on whether the bonus is equity-settled or liability-based.

Equity-settled awards are measured according to the fair value of the equity instruments issued, on the grant date.

The measurement of the cost of capital instruments that are granted to employees is according to the fair value on the grant date of the capital instruments, which the Bank is obligated to issue on the date the employees will complete the required service and all other conditions required in order to earn the right to benefit from the capital instruments (for example, to exercise options). This estimate is based on the share price and other relevant parameters (such as the expected volatility) on the grant date.

If a grant requires the fulfillment of market conditions, performance conditions or service conditions, one or more, the compensation cost is recognized only if the required service conditions were reached. The Bank does not recognize expenses for bonuses that were forfeited due to the employee’s non-fulfillment of service conditions or performance conditions.

Cash-settled awards are measured at fair value on grant date and the liability is remeasured at each balance sheet date until settled.

The tax effects of stock-based compensation transactions are recognized at the extinguishment (or expiry) date through profit and loss.

For more details regarding issuance of option warrants, see Note 24.A

M. Offsetting Assets and Liabilities

The Bank offsets assets and liabilities arising from the same counterparty and states their net balance in the balance sheet, when the following cumulative conditions are met:

- There is a legally enforceable right to offset the liabilities against the assets in respect of those liabilities;
- There is an intention to settle the liability and realize the assets on a net basis or simultaneously;
- The Bank and the counter-party owe each other determinable amounts.

The Bank offsets deposits whose repayment to the depositor is contingent on the extent of collection of the loans and the loans that were extended out of these deposits, with the Bank having no loan loss risk. The margin on this activity is included in the income statement under the fees and commissions line item.

The Bank offsets derivatives entered into with the same counterparty which are subject to a master netting arrangement, only for the purpose of calculating customer’s debt as presented in the various notes to the financial statements. Such offsetting is not carried out in the balance sheet.

Note 1 - Significant Accounting Policies (cont.)

N. Buildings and equipment

Recognition and measurement

Buildings and equipment are presented at cost, net of accumulated depreciation and impairment losses. Cost includes expenses directly attributable to the purchase of the asset. The cost of self-constructed assets includes the cost of materials and direct salaries as well as any additional cost directly attributable to bringing the asset to an active state as intended by management. Cost of purchased software that constitutes an integral part of operating the related equipment, is recognized as part of the cost of that equipment.

Held-for-sale buildings are presented at the lower of their carrying amount or fair value less costs to sell.

Profit or loss on sale of property, plant and equipment is included in the "other income" line item in the income statement.

Subsequent costs

The carrying amount of an item of property, plant and equipment will include the cost of replacing the part of such an item if it is expected that the future economic benefits associated with the replaced part will flow to the Bank and if its cost can be measured reliably. The carrying amount of the replaced part is derecognized.

Current maintenance costs of property, plant and equipment items are carried to profit and loss as incurred.

Software costs

Pursuant to the Reporting to the Public Directives, the Bank classifies under this line item, the costs in respect of software assets acquired or costs capitalized as an asset in respect of internally-developed and used software.

Purchased software is measured at cost net of accumulated depreciation and impairment losses.

Costs associated with the development and customization of internal use software are capitalized when the first phase of the project has been completed and only if the development costs can be measured reliably, if future economic benefits are expected and if the Bank intends to complete the development of the software and use it and has sufficient resources to do so. The Bank has also set a materiality threshold of NIS 750 thousand for capitalization of internally-used software. Capitalized costs include direct costs of materials and services and direct labor costs. These costs are measured at cost net of accumulated depreciation and impairment losses. Other costs are carried to profit and loss as incurred. Subsequent software costs are capitalized only if it is expected that the incurred costs will increase the economic benefits associated with the software. All other costs are carried to the income statement as incurred.

Depreciation

Depreciation is stated in the income statement according to the straight-line basis over the useful life of the asset as of the date on which the asset is ready for use. The Bank depreciates separately each part of property, plant and equipment with a different useful life. Leasehold improvements are amortized over the shorter of the term of the lease, including an option which is likely to be exercised, or the estimated useful life of the improvements. The Bank reviews the useful life and residual value when events or changes in circumstances indicate that the current estimates are no longer adequate, in which case they are adjusted as necessary.

For additional information regarding impairment of non-financial assets, please see Section (v) below.

Derecognition

Profit or loss from derecognition of a property, plant and equipment item is the difference between the asset's derecognition amount and book balance. This difference will be recorded net in the other income line item in the income statement.

Note 1 - Significant Accounting Policies (cont.)

Leases

Contracts, including lease rights of land from the Israel Land Administration or other third parties, which provide the Bank with control over the use of the assets under a lease for a period of time in return for consideration, are accounted for as leases. Upon initial recognition, the liability is recognized at the present value amount of the future lease payments during the lease period (these payments do not include variable lease payment) and at the same time, the right-of-use asset is recognized at the amount of the lease liability, with the addition of initial costs and lease prepayments, less incentives received. For operating leases, a liability and right-of-use asset shall be recorded if the lease period is greater than twelve months.

Subsequent to initial recognition, a liability for an (operating and finance) lease is measured at amortized cost according to the effective interest method. In addition, the Bank is testing a right-of-use asset (for an operating and finance lease) for impairment according to the provisions of Topic 360-10-35 of the FASB Accounting Standards Codification, Impairment Testing of Long-Lived Assets.

The lease period is the non-cancelable period in respect of which the lessee has entered into an agreement to lease the asset, together with any other periods in respect of which the lessee has an option to continue the lease for additional payment or without an additional payment, if it is reasonably certain that the lessee will exercise the option.

The Bank chose the practical relief of not bifurcating non-lease components, such as services or maintenance, but rather treating them as a single lease component.

Lease payments

Lease payments made in advance to the Israel Land Administration in respect of operating leases are stated in the income statement on a straight-line basis over the lease period. Fixed and variable rent payments are carried to profit and loss in the period for which they were paid.

O. Issuance Costs

Costs relating to issuance of bonds, promissory notes and subordinated notes are amortized according to the effective interest method over the expected life of the issued instrument.

P. Contingent Liabilities

The financial statements include adequate provisions for legal claims, in accordance with the assessment of the Bank's management and the managements of its consolidated companies, based on the opinions of their legal counsel.

Contingent liabilities are accounted for in accordance with the directives of the Banking Supervision Department, classifying the claims files so far against the Bank into three groups, according to the probability of the risk exposures materializing, as follows:

- Probable risk – the probability that the risk will materialize exceeds 70 percent. Appropriate provisions are included in the financial statements for legal claims in this risk group; the claims are disclosed according to materiality.
- Possible risk – the probability that the risk will materialize ranges from 20 percent to 70 percent. Provisions are generally not included in the financial statements for legal claims in this risk group; the claims are disclosed according to materiality.
- Remote risk – the probability that the risk will materialize is smaller than or equal to 20 percent. No provisions were included in the financial statements for legal claims included in this risk group and they were not disclosed in the financial statements.

There may be cases, where - in the opinion of the Bank's management, based on the opinion of its legal counsel - it is impossible to assess the prospects of a risk materializing as a result of an ordinary legal claim or a class action certification motion before 4 quarters will have elapsed (including one annual report) from the claim filing date. No provision was made for legal claims included in this risk group and they were disclosed in the financial statements in accordance with their materiality.

Note 1 - Significant Accounting Policies (cont.)

The Group is also exposed to legal requirements for which a legal claim has not yet been filed or that it had been informed of. In its assessment of the risk arising from demands/legal claims that have not yet been put forward, the Group's management relies on internal assessments made by management and by the parties responsible; these assessments weigh the prospects that a legal claim will be filed, the chances of the legal claim being successful, if and to the extent that it is filed, and amounts that may be payable if a compromise is reached. The assessment is based on past experience and on an analysis of the legal claims on their own merit. If a legal claim is filed, the actual result may be different than the assessment made prior to the filing of the claim.

A legal claim in respect of which the Banking Supervision Department determines that the Bank is required to make refunds is classified as "probable" and a provision is made in respect of the amount the Bank is required to refund.

In Note 26, Contingent Liabilities and Special Commitments, a disclosure was made in respect of claims against the Bank and consolidated companies the amount claimed in which is material. The materiality threshold is the higher of: 0.5 percent of the Bank's shareholders' equity or 5 percent of the Bank's annual net income.

In addition, disclosure was made to the additional exposure amount arising from legal claims filed against the Bank and the consolidated companies on various issues the amount of each of which exceeds NIS 2 million, and regarding which the chances of the claims succeeding are not remote.

Q. Guarantees

Guarantees are contracts which include contingent payments requiring the guarantor to make payments for the guaranteed party upon materialization of the terms and conditions requiring the guarantee to be realized. A liability in respect of a guarantee is recognized in the books at fair value even if no payments are expected to be made. For guarantees that come under ASC 326-20, upon initial recognition, in addition to the liability at fair value to be recognized under ASC 460, a liability for current expected credit losses shall be recognized according to ASC 326-20. For guarantees that do not come under ASC 326-20, if upon initial recognition, the Bank is required to recognize a provision for a contingent loss for the guarantee according to the provision of ASC 450, the liability for the guarantee is measured upon initial recognition according to the higher of the fair value and the provision amount, in accordance with the provisions of ASC 450. The liability is derecognized on the date in which the Bank is released from the risk. The date of release from the risk in respect of the guarantee depends on the nature of the guarantee. Usually, the Bank derecognizes the liability upon extinguishment of the liability. In guarantees where a liability for current expected credit losses was recognized, it shall be measured according to the provisions of ASC 326-20. In addition, where the guarantee was measured upon initial recognition according to the provisions of ASC 450, the subsequent measurement is also made in accordance with ASC 450..

R. Income Tax

The provision for income tax by the Bank and by those of its consolidated companies which are considered financial institutions for Value Added Tax purposes include a provision for profit tax levied on the income pursuant to the Value Added Tax Law. Value Added Tax levied on salaries in financial institutions is included in the income statement under "Salaries and related expenses". The financial statements include current taxes and deferred taxes.

Current taxes

Current taxes are the amounts of taxes which are expected to be payable (or recoverable) in respect of the taxable income for the year calculated at the applicable tax rates under tax laws that have been enacted or substantively enacted until the end of the reporting period. Current tax expenses also include the changes in the tax payments related to previous years.

Note 1 - Significant Accounting Policies (cont.)

Deferred taxes

Deferred tax liabilities and deferred tax assets are created in respect of temporary differences and carried forward losses as at the end of the period.

Deferred tax balances are measured at the tax rates expected to be in effect for the temporary differences at the time the they are utilized, based on the tax rates and tax laws enacted as at the end of the reporting period. A law shall be considered as having been enacted only after its publication in the Official Gazette.

Deferred tax liabilities are recognized by the Bank for all taxable temporary differences except for tax liabilities arising from temporary differences related to goodwill which is not tax deductible or deferred tax liabilities in respect of temporary differences arising from investment in domestic subsidiaries until December 31, 2016. As of January 1, 2017, the Bank recognizes a deferred tax liability in respect of temporary differences accrued as of that date in respect of domestic subsidiaries. The Bank does not recognize deferred tax liabilities in respect of investment in foreign companies since it does not intend to reinvest the undistributed profits for an indefinite period nor does it have the ability to do so.

Deferred tax assets are only recognized to the extent that it is probable that the temporary difference will reverse in the foreseeable future. When recognizing a deferred tax asset, an entity must determine whether it will have future taxable profit from which to deduct the difference. At the same time, the Bank recognizes a separate valuation allowance in respect of the same amount included in the asset which - more likely than not - shall not be disposed of. Subsequent changes in the valuation allowance will be recognized in profit and loss in the current period even if the allowance was initially recorded in equity.

The Bank classifies interest income and expenses in respect of income taxes and fines imposed by the tax authorities to the income taxes line item.

Offsetting deferred tax assets and liabilities

The Bank offsets all deferred tax liabilities and assets, as well as all the related valuation allowances for a particular taxable component within the boundaries of a particular tax jurisdiction.

Uncertain tax positions

The Bank recognizes the effect of tax positions only if it is more likely than not that the positions will be accepted by the tax authorities or the Court. Recognized tax positions are measured at the highest amount that has a greater than 50 percent likelihood of being realized. Changes in recognition or measurement of deferred taxes are reflected in the period in which the circumstances leading to a change in judgment occurred. The Bank implements the rules for recognition and measurement set out in ASC 740.

S. Earnings per Share

The Bank presents basic and diluted earnings per share data for the Bank’s ordinary share capital. Basic earnings per share is calculated by dividing the profit or loss attributed to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. The diluted earnings per share is determined by adjusting the profit or loss attributed to holders of ordinary shares and the weighted average number of ordinary shares outstanding, to the effects of all dilutive potential ordinary shares.

T. Reporting operating segments

A. Regulatory operating segments

The Bank reports regulatory operating segments using a uniform and comparable format prescribed by the Banking Supervision Department.

A regulatory operating segment is defined mainly based on the classification of the customers. Retail customers are classified according to total financial assets for the Household Segment and Retail Banking Segment. Customers who are not private individuals are mainly classified according to their turnovers - into business segments (separated into micro- and small businesses, mid-market, and corporations), institutional entities and financial management segment.

Note 1 - Significant Accounting Policies (cont.)

B. Operating segments according to management approach

According to the directives of the Banking Supervision Department, a bank whose operating segments according to management approach are materially different than the regulatory operating segments will also provide disclosure on operating segments according to the management approach.

An operating segment is a component of a bank engaged in activities from which it may generate income and bear expenses; the operating results of the operating segment are reviewed on an ongoing basis by the bank's management and board of directors in order to make decisions regarding the allocation of resources and assessment of its performance; there is also separate financial information regarding such segments.

The operating segments reporting according to management approach presents the Bank's results by business line, in accordance with the Bank's organizational structure. The results of the product segment which are not attributable to the relevant customer segments are included in "Other and adjustments".

U. Controlling Shareholders Transactions

The Bank implements the accounting treatment set under US GAAP in its accounting for transactions between a banking corporation and its controlling shareholder and a company controlled by the Bank. In such cases, where the said rules do not refer to the accounting treatment, the Bank implements the rules set out in Standard No. 23 of the Israel Accounting Standards Board on the matter.

Assets and liabilities in respect of which a transaction was carried out with a controlling shareholder are measured at fair value as of the transaction date. Due to the fact that the transaction in question is an equity transaction, the Group carries to equity the difference between the fair value and the consideration from the transaction.

V. Impairment of Non-Financial Assets

1. The Bank assesses the need to record a provision for impairment in respect of non-financial assets (such as: buildings and equipment) when events or changes in circumstances indicate that the book balance of its assets exceed their recoverable amount. Impairment losses are recognized only if the carrying amount of a non-current asset is non-recoverable and exceeds its fair value. In other words, the total undiscounted cash flows expected to arise from the use of the asset and its disposal is lower than its carrying amount.

   In this case, the Bank will recognize an impairment loss equal to the difference between the asset's carrying amount and its fair value. This loss will be charged to the income statement.

   When such a loss is recognized, the impaired carrying amount constitutes a new cost basis. The recognized loss shall not be reversed in subsequent periods, unless an appreciation occurs.

2. Impairment of goodwill

   The Bank tests for impairment once every certain period or if events or changes in circumstances indicate such a need. Goodwill impairment should be recognized as the difference between the fair value of the reported unit and its carrying amount. The impairment loss may not exceed the goodwill amount attributed to the reporting unit.

3. Impairment of internally-developed software

   The Bank tests for impairment intangible assets remaining from a software project when there are events or changes in circumstance which indicate that the amortized cost may be unrecoverable.

   Set forth below are examples for events or changes in circumstance that indicate an impairment:

   A. Internal-use computer software is not expected to provide substantive service potential;

   B. A significant change occurs in the extent or manner in which the software is used or is expected to be used;

   C. A significant change is made or will be made to the software;

Note 1 - Significant Accounting Policies (cont.)

D. Costs of developing or modifying internal-use software significantly exceed the amount originally expected to develop or modify the software;

E. It is no longer probable that the development of the software will be completed and that the software will be placed in service.

The Bank recognizes impairment loss when the carrying amount is unrecoverable and exceeds the fair value. A recognized impairment loss will not be reversed in the subsequent period even if the value appreciates.

4. Impairment of investments in associates presented according to the equity method

In order to examine whether there are indications of impairment of an investment in an associate, the Bank implements US GAAP for Banks, SEC guidelines and Israel Securities Authority Decisions 1-4, guidelines for examining the need to reduce fixed investments, with the necessary changes. According to these rules, an investment in an associate is tested for impairment when events or changes in circumstances indicate that the investment's carrying amount is unrecoverable. In such a case, the Bank tests whether the impairment is other-than-temporary, based on the time during which the fair value of the investment is lower than its carrying amount and the severity of the impairment; the financial position of the investee; as well as the intention and ability of the banking corporation to continue to hold the investment until a date on which the investment is not expected to be sold at a loss. Impairment that is other-than-temporary shall be recognized in the income statement under the line item "Bank's share in profits (losses) of associates" and not reversed in subsequent periods.

5. Non-current held-for-sale assets

A non-current asset (or disposal group) shall be classified as held-for-sale when management commits to an active plan to sell the asset, the asset is available-for-sale immediately at its current state, it is expected that the sale of the asset will be completed in one year and the asset is actively marketed for sale purposes.

The asset (or disposal group) shall be presented at the lower of the carrying amounts or fair value less selling costs. An impairment loss recognized upon initial classification of an asset as held-for-sale and subsequent gains or losses resulting from the remeasurement are stated in profit and loss. Appreciation gains are recognized up to total amount of impairment losses recorded since the asset was classified as held-for-sale.

A depreciable asset classified as held-for-sale shall not be amortized as long as it is classified as held-for-sale.

W. Share buyback

At the time of the Bank's share buyback, the amount of the proceeds that is paid, including direct costs, is deducted from equity. When the shares are sold or bought back, the consideration received is recognized as an increase in equity and the surplus or deficit from the transaction is stated in the premium balance.

X. First-Time Application of New Accounting Standards, Accounting Standard Revisions, and New Directives Issued by the Banking Supervision Department

As of the reporting periods commencing on January 1, 2023, the Bank applies the following accounting standards and directives:

Effect of the Iron Swords War on the loan loss provision calculation

On October 7, 2023, the Iron Swords War broke out. In order to address financial reporting issues related to the War, the Banking Supervision Department published the following guidelines:

A. On October 18, 2023, it published a circular entitled "Regulatory Emphases for Handling Debt and Reporting to the Public", which adopts the following instructions and clarifications:

Note 1 - Significant Accounting Policies (cont.)

Changes in loan terms and conditions

The Banking Supervision Department encourages banking corporations to temporarily award borrowers affected by the War further flexibility in repaying their loans, which will benefit the long-term interest of the banking corporations, their borrowers and the economy as a whole. A banking corporation may, for example, encourage borrowers affected by the War to enquire regarding new repayment arrangements for the short-term (such as a waiver of arrears interest and a deferral of interest and principal payments) or to determine similar repayment arrangements for the short-term for all borrowers in the affected area, unless the borrower requests otherwise.

Determining the extent of arrears

The extent of arrears of the debts as aforementioned is determined according to the contractual terms and conditions of the debt, as updated according to the new repayment arrangement, whether it was agreed upon with the specific borrower or whether it is determined for all borrowers in the affected area. Therefore, a debt which did not have payments in arrears at the outbreak of the War will not be reported as a delinquent debt if payments are made on time in accordance with the revised terms and conditions of the debt. In addition, as for the debts for which payments were in arrears at the outbreak of the War, the Bank adjusts the arrears status to the status at the outbreak of the War, and in fact freezes it for the duration of the payment deferral period.

Classification of troubled debts, including non-performing debts and charge-offs

The Bank exercises judgment to determine whether to classify debts as troubled debts. In general, the Banking Supervision Department clarified that for the aforementioned repayment arrangements it is not necessary to classify the debts as troubled debt restructurings. When there is new information indicating that there is a decrease in the chances of repayment of a specific loan or that a specific loan will not be paid, the Bank acts according to the policy described above regarding the classification of troubled debts and charge-offs.

B. On October 15, 2023, an industry-wide outline was published for a three-month period, which was adopted by the banks, for relief from the burden of the credit and fees and commissions to the population living within 30 km. of the Gaza Strip, the population that was evacuated from their homes by an official government authority, as of the publication date of the outline, those serving in the reserves and under a call up order, and those with first kinship with the War dead or the abducted or missing persons (hereinafter - the “First Circle Customer Group”). The outline refers to the deferral of loan payments in three operating segments (mortgages, consumer credit and business credit), an exemption from interest payments on overdraft of up to NIS 10,000 in a current account (an overdraft that is part of the facility approved by the Bank) and an exemption from payment of some of the fees and commissions. For the First Circle Customer Group, the loans will be deferred without charging interest, in accordance with the deferral method detailed in the outline. On November 8, 2023, an announcement was published regarding the expansion of the First Circle Customer Group, such that it will also include the population residing in localities in northern Israel or owners of a business in these localities who were evacuated by an official government entity. The rest of the Bank’s customers (hereinafter - the “Second Circle Customer Group”) will be able to defer these loans for three months, while the deferred payments will bear interest that will not exceed the rate in the loan contract, and the payments will be added at the end of the loan period. The types of loans to which the reliefs will apply are detailed in the outline. The deferral will be carried out without charging fees and commissions. According to the guidelines of the Accountant General and the Ministry of Construction and Housing, the outline will also apply to loans provided to those listed as eligible for housing. It was also determined that loans provided through the government guaranteed fund for small and mid-sized businesses are included in loans eligible for deferral according to the outline.

Note 1 - Significant Accounting Policies (cont.)

On December 17, 2023, the outline was expanded as follows:

- The existing outline was extended by three additional months, as from January 1, 2024, for two population groups - the First Circle and the Second Circle, such that a customer who did not defer payments according to the outline will be entitled to defer payments for a period of three months, subject to filing a request. A customer who already deferred payments for a period of three months will be entitled to defer payments for an additional three months, subject to submission of a request, such that the maximum deferral period will be a total of six months. All other benefits of the outline will continue to apply automatically for an additional three months, similarly to the original outline terms and conditions;
- The First Circle population group was expanded;
- An exemption was given from interest on a debit balance up to the amount of NIS 30,000 for the accounts of businesses with a turnover of up to NIS 5 million included in the First Circle;
- The possibility of rescheduling the payments has been refined such that, in addition to the option of rescheduling over the remaining period of the mortgage or an extension of the mortgage period, an option of providing a loan will be added in the deferred amount, without interest, for a period of at least 4 years, whose repayment date will be after one year will have elapsed from the end of the deferral period.

The Bank is implementing the outline terms and conditions, and even implemented additional reliefs for its customers, which include solutions such as deferral of payments, reliefs and changes in credit terms. In this context, and following the above, the Bank made changes in the terms and conditions of debts, including deferment of repayment dates and extensions of terms to maturity, which were not classified as restructured troubled debts due to the deferment, in accordance with the Bank of Israel's outline and the above clarifications.

C. On November 9, 2023, a circular was published entitled "Additional Emphases regarding Reporting to the Public for the Third Quarter of 2023". According to the circular, when calculating the loan loss provision, the expected impact of the Iron Swords War should be factored in as close as possible to the report publication date, with the provision increased accordingly. This is in order to ensure that the loan loss provisions will be sufficient to conservatively and prudentially cover the updated estimate of the current expected credit losses from the Bank's loan portfolio. Over time, in the statements for 2023 and thereafter, if additional information is available to the Bank regarding other expected effects of the War, the provision estimates will be adjusted to the additional information. Accordingly, the calculation of the loan loss provision included a collective provision for expected consequences of the War, as estimated shortly prior to the publication date of the financial statements.

D. On January 2, 2024, the circular entitled "Additional Emphases for Disclosure in Reporting to the Public for 2023" was published, in which the Banking Supervision Department clarified that, alongside the continued implementation of the emphases included in the above circular, the banking corporations must expand the disclosure regarding the main measures taken by the banking corporation to deal with the impact of the War, and in order to support the needs of its customers and employees.

Y. New accounting standards, revised accounting standards and new directives of the Banking Supervision Department in the period before their application

1. ASU 2022-02, Financial Instruments - Credit Losses: Troubled Debt Restructurings and Vintage Disclosures

On March 31, 2022, the FASB published ASU 2022-02, Financial Instruments - Credit Losses: Troubled Debt Restructurings and Vintage Disclosures On October 19, 2023, a circular was distributed to update the Reporting to the Public Directives, regarding the standard update. The publication revises the accounting treatment of debts that underwent restructuring of troubled debt, and increases the disclosure regarding credit quality according to the year the credit was provided.

The revision includes the following changes, among others:

Note 1 - Significant Accounting Policies (cont.)

- Replacing the term "Troubled debt restructurings" (or TDRs) with the term "Financial difficulty modifications" (or FDMs).
- The disclosure requirements for TDRs were replaced by updated disclosure requirements regarding FDMs, including disclosure requirements for any change in debt terms and conditions, including a waiver of the principal, a reduced interest rate, or an extension of the term that does not cause a negligible delay in payments of each borrower with financial difficulties. In view of this change, the need for an examination as to whether, as part of the restructuring, the borrower was given an economic waiver was revoked. In the updated disclosure requirements, guidelines were integrated for the identification of borrowers with financial difficulties that are similar to the existing guidelines.
- The requirement to calculate the loan loss provision by discounting cash flows with respect to restructured troubled debts was revoked.
- A disclosure requirement of gross write-offs, by credit granting year, was added.
- For credit to private individuals, housing loans and commercial credit in respect of a debt whose contractual balance is less than NIS 1 million, relevant emphases were adopted from the guidelines published by US regulators with the aim of strengthening the effectiveness of the internal control over changes in the debt terms and conditions of this type of credit.

The directives established in the circular will take effect as of January 1, 2024.

The Bank believes that the circular will not have a material effect, except for updating the said disclosure requirements.

2. ASU 2023-07, Segment Reporting: Improvements to Reportable Segment Disclosures

On November 27, 2023, the FASB published ASU 2023-07, "Disclosure regarding Reportable Operating Segments". This ASU is intended to improve the quality of segment reporting by expanding the scope and frequency of disclosures regarding operating segments, particularly: (1) Disclosure regarding significant segment expenses, to the extent that these are reported to the "Chief Operating Decision Maker" (management and the Board of Directors) and are included in the measure of the segment profit or loss; (2) Disclosure of the amount and composition of other segment items. This amount will match the segment's revenues less significant expenses and the reported measure of the segment profit or loss; (3) Disclosure regarding how the "Chief Operating Decision Maker" (management and the Board of Directors) uses the reported measure of the segment profit or loss to estimate the segment's performance and decide how to allocate resources; (4) Quarterly report regarding all disclosures related to profit or loss and segment assets, including the additional information required under this ASU; (5) Change in the existing standard to enable reporting on several measures of segment profit or loss, under certain conditions.

The provisions of the ASU will be applicable to publicly-traded entities in the US as of the annual periods commencing after December 15, 2023 and to interim periods included in annual period commencing after December 15, 2024 or upon early adoption. The ASU will be retrospectively applied for the periods presented in the financial statements, unless it is impractical. The Bank is assessing the effect of the new directives on its financial statements.

3. ASU 2023-09, Income Taxes: Improvements to Income Tax Disclosures

On December 14, 2023, the FASB published ASU 2023-09, "Improvements to Income Tax Disclosures". This ASU improves the annual disclosures regarding income tax, and specifically expands the information on risks and tax opportunities existing in the entity's global operations. These improvements pertain mainly to the following requirements:

Note 1 - Significant Accounting Policies (cont.)

(1) Expansion of the table of adjustments between the theoretical tax amount that would apply if the profit from ordinary activities would be taxable according to the statutory tax rate and the provision profit tax from ordinary activities as recorded in the income statement, as follows: (a) Adjustment based both on percentages and amounts; (b) Definition of specific categories that constitute sub-details in the adjustment; (c) Determination of a materiality threshold for detailing the adjustment components at a rate of 5 percent or more of the theoretical tax; (d) Description of the adjustment components to be detailed according to their materiality or their place of origin, as relevant. Thus, for example, an expansion is required of the adjustment that pertains to the difference between the theoretical tax on foreign subsidiaries and the actual provision for taxes such that it will include a breakdown by country and nature of the adjustment; and (e) An option for disclosure of the changes in tax benefits that were not recognized cumulatively.

(2) A more detailed disclosure, on an annual basis, for net taxes paid, while distinguishing between local and foreign taxes.

(3) An annual disclosure for profit before tax and for taxes on income from ordinary activities, while distinguishing between Israel and abroad.

At the same time, the standard update cancels some of the existing disclosure requirements, such as the amount of the temporary difference that refers to the deferred tax liability that was not recognized in respect of subsidiaries.

The provisions of the ASU will be applicable to annual periods commencing after December 15, 2024 or upon early adoption. The ASU may be implemented prospectively.

Note 2 - Interest Income and Expenses

	For the year ended December 31		
	2023	2022	2021
	In NIS million		
a. Interest income[a]			
From loans to the public	**24,954**	15,308	10,537
From loans to governments	**54**	46	26
From deposits with banks	**613**	215	58
From deposits with central banks and cash	**3,480**	1,698	122
From securities borrowed or purchased under reverse repurchase agreements	**127**	33	6
From bonds[b]	**4,427**	1,495	923
Total interest income	**33,655**	18,795	11,672
b. Interest expenses[a]			
For deposits by the public	**(15,678)**	(4,404)	(847)
For deposits by governments	**(2)**	(2)	(2)
For deposits by the Bank of Israel	**(12)**	(11)	(10)
For deposits by banks	**(105)**	(33)	(4)
For securities loaned or sold under repurchase agreements	**(630)**	(61)	(2)
For bonds, promissory notes and subordinated notes	**(1,231)**	(1,073)	(461)
Total interest expense	**(17,658)**	(5,584)	(1,326)
Total interest income, net	**15,997**	13,211	10,346
c. Details on the net effect of hedging derivatives[c]			
Interest income	**188**	(2)	(60)
Interest expenses	**(17)**	(2)	-
d. Details on interest income from bonds, on accrual basis			
Available-for-sale	**3,776**	1,168	739
Held-for-trading	**260**	57	22
Held-to-maturity	**391**	270	162
Total included in interest income	**4,427**	1,495	923

(a) Including the effect of hedge relationships.
(b) Including interest in respect of mortgage-backed bonds (MBS) totaling NIS 422 million (2022 – NIS 223 million, 2021 – NIS 223 million).
(c) Additional information about the effect of hedging derivatives on subsection a and b.

Note 3 - Noninterest Finance Income

	For the year ended December 31		
	2023	2022	2021
	In NIS million		
a. Noninterest finance income (expenses) for not held-for-trading activities			
a.1. From derivative activities[(a)]			
Net income (expenses) in respect of ALM derivatives[(b)]	**2,326**	7,387	(1,652)
Total from derivatives activity	**2,326**	7,387	(1,652)
a.2. From investment in bonds[(g)]			
Gains on sale of available-for-sale bonds, net	**48**	49	256
Losses on sale of available-for-sale bonds	**(346)**	(185)	(25)
Provision for impairment of available-for-sale bonds	**(33)**	(42)	-
Total from investment in bonds	**(331)**	(178)	231
a.3. Exchange rate differentials, net	**(1,741)**	(7,151)	1,962
a.4. Gains (losses) on investment in shares			
Gains on sale of equity securities not held for trading	**244**	304	835
Provision for impairment for equity securities not held for trading	**(16)**	(5)	(66)
Losses on sale of equity securities not held-for-trading	**(17)**	(107)	(50)
Dividend from not held-for-trading equity securities	**72**	40	27
Unrealized gains, net from equity securities not held for trading[(h)]	**52**	141	96
Gain on sale of investees' equity	**-**	830	-
Total from investment in equity securities	**335**	1,203	842
a.5. Gains on sold loans, net	**-**	57	-
Total noninterest finance income for equity securities not held-for-trading	**589**	1,318	1,383
b. Non-interest finance income for trading activities			
Income in respect of held-for-trading derivatives, net	**600**	254	349
Realized and unrealized losses from fair value adjustments of held-for-trading bonds, net[(c)(f)]	**85**	(166)	(18)
Realized and unrealized gains (losses) from fair value adjustments of held-for-trading equity securities, net[(d)(f)]	**5**	2	(1)
Dividend from held-for-trading equity securities	**-**	-	1
Total from trading activities[(e)]	**690**	90	331
Details of noninterest finance income (expenses) due to trading activities, by risk exposure:			
Interest rate exposure	**70**	(318)	86
Foreign exchange exposure	**538**	342	176
Equity exposure	**78**	64	54
Exposure to commodities and other contracts	**4**	2	15
Total	**690**	90	331
Total noninterest finance income	**1,279**	1,408	1,714

Please see comments below.

Note 3 - Noninterest Finance Income (cont.)

Comments:

(a) Excluding the effect of hedge relationships.

(b) Derivatives which constitute part of the Bank's assets and liabilities management system that are not designated for hedge relationships.

(c) Of which the share of losses totaling NIS 10 million (2022 – losses of NIS 113 million, 2021 – gains of NIS 9 million) associated with unrealized held-for-trading bonds still held as of the balance sheet date.

(d) Of which the gains of NIS 1 million (2022 – losses of NIS 1 million, 2021 – losses of NIS 1 million) are related to held-for-trade bonds still held as of the balance sheet date.

(e) For interest income from investments in held-for-trading bonds, please see Note 2.

(f) Including exchange rate differentials from trading activities.

(g) Reclassified from accumulated other comprehensive income.

(h) Including gains and losses from fair value measurement of equity securities for which there is available fair value as well as upward or downward adjustments of equity securities for which there is no available fair value.

Note 4 - Fees and Commissions

	For the year ended December 31		
	2023	2022	2021
	In NIS million		
Account management	**616**	651	649
Credit cards	**383**	384	365
Activity in securities and certain derivatives[(a)]	**591**	664	784
Fees and commissions for financial product distribution[(b)]	**184**	211	234
Management, operating and trust services provided to institutional entities[(c)]	**99**	97	88
Handling of credit	**248**	211	203
Exchange rate differentials	**501**	477	402
Foreign trade activity	**160**	131	120
Net income from loan portfolio servicing	**5**	5	7
Management fees and commissions on life and home insurance	**41**	46	47
Financing fees and commissions	**801**	551	495
Other fees and commissions	**108**	107	112
Total operating fees and commissions	**3,737**	3,535	3,506

(a) Including fees and commissions from underwriting activity.
(b) Primarily mutual funds' distribution fees.
(c) Primarily operation of provident funds.

Note 4A - Revenue from Contracts with Customers[(a)]

	For the year ended December 31, 2023											
	Private individuals	Small businesses	Retail banking - total	Mortgages	Mid-market	Corporate	Real estate	Capital markets	Other and adjust-ments	Subsi-diaries in Israel	Foreign subsi-diaries	Total
	In NIS million											
Account management	326	146	472	-	87	27	6	24	-	-	-	616
Credit cards	313	56	369	-	12	1	-	-	1	-	-	383
Activity in securities and certain derivatives	347	41	388	-	18	5	1	161	-	18	-	591
Fees and commissions for financial product distribution	165	13	178	2	4	-	-	-	-	-	-	184
Management, operating and trust services provided to institutional entities	-	-	-	-	-	-	-	-	-	99	-	99
Handling of credit	8	32	40	9	70	25	72	-	-	-	32	248
Exchange rate differentials	184	108	292	-	127	26	3	53	-	-	-	501
Foreign trade activity	7	40	47	-	83	20	1	9	-	-	-	160
Management fees and commissions on life and home insurance	-	-	-	-	-	-	-	-	-	41	-	41
Net income from loan portfolio servicing	1	-	1	4	-	-	-	-	-	-	-	5
Financing and other fees and commissions	78	47	125	3	139	186	304	91	27	-	34	909
Total fees and commissions from main services	1,429	483	1,912	18	540	290	387	338	28	158	66	3,737

(a) The revenue was classified pursuant to the operating segments according to management approach.

Note 4A - Revenue from Contracts with Customers[a] (cont.)

	For the year ended December 31, 2022											
	Private individuals	Small businesses	Retail banking - total	Mortgages	Mid-market	Corporate	Real estate	Capital markets	Other and adjust-ments	Subsi-diaries in Israel	Foreign subsi-diaries	Total
	In NIS million											
Account management	318	147	465	-	86	23	6	23	-	-	48	651
Credit cards	308	59	367	-	13	1	-	-	1	-	2	384
Activity in securities and certain derivatives	387	48	435	-	21	5	2	167	-	20	14	664
Fees and commissions for financial product distribution	186	14	200	2	4	-	-	-	-	-	5	211
Management, operating and trust services provided to institutional entities	-	-	-	-	-	-	-	-	-	97	-	97
Handling of credit	7	28	35	10	76	18	65	1	-	-	6	211
Exchange rate differentials	160	102	262	-	125	23	3	64	-	-	-	477
Foreign trade activity	4	36	40	-	70	15	1	5	-	-	-	131
Management fees and commissions on life and home insurance	-	-	-	-	-	-	-	-	-	45	1	46
Net income from loan portfolio servicing	-	-	-	5	-	-	-	-	-	-	-	5
Financing and other fees and commissions	40	34	74	-	115	125	277	39	25	-	3	658
Total fees and commissions from main services	1,410	468	1,878	17	510	210	354	299	26	162	79	3,535

(a) The revenue was classified pursuant to the operating segments according to management approach.

Note 4A - Revenue from Contracts with Customers[(a)] (cont.)

	For the year ended December 31, 2021											
	Private individuals	Small businesses	Retail banking - total	Mortgages	Mid-market	Corporate	Real estate	Capital markets	Other and adjust-ments	Subsi-diaries in Israel	Foreign subsi-diaries	Total
	In NIS million											
Account management	305	144	449	-	78	21	5	23	-	-	73	649
Credit cards	285	57	342	-	13	1	-	-	-	-	9	365
Activity in securities and certain derivatives	442	55	497	-	22	4	2	157	-	43	59	784
Fees and commissions for financial product distribution	192	15	207	-	5	-	-	-	-	1	21	234
Management, operating and trust services provided to institutional entities	-	-	-	-	-	-	-	-	-	88	-	88
Handling of credit	5	25	30	12	60	29	61	1	-	-	10	203
Exchange rate differentials	147	92	239	-	102	16	2	43	-	-	-	402
Foreign trade activity	4	31	35	-	62	14	1	6	-	-	2	120
Management fees and commissions on life and home insurance	-	-	-	2	-	-	-	-	-	43	2	47
Net income from loan portfolio servicing	-	-	-	7	-	-	-	-	-	-	-	7
Financing and other fees and commissions	32	35	67	-	95	127	249	17	24	-	28	607
Total fees and commissions from main services	1,412	454	1,866	21	437	212	320	247	24	175	204	3,506

(a) The revenue was classified pursuant to the operating segments according to management approach.

Note 5 - Other Income

	For the year ended December 31		
	2023	2022	2021
	In NIS million		
Capital gains on sale of buildings and equipment	**36**	81	163
Capital losses on sale of buildings and equipment	**(9)**	(15)	(7)
Gains (losses) on central severance pay fund	**2**	(12)	83
Other, net	**136**[(a)]	21	52
Total other income	**165**	75	291

(a) Mostly from income from bonuses from credit card companies.

Note 6 - Salaries and Related Expenses

	For the year ended December 31		
	2023	2022	2021
	In NIS million		
Salaries	**2,254**	2,667	2,918
Expense arising from stock-based compensation transactions	**7**[(b)]	4[(b)]	4
Other related expenses, including study fund, paid leave and sick leave	**223**	210	230
Long-term benefits	**(1)**	(11)	(6)
National Insurance fees and payroll tax	**649**	732	725
Pension-related expenses (including severance pay and pension):[(a)]			
Defined benefit – Cost of service	**124**	142	189
Defined contribution	**214**	199	185
Other post-employment benefits and non-pension retirement benefits[(a)]	**14**	(8)	(3)
Total salaries and related expenses	**3,484**	3,935	4,242
Of which: Salaries and related expenses payable abroad	**91**	177	476

(a) Of which: Service cost in respect of other post-employment benefits and non-pension retirement benefits for 2023, 2022 and 2021 is NIS 8 million, NIS 8 million and NIS 2 million, respectively. For additional information regarding employee benefits, please see Note 23.
(b) Please see Note 24 – Stock-Based Compensation Transactions.

Note 7 - Other Expenses

	For the year ended December 31		
	2023	2022	2021
	In NIS million		
Pension expenses - Defined benefit and other post-employment benefits, excluding service cost	**700**	591	662
Downsizing, discharges	**161**	-	-
Marketing and advertising	**139**	119	134
Professional fees: Legal fees, audit fees	**160**	189	226
Communication: Postage, telephone, couriers, etc.	**123**	115	113
Computer[(a)]	**54**	38	50
Office supplies	**13**	28	33
Insurance	**27**	33	19
Training and courses	**6**	5	8
Fees and commissions	**148**	131	122
Loss on assets received for loans extinguishment	**-**	1	3
Fines paid to the Bank of Israel	**2**	1	1
Others[(b)]	**336**	292	280
Total other expenses	**1,869**	1,543	1,651

(a) The line item includes outsourcing expenses, but does not include the Bank's IT expenses since the Operations Division is part of the Bank and its expenses were recorded and classified into the various expense line items.
(b) For additional information regarding the compensation of Bank's directors included in this line item – please see Note 34.C.

Note 8 - Provision for Profit Tax

A. Composition of the Line Item

	For the year ended December 31		
	2023	2022	2021
	In NIS million		
Current taxes:			
For the reporting year	**4,664**	3,847	2,823
For previous years	**18**	29	30
Current taxes - total	**4,682**	3,876	2,853
Including (excluding) changes in deferred taxes:			
For the reporting year	**(694)**	(312)	422
Total changes in deferred taxes	**(694)**	(312)	422
Provision for income taxes	**3,988**	3,564	3,275
Of which: Provision for taxes abroad	**70**	47	101

Note 8 - Provision for Profit Tax (cont.)

A. Composition of the Line Item (cont.)

The composition of deferred tax expenses (income) allocated to continuing operations is as follows

	For the year ended December 31		
	2023	2022	2021
	In NIS million		
Deferred tax expenses (income) before the effect of the following items:	**(694)**	(312)	421
Decrease in deductions carried forward for tax purposes	**-**	-	1
Total deferred tax expenses (income)	**(694)**	(312)	422

The table does not include the tax effect on other comprehensive income. For additional information, please see Note 10.

B. Reconciliation of the Theoretical Tax Expense and the Provision for Taxes

	For the year ended December 31		
	2023	2022	2021
	In NIS million		
Profit before taxes	**11,901**	10,896	9,241
Statutory tax rate applicable to the Bank	**34.19%**	34.19%	34.19%
Tax amount based on the statutory tax rate	**4,069**	3,725	3,160
Tax (tax saving) in respect of:			
Income of foreign consolidated companies	**(50)**	(20)	(14)
Exempt income and income taxable at limited rates	**(11)**	(4)	(7)
Differences in depreciation, depreciation adjustments and capital gain	**(14)**	(5)	(14)
Other non-deductible expenses	**11**	10	14
Losses and timing differences in respect of which deferred taxes were not recorded	**(3)**	(155)	2
Tax for previous years	**18**	29	30
Other	**(32)**	(16)	104
Provision for income taxes	**3,988**	3,564	3,275

C. Tax Assessments

The Bank has final tax assessments up to and including the 2018 tax year.
The main consolidated subsidiaries have final tax assessments up to and including the 2018 tax year, except for Leumi Partners, which has final assessments up until 2017, inclusive.

Note 8 - Provision for Profit Tax (cont.)

D. Changes in Deferred Tax Assets and Liabilities Are Attributed to the Following Items

	Balance as at December 31, 2022	Sale of equity in subsidiaries to non-controlling interests	Changes carried to profit and loss	Changes carried to other comprehensive income	Translation differences in respect of deferred tax balances	Cumulative effect in respect of first-time application of US GAAP	Balance as at December 31, 2023	Average tax rates in 2023 (in %)
	In NIS million							
Deferred tax assets								
From loan loss provision	1,920	-	610	-	-	-	2,530	34%
From provision for paid leave and bonuses	139	-	(18)	-	-	-	121	34%
From excess of employee benefits liability over plan assets	3,383	-	94	(128)	-	-	3,349	34%
Tax credit and losses carried forward for tax purposes	179	-	65	-	-	-	244	34%
From securities	93	-	(6)	(32)	-	-	55	24%
Property, plant and equipment and leases	41	-	43	-	-	-	84	34%
Other from non-monetary items	71	-	18	-	-	-	89	18%
Balance of deferred tax assets, gross	5,826	-	806	(160)	-	-	6,472	
Provision for deferred tax asset	(147)	-	(64)	-	-	-	(211)	
Balance of deferred tax assets less deferred tax provision	5,679	-	742	(160)	-	-	6,261	
Offsettable balances[(a)]	(480)	-	-	-	-	-	(392)	
Balance of deferred taxes less provision	5,199	-	-	-	-	-	5,869	
Deferred tax liability								
For investments in investees	(474)	-	149	(58)	-	-	(383)	11%
Adjustment of depreciable non-monetary assets	(81)	-	5	-	-	-	(76)	23%
Other from monetary items	1	-	1	(2)	-	-	-	34%
Other from non-monetary items	(10)	-	(3)	-	-	-	(13)	18%
Balance of deferred tax liabilities, gross	(564)	-	152	(60)	-	-	(472)	
Offsettable balances[(a)]	(480)	-	-	-	-	-	(392)	
Balance of deferred tax liabilities	(84)	-	-	-	-	-	(80)	
Balance of deferred taxes, net	5,115	-	894	(220)	-	-	5,789	

(a) Balance of deferred taxes are presented in the consolidated balance sheet according to the net balance's classification in the books of accounts of the Bank and its consolidated subsidiaries.

Note 8 - Provision for Profit Tax (cont.)

D. Changes in Deferred Tax Assets and Liabilities Are Attributed to the Following Items (cont.)

	Balance as at December 31, 2021	Sale of equity in subsidiaries to non-controlling interests[(c)]	Changes carried to profit and loss	Changes carried to other comprehensive income	Translation differences in respect of deferred tax balances	Cumulative effect for first-time application of US GAAP[(b)]	Balance as at December 31, 2022	Average tax rates in 2022 (in %)
	In NIS million							
Deferred tax assets								
From loan loss provision	1,491	(61)	242	-	2	246	1,920	34%
From provision for paid leave and bonuses	190	(36)	(16)	-	1	-	139	34%
From excess of employee benefits liability over plan assets	4,422	(8)	10	(1,041)	-	-	3,383	34%
From interest not recognized in current year's income	13	-	(13)	-	-	-	-	-
Tax credit and losses carried forward for tax purposes	129	-	50	-	-	-	179	19%
From securities[(b)]	15	(95)	38	135	-	-	93	25%
Property, plant and equipment and leases	4	(20)	57	-	-	-	41	32%
Other from monetary items	84	(28)	14	-	1	-	71	16%
Balance of deferred tax assets, gross	6,348	(248)	382	(906)	4	246	5,826	
Provision for deferred tax asset	(101)	-	(46)	-	-	-	(147)	
Balance of deferred tax asset less deferred tax provision	6,247	(248)	336	(906)	4	246	5,679	
Offsettable balances[(a)]	(390)	-	-	-	-	-	(480)	
Balance of deferred taxes less provision	5,857	-	-	-	-	-	5,199	
Deferred tax liability								
For investments in investees	(325)	-	(91)	(58)	-	-	(474)	12%
Adjustment of depreciable non-monetary assets	(141)	21	39	-	-	-	(81)	23%
Other from monetary items	-	(21)	-	22	-	-	1	24%
Other from non-monetary items	(10)	-	-	-	-	-	(10)	16%
Balance of deferred tax liabilities, gross	(476)	-	(52)	(36)	-	-	(564)	
Offsettable balances[(a)]	(390)	-	-	-	-	-	(480)	
Balance of deferred tax liabilities	(86)	-	-	-	-	-	(84)	
Balance of deferred taxes, net	5,771	(248)	284	(942)	4	246	5,115	

(a) Balance of deferred taxes are presented in the consolidated balance sheet according to the net balance's classification in the books of accounts of the Bank and its consolidated subsidiaries.
(b) Cumulative effect in respect of first-time application of US GAAP's ASU 2016-13, "Financial Instruments - Credit Losses". Please see Note 1.H.
(c) For more information, please see Note 15.A to the financial statements as at December 31, 2022.

Note 8 - Provision for Profit Tax (cont.)

E. Deferred Tax Liabilities that Were Not Recognized in Respect of Temporary Differences Related to Investments in Local Subsidiaries

Pursuant to the transitional provisions set forth in the Banking Supervision Department's directives, the Bank did not record a deferred tax liability in respect of certain temporary differences related to the Bank's investment in local subsidiaries, which is permanent in nature. The said amount will be taxed only upon disposal or liquidation of the subsidiaries.

F. Carried Forward Tax Losses and Tax Credits

	For the year ended December 31, 2023				
	Deferred tax assets	Provision for deferred tax assets	Deferred tax assets, net	Accumulated loss	First expiry year
	In NIS million				
Losses for tax purposes					
The Bank	**133**	**(133)**	**-**	**389**	**-**
Subsidiaries in Israel	**23**	**(23)**	**-**	**67**	**-**
Foreign subsidiaries	**-**	**-**	**-**	**-**	**-**
Tax credits					
The Bank	**88**	**(55)**	**33**	**-**	**-**

	For the year ended December 31, 2022				
	Deferred tax assets	Provision for deferred tax assets	Deferred tax assets, net	Accumulated loss	First expiry year
	In NIS million				
Losses for tax purposes					
Subsidiaries in Israel	20	(20)	-	57	-
Foreign subsidiaries	-	-	-	-	-
Tax credits					
The Bank	159	(127)	32	-	-

G. Deferred tax balances are measured at the tax rates expected to be in effect for the temporary differences at the time the they are utilized, based on the tax rates and tax laws enacted as at the end of the reporting period. A law shall be considered as having been enacted only after its publication in the Official Gazette.

H. Following the publication of the Banking Supervision Department's circular regarding the measurement and disclosure of impaired debts, loans and loan loss provisions, the banks (including the Bank) and the Israel Tax Authority reached an agreement regarding the recognition of loan loss provisions for tax purposes. The agreement was signed on March 19, 2012; it applies to impaired debts recorded beginning on January 1, 2011 (the previous agreement applies to doubtful debts recorded until December 31, 2010). The agreement in principle is effective through the 2022 tax year, inclusive. As of the report's publication date, a new agreement of principles with the Israel Tax Authority has yet to be signed for 2023 with respect to the manner of recognizing loan loss provisions.

Following are the main points of the agreement as of December 31, 2022:

Specifically assessed large impaired debts – the provision is deductible for tax purposes in the year in which it was recorded as an expense in the financial statements. In a tax year in which the outstanding loan loss provision decreased (for reasons other than an accounting "write-off" or "loan forgiveness"), an "additional tax" will be added to the Bank's tax liability with the addition of interest and linkage differentials; such "additional tax" will trigger the collection of the tax that would have been collected had the deductible provision not been recorded in the first place.

Note 8 - Provision for Profit Tax (cont.)

For these purposes – a “large debt” is a debt of NIS 1 million or more, or a lower amount as set out in the Bank’s notice to the Assessment Officer and according to the Bank’s characteristics.

Impaired debts which are not sizable – half of the expenses in respect of net “charge-offs” (net of collections during that year) will be deductible for tax purposes in the first tax year after the tax year in which they were recorded; the other half will become deductible in the second tax year after the tax year in which the expenses were recorded.

Collective provision – not deductible for tax purposes.

I. Settlement agreement that regulates tax payments in Israel in respect of profits of the Bank’s foreign subsidiaries, signed between the Bank and the Assessing Officer for Large Enterprises, from August 1987.

J. According to an arrangement with the tax authorities dated April 14, 2005, June 29, 2014 and December 30, 2018, the Bank may deduct tax amounts under certain conditions if the overall tax rate on the Bank’s domestic income is higher than the tax rate applicable to foreign subsidiaries. The amount which has not yet been deducted from the tax liability and for which there are no tax savings in the future included in the balance sheet as at December 31, 2023 is approx. USD 15 million (as at December 31, 2022 - approx. USD 16 million). The maximum deductible tax amount per year is USD 5-8 million.

K. As a rule, the Bank, under agreement with the tax authorities, is taxed based on the appreciation of its securities, according to their presentation in the financial statements financial entities.

L. Tax rate

The taxes applicable to the profit of banking corporations include corporate tax levied pursuant to the Income Tax Ordinance and profit tax levied pursuant to the Value Added Tax Law. Set forth below are the statutory tax rates applicable to banking corporations from 2018 onwards:

- Corporate tax rate - 23.00 percent.
- Profit tax rate - 17.00 percent.
- Total tax rate - 34.19 percent.

The deferred tax balances were calculated in accordance with the new tax rates applicable at the date of reversal.

M. Legislation changing the tax rate subsequent to the balance sheet date

On March 13, 2024 - as part of the Balancing Plan Bill (Legislative Amendments for Obtaining the Budgetary Targets for the 2024 Budget Year), 2024 - the Law of Special Payment for Achieving the Budgetary Targets (Temporary Order - Iron Swords), 2024 was passed by the Knesset; according to the law, a bank whose scope of activity is not small (a bank whose assets are valued more than 5 percent of Israeli banks’ total assets, hereinafter - a “**paying bank**”) shall pay the government - for the period beginning on April 1, 2024 and ending on December 31, 2025 (hereinafter - the “**effective period**”) - an annual payment equal to 6 percent of the profits generated for its activity in Israel (hereinafter - the “**annual payment amount**”).

If the total annual payment of all the paying banks exceeds NIS 1.2 billion for 2024 or NIS 1.3 billion for 2025, paying banks will be refunded the difference between the annual payment amount of all the paying banks and the maximum amount for 2024 or 2025, as the case may be, multiplied by the relative share of the said paying bank from the total annual payment of all paying banks.

The Minister of Finance may issue, with the approval of the Knesset’s Finance Committee, by October 31, 2024, an ordinance shortening the effective period until December 31, 2024, if he is made aware of a material change in Israel’s expected economic conditions for 2025, compared with the economic conditions expected for that year prior to the passing of the law, including in the Bank of Israel’s interest rate, inflation rate or rate of the unemployed out of the labor force), such that may materially compromise the banks’ ability to generate profits in 2025.

Note 8 - Provision for Profit Tax (cont.)

In addition, the tax payable by a bank for its activity in Israel in 2025 will be 17 percent of the salaries it paid and the profit it generated (unless the Minister of Finance promulgates such an ordinance).

At the same time, on February 28, 2024, the Value Added Tax Ordinance (Tax Rate on Transaction and Imports of Goods) (Amendment), 2024 was published, according to which the VAT rate will be raised to 18 percent as from January 1, 2025.

Accordingly, on March 11, 2024, the Knesset approved the Value Added Tax Ordinance (Tax Rate on NPOs and Financial Institutions) (Amendment), 2024, according to which the salary tax and profit tax will be revised in accordance with the increase in VAT as from 2025.

Due to the said legislative measures, the Bank is expected to recognize in its books of accounts, for the first quarter of 2024, an increase in the balance of deferred taxes receivable, net, of approx. NIS 195 million, which will be stated in profit and loss.

Note 9 - Earnings per Ordinary Share

A. Basic Earnings Attributable to Shareholders

The Bank's basic earnings per share are calculated by dividing the gain attributed to the Bank's ordinary shareholders by the weighted average of the number of the Bank's outstanding ordinary shares, as follows:

	For the year ended December 31		
	2023	2022	2021
Basic earnings			
Net income attributable to the Bank's shareholders (in NIS million)	**7,027**	7,709	6,028
Weighted average of the number of shares (in thousands of shares)			
Balance as at beginning of period[a]	**1,543,805**	1,452,896	1,452,896
Weighted effect of exercised employee options and issuance of shares	**-**	47,572	-
Weighted effect for share buyback	**(8,456)**	-	-
Weighted average of number of shares	**1,535,349**	1,500,468	1,452,896
Basic earnings per share (in NIS)	**4.58**	5.14	4.15

(a) Balance at the beginning of the period less share buyback until the cut-off date.

B. Diluted Earnings Per Share

The calculated diluted earnings per share is divided by the weighted average of the number of the Bank's outstanding ordinary shares, after adjustment for all the potentially dilutive ordinary shares, as follows:

	For the year ended December 31		
	2023	2022	2021
Diluted earnings			
Net income attributable to the Bank's shareholders (in NIS million)	**7,027**	7,709	6,028
Weighted average of the number of shares (in thousands of shares)			
Weighted average of the number of ordinary shares used to calculate basic earnings per share	**1,535,349**	1,500,468	1,452,896
Weighted effect of unrealized employee options	**49**	-[a]	-[a]
Weighted average of the number of shares, fully diluted	**1,535,398**	1,500,468	1,452,896
Diluted earnings per share (in NIS)	**4.58**	5.14	4.15

(a) There are instruments with dilution potential, but they were not included in the calculation in the reporting period since their effect is anti-dilutive. Please see Note 24A.

C. Share Capital

As of December 31, 2023, the Bank's issued and paid up share capital less the Bank's share buyback plan during 2018 to 2023 is 1,522,856,088 ordinary shares of NIS 1 p.v. each.

As at December 31, 2022 and December 31, 2021, the Bank's issued and paid up share capital less the Bank's share buyback plan during 2018 to 2020 is 1,543,805,097 and 1,452,896,006 ordinary shares of NIS 1 p.v. each, respectively.

Note 10 - Accumulated Other Comprehensive Income (Loss)

A. Changes in Accumulated Other Comprehensive Income (Loss) After Tax Effect

	Other comprehensive income (loss) before attribution to non-controlling interests							
	Adjustments in respect of presentation of available-for-sale bonds at fair value	Net translation adjust-ments,[a] after the effect of hedges[b]	Net gains (losses) for cash flow hedges	Other comprehen sive income (loss) for equity-accounted investees	Adjustments in respect of employee benefits[c]	Total	Other comprehen-sive income (loss) attributable to non-controlling interests	Other comprehen-sive income (loss) attributable to the Bank's shareholders
	In NIS million							
Balance as at January 1, 2021	1,163	(295)	26	(16)	(3,734)	(2,856)	(64)	(2,792)
Net change during the year	(289)	(48)	(26)	(10)	256	(117)	(32)	(85)
Balance as at December 31, 2021	874	(343)	-	(26)	(3,478)	(2,973)	(96)	(2,877)
Net change during the year	(2,999)	30	(43)	16	2,054	(942)	(21)	(921)
Sale of equity in subsidiaries to non-controlling interests[d]	181	313	41	-	27	562	117	445
Balance as at December 31, 2022	(1,944)	-	(2)	(10)	(1,397)	(3,353)	-	(3,353)
Net change during the year	**427**	**-**	**3**	**26**	**250**	**706**	**-**	**706**
Balance as at December 31, 2023	**(1,517)**	**-**	**1**	**16**	**(1,147)**	**(2,647)**	**-**	**(2,647)**

(a) Adjustments arising from the translation of financial statements of foreign operations whose functional currency is different from the Bank's functional currency.
(b) Net gains (losses) for hedging a net investment in foreign currency.
(c) The adjustments for employee benefits are net of adjustments for plan assets.
(d) For more information, please see Note 15.A to the financial statements as at December 31, 2022.

Note 10 - Accumulated Other Comprehensive Income (Loss) (cont.)

B. Changes in Accumulated Other Comprehensive Income (Loss) Components, Before and After Tax Effect

	For the year ended December 31								
			2023			2022			2021
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
	In NIS million								
Changes in other comprehensive income (loss) components before attribution to non-controlling interests:									
Adjustments in respect of presentation of available-for-sale bonds at fair value:									
Unrealized gains (losses), net, from fair value adjustments	310	(101)	209	(4,719)	1,603	(3,116)	(207)	70	(137)
Net losses (gains) in respect of available-for-sale bonds reclassified to the income statement[(a)]	331	(113)	218	178	(61)	117	(231)	79	(152)
Sale of equity in subsidiaries to non-controlling interests[(f)]	-	-	-	276	(95)	181	-	-	-
Net change during the period	641	(214)	427	(4,265)	1,447	(2,818)	(438)	149	(289)
Translation adjustments:[(b)]									
Adjustments from translation of Financial Statements	-	-	-	59	-	59	(95)	-	(95)
Hedges[(c)]	-	-	-	(44)	15	(29)	71	(24)	47
Sale of equity in subsidiaries to non-controlling interests[(f)] - Hedging effect	-	-	-	421	(108)	313	-	-	-
Net change during the year	-	-	-	436	(93)	343	(24)	(24)	(48)
Cash flow hedges									
Net gains (losses) for cash flow hedges	5	(2)	3	(65)	22	(43)	(40)	14	(26)
Sale of equity in subsidiaries to non-controlling interests[(f)]	-	-	-	62	(21)	41	-	-	-
Net change during the year	5	(2)	3	(3)	1	(2)	(40)	14	(26)
Equity-accounted investees									
Other comprehensive income (loss) for equity-accounted investees	141	(58)	83	246	(58)	188	(11)	1	(10)
Hedges[(c)]	(86)	29	(57)	(262)	90	(172)	-	-	-
Net change during the year	55	(29)	26	(16)	32	16	(11)	1	(10)
Employee benefits:[(d)]									
Net actuarial gain (loss)	65	(21)	44	2,826	(949)	1,877	(101)	33	(68)
Net (gains) losses reclassified to the income statement[(e)]	313	(107)	206	269	(92)	177	493	(169)	324
Sale of equity in subsidiaries to non-controlling interests[(f)]	-	-	-	38	(11)	27	-	-	-
Net change during the year	378	(128)	250	3,133	(1,052)	2,081	392	(136)	256
Total change during the year, net	1,079	(373)	706	(715)	335	(380)	(121)	4	(117)
Less changes in other comprehensive income (loss) components attributable to non-controlling interests									
Total change during the year, net	-	-	-	101	(5)	96	(40)	8	(32)
Changes in other comprehensive income attributable to the Bank's shareholders									
Total change during the year, net	1,079	(373)	706	(816)	340	(476)	(81)	(4)	(85)

Please see comments below.

Note 10 - Accumulated Other Comprehensive Income (Loss) (cont.)

(a) The before tax amount is reported in the income statement under the noninterest finance income line item. Please see also Note 3.
(b) Adjustments arising from the translation of financial statements of foreign operations whose functional currency is different from the Bank's functional currency.
(c) Net gains (losses) for hedging a net investment in foreign currency.
(d) Adjustments for employee benefits are net of adjustments for plan assets.
(e) The pre-tax amount is reported in the income statement under the "Expenses for pension" line item. For additional information, please see Note 23.
(f) For more information, please see Note 15.A to the financial statements as at December 31, 2022.

Note 11 - Cash and Deposits with Banks

	December 31	
	2023	2022
	In NIS million	
Cash and deposits with central banks	**85,930**	168,621
Deposits with commercial banks[(a)]	**19,546**	17,948
Total[(b)]	**105,476**	186,569
Of which: Cash, deposits with banks and deposits with central banks with original maturities of up to three months	**102,471**	180,637

(a) Less loan loss provision.
(b) Of which: pledged cash amounting to NIS 1,763 million (December 31, 2022 – NIS 4,597 million).

Comment: For information on pledges, please see Note 27.

Note 12 - Securities

	December 31, 2023					
	Balance sheet value	Amortized cost	Outstanding loan loss provision[(f)]	Deferred gains from fair value adjustments	Deferred losses from fair value adjustments	Fair value[(a)]
	In NIS million					
Held-to-maturity bonds:						
Of the Israeli Government	**8,093**	**8,093**	**-**	**1**	**(727)**	**7,367**
Of foreign financial institutions	**1,389**	**1,389**	**1**	**-**	**(38)**	**1,352**
Asset-backed (ABS) or mortgage-backed (MBS)	**5,591**	**5,591**	**1**	**14**	**(393)**	**5,213**
Of other foreign entities	**333**	**333**	**1**	**-**	**(11)**	**323**
Total held-to-maturity bonds[(e)]	**15,406**	**15,406**	**3**	**15**	**(1,169)**	**14,255**

	December 31, 2022					
	Balance sheet value	Amortized cost	Outstanding loan loss provision[(f)]	Deferred gains from fair value adjustments	Deferred losses from fair value adjustments	Fair value[(a)]
	In NIS million					
Held-to-maturity bonds:						
Of the Israeli Government	9,631	9,631	-	2	(670)	8,963
Of foreign financial institutions	1,321	1,321	2	-	(56)	1,267
Asset-backed (ABS) or mortgage-backed (MBS)	3,256	3,256	1	-	(432)	2,825
Of other foreign entities	320	320	1	-	(19)	302
Total held-to-maturity bonds	14,528	14,528	4	2	(1,177)	13,357

Please see comments below.

Note 12 - Securities (cont.)

	December 31, 2023					
				Accumulated other comprehensive income (loss)		
	Balance sheet value	Amortized cost	Outstanding loan loss provision[f]	Gains	Losses	Fair value[a]
	In NIS million					
Available-for-sale bonds:						
Of the Israeli Government	**74,888**	**76,836**	**-**	**108**	**(2,056)**	**74,888**
Of foreign governments	**26,916**	**26,962**	**-**	**53**	**(99)**	**26,916**
Of Israeli financial institutions	**45**	**49**	**-**	**-**	**(4)**	**45**
Of foreign financial institutions	**8,882**	**9,067**	**-**	**51**	**(236)**	**8,882**
Asset-backed (ABS) or mortgage-backed (MBS)	**9,951**	**10,472**	**-**	**41**	**(562)**	**9,951**
Of other Israeli entities	**823**	**865**	**-**	**12**	**(54)**	**823**
Of other foreign entities	**4,632**	**4,899**	**-**	**23**	**(290)**	**4,632**
Total available-for-sale bonds:[e][f]	**126,137**	**129,150**	**-**	**288[c]**	**(3,301)[c]**	**126,137**

	December 31, 2022					
				Accumulated other comprehensive income (loss)		
	Balance sheet value	Amortized cost	Outstanding loan loss provision[f]	Gains	Losses	Fair value[a]
	In NIS million					
Available-for-sale bonds:						
Of the Israeli Government	21,842	23,691	-	63	(1,912)	21,842
Of foreign governments	16,995	17,291	-	2	(298)	16,995
Of Israeli financial institutions	46	49	-	-	(3)	46
Of foreign financial institutions	9,627	10,001	24	11	(409)	9,627
Asset-backed (ABS) or mortgage-backed (MBS)	7,710	8,353	-	7	(650)	7,710
Of other Israeli entities	670	717	2	7	(56)	670
Of other foreign entities	4,919	5,486	7	2	(576)	4,919
Total available-for-sale bonds:[e][f]	61,809	65,588	33	92[c]	(3,904)[c]	61,809

Please see comments below.

Note 12 - Securities (cont.)

	December 31, 2023					
	Balance sheet value	Cost	Outstanding loan loss provision[f]	Unrealized gains from fair value adjustments	Unrealized losses from fair value adjustments	Fair value[a]
	In NIS million					
Investment in not held-for-trading equity securities and mutual funds:						
Equity securities and mutual funds	4,828	4,511	-	346	(29)	4,828
Of which: equity securities and mutual funds for which there is no available fair value[b]	2,817	2,817	-			2,817
Total equity securities and mutual funds not held-for-trading	4,828	4,511	-	346[d]	(29)[d]	4,828
Total not held-for-trading securities	146,371	149,067	3	649	(4,499)	145,220

	December 31, 2022					
	Balance sheet value	Cost	Outstanding loan loss provision[g]	Unrealized gains from fair value adjustments	Unrealized losses from fair value adjustments	Fair value[a]
	In NIS million					
Investment in not held-for-trading equity securities and mutual funds:						
Equity securities and mutual funds	4,353	4,097	-	290	(34)	4,353
Of which: equity securities and mutual funds for which there is no available fair value[b]	2,333	2,333	-			2,333
Total equity securities and mutual funds not held-for-trading	4,353	4,097	-	290[d]	(34)[d]	4,353
Total not held-for-trading securities	80,690	84,213	37	384	(5,115)	79,519

Please see comments below.

Note 12 - Securities (cont.)

	December 31, 2023					
	Balance sheet value	Amortized cost (in equity securities - cost)	Outstanding loan loss provision[f]	Unrealized gains from fair value adjustments	Unrealized losses from fair value adjustments	Fair value[a]
	In NIS million					
Held-for-trading securities: bonds -						
Of the Israeli Government	12,905	12,884	-	26	(5)	12,905
Of Israeli financial institutions	436	459	-	-	(23)	436
Of foreign financial institutions	26	26	-	1	(1)	26
Asset-backed (ABS) or mortgage-backed (MBS)	25	29	-	-	(4)	25
Of other Israeli entities	159	167	-	-	(8)	159
Of other foreign entities	37	38	-	-	(1)	37
Total bonds	13,588	13,603	-	27	(42)	13,588
Equity securities and mutual funds	89	88	-	1	-	89
Total held-for-trading securities	13,677	13,691	-	28[d]	(42)[d]	13,677
Total securities	160,048	162,758	3	677	(4,541)	158,897

	December 31, 2022					
	Balance sheet value	Amortized cost (in equity securities - cost)	Outstanding loan loss provision[g]	Unrealized gains from fair value adjustments	Unrealized losses from fair value adjustments	Fair value[a]
Held-for-trading securities: bonds -						
Of the Israeli Government	1,263	1,274	-	1	(12)	1,263
Of Israeli financial institutions	580	627	-	-	(47)	580
Of foreign financial institutions	53	59	-	-	(6)	53
Asset-backed (ABS) or mortgage-backed (MBS)	33	36	-	-	(3)	33
Of other Israeli entities	257	296	-	-	(39)	257
Of other foreign entities	71	78	-	-	(7)	71
Total bonds	2,257	2,370	-	1	(114)	2,257
Equity securities and mutual funds	3	3	-	-	-	3
Total held-for-trading securities	2,260	2,373	-	1[d]	(114)[d]	2,260
Total securities	82,950	86,586	37	385	(5,229)	81,779

Please see comments below.

Note 12 - Securities (cont.)

Comments:

(a) In most cases, fair value inputs are based on quoted share prices, which do not necessarily reflect the price that can be obtained from selling large blocks of securities.

(b) Shares for which no fair value is available are presented at cost less impairment, adjusted upwards or downwards for observable prices in similar transactions or identical transactions of the same issuer. In 2023, no upward adjustments were made, the total upward adjustments amounted to approx. NIS 17.5 million. In addition, in 2023, downward adjustments and amortizations were made in the amount of approx. NIS 16.4 million, and total downward adjustments and amortizations amounted to approx. NIS 345.8 million.

(c) Included in equity under the "Adjustments in respect of the presentation of available-for-sale securities at fair value" under other comprehensive income, except for securities designated to be hedged at fair value.

(d) Carried to the income statement.

(e) Total of NIS 15.2 billion out of total foreign currency securities are rated SSA (Supranationals, Sovereign and Agencies) (December 31, 2022 – NIS 12.8 billion).

(f) The balance of loan loss provision; for more information, please see Note 1.X.1. in the financial statements as at December 31, 2022.

General comments:

Loaned securities in the amount of NIS 63 million (December 31, 2022 - NIS 52 million) are presented under the loans to the public line item.

Pledged securities totaled NIS 13,624 million (December 31, 2022 - NIS 17,405 million).

For additional information on the financial performance of investments in bonds, shares and mutual funds, please see Notes 2 and 3.

The distinction between Israeli and foreign bonds was made according to the issuer's country of residence.

Note 12 - Securities (cont.)

More Information on Amortized Cost and Unrealized Losses, by Duration and Impairment Percentage, of Held-to-Maturity Bonds in a Deferred Loss Position

	December 31, 2023									
	Less than 12 months[a]					12 months or more[b]				
		Deferred losses from fair value adjustments					Deferred losses from fair value adjustments			
	Amor-tized cost	0-20%[c]	20%-40%[d]	Over 40%[e]	Total	Amortized cost	0-20%[c]	20%-40%[d]	Over 40%[e]	Total
	In NIS million									
Bonds										
Of the Israeli Government	232	3	-	-	3	7,827	473	251	-	724
Asset-backed (ABS) or mortgage-backed (MBS)	708	4	-	-	4	2,860	340	49	-	389
Of foreign financial institutions	-	-	-	-	-	1,372	38	-	-	38
Of other foreign entities	-	-	-	-	-	334	11	-	-	11
Total held-to-maturity bonds	940	7	-	-	7	12,393	862	300	-	1,162

	December 31, 2022									
	Less than 12 months[a]					12 months or more[b]				
		Deferred losses from fair value adjustments					Deferred losses from fair value adjustments			
	Amor-tized cost	0-20%[c]	20%-40%[d]	Over 40%[e]	Total	Amortized cost	0-20%[c]	20%-40%[d]	Over 40%[e]	Total
	In NIS million									
Bonds										
Of the Israeli Government	9,417	467	166	-	633	183	29	8	-	37
Of foreign financial institutions	1,321	56	-	-	56	-	-	-	-	-
Asset-backed (ABS) or mortgage-backed (MBS)	1,541	121	14	-	135	1,715	217	80	-	297
Of other foreign entities	320	19	-	-	19	-	-	-	-	-
Total held-to-maturity bonds	12,599	663	180	-	843	1,898	246	88	-	334

(a) Investments in a continuous unrealized loss position for a period of less than 12 months.
(b) Investments in a continuous unrealized loss position for a period of 12 months or more.
(c) Investments whose unrealized loss represents up to 20 percent of their amortized cost.
(d) Investments whose unrealized loss represents over 20 percent but no more than 40 percent of their amortized cost.
(e) Investments whose unrealized loss represents over 40 percent of their amortized cost.

Note 12 - Securities (cont.)

More Information on Fair Value and Unrealized Losses, by Duration and Impairment Percentage, of Available-for-Sale Bonds in an Unrealized Loss Position

	December 31, 2023									
	Less than 12 months[a]					12 months or more[b]				
		Unrealized losses[f]					Unrealized losses[f]			
	Fair value	0-20%[c]	20%-40%[d]	Over 40%[e]	Total	Fair value	0-20%[c]	20%-40%[d]	Over 40%[e]	Total
	In NIS million									
Bonds										
Of governments and financial institutions	**11,130**	**298**	**-**	**-**	**298**	**29,876**	**1,537**	**558**	**2**	**2,097**
Asset-backed (ABS) or mortgage-backed (MBS)	**1,225**	**5**	**-**	**-**	**5**	**5,836**	**327**	**230**	**-**	**557**
Of others	**248**	**30**	**2**	**-**	**32**	**4,313**	**297**	**15**	**-**	**312**
Total available-for-sale bonds	**12,603**	**333**	**2**	**-**	**335**	**40,025**	**2,161**	**803**	**2**	**2,966**

	December 31, 2022									
	Less than 12 months[a]					12 months or more[b]				
		Unrealized losses[f]					Unrealized losses[f]			
	Fair value	0-20%[c]	20%-40%[d]	Over 40%[e]	Total	Fair value	0-20%[c]	20%-40%[d]	Over 40%[e]	Total
	In NIS million									
Bonds										
Of governments and financial institutions	31,823	1,741	441	-	2,182	5,240	367	61	12	440
Asset-backed (ABS) or mortgage-backed (MBS)	4,004	160	4	-	164	3,163	301	185	-	486
Of others	3,881	282	69	-	351	1,582	148	133	-	281
Total available-for-sale bonds	39,708	2,183	514	-	2,697	9,985	816	379	12	1,207

(a) Investments in a continuous unrealized loss position for a period of less than 12 months.
(b) Investments in a continuous unrealized loss position for a period of 12 months or more.
(c) Investments whose unrealized loss represents up to 20 percent of their amortized cost.
(d) Investments whose unrealized loss represents over 20 percent but no more than 40 percent of their amortized cost.
(e) Investments whose unrealized loss represents over 40 percent of their amortized cost.
(f) Amounts charged to the capital reserve as part of “other comprehensive income, net”, after the tax effect.

Note 12 - Securities (cont.)

More Information on Mortgage-Backed and Asset-Backed Available-for-Sale Bonds in an Unrealized Loss Position

	December 31, 2023					
	Less than 12 months[b]		12 months or more[c]		Total	
	Fair value	Unrealized losses from fair value adjust-ments [a]	Fair value	Unrealized losses from fair value adjust-ments[a]	Fair value	Unrealized losses from fair value adjust-ments[a]
	In NIS million					
Mortgage-backed bonds (MBSs)	608	(3)	1,906	(327)	2,514	(330)
Other mortgage-backed bonds (including CMO, REMIC and stripped MBSs)	420	(2)	1,379	(189)	1,799	(191)
Asset-backed bonds (ABSs)	197	-	2,551	(41)	2,748	(41)
Total	1,225	(5)	5,836	(557)	7,061	(562)

	December 31, 2022					
	Less than 12 months[b]		12 months or more[c]		Total	
	Fair value	Unrealized losses from fair value adjust-ments [a]	Fair value	Unrealized losses from fair value adjust-ments [a]	Fair value	Unrealized losses from fair value adjust-ments [a]
	In NIS million					
Mortgage-backed bonds (MBSs)	691	(46)	1,438	(300)	2,129	(346)
Other mortgage-backed bonds (including CMO, REMIC and stripped MBSs)	886	(39)	755	(142)	1,641	(181)
Asset-backed bonds (ABSs)	2,427	(79)	970	(44)	3,397	(123)
Total	4,004	(164)	3,163	(486)	7,167	(650)

(a) Amounts charged to the capital reserve as part of "other comprehensive income, net", after the tax effect.
(b) Investments in a continuous unrealized loss position for a period of less than 12 months.
(c) Investments in a continuous unrealized loss position for a period of 12 months or more.

Note 12 - Securities (cont.)

More Information on Held-to-Maturity Mortgage-Backed Bonds

	December 31							
	2023				2022			
	Amortized cost[(a)]	Deferred gains from fair value adjustments	Deferred losses from fair value adjustments	Fair value	Amortized cost	Deferred gains from fair value adjustments	Deferred losses from fair value adjustments	Fair value
	In NIS million							
Mortgage-backed bonds (MBSs)								
Pass-through held-to-maturity bonds	**4,079**	**5**	**(388)**	**3,696**	2,968	-	(426)	2,542
Of which: GNMA-guaranteed securities	**2,784**	**4**	**(226)**	**2,562**	1,807	-	(246)	1,561
Securities issued by FNMA or FHLMC	**1,295**	**1**	**(162)**	**1,134**	1,161	-	(180)	981
Other mortgage-backed bonds (including CMOs and stripped MBSs)	**1,262**	**9**	**(4)**	**1,267**	51	-	(2)	49
Of which: Securities issued or guaranteed by GNMA, FNMA, or FHLMC	**1,262**	**9**	**(4)**	**1,267**	51	-	(2)	49
Total mortgage-backed bonds (MBS)	**5,341**	**14**	**(392)**	**4,963**	3,019	-	(428)	2,591
Asset-backed bonds (ABSs)	**251**	**-**	**(1)**	**250**	238	-	(4)	234
Of which: Loans to other than private individuals - CLO-type bonds	**251**	**-**	**(1)**	**250**	238	-	(4)	234
Total mortgage-backed held-to-maturity bonds	**5,592**	**14**	**(393)**	**5,213**	3,257	-	(432)	2,825

(a) Including a balance of the loan loss provision totaling NIS 1 million.

Note 12 - Securities (cont.)

More Information on Mortgage-Backed and Asset-Backed Available-for-Sale Bonds

	December 31							
	2023				2022			
		Accumulated other comprehensive income (loss)[a]				Accumulated other comprehensive income (loss)[a]		
	Amor-tized cost	Gains	Losses	Fair value	Amor-tized cost	Gains	Losses	Fair value
	In NIS million							
Mortgage-backed bonds (MBSs)								
Pass-through bonds	3,336	7	(330)	3,013	2,663	1	(346)	2,318
Of which: GNMA-backed bonds	2,310	6	(220)	2,096	1,957	1	(231)	1,727
Bonds issued by FNMA or FHLMC	1,026	1	(110)	917	706	-	(115)	591
Other mortgage-backed bonds (including CMOs and stripped MBSs)	2,648	12	(191)	2,469	1,939	4	(181)	1,762
Of which: bonds issued or guaranteed by GNMA, FNMA, or FHLMC	2,322	8	(187)	2,143	1,615	-	(174)	1,441
Total mortgage-backed bonds (MBS)	5,984	19	(521)	5,482	4,602	5	(527)	4,080
Asset-backed bonds (ABSs)	4,488	22	(41)	4,469	3,751	2	(123)	3,630
Of which: Loans to other than private individuals - CLO-type bonds	3,079	19	(15)	3,083	2,460	2	(84)	2,378
Loans to non-individuals - SBA- guaranteed securities	1,046	1	(20)	1,027	1,042	-	(27)	1,015
Total available-for-sale mortgage-backed and asset-backed bonds	10,472	41	(562)	9,951	8,353	7	(650)	7,710

(a) Amounts carried to the capital reserve as part of other comprehensive income, net, after the tax effect.

Note 12 - Securities (cont.)

More Information on Mortgage-Backed and Asset-Backed Held-for-Trading Securities

	December 31							
	2023				2022			
	Amor-tized cost	Unrealized gains from fair value adjust-ments[a]	Unrealized losses from fair value adjust-ments [a]	Fair value	Amor-tized cost	Unrealized gains from fair value adjust-ments [a]	Unrealized losses from fair value adjust-ments [a]	Fair value
	In NIS million							
Mortgage-backed securities (MBS)								
Pass-through securities	1	-	-	1	1	-	-	1
Of which: Securities issued by FNMAor FHLMC	1	-	-	1	1	-	-	1
Other mortgage-backed securities (including CMO and Stripped MBS)	21	-	(3)	18	25	-	(1)	24
Of which: Securities issued or guaranteed by GNMA, FNMA, or FHLMC	-	-	-	-	-	-	-	-
Total mortgage-backed securities (MBS)	22	-	(3)	19	26	-	(1)	25
Total asset-backed securities (ABS)	7	-	(1)	6	10	-	(2)	8
Total mortgage-backed and asset-backed held-for-trading securities	29	-	(4)	25	36	-	(3)	33

(a) Gains (losses) carried to the income statement.

Change in outstanding loan loss provision for available-for-sale bonds

	For the year ended December 31, 2023[a]			
	Governments and financial institutions	Asset-backed (ABS) or mortgage-backed (MBS)	Of others	Total
	In NIS million			
Balance of loan loss provision as at the beginning of the year	24	-	9	33
Amortization in respect of securities sold during the period	-	-	(7)	(7)
Net decrease in the loan loss position in respect of past loan losses	(24)	-	(2)	(26)
Balance of loan loss provision as at year end	-	-	-	-

	For the year ended December 31, 2022[a]			
	Governments and financial institutions	Asset-backed (ABS) or mortgage-backed (MBS)	Of others	Total
	In NIS million			
Balance of loan loss provision as at the beginning of the year	-	-	-	-
Additions in respect of loan losses for which loan losses were not previously recorded	24	-	9	33
Balance of loan loss provision as at year end	24	-	9	33

(a) As of January 1, 2022, the Bank is applying, for the first time, new rules regarding Current Expected Credit Loss (CECL) provisions. For more information, please see Note 1.X.1. in the financial statements as at December 31, 2022.

Note 13 - Credit Risk, Loans to the Public and Loan Loss Provision

A. Debts,[(a)] held-to-maturity bonds and available-for-sale bonds, loans to the public and balance of loan loss provision

	December 31, 2023					
	Loans to the public				Banks, govern-ments and bonds	Total
	Commercial	Housing	Private - other	Total - public		
	In NIS million					
Recorded outstanding debt:						
Examined on a specific basis	239,573	-	661	240,234	162,912	403,146
Examined on a collective basis	26,184	130,624	29,161	185,969	-	185,969
Total[1]	265,757	130,624	29,822	426,203	162,912	589,115
Of which:[1]						
Non-performing debts	2,579	688	343	3,610	-	3,610
Debts in arrears of 90 days or more	69	-	80	149	-	149
Other troubled debts	3,161	24	630	3,815	-	3,815
Total troubled debts	5,809	712	1,053	7,574	-	7,574
Outstanding loan loss provision in respect of debts:						
Examined on a specific basis	4,324	-	275	4,599	17	4,616
Examined on a collective basis	852	622	644	2,118	-	2,118
Total loan loss provision[2]	5,176	622	919	6,717	17	6,734
[2]Of which:						
For non-performing debts	617	79	196	892	-	892
For other troubled debts	803	3	379	1,185	-	1,185

(a) Loans to the public, loans to governments, deposits with banks (excluding deposits with the Bank of Israel) and other debts, excluding securities borrowed or purchased under reverse repurchase agreements.

Note 13 - Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

A. Debts,[(a)] held-to-maturity bonds and available-for-sale bonds, loans to the public and balance of loan loss provision (cont.)

	December 31, 2022					
	Loans to the public				Banks, govern-ments and bonds	
	Commercial	Housing	Private - other	Total - public		Total
	In NIS million					
Recorded outstanding debt:						
Examined on a specific basis	213,711	-	460	214,171	95,502	309,673
Examined on a collective basis	25,902	119,720	29,975	175,597	22	175,619
Total[1]	239,613	119,720	30,435	389,768	95,524	485,292
Of which:[1]						
Non-performing debts	1,127	559	222	1,908	-	1,908
Debts in arrears of 90 days or more	36	-	76	112[(b)]	-	112
Other troubled debts	3,466	67	441	3,974[(b)]	-	3,974
Total troubled debts	4,629	626	739	5,994	-	5,994
Outstanding loan loss provision in respect of debts:						
Examined on a specific basis	3,286	-	163	3,449	54	3,503
Examined on a collective basis	571	418	548	1,537	-	1,537
Total loan loss provision[2]	3,857	418	711	4,986	54	5,040
[2]Of which:						
For non-performing debts	250	77	115	442	-	442
For other troubled debts	633	9	253	895	-	895

(a) Loans to the public, loans to governments, deposits with banks (excluding deposits with the Bank of Israel) and other debts, excluding securities borrowed or purchased under reverse repurchase agreements.

(b) Reclassified.

Note 13 - Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Change in Outstanding Loan Loss Provision

	For the year ended December 31, 2023					
	Loan loss provision					
	Loans to the public				Banks, governments and bonds held-to-maturity and available-for-sale	
	Commercial	Housing	Private - other	Total - public		Total
	In NIS million					
Balance of loan loss provision as at the beginning of the year	4,420	419	732	5,571	54	5,625
Loan-loss expenses (income)	1,550	221	649	2,420	(37)	2,383
Charge-offs	(455)	(6)	(662)	(1,123)	-	(1,123)
Collection of debts written off in previous years	358	-	238	596	-	596
Net charge-offs	(97)	(6)	(424)	(527)	-	(527)
Balance of loan loss provision as at year end[1]	5,873	634	957	7,464	17	7,481
[1]Of which: in respect of off-balance-sheet credit instruments	697	12	38	747	-	747

	For the year ended December 31, 2022					
	Loan loss provision					
	Loans to the public				Banks, governments and bonds held-to-maturity and available-for-sale	
	Commercial	Housing	Private - other	Total - public		Total
	In NIS million					
Balance of loan loss provision as at the beginning of the year	3,765	489	727	4,981	3	4,984
Adjustment to the opening balance due to the effect of first-time application[(a)]	804	(165)	22	661	26	687
Balance as at January 1, 2022	4,569	324	749	5,642	29	5,671
Loan loss expenses	240	112	112	464	34	498
Charge-offs	(589)	(17)	(370)	(976)	-	(976)
Collection of debts written off in previous years	471	-	241	712	-	712
Net charge-offs	(118)	(17)	(129)	(264)	-	(264)
Adjustments from translation of Financial Statements	5	-	-	5	-	5
Less balances of the subsidiary in the United States that was sold[(b)]	(276)	-	-	(276)	(9)	(285)
Balance of loan loss provision as at year end[1]	4,420	419	732	5,571	54	5,625
[1]Of which: in respect of off-balance-sheet credit instruments	563	1	21	585	-	585

(a) Cumulative effect in respect of first-time application of US GAAP's ASU 2016-13, "Financial Instruments - Credit Losses". Please see Note 1.H.

(b) As of April 1, 2022, Bank Leumi USA is not consolidated in the Bank's consolidated financial statements due to the merger transaction with Valley. For more information, please see Note 15.A to the financial statements as at December 31, 2022..

Note 13 - Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Change in outstanding loan loss provision (cont.)

	For the year ended December 31, 2021					
	Loan loss provision					
	Loans to the public					
	Commercial	Housing	Private - other	Total - public	Banks and govern-ments	Total
	In NIS million					
Balance of loan loss provision as at the beginning of the year	4,284	636	792	5,712	3	5,715
Loan loss income	(622)	(145)	(45)	(812)	-	(812)
Charge-offs	(472)	(6)	(279)	(757)	-	(757)
Collection of debts written off in previous years	584	4	259	847	-	847
Net charge-offs	112	(2)	(20)	90	-	90
Adjustments from translation of Financial Statements	(9)	-	-	(9)	-	(9)
Balance of loan loss provision as at year end[1]	3,765	489	727	4,981	3	4,984
[1]Of which: in respect of off-balance-sheet credit instruments	453	-	16	469	-	469

Note 14 - Loans to Governments

	December 31	
	2023	2022
	In NIS million	
Loans to the Israeli Government	**643**	317
Loans to foreign governments	**1,163**	792
Total loans to governments	**1,806**	1,109

Note 15 - Investments in Investees and Details Thereof

A. The Bank's investment in Valley National Bancorp

On September 23, 2021, Bank Leumi Corporation (hereinafter - "BLC"), a US-based corporation (85 percent of which is held by the Bank), which wholly owns Leumi's US-based subsidiary Bank Leumi USA (hereinafter - "BLUSA"), entered into a merger agreement with Valley National Bancorp (hereinafter - "Valley").

On April 1 2022, the merger was completed.

Valley is a banking holding company, which holds Valley National Bank (hereinafter - "Valley Bank"). Valley Bank was founded in 1927.

Following the completion of the transaction and execution of the merger procedures, BLC was merged into Valley and BLUSA was merged into Valley Bank (hereinafter - the "Merger Agreement").

The proceeds of the transaction will be paid to the Bank in Valley shares (90 percent of the proceeds) and the rest - in cash. Once the transaction has been completed, the Bank held approx. 14.2 percent of Valley's share capital and is not the largest shareholder, but as of the publication date, it is the largest shareholder in Valley.

Accordingly, starting from April 1, 2022, the Bank is accounting for the investment in Valley according to the equity method and classifies its investment in Valley as a foreign operation whose functional currency is other than the shekel.

In the wake of significant decreases in the share prices of the US banking segment in general, and mid-sized banks in particular, during the first quarter, the Bank examined the need to recognize an impairment in respect of its investment in Valley. The Bank examined indicators related to Valley's performance and to the performance of the shares, taking into consideration the general situation in the markets, and in the US banking system in particular, with emphasis on mid-sized and small banks.

In view of the above, the Bank assessed that the decrease in fair value is of an other-than-temporary nature, and accordingly, the difference between the fair value of the investment and its value in the books was recognized as an impairment loss in the first quarter of 2023.

The fair value of the investment in Valley was determined according to the quoted market value of the share as of March 31, 2023 without adjustments, which was USD 9.24 per share. The impairment recorded in respect of the investment in Valley amounted to approx. NIS 1.1 billion, after the tax effect, and was accompanied by a reallocation of the composition of the investment account in accordance with the latest valuation as of the impairment date.

The impairment loss was recorded in the income statement under the "Bank's share in associates' profits (losses)" line item.

For this loss, the Bank recognized a deferred tax asset, which may be utilized as a deduction from the taxable income upon disposal of the investment. The reduction in the value did not have a significant effect on the Bank's regulatory capital adequacy.

The market value of the Valley shares held by the Bank as at December 31, 2023 is approx. NIS 2,831 million. Subsequent to the balance sheet date and up to shortly before the report publication date, the market value of Valley's shares held by the Bank was in the NIS 1.9-2.4 billion range.

For more information regarding the impairment of investments in equity-accounted associates, please see Note 1.V.4.

Note 15 - Investments in Investees and Details Thereof (cont.)

B. Composition of Associates

	December 31	
	2023	2022
	Associates	
	In NIS million	
Total investments in equity securities accounted for by the equity method (including goodwill)	**4,014**	4,947
Of which – Gains (losses) accrued since the acquisition date	**(841)**	235
Items accrued in equity since the acquisition date:		
Adjustments for associates	**353**	212
Information regarding goodwill:		
Net original amount	**1,315**	1,471
Balance	**907**	1,407

Details Regarding the Carrying Amounts and the Market Value of Tradable Investments

	December 31			
	2023		2022	
	Carrying amount	Market value	Carrying amount	Market value
	In NIS million			
Valley National Bancorp	**2,632**	**2,831**	3,567	2,860
Teralight Ltd.	**81**	**87**	135	58
Sunflower Sustainable Investments Ltd.	**43**	**46**	61	32
Total	**2,756**	**2,964**	3,763	2,950

C. Group's Share in Associates' Profits or Losses

	For the year ended December 31		
	2023	2022	2021
	In NIS million		
Group's share in associates' profits (losses)[(a)]	**(970)**	490	102
Provision for taxes	**84**	(103)	(1)
Group's share in associates' profits (losses) after tax effect	**(886)**	387	101

(a) Of which: An impairment loss of associates totaling NIS 1,226 million, after tax. (2022 – NIS 0 million, 2021 – NIS 0 million).

Note 15 - Investments in Investees and Details Thereof (cont.)

D. Details Regarding Major Investees

		December 31			
		2023	2022	**2023**	2022
		Share in equity conferring rights to receive profits		Share in voting rights	
Company	Information about the company	In %			
Consolidated subsidiaries[(a)]					
In Israel					
Leumi Partners Ltd.[(c)]	Business and financial services	**100.0**	100.0	**100.0**	100.0
LeumiTech Ltd.[(d)]	Loans to high-tech companies	**99.8**	99.8	**99.8**	99.8
Leumi Capital Market Services Ltd.	Operating services provided to provident funds and mutual funds	**100.0**	100.0	**100.0**	100.0
Leumi Financial Holdings Ltd.	Financial holdings	**100.0**	100.0	**100.0**	100.0
Abroad					
Leumi UK Group[(e)]	Financial Services - registered in the UK	**100.0**	100.0	**100.0**	100.0
Leumi Re Limited	Insurance – registered in the Channel Islands	**100.0**	100.0	**100.0**	100.0
Associates					
Valley National Bancorp	Banking	**14.2**	14.2	**14.2**	14.2

(a) Data regarding consolidated companies reflect the Bank's investment therein net of each company's investment in other Group companies and the Bank's share in their results of operations net of each company's share in the financial performance of operations of other Group companies in respect of said investments.
(b) Other equity investments include capital notes.
(c) The Bank's share in a capital reserve in respect of a benefit arising from NIS 190 million in controlling shareholders' loans (2022 – NIS 190 million).
(d) The Bank's share in a capital reserve in respect of a benefit arising from NIS 82 million in controlling shareholders' loans (2022 – NIS 82 million).
(e) For additional information regarding the organizational change in Bank Leumi UK, please see Note 36.D.
(f) Carrying amount includes attributable excess cost balances and goodwill in the amount of NIS (352) million and NIS 611 million, respectively. The contribution to the profit includes deduction of excess cost. In 2023, the said provision for impairment was made.

2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Investment in equity securities accounted for according to the equity method		Other equity investments[(b)]		Contribution to net income (loss) attributable to the Bank's shareholders		Dividends received		Other comprehensive income (loss)		Guarantees on behalf of the Company in favor of entities outside the Company	
In NIS million											
4,796	4,612	**226**	226	**120**	361	**-**	-	**64**	(42)	**1,566**	1,359
1,028	1,001	**-**	-	**10**	5	**-**	-	**17**	(35)	**-**	-
59	47	**-**	-	**12**	10	**-**	-	**-**	-	**-**	-
1,642	1,640	**-**	-	**1**	-	**-**	-	**1**	(7)	**-**	-
651	1,334	**3,330**	227	**261**	75	**-**	-	**(7)**	1	**-**	-
93	80	**-**	-	**13**	20	**-**	-	**-**	-	**185**	179
2,632[(f)]	3,567	**-**	-	**(897)[(f)]**	306	**116**	81	**118**	(54)	**-**	-

Note 16 - Buildings and Equipment

A. Composition

	Buildings and land[a]	Equipment, furniture and vehicles	Software costs[b]	Total
	In NIS million			
Cost of assets				
Balance as at December 31, 2021	2,878	3,520	4,517	10,915
Additions	49	136	584	769
Derecognitions	(93)	(76)	(509)	(678)
Deconsolidation[c]	(281)	(185)	(194)	(660)
Adjustments from translation of financial statements	6	4	4	14
Balance as at December 31, 2022	2,559	3,399	4,402	10,360
Additions	**185**	**84**	**564**	**833**
Derecognitions	**(61)**	**(224)**	**(240)**	**(525)**
Balance as at December 31, 2023	**2,683**	**3,259**	**4,726**	**10,668**
Depreciation and impairment losses				
Balance as at December 31, 2021	1,602	2,760	3,833	8,195
Depreciation for the year	50	97	451	598
Derecognitions	(65)	(70)	(483)	(618)
Deconsolidation[c]	(215)	(180)	(166)	(561)
Adjustments from translation of Financial Statements	4	4	3	11
Balance as at December 31, 2022	1,376	2,611	3,638	7,625
Depreciation for the year	**47**	**96**	**532**	**675**
Derecognitions	**(57)**	**(212)**	**(237)**	**(506)**
Balance as at December 31, 2023	**1,366**	**2,495**	**3,933**	**7,794**
Carrying amount as at December 31, 2021	1,276	760	684	2,720
Carrying amount as at December 31, 2022	1,183	788	764	2,735
Carrying amount as at December 31, 2023	**1,317**	**764**	**793**	**2,874**

(a) Including installations and leasehold improvements.
(b) Including expenses capitalized in connection with costs of development of internal use software totaling NIS 686 million as of December 31, 2023 (2022 – NIS 577 million).
(c) Balances of Bank Leumi USA, which as from April 1, 2022 is not consolidated in the Bank's consolidated financial statements due to the merger transaction with Valley, please see Note 15.A. to the financial statements as at December 31, 2022.

B. Average Depreciation Rate

	December 31	
	2023	2022
Buildings and land	**1.95%**	2.10%
Equipment, furniture and vehicles	**12.20%**	11.48%
Software costs	**29.45%**	26.81%

C. Buildings and land not used by the Group, mainly leased buildings, are stated in the balance sheet at NIS 25 million (December 31, 2022 – NIS 34 million).

D. Assets amounting to NIS 41 million (December 31, 2022 – NIS 42 million) have not been registered in the Bank's name with the Land Registry Office, the main reasons being the lack of land registry arrangements in the area ("parcellation") and a building project that was not registered as a condominium by the contractor/developer.

Note 16 - Buildings and Equipment (cont.)

E. The book balance of held-for-sale buildings and equipment as of December 31, 2023 is NIS 105 million (December 31, 2022 – NIS 102 million). No loss is expected from disposal of available-for-sale buildings and equipment. For more information, please see Note 36.B and Note 36.C.

F. The book balance of property, plant & equipment under construction totaled as at December 31, 2023 NIS 164 million (December 31, 2022 - NIS 60 million).

G. The buildings and equipment line item includes leasehold improvements and lease rights, including payments in respect of some of the buildings on leased land.

H. Information on Leases

1. Expenses for leases

	December 31	
	2023	2022
	In NIS million	
Expenses for operating leases	112	132
Expenses short-term leases	-	-
Expenses for variable lease payments	1	2
Total expenses for leases	113	134

2. Additional Information on Leases

	December 31	
	2023	2022
	In NIS million	
Cash paid for balances included in measurement of lease liabilities:		
Cash flow for operating activities for operating leases	120	135
Right of use assets recognized for new operating leases	104	125
Remaining weighted average term (in years):		
For operating leases	3.9	4.2
Weighted average discount rate (in %):		
For operating leases	1.00	1.00

3. Undiscounted cash flows and liabilities for operating leases by repayment term

	December 31			
		2023		2022
	Undiscounted cash flows	Lease liability	Undiscounted cash flows	Lease liability
	In NIS million			
Up to one year	129	129	110	108
Over one year and up to two years	103	101	90	88
Over two years and up to 3 years	79	77	69	67
Over 3 years and up to 4 years	70	67	52	50
Over 4 years and up to 5 years	58	55	46	45
Over 5 years	242	221	228	209
Total	681	650	595	567

Note 17 - Goodwill

	Goodwill - total[a]
	In NIS million
Cost	
As at December 31, 2021	14
Less balances of the subsidiary in the United States that was sold[b]	(14)
As at December 31, 2022	-
Additions (deductions)	-
As at December 31, 2023	-
Amortization and impairment losses	
As at December 31, 2021	-
Amortization for the year	-
As at December 31, 2022	-
Amortization for the year	-
As at December 31, 2023	-
Amortized balance as at December 31, 2023	-
Carrying amount	
As at December 31, 2021	14
As at December 31, 2022	-
As at December 31, 2023	-

(a) Goodwill by regulatory operating segments and Management Approach attributable to foreign operations.
(b) As of April 1, 2022, Bank Leumi USA is not consolidated in the Bank's consolidated financial statements due to the merger transaction with Valley. As of March 31, 2022, the above balances were classified as held-for-sale. For more information, please see Note 15.A to the financial statements as at December 31, 2022.

Note 18 - Other Assets

	December 31	
	2023	2022
	In NIS million	
Deferred tax receivable, net – please see Note 8(d)	**5,869**	5,199
Excess of advance tax payments over current provisions	**19**	21
Central severance pay fund	**70**	85
Assets received for repaid loans	**10**	8
Balance of amortizable issuance expenses of bonds, promissory notes and subordinated notes	**91**	80
Assets for activity in the MAOF Clearing House[a]	**14**	10
Prepaid expenses	**214**	186
Receivables	**235**	157
Other receivables and debt balances	**147**	85
Right of use assets for operating lease[b]	**661**	571
Total other assets	**7,330**	6,402

(a) Stated at fair value.
(b) For information regarding leases, please see Note 1.N. and Note 16.H.

Note 19 - Deposits by the Public

A. Types of Deposits by Location and Type of Depositor

	December 31	
	2023	2022
	In NIS million	
In Israel		
Demand deposits		
Non-interest bearing deposits[(a)]	**150,365**	197,264
Interest-bearing[(a)]	**137,351**	121,951
Total demand deposits	**287,716**	319,215
Fixed deposits	**280,108**	237,851
Total deposits in Israel[1]	**567,824**	557,066
Outside Israel		
Demand deposits		
Interest-bearing deposits	**-**	18
Total demand deposits	**-**	18
Total deposits outside Israel	**-**	18
Total deposits by the public	**567,824**	557,084
Of which:[1]		
Deposits by private individuals	**169,788**	158,006
Deposits by institutional entities	**138,478**	130,685
Deposits by corporations and others	**259,558**	268,375

B. Deposits by the Public by Amount

	December 31	
	2023	2022
Maximum deposit	In NIS million	
Up to 1	**128,159**	119,053
Over 1 and up to 10	**125,586**	117,207
Over 10 and up to 100	**92,257**	91,492
Over 100 and up to 500	**57,311**	68,403
Over 500	**164,511**	160,929
Total	**567,824**	557,084

(a) Reclassified; during the first quarter of 2023, a reclassification was made between interest-bearing and non-interest-bearing deposits. For comparability reasons, the Bank made an immaterial adjustment to the comparative figures. The effect of the adjustment as of December 31, 2022 amounted to deposits in the amount of approx. NIS 62.7 billion, which were reclassified from interest-bearing deposits to non-interest bearing. The aforementioned had no effect on the Bank's profit and loss and equity.

Note 20 - Deposits by Banks

	December 31	
	2023	2022
	In NIS million	
In Israel		
Commercial banks:		
Demand deposits	8,423	4,280
Fixed deposits	1,778	439
Acceptances	454	675
Central banks:[(a)]		
Fixed deposits	10,121	16,912
Outside Israel		
Commercial banks:		
Demand deposits	-	-[(b)]
Total deposits by banks	20,776	22,306

(a) Deposits by the Bank of Israel.
(b) Balances of less than NIS 1 million.

Note 21 - Bonds, Promissory Notes and Subordinated Notes[(a)]

	Average duration[(b)]	Internal rate of return[(c)]	December 31	
			2023	2022
	Years	In %	In NIS million	
Non-convertible bonds, promissory notes and capital notes in NIS:				
In Israeli currency unlinked to the CPI	1.3	3.5	7,648	7,153
CPI-linked	3.6	0.3	13,356	10,978
In USD	3.3	5.1	1,796	1,654
Total[1]			22,800	19,785
[1]Of which: held-for-trading			22,379	19,251
Convertible notes:				
CPI-linked	3.3[(d)]	1.9	4,750	5,277
In USD	2.8[(d)]	4.8	4,564	2,743
Total bonds, promissory notes and subordinated notes			32,114	27,805
Of which subordinated notes included in Tier 2 capital[(e)]			8,811	7,547

(a) The balance of discount net of the premium on bonds and subordinated notes not yet carried to the income statement was offset against the bonds.
(b) Average duration is the average of the payments periods weighted by the projected cash flows discounted at the internal rate of return.
(c) Internal rate of return is an interest rate that discounts the projected payments flow to the book balance stated in the financial statements.
(d) The average duration as of interest rate change date is based on calculation of the effective average duration as calculated for purposes of the exposure to changes in interest rates. In subordinated notes, in CPI-linked - 3.14 years, in USD - 2.73 years (as of December 31, 2022 - CPI-linked - 2.64 years, and USD - 2.90 years).
(e) Tier 2 capital according to Basel III's transitional provisions.

Comment:
For more information, please see Note 25A.

Note 22 - Other Liabilities

	December 31	
	2023	2022
	In NIS million	
Deferred tax reserve, net – please see Note 8(d)	**80**	84
Excess of current provisions for income tax over advances paid	**1,835**	1,133
Excess of liabilities in respect of employee benefits over plan assets – see Note 23(I)	**8,192**	8,400
Prepaid income	**498**	452
Payables for credit card activities	**1,289**	1,176
Accrued expenses for salaries and related expenses	**518**	922
Market value of securities sold short	**161**	132
Loan loss provision for off-balance-sheet items	**747**	585
Accrued expenses	**304**	296
Other provisions for employee benefits	**325**	329
Provision for paid leave	**202**	201
Accrued jubilee vacation leave	**18**	19
Liabilities for activity in the MAOF Clearing House[a]	**14**	10
Other payables and credit balances	**876**	712
Liabilities for operating leases[b]	**650**	567
Total other liabilities	**15,709**	15,018

(a) Stated at fair value.
(b) For information regarding leases, please see Note 1.N.For information on liabilities for operating leases by repayment terms, please see Note 16.H.3.

Note 23 - Employee Benefits

A. Signing of a collective agreement

On April 16, 2023, the Bank signed a special collective agreement with the Workers' Union for 2023-2026.

Following are the main sections of the agreement (as included in the Bank's notice dated March 19, 2023):

1. Annual budget for pay raises - The salary update basket for each of the years 2023-2026 will be the number of employees multiplied by NIS 723 for a manager and NIS 381 for a clerk.

   1.1. In order to motivate all Bank employees to achieve the Bank's return on equity targets in accordance with the Bank's business strategy, a mechanism was established according to which the annual salary update budget will be able to increase up to a maximum annual amount of NIS 950 per manager and NIS 500 per clerk (hereinafter - the "Maximum Amount"), subject to achieving a return on equity of at least 15 percent. A mechanism was established regarding the budget between the minimum and maximum amounts in case of a return of between 10 percent and 15 percent. In addition, a compensation mechanism - payable as a bonus rather than as a pay raise - was established for 2025-2026, in the event that there will not be an entitlement to the maximum budget but the annual inflation exceeds 3 percent. The salary update budget will be divided differentially between those entitled to it, based on the contribution of each employee to achieving the Bank's targets (excellence indicators).

   1.2. In view of the return achieved in 2022 (17 percent) and the return expected for 2023, a pay raise will be paid at the beginning of 2023 and at the beginning of 2024 according to the maximum amount.

2. Employment period without permanent employee status - In order to increase the Bank's managerial flexibility, on the back of the changes in the banking market, the Bank may employ employees under the collective agreement without giving them permanent employee status for a period of up to 10 years gradually, according to the employee's seniority, and no more than 6 additional years.

3. In order to enable further progress in the Bank's digital-technological transformation, in accordance with the Bank's strategy, it was agreed to significantly increase the number of employees that the Bank may employ under the technological agreement, which will provide the Bank with managerial flexibility in the recruitment and management of the human capital in these areas - without giving permanent employee status.

4. On the back of the continuing transition to the use of digital tools based on data and advanced models, which creates redundancies of various positions at the Bank, an outline has been established to regulate the treatment of employees whose position has become redundant in a way that will enable the Bank to continue its accelerated streamlining trend.

5. In order to motivate the employees each year to achieve the work plan targets, at the beginning of each year, management will publish the targets for which a bonus will be paid on the basis of the annual results. To encourage excellence and a direct connection between contribution and compensation, the bonus will continue to be paid differentially according to the contribution of each employee to the Bank's success.

6. The agreement includes improved social and related benefits for the various population groups at the Bank.

7. New employees recruited to the Bank will be employed under Section 14 of the Severance Pay Law throughout their entire employment period at the Bank.

8. Management and the Workers' Union will negotiate agreements for the adoption of a new promotion format, according to the occupation of each employee (instead of seniority and hierarchy as the main considerations) and an outline for time-limited terms of office.

Note 23 - Employee Benefits (cont.)

9. As part of the agreements and to celebrate the Bank's 120th anniversary in 2022, the Bank paid employees a special one-time bonus of NIS 10,000 per employee.

The effect of the engagement in a collective agreement is a decrease in the Bank's net income in 2023 by approx. NIS 70 million, before efficiency measures taken by the Bank's management each year. In addition, there was a one-time immaterial increase in the Bank's actuarial liabilities.

B. Pension and Severance Pay

1. Overview

Employees who began working with the Bank as from January 1, 1999 and have not yet received permanent employee status as at the signing of the special 2000 collective bargaining agreement regarding the pension agreement (hereinafter - "Generation B Employees") make ongoing contributions to an external pension plan. The Bank shall have no pension obligations in respect of these employees, except for supplementary contributions towards severance pay, in certain cases, pursuant to the agreement.

Employees who started working for the Bank before January 1 1999 and were granted permanent employee status before the date of signing the aforementioned agreement (hereinafter - "Generation A Employees"), and who retire from the Bank at retirement age, except those mentioned above and in Section C. below, may choose between receiving severance pay and pension savings or a pension from the Bank while waiving the severance pay and savings, all subject to the provisions of the law. Entitlement to a pension is calculated at a rate of 40 percent in respect of the first fifteen years of employment, i.e. 2.67 percent per annum, and 1.5 percent for each additional year, up to a maximum rate of 70 percent.

The pension reserves are based on an actuarial calculation that factors in the retirement age pursuant to studies and based on past experience. The actuarial calculation was made according to the accrued benefits valuation method, taking into account various parameters including the probability, based on past experience, as to the rate of utilization of pension benefits and the rate of withdrawal of severance pay and pension savings, disability benefits, etc. The calculation also factors in a nominal pay increase, which is based on past experience and varies according to the employee's age.

The liability is accrued on a straight-line basis until the early retirement age (the average of actual retirement ages of Generation A Employees in recent years, both men and women). After this date, additional benefits attributed to subsequent years are accrued based on the formula of Generation A Employees' benefit plan.

The actuarial calculation is based on revised directives of the Ministry of Finance regarding mortality rates, published in June 2022, which were established for insurance companies by the Commissioner of the Capital Market, Insurance and Savings and applied to the Bank's employees.

The employee benefits liability amount is affected by several key variables, which include market variables (discount rates of the liabilities for various periods) and actuarial variables, with some of the actuarial variables being associated with employee behavior. There may be a correlation between changes in market variables and changes in the behavioral actuarial variables.

The Bank's actuarial liability for pension was calculated based on the yield on Israeli Government bonds plus an average spread on corporate bonds rated AA or higher as of the reporting date. It was decided that the calculation of the spread will be based on spreads of US corporate bonds. In 2023, most of the change in the pension liability stems from interest rate changes.

The Bank's pension liability for retired employees who have opted for pension and the Bank's liability, as mentioned in Section C. below are covered by a pension provision calculated according to the present value of the liability, as calculated by an actuary.

Note 23 - Employee Benefits (cont.)

2. "Leumi Alumni"

Leumi Alumni are former employees who were employed under the collective bargaining agreement, and who left their jobs at the Bank after 25 years, or whose age is at least 50 and have left the Bank after 15 years of service.

C. Employment and Retirement Terms and Conditions of Employees with Personal Employment Contracts

1. Overview

The accepted terms and conditions of employment and retirement for employees with personal contracts with the Bank include fixed compensation components, such as a monthly salary, social benefits, related benefits, such as study fund, health insurance, insurance arrangements, exemption and indemnification, as well as terms and conditions of retirement and severance and termination of employment, such as paid early notice. Employees who have personal contracts with the Bank also enjoy variable compensation components, such as any award that is not given on a regular basis, i.e., annual performance bonus, personal mission bonus, and special bonus for special events and equity compensation by way of options and/or shares and/or share-based instruments. Key employees who are not officers may be entitled to additional bonuses such as retention bonus and outstanding excellence award. Members of Bank's management may also be entitled to an adaptation bonus of up to 6 monthly salaries on termination of their employment by the Bank. In addition, employees with personal contracts at the Bank may be required to sign a non-compete clause of up to six months from leaving the Bank.

Retirement and pension arrangements for employees with personal contracts

The retirement and pension benefits of Bank employees with personal contracts are determined according to their classification into the Bank's employment period categories and according to the circumstances under which their employment ended (such as redundancy, resignation or retirement). The Bank's retirement arrangement with these employees includes entitlement to their severance pay fund, in accordance with Section 14 of the Severance Pay Law, 1963 or to severance pay ranging between 100 percent and 250 percent, in addition to the funds accrued in their pension savings, and the possibility, in certain cases, of receiving a monthly annuity. This right is in lieu of the employees' legal severance pay benefits and includes the funds and benefits accrued in the employee's severance pay funds during his/her employment period (including any gains).

In case of termination of employer-employee relations (due to redundancy, resignation or retirement, as relevant and according to the terms and conditions of the personal contract), Generation A Employees may waive the benefits and funds which they have accrued in their severance pay and pension savings (in respect of Generation A benefits) in return for being eligible for unfunded pension from the Bank (hereinafter - the "Pension Annuity"). Employees are eligible for a Pension Annuity on reaching retirement age or, alternatively - subject to meeting seniority and age criteria - to receive the Pension Annuity immediately or at a later stage (in full or in part, as relevant).

Some contracts stipulate that, in case of termination of employer-employee relations (due to redundancy, resignation or retirement, as relevant and according to the personal contract's terms and conditions) and subject to meeting certain conditions, including seniority and/or age conditions, some Generation B employees may opt to receive an Interim Annuity from the Bank (in full or in part, as relevant) in lieu of severance pay, until they become eligible for the amount saved pursuant to the pension fund's Articles of Association and the provisions of the law.

The percentage of the Pension Annuity or interim annuity, as relevant, is 2.67 percent per annum for the first 15 years of employment. Subsequently – 1.5 percent per annum for each year until a personal contract is signed; 2 percent per annum for each year of employment under a personal contract and 2.5 percent per annum for each year of service as member of management, up to a maximum of 70 percent. Eligibility for Pension Annuity from the Bank is subject to the employee having all the benefits and funds

Note 23 - Employee Benefits (cont.)

accrued in the pension savings and severance pay fund (in respect of Generation A benefits) in his/her name available as the source from which the Pension Annuity will be paid by the Bank as aforesaid.

The maximum additional expense incurred by the Bank, assuming that the employees included in this section are made redundant effective immediately and according to the eligibility for each period, shall total NIS 138 million (including salary tax payable on pension) (2022 – NIS 168 million).

2. President and CEO

Mr. Hanan Friedman serves as an officer with the Bank as of September 1, 2014, and as the Bank's President and CEO from November 1, 2019 (in this Section - the "Effective Date"). On December 23, 2019, the Bank's general meeting approved the service and employment terms and conditions of the Bank's President and CEO, which become effective on the Effective Date. The service and employment terms and conditions of the President and CEO are in line with the Bank's Officer Compensation Policy, and in line with Directive 301A and the limitations prescribed in the Compensation Limitation Law.

The President and CEO's service and employment terms and conditions:

1. **Salary** – as from the Commencement Date, the President and CEO is entitled to a monthly salary totaling NIS 228,000, linked to the increase in the known Consumer Price Index (CPI) on the Commencement Date[1] as well as to the Bank's lowest compensation increase rate as set out in the Compensation Limitation Law and subject to its provisions (hereinafter - the "Salary").

   The President and CEO is eligible to an additional fixed compensation component that will be calculated such that the total amount of the compensation components payable to the President and CEO (excluding compensation the payment of which is not expected under generally accepted accounting principles) will not exceed the ceiling set forth in Section 2(b) of the Compensation Limitation Law.[2] No provisions for social benefits will be made in respect of this fixed component, except for provisions for severance pay and pension savings as required by law.

2. **Termination of employment by giving advance notice** – The employment term of the President and CEO's employment agreement is indefinite. Each of the parties may terminate the agreement by giving a six-month advance notice.

3. **Contributions and deductions for pension, severance pay and social benefits** - the Bank shall make contributions towards pension and disability insurance for the President and CEO; these contributions, amounting to 7.5 percent of the President and CEO's Salary, will be transferred, on a monthly basis, to managers' insurance policies, provident funds and/or a pension arrangement, as agreed between the parties from time to time; the Bank will also deduct an additional 6 percent of the President and CEO's Salary in respect of pension contributions (hereinafter - "Pension Contributions"). The Bank will make contributions towards severance pay, which will be transferred, on a monthly basis, to a severance pay fund, at a rate of $8^1/_3$ percent of the Salary[3] of the President and CEO; the Bank will also make monthly contributions to a study fund for the President and CEO at a rate of 7.5 percent of the Salary; at the same time, the Bank shall deduct a total of 2.5 percent, at the expense of the President and CEO, from the Salary, up to the maximum tax deductible amount and shall remit it to a study fund.

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[1] It is hereby clarified, that if the CPI decreases, the Salary will not be decreased accordingly.

[2] It should be noted that the contributions for severance pay and pension as required by law will not be included in the calculation of the ceilings set forth in the Compensation Limitation Law. It should also be noted that since the total cost of the President and CEO's compensation exceeds the ceiling set forth in the Compensation Limitation Law, a portion of the compensation is not deductible for tax purposes as set forth in Section 32(17) of the Income Tax Ordinance.

[3] Including all components in respect of which severance pay is payable by law.

Note 23 - Employee Benefits (cont.)

4. **Retirement terms and conditions** - as aforesaid, the President and CEO serves as an officer with the Bank as of September 1, 2014. On the date on which the Compensation Limitation Law entered into effect, on October 12, 2016 (the "Effective Date") the service and employment terms and conditions of office and employment of the incumbent Bank officers according to the provisions of the said Law were updated, including the service and employment terms and conditions of Mr. Friedman, including his benefits in the event of retirement. Therefore, in the event of retirement, the President and CEO will be entitled to retirement benefits for his service term with the Bank from the Effective Date of his service with the Bank until the Effective Date, and to retirement benefits for his terms of office with the Bank from the Effective Date until the termination of his employment relations with the Bank, as specified below: In the event that the employment relations between the President and CEO and the Bank are severed (dismissal, resignation or retirement), the President and CEO will be entitled to the following benefits (cumulatively):

   (1) For the term of the President and CEO's employment as of the Effective Date: The President and CEO will be entitled to severance pay in an amount equal to 100 percent [4] of the last known monthly Salary on the termination of employment relations with the Bank multiplied by the number of years from the Effective Date until the termination date of the employment relations as aforesaid, plus the funds and benefits accumulated in the pension funds from pension contributions made by the Bank and by the President and CEO in respect of the President and CEO's term of employment during the abovementioned term (from the Effective Date until the termination date of the employment relations).

   (2) For the term of the President and CEO's employment until the Effective Date: The President and CEO will be entitled to severance pay in an amount equal to 250 percent of the monthly Salary immediately prior to the Effective Date multiplied by the number of years he will have been employed by the Bank until the Effective Date, plus the funds and benefits accumulated in the pension funds from pension contributions made by the Bank and by the President and CEO for the President and CEO's term of employment during the above period (until the Effective Date).[5]

5. **Non-compete** - The President and CEO will undertake towards the Bank to maintain a six-month non-compete period from the date of termination of his office (hereinafter - the "Non-Compete Period"). During the Non-Compete Period the President and CEO will be entitled to receive a Salary and all other related benefits, excluding contributions for social benefits.

6. **Exemption, insurance and indemnification** - The President and CEO will be entitled to exemption, insurance and indemnification of officers, as is customary at the Bank, from time to time.

7. **Paid leave, convalescence pay and sick leave** – as normally paid to the Bank's senior officers according to Bank's procedures.

8. **Related benefits** - The President and CEO is entitled to benefits as is customary for senior executives of the Bank.

9. **Provisions regarding annual bonuses** - The President and CEO will not be entitled to an annual variable bonus as of the Effective Date.

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[4] Entitlement to severance pay as aforesaid is conditional on the transfer to the Bank of the contributions towards severance pay made during that period, or of an amount equal to the amount of those contributions.

[5] Entitlement to severance pay as aforesaid is subject to the transfer to the Bank of the contributions to the severance pay fund.

Note 23 - Employee Benefits (cont.)

10. **Allocation of option warrants** - On August 10, 2023, following the approval of Compensation Committee and the Bank's Board of Directors, the Bank's general meeting approved the allocation of 145,794 option warrants to the President and CEO totaling NIS 736,261 according to an outline published by the Bank on August 16, 2022. The allocation was carried out against an existing liability to the President and CEO that was recorded in the Bank's books of accounts. The share warrants will not be listed for trading on the TASE, but the exercise shares that will be issued due to the exercise of the option warrants will be listed for trading on the TASE. Even if the tenure of the President and CEO ends, the option warrants will be in effect until the end of the exercise period. The shares resulting from the exercise of the option warrants will have equal rights to the ordinary shares for all intents and purposes.

3. The Bank's Chairman of the Board

The Bank's incoming Chairman of the Board

Dr. Shmuel Ben Zvi serves as a director of the Bank as of July 19, 2015, and began serving as Chairman of the Board on November 16, 2023 (in this Section, the "Effective Date").

On January 4, 2024, the Bank's general meeting approved the service terms and conditions of the Chairman, which become effective on the Effective Date, as long as he serves as Chairman of the Board. The service terms and conditions of the Chairman of the Board as aforesaid are in compliance with the Bank's officer compensation policy and in accordance with revised Directive 301A, regarding structure of compensation for chairman of the board in a banking corporation without a controlling core.

The Chairman of the Board's service terms and conditions:

The Chairman of the Board provides services to the Bank through a management company he owns, against a tax invoice issued to the Company. In return for these services, the Chairman is entitled only to a fixed compensation only,[6] of approx. NIS 3.76 million per annum (the maximum annual amount paid by the Bank in accordance with the Compensation Limitation Law), with added VAT; the amount is linked to the increase in the known CPI as at the Effective Date,[7] may be linked to the Bank's lowest compensation increase rate, all as set out in the Compensation Limitation Law and subject to its provisions. It is clarified that, in respect of the Chairman of the Board's tenure for part of a year, he will be paid the proportional part of the annual compensation.

The Chairman of the Board will also be entitled to exemption, insurance and indemnification arrangements of officers, as is the practice in the Bank, from time to time, as well as to benefits for the reimbursement of reasonable expenses according and subject to that stipulated in Directive 301A. The Chairman of the Board will not receive, in addition to the annual compensation and the reimbursement of expenses as aforementioned, any direct or indirect consideration for his tenure as Chairman of the Board or for the end of his tenure. The Chairman of the Board will not be eligible for an advance notice at the end of tenure and for a non-compete payment.

Outgoing Chairman of the Board

Dr. Samer Haj Yehia serves as a director of the Bank as of September 30, 2014, and began serving as Chairman of the Board (hereinafter in this section - the "Outgoing Chairman" or "Outgoing Chairman of the Board") on July 22, 2019 (in this Section, the "Effective Date"). The Outgoing Chairman ended his tenure as a director and as the Bank's Chairman of the Board on October 29, 2023 (hereinafter in this section - the "End Date").

6 It is clarified that the Chairman of the Board of Directors is not entitled to a variable annual bonus.
7 It is hereby clarified, that if the CPI decreases, the consideration amount will not be decreased accordingly.

Note 23 - Employee Benefits (cont.)

The outgoing Chairman of the Board's service terms and conditions:

On December 23, 2019, the Bank's general meeting approved the service terms and conditions of the Bank's President and CEO, which become effective on the Effective Date. On September 21, 2022 (hereinafter in this section - the "Revision Date"), after receipt of approval from the Compensation Committee, the Bank's Board of Directors approved the revision of the terms of service of the Outgoing Chairman of the Board (hereinafter - the "Terms of Service"), effective as from October 19, 2022 until the End Date. The said revision was due to the revision of Directive 301A regarding the compensation structure of the Chairman of the Board in a banking corporation without a controlling core (which was published in April 2022), according to which the Terms of Service of the Outgoing Chairman of the Board shall not include other benefits in respect of non-competition and prior notice and the Outgoing Chairman of the Board will be entitled to reimbursement of expenses according and subject to Directive 301A.

As of September 2021, the outgoing Chairman of the Board began to provide services to the Bank through a management company he owns, against a tax invoice issued to the Company. In return for these services, the Outgoing Chairman was entitled to a consideration of approx. NIS 3.7 million per annum, with added VAT, linked to the increase in the known CPI as at the Effective Date,[7] as well as linked to the Bank's lowest compensation increase rate, all as set out in the Compensation Limitation Law and subject to its provisions.

The outgoing Chairman was also be entitled to exemption, insurance and indemnification arrangements of officers, as is the practice in the Bank, from time to time, as well as to benefits for the reimbursement of expenses according and subject to that stipulated in Directive 301A, provided that the total annual cost for the Bank for the entire terms and conditions of service of the Outgoing Chairman did not exceed the above annual consideration.

It is clarified that the Outgoing Chairman of the Board of Directors was not entitled to a variable annual bonus.

D. Provision for Paid Leave

The "other liabilities" line item includes a provision in respect of unutilized paid leave, calculated based on the last salary plus related benefits. The Bank also provides for sick leave that will be converted to paid leave, calculated on an actuarial basis. As of December 31, 2023, these provisions amount to NIS 202 million (December 31 2022 – NIS 201 million).

E. Pension and Severance Pay for the Bank's Employees

The Bank pays contributions towards severance pay and pension for Generation A Employees into the Bank employees, provident fund towards severance pay and pension, which is administered by a management company held by fund's members. (hereinafter – the " Management Company")

Retirement and pension benefits are determined according to a classification of different employment periods at the Bank, and as outlined in Section B.1 above, Generation B Employees are entitled to ongoing pension and provident fund contributions, for which the Bank has no pension liability, except for supplementary severance pay. Generation A employees - on reaching retirement age, under certain circumstances - have the right to either receive severance pay and compensation from the Bank or a pension annuity, or a combination of the above, all in accordance with, and subject to, the provisions of the various agreements applicable to these employees. For these employees, the Bank deposits contributions in the employees' provident, pension and severance pay funds, which are managed by the management company. During 2019, the Bank entered into an agreement with additional institutional entities to transfer the severance pay and pension funds which accumulated or will be accumulated in the severance and pension funds of employees who have opted for or will opt for a pension to a paying fund. The Bank also entered into agreements to purchase insurance policies for the retirees, payable by the Bank.

Note 23 - Employee Benefits (cont.)

F. The Bank's Officer Compensation Policy

On August 4, 2022, the Bank's general meeting approved the revised compensation policy for the Bank's officers (hereinafter - the "Compensation Policy"). The Compensation Policy went into effect as of the beginning of 2023 and will be in force until the end of 2025. The Compensation Policy is based on the provisions of Amendment No. 20 to the Companies Law regarding the Bank's officers' service and employment terms and conditions, on Proper Conduct of Banking Business Directive 301A regarding compensation policy in a banking corporation and on the provisions of the Law for Compensation of Officers in Financial Corporations (Special Approval and Disallowing the Deduction of Exceptional Bonus for Tax Purposes), 2016 (hereinafter - the "Compensation Limitation Law").

The Compensation Policy sets out a framework for the compensation of the Bank's officers and refers, among other things, to fixed compensation components, which is the principal compensation paid to officers and includes: A fixed salary, social benefits, related benefits, as well as severance and retirement benefits, as well as variable compensation components which include any compensation which is not fixed in nature, such as a measurable annual performance bonus comprised of a bonus component based on the Bank's return on equity, based on the weighted earnings per share of the Bank compared to the return of the TA-Banks Index, a bonus component based on the Bank's weighted efficiency ratio, and additional components, to the extent that the Compensation Committee and Board of Directors will decide to determine additional components regarding officers other than the President and CEO; a qualitative personal mission bonus, based on the achievement of personal targets and qualitative criteria according to the relevant officer's areas of responsibility; and a retention bonus. It should be noted that Board members, including the Chairman of the Board, are not entitled to variable annual bonuses. The Bank's President and CEO is not entitled to an annual variable bonus, unless decided otherwise by the Bank's competent organs.

The total amount payable in variable bonuses to an officer is limited to 8 monthly salaries per year; (under special circumstances, the Compensation Committee and the Board of Directors may approve a further special bonus of no more than one monthly salary for any officer).

The Bank's Board of Directors may also reduce (due to special considerations) the amount of the variable annual bonus, after obtaining the approval of the Compensation Committee, at its discretion. Furthermore, the Compensation Policy prescribes, based on Directive 301A, a mechanism for repayment of variable bonuses, including repayment criteria and circumstances and a repayment period.

The Compensation Policy also sets out arrangements for deferral of payment of variable bonus to officers, whose payment is subject to the Bank's meeting the required capital adequacy ratios according to the directives of the Banking Supervision Department immediately before each vesting date (or the fixed vesting conditions in an equity compensation, to the extent that the deferred part of the variable bonus payments is given as an equity compensation).

The Compensation Policy includes various mechanisms and arrangements designed to allow the Compensation Committee and the Board of Directors to revise the Compensation Policy or service and employment terms and conditions of officers to whom the Compensation Policy applies, without being required to obtain the approval of the Bank's general meeting for every such revision. Such revisions will be made when, in the opinion of the Compensation Committee and the Bank's Board of Directors, they are justified under the circumstances on revision date.

Note 23 - Employee Benefits (cont.)

According to the Compensation Policy, the compensation of any of the officers at the Bank (other than the Chairman of the Board or President and CEO) which will exceed, according to a decision by the Compensation Committee and Board of Directors the ceiling set out in Section 2(a) of the Compensation Limitation Law, and in such a case, part of the salaries of these officers will not be tax deductible, subject to Section 32(17) of the Income Tax Ordinance. The compensation policy also includes a mechanism enabling an increase in the amount of compensation to which the Chairman of the Board and the President and CEO will be entitled automatically with an increase in the lowest compensation at the Bank, as stated in the Compensation Limitation Law (where to the extent that the revised compensation amount to the Chairman of the Board and/or to the President and CEO will exceed 5% due to the linkage to the rate of increase of the lowest compensation at the Bank, as stated in the Compensation Limitation Law, the revision will be brought for approval of the Compensation Committee and Board of Directors).

In addition, the compensation policy includes the option according to which, subject to approval by the Bank's competent organs and subject to the provisions of any law, the Bank's officers (including directors) may be entitled to equity compensation in the form of options, shares or share-based instruments.

G. Compensation Policy for Key Employees

A revised compensation policy for "key employees" at the Bank who are not officers was approved by the Compensation Committee and the Board of Directors in January 2023 and will be in effect until the end of 2025. The policy sets out a compensation framework for key employees, including, inter alia, the salary component, related benefits, the annual bonus component and retirement terms and conditions. This policy was formed bearing in mind the principles of the Compensation Policy for the Bank's officers, with the required adjustments and according to the Compensation Limitation Law and the provisions of Proper Conduct of Banking Business Directive No. 301A.

H. Compensation Policy for All Employees

The Revised Compensation Policy for all employees (who are not key employees) was approved by the Compensation Committee and the Board of Directors in January, 2023 and is based on the provisions of Proper Conduct of Banking Business Directive No. 301A.

The Compensation Policy for all such Bank employees is designed to serve as a tool to promote the achievement of the Bank's business targets, including facilitating the recruitment and retention of high-quality employees, motivating them to improve performance and achieve the Bank's business objectives and targets while staying within the Bank's risk appetite.

The Compensation Policy deals, inter alia, with salary, related benefits, social benefits and bonuses, retirement terms and conditions and other compensation components payable to all employees.

I. Issuance of the option warrants

For details regarding the issuance of option warrants not listed for trading to employees of the Bank and/or of the subsidiaries of the Bank, please see Note 24.A.

J. Expected legislative change in the tax rate subsequent to the balance sheet date

On February 28, 2024, the Value Added Tax Ordinance (Tax Rate on Transaction and Imports of Goods) (Amendment), 2024 was published, according to which the VAT rate will be raised to 18 percent as from January 1, 2025. Accordingly, on March 11, 2024, the Knesset approved the Value Added Tax Ordinance (Tax Rate on NPOs and Financial Institutions) (Amendment), 2024, according to which the salary tax and profit tax will be revised in accordance with the increase in VAT as from 2025.

In view of the increase in profit tax and salary tax rates, the Bank will recognize an increase in the balance of actuarial liabilities as of December 31, 2023, by approx. NIS 76 million, an increase which will be stated against other comprehensive income.

Note 23 - Employee Benefits (cont.)

K. Composition of Benefits

1. Employee benefits

	As at December 31		
	2023	2022	2021
	In NIS million		
Retirement benefits - pension and severance pay			
Liability amount	**17,210**	17,214	21,261
Fair value of plan assets	**9,018**	8,816	9,803
Excess liability over plan assets	**8,192**	8,398	11,458
Accrued jubilee vacation leave			
Liability amount	**18**	19	30
Excess liability over plan assets (included in “Other liabilities”)	**18**	19	30
Other benefits			
Liability amount	**505**	513	637
Excess liability over plan assets	**505**	513	637
Total			
Amount by which the liability for employee benefits exceeds the plan assets included in “Other liabilities”[1]	**8,733**	8,946	12,150
[1]Of which: for employee benefits abroad	**10**	-	28
Excess assets for employee benefits in respect of liabilities included in the Other assets line item[2]	**18**	16	25
[2]Of which: for benefits to employees abroad	**-**	2	12

2. Defined benefit plan

a. Obligation and funding status

1. Change in the Obligation for expected benefit

	For the year ended December 31		
	2023	2022	2021
	In NIS million		
Obligation for expected benefit as at the beginning of the year	**17,214**	21,261	20,491
Service cost	**124**	142	189
Interest cost	**858**	717	572
Contributions by plan participants	**23**	27	32
Actuarial loss (gain)	**(209)**	(3,449)	829
Changes in foreign exchange rates	**10**	4	(12)
Paid benefits	**(971)**	(1,401)	(840)
Downsizing, discharges, special and contractual benefits for severance	**161**	-	-
Other	**-**	69	-
Less balances of the subsidiary in the United States that was sold[(a)]	**-**	(156)	-
Obligation for expected benefit as at the end of the year	**17,210**	17,214	21,261
Obligation for cumulative benefit as at the end of the year	**16,235**	16,594	19,617

(a) As of April 1, 2022, Bank Leumi USA is not consolidated in the Bank’s consolidated financial statements due to the merger transaction with Valley. As of March 31, 2022, the above balances were classified as held-for-sale. For more information, please see Note 15.A to the financial statements as at December 31, 2022.

Note 23 - Employee Benefits (cont.)

K. Composition of Benefits (cont.)

2. Defined benefit plan (cont.)

a. Obligation and funding status (cont.)

2. Change in the fair value of plan assets and plan's funding status

	For the year ended December 31		
	2023	2022	2021
	In NIS million		
Fair value of plan assets as at the beginning of the year	**8,816**	9,803	8,945
Actual return on plan assets[(a)]	**339**	(293)	1,150
Plan contributions by the banking corporation	**365**	248	201
Contributions by plan participants	**23**	27	32
Changes in foreign exchange rates	**8**	1	(23)
Paid benefits	**(533)**	(869)	(502)
Other	**-**	69	-
Less balances of the subsidiary in the United States that was sold[(b)]	**-**	(170)	-
Fair value of plan assets as at the end of the year	**9,018**	8,816	9,803
Funding status - Net liability recognized at the end of the year	**8,192**	8,398	11,458

(a) Including the effect of the transition to a paying fund in respect of the retirees. See Section E of this note.
(b) As of April 1, 2022, Bank Leumi USA is not consolidated in the Bank's consolidated financial statements due to the merger transaction with Valley. As of March 31, 2022, the above balances were classified as held-for-sale. For more information, please see Note 15.A to the financial statements as at December 31, 2022.

3. Amounts recognized in the consolidated balance sheet

	As at December 31		
	2023	2022	2021
	In NIS million		
Amounts recognized in the "Other assets" line item	**-**	2	12
Amounts recognized in the "Other liabilities" line item	**8,192**	8,400	11,470
Net liability recognized at the end of the year	**8,192**	8,398	11,458

4. Amounts recognized in accumulated other comprehensive income before the tax effect

	As at December 31		
	2023	2022	2021
	In NIS million		
Net actuarial loss	**1,737**	2,109	5,168
Closing balance of accumulated other comprehensive income	**1,737**	2,109	5,168

Note 23 - Employee Benefits (cont.)

K. Composition of Benefits (cont.)

2. Defined benefit plan (cont.)

b. Expenditure for the period

1. Components of the benefit cost included in profit and loss

	2023	2022	2021
	In NIS million		
Service cost	**124**	142	189
Interest cost	**858**	717	572
Expected return on plan assets	**(487)**	(402)	(414)
Amortization of unrealized amounts - net actuarial loss	**311**	265	489
Other, including loss (gain) from downsizing or discharge	**161**	-	-
Total benefit cost, net	**967**	722	836
Total expense for defined contribution pension plan	**214**	199	185
Total expenses included in profit and loss	**1,181**	921	1,021

2. Changes in plan assets and obligation for benefit recognized in other comprehensive income before tax effect

	For the year ended December 31		
	2023	2022	2021
	In NIS million		
Net actuarial loss (gain) for the year	**(61)**	(2,754)	93
Amortization of unrealized amounts - net actuarial loss	**(311)**	(265)	(489)
Changes in foreign exchange rates	**-**	6	-
Less balances of the subsidiary in the United States that was sold[(a)]	**-**	(46)	-
Total recognized in other comprehensive income	**(372)**	(3,059)	(396)
Total benefit cost, net	**967**	722	836
Total recognized in net benefit cost for the period and in other comprehensive income	**595**	(2,337)	440

(a) As of April 1, 2022, Bank Leumi USA is not consolidated in the Bank's consolidated financial statements due to the merger transaction with Valley. As of March 31, 2022, the above balances were classified as held-for-sale. For more information, please see Note 15.A to the financial statements as at December 31, 2022.

Note 23 - Employee Benefits (cont.)

K. Composition of Benefits (cont.)

3. Assumptions[a]

a. The assumptions, based on the weighted average, used for calculating the benefit obligation and for measuring the benefit's net cost for the years ended December 31.

1. The main assumptions used to measure the benefit obligation

	December 31		
	2023	2022	2021
	In %		
Discount rate	**2.39**	2.06	0.55
Rate of increase in the CPI	**3.13**	2.67	2.59
Departure rate[b]	**0-38.8**	0-36.4	0.1-7
Rate of compensation increase	**0-6.41**	0-6.81	0-6.3

2. The main assumptions used for calculating the net benefit cost for the period

	For the year ended December 31		
	2023	2022	2021
	In %		
Discount rate	**2.17**	1.45	0.92
Expected return on long-term plan assets	**5.63**	4.50	4.50
Rate of compensation increase	**0-6.41**	0-6.81	0-6.3

b. The effect of a one percentage point change on the expected benefit obligation before tax effect

	Increase by one percentage point			Decrease by one percentage point		
	As at December 31			As at December 31		
	2023	2022	2021	**2023**	2022	2021
	In NIS million					
Discount rate	**(2,056)**	(2,126)	(2,829)	**2,500**	2,609	3,507
Rate of increase in the CPI	**(356)**	(346)	(592)	**406**	387	665
Departure rate	**204**	192	256	**(232)**	(215)	(283)
Rate of compensation increase[c]	**397**	378	650	**(355)**	(339)	(580)

(a) The assumptions are based solely on the Bank's data.
(b) For employees who started working at the Bank before January 1 1999 and were awarded permanent employee status as of the date of signing the special collective bargaining agreement in 2000.
(c) The change is the same for each employee.

The employee benefits liability amount is affected by several key variables, which include market variables (discount rates of the liabilities for various periods) and actuarial variables, with some of the actuarial variables being associated with employee behavior. There may be a correlation between changes in market variables and changes in the behavioral actuarial variables.

Note 23 - Employee Benefits (cont.)

K. Composition of Benefits (cont.)

4. Plan assets

a. Composition of the fair value of plan assets

	As at December 31, 2023			
	Level 1	Level 2	Level 3	Total
	In NIS million			
Cash and deposits with banks	191	23	-	214
Shares	971	-	20	991
Government bonds	144	117	-	261
Corporate bonds	373	41	-	414
Other[(a)]	52	68	7,018	7,138
Total	1,731	249	7,038	9,018

	As at December 31, 2022			
	Level 1	Level 2	Level 3	Total
	In NIS million			
Cash and deposits with banks	103	33	-	136
Shares	1,019	-	76	1,095
Government bonds	213	121	-	334
Corporate bonds	540	39	-	579
Other[(a)]	8	64	6,600	6,672
Total	1,883	257	6,676	8,816

(a) Including deposits in a paying provident fund and insurance policies purchased for retired employees. See Section E of this note.

b. Fair value of plan assets by type of asset and allocation target for 2024

	Allocation target	Percentage of plan assets	
	As at December 31		
	2024	2023	2022
	In %		
Cash and deposits with banks	-	2	2
Shares	13	11	12
Government bonds	1	3	4
Corporate bonds	6	5	7
Other	80	79	75
Total	100	100	100

Note 23 - Employee Benefits (cont.)

K. Composition of Benefits (cont.)

4. Plan assets (cont.)

c. Changes in the fair value of plan assets whose value is measured based on significant unobservable inputs (Level 3)

	For the year ended December 31, 2023					
		Actual return on plan assets				
	Opening balance	Realized gains/ (losses)	Unrealized gains/ (losses)	Purchases/ sales and discharges, net	Transfers into/ from Level 3	Closing balance
	In NIS million					
Shares	76	-	(53)	(3)	-	20
Other	6,600	-	156	45	217	7,018
Total	6,676	-	103	42	217	7,038

	For the year ended December 31, 2022					
		Actual return on plan assets				
	Opening balance	Realized gains/ (losses)	Unrealized gains/ (losses)	Purchases/ sales and discharges, net	Transfers into/ from Level 3	Closing balance
	In NIS million					
Shares	104	2	(36)	6	-	76
Other	6,198	(1)	(47)	21	429	6,600
Total	6,302	1	(83)	27	429	6,676

5. Cash flows

a. Contributions

		Actual contributions		
	Forecast[(a)]	For the year ended December 31		
	2024	2023	2022	2021
	In NIS million			
Contributions	476	388	275	233

(a) The estimated contributions the Bank is expected to contribute to the defined benefit plan during 2024.

b. Benefits the Bank expects to pay in the future[(a)]

Year	In NIS million
2024	766
2025	730
2026	749
2027	794
2028	826
2029-2033	4,805
2034 and onwards	13,762
Total	22,432

(a) In discounted values.

Note 24 – Stock-based Compensation Transactions

A. Overview

On August 16, 2022, the Bank published an outline for a securities offering to officers and employees of the Bank group totaling up to 5,000,000 option warrants, of which 2,460,399 option warrants were allocated in 2022 to employees and officers (other than directors or the President and CEO).

For more information, please see Note 24.A. to the financial statements as at December 31, 2022.

On March 30, 2023, 239,502 additional option warrants, that are not listed for trading on the Tel Aviv Stock Exchange Ltd., were allocated to 13 employees of the Bank, of which three are senior officers at the Bank (other than directors or the President and CEO), including options out of the said amount, which shall be allocated and shall expire or for which the right of the offeree shall be revoked and shall not be exercised into shares and shall be returned to the option pool, all as detailed in the Outline.

At the vesting date of the option warrants, offerees shall be entitled to exercisable shares in an amount to be determined according to the benefit value component only. For this purpose, the "benefit value component" is the difference between the closing price of an ordinary share of the Bank on the TASE on exercise date and the exercise price. The option warrants shall vest in three equal annual tranches (each tranche shall be $33^1/_3$ percent of the amount of option warrants allocated to each offeree) as of the allocation date, as follows:

The first tranche shall vest after one year will have elapsed from the allocation date and shall expire 24 months later. It is clarified that the exercise of the first tranche is also subject to a lockup period and to the provisions of Section 102. The second tranche shall vest after two years will have elapsed from the allocation date and shall expire 24 months later. The third tranche shall vest after three years will have elapsed from the allocation date and shall expire 24 months later.

After the exercise of each tranche period ends, the option warrants for that tranche shall expire (if they have not expired or have not been exercised prior to that in accordance with the provisions of the option plan) and the option warrants shall not be exercisable as from that date.

The option warrants are offered to the offerees free of charge, as part of their employment terms and conditions with the Bank. The exercise price of the option warrants effectively allocated is NIS 29.53 per share, according to the average closing price in NIS of the Bank's stock in the thirty trading days that preceded the Board of Directors' approval for the option warrants' allocation.

In respect of the issuance of the abovementioned option warrants, the Bank shall record payroll expenses according to the fair value of the option warrants. This expense shall be recorded in the Bank's financial statements over the options' vesting period.

The fair value estimate of the option warrants as of their vesting date is approx. NIS 1.5 million. The fair value estimate of the option warrants was performed by an external appraiser and is based on the binomial model for option pricing in accordance with the assumptions as included in the outline.

The Bank received approval from the Israel Tax Authority to designate the plan as a "plan to allocate options through a trustee", under Section 102 of the Income Tax Ordinance, using the capital gains taxation track.

On June 28, 2023, the Bank's Board of Directors approved the allocation of 117,585 additional option warrants, which are not listed for trading on the Tel Aviv Stock Exchange Ltd., to nine employees of the Bank (other than directors or the President and CEO), including options out of the said amount, which shall be allocated and shall expire or for which the right of the offeree shall be revoked and shall not be exercised into shares and shall be returned to the option pool, all as detailed in the Outline.

At the vesting date of the option warrants, offerees shall be entitled to exercisable shares in an amount to be determined according to the benefit value component only. For this purpose, the "benefit value component" is the difference between the closing price of an ordinary share of the Bank on the TASE on exercise date and the exercise price. The option warrants shall vest in three equal annual tranches (each tranche shall be $33^1/_3$ percent of the amount of option warrants allocated to each offeree) as of the allocation date, as follows:

Note 24 – Stock-based Compensation Transactions (cont.)

The first tranche shall vest after one year will have elapsed from the allocation date and shall expire 24 months later. It is clarified that the exercise of the first tranche is also subject to a lockup period and to the provisions of Section 102. The second tranche shall vest after two years will have elapsed from the allocation date and shall expire 24 months later. The third tranche shall vest after three years will have elapsed from the allocation date and shall expire 24 months later.

After the exercise of each tranche period ends, the option warrants for that tranche shall expire (if they have not expired or have not been exercised prior to that in accordance with the provisions of the option plan) and the option warrants shall not be exercisable as from that date.

The option warrants are offered to the offerees free of charge, as part of their employment terms and conditions with the Bank. The exercise price of the option warrants effectively allocated is NIS 27.59 per share, according to the average closing price in NIS of the Bank's stock in the thirty trading days that preceded the Board of Directors' approval for the option warrants' allocation.

In respect of the issuance of the abovementioned option warrants, the Bank shall record payroll expenses according to the fair value of the option warrants. This expense shall be recorded in the Bank's financial statements over the options' vesting period.

The fair value estimate of the option warrants as of their vesting date is approx. NIS 0.7 million. The fair value estimate of the option warrants was performed by an external appraiser and is based on the binomial model for option pricing in accordance with the assumptions as included in the outline.

The Bank received approval from the Israel Tax Authority to designate the plan as a "plan to allocate options through a trustee", under Section 102 of the Income Tax Ordinance, using the capital gains taxation track.

On June 28, 2023, the Bank's Board of Directors approved the allocation of 1,135,570 option warrants to the Bank's President & CEO and to 12 officers of the Bank who are members of the Bank's management and one employee of a subsidiary of the Bank according to an outline published by the Bank on August 16, 2022. Of all said option warrants, the President and CEO is entitled to 145,794 option warrants, the allocation of which was approved on August 10, 2023 by the Bank's general meeting.

The option warrants are exercisable for up to 1,135,570 of the Bank's ordinary shares of NIS 1 p.v. each.

The exercise price of the option warrants will be NIS 27.59 per share. The exercise price is not CPI-linked. The exercise price was determined according to the average closing price of the Bank's stock in the thirty trading days preceding the date of the Board of Directors' resolution.

The option warrants will not be listed for trading on the TASE. The exercise shares that will be issued due to the exercise of the option warrants will be listed for trading on the TASE.

Even if the tenure at the Bank of any of the offerees ends, the option warrants will be in effect until the end of the exercise period.

The shares resulting from the exercise of the option warrants will have equal rights to the ordinary shares for all intents and purposes.

Outline for granting fixed equity compensation to the Bank's directors other than the Chairman of the Board

On August 10, 2023, following the approval of Compensation Committee and the Bank's Board of Directors, the Bank's general meeting approved an outline for granting fixed equity compensation to the Bank's directors (other than the Chairman of the Board) who will serve from time to time as the Bank's directors (hereinafter - the "Offeree Directors"). According to the outline, the equity compensation will be fixed and the Offeree Directors will be allocated, on pre-determined dates, restricted shares of the Bank of NIS 1 p.v. each, in an amount that reflects a fixed-amount value (i.e. not by way of a fixed number of shares, hereinafter - the "fixed equity compensation").

Note 24 – Stock-based Compensation Transactions (cont.)

The Offeree Directors' eligibility for the fixed equity compensation will not be contingent, including not contingent upon performance or on the continued tenure of the relevant Offeree Director in the Bank subsequent to the grant date of the equity compensation. It is clarified that the fixed equity compensation will be granted only to directors who will serve on the Bank's Board of Directors on each of the grant dates.

According to the Companies Regulations, the first granting of an equity compensation to the Offeree Directors may be carried out only immediately after the next date on which a new external director will be appointed to serve on the Bank's Board of Directors in accordance with Section 239 of the Companies Law (hereinafter - "ED"), or upon the renewed tenure of one of the serving EDs.

The value of the fixed equity compensation to be granted to each of the Offeree Directors will be the same, and will be granted quarterly and divided into four equal tranches per year (or once per calendar year), at a value of NIS 25,000 each (linked to the increase in the Consumer Price Index, hereinafter - the "grant dates"). The number of shares that will be granted to the Offeree Directors on each grant date will be determined according to the average closing price of the Bank's share on the 30 trading days preceding each grant date.

The fixed equity compensation will be granted to the Offeree Directors in an equity track (in accordance with Section 102 of the Income Tax Ordinance [New Version], 1961, hereinafter - the "Income Tax Ordinance"), and therefore may be subject to a tax restriction period of two years during which the restricted shares will be deposited with a trustee who will be appointed by the Bank and/or the granting of the fixed equity compensation to an Offeree Director in accordance with Section 3(i) to the Income Tax Ordinance, under a profit-based taxation track, all in accordance with the tax laws applicable at the time of the grant and the exercise.

Note 24 – Stock-based Compensation Transactions (cont.)

B. Details Regarding Equity-Settled Stock-based Compensation Transactions

	For the year ended December 31	
	2023	2022
Change in options for shares:	No. of units	
Outstanding at beginning of year	**2,460,399**	-
Awarded during the year	**1,492,657**	2,460,399
Forfeited during the year	**391,907**	-
Outstanding as at year-end	**3,561,149**	2,460,399

C. Details regarding the consideration cost of share-based compensation

	For the year ended December 31	
	2023	2022
	In NIS million	
Amounts carried to profit and loss before tax	**7**	3
Tax effect	**-**	-
Amounts carried to profit and loss after tax	**7**	3

Note 25A - Equity

A. Share Capital

	December 31, 2023		December 31, 2022	
	Authorized	Issued and paid up[(a)]	Authorized	Issued and paid up[(a)]
	NIS			
Ordinary shares of NIS 1.0 each	3,215,000,000	**1,615,629,355**	**3,215,000,000**	1,615,629,355

(a) All the issued shares were registered shares which have been (or will be) issued have been (or will be) converted to ordinary shares transferrable in NIS 1.0 units. The rights attached to the Bank's shares are prescribed by the Bank's Articles of Association.

On August 10, 2023, the Bank's general meeting approved an outline for an equity compensation to the Bank's directors (other than the Chairman of the Board) who will serve from time to time as the Bank's directors (hereinafter - the "**Offeree Directors**"). According to the outline, the equity compensation will be fixed and the Offeree Directors will be allocated, on pre-determined dates, restricted shares of the Bank of NIS 1 p.v. each, in an amount that reflects a fixed-amount value (i.e. not by way of a fixed number of shares), with the same applying to each of the Offeree Directors, and will be granted quarterly and divided into four equal tranches per year,[1] at a value of NIS 25,000 each (linked to the increase in the known Consumer Price Index as of the shareholders' meeting summons date) (hereinafter - the "**grant dates**"). All grants will be made subject to legal requirements as they may be on the relevant grant date and subject to the Bank's publication of a private offering report in accordance with the Securities Regulations (Private Offering of Securities in a Listed Company), 2000 and receipt of approval from the Tel Aviv Stock Exchange (hereinafter - the "**TASE**") for the listing of the shares to be granted for trading on each grant date and subject to the provisions of the TASE Rules and Regulations, according to the version in effect on each grant date.

According to the Companies Regulations (Rules regarding Compensation and Expenses to an External Director), 2000, the first granting of an equity compensation to the Offeree Directors may be carried out only immediately after the next date on which a new external director will be appointed to serve on the Bank's Board of Directors in accordance with Section 239 of the Companies Law (hereinafter - "ED"), or upon the renewed tenure of one of the serving EDs.[2]

Allocation of option warrants

For details regarding the expiration and issuance of option warrants not listed for trading to employees and officers of the Bank, including the Bank's President and CEO, please see Note 24.A.

The ordinary shares are listed on the Tel Aviv Stock Exchange.

Subordinated notes

NIS 209,100,000 par value in (Series 402) Subordinated Notes were issued by the Bank on July 8, 2018, convertible under certain circumstances to up to 20,906,823 ordinary shares of the Bank, respectively, as at December 31, 2023; NIS 664,150,000 par value in Subordinated Notes (Series 403) were issued by the Bank on January 31, 2019, and an additional NIS 777,000,000 p.v. in Subordinated Notes (Series 403) were issued by the Bank on March 13, 2019 by way of series expansion. These Subordinated Bonds are convertible, under special circumstances, to up to 133,533,750 ordinary shares of the Bank, as at December 31, 2023.

NIS 1,240,950,000 par value in Subordinated Notes (Series 404) were issued by the Bank on July 15, 2019. These Subordinated Notes are convertible, under special circumstances, to up to 105,262,612 ordinary shares of the Bank, as at December 31, 2023.

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1 Or an amount of NIS 100,000 (linked to the rise in the consumer price index known at the date of summons of the shareholders' meeting) once every calendar year.

2 The next appointment and/or tenure renewal of an ED in the Bank's Board of Directors is expected to be approved at the Bank's annual general meeting for 2024.

Note 25A - Equity (cont.)

USD 750,000,000 par value in Subordinated Notes (Series Leumi $ 2031) were issued by the Bank on January 29, 2020, convertible under certain circumstances to up to 208,055,925 ordinary shares of the Bank, as of December 31, 2023.

NIS 631,950,000 par value in Subordinated Notes (Series 405) were issued by the Bank on March 27, 2022, and an additional NIS 771,950,000 p.v. in Subordinated Notes (Series 405) were issued by the Bank on September 12, 2022 by way of series expansion. These Subordinated Notes are convertible, under special circumstances, to up to 84,824,854 ordinary shares of the Bank, as at December 31, 2023.

USD 500,000,000 par value in Subordinated Notes (Series Leumi $ 2033) were issued by the Bank on January 18, 2023, convertible under certain circumstances to up to 118,750,000 ordinary shares of the Bank as of December 31, 2023.

B. The Bank's share buyback plan

On May 22, 2023, the Bank's Board of Directors approved a share buyback plan for a total of up to NIS 800 million, according to the safe harbor mechanism published by the Israel Securities Authority (Legal Position No. 199-8) for execution in three phases, as from May 24, 2023 until the earlier of May 15, 2024 or until the total buyback amount has been reached.

Approval by the Banking Supervision Department for the buyback plan, as required according to Proper Conduct of Banking Business Directive No. 332, was received on May 17, 2023, subject to compliance with restrictions and capital targets, including the condition that the plan be immediately terminated if, during the period of the plan, it appears that, according to the most recent financial statements published, the Bank is not in compliance with the Common Equity Tier 1 capital ratio of at least 10.9 percent.

In 2023, Phases A and B of the plan were carried out. The implementation of Stage A began on May 24, 2023 and ended on August 1, 2023, during which time the Bank purchased (through the independent Stock Exchange member) 10,740,308 shares totaling approx. NIS 300 million. The implementation of Stage B began on August 16, 2023 and ended on October 18, 2023, during which time the Bank purchased (through the independent Stock Exchange member) 10,208,701 shares totaling approx. NIS 300 million.

On November 12, 2023 and on March 5, 2024, the Banking Supervision Department issued letters on the subject of capital planning and profit distribution policies in which it requested that the banks reexamine the policies regarding the distribution of dividends and share buybacks in the coming period in view of the Iron Swords War and the increased uncertainty regarding its continuation and impact on the economy.

Subsequently, it is noted that a decision was made not to implement the third and last part of the buyback plan..

Total number of shares purchased under the said plan was 20,949,009 for which NIS 600 million were paid.

As of the reporting date, the Bank owns 92,773,267 treasury shares.

C. Circular on Adjustments to Proper Conduct of Banking Business Directive, Dealing with the Coronavirus Crisis (Temporary Order) - Proper Conduct of Banking Business Directive No. 250

In accordance with the circular published by the Banking Supervision Department on February 7, 2024, the temporary order was revoked.

In addition to the Common Equity Tier 1 capital is a capital requirement of 1 percent of the outstanding housing loans, for the purpose of financing rights in land, excluding housing loans for which a relief was granted during the temporary order for dealing with the coronavirus crisis for the period ended September 30, 2021. As at December 31, 2023, the additional capital requirement for housing loans is 0.22 percent in terms of CET1.

Accordingly, the minimum capital requirements applicable to the Bank as of December 31, 2023 are 10.22 percent for Common Equity Tier 1 capital ratio (including capital requirement for outstanding housing loans) and 13.50 percent for total capital ratio.

Note 25A - Equity (cont.)

As for the leverage ratio, according to Proper Conduct of Banking Business Directive No. 218, “Leverage Ratio”, the relief in the requirement for a minimum leverage ratio of 5.5 percent (instead of 6 percent) is in effect until December 31, 2025. A corporation which will utilize the easement until that date will be required to once again meet the required leverage ratio that was in place prior to the relief in two quarters’ time, by June 30, 2026. It was also determined that taking advantage of the easement shall not prevent the distribution of dividends, subject to an total capital planning aimed at reverting to the required leverage ratio.

D. Dividend Distribution Policy

On March 6, 2019, the Bank's Board of Directors approved a dividend distribution policy, under which the Bank will distribute, each quarter, a dividend of up to 50 percent of the Bank's net income in accordance with the Bank’s financial statements for the previous quarter, and subject to, inter alia, the Bank's meeting its capital adequacy targets, even after the dividend distribution. The actual dividend distribution is subject to the specific resolutions being passed by the Board of Directors prior to each distribution, and to the provisions of the law which apply to dividend distribution, including the provisions of the Companies Law and directives of the Bank of Israel.

Following on the letter published by the Banking Supervision Department on November 12, 2023, regarding capital planning and profit distribution, as outlined above, on March 18, 2024, the Board of Directors approved a dividend distribution in the amount of approx. NIS 365 million, which constitutes approx. 20 percent of the net income for the fourth quarter of 2023. The dividend approved amounted is approx. 23.97 agorot p.v. per share of NIS 1 par value. The final dividend amount per share is subject to changes due to exercise of the Bank’s convertible securities. The Board of Directors designated March 27, 2024 as the record date for purposes of dividend payment and April 11, 2024 as the payment date.

Details of paid dividend

Declaration date	Payment date	Dividend per share	Paid cash dividend
		In agorot	In NIS million
March 9, 2022	April 6, 2022	40.48	588
May 24, 2022	June 15, 2022	22.14	322
August 16, 2022	September 6, 2022	25.82	399
November 29, 2022	December 19, 2022	23.08	356
March 14, 2023	April 4, 2023	45.20	698
May 23, 2023	June 15, 2023	19.10	294
August 15, 2023	September 7, 2023	48.05	736
November 29, 2023	December 17, 2023	23.21	353

E. Shelf Prospectus, Bond Issue and Commercial Securities

On May 27, 2021, the Bank published a shelf prospectus in accordance with a permit granted by the Israel Securities Authority. On May 18, 2023, the Israel Securities Authority approved the application to extend the issuance period under the Bank's shelf prospectus to May 26, 2024.

On January 18, 2023, the Bank issued a total of USD 500 million p.v. in “green” Subordinated Notes (Series Leumi $ 2033). The series was listed for trading on the TACT Institutional on the Tel Aviv Stock Exchange.

The Subordinated Notes (Series Leumi $ 2033) are repayable in one payment, after ten years and six months from their issuance date, where the Bank has the option of early redemption in the period from 5 years and three months to 5 years and six months from the issuance date, subject to certain conditions.

The Subordinated Notes (Series Leumi $ 2033) bear fixed annual interest at a rate of 7.129 percent per year, which will be paid in semi-annual payments. Until July 18, 2028. On that date, if early redemption has not been made, the interest rate will be updated in accordance with the government yield in the United States on the same date plus the spread agreed in the issuance, as detailed in the issuance documents.

Note 25A - Equity (cont.)

If circumstances of a trigger event (a point of non-viability or trigger event for absorption of the principal loss amount, the earlier of the two) were to occur, the Subordinated Notes (Series Leumi $ 2033) will be converted into shares according to the average closing prices of the Bank's shares on the Tel Aviv Stock Exchange in the 14 consecutive trading days preceding the date on which the conversion notice was issued (translated into USD according to the rate on that date), or according to the set minimum rate (USD 4.21053, subject to adjustments), the highest of the two.

The Subordinated Notes (Series Leumi $ 2033) are eligible for inclusion in Tier 2 capital from the dates of their issuance.

On May 30, 2023, the Bank issued a total of approx. NIS 1.492 billion p.v. in bonds by way of an expansion of Series 183 Bonds for a consideration of approx. NIS 1.419 billion, as well as approx. NIS 2.428 billion p.v. in commercial securities (CS Series 4).

The principal of the Commercial Securities and interest in respect thereof shall be payable in one lump sum on May 28, 2024; it is not linked to the Consumer Price Index, and carries a spread of 0.19 percent over the Bank of Israel's interest rate.

On August 7, 2023, the Bank issued approx. NIS 0.5 billion par value in Credit Linked Notes (Series 1).

The series was listed for trading on the TACT Institutional on the Tel Aviv Stock Exchange.

A credit-linked note is a financial instrument that is associated with a number of loans given by the Bank and bears the credit risk of these loans.

The Bank undertakes to repay the note amount (including interest in accordance with the terms and conditions of the note), with the Bank's undertaking conditioned upon non-materialization of the credit risk embodied in such loans, according to the note. The payment by the Bank to the note holder will be reduced accordingly if any of the loans to which it is linked shall be defaulted upon, or if the borrower defaults or is under bankruptcy, and the repayment to the note holder shall only be made against amounts the Bank has been able to collect in their respect, all according to the terms and conditions of the note.

The proceeds of the issuance are recognized as a qualifying financial collateral in accordance with Proper Conduct of Banking Business Directive No. 203, as well as collateral deductible in calculating indebtedness of a customer under Proper Conduct of Banking Business Directive No. 313.

The Notes' principal will be payable in one payment on December 24, 2026, as long as the Bank does not carry out early redemption, as detailed in the terms of the issuance. The unpaid balance of the Note's principal will bear annual interest at the Bank of Israel interest rate plus 2.3 percent, which will be paid in 40 monthly installments, from September 24, 2023 to December 24, 2026, the final repayment date of the Note's principal. The Notes (principal and interest) will not be linked to any linkage basis.

On December 21, 2023, the Bank issued a total of approx. NIS 1.228 billion p.v. in Series 185 Bonds, a total of approx. NIS 2.123 P.V. in Bonds (Series 186) as well as approx. NIS 1.369 billion p.v. in commercial securities (CS Series 5).

The principal of Series 185 Bonds is repayable in ten equal semiannual payments, from February 28, 2025 to August 31, 2029. The bonds are linked to the Consumer Price Index and bear an annual interest rate of 1.86 percent.

The principal of Series 186 Bonds is repayable in sixteen equal semiannual payments, from May 31, 2026 to November 30, 2033. The bonds are linked to the Consumer Price Index and bear an annual interest rate of 2.02 percent.

The principal of the Series 5 Commercial Securities and interest in respect thereof shall be payable in one lump sum on December 21, 2024; it is not linked, and carries interest at a rate of 0.10 percent over the Bank of Israel's interest rate.

Note 25A - Equity (cont.)

The Bonds (Series 183, 185, 186 and Leumi Bonds 1) and Commercial Securities (Series 4 and 5) are not recognized for regulatory capital purposes.

F. Early redemption of subordinated notes

On July 5, 2023, the Bank's Board of Directors decided to exercise full early redemption of Subordinated Notes (Series 401), which were issued to the public in July 2018. Accordingly, on July 31, 2023, subordinated notes totaling approx. NIS 681 million were redeemed (including linkage differences).

Note 25B - Capital Adequacy, Leverage and Liquidity

Overview

In May 2013, the Banking Supervision Department amended Proper Conduct of Banking Business Directives Nos. 201-211 on capital measurement and adequacy, in order to adapt them to the Basel III rules.

It should be noted that Basel III rules introduce significant changes in the calculation of regulatory capital requirements, inter alia, in relation to the following:

- Regulatory capital components.
- Capital deductions and regulatory capital adjustments.
- Treatment of exposures to financial corporations.
- Treatment of exposures to credit risk for impaired debts.
- Capital allocation for CVA risk.

Volatile Capital Components

The employee benefits standard, which was first applied in January 2015, has had a material effect on Leumi's CET1 capital, mainly due to the fact that the liability was measured in accordance with market interest rates, which caused substantial volatility in the Bank's regulatory capital measurement. In this context, on July 12, 2016, the Bank received individual approval from the Bank of Israel regarding the method of calculating the discount rate to be used for calculating the liability for employee benefits for the purpose of measuring regulatory capital. Pursuant to the approval, the calculation of the discount rate is based on a moving average of market yields for the eight-quarter period ended on the reporting date. The change is to be implemented from the financial statements for the period ended June 30, 2016.

On September 5, 2022, the Bank's Board of Directors approved, after obtaining the approval of the Banking Supervision Department, to change the manner in which pension liabilities are measured for regulatory capital purposes. According to the new measurement method, each quarter, the Bank will calculate the change in the pension liabilities resulting from changes in the discount interest rate, net of the change in the value of assets pre-designated to hedge these liabilities. The change in the net pension liabilities, after tax, will be spread in a linear fashion, over four quarters, as of the quarter for which the calculation had been made. The new method will be implemented starting on July 1, 2022 and will be in effect until the earlier of the two: a) The financial statements as at December 31, 2029 (inclusive) or b) The reporting date on which the average pension liabilities across the last four quarters will be lower than NIS 10 billion, linked to the CPI (from the known CPI as of July 1, 2022 to the known CPI on the relevant reporting date). At the same time, the Banking Supervision Department revoked its approval to measure the pension liabilities for regulatory capital purposes according to a moving average of market yields for a period of eight quarters ended on the relevant reporting date, which was in effect as of the financial statements as at June 30, 2016.

On November 15, 2016, the Bank's Board of Directors decided, based on the recommendation of the Audit Committee, to calculate the liabilities for employee pensions according to a fixed spread of AA-rated bonds.

Following is an analysis of the effects of the changes on Common Equity Tier 1 capital as at December 31, 2023:

- Change in the volume of risk-weighted assets – risk-weighted assets amounted to approx. NIS 462.2 billion as at December 31, 2023. Every NIS 1 billion increase in risk-weighted assets will reduce the Common Equity Tier 1 capital ratio and total capital ratio by approx. 0.03 percent.
- Change in CET1 - as of December 31, 2023, CET1 totals approx. NIS 53.9 billion. A decrease of NIS 100 million in the Common Equity Tier 1 capital will reduce the CET1 capital ratio by approx. 0.02 percent.

Note 25B - Capital Adequacy, Leverage and Liquidity (cont.)

	December 31	
	2023	2022
	In NIS million	
a. Data		
Capital for capital ratio calculation purposes		
CET1 capital, after regulatory capital deductions and adjustments[b][c][e]	**53,892**	48,797
Tier 2 capital, after deductions	**14,141**	12,020
Total capital	**68,033**	60,817
Balance of risk-weighted assets		
Credit risk[b][d]	**426,399**	392,658
Market risks	**5,834**	6,610
Operational risk	**29,943**	26,375
Total balance of risk-weighted assets	**462,176**	425,643
Ratio of capital to risk-weighted assets		
Ratio of CET1 capital to risk-weighted assets	**11.66%**	11.46%
Ratio of total capital to risk-weighted assets	**14.72%**	14.29%
Minimum CET 1 capital ratio set by the Banking Supervision Department[a]	**10.22%**	10.21%
Minimum total capital ratio set by the Banking Supervision Department[a]	**13.50%**	13.50%

(a) The minimum Common Equity Tier 1 capital ratio required and the minimum total capital ratio required as of December 31, 2023 are 10 percent and 13.5 percent, respectively. In addition to the Common Equity Tier 1 capital is a capital requirement of 1 percent of the outstanding housing loans, excluding housing loans granted during the temporary order term. For more information about the temporary order for addressing the coronavirus crisis, please see Note 25A above.

(b) These data include adjustments in respect of the effect of first-time application of GAAP for current expected credit losses, which are gradually reduced until December 31, 2024. For more information regarding the adjustments for current expected credit losses, please see Section C below.

(c) In the capital ratio calculations, adjustments in respect of the implementation of the new measurement method relating to certain actuarial liabilities were taken into account. For more information regarding the effect of the transition to the new method, please see the section entitled "Volatile Capital Components" above.

(d) Credit risk was calculated after implementing the revisions to Proper Conduct of Banking Business Directives 203 and 203A, "Measurement and Capital Adequacy - the Standardized Approach - Credit Risk".

(e) The data include adjustments in respect of the efficiency plans in accordance with the directives of the Banking Supervision Department, which decrease gradually until June 30, 2024.

Note 25B - Capital Adequacy, Leverage and Liquidity (cont.)

B. Capital Components for the Calculation of Capital Ratios

	December 31	
	2023	2022
	In NIS million	
1. CET1 capital		
Shareholders' equity	**54,497**	49,438
Adjustments in respect of the transition from the accounting curve to the regulatory curve[(a)]	**(198)**	190
Total CET1 capital before regulatory adjustments and deductions	**54,299**	49,628
Regulatory adjustments and deductions:		
Goodwill and intangible assets	**(643)**	(1,205)
Regulatory adjustments and other deductions - CET1 capital	**(20)**	(35)
Total regulatory adjustments and deductions before adjustments in respect of efficiency plans and before adjustments for CECL - CET1 capital	**(663)**	(1,240)
Total adjustments for the efficiency plan[(c)]	**16**	49
Total adjustments for current expected credit losses[(b)]	**240**	360
Total CET1 capital, after regulatory adjustments and deductions	**53,892**	48,797
2. Tier 2 capital		
Tier 2 capital: Instruments before deductions	**8,811**	7,547
Tier 2 capital: Loan loss provisions, before deductions	**5,330**	4,473
Total Tier 2 capital before deductions	**14,141**	12,020
Deductions:		
Total deductions - Tier 2 capital	**-**	-
Total Tier 2 capital	**14,141**	12,020
Total capital	**68,033**	60,817

(a) For additional information, see the Volatile Capital Components section above.

(b) Adjustments in respect of the effect of first-time application of GAAP for current expected credit losses, which are gradually reduced until December 31, 2024. For more information regarding the adjustments for current expected credit losses, please see Section C below.

(c) Adjustments in respect of the efficiency plans in accordance with the directives of the Banking Supervision Department, which decrease gradually until June 30, 2024.

Comment: The total capital ratio is calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, and 299 regarding capital measurement and adequacy, which became effective on January 1, 2014.

Note 25B - Capital Adequacy, Leverage and Liquidity (cont.)

C. Effect of the Adjustments on the CET1 Capital Ratio

	December 31	
	2023	2022
	In %	
Ratio of capital to risk-weighted assets		
Ratio of CET1 capital to risk-weighted components, before the effect of adjustments for the efficiency plans, of adjustments for current expected credit losses and for high-risk loans for land purchases	**11.61%**	11.29%
Adjustments in respect of the efficiency plan[(a)]	**0.01%**	0.01%
Adjustments for current expected credit losses[(b)]	**0.04%**	0.09%
Adjustments in respect of high-risk loans for the purchase of land	**-**	0.07%
Ratio of CET1 capital to risk-weighted assets	**11.66%**	11.46%

(a) Adjustments for the efficiency plans in accordance with the provision of the Banking Supervision Department are charged over a 5-year period, on a straight-line basis, in respect of capital adequacy calculations.

(b) These data include adjustments in respect of the effect of first-time application of GAAP for current expected credit losses, which are gradually reduced until December 31, 2024. For more information, please see Note 1.X.1 to the financial statements as of December 31, 2022.

D. Leverage ratio pursuant to the Banking Supervision Department's directives

On April 28, 2015, the Banking Supervision Department issued Proper Conduct of Banking Business Directive No. 218, "Leverage Ratio". The directive sets a simple, transparent and non-risk based leverage ratio to serve as a supplementary and reliable measure for risk-based capital requirements, with the purpose of limiting excess leverage in banking corporations.

The leverage ratio is expressed as a percentage, and is defined as the ratio between capital measurement and exposure measurement. As defined in Proper Conduct of Banking Business Directive No. 202, Tier 1 capital is used for calculating the leverage ratio, taking into account the transitional provisions. A Bank's total exposure is the sum of its on-balance sheet exposures, exposure to derivatives, exposure to securities financing transactions and to off-balance-sheet items. As a rule, the measurement is consistent with the accounting values, and no risk-weighting is applied. In addition, unless specifically permitted to do so under the Directive, the Bank may not use physical or financial collateral, guarantees or other credit risk mitigation techniques to reduce the exposure measurement. Balance sheet assets deducted from Tier 1 capital (in accordance with Directive No. 202) are deducted from the exposure measurement. Pursuant to the Directive, the Bank calculates the exposure to derivatives according to Appendix C of Proper Conduct of Banking Business Directive No. 203A, and the exposures for off-balance-sheet items - by converting the items' notional amount by credit conversion coefficients, as stipulated in Proper Conduct of Banking Business Directive No. 203.

Pursuant to the Directive, banking corporations shall have a consolidated leverage ratio of no less than 5 percent. A banking corporation whose total consolidated on-balance-sheet assets constitute at least 24 percent of the Israeli banking system's total assets shall have a consolidated leverage ratio of no less than 6 percent. Thus, the Bank is required to have a minimum leverage ratio of 6 percent.

On November 15, 2020, the Bank of Israel published a circular outlining further amendments to Proper Conduct of Banking Business Directives for Handling the Coronavirus (Temporary Order) (Directive No. 250). The circular sets adjusts Proper Conduct of Banking Business Directive No. 218, "Leverage Ratio", such that a banking corporation whose consolidated on-balance sheet assets is 24 percent or more than the total on-balance sheet assets of the banking system, shall comply with a leverage ratio of no less than 5.5 percent; according to the above, the minimum leverage ratio the Bank is required to meet is 5.5 percent. For further details about the temporary order for addressing the coronavirus crisis, please see Note 25A above.

Note 25B - Capital Adequacy, Leverage and Liquidity (cont.)

Regarding the leverage requirements, on November 16, 2023, a draft circular amending the directive was published, according to which the relief shall be extended until December 31, 2025. A corporation which will utilize the relief until that date will be required to once again meet the required leverage ratio that was in place prior to the temporary order in two quarters' time, by June 30, 2026. It was also determined that taking advantage of the relief shall not prevent the distribution of dividends, subject to an total capital planning aimed at reverting to the required leverage ratio.

	December 31	
	2023	2022
	In NIS million	
In consolidated data[(a)(b)]		
Tier 1 capital	**53,892**	48,797
Total exposures[(c)]	**810,014**	766,895
Leverage ratio		
Leverage ratio	**6.65%**	6.36%
Minimum leverage ratio set by the Banking Supervision Department	**5.50%**	5.50%

(a) The data include adjustments in respect of the efficiency plan in accordance with the directives of the Banking Supervision Department. For more information regarding the adjustments for the efficiency plan, please see Section C above.
In addition, in the calculation of the leverage ratio, adjustments in respect of the implementation of the new measurement method relating to certain actuarial liabilities were taken into account. For additional details regarding the effect of the transition to the new method, see Section B above.

(b) The data include adjustments in respect of CECL, in accordance with the directives of the Banking Supervision Department.

(c) Total exposures were calculated after implementing the revisions to Proper Conduct of Banking Business Directive 218, "Leverage Ratio", following the revision of Directives 203 and 203A, "Measurement and Capital Adequacy - the Standardized Approach - Credit Risk".

E. Liquidity coverage ratio pursuant to the directives issued by the Banking Supervision Department

On September 28, 2014, a circular was published adding Proper Conduct of Banking Business Directive No. 221, "Liquidity Coverage Ratio", which applies the recommendations of the Basel Committee regarding liquidity coverage ratio to the banking system in Israel. The liquidity coverage ratio examines a time-horizon of 30 days under a stress scenario, and is intended to ensure that a banking corporation has an inventory of high-quality liquid assets that is able to cover the corporation's liquidity requirements in this time horizon. The Directive prescribes the manner of calculating the liquidity coverage ratio, including the characteristics and operational requirements for an "inventory of high-quality liquid assets" (the numerator) and sufficient buffers for them; it also prescribes the net cash outflow expected under the stress scenario defined in the Directive for 30 calendar days (the denominator).

The stress scenario set forth in the directive includes a shock scenario combining a corporation-specific shock and a systemic shock; in this context, standard withdrawal and deposit rates were defined for outflows and inflows, respectively, according to the various balance categories. As from January 1, 2017, the required minimum liquidity coverage ratio is 100 percent. However, in a period of financial pressure, a banking corporation may fall below these minimum requirements.

Note 25B - Capital Adequacy, Leverage and Liquidity (cont.)

	For the three months ended December 31	
	2023	2022
	Average in %	
a. Consolidated data		
Liquidity coverage ratio	**124**	131
Minimum liquidity coverage ratio required by the Banking Supervision Department	**100**	100
b. According to the Bank's data		
Liquidity coverage ratio	**120**	129
Minimum liquidity coverage ratio required by the Banking Supervision Department	**100**	100

Comment: Based on an average of daily observations.

The Bank is in compliance with a regulatory requirement as of December 31, 2023.

F. Net stable funding ratio pursuant to the Banking Supervision Department's directives

The Bank reports the Net Stable Funding Ratio (NSFR) Directive No. 222, which is based on a publication of the Basel Committee. The NSFR is aimed at improving the resilience of banking corporations' liquidity risk profile in the long term, by requiring them to maintain a stable financing profile according to the composition of their assets and their off-balance-sheet activities. The ratio prevents banking corporations from over-reliance on short-term wholesale financing. The measurement is made both on the consolidated and separate levels each quarter; the requirement is to meet a 100 percent ratio.

	As at December 31	
	2023	2022
	In %	
a. Consolidated data		
Net stable funding ratio	**118**	128
Minimum net stable funding ratio set by the Banking Supervision Department	**100**	100

The Bank is in compliance with a regulatory requirement as of December 31, 2023. The Bank set internal Net Stable Funding Ratio restrictions, in addition to the internal Liquidity Risk Management restrictions.

Note 26 - Contingent Liabilities and Special Commitments

A. Off-Balance-Sheet Commitment for Activity by Extent of Collection[a]

Outstanding loans extended out of deposits by extent of collection[b]

	As at December 31	
	2023	2022
	In NIS million	
Unlinked NIS	**175**	170
CPI-linked NIS	**1,037**	1,014
Total	**1,212**	1,184

Cash flows arising from collection fees and interest spreads in respect of loans extended out of deposits by extent of collection as at December 31

	Up to one year	Over one year and up to three years	Over three years and up to five years	Over five years and up to ten years	Over ten years and up to twenty years	Over twenty years	Total for 2023	Total for 2022
	In NIS million							
In the CPI-linked segment[c]								
Future cash flows	3	4	2	3	4	1	17	19
Projected future cash flows after management's estimate of early repayments	3	4	2	4	3	-	16	18
Discounted projected cash flows after management's estimate of early repayments[d]	3	4	2	3	2	-	14	15

(a) Loans and deposits out of loans the repayment of which is conditional upon the extent of collection of the loans (or the deposits) plus interest spreads or collection fees and commissions (instead of interest spread).
(b) Non-recourse loans and government deposits extended at the total amount of NIS 299 million (2022 – NIS 256 million) were not included in this table.
(c) Including foreign currency segment.
(d) Capitalization was carried out at a rate of 3.99 percent (2022 – at a rate of 2.72 percent).

Information regarding loans extended during the year by mortgage banks

	2023	2022
	In NIS million	
Loans out of deposits according to the extent of collection	**125**	102
Non-recourse loans	**48**	39

B. Contingent Liabilities and Other Special Commitments

	As at December 31	
	2023	2022
	In NIS million	
Commitments to purchase securities	**1,145**	1,060
Commitments to invest in, and purchase of, buildings and equipment	**9**	44

Note 26 - Contingent Liabilities and Special Commitments (cont.)

C. Legal Claims

During the regular course of business, legal claims have been filed against the Bank and certain consolidated companies, including class actions certification motions.

In the opinion of the management of the Bank and the managements of the consolidated companies, the total additional exposure arising from legal claims filed against the Bank and the consolidated companies on various issues the amount of each of which exceeds NIS 2 million, and regarding which the chances of the claims succeeding are not remote, amounts to approx. NIS 338 million.

1. Set forth below are details of legal claims filed against the Bank, whose amounts are material. In the opinion of the management of the Bank, which is based on legal opinions regarding the expected results of such claims, the financial statements reflect adequate provisions, if needed, to cover any damages resulting from such claims.

1.1 Pending legal claims filed in previous reporting periods

A. On December 2, 2013, a motion for class certification was filed against the Bank regarding early repayment fees for non-housing loans. According to the applicants, the early repayment fee, both in respect of loans subject to calculation principles set in the Proper Conduct of Banking Business Directives and in respect of loans subject to rules set by the Bank, are calculated by the Bank in an unlawful manner. According to the applicants, it is impossible to estimate the overall claim amount. On November 3, 2019, a decision was handed down by the Tel Aviv District Court, which partially approved the application for class action certification regarding the manner of calculating the early repayment fee for unsupervised loans, and on December 22, 2019, the claimants appealed the ruling to the Supreme Court. On July 21, 2021, a judgment rejecting the appeal was handed down, and the claim continues to be heard in the District Court regarding the portion approved as class action lawsuit.

B. On March 29, 2017, a motion for class certification was filed against the Bank and similar legal claims were filed against other banks. Alternately, the applicant, the Bank may not charge a “correspondent bank fee” when transferring foreign currency from a customer’s account to a bank account abroad, contrary to the provisions of the Banking Law (Service to Customer), 1981 and the rules pursuant thereto (hereinafter - the “Banking Grounds”); alternatively, the applicant claims that the Bank may only charge a correspondent bank fee in the amount of the expense it actually incurred (the amount that it actually paid to the correspondent bank); to the extent that the Bank did not act accordingly, this constitutes a breach of contract, unjust enrichment, and is contrary to the provisions of the Agency Law, 1965 (hereinafter - the “Agency Law Grounds”). The applicant claims that, the personal damage he has incurred is approx. USD 30, and the damage incurred by the class of plaintiffs cannot be estimated. On February 16, 2023, a court decision was handed down certification of the claim as a class action lawsuit only on the Agency Law Grounds, and rejecting the Banking Grounds. On May 30, 2023, a request for leave to appeal was filed on behalf of the Bank (as well as several other banks) on the decision certifying the claim as a class action under the Agency Law. A decision has yet to be granted on this request. On June 1, 2023, an appeal was filed by the applicant against the decision rejecting the certification of the claim as a class action regarding the banking grounds. The applicant’s appeal was rejected by the Supreme Court on January 8, 2024.

Note 26 - Contingent Liabilities and Special Commitments (cont.)

C. On May 6, 2018, a motion for class certification was filed in the Tel Aviv District Court against the Bank. The applicant claims that the Bank does not fulfil its obligation to make a reasonable effort to locate inactive accounts with a balance exceeding the investment requirement under the Banking Ordinance (Inactive Deposits), 2000, and that it is insufficient that the Bank revalues the accounts according to the provisions of the Ordinance and that the Bank should revalue the accounts at higher amounts. According to the applicant, the total class damage assessment is unquantifiable. On November 10, 2022, a decision was handed down by the court, approving the motion for class certification. On February 5, 2023, a leave to appeal was filed on behalf of the Bank. On January 11, 2024, the request for leave to appeal was rejected by the Supreme Court and the claim will continue to be conducted in the District Court.

D. On January 21, 2020, a motion for class certification was filed with the Tel Aviv District Court against the Bank and against other banks. The motion claims that the Bank allegedly charges all of its customers (whether private individuals, small businesses or corporations) for transactions to purchase products and/or services overseas, whether for private use or in order to transfer them overseas or import them into Israel, according to Chapter 7 of the Foreign Trade price list, rather than charge lower fees and commissions in accordance with Chapter 5 of the Foreign Currency price list. The plaintiffs value the damage incurred by all members of the group they purport to represent at tens of millions of shekels.

E. On May 10, 2020, a motion for class certification was filed with the Tel Aviv District Court against the Bank and against two other banks. According to the plaintiffs, the banks are compromising their customers' privacy and are violating their duty of secrecy by transferring identifying information to companies such as Facebook and Google. It was also claimed that the banks use third party tools in order to monitor their customers while they perform activities on the banking websites and applications for the purpose of conducting advertising campaigns. The claimants assess the personal damages caused to them in the amount of NIS 1,000 and do not state a damage assessment for the class.

F. In mid-2020, a claim was filed with a New York, US, court, against a consortium of senior lenders which financed a project to construct a residential tower in New York (hereinafter - the "Project"), including the Bank. Prior to filing the claim, measures were taken by the lenders against the borrowers, after the lenders claimed breach of the financing agreement. In November 2022, the borrowers filed an amended claim, in which the original claim amount was revised to USD 165 million (against all defendants). In addition, in September 2, 2022, a legal proceeding was filed with the New York, US, court, in connection with the Project. The proceeding was filed by the mezzanine lender in the Project, against the senior lenders which financed the Project, including the Bank. The claim amount in this proceeding is USD 170 million.

G. On November 16, 2020, a motion for class certification was filed with the Tel Aviv District Court against the Bank, claiming that the Bank is violating the provision of the law when charging its customers third party expenses in amounts that are not listed in Part 11 of the price list. According to the motion, the violation is for each of the 22 components/topics listed in Part 11 of the price list, and for which customers are charged third-party expenses. The specific claim relating to the applicant is for charging a delivery fee using a courier when ordering check books (despite giving it full fair disclosure). The plaintiffs note that the damage caused to the plaintiff is NIS 125.74 and do not state the damage assessment for the class.

Note 26 - Contingent Liabilities and Special Commitments (cont.)

H. On April 11, 2021, a motion for class certification was filed with the Tel Aviv District Court against the Bank and against other banks and additional financial institutions. The plaintiffs claim that the defendants are compromising their clients' privacy and violating the duty of secrecy they are bound by, by transferring private information about the clients to third parties, in particular to Google. The claimants assess the personal damages caused to them in the amount of NIS 2,000 and do not state a damage assessment for the class.

1.2 Legal claims filed during and after the reporting period

A. On June 4, 2023, a motion for class certification was filed in the Tel Aviv District Court against the Bank and against other banks. The motion argued, among other things, that banks must grant customers daily interest on credit balances or inform them of the possibility of depositing the funds in an interest-bearing daily deposit. The applicants estimate the class damages at over NIS 1 billion (for all the defendant banks).

B. On June 21, 2023, a motion for class certification was filed in the Tel Aviv District Court against the Bank and against other banks. The subject of the motion is the Bank's raising of the Prime interest rate, for the purpose of determining the debit interest on current account balances, interest for delay and interest on loans and on any type of debit balances, at the rate of the Bank of Israel's interest rate increase rather than according to the change in interest on the sources used to finance the credit in the period beginning in April 2022. The applicants estimate the class damages at over NIS 5 billion (for all the defendant banks).

C. On February 19, 2024, a motion for class certification was filed with the Haifa District Court, alleging that the Bank is charging its customers exchange rate differentials for conducting currency exchange transactions without disclosing the spread rate in the Bank's price list, the Bank's documents, or agreement with the customers. The plaintiffs do not state a damage assessment, either personal or for the class.

1.3 Legal claims resolved during the reporting period

A. On July 22, 2015, a motion for class certification was filed against the Bank. According to the motion, the Bank's reporting to the Execution Office regarding amounts paid directly to the Bank on account of debt in respect of which a collection procedure is being conducted by the Execution Office, is delayed by the Bank and, as a result, a difference allegedly arises between the actual amount of debt and the debt amount recorded in the Execution Office file. The applicant estimated the amount of the class action at millions of shekels. On March 14, 2023, the court approved a request agreed between the parties for the withdrawal of the applicant from the claim and, as a result, the class action lawsuit was deleted and was thus concluded.

B. On November 24, 2020, a motion for class certification was filed with the Jerusalem District Court against the Bank and against six other banks. According to the motion, the banks have violated the Credit Information Service Law, 2016 and the regulations thereunder, claiming that the banks reported to the Central Credit Register legal proceedings against customers, contrary to the provisions of the law and in a manner that damaged the customers' ability to obtain credit and compromised their privacy and reputation. The plaintiffs did not state a damage assessment for the class and claimed a monetary damage that varies among class members, as well as non-monetary damage. On March 26, 2023, the court approved a settlement in this procedure, which ended the class action.

Note 26 - Contingent Liabilities and Special Commitments (cont.)

C. On June 7, 2021, a motion for class certification was filed in the Tel Aviv District Court against the Bank. The motion addresses the plaintiff's claim whereby he incurred damage due to failure to update his bank account balance during the two days which elapsed from the date on which he purchased foreign securities and the date on which his account was charged for the purchase. The plaintiff estimated his personal damage at approx. NIS 35 thousand and did not provide a damage assessment for the class. On October 30, 2023, the Tel Aviv District Court dismissed the motion for class certification and the claim was thus concluded.

D. On September 6, 2021, a class certification motion was filed with the Haifa District Court against five banks, including the Bank, stating that the plaintiffs suffered damage following tax overcharges relating to proceeds from securities (such as dividends, interest, etc.), in cases there is a difference between the customer's country of residence and the security issuer's taxing country. According to the plaintiffs, the tax rates should be charged in accordance with the treaties for preventing double taxation between the relevant countries which, they claim, is not carried out in effect. The applicants did not name a group damage amount. On July 9, 2023, the court approved the withdrawal motion of the applicants and, as a result, the class action lawsuit was concluded.

2. Pending against the Bank are motions for class certification for a material amount, which – according to the Bank's management, which is based on legal opinions as to the odds of these motions being approved – it is impossible to estimate the odds at this stage. For this reason, no provisions were made in respect of these motions.

   A. On July 19, 2023, a motion for class certification was filed in the Tel Aviv District Court against the Bank and against other banks. The motion claimed, among other things, that the interest rate paid on deposits made through the website or app is lower than the average interest rates and the customary and accepted interest rate and the actual interest paid on deposits made through a clerk, without informing the customers regarding the possibility of receiving higher interest and without inviting them to negotiate the terms and conditions with the Bank. The applicants estimate the class damages at over NIS 984 million (for all the defendant banks).

3. As at the publication date of the financial statements, there are no pending material legal claims against the Bank's subsidiaries.

D. Contingent Liabilities and Miscellaneous Commitments

On February 12, 2024, a notice was received from the Banking Supervision Department regarding the imposition of a financial sanction in the amount of NIS 1,000,000 in respect of the failure to report to the Execution Office on time regarding the receipt of payments on account of the debt other than through the Office and on debt settlement arrangements for the receipt of payments on account of the debt other than through the Office, in contradiction with Sections 25 and 26 of Proper Conduct of Banking Business Directive No. 450, "Debt Collection Procedures". The financial sanction amount is after the Banking Supervision Department found that it was appropriate to deduct 50 percent from the original financial sanction amount, due to the grounds for deduction stipulated in the law.

E. Other proceedings

On March 28, 2023, a petition for a mandatory injunction was submitted to the Tel Aviv District Court (Economic Department) for discovery and review of documents. The applicant is petitioning for the discovery of various documents relating to the compensation paid to the Bank's officers, in order to examine the filing of a derivative claim on behalf of the Bank against senior officers and employees at the Bank in connection with the compensation granted to the Bank's officers in apparent violation of the Compensation for Officers of Financial Corporations Law (Special Approval and Disallowance of Expenses for Tax Purposes in Respect to Exceptional Compensation), 2016 and Proper Conduct of Banking Business Directives Nos. 301 and 301A.

Note 26 - Contingent Liabilities and Special Commitments (cont.)

F. The Bank serves as guarantor for members of some of the provident funds previously administered by Leumi Capital Market Services Ltd. (formerly Leumi Gemel Ltd.), whose operations were sold to Prisma Provident Funds Ltd. ("Prisma"). The guarantee secures the repayment of the original principal amounts that were deposited as at December 31, 2023, for a total of NIS 819 million in nominal values. As of December 31, 2023, the value of the above funds' assets amounted to NIS 2,127 million. In addition, this guarantee does not apply to deposits in accounts opened in the aforementioned funds after January 22, 2007.

Against the aforesaid undertaking, Prisma undertook to pay the Bank a participation amount of no more than NIS 35 million per calendar year, linked to the CPI as from October 30, 2006 until the payment date in the event that the guarantees or any portion thereof, is realized. A deductible amount not utilized in a certain year cannot be carried forward to future years.

In January 2009, the relevant funds were sold to Psagot Provident Funds Ltd. (hereinafter - "Psagot"), which took over Prisma's said commitments; on October 2021, the management of the said provident funds was transferred from Psagot to Harel Pension and Provident Ltd. and to Altshuler Shaham Pension and Provident Ltd., which undertook, each for the new funds under their management, the said commitments.

G. Indemnification Letters

1. The Bank has undertaken in advance to indemnify its directors, other officers and those whom it employs under personal managerial contracts and who are not Bank officers (hereinafter - "Managerial Contract Holders") in respect of monetary liabilities arising from actions taken in their capacity as directors, officers and managers in the Bank; the indemnification undertaking covers a number of indemnity events that, in the opinion of the Bank's Audit Committee and Board of Directors, can be expected in view of the Bank's activities; those events include, among other things, the Bank's ordinary banking activities, share offerings under a prospectus, reports to the public and to regulatory authorities, activities relating to Antitrust Law, cyber incidents and any other activity associated with the Bank's activities, including any action and/or transaction arising from or related to the Bank's holdings in Israeli and/or foreign subsidiaries and/or non-financial companies and/or investees. The cumulative maximum amount payable by the Bank per one indemnity event in respect of which the indemnification undertakings it has given and will give to all officers of the Bank and the subsidiaries will be exercised will not exceed 25 percent (twenty-five percent) of the Bank's common equity as per its latest (annual or quarterly) financial statements published before actual indemnification date (hereinafter - the "Maximum Indemnity Amount"). The Maximum Indemnity Amount is payable in addition to amounts received from the insurance company, if any, pursuant to an insurance policy taken out by the Bank, if any, and/or under an insurance policy and/or indemnification by any party other than the Bank (such that the Maximum Indemnity Amount will not be reduced due to such insurance and/or indemnification payments, if any). The Bank also undertook in advance, among other things, to indemnify directors, other Bank officers and managerial contract holders in respect of reasonable litigation costs, including costs incurred as a result of an investigation or procedure that was concluded without an indictment being filed and without the imposition of a monetary sanction in lieu of criminal proceeding, or an investigation or procedure that was concluded without an indictment being filed but with the imposition of a monetary liability in lieu of criminal proceedings relating to a criminal offence which does not require proof of criminal intent or in connection with a monetary sanction. The letter of indemnity also includes a further indemnification undertaking in respect of expenses and/or payment to the injured party of a breach in accordance with and subject to the provisions of the Streamlining of Enforcement Proceedings in the Israel Securities Authority Law (Legislative Amendments), 2011 ("the Administrative Enforcement Law"), and in respect of expenses incurred in connection with proceedings under Section G-1 of the Antitrust Law, 1988.

   On December 23, 2019, an extraordinary meeting of shareholders of the Bank decided to approve an amendment to the List of Events for the Indemnification Undertakings (hereinafter - the "Indemnification Undertakings") for directors serving in the Bank, including those who will serve in the Bank from time to time. The List of Events was updated according to events which the Bank deems expected in light of its actual activity at the time of granting the Indemnification Undertaking.

The amendment of said Indemnification Undertakings also applies to other officers in the Bank as well as to managers with personal contracts who are not officers of the Bank, in line with the decision of the Audit Committee dated September 24, 2019 and the Bank's Board of Directors dated October 29, 2019.

The amended List of Events to the Indemnification Undertaking for directors and officers in the Bank is in line with the Bank's Articles of Association and the Bank's Revised Compensation Policy.

Furthermore, on February 15, 2004, the Bank's general meeting passed a resolution whereby directors will be exempted in advance for a liability in respect of damages caused due to breach of their duty of care towards the Bank. The decision to grant such an exemption also applies to other Bank officers, in accordance with the decision of the Audit Committee and the Board of Directors of June 2003.

2. The Bank has undertaken to indemnify Bank's employees in respect of expenses and/or any payment to the injured party of a breach in accordance with and subject to the provisions of the Administrate Enforcement Law, in accordance with terms and conditions normally set out in indemnity letters issued by the Bank.

3. The Bank and its subsidiaries indemnify certain external advisors including in connection with plans for awarding or offering securities to Bank or subsidiaries' officers or employees, as applicable, in respect of a liability or loss, and in various cases including in respect of other legal expenses in connection with services they rendered to the Bank.

4. The Bank undertook to indemnify international credit company Visa in respect of fulfillment of the obligations of Max It Finance Ltd. in connection with Visa credit cards.

5. The Bank and its subsidiaries provide, from time to time, in the ordinary course of business and under generally accepted circumstances, indemnification undertakings, which are limited or unlimited as to their amount or period, including: (1) debts with regard to the Bank's obligations as a member of the Tel Aviv Stock Exchange; (2) transactions for disposal of the Group's holdings in subsidiaries; and (3) issuance and clearing agreements with the credit card companies.

6. The Bank provides, from time to time, indemnity letters, which are limited or unlimited as to their amount and period, to secure indemnities provided by subsidiaries to officers due to risks applicable to companies' officers, and to ensure that subsidiaries comply with regulatory directives and commitments towards such officers. In addition, the Bank provides indemnity letters to Bank employees and officers of subsidiaries in respect of a list of events which are specified therein.

7. As part of the sale agreement of Leumi Romania in April 2019, indemnification was granted for various issues, some limited to EUR 15 million for a period of up to five years from the sale date, and others unlimited in amount. The Bank believes that the unlimited indemnification relates to issues which the exposure - if they materialize - is immaterial. Indemnification was also granted to directors who served in Leumi Romania until the sale date, in accordance with the indemnification undertakings accepted in the Bank for directors and officers, as well as indemnification for employees in Leumi Romania in relation to the sale procedure.

Note 26 - Contingent Liabilities and Special Commitments (cont.)

8. As part of international offerings of subordinated notes with a mechanism for principal loss absorption through conversion into ordinary shares of the Bank, which were offered to qualified institutional investors as defined in and in reliance on Rule 144A under the United States Securities Act of 1933 (hereinafter - the "US Securities Act") and outside the United States in accordance with Regulation S under the US Securities Act, which took place in January 2020 and in January 2023, and as part of the international offering of senior unsecured bonds to institutional investors in Israel, in accordance with Section 15A(b)(1) of the Securities Law, 1968 (hereinafter - the "Israeli Securities Law"), and outside of Israel, in accordance with Section 15A(b)(2) to the Israeli Securities Law, Principle 144A to the US Securities Law and Regulation S to the US Securities Law, which was carried out in July 2022 (hereinafter, jointly - the "Offerings"), the Bank was required, under the purchase agreement (hereinafter - the "Purchase Agreement") with the underwriters, to indemnify the underwriters and parties associated with them, for damages, lawsuits and losses which they shall incur, if incurred, in accordance with the US Securities Act or the United States Securities Exchange Act of 1934 (hereinafter - the "Securities Exchange Act") in an unlimited amount, in respect of material incorrect details, or which are purported to be incorrect, which were included in the offering documents or any other information submitted by the Bank or in its name in relation to the offerings, or omission of material details and/or claim regarding such an omission of details from said documents or information.

   As part of an engagement for the receipt of underwriting and distribution services in connection with a public offering of the Bank's ordinary shares, by way of a non-uniform offering for institutional investors (as defined in the Securities Regulations (Offer of Securities to the Public), 2007 (the "Offering Regulations"), including institutional offerees outside of Israel, in accordance with Regulation 11(a)(1) to the Offering Regulations, carried out by the Bank in June 2022, the Bank was required, under the underwriting agreement with Leader Underwriting, to indemnify the underwriter and/or his representative for any debt imposed on them for inclusion of a misleading detail in the issuance documents, up to the amount of the gross share issue proceeds, plus linkage to the CPI, subject to the conditions and reservations as detailed under that underwriting agreement.

   In addition, the Bank was required, under the distribution agreement with the foreign distributors with respect to the same issue of shares (Citigroup Global Markets Limited, Barclays Bank Plc and Jefferies LLC), to indemnify each of the distributors and parties associated with them, for damages, lawsuits and losses they incur, if incurred, in an unlimited amount, due to material incorrect details, or which are purported to be incorrect, which were included in the offering documents or any other information submitted by the Bank or in its name in relation to the aforementioned offering, or omission of material details and/or claim regarding such an omission of details from the offering documents or information.

9. In 2022, the merger transaction was completed of Bank Leumi Corporation (hereinafter - "BLC"), an American corporation (held at a rate of 85 percent by the Bank), which holds full control in BLUSA, into Valley National Bancorp (hereinafter - "Valley"). As part of the transaction, Valley was given indemnity in respect of any claim submitted in the future by non-controlling interests in BLUSA, who received the cash equivalent instead of their holdings in BLUSA, based on the value of the shares inherent in the merger transaction. For more information, please see Note 15.A to the financial statements as at December 31, 2022.

Note 27 - Pledges and Restrictions

In its capacity as a member of the Tel Aviv Stock Exchange, the Bank is a member of the risk reserve of the Stock Exchange's Clearing House.

The amount that the Bank deposits in the risk reserve shall be equal to the amount of the largest periodic debit balance that a member had during the six months that ended in the calendar month before the updating date. The risk reserve updates the amounts 4 times a year.

Each risk reserve member places pledges on securities in favor of the Stock Exchange's Clearing House to secure payment of the member's proportionate share in the Risk Fund and also as surety for the performance of all that member's other obligations towards the Clearing House and its share in the Risk Fund. These collateral also secure the performance of all other obligations of risk reserve members in the event that the collateral provided by another member do not cover all its obligations, according to the proportionate share of each member, up to the lower of the full amount of the collateral provided or the amount of the obligations towards the Stock Exchange's clearing house. As of December 31, 2023, the Bank's-share in the Stock Exchange Clearing House's risk reserve is NIS 349 million (December 31, 2022 – NIS 347 million). The total amount of assets pledged by the Bank in favor of the Stock Exchange's Clearing House is NIS 360 million (December 31, 2022 – NIS 502 million).

The Bank is also a member of the risk reserve of the MAOF Clearing House. The Bank undertook to pay the MAOF Clearing House any financial obligation arising from the MAOF transactions it carries out for its customers, from its own portfolio and from MAOF transactions of other Stock Exchange members not clearing independently via the MAOF Clearing House. The amount of the Bank's liability is presented in Note 30D. Off-balance-sheet financial instruments.

The Bank provides collateral in favor of the MAOF Clearing House to secure payment of its proportionate share in the risk reserve and also as a guarantee for the performance of all its aforementioned obligations towards the MAOF Clearing House and its share in the Risk Fund. These collateral also secure the performance of all other obligations of risk reserve members. In the event that the collateral provided by another member of the risk reserve do not cover all of its obligations, the MAOF Clearing House may also realize the collateral provided by other Risk Fund members, according to the proportionate share of each member, up to the lower of the full amount of the collateral provided or the amount of the commitments towards the MAOF Clearing House.

As of December 31, 2023, the Bank's-share in the MAOF Clearing House's risk reserve is NIS 111 million (December 31, 2022 – NIS 110 million).

Like any other clearing house member, the Bank may secure its obligations to the risk reserve of the MAOF Clearing House by placing pledges on government bonds and deposits. The total amount of bonds and deposits pledged by the Bank in favor of the MAOF Clearing House in respect of customers' activity, the nostro portfolio and the Risk Fund as of December 31, 2023 is NIS 1,069 million (December 31, 2022 – NIS 899 million).

The Bank is a party to an arrangement whose aim is to ensure the finality of settlement of transactions in default events where funds in the clearing account of one or more of the other participants are insufficient, as a participant in the TGS system and a holder of a clearing account in the system, as well as a member of the payments systems operating in TGS (checks, MASAV, credit cards and ATM). In the event of a clearing house participant's default in each of the payments systems, a default settlement mechanism relevant to each of the payments systems is activated. In the clearing of checks, each participant that has not defaulted will bear the charges of the participant who defaulted, the participation percentage in the settlement of each of the participants in the clearing house will be calculated by the Bank of Israel according to the volume of activity of the clearing house participant, once every six months, based on the data from the last six months. The relative share of the Bank in the arrangement to guarantee the clearing for the first half of 2024 (based on the data from the second half of 2023) in the clearing of checks is 21.15 percent. The overall ceiling for participation of all Participants is NIS 150 million.

In April 2023, the Bank of Israel directive - regarding the separation of MASAV and ABS, and the presentation of each of them as a clearing house that stands on its own and participates in the TGS - entered into effect. Meanwhile, MASAV, ABS and ATM were required to define a default settlement procedure to replace the previous arrangement.

Note 27 - Pledges and Restrictions (cont.)

As part of the new arrangement, the participants in the MASAV system must deposit collateral in favor of the default settlement arrangement, which will be deposited in cash in a current account managed by the Bank of Israel in the name of MASAV and will be held in trust for the system participants only for the benefit of the default settlement arrangement. The collateral amount deposited by Leumi as of December 31, 2023 is NIS 446 million.

In addition, a default settlement arrangement procedure was defined for a participant in the debit card service system (ABS). As part of this, each participant will deposit collateral funds only in cash in a dedicated account with the Bank of Israel. The collateral amount deposited by Leumi as of December 31, 2023 is NIS 64 million.

A default settlement arrangement procedure was also defined for a participant in the ATM system. As at December 31, 2023, the Bank is not required to deposit collateral for such a default arrangement.

The Bank and consolidated companies enter into Credit Support Annex (CSA) agreements with counterparties, whose purpose is to mitigate the mutual credit risks arising between the parties from derivatives trading. According the agreements, the value of all derivatives transactions carried out between the parties is measured on a periodic basis and if the net exposure of one of the parties exceeds a pre-determined threshold, that party is required to transfer to the other party deposits at the exposure amount by the next measurement date. As of December 31, 2023, the Group made available to the above counterparties deposits totaling USD 1,337 million (December 31, 2022 - USD 1,306 million).

The Bank and its consolidated companies enter into agreements with counterparties for the purpose of entering into tradable futures in foreign exchanges on behalf of the Bank, the consolidated companies and their customers. As of December 31, 2023, the Group deposited with the above counterparties USD 1,829 million (December 31, 2022 - USD 1,708 million).

In addition, to limit the exposure, the Group transferred as a transfer to hedge exposure totaling USD 1,546 million (2022 - USD 1,603 million). It should be noted that the majority of the collateral transferred in respect of customers' activity in connection with these transactions were customer funds in accordance with the hedge exposure agreements they signed with the Bank.

As of September 1, 2021, the Bank is subject to a reform requiring the deposit of initial margins for non-centrally cleared derivatives (OTC derivatives), set by the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO). The reform - which applies to the relationship of banks with foreign financial institutions - requires deposit of the said initial margins (subject to a threshold of EUR 50 million in Europe and USD 50 million in the US) in respect of a certain counterparty, by pledging a securities account, in trust, with a foreign custodian, by each party for the other party. According to the reform, if a bank exceeds the threshold of USD 50 million, both parties deposit IM in the form of a securities lien with a third party. As of December 31, 2023, the Bank pledged securities totaling USD 1,214 million (2022 - USD 777 million).

On May 21 2008, the Bank signed a bond whereunder it placed a first floating lien, in favor of the Bank of Israel, on its rights to receive NIS-denominated funds and charges that are payable and will be payable to the Bank, from time to time, from its corporate customers (incorporated under the laws of the State of Israel), the loans extended to which by the Bank are not in arrears, in respect of NIS loans whose average duration does not exceed three years which were extended and will be extended by the Bank to the aforementioned customers.

The purpose of this pledge is to secure loans that might be extended to the Bank by the Bank of Israel for the Bank's activity as the provider of shekel liquidity services to the Continuous Linked Settlement (CLS) Bank, plus interest, costs and expenses arising from realizing the pledge, up to a total of NIS 1.1 billion, in accordance with the provisions of the loan agreement signed between the parties in connection with this matter.

On October 26, 2010, the Bank signed a bond whereunder it placed a fixed first pledge and assignment by way of pledge, unlimited in amount, in favor of the Bank of Israel on all assets and rights in specific accounts in the name of the Bank Israel with the Tel Aviv Stock Exchange's Clearing House, with Euroclear Bank or with any other clearing house agreed about by the Bank and the Bank of Israel. Assets subject to a lien in the Euroclear Bank or in another account with a clearing house abroad are also subject to a first floating lien in favor of the Bank of Israel.

Note 27 - Pledges and Restrictions (cont.)

On February 25, 2021, the Bank signed a bond, according to which, in addition to these pledges, it pledged to the Bank of Israel, as a first degree pledge and by collateral assignment, in an unlimited amount, all of its interests for and in relation to a portion of the housing loan portfolio secured by real estate interests. On December 29, 2021, the bond was revised, and the housing loans pledge under the bond was revised. The same was true for April 12, 2022 and September 28, 2022. Another revision was carried out in April 2023.

The purpose of this pledges is to secure all of the Bank's obligations in connection with credit that has been extended or will be extended to the Bank by the Bank of Israel as set out in the loan documents, except for credit that the Bank of Israel may extend to the Bank in respect of the Bank's activity as a liquidity service provider, in shekels, to CLS.

In 2020-2021, the Bank of Israel supplied the banking system with long-term loans in an effort to increase the banking credit supply to small and micro businesses, against collateral, as is the case in any monetary loan provided by the Bank of Israel. As of December 31, 2023, the outstanding credit provided as part of these plans amounts to approx. NIS 8.4 billion.

In accordance with the Monetary Committee's decision of November 6, 2023, the Bank of Israel provides banks with monetary loans for periods of two and three years at a variable interest rate of Bank of Israel interest minus 1.5 percent, provided that the banks grant credit to small and micro-businesses, as part of the monetary measures taken to deal with the impact of the Iron Swords War.

As of December 31, 2023, the outstanding credit provided as part of these plans amounts to approx. NIS 1.7 billion.

Sources and utilization

	December 31	
	2023	2022
	In NIS million	
Sources of securities received and which the Bank may sell or pledge at fair value, before the effect of offsets		
Securities received in transactions for lending of securities against cash	**3,053**	3,034
Applications of securities received and which the Bank may sell or pledge at fair value, before the effect of offsets		
Securities lent in transactions for lending securities against cash	**13,776**	3,952

Apart from these securities, as of balance sheet date, additional securities were provided as collateral, shown under the securities item above; lenders are not allowed to sell or pledge those securities.

The Bank also deposits government bonds as collateral for tradable futures activity, in lieu of cash. These securities are held in the available-for-sale portfolio.

Note 28A – Derivatives and Hedging Activities

Overview

The aforementioned activity involves taking risks, the principal of which are:

- Credit risk which is measured according to the loss amount the Bank may incur if the counterparty to the transaction fails to meet the terms and conditions of the transaction. Customer collateral are required to cover the risk in accordance with the risk arising from the transactions. The required collateral are included within the collateral required in respect of the total amount of the customer's indebtedness.
- Market risks include risks stemming from changes in interest rates, exchange rates, the CPI, prices of securities/indexes and prices of commodities. The market risks stemming from derivatives transactions constitute a part of the total market risks of the financial instruments. Derivatives activities are carried out within the limits set by Group companies' Board of Directors with regard to exposure to market risks.
- Liquidity risk is the risk arising due to uncertainty regarding the price which the Bank will be required to pay to cover the transaction. This risk arises mainly from instruments whose tradability or the tradability of their underlying asset is low. This risk was taken into account when calculating the required collateral.

Note 28B - Derivatives Activity - Scope, Credit Risks and Maturity Dates

A. Volume of Consolidated Activity

	December 31, 2023		
	Not held-for-trading derivatives	Held-for-trading derivatives	Total
	In NIS million		
(1) Nominal amount of derivatives			
a) Interest rate contracts			
Futures and forwards	2,888	69,552	72,440
Written options	819	1,027	1,846
Purchased options	-	541	541
Swaps[(a)]	42,938	344,715	387,653
Total[(b)]	46,645	415,835	462,480
Of which: Hedging derivatives[(c)]	9,921	-	9,921
b) Foreign currency contracts			
Futures and forwards[(d)]	49,465	312,028	361,493
Written options	887	19,240	20,127
Purchased options	887	20,317	21,204
Swaps[(a)]	3,446	21,006	24,452
Total	54,685	372,591	427,276
Of which: Hedging derivatives[(c)]	-	-	-
c) Stock contracts			
Futures and forwards	1,059	206,093	207,152
Written options	333	89,662	89,995
Purchased options[(e)]	391	89,661	90,052
Other	7	-	7
Swaps	351	158,285	158,636
Total	2,141	543,701	545,842
d) Commodities and other contracts			
Futures and forwards	-	7,084	7,084
Written options	-	53	53
Purchased options	-	53	53
Swaps	-	2,212	2,212
Total	-	9,402	9,402
e) Credit contracts			
Where the Bank is a guarantor	7	-	7
Where the Bank is a beneficiary	-	-	-
Total	7	-	7
Total nominal amount	103,478	1,341,529	1,445,007

(a) Of which: Swaps for which the banking corporation pays a fixed interest of NIS 187,057 million.
(b) Of which: NIS-CPI swaps totaling NIS 16,749 million.
(c) Mainly including hedging transactions and interest rate swaps (IRS).
(d) Of which: Foreign exchange spots totaling NIS 14,004 million.
(e) Of which: a total of NIS 89,610 million is traded on the Tel Aviv Stock Exchange.

Note 28B - Derivatives Activity - Scope, Credit Risks and Maturity Dates (cont.)

A. Volume of Consolidated Activity (cont.)

	December 31, 2022		
	Not held-for-trading derivatives	Held-for-trading derivatives	Total
	In NIS million		
(1) Nominal amount of derivatives			
a) Interest rate contracts			
Futures and forwards	7,227	45,758	52,985
Written options	1,218	341	1,559
Purchased options	-	-	-
Swaps[(a)]	48,246	339,761	388,007
Total[(b)]	56,691	385,860	442,551
Of which: Hedging derivatives[(c)]	7,681	-	7,681
b) Foreign currency contracts			
Futures and forwards[(d)]	65,645	246,012	311,657
Written options	983	15,908	16,891
Purchased options	983	16,256	17,239
Swaps[(a)]	1,935	21,123	23,058
Total	69,546	299,299	368,845
Of which: Hedging derivatives[(c)]	-	-	-
c) Stock contracts			
Futures and forwards	694	169,363	170,057
Written options	629	66,708	67,337
Purchased options[(e)]	484	66,569	67,053
Other	7	-	7
Swaps	244	116,267	116,511
Total	2,058	418,907	420,965
d) Commodities and other contracts			
Futures and forwards	-	10,151	10,151
Written options	-	175	175
Purchased options	-	173	173
Swaps	-	3,939	3,939
Total	-	14,438	14,438
e) Credit contracts			
Where the Bank is a guarantor	-	-	-
Where the Bank is a beneficiary	-	-	-
Total	-	-	-
Total nominal amount	128,295	1,118,504	1,246,799

(a) Of which: Swaps for which the banking corporation pays a fixed interest of NIS 186,539 million.
(b) Of which: NIS-CPI swaps totaling NIS 15,137 million.
(c) Mainly including hedging transactions and interest rate swaps (IRS).
(d) Of which: Foreign exchange spots totaling NIS 10,150 million.
(e) Of which: a total of NIS 66,368 million is traded on the Tel Aviv Stock Exchange.

Note 28B - Derivatives Activity - Scope, Credit Risks and Maturity Dates (cont.)

A. Volume of Consolidated Activity (cont.)

	December 31, 2023					
	Assets for derivatives, gross			Liabilities for derivatives, gross		
	Not held-for-trading derivatives	Held-for-trading derivatives	Total	Not held-for-trading derivatives	Held-for-trading derivatives	Total
	In NIS million					
(2) Gross fair value of derivatives						
a) Interest rate contracts	1,044	8,654	9,698	628	8,072	8,700
Of which: Hedging derivatives	766	-	766	116	-	116
b) Foreign currency contracts	305	6,600	6,905	33	7,176	7,209
Of which: Hedging derivatives	-	-	-	-	-	-
c) Stock contracts	49	10,566	10,615	69	10,484	10,553
d) Commodities and other contracts	-	200	200	-	199	199
e) Credit contracts	-	-	-	-	-	-
Total assets/liabilities in respect of derivatives, gross[(a)]	1,398	26,020	27,418	730	25,931	26,661
Amounts netted on the balance sheet	-	-	-	-	-	-
Book balance	1,398	26,020	27,418	730	25,931	26,661
Of which: not subject to a master netting- or similar arrangement	-	950	950	-	1,005	1,005

(a) Of which: NIS 8 million in gross fair value of assets in respect of embedded derivatives, NIS 25 million in gross fair value of liabilities in respect of embedded derivatives.

	December 31, 2022					
	Assets for derivatives, gross			Liabilities for derivatives, gross		
	Not held-for-trading derivatives	Held-for-trading derivatives	Total	Not held-for-trading derivatives	Held-for-trading derivatives	Total
	In NIS million					
(2) Gross fair value of derivatives						
a) Interest rate contracts	1,159	8,292	9,451	870	8,357	9,227
Of which: Hedging derivatives	878	-	878	85	-	85
b) Foreign currency contracts	259	7,206	7,465	47	4,809	4,856
Of which: Hedging derivatives	-	-	-	-	-	-
c) Stock contracts	25	9,470	9,495	56	8,946	9,002
d) Commodities and other contracts	-	242	242	-	241	241
e) Credit contracts	-	-	-	-	-	-
Total assets/liabilities in respect of derivatives, gross[(a)]	1,443	25,210	26,653	973	22,353	23,326
Amounts netted on the balance sheet	-	-	-	-	-	-
Book balance	1,443	25,210	26,653	973	22,353	23,326
Of which: not subject to a master netting- or similar arrangement	-	1,553	1,553	-	472	472

(a) Of which: NIS 15 million in gross fair value of assets in respect of embedded derivatives, NIS 15 million in gross fair value of liabilities in respect of embedded derivatives.

Note 28B - Derivatives Activity - Scope, Credit Risks and Maturity Dates (cont.)

B. Accounting Hedges

1. Effect of cash flow hedge accounting on accumulated other comprehensive income (loss)

	For the year ended December 31			
	2023		2022	
	Amounts recognized in other comprehensive income (loss) from derivatives	Profit (loss) reclassified from accumulated other comprehensive income (loss) to profit and loss[(a)]	Amounts recognized in other comprehensive income (loss) from derivatives	Profit (loss) reclassified from accumulated other comprehensive income (loss) to profit and loss[(a)]
	In NIS million			
a. Derivatives used for cash flow hedges[(b)]				
Interest rate contracts[(c)]	**1**	**4**	(14)	11

(a) Profit (loss) amounts reclassified from accumulated other comprehensive income (loss) were included in the interest income (expenses) line item or in the noninterest finance income (expenses) line item according to the line item in which the effect of the hedged item is presented.
(b) Represents amounts included in the hedge effectiveness assessment.
(c) The Bank designates certain derivatives as hedging instruments of cash flows - derivatives hedging an exposure to changes in cash flows from given loans. The effect of hedges is expected to lower the exposure to the given loans.

2. Effect of fair value hedge accounting on profit (loss)

	For the year ended December 31	
	2023	2022
	In NIS million	
Total interest income (expenses) recognized in the income statement	**171**	(4)
Effect of fair value hedges:		
a. Gain (loss) from fair value hedges		
Interest rate contracts[(a)]		
Hedged items	**238**	(800)
Hedging derivatives	**(63)**	807
b. Gain (loss) on cash flow hedges		
Interest rate contracts[(a)]		
Profit and loss reclassified to Accumulated other comprehensive income (loss)	**(4)**	(11)

(a) The Bank designates certain derivatives as hedging instruments of fair value, derivatives hedging exposure to interest rate received for bonds.

Note 28B - Derivatives Activity - Scope, Credit Risks and Maturity Dates (cont.)

B. Accounting hedges (cont.)

3. Items hedged at fair value hedges

	For the year ended December 31					
	2023			2022		
		Fair value adjustments which increased (decreased) the carrying amount			Fair value adjustments which increased (decreased) the carrying amount	
	Carrying amount of hedged item	Existing hedge relation-ships	Discontin-ued hedge relation-ships	Carrying amount of hedged item	Existing hedge relation-ships	Discontin-ued hedge relation-ships
	In NIS million					
Securities - debt instruments classified as available-for-sale securities	**5,046**	**(800)**	**(1)**	4,931	(887)	1
Subordinated notes	**(3,601)**	**115**	**-**	(1,720)	69	-

4. The effect of hedging a net investment in a foreign operations on accumulated other comprehensive income (loss) and on the income statement

	For the year ended December 31			
	2023		2022	
	Amounts carried to other comprehensive income (loss)	Profit (loss) reclassified from accumulated other comprehensive income (loss)[(a)]	Amounts carried to other comprehensive income (loss)	Profit (loss) reclassified from accumulated other comprehensive income (loss)[(a)]
	In NIS million			
Deposits serving as investment hedges, net				
Foreign currency deposits	**(86)**	**-**	(306)	-

(a) Other comprehensive income (loss) amounts reclassified from accumulated other comprehensive income (loss) were included in the interest income (expense) line item or in the noninterest finance income (expenses) line item.

Note 28B - Derivatives Activity - Scope, Credit Risks and Maturity Dates (cont.)

5. Effect of derivatives not designated as hedging instruments on the income statement

	For the year ended December 31	
	2023	2022
	Profit (loss) recognized in income (expenses) from derivatives activity[(a)]	Profit (loss) recognized in income (expenses) from derivatives activity[(a)]
	In NIS million	
Derivatives not designated as hedging instruments		
Interest rate contracts	**(58)**	(256)
Foreign currency contracts	**2,731**	7,819
Stock contracts	**249**	76
Commodity- and other contracts	**4**	2
Total	**2,926**	7,641

(a) Included in the noninterest finance income (expenses) line item.

Note 28B - Derivatives Activity - Scope, Credit Risks and Maturity Dates (cont.)

C. Credit Risk for Derivatives by Contract Counterparty

	December 31, 2023						
	Stock exchanges	Banks	Dealers/ brokers	Governments and central banks	Institutional entities	Other	Total
	In NIS million						
Book balance of assets in respect of derivatives[(a)(b)]	265	9,244	12,117	17	3,529	2,246	27,418
Gross amounts not netted on the balance sheet:							
Credit risk mitigation in respect of financial instruments	-	3,419	8,901	17	2,527	1,132	15,996
Credit risk mitigation in respect of cash collateral received	-	5,595	2,998	-	769	83	9,445
Total net book balance of assets in respect of derivatives[(d)]	265	230	218	-	233	1,031	1,977
Adjustment of book balance, net to on-balance-sheet credit risk[(e)]	(2)	(21)	28	-	(23)	(71)	(89)
Total on-balance-sheet credit risk for derivatives	263	209	246	-	210	960	1,888
Net off-balance-sheet credit risk for derivatives[(f)]	951	13,583	13,907	56	8,816	2,812	40,125
Total credit risk for derivatives	1,214	13,792	14,153	56	9,026	3,772	42,013
Book balance of liabilities in respect of derivatives[(a)(c)]	172	3,983	9,277	153	11,102	1,974	26,661
Gross amounts not netted on the balance sheet:							
Financial instruments	-	3,419	8,901	17	2,527	1,132	15,996
Pledged cash collateral	-	484	198	103	7,320	1	8,106
Net amount of liabilities in respect of derivatives	172	80	178	33	1,255	841	2,559

Note 28B - Derivatives Activity - Scope, Credit Risks and Maturity Dates (cont.)

	December 31, 2022						
	Stock exchanges	Banks	Dealers/ brokers	Governments and central banks	Institutional entities	Other	Total
	In NIS million						
Book balance of assets in respect of derivatives[a][b]	224	4,342	9,204	14	10,752	2,117	26,653
Gross amounts not netted on the balance sheet:							
Credit risk mitigation in respect of financial instruments	-	3,671	8,951	14	2,049	861	15,546
Credit risk mitigation in respect of cash collateral received	-	626	237	-	8,010	159	9,032
Total net book balance of assets in respect of derivatives[d]	224	45	16	-	693	1,097	2,075
Adjustment of book balance, net to on-balance-sheet credit risk[e]	1	(9)	26	-	(117)	136	37
Total on-balance-sheet credit risk for derivatives	225	36	42	-	576	1,233	2,112
Net off-balance-sheet credit risk for derivatives[f]	912	11,903	15,089	44	5,733	3,055	36,736
Total credit risk for derivatives	1,137	11,939	15,131	44	6,309	4,288	38,848
Book balance of liabilities in respect of derivatives[a][c]	170	7,199	11,709	120	2,487	1,641	23,326
Gross amounts not netted on the balance sheet:							
Financial instruments	-	3,671	8,951	14	2,049	861	15,546
Pledged cash collateral	-	3,352	2,611	89	284	-	6,336
Net amount of liabilities in respect of derivatives	170	176	147	17	154	780	1,444

(a) Comments: The Bank did not apply netting agreements.
(b) Of which book balance of assets in respect of standalone derivatives totaling NIS 27,410 million (December 31 2022 - NIS 26,638 million).
(c) Of which book balance of liabilities in respect of standalone derivatives totaling NIS 26,636 million (December 31 2022 - NIS 23,311 million).
(d) Book balance of assets for derivatives after offsetting fair value and collateral amounts that meet the offsetting guidance, in accordance with the circular regarding offsetting assets and liabilities.
(e) The difference between all total amounts for derivatives (including derivatives with negative fair value) included in the borrower's indebtedness, as calculated for the purpose of borrower indebtedness limitations, after credit risk mitigation, and the total of: the net book balance of assets for the derivatives and off-balance-sheet credit risk.
(f) The difference, if positive, between all total amounts for derivatives (including derivatives with negative fair value) included in the borrower's indebtedness, as calculated for the purpose of borrower indebtedness limitations, before credit risk mitigation, and the on-balance sheet credit risk for the borrower's derivatives.

General comments:
1. No loan losses were recognized in respect of derivatives in 2023 and 2022.
2. The effect of the counterparty credit risk and the effect of deferred gains at the transaction execution date on the valuation of assets for derivatives as of December 31, 2023 and December 31, 2022 was NIS 231 million and NIS 225 million, respectively. The effect of the non-performance risk on the valuation of assets for derivatives as of December 31, 2023 and December 31, 2022 was NIS 16 million and NIS 21 million, respectively.

Note 28B - Derivatives Activity - Scope, Credit Risks and Maturity Dates (cont.)

D. Breakdown of Settlement Dates - Par Value: Balances

	December 31, 2023				
	Up to three months	Over three months and up to one year	Over one year and up to five years	Over five years	Total
	In NIS million				
Interest rate contracts:					
NIS-CPI	2,110	5,045	6,600	2,994	16,749
Other	94,118	96,505	178,407	76,701	445,731
Foreign currency contracts	294,982	99,803	25,646	6,845	427,276
Stock contracts	399,752	141,663	4,427	-	545,842
Commodity- and other contracts	2,820	6,582	7	-	9,409
Total	793,782	349,598	215,087	86,540	1,445,007

	December 31, 2022				
	Up to three months	Over three months and up to one year	Over one year and up to five years	Over five years	Total
	In NIS million				
Interest rate contracts:					
NIS-CPI	1,789	4,500	6,027	2,821	15,137
Other	66,276	126,149	161,683	73,306	427,414
Foreign currency contracts	231,025	104,658	25,561	7,601	368,845
Stock contracts	247,718	167,826	5,421	-	420,965
Commodity- and other contracts	599	11,853	1,986	-	14,438
Total	547,407	414,986	200,678	83,728	1,246,799

Note 29A - Regulatory Operating Segments and Geographic Areas of Activity

Regulatory operating segments are reported according to the format and classifications prescribed by the Reporting to the Public Directives of the Banking Supervision Department, as follows:

1. Households segment – private individuals excluding Private Banking customers.
2. Private Banking segment – private individuals with a financial portfolio with the Bank whose balance (including monetary deposits, securities portfolios and other financial assets) exceeds NIS 3 million.
3. Micro businesses segment – businesses with a turnover (annual sales turnover or amount of annual revenues) of less than NIS 10 million.
4. Small businesses segment – businesses with a turnover (annual sales turnover or amount of annual revenues) of more than NIS 10 million and less than NIS 50 million.
5. Mid-market segment – businesses whose turnover (or annual income) is equal to or higher than NIS 50 million and lower than NIS 250 million.
6. Corporate segment – businesses whose turnover (or annual income) is equal to or higher than NIS 250 million.
7. Institutional entities segment - includes institutional clients as defined by the Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Law, 1995, including provident funds, pension funds, study funds, mutual funds, exchange-traded notes (ETNs), insurers, members of the TASE managing customers' money.
8. Financial management segment – includes the following activities:
   A. Trading activities - investment in tradable securities, market-making activity involving securities and derivatives, activity in derivatives not designated as hedges and not used by the Bank in its Asset and Liability Management (ALM) activities, repurchase and lending transactions involving held-for-trading securities, short selling of securities, securities' underwriting services.
   B. Asset and Liability Management (ALM) activities - including investment in available-for-sale bonds and held-to-maturity bonds not allocated to other operating segments (when the borrower has no indebtedness to the Bank, other than securities), hedging derivatives and derivatives used in asset and liability management, deposits with and by domestic and foreign banks, foreign currency hedges of exchange rate differentials in respect of investments in foreign offices, deposits with and by governments.
   C. Non-financial investment activity – investment in not held-for-trading equity securities and investments in associates of businesses.
   D. Other – management, operating, trust and custodial services to banks, advisory services, sale and management of loan portfolios and development of financial products.
9. Other segment – including discontinued operations, gains on amounts funded for employee benefits and other results related to employee benefits which were not allocated to other operating segments, activities that were not allocated to the other segments and adjustments between the total amount of items allocated to segments and the total amount of items in the consolidated financial statements.

Customer classification

According to the circular, when a banking corporation has no information regarding the total income of a business customer which has no indebtedness towards the banking corporation (including credit line, etc.), the banking corporation may classify them into the relevant regulatory segment according to their total financial assets multiplied by a factor of 10. In addition, when the Bank believes that the total income does not represent the customer's activity volume, the customer should be classified as follows: A customer whose indebtedness is less than NIS 100 million - according to the business's total balance-sheet assets, as stated in the FAQ file, and a customer whose indebtedness exceeds NIS 100 million - into the corporate segment.

During the period, measures were taken to complete missing information, mainly regarding business customers' turnovers. In cases where the information has not yet been completed, customers were classified using estimates and other information in the Bank's possession. The Bank continues to collect additional information and improve the data.

Note 29A - Regulatory Operating Segments and Geographic Areas of Activity (cont.)

A. Information on Regulatory Operating Segments

	For the year ended December 31, 2023			
	Activity in Israel[a]			
	Households[e]	Private banking	Small- and micro-businesses	Mid-market
	In NIS million			
Interest income from external	8,922	13	4,481	2,681
Interest expense for external	2,428	1,035	2,690	1,939
Interest income, net:				
From external	6,494	(1,022)	1,791	742
Inter-segmental	(546)	1,420	2,087	1,367
Total interest income, net	5,948	398	3,878	2,109
Total noninterest income	1,092	159	931	359
Total income	7,040	557	4,809	2,468
Loan loss expenses (income)	870	-	681	160
Operating and other expenses:				
For external	2,727	104	1,560	459
Inter-segmental	4	-	-	-
Total operating and other expenses	2,731	104	1,560	459
Profit (loss) before taxes	3,439	453	2,568	1,849
Provision for profit tax (benefit)	1,185	156	891	638
Profit (loss) after taxes	2,254	297	1,677	1,211
The Bank's share in associates' profits, after tax effect	-	-	-	-
Net income (loss) before attribution to non-controlling interests	2,254	297	1,677	1,211
Net income attributable to non-controlling interests	-	-	-	-
Net income (loss) attributable to the Bank's shareholders	2,254	297	1,677	1,211
Average outstanding balance of assets[b]	153,127	372	64,406	40,063
Of which: Investment in associates[b]	-	-	-	-
Average outstanding loans to the public[b]	154,025	365	65,668	40,505
Outstanding loans to the public as at the end of the reporting period	160,356	330	66,554	40,038
Outstanding non-performing debts in arrears of over 90 days	1,111	-	672	286
Outstanding other troubled debts	654	-	1,113	383
Balance of the loan loss provision for loans to the public	1,513	-	2,174	816
Net charge-offs during the reporting period	430	-	201	(9)
Average outstanding balance of liabilities[b]	132,758	31,690	101,773	65,816
Of which: Average balance of deposits by the public[b]	132,640	31,688	101,637	65,724
Balance of deposits by the public as at the end of the reporting period	137,230	32,558	103,573	62,171
Average balance of risk-weighted assets[b][c]	101,932	736	58,330	43,974
Balance of risk-weighted assets as at the end of the reporting period[c]	107,923	844	58,825	43,734
Average balance of assets under management[b][d]	59,334	49,433	82,199	29,472
Breakdown of interest income, net:				
Spread[g] from granting loans to the public	2,852	31	1,954	1,039
Spread[g] from deposit taking from the public	3,096	367	1,924	1,070
Other	-	-	-	-
Total interest income, net	5,948	398	3,878	2,109

(a) The classification is based on the office's location.
(b) Average balance calculations are based on daily balances, as at the beginning of the quarter or the beginning of each month.
(c) Risk-weighted assets - as calculated for capital adequacy purposes.
(d) Assets under management - including customers' provident assets, study funds, mutual funds and securities.
(e) Including housing loans with outstanding loans to the public as at end of period in the amount of NIS 20.0 billion to customers whose business activity is classified to business segments.
(f) Including the impairment loss from the investment in Valley shares in the amount of approx. NIS 1.1 billion. For more information, please see Note 15.A.
(g) Spread from credit granting activity is the difference between the interest received from credit and the cost of raising the sources used to grant the credit (hereinafter - "transfer prices"). These transfer prices are subject to the period, currency and type of interest in the transaction. Transfer prices are the Bank's internal pricing tool and are based on internal models and the Bank's judgment. Spread from deposit taking activity is the difference between the transfer prices and the interest paid to customers for these deposits.

					Foreign operations				
Corpora-tions	Institutional entities	Financial management	Other	Total activity in Israel	Private individuals	Business activity	Other	Foreign operations - total[(a)]	Total
8,116	156	8,690	-	33,059	4	581	11	596	33,655
3,314	4,311	1,941	-	17,658	-	-	-	-	17,658
4,802	(4,155)	6,749	-	15,401	4	581	11	596	15,997
(1,259)	4,745	(7,507)	39	346	-	(31)	(315)	(346)	-
3,543	590	(758)	39	15,747	4	550	(304)	250	15,997
875	181	1,491	41	5,129	1	69	(18)	52	5,181
4,418	771	733	80	20,876	5	619	(322)	302	21,178
673	(9)	(12)	-	2,363	-	20	-	20	2,383
518	220	289	886	6,763	1	134	(4)	131	6,894
1	8	11	(24)	-	-	-	-	-	-
519	228	300	862	6,763	1	134	(4)	131	6,894
3,226	552	445	(782)	11,750	4	465	(318)	151	11,901
1,146	192	(25)	(268)	3,915	1	92	(20)	73	3,988
2,080	360	470	(514)	7,835	3	373	(298)	78	7,913
-	-	(886)[(f)]	-	(886)	-	-	-	-	(886)
2,080	360	(416)	(514)	6,949	3	373	(298)	78	7,027
-	-	-	-	-	-	-	-	-	-
2,080	360	(416)	(514)	6,949	3	373	(298)	78	7,027
139,427	3,864	280,205	7,595	689,059	52	7,580	201	7,833	696,892
-	-	4,184	-	4,184	-	-	-	-	4,184
140,373	3,869	-	-	404,805	73	7,409	-	7,482	412,287
142,404	8,046	-	-	417,728	12	8,463	-	8,475	426,203
1,477	1	-	-	3,547	-	212	-	212	3,759
1,446	20	-	-	3,616	-	199	-	199	3,815
2,135	5	-	-	6,643	-	74	-	74	6,717
(88)	-	-	-	534	-	(7)	-	(7)	527
93,342	121,426	83,897	11,402	642,104	25	3,140	130	3,295	645,399
85,739	120,941	-	-	538,369	1	1	8	10	538,379
93,814	138,478	-	-	567,824	-	-	-	-	567,824
179,736	4,175	31,909	17,071	437,863	124	9,324	319	9,767	447,630
186,352	1,244	34,934	17,683	451,539	92	10,292	253	10,637	462,176
104,295	932,658	52,412	-	1,309,803	-	-	-	-	1,309,803
2,571	29	-	39	8,515	4	553	37	594	9,109
972	561	-	-	7,990	-	-	-	-	7,990
-	-	(758)	-	(758)	-	(3)	(341)	(344)	(1,102)
3,543	590	(758)	39	15,747	4	550	(304)	250	15,997

Note 29A - Regulatory Operating Segments and Geographic Areas of Activity (cont.)

A. Information on Regulatory Operating Segments (cont.)

	For the year ended December 31, 2022			
	Activity in Israel[a]			
	Households[e]	Private banking	Small- and micro-businesses	Mid-market
	In NIS million			
Interest income from external	6,765	11	2,733	1,395
Interest expense for external	585	219	587	578
Interest income, net:				
From external	6,180	(208)	2,146	817
Inter-segmental	(2,392)	414	574	548
Total interest income, net	3,788	206	2,720	1,365
Total noninterest income	996	148	894	344
Total income	4,784	354	3,614	1,709
Loan loss expenses (income)	223	-	184	(12)
Operating and other expenses:				
For external	2,684	91	1,626	435
Inter-segmental	-	-	-	-
Total operating and other expenses	2,684	91	1,626	435
Profit (loss) before taxes	1,877	263	1,804	1,286
Provision for profit tax (benefit)	654	93	634	451
Profit (loss) after taxes	1,223	170	1,170	835
The Bank's share in associates' profits (losses), after tax effect	-	-	-	-
Net income (loss) before amount attributable to non-controlling interests	1,223	170	1,170	835
Net income attributable to non-controlling interests	-	-	-	-
Net income (loss) attributable to the Bank's shareholders	1,223	170	1,170	835
Average outstanding balance of assets[b]	139,737	456	61,176	37,459
Of which: Investment in associates[b]	-	-	-	-
Average outstanding loans to the public[b]	140,481	456	62,076	37,840
Outstanding loans to the public as at the end of the reporting period	150,178	440	65,803	39,473
Outstanding non-performing debts in arrears of over 90 days	857[i]	-	439[i]	290
Outstanding other troubled debts	481	27	877	259
Balance of the loan loss provision for loans to the public	1,159	1	1,781	629
Net charge-offs during the reporting period	146	-	33	(21)
Average outstanding balance of liabilities[b]	124,108	27,169	94,274	65,032
Of which: Average balance of deposits by the public[b]	123,996	27,169	94,151	64,946
Balance of deposits by the public as at the end of the reporting period	128,394	29,612	100,557	70,077
Average balance of risk-weighted assets[b][c]	91,330	644	57,121	40,667
Balance of risk-weighted assets as at the end of the reporting period[c]	99,971	662	58,528	42,542
Average balance of assets under management[b][d]	62,339	48,626	78,277	31,837
Breakdown of interest income, net:				
Spread[g] from granting loans to the public	2,630	18	1,939	890
Spread[g] from deposit taking from the public	1,158	188	781	475
Other	-	-	-	-
Total interest income, net	3,788	206	2,720	1,365

(a) The classification is based on the office's location.
(b) Average balance calculations are based on daily balances, as at the beginning of the quarter or the beginning of each month.
(c) Risk-weighted assets - as calculated for capital adequacy purposes.
(d) Assets under management - including customers' provident assets, study funds, mutual funds and securities.
(e) Including housing loans with outstanding loans to the public as at end of period in the amount of NIS 18.6 billion to customers whose business activity is classified to business segments.
(f) Including revenues totaling NIS 782 million in respect of the Valley merger.
(g) Spread from credit granting activity is the difference between the interest received from credit and the cost of raising the sources used to grant the credit (hereinafter - "transfer prices"). These transfer prices are subject to the period, currency and type of interest in the transaction. Transfer prices are the Bank's internal pricing tool and are based on internal models and the Bank's judgment. Spread from deposit taking activity is the difference between the transfer prices and the interest paid to customers for these deposits.
(h) Reclassified. The intersegmental results of operation arising from crediting and debiting the business units for transfer prices were classified to the "Other" line item. This was done in order to sum up, across all segments, the total spread from loans to the public and total spread from deposits by the public, in lieu of interest income from credit and interest expenses on the deposits.
(i) Reclassified.

					Foreign operations				
Corpora-tions	Institutional entities	Financial management	Other	Total activity in Israel	Private individuals	Business activity	Other	Foreign operations - total	Total
3,885	55	3,453	-	18,297	9	455	34	498	18,795
1,042	1,428	1,127	-	5,566	-	18	-	18	5,584
2,843	(1,373)	2,326	-	12,731	9	437	34	480	13,211
(413)	1,708	(362)	24	101	1	(2)	(100)	(101)	-
2,430	335	1,964	24	12,832	10	435	(66)	379	13,211
700	186	798	849[f]	4,915	22	61	20	103	5,018
3,130	521	2,762	873	17,747	32	496	(46)	482	18,229
20	(1)	84	-	498	1	(1)	-	-	498
511	247	345	586	6,525	12	294	4	310	6,835
-	7	13	(20)	-	-	-	-	-	-
511	254	358	566	6,525	12	294	4	310	6,835
2,599	268	2,320	307	10,724	19	203	(50)	172	10,896
907	95	777	(93)	3,518	5	42	(1)	46	3,564
1,692	173	1,543	400	7,206	14	161	(49)	126	7,332
-	-	387	-	387	-	-	-	-	387
1,692	173	1,930	400	7,593	14	161	(49)	126	7,719
-	-	-	-	-	2	4	4	10	10
1,692	173	1,930	400	7,593	12	157	(53)	116	7,709
115,156	3,186	290,346	6,633	654,149	558	10,227	2,621	13,406	667,555
-	-	1,112	-	1,112	-	-	-	-	1,112
114,975	3,193	-	-	359,021	545	10,081	-	10,626	369,647
126,628	759	-	-	383,281	62	6,425	-	6,487	389,768
416	-	-	-	2,002	-	18	-	18	2,020
2,112	4	-	-	3,760	-	214	-	214	3,974
1,354	14	-	-	4,938	-	48	-	48	4,986
67	-	-	-	225	-	39	-	39	264
91,781	130,117	70,742	11,430	614,653	1,567	5,281	639	7,487	622,140
87,554	129,580	-	-	527,396	1,563	5,228	309	7,100	534,496
97,741	130,685	-	-	557,066	5	4	9	18	557,084
135,692	2,869	31,310	17,033	376,666	115	17,080	1,845	19,040	395,706
163,247	6,844	30,585	14,846	417,225	148	7,872	398	8,418	425,643
127,135	979,141	52,980	-	1,380,335	4,189	484	-	4,673	1,385,008
2,114	21	-[h]	23	7,635	2	351	119	472	8,107[h]
316	314	-[h]	1	3,233	8	85	(106)	(13)	3,220[h]
-	-	1,964[h]	-	1,964	-	(1)	(79)	(80)	1,884[h]
2,430	335	1,964	24	12,832	10	435	(66)	379	13,211

Note 29A - Regulatory Operating Segments and Geographic Areas of Activity (cont.)

A. Information on Regulatory Operating Segments (cont.)

	For the year ended December 31, 2021			
	Activity in Israel[(a)]			
	House-holds[(e)]	Private banking	Small- and micro-businesses	Mid-market
	In NIS million			
Interest income from external	4,542	7	1,962	920
Interest expense for external	226	62	85	71
Interest income, net:				
From external	4,316	(55)	1,877	849
Inter-segmental	(1,819)	95	(83)	(69)
Total interest income, net	2,497	40	1,794	780
Total noninterest income	1,005	169	826	324
Total income	3,502	209	2,620	1,104
Loan loss expenses (income)	(185)	-	(240)	(143)
Operating and other expenses:				
For external	2,795	95	1,555	458
Inter-segmental	-	-	-	-
Total operating and other expenses	2,795	95	1,555	458
Profit (loss) before taxes	892	114	1,305	789
Provision for profit tax (benefit)	313	40	462	280
Profit (loss) after taxes	579	74	843	509
The Bank's share in associates' profits (losses), after tax effect	-	-	-	-
Net income (loss) before attribution to non-controlling interests	579	74	843	509
Net income attributable to non-controlling interests	-	-	-	-
Net income (loss) attributable to the Bank's shareholders	579	74	843	509
Average outstanding balance of assets[(b)]	121,559	384	53,702	31,356
Of which: Investment in associates[(b)]	-	-	-	-
Average outstanding loans to the public[(b)]	122,401	377	54,311	31,680
Outstanding loans to the public as at the end of the reporting period	131,313	429	57,527	34,534
Outstanding non-performing debts in arrears of over 90 days	881	-	489	406
Outstanding other troubled debts	355	30	1,026	187
Balance of the loan loss provision for loans to the public	1,196	3	980	511
Net charge-offs during the reporting period	25	-	(28)	(34)
Average outstanding balance of liabilities[(b)]	122,028	25,698	82,423	55,562
Of which: Average balance of deposits by the public[(b)]	121,968	25,696	82,329	55,480
Balance of deposits by the public as at the end of the reporting period	120,483	25,965	86,888	60,874
Average balance of risk-weighted assets[(b)(d)]	81,285	701	51,505	34,396
Balance of risk-weighted assets as at the end of the reporting period[(c)]	86,779	710	54,029	37,628
Average balance of assets under management[(b)(d)]	66,598	50,077	78,350	28,887
Breakdown of interest income, net:				
Spread[(f)] from granting loans to the public	2,267	5	1,701	743
Spread[(f)] from deposit taking from the public	230	35	93	37
Other	-	-	-	-
Total interest income, net	2,497	40	1,794	780

(a) The classification is based on the office's location.
(b) Average balance calculations are based on daily balances, as at the beginning of the quarter or the beginning of each month.
(c) Risk-weighted assets - as calculated for capital adequacy purposes.
(d) Assets under management - including customers' provident assets, study funds, mutual funds and securities.
(e) Including housing loans with outstanding loans to the public as at end of period in the amount of NIS 16.4 billion to customers whose business activity is classified to business segments.
(f) Spread from credit granting activity is the difference between the interest received from credit and the cost of raising the sources used to grant the credit (hereinafter - "transfer prices"). These transfer prices are subject to the period, currency and type of interest in the transaction. Transfer prices are the Bank's internal pricing tool and are based on internal models and the Bank's judgment. Spread from deposit taking activity is the difference between the transfer prices and the interest paid to customers for these deposits.
(g) Reclassified. The intersegmental results of operation arising from crediting and debiting the business units for transfer prices were classified to the "Other" line item. This was done in order to sum up, across all segments, the total spread from loans to the public and total spread from deposits by the public, in lieu of interest income from credit and interest expenses on the deposits.

					Foreign operations				
Corporations	Institutional entities	Financial manage-ment	Other	Total activity in Israel	Private individuals	Business activity	Other	Foreign operations - total	Total
2,206	19	1,017	-	10,673	34	847	118	999	11,672
184	221	440	-	1,289	7	28	2	37	1,326
2,022	(202)	577	-	9,384	27	819	116	962	10,346
(412)	256	2,049	(2)	15	9	(22)	(2)	(15)	-
1,610	54	2,626	(2)	9,399	36	797	114	947	10,346
593	181	1,909	256	5,263	89	110	49	248	5,511
2,203	235	4,535	254	14,662	125	907	163	1,195	15,857
(201)	3	(42)	-	(808)	(5)	1	-	(4)	(812)
445	232	395	692	6,667	63	663	35	761	7,428
-	1	11	(12)	-	-	-	-	-	-
445	233	406	680	6,667	63	663	35	761	7,428
1,959	(1)	4,171	(426)	8,803	67	243	128	438	9,241
689	-	1,495	(106)	3,173	16	60	26	102	3,275
1,270	(1)	2,676	(320)	5,630	51	183	102	336	5,966
-	-	101	-	101	-	-	-	-	101
1,270	(1)	2,777	(320)	5,731	51	183	102	336	6,067
-	-	-	-	-	6	18	15	39	39
1,270	(1)	2,777	(320)	5,731	45	165	87	297	6,028
82,652	4,627	254,205	8,314	556,799	1,729	21,583	9,056	32,368	589,167
-	-	794	-	794	-	-	-	-	794
83,743	4,634	-	-	297,146	473	22,469	-	22,942	320,088
93,927	5,824	-	-	323,554	407	23,430	-	23,837	347,391
1,151	2	-	-	2,929	1	604	-	605	3,534
740	-	-	-	2,338	-	569	-	569	2,907
1,461	6	-	-	4,157	-	355	-	355	4,512
(121)	-	-	-	(158)	(3)	71	-	68	(90)
78,271	93,592	50,565	14,081	522,220	6,447	17,270	2,688	26,405	548,625
75,279	93,030	-	-	453,782	6,397	17,983	698	25,078	478,860
90,223	127,883	-	-	512,316	5,723	18,662	568	24,953	537,269
101,581	909	29,661	17,892	317,930	207	26,222	2,946	29,375	347,305
114,097	1,050	33,183	16,778	344,254	196	27,676	2,650	30,522	374,776
104,078	934,492	47,450	4	1,309,936	16,257	1,491	-	17,748	1,327,684
1,577	19	-[g]	(3)	6,309	8	439	431	878	7,187[g]
33	35	-[g]	1	464	28	358	(425)	(39)	425[g]
-	-	2,626[g]	-	2,626	-	-	108	108	2,734[g]
1,610	54	2,626	(2)	9,399	36	797	114	947	10,346

Note 29A - Regulatory Operating Segments and Geographic Areas of Activity (cont.)

A. Information on Regulatory Operating Segments (cont.)

Private individuals – Households and private banking

	For the year ended December 31, 2023								
	Households segment				Private banking segment				Private individuals - total
	Housing loans	Credit cards	Other	Total	Housing loans	Credit cards	Other	Total	
	In NIS million								
Interest income from external	6,520	84	2,318	8,922	8	-	5	13	8,935
Interest expense from external	6	-	2,422	2,428	-	-	1,035	1,035	3,463
Interest income, net:									
From external	6,514	84	(104)	6,494	8	-	(1,030)	(1,022)	5,472
Inter-segmental	(4,943)	(12)	4,409	(546)	(5)	13	1,412	1,420	874
Total interest income, net	1,571	72	4,305	5,948	3	13	382	398	6,346
Total noninterest income	46	375	671	1,092	-	6	153	159	1,251
Total income	1,617	447	4,976	7,040	3	19	535	557	7,597
Loan loss expenses	221	37	612	870	-	-	-	-	870
Operating and other expenses:									
For external	375	227	2,125	2,727	-	3	101	104	2,831
Inter-segmental	4	-	-	4	-	-	-	-	4
Total operating and other expenses	379	227	2,125	2,731	-	3	101	104	2,835
Profit before taxes	1,017	183	2,239	3,439	3	16	434	453	3,892
Provision for profit tax	348	63	774	1,185	1	5	150	156	1,341
Profit after taxes	669	120	1,465	2,254	2	11	284	297	2,551
The Bank's share in associates' profits, after tax effect	-	-	-	-	-	-	-	-	-
Net income before amount attributable to non-controlling interests	669	120	1,465	2,254	2	11	284	297	2,551
Net income attributable to non-controlling interests	-	-	-	-	-	-	-	-	-
Net income attributable to the Bank's shareholders	669	120	1,465	2,254	2	11	284	297	2,551
Average balance of assets[(a)]	123,604	4,474	25,049	153,127	161	104	107	372	153,499
Of which: Investments in associates[(a)]	-	-	-	-	-	-	-	-	-
Average outstanding loans to the public[(a)]	123,955	4,515	25,555	154,025	161	104	100	365	154,390
Outstanding loans to the public as at the end of the reporting period	130,410	4,468	25,478	160,356	158	94	78	330	160,686
Outstanding non-performing debts	688	4	339	1,031	-	-	-	-	1,031
Outstanding debts in arrears of over 90 days	-	-	80	80	-	-	-	-	80
Average outstanding liabilities[(a)]	53	13	132,692	132,758	-	-	31,690	31,690	164,448
Of which: Average balance of deposits by the public[(a)]	-	-	132,640	132,640	-	-	31,688	31,688	164,328
Balance of deposits by the public as at the end of the reporting period	-	-	137,230	137,230	-	-	32,558	32,558	169,788
Average balance of risk-weighted assets[(a)(b)]	75,452	3,987	22,493	101,932	106	249	381	736	102,668
Balance of risk-weighted assets as at the end of the reporting period[(b)]	81,475	4,237	22,211	107,923	45	360	439	844	108,767
Average balance of assets under management[(a)(c)]	1,633	-	57,701	59,334	1	-	49,432	49,433	108,767
Breakdown of interest income, net:									
Spread from granting loans to the public	1,577	72	1,203	2,852	3	13	15	31	2,883
Spread from taking deposits by the public	(6)	-	3,102	3,096	-	-	367	367	3,463
Other	-	-	-	-	-	-	-	-	-
Total interest income, net	1,571	72	4,305	5,948	3	13	382	398	6,346

(a) Average balance calculations are based on daily balances, as at the beginning of the quarter or the beginning of each month.
(b) Risk-weighted assets - as calculated for capital adequacy purposes.
(c) Assets under management - including customers' provident assets, study funds, mutual funds and securities.

Note 29A - Regulatory Operating Segments and Geographic Areas of Activity (cont.)

A. Information on Regulatory Operating Segments (cont.)

Private individuals – Households and private banking (cont.)

	For the year ended December 31, 2022								
	Households segment				Private banking segment				Private individuals - total
	Housing loans	Credit cards	Other	Total	Housing loans	Credit cards	Other	Total	
	In NIS million								
Interest income from external	5,143	56	1,566	6,765	7	-	4	11	6,776
Interest expense from external	-	-	585	585	-	-	219	219	804
Interest income, net:									
From external	5,143	56	981	6,180	7	-	(215)	(208)	5,972
Inter-segmental	(3,778)	1	1,385	(2,392)	1	3	410	414	(1,978)
Total interest income, net	1,365	57	2,366	3,788	8	3	195	206	3,994
Total noninterest income	49	263	684	996	-	3	145	148	1,144
Total income	1,414	320	3,050	4,784	8	6	340	354	5,138
Loan loss income	112	13	98	223	-	-	-	-	223
Operating and other expenses:									
For external	377	238	2,069	2,684	-	3	88	91	2,775
Inter-segmental	-	-	-	-	-	-	-	-	-
Total operating and other expenses	377	238	2,069	2,684	-	3	88	91	2,775
Profit before taxes	925	69	883	1,877	8	3	252	263	2,140
Provision for profit tax	320	24	310	654	3	1	89	93	747
Profit after taxes	605	45	573	1,223	5	2	163	170	1,393
The Bank's share in associates' profits, after tax effect	-	-	-	-	-	-	-	-	-
Net income before amount attributable to non-controlling interests	605	45	573	1,223	5	2	163	170	1,393
Net income attributable to non-controlling interests	-	-	-	-	-	-	-	-	-
Net income attributable to the Bank's shareholders	605	45	573	1,223	5	2	163	170	1,393
Average balance of assets[(a)]	111,055	4,067	24,615	139,737	188	92	176	456	140,193
Of which: Investments in associates[(a)]	-	-	-	-	-	-	-	-	-
Average outstanding loans to the public[(a)]	111,354	4,095	25,032	140,481	188	92	176	456	140,937
Outstanding loans to the public as at the end of the reporting period	119,495	4,185	26,498	150,178	195	100	145	440	150,618
Outstanding non-performing debts	559	-	222	781	-	-	-	-	781
Outstanding debts in arrears of over 90 days	-	-	76[(d)]	76	-	-	-	-	76
Average outstanding liabilities[(a)]	53	12	124,043	124,108	-	-	27,169	27,169	151,277
Of which: Average balance of deposits by the public[(a)]	-	-	123,996	123,996	-	-	27,169	27,169	151,165
Balance of deposits by the public as at the end of the reporting period	-	-	128,394	128,394	-	-	29,612	29,612	158,006
Average balance of risk-weighted assets[(a)(b)]	67,111	3,531	20,688	91,330	193	135	316	644	91,974
Balance of risk-weighted assets as at the end of the reporting period[(b)]	73,938	3,640	22,393	99,971	288	156	218	662	100,633
Average balance of assets under management[(a)(c)]	1,728	-	60,611	62,339	-	-	48,626	48,626	110,965
Breakdown of interest income, net:									
Spread from granting loans to the public	1,365	57	1,208	2,630	8	3	7	18	2,648
Spread from taking deposits by the public	-	-	1,158	1,158	-	-	188	188	1,346
Other	-	-	-	-	-	-	-	-	-
Total interest income, net	1,365	57	2,366	3,788	8	3	195	206	3,994

(a) Average balance calculations are based on daily balances, as at the beginning of the quarter or the beginning of each month.
(b) Risk-weighted assets - as calculated for capital adequacy purposes.
(c) Assets under management - including customers' provident assets, study funds, mutual funds and securities.
(d) Reclassified.

Note 29A - Regulatory Operating Segments and Geographic Areas of Activity (cont.)

A. Information on Regulatory Operating Segments (cont.)

Small-, micro- and mid-sized businesses and corporations

	For the year ended December 31, 2023									
	Small- and micro-business segment			Mid-market segment			Corporate segment			
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Total
	In NIS million									
Interest income from external	1,817	2,664	4,481	1,123	1,558	2,681	4,427	3,689	8,116	15,278
Interest expense from external	535	2,155	2,690	219	1,720	1,939	486	2,828	3,314	7,943
Interest income, net:										
From external	1,282	509	1,791	904	(162)	742	3,941	861	4,802	7,335
Inter-segmental	(146)	2,233	2,087	(373)	1,740	1,367	(2,144)	885	(1,259)	2,195
Total interest income, net	1,136	2,742	3,878	531	1,578	2,109	1,797	1,746	3,543	9,530
Total noninterest income	177	754	931	50	309	359	458	417	875	2,165
Of which: Income from credit cards	17	86	103	1	7	8	1	2	3	114
Total income	1,313	3,496	4,809	581	1,887	2,468	2,255	2,163	4,418	11,695
Loan loss expenses (income)	163	518	681	55	105	160	738	(65)	673	1,514
Operating and other expenses:										
For external	308	1,252	1,560	88	371	459	144	374	518	2,537
Inter-segmental	-	-	-	-	-	-	-	1	1	1
Total operating and other expenses	308	1,252	1,560	88	371	459	144	375	519	2,538
Profit before taxes	842	1,726	2,568	438	1,411	1,849	1,373	1,853	3,226	7,643
Provision for profit tax	292	599	891	151	487	638	475	671	1,146	2,675
Profit after taxes	550	1,127	1,677	287	924	1,211	898	1,182	2,080	4,968
The Bank's share in associates' profits, after tax effect	-	-	-	-	-	-	-	-	-	-
Net income before amount attributable to non-controlling interests	550	1,127	1,677	287	924	1,211	898	1,182	2,080	4,968
Net income attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-
Net income attributable to the Bank's shareholders	550	1,127	1,677	287	924	1,211	898	1,182	2,080	4,968
Average balance of assets(a)	24,181	40,225	64,406	16,402	23,661	40,063	65,774	73,653	139,427	243,896
Of which: Investments in associates(a)	-	-	-	-	-	-	-	-	-	-
Average outstanding loans to the public(a)	24,611	41,057	65,668	16,644	23,861	40,505	66,324	74,049	140,373	246,546
Outstanding loans to the public as at the end of the reporting period	25,141	41,413	66,554	17,113	22,925	40,038	72,666	69,738	142,404	248,996
Outstanding non-performing debts	224	414	638	94	192	286	948	494	1,442	2,366
Outstanding debts in arrears of over 90 days	3	31	34	-	-	-	29	6	35	69
Average outstanding liabilities(a)	20,097	81,676	101,773	7,556	58,260	65,816	15,399	77,943	93,342	260,931
Of which: Average balance of deposits by the public(a)	20,045	81,592	101,637	7,514	58,210	65,724	14,470	71,269	85,739	253,100
Balance of deposits by the public as at the end of the reporting period	20,713	82,860	103,573	7,660	54,511	62,171	14,202	79,612	93,814	259,558
Average balance of risk-weighted assets(a)(b)	24,832	33,498	58,330	19,027	24,947	43,974	93,688	86,048	179,736	282,040
Balance of risk-weighted assets as at the end of the reporting period(b)	26,190	32,635	58,825	19,190	24,544	43,734	105,463	80,889	186,352	288,911
Average balance of assets under management(a)(c)	16,302	65,897	82,199	4,570	24,902	29,472	21,818	82,477	104,295	215,966
Breakdown of interest income, net:										
Spread from granting loans to the public	766	1,188	1,954	421	618	1,039	1,663	908	2,571	5,564
Spread from taking deposits by the public	370	1,554	1,924	110	960	1,070	134	838	972	3,966
Other	-	-	-	-	-	-	-	-	-	-
Total interest income, net	1,136	2,742	3,878	531	1,578	2,109	1,797	1,746	3,543	9,530

(a) Average balance calculations are based on daily balances, as at the beginning of the quarter or the beginning of each month.
(b) Risk-weighted assets - as calculated for capital adequacy purposes.
(c) Assets under management - including customers' provident assets, study funds, mutual funds and securities.

Note 29A - Regulatory Operating Segments and Geographic Areas of Activity (cont.)

A. Information on Regulatory Operating Segments (cont.)

Small-, micro- and mid-sized businesses and corporations (cont.)

	For the year ended December 31, 2022									
	Small- and micro-business segment			Mid-market segment			Corporate segment			
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Total
	In NIS million									
Interest income from external	1,032	1,701	2,733	576	819	1,395	1,970	1,915	3,885	8,013
Interest expense from external	94	493	587	31	547	578	132	910	1,042	2,207
Interest income, net:										
From external	938	1,208	2,146	545	272	817	1,838	1,005	2,843	5,806
Inter-segmental	(97)	671	574	(148)	696	548	(580)	167	(413)	709
Total interest income, net	841	1,879	2,720	397	968	1,365	1,258	1,172	2,430	6,515
Total noninterest income	156	738	894	53	291	344	371	329	700	1,938
Of which: Income from credit cards	17	86	103	1	8	9	1	2	3	115
Total income	997	2,617	3,614	450	1,259	1,709	1,629	1,501	3,130	8,453
Loan loss expenses (income)	11	173	184	(2)	(10)	(12)	62	(42)	20	192
Operating and other expenses:										
For external	325	1,301	1,626	88	347	435	137	374	511	2,572
Inter-segmental	-	-	-	-	-	-	-	-	-	-
Total operating and other expenses	325	1,301	1,626	88	347	435	137	374	511	2,572
Profit before taxes	661	1,143	1,804	364	922	1,286	1,430	1,169	2,599	5,689
Provision for profit tax	232	402	634	126	325	451	496	411	907	1,992
Profit after taxes	429	741	1,170	238	597	835	934	758	1,692	3,697
The Bank's share in associates' profits, after tax effect	-	-	-	-	-	-	-	-	-	-
Net income before amount attributable to non-controlling interests	429	741	1,170	238	597	835	934	758	1,692	3,697
Net income attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-
Net income attributable to the Bank's shareholders	429	741	1,170	238	597	835	934	758	1,692	3,697
Average balance of assets[(a)]	22,968	38,208	61,176	14,770	22,689	37,459	50,589	64,567	115,156	213,791
Of which: Investments in associates[(a)]	-	-	-	-	-	-	-	-	-	-
Average outstanding loans to the public[(a)]	23,293	38,783	62,076	14,967	22,873	37,840	51,007	63,968	114,975	214,891
Outstanding loans to the public as at the end of the reporting period	24,053	41,750	65,803	15,983	23,490	39,473	56,530	70,098	126,628	231,904
Outstanding non-performing debts	133	286	419	64	226	290	39	361	400	1,109
Outstanding debts in arrears of over 90 days	7	13[(d)]	20	-	-	-	-	16	16	36
Average outstanding liabilities[(a)]	18,624	75,650	94,274	7,378	57,654	65,032	17,470	74,311	91,781	251,087
Of which: Average balance of deposits by the public[(a)]	18,582	75,569	94,151	7,344	57,602	64,946	16,701	70,853	87,554	246,651
Balance of deposits by the public as at the end of the reporting period	19,748	80,809	100,557	7,595	62,482	70,077	18,567	79,174	97,741	268,375
Average balance of risk-weighted assets[(a)(b)]	24,358	32,763	57,121	16,969	23,698	40,667	67,985	67,707	135,692	233,480
Balance of risk-weighted assets as at the end of the reporting period[(b)]	23,742	34,786	58,528	17,497	25,045	42,542	83,725	79,522	163,247	264,317
Average balance of assets under management[(a)(c)]	15,368	62,909	78,277	5,560	26,277	31,837	26,254	100,881	127,135	237,249
Breakdown of interest income, net:										
Spread from granting loans to the public	683	1,256	1,939	346	544	890	1,183	931	2,114	4,943
Spread from taking deposits by the public	158	623	781	51	424	475	75	241	316	1,572
Other	-	-	-	-	-	-	-	-	-	-
Total interest income, net	841	1,879	2,720	397	968	1,365	1,258	1,172	2,430	6,515

(a) Average balance calculations are based on daily balances, as at the beginning of the quarter or the beginning of each month.
(b) Risk-weighted assets - as calculated for capital adequacy purposes.
(c) Assets under management - including customers' provident assets, study funds, mutual funds and securities.
(d) Reclassified.

Note 29A - Regulatory Operating Segments and Geographic Areas of Activity (cont.)

A. Information on Regulatory Operating Segments (cont.)

Financial management

	For the year ended December 31, 2023				
	Trading activity	Assets and liabilities management activity	Non-financial investment activity	Other	Total
	In NIS million				
Interest income from external	663	8,151	14	(138)	8,690
Interest expense from external	624	1,321	-	(4)	1,941
Interest income, net:					
From external	39	6,830	14	(134)	6,749
Inter-segmental	(769)	(6,885)	(146)	293	(7,507)
Total interest income, net	(730)	(55)	(132)	159	(758)
Total noninterest income	697	477	216	101	1,491
Total income	(33)	422	84	260	733
Loan loss expenses	-	(1)	-	(11)	(12)
Operating and other expenses:					
For external	136	33	40	80	289
Inter-segmental	-	5	3	3	11
Total operating and other expenses	136	38	43	83	300
Profit (loss) before taxes	(169)	385	41	188	445
Provision for profit tax (benefit)	(158)	91	35	7	(25)
Profit (loss) after taxes	(11)	294	6	181	470
The Bank's share in associates' profits, after tax effect	-	-	(886)	-	(886)
Net income (loss) before amount attributable to non-controlling interests	(11)	294	(880)	181	(416)
Net income (loss) attributable to the Bank's shareholders	(11)	294	(880)	181	(416)
Average balance of assets[(a)]	32,651	230,666	13,590	3,298	280,205
Of which: Investments in associates[(a)]	-	-	4,184	-	4,184
Average outstanding liabilities[(a)]	30,575	52,743	109	470	83,897
Average balance of risk-weighted assets[(a)(b)]	6,754	19,905	5,250	-	31,909
Balance of risk-weighted assets as at the end of the reporting period[(b)]	5,791	23,878	5,263	2	34,934
Average balance of managed assets[(c)]	-	-	-	52,412	52,412
Component of interest income and noninterest finance income, net:					
Exchange rate differentials, net[(d)]	555	(108)	-	-	-
Exchange rate differentials, CPI[(d)]	4	1,004	-	-	-
Net interest exposures[(d)]	(525)	8,060	-	-	-
Net exposures to shares[(d)]	77	-	-	-	-
Interest spreads attributed to financial management	-	(8,722)	-	-	-
Total net interest income and noninterest income on accrual basis	111	234	-	-	-
Gains or losses from sale or other-than temporary impairment of bonds	-	(331)	-	-	-
Change in the difference between fair value and accrual basis of derivatives recognized in profit and loss	-	573	-	-	-
Other noninterest income	(144)	(54)	-	-	-
Total net interest income and noninterest finance income	(33)	422	-	-	-

(a) Average balance calculations are based on daily balances, as at the beginning of the quarter or the beginning of each month.
(b) Risk-weighted assets - as calculated for capital adequacy purposes.
(c) Assets under management - including customers' provident assets, study funds, mutual funds and securities.
(d) Including for securities and derivatives.

Note 29A - Regulatory Operating Segments and Geographic Areas of Activity (cont.)

A. Information on Regulatory Operating Segments (cont.)

Financial Management (cont.)

	For the year ended December 31, 2022				
	Trading activity	Assets and liabilities management activity	Non-financial investment activity	Other	Total
	In NIS million				
Interest income from external	86	3,354	10	3	3,453
Interest expense from external	42	1,085	-	-	1,127
Interest income, net:					
From external	44	2,269	10	3	2,326
Inter-segmental	(279)	(150)	(82)	149	(362)
Total interest income, net	(235)	2,119	(72)	152	1,964
Total noninterest income	131	410	144	113	798
Total income	(104)	2,529	72	265	2,762
Loan loss income	-	-	-	84	84
Operating and other expenses:					
For external	165	40	42	98	345
Inter-segmental	-	5	3	5	13
Total operating and other expenses	165	45	45	103	358
Profit (loss) before taxes	(269)	2,484	27	78	2,320
Provision for profit tax (benefit)	(94)	865	8	(2)	777
Profit (loss) after taxes	(175)	1,619	19	80	1,543
The Bank's share in associates' profits, after tax effect	-	-	387	-	387
Net income (loss) before amount attributable to non-controlling interests	(175)	1,619	406	80	1,930
Net income attributable to non-controlling interests	-	-	-	-	-
Net income (loss) attributable to the Bank's shareholders	(175)	1,619	406	80	1,930
Average balance of assets[(a)]	24,737	254,802	7,514	3,293	290,346
Of which: Investments in associates[(a)]	-	-	1,112	-	1,112
Average outstanding liabilities[(a)]	23,898	46,392	128	324	70,742
Of which: Average balance of deposits by the public[(a)]	-	-	-	-	-
Balance of deposits by the public as at the end of the reporting period	-	-	-	-	-
Average balance of risk-weighted assets[(a)(b)]	10,550	16,112	4,648	-	31,310
Balance of risk-weighted assets as at the end of the reporting period[(b)]	10,351	15,431	4,803	-	30,585
Average balance of managed assets[(c)]	-	-	-	52,980	52,980
Component of interest income and noninterest finance income, net:					
Exchange rate differentials, net[(d)]	345	119	-	-	-
Exchange rate differentials, CPI[(d)]	(98)	1,471	-	-	-
Net interest exposures[(d)]	(63)	3,332	-	-	-
Net exposures to shares[(d)]	66	-	-	-	-
Interest spreads attributed to financial management	-	(2,333)	-	-	-
Total net interest income and noninterest income on accrual basis	250	2,589	-	-	-
Gains or losses from sale or other-than temporary impairment of bonds	-	(183)	-	-	-
Change in the difference between fair value and accrual basis of derivatives recognized in profit and loss	-	73	-	-	-
Other noninterest income	(354)	50	-	-	-
Total net interest income and noninterest finance income	(104)	2,529	-	-	-

(a) Average balance calculations are based on daily balances, as at the beginning of the quarter or the beginning of each month.
(b) Risk-weighted assets - as calculated for capital adequacy purposes.
(c) Assets under management - including customers' provident assets, study funds, mutual funds and securities.
(d) Including for securities and derivatives.

Note 29A - Regulatory Operating Segments and Geographic Areas of Activity (cont.)

B. Information on Activity by Geographical Area[a]

	December 31, 2023					
	Israel	USA[c]	UK	Other	Total activity outside Israel	Total consolidated
	In NIS million					
Total income (expenses)[b]	20,033	-	1,148	(3)	1,145	21,178
Net income attributable to the Bank's shareholders	6,402	-	622	3	625	7,027
Total assets	722,775	-	8,688	34	8,722	731,497

	December 31, 2022					
	Israel	USA[c]	UK	Other	Total activity outside Israel	Total consolidated
	In NIS million					
Total income[b]	17,599	268	362	-	630	18,229
Net income attributable to the Bank's shareholders	7,454	56	199	-	255	7,709
Total assets	692,327	-	6,798	41	6,839	699,166

	December 31, 2021					
	Israel	USA[c]	UK	Other	Total activity outside Israel	Total consolidated
	In NIS million					
Total income[b]	14,784	982	89	2	1,073	15,857
Net income (loss) attributable to the Bank's shareholders	5,853	213	(46)	8	175	6,028
Total assets	623,478	26,026	6,928	22	32,976	656,454

(a) The classification is based on the office's location.
(b) Interest income and noninterest income, net.
(c) As of April 1, 2022, Bank Leumi USA is not consolidated in the Bank's consolidated financial statements due to the merger transaction with Valley. For more information, please see Note 15.A to the financial statements as at December 31, 2022.

Note 29B – Operating Segments according to Management Approach

A. Overview

According to Management Approach, an operating segment is a component of the banking corporation engaged in activities from which it may generate income and bear expenses. The operating results of the operating segment are reviewed on an ongoing basis by the Bank's management and Board of Directors in order to make decisions regarding the allocation of resources and the assessment of its performances. Furthermore, separate financial data is available for operating segments.
Operating segments reporting according to management approach presents the Bank's results by business line, in accordance with the Bank's organizational structure and decision of the Bank's management and Board of Directors.

The Bank's business lines specialize in providing services to customer segments with similar characteristics and needs.

The Bank's activity in Israel is managed as follows:

1. Banking – provision of banking services to retail customers and small businesses. This line of business comprises three departments: Retail Banking, Small Businesses, and Private Banking. The services and products are adapted to all the customer segments according to the nature of their banking activity, their characteristics and their needs.
2. Mortgages - provision of loans intended to purchase residential apartments or loans pledged by a residential apartment or another asset.
3. Commercial - providing banking and financial services to middle-market companies and interested parties in these companies.
4. Corporate banking - providing banking and financial services to large Israeli corporations and international corporations, supporting their domestic and foreign activities.
5. Real estate – providing banking and financial services to the construction and real estate sector.
6. Capital markets – management of the Bank's own portfolio, management of assets and liabilities and management of investments in financial assets.
7. Other – activities not attributed to the other business lines.

Results of operations are attributed to the line of business in charge of the customer's account.

- Net interest income – interest on loans extended by the business line is credited to the business line, net of the cost of raising the loans (transfer price). Furthermore, the business line is credited with a transfer price in respect of deposits raised net of interest paid to customers.
- Noninterest income (noninterest finance income, fees and commissions and other income) – is allocated to the business lines according to the customer's activity.
- Business lines' expenses include their direct expenses. Expenses of corporate units providing services to business lines are allocated to the business lines.
- Part of the income from the management of assets and liabilities is recorded to the business lines according to their business activity.

The operating results of the business lines, both in terms of on-balance sheet items and in terms of profit and loss items, are assessed on an ongoing basis by the Bank's management and Board of Directors. The results are compared to objectives set in an annual work plan and to the corresponding period in the previous year. Furthermore, the Bank measures a range of other metrics relating to the business lines' activities.

Note 29B – Operating Segments according to Management Approach (cont.)

B. Information Regarding Operating Segments according to Management Approach

	For the year ended December 31, 2023												
	The Bank									Subsidiaries in Israel	Foreign subsidiaries	
	Private individuals	Small businesses	Retail banking - total	Mortgages	Mid-market	Corporate	Real estate	Capital markets	Other and adjustments			Total
	In NIS million											
Interest income, net:												
From external	(2,113)	1,113	(1,000)	6,689	1,577	2,098	3,829	2,045	24	141	594	15,997
Inter-segmental	7,732	1,051	8,783	(5,270)	1,372	(996)	(2,453)	(1,120)	1	27	(344)	-
Interest income, net	5,619	2,164	7,783	1,419	2,949	1,102	1,376	925	25	168	250	15,997
Noninterest income	1,558	496	2,054	15	580	331	391	1,395	67	296	52	5,181
Total income	7,177	2,660	9,837	1,434	3,529	1,433	1,767	2,320	92	464	302	21,178
Loan loss expenses (income)	844	389	1,233	261	354	59	430	(35)	(4)	65	20	2,383
Total operating and other expenses	2,833	929	3,762	385	721	290	170	384	858	193	131	6,894
Profit (loss) before tax	3,500	1,342	4,842	788	2,454	1,084	1,167	1,971	(762)	206	151	11,901
Provision (benefit) for taxes	1,197	459	1,656	269	839	371	399	674	(337)	44	73	3,988
Net income (loss) attributable to the Bank's shareholders	2,303	883	3,186	519	1,615	713	768	403[(a)]	(425)	170	78	7,027
Balances as at December 31, 2023												
Loans to the public, net	30,180	26,159	56,339	132,074	62,567	60,667	66,692	25,655	5,987	1,103	8,402	419,486
Deposits by the public	216,898	56,087	272,985	-	88,206	36,305	10,107	160,215	6	-	-	567,824

(a) Including the impairment loss from the investment in Valley shares in the amount of approx. NIS 1.1 billion. For more information, please see Note 15.A.

Note 29B – Operating Segments according to Management Approach (cont.)

B. Information Regarding Operating Segments according to Management Approach (cont.)

	For the year ended December 31, 2022											
	The Bank									Subsidiaries in Israel	Foreign subsidiaries	
	Private individuals	Small businesses	Retail banking - total	Mortgages	Mid-market	Corporate	Real estate	Capital markets	Other and adjustments			Total
	In NIS million											
Interest income, net:												
From external	786	1,254	2,040	5,168	1,535	1,336	1,776	741	14	121	480	13,211
Inter-segmental[b]	2,328	248	2,576	(3,832)	473	(529)	(696)	2,108	(5)	6	(101)	-
Interest income, net	3,114	1,502	4,616	1,336	2,008	807	1,080	2,849	9	127	379	13,211
Noninterest income[b]	1,430	471	1,901	14	552	245	378	563	778[a]	484	103	5,018
Total income	4,544	1,973	6,517	1,350	2,560	1,052	1,458	3,412	787	611	482	18,229
Loan loss expenses (income)	131	126	257	114	115	(16)	(57)	113	(21)	(7)	-	498
Total operating and other expenses	2,697	1,006	3,703	377	723	278	148	415	682	199	310	6,835
Profit before taxes	1,716	841	2,557	859	1,722	790	1,367	2,884	126	419	172	10,896
Provision (benefit) for taxes	587	288	875	294	589	270	467	986	(64)	101	46	3,564
Net income attributable to the Bank's shareholders	1,129	553	1,682	565	1,133	520	900	2,207	190	396	116	7,709
Balances as at December 31, 2022												
Loans to the public, net	32,498	26,688	59,186	120,927	60,820	54,807	54,669	21,310	5,747	871	6,445	384,782
Deposits by the public	202,991	55,415	258,406	-	95,839	39,617	14,423	148,773	7	-	19	557,084

(a) Including revenues totaling NIS 782 million in respect of the Valley merger.

(b) As of the third quarter of 2023, a change was introduced to the allocation of profitability resulting from the Bank's asset and liability management activity, such that as from that date, all profitability from this activity is attributed to the "Capital Markets" P&L center. To present comparative information, the comparative figures were reclassified.

Note 29B – Operating Segments according to Management Approach (cont.)

B. Information Regarding Operating Segments according to Management Approach (cont.)

	For the year ended December 31, 2021											
	The Bank									Subsidiaries in Israel	Foreign subsidiaries	
	Private individuals	Small businesses	Retail banking - total	Mortgages	Mid-market	Corporate	Real estate	Capital markets	Other and adjustments			Total
	In NIS million											
Interest income, net:												
From external	1,108	1,075	2,183	3,251	1,387	1,017	1,072	357	10	106	963	10,346
Inter-segmental[b]	526	(27)	499	(2,053)	(132)	(400)	(181)	2,284	(1)	-	(16)	-
Interest income, net	1,634	1,048	2,682	1,198	1,255	617	891	2,641	9	106	947	10,346
Noninterest income[b]	1,439	460	1,899	18	468	241	326	1,009	333	969[a]	248	5,511
Total income	3,073	1,508	4,581	1,216	1,723	858	1,217	3,650	342	1,075	1,195	15,857
Loan loss expenses (income)	(33)	(263)	(296)	(137)	(119)	(240)	(39)	31	(21)	13	(4)	(812)
Total operating and other expenses	2,770	982	3,752	322	731	277	134	420	825	206	761	7,428
Profit (loss) before tax	336	789	1,125	1,031	1,111	821	1,122	3,199	(462)	856	438	9,241
Provision for taxes	115	270	385	352	380	281	384	1,094	81	216	102	3,275
Net income (loss) attributable to the Bank's shareholders	221	519	740	679	731	540	738	2,108	(543)	738	297	6,028

Balances as at December 31, 2021												
Loans to the public, net	30,335	25,745	56,080	104,525	51,408	41,417	43,665	15,749	5,532	1,006	23,497	342,879
Deposits by the public	185,452	51,329	236,781	-	86,466	33,621	13,395	142,050	3	-	24,953	537,269

(a) Includes the revenues of Leumi Partners Ltd. for realized and unrealized gain totaling approx. NIS 518 million from the shares of ironSource and Retailors.

(b) As of the third quarter of 2023, a change was introduced to the allocation of profitability resulting from the Bank's asset and liability management activity, such that as from that date, all profitability from this activity is attributed to the "Capital Markets" P&L center. To present comparative information, the comparative figures were reclassified.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision

A. Debts(a) and Off-Balance-Sheet Credit Instruments

1. Change in Outstanding Loan Loss Provision

	For the year ended December 31, 2023					
	Loan loss provision					
	Loans to the public				Banks, governments and bonds held-to-maturity and available-for-sale	Total
	Commercial	Housing	Private - other	Total - public		
	In NIS million					
Balance of loan loss provision as at the beginning of the year	**4,420**	**419**	**732**	**5,571**	**54**	**5,625**
Loan-loss expenses (income)	**1,550**	**221**	**649**	**2,420**	**(37)**	**2,383**
Charge-offs	**(455)**	**(6)**	**(662)**	**(1,123)**	**-**	**(1,123)**
Collection of debts written off in previous years	**358**	**-**	**238**	**596**	**-**	**596**
Net charge-offs	**(97)**	**(6)**	**(424)**	**(527)**	**-**	**(527)**
Balance of loan loss provision as at year end[1]	**5,873**	**634**	**957**	**7,464**	**17**	**7,481**
[1]Of which: in respect of off-balance-sheet credit instruments	**697**	**12**	**38**	**747**	**-**	**747**

	For the year ended December 31, 2022					
	Loan loss provision					
	Loans to the public				Banks, governments and bonds held-to-maturity and available-for-sale	Total
	Commercial	Housing	Private - other	Total - public		
	In NIS million					
Balance of loan loss provision as at the beginning of the year	3,765	489	727	4,981	3	4,984
Adjustment to the opening balance due to the effect of first-time application(b)	804	(165)	22	661	26	687
Balance as at January 1, 2022	4,569	324	749	5,642	29	5,671
Loan loss expenses	240	112	112	464	34	498
Charge-offs	(589)	(17)	(370)	(976)	-	(976)
Collection of debts written off in previous years	471	-	241	712	-	712
Net charge-offs	(118)	(17)	(129)	(264)	-	(264)
Adjustments from translation of Financial Statements	5	-	-	5	-	5
Less balances of the subsidiary in the United States that was sold(c)	(276)	-	-	(276)	(9)	(285)
Balance of loan loss provision as at year end[1]	4,420	419	732	5,571	54	5,625
[1]Of which: in respect of off-balance-sheet credit instruments	563	1	21	585	-	585

(a) Loans to the public, loans to governments, deposits with banks (excluding deposits with the Bank of Israel) and other debts, excluding securities borrowed or purchased under repurchase agreements.

(b) Cumulative effect in respect of first-time application of US GAAP's ASU 2016-13, "Financial Instruments - Credit Losses". Please see Note 1.H.

(c) As of April 1, 2022, Bank Leumi USA is not consolidated in the Bank's consolidated financial statements due to the merger transaction with Valley. For more information, please see Note 15.A to the financial statements as at December 31, 2022.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

A. Debts[(a)] and Off-Balance-Sheet Credit Instruments (cont.)

1. Change in outstanding loan loss provision (cont.)

	For the year ended December 31, 2021					
	Loan loss provision					
	Loans to the public					
	Commercial	Housing	Private - other	Total - public	Banks and governments	Total
	In NIS million					
Balance of loan loss provision as at the beginning of the year	4,284	636	792	5,712	3	5,715
Loan loss income	(622)	(145)	(45)	(812)	-	(812)
Charge-offs	(472)	(6)	(279)	(757)	-	(757)
Collection of debts written off in previous years	584	4	259	847	-	847
Net charge-offs	112	(2)	(20)	90	-	90
Adjustments from translation of Financial Statements	(9)	-	-	(9)	-	(9)
Balance of loan loss provision as at year end[1]	3,765	489	727	4,981	3	4,984
[1]Of which: in respect of off-balance-sheet credit instruments	453	-	16	469	-	469

(a) Loans to the public, loans to governments, deposits with banks (excluding deposits with the Bank of Israel) and other debts, excluding securities borrowed or purchased under reverse repurchase agreements.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

A. Debts,[a] held-to-maturity bonds and available-for-sale bonds, loans to the public and balance of loan loss provision

2. Additional information on calculating the loan loss provision for debts,[a] held-to-maturity bonds and available-for-sale bonds

	December 31, 2023					
	Loans to the public				Banks, govern-ments and bonds held-to-maturity and available-for-sale	Total
	Commercial	Housing	Private - other	Total - public		
	In NIS million					
Recorded outstanding debt:[a]						
Examined on a specific basis	239,573	-	661	240,234	162,912	403,146
Examined on a collective basis	26,184	130,624	29,161	185,969	-	185,969
Total debts[a]	265,757	130,624	29,822	426,203	162,912	589,115
Outstanding loan loss provision in respect of debts:[a]						
Examined on a specific basis	4,324	-	275	4,599	17	4,616
Examined on a collective basis	852	622	644	2,118	-	2,118
Total loan loss provision	5,176	622	919	6,717	17	6,734

	December 31, 2022					
	Loans to the public				Banks, govern-ments and bonds held-to-maturity and available-for-sale	Total
	Commercial	Housing	Private - other	Total - public		
	In NIS million					
Recorded outstanding debt:[a]						
Examined on a specific basis	213,711	-	460	214,171	95,502	309,673
Examined on a collective basis	25,902	119,720	29,975	175,597	22	175,619
Total debts:[a]	239,613	119,720	30,435	389,768	95,524	485,292
Outstanding loan loss provision in respect of debts:[a]						
Examined on a specific basis	3,286	-	163	3,449	54	3,503
Examined on a collective basis	571	418	548	1,537	-	1,537
Total loan loss provision	3,857	418	711	4,986	54	5,040

(a) Loans to the public, loans to governments, deposits with banks (excluding deposits with the Bank of Israel) and other debts, excluding securities borrowed or purchased under reverse repurchase agreements.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Loans to the public

1. Credit quality and arrears

	December 31, 2023					
		Troubled[a]			Performing debts - additional information	
	Non-troubled	Performing	Non-performing	Total	In arrears of 90 days or more[b]	In arrears of 30 days and up to 89 days[c]
	In NIS million					
Borrower activity in Israel						
Public - Commercial						
Construction and real estate - Construction	65,001	211	1,034	66,246	19	43
Construction and real estate - Real estate activities	43,442	250	139	43,831	13	56
Financial services	38,756	32	34	38,822	1	17
Commercial - Other	91,371	2,020	666	94,057	36	113
Commercial - total	238,570	2,513	1,873	242,956	69	229
Private individuals - Housing loans	129,856	24	688	130,568	-	407
Private individuals - Other	28,763	710	343	29,816	80	166
Total loans to the public - activity in Israel	397,189	3,247	2,904	403,340	149	802
Borrower activity outside Israel						
Public - Commercial						
Construction and real estate	8,937	60	93	9,090	-	3
Commercial - Other	12,441	657	613	13,711	-	118
Commercial - total	21,378	717	706	22,801	-	121
Private individuals	62	-	-	62	-	-
Total loans to the public - foreign operations	21,440	717	706	22,863	-	121
Total loans to the public	418,629	3,964	3,610	426,203	149	923

(a) Non-performing, substandard or special mention loans to the public.
(b) Classified as troubled, performing debts.
(c) Accrual debt. Debts in arrears of 30 and up to 89 days, totaling NIS 262 million, were classified as troubled debts.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Loans to the public (cont.)

1. Credit quality and arrears (cont.)

	December 31, 2022					
		Troubled[a]			Performing debts - additional information	
	Non-troubled	Performing	Non-performing	Total	In arrears of 90 days or more[b]	In arrears of 30 days and up to 89 days[c]
	In NIS million					
Borrower activity in Israel						
Public - Commercial						
Construction and real estate - Construction	52,908	849	126	53,883	6	66[d]
Construction and real estate - Real estate activities	39,124	74	51	39,249	1	52[d]
Financial services	29,156	19	53	29,228	1	30
Commercial - Other	91,714	1,500	640	93,854	28[d]	108
Commercial - total	212,902	2,442	870	216,214	36	256
Private individuals - Housing loans	119,064	67	559	119,690	-	412
Private individuals - Other	29,631	517	222	30,370	76[d]	142
Total loans to the public - activity in Israel	361,597	3,026	1,651	366,274	112	810
Borrower activity outside Israel						
Public - Commercial						
Construction and real estate	6,813	-	59	6,872	-	3
Commercial - Other	15,269	1,060	198	16,527	-	216
Commercial - total	22,082	1,060	257	23,399	-	219
Private individuals	95	-	-	95	-	-
Total loans to the public - foreign operations	22,177	1,060	257	23,494	-	219
Total loans to the public	383,774	4,086	1,908	389,768	112	1,029

(a) Non-performing, substandard or special mention loans to the public.
(b) Classified as troubled, performing debts.
(c) Accrual debt. Debts in arrears of 30 and up to 89 days, totaling NIS 360 million, were classified as troubled debt.
(d) Reclassified.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Loans to the public (cont.)

1.1 Credit quality by credit granting year

	December 31, 2023								
	Recorded outstanding debt of fixed loans to the public						Recorded outstanding debt of renewed loans	Recorded outstanding debt of renewed loans converted to fixed loans	Total
	2023	2022	2021	2020	2019	Past			
	In NIS million								
Borrower activity in Israel									
Public - Commercial									
Construction and real estate - Total	19,809	16,824	12,837	3,934	3,321	6,450	45,103	1,799	110,077
Credit that is rated as performing	19,657	16,324	12,104	3,708	3,224	6,282	44,979	1,784	108,062
Credit that is non-investment grade and non-troubled	66	96	50	56	57	2	51	3	381
Troubled performing credit	42	187	75	29	25	53	46	4	461
Non-performing credit	44	217	608	141	15	113	27	8	1,173
Commercial - Other - Total	36,822	24,155	14,157	8,464	3,628	8,513	35,742	1,398	132,879
Credit that is rated as performing	36,588	23,572	13,700	8,175	3,430	8,152	34,912	1,342	129,871
Credit that non-investment grade and non-troubled	107	28	35	17	5	3	60	1	256
Troubled performing credit	81	411	293	175	160	239	678	15	2,052
Non-performing credit	46	144	129	97	33	119	92	40	700
Private individuals - Housing loans - Total	21,519	25,977	22,057	13,239	8,859	38,916	-	1	130,568
LTV of up to 60%	12,013	13,795	12,203	8,118	5,773	27,006	-	1	78,909
LTV of more than 60% and up to 75%	9,466	12,111	9,770	5,063	3,044	10,852	-	-	50,306
LTV of more than 75%	40	71	84	58	42	1,058	-	-	1,353
Non-delinquent credit	21,430	25,822	21,898	13,119	8,777	38,426	-	1	129,473
In arrears of 30-89 days	47	88	75	54	29	114	-	-	407
Non-performing credit	42	67	84	66	53	376	-	-	688
Private individuals – Other - Total	9,517	6,361	3,724	2,014	579	308	6,914	399	29,816
Non-delinquent credit	9,436	6,194	3,613	1,975	563	298	6,808	340	29,227
In arrears of 30-89 days	29	43	23	6	3	2	59	1	166
In arrears of over 90 days	14	18	8	2	1	1	35	1	80
Non-performing credit	38	106	80	31	12	7	12	57	343
Total loans to the public - activity in Israel	87,667	73,317	52,775	27,651	16,387	54,187	87,759	3,597	403,340
Total loans to the public - foreign operations	11,022	3,540	2,891	262	290	635	4,097	126	22,863
Non-troubled credit	11,002	3,120	2,732	53	285	557	3,565	126	21,440
Troubled performing credit	5	102	61	-	-	78	471	-	717
Non-performing credit	15	318	98	209	5	-	61	-	706
Total loans to the public	98,689	76,857	55,666	27,913	16,677	54,822	91,856	3,723	426,203

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Loans to the public (cont.)

1.1 Credit quality by credit granting year (cont.)

	December 31, 2022								
	Recorded outstanding debt of fixed loans to the public[(a)]						Recorded outstanding debt of renewed loans	Recorded outstanding debt of renewed loans converted to fixed loans	Total
	2022	2021	2020	2019	2018	Past			
	In NIS million								
Borrower activity in Israel									
Public - Commercial									
Construction and real estate - Total	36,270	11,502	4,587	3,349	2,097	3,391	29,832	2,104	93,132
Non-troubled credit	36,192	10,991	4,446	3,323	2,074	3,332	29,590	2,084	92,032
Troubled performing credit	63	458	124	16	10	30	213	9	923
Non-performing credit	15	53	17	10	13	29	29	11	177
Commercial - Other - Total	50,542	17,229	10,591	4,554	2,379	5,332	30,471	1,984	123,082
Non-troubled credit	50,171	16,911	10,312	4,342	2,288	4,897	30,000	1,949	120,870
Troubled performing credit	326	231	173	139	73	219	339	19	1,519
Non-performing credit	45	87	106	73	18	216	132	16	693
Private individuals - Housing loans - Total	28,600	24,408	14,361	9,997	6,444	35,880	-	-	119,690
LTV of up to 60%	14,656	13,399	8,697	6,572	4,296	24,101	-	-	71,721
LTV of more than 60% and up to 75%	13,883	10,923	5,605	3,379	2,101	10,618	-	-	46,509
LTV of more than 75%	61	86	59	46	47	1,161	-	-	1,460
Non-delinquent credit	28,518	24,319	14,252	9,915	6,386	35,329	-	-	118,719
In arrears of 30-89 days	55	56	56	45	26	174	-	-	412
Non-performing credit	27	33	53	37	32	377	-	-	559
Private individuals - Other - Total	11,229	6,490	3,280	1,423	616	380	6,622	330	30,370
Non-delinquent credit[(b)]	11,140	6,365	3,226	1,387	599	374	6,541	298	29,930
In arrears of 30-89 days	35	32	13	8	4	3	46	1	142
In arrears of over 90 days[(b)]	17	16	3	2	1	1	35	1	76
Non-performing credit	37	77	38	26	12	2	-	30	222
Total loans to the public - activity in Israel	126,641	59,629	32,819	19,323	11,536	44,983	66,925	4,418	366,274
Total loans to the public - foreign operations	6,485	2,854	455	413	-	97	12,614	576	23,494
Non-troubled credit	6,440	2,415	302	401	-	97	12,110	412	22,177
Troubled performing credit	21	294	138	-	-	-	443	164	1,060
Non-performing credit	24	145	15	12	-	-	61	-	257
Total loans to the public	133,126	62,483	33,274	19,736	11,536	45,080	79,539	4,994	389,768

(a) As a rule, in cases where fixed credit was provided in lieu of repayment of existing credit, the year of credit provision was revised according to the new credit provision date.
(b) Reclassified.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Loans to the public (cont.)

2.A. Additional information on non-performing debts[(a)]

	December 31, 2023					
	Outstanding [(b)] non-performing debts for which there is a provision	Outstanding provision	Outstanding [(b)] non-performing debts for which there is a provision	Total outstanding balance[(b)] of non-performing debts	Outstanding contractual principal in respect of non-performing debts	Recorded interest income[(c)]
	In NIS million					
Borrower activity in Israel						
Public - Commercial						
Construction and real estate	1,018	253	155	1,173	1,592	-
Commercial - Other	533	283	167	700	2,517	2
Commercial - total	1,551	536	322	1,873	4,109	2
Private individuals - Housing loans	688	79	-	688	688	1
Private individuals - Other	343	196	-	343	672	2
Total loans to the public – activity in Israel	2,582	811	322	2,904	5,469	5
Borrower activity outside Israel						
Total loans to the public – foreign operations	520	81	186	706	935	4
Total - public[1]	3,102	892	508	3,610	6,404	9
Of which:[1]						
Measured on a specific basis according to the present value of cash flows	1,723	654	417	2,140	4,108	
Measured on a specific basis according to fair value of collateral	691	159	91	782	1,608	
Measured on a collective basis	688	79	-	688	688	

(a) Loans to the public, loans to governments, deposits with banks (excluding deposits with the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(b) Recorded outstanding debt.
(c) Interest income amount recorded for the reporting period in respect of the average balance of outstanding non-performing debts during the period in which the debts were classified as non-performing.

Were the non-performing debts to accrue interest according to the original terms and conditions, interest income in the amount of NIS 642 million would be recorded.
Additional information: the total recorded average outstanding debt of non-performing debts in the year ended December 31, 2023 is NIS 2,691 million.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Loans to the public (cont.)

2.A. Additional information on non-performing debts[(a)] (cont.)

	December 31, 2022					
	Outstanding[(b)] non-performing debts for which there is a provision	Outstanding provision	Outstanding[(b)] non-performing debts for which there is no provision	Total outstanding balance[(b)] of non-performing debts	Outstanding contractual principal in respect of non-performing debts	Recorded interest income[(c)]
	In NIS million					
Borrower activity in Israel						
Public - Commercial						
Construction and real estate	136	47	41	177	570	2
Commercial - Other	481	155	212	693	2,367	4
Commercial - total	617	202	253	870	2,937	6
Private individuals - Housing loans	559	77	-	559	579	-
Private individuals - Other	222	115	-	222	474	1
Total loans to the public – activity in Israel	1,398	394	253	1,651	3,990	7
Borrower activity outside Israel						
Total loans to the public - foreign operations	204	48	53	257	478	2
Total - public[1]	1,602	442	306	1,908	4,468	9
Of which:[1]						
Measured according to the present value of cash flows	997	364	258	1,255	3,623	
Measured according to fair value of collateral	46	1	48	94	266	
Measured on a collective basis	559	77	-	559	579	

(a) Loans to the public, loans to governments, deposits with banks (excluding deposits with the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(b) Recorded outstanding debt.
(c) Interest income amount recorded for the reporting period in respect of the average balance of outstanding non-performing debts during the period in which the debts were classified as non-performing.

Were the non-performing debts to accrue interest according to the original terms and conditions, interest income in the amount of NIS 467 million would be recorded.
Additional information: the total recorded average outstanding debt of non-performing debts in the year ended December 31, 2022 is NIS 2,657 million.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Loans to the public (cont.)

2.A. Additional information on non-performing debts[(a)] (cont.)

	December 31, 2021					
	Outstanding[(b)] non-performing debts for which there is a provision	Outstanding provision	Outstanding[(b)] non-performing debts for which there is no provision	Total outstanding balance[(b)] of non-performing debts	Outstanding contractual principal in respect of non-performing debts	Recorded interest income[(c)]
	In NIS million					
Borrower activity in Israel						
Public - Commercial						
Construction and real estate	130	36	72	202	647	3
Commercial - Other	736	289	203	939	2,871	9
Commercial - total	866	325	275	1,141	3,518	12
Private individuals - Housing loans	20	5	-	20	20	-
Private individuals - Other	202	155	2	204	455	7
Total loans to the public – activity in Israel	1,088	485	277	1,365	3,993	19
Borrower activity outside Israel						
Total loans to the public – foreign operations	1,226	332	2	1,228	1,389	3
Total - public[1]	2,314	817	279	2,593	5,382	22
Of which:[1]						
Measured according to the present value of cash flows	1,792	656	240	2,032	4,325	
Measured according to fair value of collateral	502	161	39	541	1,037	
Measured on a collective basis	20	5	-	20	20	

(a) Loans to the public, loans to governments, deposits with banks (excluding deposits with the Bank of Israel) and other debts, excluding bonds and securities borrowed or purchased under reverse repurchase agreements.
(b) Recorded outstanding debt.
(c) Interest income amount recorded for the reporting period in respect of the average balance of outstanding non-performing debts during the period in which the debts were classified as non-performing.

Were the non-performing debts to accrue interest according to the original terms and conditions, interest income in the amount of NIS 434 million would be recorded.
Additional information: the total recorded average debt balance of non-performing debts in the year ended December 31, 2021 is NIS 2,840 million.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Loans to the public (cont.)

2.B. Additional information on restructured troubled debt

	As at December 31, 2023				As at December 31, 2022			
	Non-performing debt	Performing,[a] in arrears of 30 days to 89 days	Performing[a] non-delinquent	Total	Non-performing debt	Performing,[a] in arrears of 30 days to 89 days	Performing[a] non-delinquent	Total
	In NIS million							
Borrower activity in Israel								
Public - Commercial								
Construction and real estate	289	1	80	370	51	1	54	106
Commercial - Other	271	2	345	618	401	4	303	708
Commercial - total	560	3	425	988	452	5	357	814
Private individuals – Housing loans	85	-	66	151	88	1	66	155
Private individuals - Other	310	4	269	583	196	3	203	402
Total loans to the public - activity in Israel	955	7	760	1,722	736	9	626	1,371
Borrower activity outside Israel								
Total public - foreign operations	153	-	365	518	165	-	387	552
Total - public	1,108	7	1,125	2,240	901	9	1,013	1,923

(a) Performing debt.

Comment: As of December 31, 2023, troubled debt which underwent restructuring in the amount of NIS 1,448 million was classified as troubled debt (December 31, 2022 - NIS 1,025 million).

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Loans to the public (cont.)

2.B. Additional information on restructured troubled debt (cont.)

1. d

	For the year ended December 31					
	2023			2022		
	No. of contracts	Recorded outstanding debt before restructuring	Recorded outstanding debt after restructuring	No. of contracts	Recorded outstanding debt before restructuring	Recorded outstanding debt after restructuring
		In NIS million			In NIS million	
Borrower activity in Israel						
Public - Commercial						
Construction and real estate	**396**	**356**	**356**	281	40	38
Commercial - Other	**1,662**	**227**	**226**	1,209	178	176
Commercial - total	**2,058**	**583**	**582**	1,490	218	214
Private individuals - Housing loans	**109**	**32**	**32**	111	41	41
Private individuals - Other	**9,169**	**494**	**492**	6,426	297	296
Total loans to the public - activity in Israel	**11,336**	**1,109**	**1,106**	8,027	556	551
Borrower activity outside Israel						
Total loans to the public - foreign operations	**1**	**31**	**31**	2	1	1
Total - public	**11,337**	**1,140**	**1,137**	8,029	557	552

	For the year ended December 31		
	2021		
	No. of contracts	Recorded outstanding debt before restructuring	Recorded outstanding debt after restructuring
		In NIS million	
Borrower activity in Israel			
Public - Commercial			
Construction and real estate	221	61	59
Commercial - Other	1,105	548	545
Commercial - total	1,326	609	604
Private individuals - Other	4,779	243	240
Total loans to the public - activity in Israel	6,105	852	844
Borrower activity outside Israel			
Total loans to the public - foreign operations	1	10	10
Total - public	6,106	862	854

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Loans to the public (cont.)

2.B. Additional information on restructured troubled debt (cont.)

2. Failed restructurings[(a)]

	For the year ended December 31					
	2023		2022		2021	
	No. of contracts	Recorded outstanding debt	No. of contracts	Recorded outstanding debt	No. of contracts	Recorded outstanding debt
		In NIS million		In NIS million		In NIS million
Borrower activity in Israel						
Public - Commercial						
Construction and real estate	**201**	**25**	156	24	149	23
Commercial - Other	**743**	**76**	692	66	740	98
Commercial - total	**944**	**101**	848	90	889	121
Private individuals - Housing loans	**67**	**29**	66	13	-	-
Private individuals - Other	**3,621**	**130**	2,661	85	2,035	66
Total loans to the public – activity in Israel	**4,632**	**260**	3,575	188	2,924	187
Borrower activity outside Israel						
Total public - foreign operations	**-**	**-**	-	-	1	-[(b)]
Total - public	**4,632**	**260**	3,575	188	2,925	187

(a) Debts which were in arrears of at least thirty days during the reporting year, restructured as part of the restructuring of troubled debt during the 12 months preceding the date on which they became delinquent.

(b) Balances of less than NIS 1 million.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Loans to the public (cont.)

2.C. Additional information on non-performing delinquent credit

	December 31, 2023							
	Is not in arrears of 90 days or more	In arrears of 90 days to 180 days	In arrears of over 180 days and up to one year	In arrears of one year and up to 3 years	In arrears of more than 3 years and up to 5 years	In arrears of more than 5 years and up to 7 years	In arrears of more than 7 years	Total
	In NIS million							
Commercial	1,885	290	256	77	67	1	3	2,579
Housing loans	37	343	183	107	9	7	2	688
Private individuals - Other	343	-	-	-	-	-	-	343
Total	2,265	633	439	184	76	8	5	3,610

	December 31, 2022							
	Is not in arrears of 90 days or more	In arrears of 90 days to 180 days	In arrears of over 180 days and up to one year	In arrears of one year and up to 3 years	In arrears of more than 3 years and up to 5 years	In arrears of more than 5 years and up to 7 years	In arrears of more than 7 years	Total
	In NIS million							
Commercial	945	59	35	80	4	3	1	1,127
Housing loans[(a)]	50	262	138	85	17	4	3	559
Private individuals - Other	221	1	-	-	-	-	-	222
Total	1,216	322	173	165	21	7	4	1,908

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

B. Loans to the public (cont.)

3. Additional information on housing loans

Outstanding end of period loan-to-value (LTV),[a] type of repayment and interest

		December 31, 2023			
		Outstanding housing loans			
		Total[1]	[1]Of which: bullet and balloon loans	[1]Of which: variable interest	Total off-balance-sheet credit risk
		In NIS million			
First pledge: LTV ratio	Up to 60%	**78,948**	**2,538**	**48,141**	**2,555**
	Over 60%	**51,672**	**767**	**32,097**	**2,438**
Unpledged secondary lien		**4**	**-**	**4**	**-**
Total		**130,624**	**3,305**	**80,242**	**4,993**

		December 31, 2022			
		Outstanding housing loans			
		Total[1]	[1]Of which: bullet and balloon loans	[1]Of which: variable interest	Total off-balance-sheet credit risk
		In NIS million			
First pledge: LTV ratio	Up to 60%	71,728	1,536	44,838	2,569
	Over 60%	47,987	744	29,908	2,568
Unpledged secondary lien		5	-	4	-
Total		119,720	2,280	74,750	5,137

(a) The ratio between the approved credit facility on the date granted and the value of the asset, as approved by the Bank when granting the credit facility.
The LTV ratio provides an additional indication of the Bank's risk assessment of a customer on granting a credit facility.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

C. Loans to the Public and Off-Balance-Sheet Credit Risk by Borrower's Loan Amount

Maximum credit		December 31, 2023		
		No. of borrowers[c]	Loans[a]	Off balance-sheet credit risk[a][b]
Loans to borrower in NIS thousands			In NIS million	
From	To			
0	10	482,704	855	1,845
10	20	220,439	1,061	2,394
20	40	212,871	2,413	3,974
40	80	192,958	5,826	5,312
80	150	134,121	10,488	4,284
150	300	103,971	18,732	3,247
300	600	71,295	27,976	2,682
600	1,200	72,677	59,649	4,351
1,200	2,000	28,875	39,195	3,998
2,000	4,000	10,074	23,308	3,499
4,000	8,000	2,934	13,219	2,966
8,000	20,000	2,220	22,153	5,884
20,000	40,000	1,029	21,613	6,553
40,000	200,000	1,166	71,282	29,671
200,000	400,000	201	35,744	21,447
400,000	800,000	76	24,556	18,505
800,000	1,200,000	21	10,649	9,679
1,200,000	1,600,000	11	8,613	6,845
1,600,000	2,000,000	8	7,039	7,133
2,000,000	2,400,000	3	3,656	3,373
2,400,000	2,800,000	2	4,107	1,001
2,800,000	3,200,000	1	958	2,027
3,200,000	5,740,926	5	4,797	16,680
Total		1,537,662	417,889	167,350

Please see comments below.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

C. Loans to the public and off-balance-sheet credit risk by borrower's loan amount (cont.)

		December 31, 2022		
Maximum credit		No. of borrowers[(c)]	Loans[(a)]	Off balance-sheet credit risk[(a)(b)]
Loans to borrower in NIS thousands			In NIS million	
From	To			
0	10	540,560	921	2,023
10	20	221,574	1,244	2,107
20	40	200,035	2,778	3,181
40	80	177,178	6,268	3,860
80	150	125,177	11,078	2,701
150	300	102,361	18,964	2,501
300	600	69,854	28,050	2,302
600	1,200	68,598	54,935	4,182
1,200	2,000	26,111	35,183	3,804
2,000	4,000	9,305	21,843	3,159
4,000	8,000	2,753	12,497	2,845
8,000	20,000	2,209	22,390	5,666
20,000	40,000	977	21,105	6,362
40,000	200,000	1,058	64,561	26,730
200,000	400,000	169	30,179	17,669
400,000	800,000	71	22,275	14,709
800,000	1,200,000	22	9,205	12,578
1,200,000	1,600,000	11	8,115	6,892
1,600,000	2,000,000	4	3,482	3,405
2,000,000	2,400,000	2	3,954	316
2,400,000	2,800,000	2	2,085	3,203
2,800,000	3,200,000	1	1,701	1,300
3,200,000	5,468,189	4	2,705	15,299
Total		1,548,036	385,518	146,794

(a) Before the effect of loan loss provisions and after the effect of collateral deductible in respect of borrower indebtedness and borrower group indebtedness, as revised in the Reporting to the Public Directives, in a circular dated July 24, 2022, following the publication of Directive 203A. On-balance sheet credit – with the addition of fair value of derivatives totaling NIS 1,679 million.

(b) Credit risk for off-balance-sheet financial instruments as calculated for the purpose of per borrower indebtedness limitations.

(c) Number of borrowers according to total off-balance-sheet credit and credit risk.

Comments:

Starting with loans of up to NIS 8,000 thousand, loans are classified by the specific consolidation method; loans to other borrowers were classified by the category consolidation method.

The definition of "borrower" and the definition of "indebtedness", including off-balance-sheet credit risk, are in accordance with the Banking Supervision Department's directives regarding the amendment of Proper Conduct of Banking Business Directive No. 313 – "Limitations on the indebtedness of a borrower and a group of borrowers".

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

D. Off-balance-sheet financial instruments

	December 31			
	2023		2022	
	Outstanding loan contracts[(a)]	Balance of loan loss provision	Outstanding loan contracts[(a)]	Balance of loan loss provision
	In NIS million			
a. Off-balance-sheet financial instruments - Contractual balances or notional amounts as of year-end - Transactions in which the balance reflects credit risk:				
Documentary credit	**642**	**3**	1,151	1
Loan guarantees	**8,453**	**103**	7,289	84
Guarantees for apartment buyers	**35,731**	**19**	35,572	15
Guarantees and other commitments[(b)]	**26,548**	**96**	26,336	95
Unutilized credit card credit facilities	**13,916**	**34**	8,395	18
Unutilized current loan account facilities and other credit facilities in demand accounts	**15,922**	**58**	13,398	43
Irrevocable loan commitments approved but not yet granted	**54,416**	**339**	49,081	286
Commitments to issue guarantees	**34,340**	**95**	22,039	43
Unutilized credit facilities for derivatives activity	**3,122**	**-**	3,065	-
Approval in principle to maintain interest rate[(c)]	**5,404**	**-**	4,500	-

(a) The balance of the contracts or their par value as at the end of the year, before the effect of the loan loss provision.
(b) Including the Bank's liabilities for its share in the risk reserve of the TASE Clearing House in the amount of NIS 381 million (as at December 31, 2022, NIS 436 million).
(c) Liabilities to extend credit to customers in the framework of "Authorization in principle and preserving the interest rate" to Proper Conduct of Banking Business Directive No. 451, "Procedures for Extending Housing Loans".

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

E. Guarantees by repayment date

	As at December 31, 2023				
	Up to one year	One to three years	Three to five years	Over five years	Total
	In NIS million				
Loan guarantees	**5,214**	**2,091**	**399**	**749**	**8,453**
Guarantees for apartment buyers	**-**	**35,731**	**-**	**-**	**35,731**
Guarantees and other commitments	**13,334**	**6,449**	**2,509**	**4,256**	**26,548**
Total guarantees	**18,548**	**44,271**	**2,908**	**5,005**	**70,732**

	As at December 31, 2022				
	Up to one year	One to three years	Three to five years	Over five years	Total
	In NIS million				
Loan guarantees	4,765	1,624	255	645	7,289
Guarantees for apartment buyers	-	35,572	-	-	35,572
Guarantees and other commitments	14,676	6,496	2,337	2,827	26,336
Total guarantees	19,441	43,692	2,592	3,472	69,197

The following collateral information reflects collateral the Bank has received specifically against guarantees:
The cash balance available to the Bank to cover for losses to be realized under these guarantees and indemnities totaled approx. NIS 302 million (as at December 31, 2022 - NIS 301 million). In addition, the balance of securities and other tradable assets held as collateral, totaled approx. NIS 9 million (as of December 31, 2022 - NIS 12 million).

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

f. Sale and purchase of loans to the public

Credit risk from sold loans to the public

	For the year ended December 31									
	2023					2022				
	Sold loans to the public	Sold off-balance sheet credit risk[a]	Of which: Troubled credit risk	Total gain for sold loans to the public	Total year-end outstanding loans sold, for which the Bank provides services	Sold loans to the public	Sold off-balance sheet credit risk[a]	Of which: Troubled credit risk	Total gain for sold loans to the public	Total year-end outstanding loans sold, for which the Bank provides services
	In NIS million									
Commercial - total	**42**	**290**	**42**	**-**	**989**	505	360	-	57	1,113
Private individuals - Housing loans	**-**	**-**	**-**	**-**	**563**	-	-	-	-	644
Private individuals - Other	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
Total credit risk arising from loans to the public	**42**	**290**	**42**	**-**	**1,552**	505	360	-	57	1,757

Purchased credit risk from loans to the public

	For the year ended December 31					
	2023			2022		
	Loans to the public purchased in the reporting period	Purchased off-balance-sheet credit risk[a]	Of which: Troubled credit risk	Loans to the public purchased in the reporting period	Purchased off-balance-sheet credit risk[a]s	Of which: Troubled credit risk
	In NIS million					
Commercial - total	**13,646**	**-**	**-**	15,948	-	-
Private individuals - Housing loans	**1,556**	**-**	**-**	-	-	-
Private individuals - Other	**10,718**	**-**	**-**	2,218	-	-
Total credit risk arising from loans to the public	**25,920**	**-**	**-**	18,166	-	-

(a) Credit risk arising from off-balance-sheet financial instruments as calculated for the purpose of measuring a borrower's indebtedness limitation, excluding in respect of derivatives.

Note 30 - Additional Information on Credit Risk, Loans to the Public and Loan Loss Provision (cont.)

G. Syndications and Participation in Loan Syndications

	December 31, 2023					
	Syndication transactions initiated by the Bank[(a)]				Syndication transactions organized by others	
	The Bank's share		Others' share		The Bank's share	
	Loans to the public	Off-balance-sheet credit risk[(b)]	Loans to the public	Off-balance-sheet credit risk[(b)]	Loans to the public	Off-balance-sheet credit risk[(b)]
	In NIS million					
Commercial - total	**6,087**	**4,282**	**11,000**	**5,816**	**1,995**	**2,321**
Private individuals - Housing loans	**75**	**17**	**77**	**17**	**-**	**-**
Private individuals - Other	**-**	**-**	**-**	**-**	**-**	**-**
Total credit risk arising from loans to the public	**6,162**	**4,299**	**11,077**	**5,833**	**1,995**	**2,321**

	December 31, 2022					
	Syndication transactions initiated by the Bank[(a)]				Syndication transactions organized by others	
	The Bank's share		Others' share		The Bank's share	
	Loans to the public	Off-balance-sheet credit risk[(b)]	Loans to the public	Off-balance-sheet credit risk[(b)]	Loans to the public	Off-balance-sheet credit risk[(b)]
	In NIS million					
Commercial - total	5,551	4,315	10,158	6,069	1,442	2,320
Private individuals - Housing loans	1,781	105	1,792	105	-	-
Private individuals - Other	1	-	1	-	-	-
Total credit risk arising from loans to the public	7,333	4,420	11,951	6,174	1,442	2,320

(a) Including where the banking corporation provides a material service in the syndication transaction.
(b) Credit risk arising from off-balance-sheet financial instruments as calculated for the purpose of measuring a borrower's indebtedness limitation, excluding in respect of derivatives.

Note 31 - Assets and Liabilities by Linkage Basis

	December 31, 2023						
	NIS		Foreign currency[a]			Non-monetary items[b]	Total
	Non-linked	CPI-linked	In USD	In EUR	In other currencies		
	In NIS million						
Assets							
Cash and deposits with banks	87,257	1	10,756	2,141	3,002	2,319	105,476
Securities	83,417	4,127	58,531	4,601	4,455	4,917	160,048
Securities borrowed or purchased under reverse repurchase agreements	255	-	2,797	1	-	-	3,053
Loans to the public, net[c]	314,806	60,928	24,417	5,035	9,809	4,491	419,486
Loans to the Israeli Government	644	-	686	476	-	-	1,806
Investments in associates	-	-	-	-	-	4,014	4,014
Buildings and equipment	-	-	-	-	-	2,874	2,874
Assets in respect of derivatives	8,329	301	7,080	515	573	10,612	27,410
Other assets	6,247	1	2	14	77	989	7,330
Total assets	500,955	65,358	104,269	12,783	17,916	30,216	731,497
Liabilities							
Deposits by the public	406,980	11,941	124,080	12,763	5,222	6,838	567,824
Deposits by banks	12,643	-	6,454	1,503	176	-	20,776
Deposits by the Israeli Government	83	-	64	13	-	-	160
Securities loaned or sold under repurchase agreements	80	-	13,696	-	-	-	13,776
Bonds, promissory notes and subordinated notes	7,648	18,106	6,360	-	-	-	32,114
Liabilities for derivatives	9,082	308	5,249	752	706	10,539	26,636
Other liabilities	5,766	9,071	130	55	178	509	15,709
Total liabilities	442,282	39,426	156,033	15,086	6,282	17,886	676,995
Difference[d]	58,673	25,932	(51,764)	(2,303)	11,634	12,330	54,502
Effect of hedging derivatives:							
Derivatives (excluding options)	752	(752)	-	-	-	-	-
Effect of non-hedging derivatives:							
Derivatives (excluding options)	(31,512)	(4,227)	44,912	1,532	(11,968)	1,263	-
In the money options, net (according to underlying asset)	(1,126)	-	1,044	128	(46)	-	-
Out of the money options, net (according to underlying asset)	(300)	-	196	99	5	-	-
Grand total	26,487	20,953	(5,612)	(544)	(375)	13,593	54,502
In the money options, net (discounted nominal value)	(1,478)	-	1,379	175	(76)	-	-
Out of the money options, net (discounted nominal value)	(1,225)	-	713	531	(19)	-	-

(a) Including those linked to foreign currency.
(b) Including derivatives whose underlying asset relates to a non-monetary item.
(c) After deducting loan loss provisions attributed to a linkage basis, according to the linkage of the underlying credit, in the amount of NIS 6,717 million.
(d) Shareholders' equity including non-controlling interests.

Note 31 - Assets and Liabilities by Linkage Basis (cont.)

	December 31, 2022						
	NIS		Foreign currency[a]			Non-monetary items[b]	Total
	Non-linked	CPI-linked	In USD	In EUR	In other currencies		
	In NIS million						
Assets							
Cash and deposits with banks	169,223	-	10,313	3,699	919	2,415	186,569
Securities	22,701	4,438	44,685	3,221	3,549	4,356	82,950
Securities borrowed or purchased under reverse repurchase agreements	524	-	2,509	1	-	-	3,034
Loans to the public, net[c]	295,107	54,133	17,675	4,923	7,906	5,038	384,782
Loans to the Israeli Government	316	-	446	347	-	-	1,109
Investments in associates	-	-	-	-	-	4,947	4,947
Buildings and equipment	-	-	-	-	-	2,735	2,735
Assets in respect of derivatives	4,560	294	10,420	1,534	661	9,169	26,638
Other assets	5,464	4	19	3	58	854	6,402
Total assets	497,895	58,869	86,067	13,728	13,093	29,514	699,166
Liabilities							
Deposits by the public	393,715	9,809	130,695	10,807	4,606	7,452	557,084
Deposits by banks	19,777	-	1,951	467	89	22	22,306
Deposits by the Israeli Government	130	-	109	8	-	-	247
Securities loaned or sold under repurchase agreements	349	-	3,577	26	-	-	3,952
Bonds, promissory notes and subordinated notes	7,153	16,255	4,397	-	-	-	27,805
Liabilities for derivatives	6,246	357	6,476	981	611	8,640	23,311
Other liabilities	4,937	9,165	154	90	213	459	15,018
Total liabilities	432,307	35,586	147,359	12,379	5,519	16,573	649,723
Difference[d]	65,588	23,283	(61,292)	1,349	7,574	12,941	49,443
Effect of hedging derivatives:							
Derivatives (excluding options)	430	(430)	-	-	-	-	-
Effect of non-hedging derivatives:							
Derivatives (excluding options)	(40,314)	(1,604)	51,991	(2,328)	(8,090)	345	-
In the money options, net (according to underlying asset)	(773)	-	588	174	11	-	-
Out of the money options, net (according to underlying asset)	(989)	-	853	136	(9)	9	-
Grand total	23,942	21,249	(7,860)	(669)	(514)	13,295	49,443
In the money options, net (discounted nominal value)	(956)	-	695	245	16	-	-
Out of the money options, net (discounted nominal value)	(3,500)	-	3,185	341	(72)	46	-

(a) Including those linked to foreign currency.
(b) Including derivatives whose underlying asset relates to a non-monetary item.
(c) After deducting loan loss provisions attributed to a linkage basis, according to the linkage of the underlying credit, in the amount of NIS 4,986 million.
(d) Shareholders' equity including non-controlling interests.

Note 32 - Assets and Liabilities by Currency and Term to Maturity[(a)]

	December 31, 2023			
	Projected contractual cash flows			
	On demand and up to one month[(f)]	One to three months[(f)]	Three months to one year[(f)]	Over one year and up to two years
	In NIS million			
NIS (including foreign currency-linked):				
Assets[1]	175,362	48,511	101,957	51,966
Liabilities[2]	298,727	64,680	71,169	14,988
Difference	(123,365)	(16,169)	30,788	36,978
[1]Of which: Loans to the public	79,120	36,232	51,669	43,059
[2]Of which: Deposits by the public	291,606	58,383	57,471	5,772
Derivatives (excluding options)	(13,460)	(9,420)	(9,157)	(1,456)
Options (by underlying asset)	(149)	(240)	(602)	(4)
Difference after effect of derivatives	(136,974)	(25,829)	21,029	35,518
Foreign currency[(c)]				
Assets[1]	41,659	19,125	27,366	13,223
Liabilities[2]	111,458	32,662	34,069	1,715
Difference	(69,799)	(13,537)	(6,703)	11,508
[1]Of which: Loans to the public	18,467	3,340	5,386	4,131
[2]Of which: Deposits by the public	97,629	17,563	26,851	448
Of which: Difference in USD	(62,779)	(16,068)	(9,198)	9,195
Of which: Difference in respect of foreign operations	1,787	412	1,213	1,634
Derivatives (excluding options)	13,460	9,420	9,157	1,456
Options (by underlying asset)	149	240	602	4
Difference after effect of derivatives	(56,190)	(3,877)	3,056	12,968
Total				
Assets[1]	217,021	67,636	129,323	65,189
Liabilities[2]	410,185	97,342	105,238	16,703
Difference[(g)]	(193,164)	(29,706)	24,085	48,486
[1]Of which: Loans to the public	97,587	39,572	57,055	47,190
[2]Of which: Deposits by the public	389,235	75,946	84,322	6,220

(a) In this note, the contractual future cash flows of balance sheet asset and liability items are presented by currencies according to the remaining periods until the contractual maturity date of each cash flow. Data are presented net of charge-offs and loan loss provisions.
(b) Assets without a fixed term to maturity include overdue assets totaling NIS 1,046 million.
(c) Excluding foreign-currency linked NIS.
(d) As included in Note 31, including off-balance-sheet amounts in respect of derivatives that are not settled on a net basis.
(e) The contractual rate of return is the interest rate used to discount the projected contractual cash flows reported in this note for a monetary item to its book balance.
(f) Loans extended under current loan account terms and classified in accordance with the facility's period total NIS 5.7 billion. Loans in excess of the credit facility, totaling NIS 0.8 billion, were classified as loans with no fixed repayment date.
(g) This difference does not necessarily reflect exposure to interest and/or linkage basis.

							Book balance[d]		
Over two years and up to three years	Over three years and up to four years	Over four years and up to five years	Over five years and up to ten years	Over ten years and up to twenty years	Over twenty years	Total cash flows	Without term to maturity[b]	Total	Contractual rate of return[e]
									In %
37,091	29,992	24,475	82,145	86,404	33,173	671,076	4,496	566,582	5.01
7,218	5,949	5,075	12,820	9,356	6,491	496,473	2,392	482,168	3.82
29,873	24,043	19,400	69,325	77,048	26,682	174,603	2,104	84,414	
31,423	26,433	21,621	72,643	79,927	29,428	471,555	2,123	375,741	5.16
1,703	1,402	1,670	3,305	1,127	-	422,439	-	419,191	2.49
(770)	(1,045)	(239)	(958)	(249)	-	(36,754)	-	(35,764)	
9	-	-	-	-	-	(986)	-	(979)	
29,112	22,998	19,161	68,367	76,799	26,682	136,863	2,104	47,671	
9,880	9,634	5,602	20,589	12,160	7,991	167,229	1,400	145,311	5.11
3,761	2,435	2,340	1,335	88	11	189,874	2	187,480	4.00
6,119	7,199	3,262	19,254	12,072	7,980	(22,645)	1,398	(42,169)	
3,318	3,806	1,454	546	235	46	40,729	1,400	39,254	6.64
232	36	72	69	1	-	142,901	-	141,795	3.72
3,674	2,417	1,819	17,002	10,951	7,743	(35,244)	981	(52,180)	
1,850	2,902	(3,225)	-	-	-	6,573	-	5,884	
770	1,045	239	958	249	-	36,754	-	35,764	
(9)	-	-	-	-	-	986	-	979	
6,880	8,244	3,501	20,212	12,321	7,980	15,095	1,398	(5,426)	
46,971	39,626	30,077	102,734	98,564	41,164	838,305	5,896	711,893	5.03
10,979	8,384	7,415	14,155	9,444	6,502	686,347	2,394	669,648	3.87
35,992	31,242	22,662	88,579	89,120	34,662	151,958	3,502	42,245	
34,741	30,239	23,075	73,189	80,162	29,474	512,284	3,523	414,995	5.30
1,935	1,438	1,742	3,374	1,128	-	565,340	-	560,986	2.80

Note 32 - Assets and Liabilities by Currency and Term to Maturity[(a)] (cont.)

	December 31, 2022			
	Projected contractual cash flows			
	On demand and up to one month[(f)]	One to three months[(f)]	Three months to one year[(f)]	Over one year and up to two years
	In NIS million			
NIS (including foreign currency-linked):				
Assets[1]	244,107	29,938	56,813	42,909
Liabilities[2]	303,642	53,278	56,431	22,042
Difference	(59,535)	(23,340)	382	20,867
[1]Of which: Loans to the public	73,390	28,570	50,299	38,365
[2]Of which: Deposits by the public	297,502	50,757	38,991	9,640
Derivatives (excluding options)	(18,508)	(12,342)	(8,245)	(2,046)
Options (by underlying asset)	(568)	(316)	(681)	(1)
Difference after effect of derivatives	(78,611)	(35,998)	(8,544)	18,820
Foreign currency[(c)]				
Assets[1]	33,558	16,959	20,826	14,155
Liabilities[2]	103,974	24,182	38,282	2,099
Difference	(70,416)	(7,223)	(17,456)	12,056
[1]Of which: Loans to the public	11,242	2,769	6,730	3,322
[2]Of which: Deposits by the public	96,278	17,878	31,960	617
Of which: Difference in USD	(66,435)	(8,473)	(20,999)	9,640
Of which: Difference in respect of foreign operations	2,334	82	1,717	504
Derivatives (excluding options)	18,508	12,342	8,245	2,046
Options (by underlying asset)	568	316	681	1
Difference after effect of derivatives	(51,340)	5,435	(8,530)	14,103
Total				
Assets[1]	277,665	46,897	77,639	57,064
Liabilities[2]	407,616	77,460	94,713	24,141
Difference[(g)]	(129,951)	(30,563)	(17,074)	32,923
[1]Of which: Loans to the public	84,632	31,339	57,029	41,687
[2]Of which: Deposits by the public	393,780	68,635	70,951	10,257

(a) In this note, the contractual future cash flows of balance sheet asset and liability items are presented by currencies according to the remaining periods until the contractual maturity date of each cash flow. Data are presented net of charge-offs and loan loss provisions.
(b) Assets without a fixed term to maturity include overdue assets totaling NIS 319 million.
(c) Excluding foreign-currency linked NIS.
(d) As included in Note 31, including off-balance-sheet amounts in respect of derivatives that are not settled on a net basis.
(e) The contractual rate of return is the interest rate used to discount the projected contractual cash flows reported in this note for a monetary item to its book balance.
(f) Loans extended under current loan account terms and classified in accordance with the facility's period total NIS 6.4 billion. Overdrawn credit, totaling NIS 0.6 billion, was classified as having no repayment date.
(g) This difference does not necessarily reflect exposure to interest and/or linkage basis.

Over two years and up to three years	Over three years and up to four years	Over four years and up to five years	Over five years and up to ten years	Over ten years and up to twenty years	Over twenty years	Total cash flows	Book balance[d] Without term to maturity[b]	Total	Contractual rate of return[e]
									In %
39,268	27,545	23,439	74,501	74,910	27,223	640,653	4,752	557,179	4.46
9,089	3,463	6,075	10,682	7,873	6,474	479,049	1,724	468,248	3.60
30,179	24,082	17,364	63,819	67,037	20,749	161,604	3,028	88,931	
31,422	24,396	20,611	67,209	69,894	24,101	428,257	2,820	349,238	4.65
2,095	858	1,102	3,483	779	-	405,207	-	403,563	1.39
(866)	(356)	(455)	(56)	(278)	-	(43,152)	-	(41,744)	
11	-	-	-	-	-	(1,555)	-	(1,537)	
29,324	23,726	16,909	63,763	66,759	20,749	116,897	3,028	45,650	
6,586	6,082	6,237	18,003	8,861	6,479	137,746	2,543	121,642	4.62
952	3,413	2,266	1,060	84	(4)	176,308	232	173,542	3.48
5,634	2,669	3,971	16,943	8,777	6,483	(38,562)	2,311	(51,900)	
2,074	1,050	1,553	620	237	38	29,635	2,543	30,506	5.23
83	160	38	44	-	-	147,058	168	146,069	3.71
4,217	1,981	1,870	15,060	7,764	6,262	(49,113)	1,962	(60,491)	
820	307	965	(187)	-	-	6,542	(179)	6,344	
866	356	455	56	278	-	43,152	-	41,744	
(11)	-	-	-	-	-	1,555	-	1,537	
6,489	3,025	4,426	16,999	9,055	6,483	6,145	2,311	(8,619)	
45,854	33,627	29,676	92,504	83,771	33,702	778,399	7,295	678,821	4.49
10,041	6,876	8,341	11,742	7,957	6,470	655,357	1,956	641,790	3.57
35,813	26,751	21,335	80,762	75,814	27,232	123,042	5,339	37,031	
33,496	25,446	22,164	67,829	70,131	24,139	457,892	5,363	379,744	4.69
2,178	1,018	1,140	3,527	779	-	552,265	168	549,632	2.00

Note 33A – Balances and Fair Value Estimates of Financial Instruments

A. Overview

This note includes information regarding the measurement of financial instruments' fair value according to Banking Supervision Department's directives. Most of the Bank's financial instruments do not have a quoted "market price" since they are not traded in an active market. Therefore, the fair value of such instruments is measured based on the present value of the future cash flows discounted by an interest rate reflecting the interest rate of a similar transaction entered into on reporting date. The estimated fair value is calculated by estimating the future cash flows and determining a subjective discount rate. Therefore, for most financial instruments, the reported fair value estimate is not necessarily indicative of the financial instrument's realizable value on reporting date. Fair value was estimated on the basis of interest rates in effect as of reporting date and does not take into account interest rate fluctuations. If different interest rates are used, the fair value calculated may be significantly different. This mainly applies to financial instruments bearing fixed interest or non-interest bearing financial instruments. Furthermore, fees and commissions receivable or payable as a result of the business activities were not taken into account in the calculation of fair values. Moreover, the difference between the book balance and the fair value balances may not be realized since in most cases the Bank may hold the financial instrument to maturity. In view of the above, it should be emphasized that the data included in this note does not reflect the Group's value as a going concern. Furthermore, because of the wide range of valuation techniques and estimates that can potentially be applied in the measurement of fair value, one must exercise caution when comparing the fair value of different banks.

B. Principal Methods and Assumptions Used in Estimating the Fair Value of Financial Instruments

Financial assets:

Loans to the public - the fair value of the outstanding loans to the public is measured according to the present value of the future cash flows discounted at an adequate discount rate. The outstanding loans were classified into several categories according to the operating segment and the borrowers' credit rating. Future cash flows (principal and interest) were calculated for each category according to the different linkage bases. These cash flows were discounted at interest rates that reflect the risk level and average spread inherent in that loan category and the term of the loan.

This interest rate is normally determined according to the interest rate used in similar transactions as of reporting date.

The fair value of debit current account balances was estimated according to their book balances.

The fair value of impaired debts was calculated using interest rates that reflect the high level of their inherent credit risk. In any case, these interest rates reflect the highest interest rates used by the Group in transactions carried out in that same segment as of reporting date.

The fair value of current account balances classified as impaired debts was calculated according to their estimated average duration based on maximum interest rates used by the Bank.

The future cash flows in respect of impaired debts were calculated after deducting the effect of charge-offs and loan loss provisions.

Deposits with banks and loans to governments - by discounting the future cash flows at interest rates used in similar transactions entered into on reporting date.

Securities – tradable securities were measured at market value. Non-tradable securities – shares were measured at cost and bonds were measured using a model that takes into account the present value of the future cash flows discounted at an adequate discount rate, which also takes into account the probability of default and the market value.

Note 33A - Balances and Fair Value Estimates of Financial Instruments (cont.)

Financial liabilities:

Deposits by the public - the balance of the deposits was classified into a number of categories according to operating segments, linkage basis and deposits' periods to maturity. The flows of future payments (principal and interest) were calculated in respect of each category. These payments were discounted at an interest rate reflecting the average interest rate the Group pays on similar deposits of the same category for the term to maturity.

Deposits by banks and deposits by Governments - the fair value is estimated by discounting the future cash flows at the estimated interest rates at which the Group may raise similar deposits on reporting date.

Bonds, promissory notes and subordinated notes – at market value or by discounting the future cash flows at the interest rates at which the Group raises similar deposits, or can issued similar promissory notes on reporting date.

Other financial assets and liabilities:

Derivatives:

Derivatives with an active market were estimated at market value determined in the principal market. If the instrument is traded in several markets, fair value is estimated according to the most active market.
Derivatives not traded on an active market were measured using models used by the Bank in the ordinary course of business, which take into account the risks inherent in the financial instrument (market risk, credit risk, etc.).

Note 33A - Balances and Fair Value Estimates of Financial Instruments (cont.)

	December 31, 2023				
	Book	Fair value			
	balance	Level 1[a]	Level 2[a]	Level 3[a]	Total
	In NIS million				
Financial assets					
Cash and deposits with banks	105,476	85,431	14,004	5,248	104,683
Securities[b]	160,048	111,365	39,465	8,067	158,897
Securities borrowed or purchased under reverse repurchase agreements	3,053	3,053	-	-	3,053
Loans to the public, net	419,486	21,610	-	394,830	416,440
Loans to governments	1,806	-	472	1,263	1,735
Assets in respect of derivatives	27,410	5,747	18,803	2,860	27,410
Other financial assets	350	25	-	325	350
Total financial assets	717,629[c]	227,231	72,744	412,593	712,568
Financial liabilities					
Deposits by the public	567,824	24,491	245,330	286,751	556,572
Deposits by banks	20,776	5,758	4,174	10,629	20,561
Deposits from governments	160	-	109	49	158
Securities loaned or sold under repurchase agreements	13,776	13,776	-	-	13,776
Bonds, promissory notes and subordinated notes	32,114	30,117	-	911	31,028
Liabilities for derivatives	26,636	5,811	20,696	129	26,636
Other financial liabilities	3,072	175	1,289	1,607	3,071
Total financial liabilities	664,358[c]	80,128	271,598	300,076	651,802
Off-balance-sheet financial instruments					
Transactions in which the outstanding balance embodies credit risk	346	-	-	346	346
In addition, liabilities in respect of employee benefits, net[d]	8,715	-	-	8,715	8,715

(a) 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.

(b) For additional information regarding the book balance and fair value of securities, please see Note 12.

(c) Of which: Assets and liabilities in the amount of NIS 235,596 million and NIS 271,375 million, respectively, the book balance of which is equal to their fair value (instruments presented in the balance sheet at fair value) or approximates their fair value (instruments for an original period of up to 3 months for which the outstanding balance sheet amount is used as an approximation of the fair value). For additional information on instruments measured at fair value on recurring and non-recurring bases, please see Notes 33B and 33D.

(d) The liability is presented on a net basis and takes into account plan assets managed against it.

Note 33A - Balances and Fair Value Estimates of Financial Instruments (cont.)

	December 31, 2022				
		Fair value			
	Book balance	Level 1[(a)]	Level 2[(a)]	Level 3[(a)]	Total
	In NIS million				
Financial assets					
Cash and deposits with banks	186,569	170,860	9,402	5,570	185,832
Securities[(b)]	82,950	41,264	34,087	6,428	81,779
Securities borrowed or purchased under reverse repurchase agreements	3,034	3,034	-	-	3,034
Loans to the public, net	384,782	18,673	-	358,284	376,957
Loans to governments	1,109	-	17	1,009	1,026
Assets in respect of derivatives	26,638	6,484	16,382	3,772	26,638
Other financial assets	260	19	-	241	260
Total financial assets	685,342[(c)]	240,334	59,888	375,304	675,526
Financial liabilities					
Deposits by the public	557,084	32,141	278,420	235,593	546,154
Deposits by banks	22,306	948	4,299	16,344	21,591
Deposits from governments	247	-	206	34	240
Securities loaned or sold under repurchase agreements	3,952	3,952	-	-	3,952
Bonds, promissory notes and subordinated notes	27,805	25,978	-	661	26,639
Liabilities for derivatives	23,311	5,953	17,199	159	23,311
Other financial liabilities	2,696	142	1,176	1,378	2,696
Total financial liabilities	637,401[(c)]	69,114	301,300	254,169	624,583
Off-balance-sheet financial instruments					
Transactions in which the outstanding balance embodies credit risk	380	-	-	380	380
In addition, liabilities in respect of employee benefits, net[(d)]	8,930	-	-	8,930	8,930

(a) 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.

(b) For additional information regarding the book balance and fair value of securities, please see Note 12.

(c) Of which: Assets and liabilities in the amount of NIS 153,740 million and NIS 276,243 million, respectively, the book balance of which is equal to their fair value (instruments presented in the balance sheet at fair value) or approximates their fair value (instruments for an original period of up to 3 months for which the outstanding balance sheet amount is used as an approximation of the fair value). For additional information on instruments measured at fair value on recurring and non-recurring bases, please see Notes 33B and 33D.

(d) The liability is presented on a net basis and takes into account plan assets managed against it.

Note 33B - Items Measured at Fair Value

A. Items measured at fair value on a recurring basis

	December 31, 2023			
	Fair value measurements using -			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	In NIS million			
Assets				
Available-for-sale bonds:				
Government of Israel bonds	68,202	6,660	26	74,888
Foreign governments' bonds	21,896	5,020	-	26,916
Bonds of Israeli financial institutions	45	-	-	45
Bonds of foreign financial institutions	-	8,882	-	8,882
Asset-backed bonds (ABSs) or mortgage-backed bonds (MBSs)	-	5,062	4,889	9,951
Other Israeli bonds	672	151	-	823
Other foreign bonds	-	4,632	-	4,632
Total available-for-sale bonds	90,815	30,407	4,915	126,137
Not held for-trading equity securities and mutual funds:				
Not held for-trading equity securities and mutual funds	2,011	-	-	2,011
Held-for-trading securities:				
Government of Israel bonds	12,905	-	-	12,905
Bonds of Israeli financial institutions	436	-	-	436
Bonds of foreign financial institutions	-	26	-	26
Asset-backed bonds (ABSs) or mortgage-backed bonds (MBSs)	-	20	5	25
Other Israeli bonds	159	-	-	159
Other foreign bonds	-	35	2	37
Held-for-trading equity securities and mutual funds	89	-	-	89
Total held-for-trading securities	13,589	81	7	13,677
Assets in respect of derivatives:				
NIS-CPI contacts	-	136	200	336
Interest rate contracts	1,080	8,164	118	9,362
Foreign currency contracts	-	4,356	2,363	6,719
Stock contracts	4,050	6,128	179	10,357
Commodity- and other contracts	180	19	-	199
MAOF (Israeli financial instruments and futures) market activity	437	-	-	437
Total assets in respect of derivatives	5,747	18,803	2,860	27,410
Other:				
Credit and deposits for loaned securities	14,149	-	-	14,149
Securities borrowed or purchased under reverse repurchase agreements	3,053	-	-	3,053
Other	22	-	-	22
Total - Other	17,224	-	-	17,224
Total assets	129,386	49,291	7,782	186,459

Note 33B - Items Measured at Fair Value (cont.)

A. Items measured at fair value on a recurring basis (cont.)

	December 31, 2023			
	Fair value measurements using -			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	In NIS million			
Liabilities				
Liabilities for derivatives:				
NIS-CPI contacts	-	212	116	328
Interest rate contracts	1,165	7,207	-	8,372
Foreign currency contracts	-	7,021	6	7,027
Stock contracts	4,030	6,237	7	10,274
Commodity- and other contracts	179	19	-	198
MAOF (Israeli financial instruments and futures) market activity	437	-	-	437
Total liabilities in respect of derivatives	5,811	20,696	129	26,636
Other:				
Deposits by the public	13,682	17	-	13,699
Securities loaned or sold under repurchase agreements	13,776	-	-	13,776
Credit-linked notes	-	-	419	419
Other	175	-	-	175
Total - Other	27,633	17	419	28,069
Total liabilities	33,444	20,713	548	54,705

Note 33B - Items Measured at Fair Value (cont.)
A. Items measured at fair value on a recurring basis (cont.)

	December 31, 2022			
	Fair value measurements using -			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	In NIS million			
Assets				
Available-for-sale bonds:				
Government of Israel bonds	17,199	4,619	24	21,842
Foreign governments' bonds	12,486	4,509	-	16,995
Bonds of Israeli financial institutions	46	-	-	46
Bonds of foreign financial institutions	-	9,627	-	9,627
Asset-backed bonds (ABSs) or mortgage-backed bonds (MBSs)	-	3,651	4,059	7,710
Other Israeli bonds	495	175	-	670
Other foreign bonds	-	4,919	-	4,919
Total available-for-sale bonds	30,226	27,500	4,083	61,809
Not held for-trading equity securities and mutual funds:				
Not held for-trading equity securities and mutual funds	2,020	-	-	2,020
Held-for-trading securities:				
Government of Israel bonds	1,263	-	-	1,263
Bonds of Israeli financial institutions	580	-	-	580
Bonds of foreign financial institutions	-	53	-	53
Asset-backed bonds (ABSs) or mortgage-backed bonds (MBSs)	-	23	10	33
Other Israeli bonds	257	-	-	257
Other foreign bonds	-	69	2	71
Held-for-trading equity securities and mutual funds	3	-	-	3
Total held-for-trading securities	2,103	145	12	2,260
Assets in respect of derivatives:				
NIS-CPI contacts	-	146	153	299
Interest rate contracts	175	8,900	77	9,152
Foreign currency contracts	-	5,537	1,823	7,360
Stock contracts	5,710	1,767	1,715	9,192
Commodity- and other contracts	206	32	4	242
MAOF (Israeli financial instruments and futures) market activity	393	-	-	393
Total assets in respect of derivatives	6,484	16,382	3,772	26,638
Other:				
Credit and deposits for loaned securities	14,875	-	-	14,875
Securities borrowed or purchased under reverse repurchase agreements	3,034	-	-	3,034
Other	17	-	-	17
Total - Other	17,926	-	-	17,926
Total assets	58,759	44,027	7,867	110,653

Note 33B - Items Measured at Fair Value (cont.)

A. Items measured at fair value on a recurring basis (cont.)

	December 31, 2022			
	Fair value measurements using -			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	In NIS million			
Liabilities				
Liabilities for derivatives:				
NIS-CPI contacts	-	291	148	439
Interest rate contracts	116	8,673	-	8,789
Foreign currency contracts	-	4,750	4	4,754
Stock contracts	5,237	3,451	7	8,695
Commodity- and other contracts	207	34	-	241
MAOF (Israeli financial instruments and futures) market activity	393	-	-	393
Total liabilities in respect of derivatives	5,953	17,199	159	23,311
Other:				
Deposits by the public	14,825	1	-	14,826
Securities loaned or sold under repurchase agreements	3,952	-	-	3,952
Other	142	-	-	142
Total - Other	18,919	1	-	18,920
Total liabilities	24,872	17,200	159	42,231

B. Items Measured at Fair Value on a Non-Recurring Basis

	December 31, 2023				
	Fair value measurements using -				
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value	Total profit (loss) from changes in value during the period
	In NIS million				
Collateral-dependent non-performing credit	**-**	**-**	**782**	**782**	**(127)**
Total	**-**	**-**	**782**	**782**	**(127)**

	December 31, 2022				
	Fair value measurements using -				
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value	Total profit (loss) from changes in value during the period
	In NIS million				
Collateral-dependent non-performing credit	-	-	94	94	135
Total	-	-	94	94	135

Note 33C - Items Measured at Fair Value on a Recurring Basis Included in Level 3

	For the year ended December 31, 2023									
		Realized/unrealized gains (losses), net, including:								
	Fair value as at the beginning of the year	In the income statement[(a)]	In other comprehensive income[(b)]	Purchases and issuances	Sales	Discharges	Transfers to Level 3[(c)]	Transfers from level 3[(c)]	Fair value as at December 31, 2023	Unrealized gains (losses) for instruments held as at December 31, 2023
	In NIS million									
Assets										
Available-for-sale bonds:										
Government of Israel	24	2	-	-	-	-	-	-	26	-
MBS/ABS	4,059	84	84	881	-	(393)	174	-	4,889	83
Total available-for-sale bonds	4,083	86	84	881	-	(393)	174	-	4,915	83
held-for-trading bonds:										
MBS/ABS	10	-	-	-	-	(5)	-	-	5	-
Others - abroad	2	-	-	-	-	(2)	2	-	2	-
Total held-for-trading bonds	12	-	-	-	-	(7)	2	-	7	-
Assets in respect of derivatives:										
NIS-CPI contacts	153	(1)	-	-	-	-	48	-	200	75
Interest rate contracts	77	475	-	-	-	(434)	-	-	118	58
Foreign currency contracts	1,823	(1,413)	-	1,953	-	-	-	-	2,363	2,131
Stock contracts	1,715	(1,536)	-	-	-	-	-	-	179	160
Commodity- and other contracts	4	(4)	-	-	-	-	-	-	-	-
Total assets in respect of derivatives	3,772	(2,479)	-	1,953	-	(434)	48	-	2,860	2,424
Total assets	7,867	(2,393)	84	2,834	-	(834)	224	-	7,782	2,507
Liabilities										
Liabilities for derivatives:										
NIS-CPI contacts	148	(145)	-	-	-	-	113	-	116	26
Foreign currency contracts	4	2	-	-	-	-	-	-	6	-
Stock contracts	7	-	-	-	-	-	-	-	7	-
Total liabilities in respect of derivatives	159	(143)	-	-	-	-	113	-	129	26
Total - other	-	-	-	500	-	(81)	-	-	419	-
Total liabilities	159	(143)	-	500	-	(81)	113	-	548	26

(a) Net realized gains (losses) reported in the income statement under the noninterest finance income line item.

(b) Unrealized gains included in the Statement of Changes in Equity under accumulated other comprehensive income (loss). The balance of unrealized other comprehensive income (loss) in respect of available-for-sale bonds as at December 31, 2023, amounted to NIS 83 million.

(c) Transfers from Level 2 to Level 3 – forward CPI contracts for a period of more than one year were transferred when the term to maturity was less than one year.

Note 33C - Items Measured at Fair Value on a Recurring Basis Included in Level 3 (cont.)

	For the year ended December 31, 2022									
		Realized/unrealized gains (losses), net, including:								
		In the income statement[a]	In other comprehensive income[b]	Purchases and issuances	Sales	Discharges				
	In NIS million									
Assets										
Available-for-sale bonds:										
Government of Israel	31	-	(7)	-	-	-	-	-	24	(5)
Foreign financial institutions	32	19	-	933	-	(984)	-	-	-	-
MBS/ABS	3,793	521	(196)	1,367	(19)	(487)	-	(920)	4,059	(229)
Others - abroad	3	-	-	-	-	(3)	-	-	-	-
Total available-for-sale bonds	3,859	540	(203)	2,300	(19)	(1,474)	-	(920)	4,083	(234)
Held-for-trading bonds:										
MBS/ABS	11	1	-	-	(1)	(4)	3	-	10	-
Others - abroad	-	-	-	-	-	-	2	-	2	-
Total held-for-trading bonds	11	1	-	-	(1)	(4)	5	-	12	-
Assets in respect of derivatives:										
NIS-CPI contacts	146	(12)	-	-	-	-	19	-	153	67
Interest rate contracts	124	230	-	-	-	(277)	-	-	77	(144)
Foreign currency contracts	728	(488)	-	1,583	-	-	-	-	1,823	1,623
Stock contracts	803	912	-	-	-	-	-	-	1,715	1,700
Commodity- and other contracts	254	(250)	-	-	-	-	-	-	4	4
Total assets in respect of derivatives	2,055	392	-	1,583	-	(277)	19	-	3,772	3,250
Total assets	5,925	933	(203)	3,883	(20)	(1,755)	24	(920)	7,867	3,016
Liabilities										
Liabilities for derivatives:										
NIS-CPI contacts	90	(85)	-	-	-	-	143	-	148	5
Foreign currency contracts	284	(280)	-	-	-	-	-	-	4	-
Stock contracts	7	-	-	-	-	-	-	-	7	-
Total liabilities in respect of derivatives	381	(365)	-	-	-	-	143	-	159	5
Total liabilities	381	(365)	-	-	-	-	143	-	159	5

(a) Net realized gains (losses) reported in the income statement under the noninterest finance income line item.

(b) Unrealized losses included in the Statement of Changes in Equity under accumulated other comprehensive income (loss). The balance of unrealized other comprehensive income (loss) in respect of available-for-sale bonds as at December 31, 2022, amounted to NIS (234) million.

(c) Transfers from Level 2 to Level 3 – forward CPI contracts for a period of more than one year were transferred when the term to maturity was less than one year.

Note 33D - Quantitative Information on Items Measured at Fair Value and Included in Level 3

Quantitative Information on Fair Value Measurement in Level 3

	December 31, 2023				
	Fair value	Valuation technique	Unobservable inputs	Range	Average[3]
a. Items Measured at Fair Value on a Recurring Basis					
Assets					
Available-for-sale securities[1]					
Government of Israel bonds	26	Discounted cash flows	Spread	205 bp	205 bp
			Probability of default	1.68%	1.68%
			% of loss	25%	25%
Asset-backed bonds (ABSs) or mortgage-backed bonds (MBSs)	4,889	Discounted cash flows	Spread	200-280 bp	240bp
			Probability of default	2%-3.8%	2.90%
			Early repayment rate	20%	20%
			% of loss	30%	30%
Held-for-trading securities[1]					
Asset-backed bonds (ABSs) or mortgage-backed bonds (MBSs)	5	Discounted cash flows	Spread	200-280 bp	240bp
			Probability of default	2%-3.8%	2.90%
			Early repayment rate	20%	20%
			% of loss	30%	30%
Others - abroad	2	Discounted cash flows	Spread	105-210 bp	158 bp
			Probability of default	1.1%-1.8%	1.45%
			% of loss	30%	30%
Assets for derivatives[2]					
NIS-CPI interest contracts	198	Discounted cash flows	Expected inflation	0.03%-2.33%	1.18%
	2	Discounted cash flows	Counterparty risk	0.26%-100%[*]	1.40%
Interest rate contracts	118	Discounted cash flows	Counterparty risk	0.26%-100%[*]	1.40%
Foreign currency contracts	2,363	Discounted cash flows	Counterparty risk	0.26%-100%[*]	1.40%
Stock contracts	179	Discounted cash flows	Counterparty risk	0.26%-100%[*]	1.40%
Liabilities					
Liabilities for derivatives[2]					
NIS-CPI interest contracts	116	Discounted cash flows	Expected inflation	0.03%-2.33%	1.18%
Foreign currency contracts	6	Discounted cash flows	Expected inflation	0.03%-2.33%	1.18%
Stock contracts	7	Discounted cash flows	Counterparty risk	0.26%-100%	1.40%
Other liabilities	419	Discounted cash flows	Probability of default	4.08%-5.49%	4.70%
			Effective average duration in years	0.54 - 1.00	0.72
b. Items measured at fair value on a non-recurring basis					
Collateral-dependent non-performing credit	782	Collateral's fair value			

* For a defaulted counterparty.

Please see comments below.

Note 33D - Quantitative Information on Items Measured at Fair Value and Included in Level 3 (cont.)

Quantitative Information on Fair Value Measurement in Level 3 (cont.)

	December 31, 2022				
	Fair value	Valuation technique	Unobservable inputs	Range	Average[3]
a. Items Measured at Fair Value on a Recurring Basis					
Assets					
Available-for-sale securities[1]					
Government of Israel bonds	24	Discounted cash flows	Spread	205 bp	205 bp
			Probability of default	1.68%	1.68%
			% of loss	25%	25%
Asset-backed bonds (ABSs) or mortgage-backed bonds (MBSs)	4,059	Discounted cash flows	Spread	110-215 bp	163 bp
			Probability of default	2%-3.8%	2.90%
			Early repayment rate	20%	20%
			% of loss	30%	30%
Held-for-trading securities[1]					
Asset-backed bonds (ABSs) or mortgage-backed bonds (MBSs)	10	Discounted cash flows	Spread	110-215 bp	163 bp
			Probability of default	2%-3.8%	2.90%
			Early repayment rate	20%	20%
			% of loss	30%	30%
Other foreign entities	2	Discounted cash flows	Spread	105-210 bp	158 bp
			Probability of default	1.1%-1.8%	1.45%
			% of loss	30%	30%
Assets for derivatives[2]					
NIS-CPI interest contracts	148	Discounted cash flows	Expected inflation	0.41%-2.72%	1.56%
	5	Discounted cash flows	Counterparty risk	0.60%-100%(*)	1.39%
Interest rate contracts	77	Discounted cash flows	Counterparty risk	0.60%-100%(*)	1.39%
Foreign currency contracts	1,823	Discounted cash flows	Counterparty risk	0.60%-100%(*)	1.39%
Stock contracts	1,715	Discounted cash flows	Counterparty risk	0.60%-100%(*)	1.39%
Commodity contracts	4	Discounted cash flows	Counterparty risk	0.60%-100%(*)	1.39%
Liabilities					
Liabilities for derivatives[2]					
NIS-CPI interest contracts	148	Discounted cash flows	Expected inflation	0.41%-2.72%	1.56%
Foreign currency contracts	4	Discounted cash flows	Expected inflation	0.41%-2.72%	1.56%
Stock contracts	7	Discounted cash flows	Counterparty risk	0.60%-100%	1.39%
b. Items measured at fair value on a non-recurring basis					
Collateral-dependent non-performing credit	94	Collateral's fair value			

* For a defaulted counterparty.

Please see comments below.

Note 33D - Quantitative Information on Items Measured at Fair Value and Included in Level 3 (cont.)

Quantitative Information on Fair Value Measurement in Level 3 (cont.)

1. The following unobservable inputs were used to measure the fair value of asset-backed or mortgage-backed securities: Spread, probability of default, early repayment rate, and severity of loss in the event of a default.
   A significant increase/decrease in the unobservable inputs will be reflected in a significantly lower/higher fair value, respectively.
2. The following unobservable inputs were used to measure the derivatives' fair value: counterparty credit risk and expected inflation rate. The higher/lower a counterparty's credit risk, the lower/higher the contract's fair value, respectively.
   A change in the expected inflation rate will affect the contracts' fair value in accordance with the Bank's CPI-linked position on these contracts. The higher (lower) the expected inflation rate with the Bank committed to paying the CPI-linked amount, the lower (higher) the contracts' fair value, respectively. The higher (lower) the expected inflation rate with the counterparty committed to paying the Bank the CPI-linked amount, the higher (lower) the contracts' fair value, respectively.
3. The average figure for the unobservable input "counterparty risk" reflects a weighted average. The weighted average was calculated based on the relative fair value of the exposures.

Note 34 - Interested and Related Parties of the Bank and Its Consolidated Subsidiaries

Control of the Bank

Bank without a controlling core

As of March 24, 2012, Leumi is defined by law as a banking corporation without a controlling core, and no shareholder meets the definition of a controlling shareholder of the Bank.

A. Balances

	December 31, 2023			
	Interested parties[f][h]			
	Other shareholders[k]		Officers[a]	
	Balance as at December 31	Highest balance[d]	Balance as at December 31	Highest balance[d]
	In NIS million			
Assets				
Deposits with banks	-	-	-	-
Securities[e]	-	-	-	-
Loans to the public	204	232	3	4
Loan loss provision[j]	-	-	-	-
Loans to the public, net	204	232	3	4
Investments in associates[e]	-	-	-	-
Other assets	1	2	-	-
Liabilities:				
Deposits by the public	201	252	12	13
Deposits by banks	-	-	-	-
Bonds, promissory notes and subordinated notes	-	-	-	-
Other liabilities	4	4	-	-
Credit risk in off-balance-sheet items[g]	8	53	2	2

(a) Including their immediate family members, as defined in Section 80.D(3) to the Reporting to the Public Directives.
(b) Pursuant to Section 80.D(4) to the Reporting to the Public Directives, corporations controlled by a person or corporation included in any of the interested party groups in accordance with the Securities Law and who/which holds at least 25 percent of their issued share capital or voting rights may appoint 25 percent or more of their board members.
(c) In accordance with Section 80.D(8) of the Reporting to the Public Directives. Starting July 1, 2022, in accordance with the revision to Proper Conduct of Banking Business Directive No. 312, the inclusion was canceled regarding corporations held at over 10 percent of the means of control, which the Bank does not control and the value of the holding does not exceed 0.5 percent of the Tier 1 capital after supervisory adjustments and deductions.
(d) Based on end-of-month balances.
(e) Additional details about these items are also included in Note 12 and Note 15.
(f) As at December 31, 2023, interested parties' holdings in the Bank's share capital amounted to NIS 479,119,344 par value of Bank's shares (of which officers: NIS 191,562 par value).
(g) Credit risk for off-balance-sheet financial instruments as calculated for the purpose of per borrower indebtedness limitations.
(h) Interested party, related party, related person, as defined in Section 80.D of the Reporting to the Public Directives.
(i) Associates or jointly held investees, in accordance with Section 80.D(7) to the Reporting to the Public Directives.
(j) Specific loan loss provision.
(k) Including those holding at least 5 percent of the means of control in the Bank, in accordance with Section 80.D(2) of the Reporting to the Public Directives. "Other shareholders" as at December 31, 2023, including through entities held by them, are The Phoenix Holdings Ltd. and Excellence Investments Ltd. (as of August 28, 2019) - 7.60 percent of the Bank's equity; Harel Investments in Insurance and Financial Services Ltd. (as of March 12, 2020) - 6.31 percent of equity; Meitav Dash Investments Ltd. (as of June 4, 2020) - 6.43 percent of equity; Clal Insurance Enterprises Holdings Ltd. (as of June 18, 2021) - 6.21 percent of equity; Altshuler Shaham Ltd. (as of June 27, 2022) - 5.10 percent of equity.

				Related parties[h]			
				Held by the Bank		Other[c]	
Other[b]		Interested parties at transaction date		Associates[i]			
Balance as at December 31	Highest balance[d]	Balance as at December 31	Highest balance[d]	Balance as at December 31	Highest balance[d]	Balance as at December 31	Highest balance[d]
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
5,025	5,608	-	7	3,016	3,133	-	-
-	-	-	-	-	-	-	-
5,025	5,608	-	7	3,016	3,133	-	-
-	-	-	-	4,014	4,078	-	-
37	82	-	-	3	5	-	-
2,946	3,845	-	4	734	828	-	-
-	-	-	-	32	37	-	-
23	23	-	9	-	-	-	-
59	115	-	-	4	52	-	-
464	546	-	1	658	1,448	-	-

Note 34 - Interested and Related Parties of the Bank and its Consolidated Subsidiaries (cont.)

A. Balances (cont.)

	December 31, 2022			
	Interested parties[f][h]			
	Other shareholders[k]		Officers[a]	
	Balance as at December 31	Highest balance[d]	Balance as at December 31	Highest balance[d]
	In NIS million			
Assets				
Deposits with banks	-	-	-	-
Securities[e]	-	-	-	-
Loans to the public	231	256	6	6
Loan loss provision[j]	-	-	-	-
Loans to the public, net	231	256	6	6
Investments in associates[e]	-	-	-	-
Other assets	-	-	-	-
Liabilities:				
Deposits by the public	210	257	16	16
Deposits by banks	-	-	-	-
Bonds, promissory notes and subordinated notes	-	-	-	-
Other liabilities	-	-	-	-
Credit risk in off-balance-sheet items[g]	5	6	1	2

(a) Including their immediate family members, as defined in Section 80.D(3) to the Reporting to the Public Directives.

(b) Pursuant to Section 80.D(4) to the Reporting to the Public Directives, corporations controlled by a person or corporation included in any of the interested party groups in accordance with the Securities Law and who/which holds at least 25 percent of their issued share capital or voting rights may appoint 25 percent or more of their board members.

(c) In accordance with Section 80.D(8) of the Reporting to the Public Directives. Starting July 1, 2022, in accordance with the revision to Proper Conduct of Banking Business Directive No. 312, the inclusion was canceled regarding corporations held at over 10 percent of the means of control, which the Bank does not control and the value of the holding does not exceed 0.5 percent of the Tier 1 capital after supervisory adjustments and deductions.

(d) Based on end-of-month balances.

(e) Additional details about these items are also included in Note 12 and Note 15.

(f) As at December 31, 2022, interested parties' holdings in the Bank's share capital amounted to NIS 457,060,509 par value of Bank's shares (of which officers: NIS 257,294 par value).

(g) Credit risk for off-balance-sheet financial instruments as calculated for the purpose of per borrower indebtedness limitations.

(h) Interested party, related party, related person, as defined in Section 80.D of the Reporting to the Public Directives.

(i) Associates or jointly held investees, in accordance with Section 80.D(7) to the Reporting to the Public Directives.

(j) Specific loan loss provision.

(k) Including those holding at least 5 percent of the means of control in the Bank, in accordance with Section 80.D(2) of the Reporting to the Public Directives. "Other shareholders" as at December 31, 2022, including through entities held by them, are The Phoenix Holdings Ltd. and Excellence Investments Ltd. (as of August 28, 2019) - 7.20 percent of the equity; Harel Investments in Insurance and Financial Services Ltd. (as of March 12, 2020) - 5.82 percent of equity; Meitav Dash Investments Ltd. (as of June 4, 2020) - 5.44 percent of equity; Clal Insurance Enterprises Holdings Ltd. (as of June 18, 2021) - 6.01 percent of equity; Altshuler Shaham Ltd. (as of June 27, 2022) - 5.09 percent of equity.

				Related parties[h]			
				Held by the Bank		Other[c]	
Other[b]		Interested parties at transaction date		Associates[i]			
Balance as at December 31	Highest balance[d]	Balance as at December 31	Highest balance[d]	Balance as at December 31	Highest balance[d]	Balance as at December 31	Highest balance[d]
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	694
2,757	2,757	-	-	2,096	2,188	-	177
-	-	-	-	(20)	(35)	-	-
2,757	2,757	-	-	2,076	2,153	-	177
-	-	-	-	4,947	4,947	-	-
51	88	-	-	-	10	-	2
2,773	2,773	-	-	601	985	-	86
-	-	-	-	20	49	-	-
2	2	-	-	-	-	-	-
22	30	-	-	44	44	-	4
102	287	-	-	1,425	1,425	-	68

Note 34 - Interested and Related Parties of the Bank and its Consolidated Subsidiaries (cont.)

B. Condensed Business Results with Interested Parties and Related Parties

	For the year ended December 31, 2023				
	Interested parties[f]			Related parties[f]	
				Held by the Bank	Other[c]
	Other shareholders[h]	Officers[a]	Other[b]	Associates[g]	
	In NIS million				
Interest (expenses) income, net[d]	(1)	-	78	139	-
Loan loss provision[i]	-	-	-	20	-
Noninterest income (expense)	2	-	3	(7)	-
Of which: Management and service fees	1	-	8	14	-
Operating and other expenses[e]	-	(41)	(8)	(19)	-
Total	1	(41)	73	133	-

	For the year ended December 31, 2022				
	Interested parties[f]			Related parties[f]	
				Held by the Bank	Other[c]
	Other shareholders[h]	Officers[a]	Other[b]	Associates[g]	
	In NIS million				
Interest (expenses) income, net[d]	1	-	(31)	43	10
Loan loss provision[i]	-	-	-	(75)	-
Noninterest expenses	-	-	(89)	(18)	(1)
Of which: Management and service fees	-	-	2	5	-
Operating and other expenses[e]	-	(50)	(5)	(19)	(19)
Total	1	(50)	(125)	(69)	(10)

(a) Including their immediate family members, as defined in Section 80.D(3) to the Reporting to the Public Directives.
(b) Pursuant to Section 80.D(4) of the Reporting to the Public Directives, corporations controlled or jointly held by a person or corporation included in any of the interested party groups and who/which has significant influence on it or holds at least 25 percent of their issued share capital or voting rights may appoint 25 percent or more of their board members.
(c) In accordance with Section 80.D(8) of the Reporting to the Public Directives.
(d) Additional information in Section D below.
(e) Additional information in Section C below.
(f) Interested party, related party, related person, as defined in Section 80.D of the Reporting to the Public Directives.
(g) Associates or jointly held investees, in accordance with Section 80.D(7) to the Reporting to the Public Directives.
(h) Including those holding at least 5 percent of the means of control in the Bank, in accordance with Section 80.D(2) of the Reporting to the Public Directives.
(i) Specific loan loss provision.

Note 34 - Interested and Related Parties of the Bank and its Consolidated Subsidiaries (cont.)

B. Condensed Business Results with Interested Parties and Related Parties (cont.)

	For the year ended December 31, 2021				
	Interested parties[f]			Related parties[f]	
				Held by the Bank	Other[c]
	Other shareholders[h]	Officers[a]	Other[b]	Associates[g]	
	In NIS million				
Interest (expenses) income, net[d]	1	-	(1)	20	23
Loan loss provision[i]	-	-	-	(95)	-
Noninterest income	-	-	58	18	1
Of which: Management and service fees	-	-	2	3	1
Operating and other expenses[e]	-	(64)	(2)	(16)	(41)
Total	1	(64)	55	(73)	(17)

(a) Including their immediate family members, as defined in Section 80.D(3) to the Reporting to the Public Directives.
(b) Pursuant to Section 80.D(4) of the Reporting to the Public Directives, corporations controlled or jointly held by a person or corporation included in any of the interested party groups and who/which has significant influence on it or holds at least 25 percent of their issued share capital or voting rights may appoint 25 percent or more of their board members.
(c) In accordance with Section 80.D(8) of the Reporting to the Public Directives.
(d) Additional information in Section D below.
(e) Additional information in Section C below.
(f) Interested party, related party, related person, as defined in Section 80.D of the Reporting to the Public Directives.
(g) Associates or jointly held investees, in accordance with Section 80.D(7) to the Reporting to the Public Directives.
(h) Including those holding at least 5 percent of the means of control in the Bank, in accordance with Section 80.D(2) of the Reporting to the Public Directives.
(i) Specific loan loss provision.

Note 34 - Interested and Related Parties of the Bank and its Consolidated Subsidiaries (cont.)

C. Compensation and Any Other Benefits to Interested Parties

	For the year ended December 31					
	2023		2022		2021	
	Officers					
	Benefits - total	No. of benefit recipients	Benefits - total	No. of benefit recipients	Benefits - total	No. of benefit recipients
	In NIS million		In NIS million		In NIS million	
Interested party employed in the corporation or on its behalf[(a)(b)(c)]	**28**	**20**	36	17	48	23
Director not employed in the corporation or on its behalf[(a)]	**6**	**12**	5	10	7	11

(a) Excluding payroll tax expenses.
(b) Of which: Short-term employee benefits NIS 37 million and post-employment benefit NIS (11) million.
(2022 – short term employee benefits - 41 million, post-employment benefits - NIS 6 million, 2021 - short term employee benefits - NIS 35 million, post-employment benefits - NIS 13 million).
(c) In 2023, expenses for share-based compensation payments were NIS 2.1 million (in 2022, expenses for share-based payments were NIS 1.3 million, in 2021 - expenses for share-based payments were less than NIS 1 million).

Bank's directors and officers are covered by a directors' and officers' liability insurance policy (D&O) taken out by the Bank. The overall insurance premium totaled NIS 7.326 thousand (2022 – NIS 8,598 thousand, 2021 – NIS 8,009 thousand).

D. Net Interest Income from Transactions of the Bank and its Consolidated Companies with Interested and Related Parties

	For the year ended December 31					
	2023		2022		2021	
	Consoli-dated	Of which: Associates	Consoli-dated	Of which: Associates	Consoli-dated	Of which: Associates
	In NIS million					
(a) For assets						
From loans to the public	**373**	**163**	84	49	53	20
(b) For liabilities						
For deposits by the public	**(157)**	**(24)**	(61)	(6)	(10)	-
Total interest income, net	**216**	**139**	23	43	43	20

E. Information Relating to the Terms and Conditions of Transactions and Balances with Related Parties and Interested Parties

All transactions and balances with interested parties and related parties were carried out in the ordinary course of business and under terms and conditions similar to those of transactions with entities not related to the Bank and its consolidated subsidiaries.
Interest receivable and payable in respect of transactions with interested parties and related parties is calculated at the normal interest rates applied to transactions in the ordinary course of business with non-related parties of the Bank.

Note 35 - The Bank's Condensed Financial Statements

A. Condensed Income Statement

	For the year ended December 31		
	2023	2022	2021
	In NIS million		
Interest income	**33,258**	18,289	10,582
Interest expenses	**17,717**	5,591	1,290
Interest income, net	**15,541**	12,698	9,292
Loan loss expenses (income)	**2,291**	505	(819)
Interest income, net after loan loss expenses (income)	**13,250**	12,193	10,111
Noninterest income			
Noninterest finance income	**1,026**	1,071[a]	992
Fees and commissions	**3,515**	3,294	3,130
Other income	**156**	59	264
Total noninterest income	**4,697**	4,424	4,386
Operating and other expenses			
Salaries and related expenses	**3,280**	3,646	3,650
Buildings and equipment - maintenance and depreciation	**1,494**	1,255	1,325
Other expenses	**1,827**	1,459	1,528
Total operating and other expenses	**6,601**	6,360	6,503
Profit before taxes	**11,346**	10,257	7,994
Provision for profit tax	**3,875**	3,416	2,957
Profit after taxes	**7,471**	6,841	5,037
Bank's share in investees' net profits (losses), after tax	**(444)**	868[a]	991
Net income	**7,027**	7,709	6,028

(a) For the purpose of presentation only, the gain on the sale of BLUSA reclassified from the Bank's share in net profits of investees after tax to noninterest finance income. For more information, please see Note 15.A to the financial statements as at December 31, 2022.

Note 35 - The Bank's Condensed Financial Statements (cont.)

B. The Bank's Balance Sheet

	December 31	
	2023	2022
	In NIS million	
Assets		
Cash and deposits with banks	**105,272**	186,266
Securities	**154,824**	77,503
Securities borrowed or purchased under reverse repurchase agreements	**3,053**	3,034
Loans to the public	**421,006**	388,448
Loan loss provision	**(6,552)**	(4,911)
Loans to the public, net	**414,454**	383,537
Loans to governments	**1,806**	1,109
Investments in investees	**15,509**	13,734
Buildings and equipment	**2,840**	2,702
Assets in respect of derivatives	**27,413**	26,646
Other assets	**7,169**	6,163
Total assets	**732,340**	700,694
Liabilities and equity		
Deposits by the public	**568,990**	557,937
Deposits by banks	**20,822**	23,413
Deposits from governments	**160**	247
Securities loaned or sold under repurchase agreements	**13,776**	3,952
Bonds, promissory notes and subordinated notes	**32,114**	27,805
Liabilities for derivatives	**26,649**	23,303
Other liabilities	**15,332**	14,599
Total liabilities	**677,843**	651,256
Equity attributable to the Bank's shareholders	**54,497**	49,438
Total liabilities and equity	**732,340**	700,694

Note 35 - The Bank's Condensed Financial Statements (cont.)

c. Statement of Cash Flows

	For the year ended December 31		
	2023	2022	2021
	In NIS million		
Cash flows from operating activities			
Net income for the year	**7,027**	7,709	6,028
Adjustments:			
Bank's share in undistributed losses (profits) of investees, net of dividend received	**641**	(870)	(990)
Depreciation of buildings and equipment (including impairment)	**660**	570	634
Loan loss expenses (income)	**2,291**	505	(819)
Gains on sale of loan portfolios	**-**	(15)	-
Net losses (gains) on sale of available-for-sale bonds	**289**	141	(230)
Net realized and unrealized losses (gains) from fair value adjustments of held-for-trading securities	**(90)**	164	19
Gain on sale of investees' equity	**-**	(752)	-
Gains on disposal of buildings and equipment - Net	**(22)**	(52)	(119)
Provision for impairment of available-for-sale bonds	**33**	42	-
Realized and unrealized gains, net from fair value adjustments of equity securities not held-for-trading	**(175)**	(178)	(79)
Expenses for stock-based compensation transactions	**7**	4	-
Deferred taxes - net	**(711)**	(259)	405
Severance pay and pension – increase in excess of provision over fund	**171**	33	327
Excess of interest received (receivable) for available-for-sale bonds and held-to-maturity bonds over interest accrued during the period	**(2,190)**	(195)	367
Accrual differences and rate in respect of bonds and subordinated notes	**379**	1,003	(41)
Effect of exchange rate differentials on cash and cash equivalent balances	**(156)**	(765)	570
Other, net	**(2)**	(11)	5
Net change in current assets:			
Assets in respect of derivatives	**(767)**	(12,700)	1,140
Held-for-trading securities	**(11,326)**	713	894
Other Assets	**(324)**	(12)	164
Net change in current liabilities:			
Liabilities for derivatives	**3,232**	8,712	(1,394)
Other Liabilities	**472**	1,788	(3,143)
Net cash provided by (for) current activities	**(561)**	5,575	3,738

Note 35 - The Bank's Condensed Financial Statements (cont.)

C. Statement of Cash Flows (cont.)

	For the year ended December 31		
	2023	2022	2021
	In NIS million		
Cash flows from investing activities			
Net change in deposits with banks with original maturities of more than three months	**2,928**	123	(1,062)
Net change in loans to the public[(a)]	**(31,518)**	(66,609)	(45,087)
Net change in loans to the Israeli Government	**(696)**	(171)	(308)
Net change in securities loaned or sold under repurchase agreements	**(19)**	(587)	572
Purchase of held-to-maturity bonds	**(3,164)**	(8,550)	(1,201)
Proceeds from redemption of held-to-maturity bonds	**2,311**	418	898
Purchase of available-for-sale bonds and equity securities not held-for-trading	**(174,380)**	(113,235)	(101,796)
Proceeds from sale of available-for-sale bonds and equity securities not held-for-trading	**87,402**	95,800	83,879
Proceeds from redemption of available-for-sale bonds and equity securities not held-for-trading	**24,648**	19,240	23,665
Purchase of investees' shares	**(10)**	(355)	(21)
Proceeds from disposal of investment in investees	**267**	-	1
Decrease, net in capital notes of investees	**(2,432)**	306	-
Purchase of loan portfolios	**(1,556)**	-	-
Proceeds from sale of loan portfolios	**42**	443	217
Purchase of buildings and equipment	**(814)**	(753)	(517)
Proceeds from disposal of buildings and equipment	**38**	109	179
Central severance pay fund	**14**	91	(74)
Net cash for investing activities	**(96,939)**	(73,730)	(40,655)
Cash flow from financing activities			
Net change in deposits by banks with original maturities of more than three months	**(2,591)**	(1,986)	10,322
Net change in deposits by the public	**10,929**	44,157	87,884
Net change in deposits by the government	**(87)**	(52)	106
Net change in securities loaned or sold under repurchase agreements	**9,824**	1,906	1,692
Proceeds from issue of bonds and subordinated notes	**10,758**	11,435	2,262
Redemption of bonds and subordinated notes	**(6,874)**	(61)	(3,096)
Issuance of shares	**-**	2,736	-
Dividend paid to shareholders	**(2,081)**	(1,665)	(1,997)
Share buyback	**(600)**	-	-
Net cash from financing activities	**19,278**	56,470	97,173
(Decrease) increase in cash and cash equivalents	**(78,222)**	(11,685)	60,256
Balance of cash and cash equivalents at the beginning of the year	**180,333**	191,253	131,567
Effect of exchange rate fluctuations on cash and cash equivalent balances	**156**	765	(570)
Balance of cash and cash equivalents at the end of the year	**102,267**	180,333	191,253

(a) Including operating activities from invoice factoring. Please see Note 30F.

Note 35 - The Bank's Condensed Financial Statements (cont.)

C. Statement of Cash Flows (cont.)

Interest and taxes paid and/or received and dividends received

	For the year ended December 31		
	2023	2022	2021
	In NIS million		
Interest received	**29,078**	15,106	9,667
Interest paid	**(14,112)**	(3,437)	(1,371)
Dividends received	**151**	95	11
Income tax paid	**(4,268)**	(2,297)	(2,807)
Income tax received	**104**	193	74

Note 36 - Miscellaneous Topics and Events subsequent to the Balance Sheet Date

A. Impairment of the investment in Valley

As detailed in Note 15 and Note 1.E.2, the Bank's investment in the shares of Valley National Bancorp (hereinafter - "Valley") is recorded in the Bank's books according to the equity method.

The market value of the Valley shares held by the Bank as at December 31, 2023 is approx. NIS 2,831 million. Subsequent to the balance sheet date and up to shortly before the report publication date, the market value of Valley's shares held by the Bank was in the NIS 1.9-2.4 billion range.

B. Sale of Beit Lin

On March 28, 2023, the Bank engaged (through a wholly owned subsidiary) in an agreement with JTLV 3 (Beit Lin) Limited Partnership (hereinafter - the "Acquirer") for the sale of 50 percent of its rights in an office tower at 35 and 37 Yehuda Halevi St., Tel Aviv, known as Beit Lin, which is currently used by the Bank (hereinafter - the "Property"), according to a total asset value (100 percent) of NIS 650 million. The consideration payable to the Bank is NIS 325 million plus VAT (hereinafter - the "Consideration"; the "Sale Agreement"). At the same time, the parties entered into an agreement to regulate the cooperative relationship in the property for its improvement. If the building is delivered by March 31, 2024, the Bank is expected to recognize, in the financial statements for the first quarter of 2024, (pre-tax) capital gains of approx. NIS 271 million.

C. Sale of Beit Mani

Further to the Bank's Annual Financial Statements for 2022, on May 18, 2022, an agreement was signed for the sale of Beit Mani. On February 29, 2024, the Beit Mani transaction was completed, the Bank was paid the remaining consideration and Beit Mani was delivered to the buyer. For the Beit Mani transaction, the Bank is expected to record a capital gain (before tax) of approx. NIS 559 million in the financial statements of the first quarter of 2024.

D. The Bank's UK office

During to the first half of 2023, all the terms and conditions for restructuring, including returning the regulatory license were met, enabling LUK to serve as a lender. To this end, BLUK was merged into LABL, a BLUK subsidiary (hereinafter – "**Leumi UK Group**").

Leumi UK Group provides credit primarily in the fields of real estate, hotels and ABL, only to commercial customers in the UK and Europe, including Israeli customers active in these geographic areas, including investments and development of residential real estate and financing for commercial real estate.

E. Changes in tax legislation

On March 13, 2024 - as part of the Balancing Plan Bill (Legislative Amendments for Obtaining the Budgetary Targets for the 2024 Budget Year), 2024 - the Law of Special Payment for Achieving the Budgetary Targets (Temporary Order - Iron Swords), 2024 was passed by the Knesset; according to the law, a bank whose scope of activity is not small (a bank whose assets are valued more than 5 percent of Israeli banks' total assets, hereinafter - a "**paying bank**") shall pay the government - for the period beginning on April 1, 2024 and ending on December 31, 2025 (hereinafter - the "**effective period**") - an annual payment equal to 6 percent of the profits generated for its activity in Israel (hereinafter - the "**annual payment amount**").

If the total annual payment of all the paying banks exceeds NIS 1.2 billion for 2024 or NIS 1.3 billion for 2025, paying banks will be refunded the difference between the annual payment amount of all the paying banks and the maximum amount for 2024 or 2025, as the case may be, multiplied by the relative share of the said paying bank from the total annual payment of all paying banks.

Note 36 - Miscellaneous Topics and Events subsequent to the Balance Sheet Date (cont.)

The Minister of Finance may issue, with the approval of the Knesset's Finance Committee, by October 31, 2024, an ordinance shortening the effective period until December 31, 2024, if he is made aware of a material change in Israel's expected economic conditions for 2025, compared with the economic conditions expected for that year prior to the passing of the law, including in the Bank of Israel's interest rate, inflation rate or rate of the unemployed out of the labor force), such that may materially compromise the banks' ability to generate profits in 2025.

In addition, the tax payable by a bank for its activity in Israel in 2025 will be 17 percent of the salaries it paid and the profit it generated (unless the Minister of Finance promulgates such an ordinance).

At the same time, on February 28, 2024, the Value Added Tax Ordinance (Tax Rate on Transaction and Imports of Goods) (Amendment), 2024 was published, according to which the VAT rate will be raised to 18 percent as from January 1, 2025.

Accordingly, on March 11, 2024, the Knesset approved the Value Added Tax Ordinance (Tax Rate for NGOs and Financial Institutions) (Amendment), 2024, according to which the salary tax and profit tax shall be revised in accordance with the increase in the VAT rate as from 2025.

BANK LEUMI LE-ISRAEL B.M. AND ITS INVESTEE COMPANIES
Corporate Governance, Additional Details and Appendices
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Members of the Bank's Board of Directors(*)(**)

Dr. Shmuel Ben Zvi, Chairman[(a)(b)]

Mr. Uri Alon[(c)]

Mr. Sasson Elya[(d)]

Ms. Tamar Gottlieb[(d)]

Esther Deutsch, Adv.[(e)]

Ms. Esther Dominissini[(f)]

Mr. Zvika Nagan[(d)]

Mr. Dan Alexander Koller[(a)]

Prof. Yedidia Stern[(g)]

Ms. Irit Shlomi[(f)]

(a) External Director, according to Proper Conduct of Banking Business Directive No. 301 (hereinafter - "**external director**").

(b) At a Bank's board meeting held on October 29, 2023, Dr. Shmuel Ben Zvi was appointed Chairman of the Bank's Board of Directors. His tenure as Chairman of the Bank's Board of Directors commenced on November 16, 2023, after receiving the Banking Supervision Department's notice of non-objection to the appointment.

(c) Mr. Uri Alon was appointed non-external director, as stated in Section 11D(a)(2) of the Banking Ordinance, 1941 (hereinafter - "**Director with an Other Director Status**") by the Bank's annual general meeting held on July 17, 2023 and commenced his first term of office in the Bank on August 30, 2023, after having received the Banking Supervision Department's notice of non-objection to his appointment as aforesaid.

(d) External Director, according to the Companies Law, 1999 (hereinafter - "**ED**" and the "**Companies Law**", respectively).

(e) Ms. Esther Deutsch, Adv. was appointed Director with an Other Director Status by the Bank's annual general meeting held on July 17, 2023 and commenced her first term of office in the Bank on September 17, 2023, after having received the Banking Supervision Department's notice of non-objection to her appointment as aforesaid.

(f) Director with an Other Director Status.

(g) Prof. Yedidia Stern was elected external director by the Bank's annual general meeting held on July 17, 2023; he commenced his second term of office in the Bank on November 22, 2023 (the day following the end of her first term), after having received the Banking Supervision Department's notice of non-objection to her appointment as aforesaid.

For more information regarding the shareholders' annual general meeting, please see the immediate reports dated April 4, 2023, May 10, 2023 and July 17, 2023 (Ref. No.: 2023-01-038853, 2023-01-050268, and 2023-01-081393, respectively).

* On February 1, 2023, Mr. Yitzhak Edelman's tenure as an ED ended.

* On October 29, 2023, Dr. Samer Haj Yehia ended his tenure as a Director with an Other Director Status and as the Bank's Chairman of the Board.

* On November 8, 2023, Mr. Avi Bzura's tenure as a Director with an Other Director Status ended.

** For more information regarding members of the Bank's Board of Directors, please see "Changes in the Board of Directors" and Directive 26 in the Bank's 2023 Annual Report and on the MAGNA website of the Israel Securities Authority: http://www.magna.isa.gov.il.

Pursuant to Proper Conduct of Banking Business Directive No. 301, at least one third of the Board members should be external directors. Accordingly, as of the report date and its publication date, the Bank's Board of Directors includes 6 external directors, including 3 EDs.

In addition, due to the "independent director" definition in the Companies Law, the Audit Committee of the Board of Directors resolved that the Bank's External Directors constitute independent directors, with the exception of the Chairman of the Board, Dr. Shmuel Ben Zvi, whose classification as independent director was removed by the Bank's Audit Committee on November 16, 2023 (the date of his appointment as Chairman of the Bank's Board of Directors).[1]

Pursuant to the directives of the Banking Supervision Department and the provisions of the Companies Law and the regulations promulgated thereunder, the Bank's Board of Directors decided that at least three directors with "accounting and financial expertise" serving on the Board of Directors at any given time shall participate in the Board plenum's discussions of the draft financial statements and their approval. so as to enable the Board of Directors to meet its obligations in accordance with the law and the Bank's articles of association, and especially its responsibility for examining the Bank's financial position and preparing the financial statements.

In determining the said minimum number, the Board of Directors took into account the Bank's size, the complexity of its activity and the diverse risks involved, as well as its existing systems and procedures, such as: control, risk management, compliance, internal auditing and audit by the independent auditors. In addition, all Board members comply with the legal qualification requirements for serving as directors at the Bank.

As of the report's publication date - and as approved by the Board of Directors based on their education, experience, abilities and knowledge - 8 members of the board meet the definition of directors with accounting and financial expertise and all board members meet the professional qualifications definition in accordance with the Companies Regulations (Conditions and Tests for a Director with Accounting and Financial Expertise and Director with Professional Qualifications), 2005. For more information regarding the education and experience of the members of the Bank's Board of Directors, please see Directive 26 in the periodic report.

As of January 1, 2013 and pursuant to Proper Conduct of Banking Business Directive No. 301, discussions regarding the financial statements take place in the Board of directors' Audit Committee. Pursuant to the Directive, at least 2 members of the Audit Committee should have accounting and financial expertise. The Bank's Board of Directors determined that, at any given time, at least 3 directors with accounting and financial expertise will serve on the Board of Directors' Audit Committee. In practice, as of the report's publication date, 4 out of 6 directors serving on the Audit Committee have accounting and financial expertise. The legal quorum for discussion and decision-making by the Audit Committee is a majority of its members, provided that the majority of those present are External Directors who are also independent directors and at least one is an ED. As of the report's publication date, the Audit Committee has 3 board members who are classified as EDs. It should be noted that on July 22, 2020, the Bank's Board of Directors approved the split of the Compensation Committee from the Audit Committee.

In addition to the above, following are more details regarding additional qualifications for board members, in accordance with Proper Conduct of Banking Business Directive No. 301: 1) At lease one third of the members of the board are required to have banking experience; 2) At least half of the directors are required to have professional qualifications as defined in the Companies Regulations (Conditions and Tests for a Director with Accounting and Financial Expertise), 2005; 3) At least one director is required to have proven knowledge and experience in information technology.

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[1] Regarding the removal of Dr. Ben Zvi's classification as independent director, it should be noted that the classification was removed in accordance with the position of the Israel Securities Authority in connection with the approval of terms and conditions of service and employment for a chairman of the board of directors in a banking corporation with no controlling core. It should be clarified that Dr. Ben Zvi continues to serve as an external director according to Directive 301, and that the above Audit Committee resolution does not detract from or harm the other terms and conditions of eligibility, independence and lack of affiliation applicable thereto, including those stipulated in the Banking Ordinance, which are applicable to all directors of the Bank.

As of the reporting date and publication date: 1) The Bank has 7 directors having "banking experience", i.e., Uri Alon, Tamar Gottlieb, Adv. Esther Deutsch, Zvika Nagan, Dan Koller, Prof. Yedidia Stern and Irit Shlomi; 2) All members of the Board of Directors are defined as being "professionally qualified"; 3) The Bank's Board of Directors includes 2 directors classified by the Board as having proven knowledge and experience in information technology - Sasson Elya and Zvika Nagan.

Changes in the Board of Directors

As of the report publication date, the Board of Directors includes ten members, in accordance with the number of directors allowed in banking corporations pursuant to Proper Conduct of Banking Business Directive No. 301 (hereinafter - “Directive 301”). From the date of commencement of the tenure of Mr. Uri Alon and Ms. Esther Deutsch, Adv. (August 30, 2023 and September 18, 2023, respectively) until the date of the end of tenure of Dr. Samer Haj Yehia and Mr. Avi Bzura (October 29, 2023 and November 8, 2023, respectively) between 11 and 12 directors served on the Bank’s Board of Directors in accordance with the Banking Supervision Department’s approval, according to which the candidates appointed for the first time at the general meeting shall commence their service on the date of approval of the appointments in accordance with Section 11A of the Banking Ordinance, 1941. During 2023, there were changes in the composition of the Board of Directors as detailed below.

A. On February 1, 2023, CPA Yitzhak Edelman ended his tenure as a director at the Bank. For more information, please see the immediate report published by the Bank on January 27, 2022 (Ref. No. 2022-01-011986) and the immediate report regarding the end of tenure on February 2, 2023 (Ref. No. 2023-01-013728).

B. On July 17, 2023, the shareholders’ annual general meeting approved the following resolutions:[1]

1. To reappoint the auditing firms Somekh Chaikin (KPMG) and Brightman Almagor Zohar & Co. (Deloitte) as the Bank’s joint independent auditors for the period starting on the date of approval of the current annual general meeting through the end of the Bank’s next annual general meeting and to authorize the Bank’s Board of Directors to set their fees.
2. To appoint Mr. Uri Alon as a director who is not an external director, as stated in Section 11D(a)(2) of the Banking Ordinance, 1941 (hereinafter - “Director with an Other Director Status“). Mr. Uri Alon began his tenure on August 30, 2023. For more information, please see the immediate reports dated August 30, 2023 (Ref. No. 2023-01-100350 and 2023-01-100395).
3. To appoint Adv. Esther Deutsch as an Other Director. Adv. Deutsch began her tenure on September 17, 2023. For more information, please see the Bank’s immediate reports dated August 29, 2023 and September 18, 2023 (Ref. No. 2023-01-099528 and 2023-01-107298, respectively).
4. To reappoint Prof. Yedidia Stern as an External Director in accordance with Directive 301. Prof. Yedidia Stern’s second tenure began on November 22, 2023. For further information, please see the immediate report on the Bank’s senior officers dated September 27, 2023 (Ref. No.: 2023-01-110031).

C. On October 29, 2023, Dr. Samer Haj Yehia, ended his tenure as the Bank’s Chairman of the Board. For further information, please see the immediate report published by the Bank on October 30, 2023 regarding the end of tenure (Ref. No.: 2023-01-119789).

D. At a board meeting held on October 29, 2023, Dr. Shmuel Ben Zvi was appointed Chairman of the Bank’s Board of Directors. Dr. Shmuel Ben Zvi’s appointment took effect on November 16, 2023, the date on which the Banking Supervision Department gave its approval or non-objection to the appointment. For further information, please see the Bank’s immediate reports dated October 29, 2023 and November 16, 2023 (Ref. No.: 2023-01-119694 and 2023-01-125022, respectively).

E. On November 8, 2023, Mr. Avi Bzura ended his tenure as a director at the Bank. For further information, please see the immediate report published by the Bank on November 9, 2023 regarding the end of tenure (Ref. No.: 2023-01-122928).

[1] For more information regarding the shareholders’ annual general meeting, please see the immediate reports dated April 4, 2023, May 10, 2023 and July 17, 2023 (Ref. No.: 2023-01-038853, 2023-01-050268, and 2023-01-081393, respectively).

Members of the Bank's Management and their Roles[2]

Mr. Hanan Friedman, Adv.
President & CEO

Mr. Omer Ziv, CPA[1]
First Executive Vice President, Head of Capital Markets Division

Ms. Avivit Klein
First Executive Vice President, Head of Human Resources Division

Ms. Liat Shuv, CPA[1]
First Executive Vice President, Head of Corporate Division

Mr. Eyal Ben Haim[1]
First Executive Vice President, Head of Retail Banking Division

Mr. Uri Yonissi, CPA
First Executive Vice President, Head of Mortgages Division

Mr. Eyal Efrat[1]
First Executive Vice President, Head of Technologies Division

Ms. Hagit Argov, CPA[1]
First Executive Vice President, Head of the Finance Division and Chief Accounting Officer

Mr. Ronen Mori[1]
First Executive Vice President, Head of Risk Management Division and Chief Risk Officer

Mr. Avi Polak
First Executive Vice President, Head of Operations and Service Division

Ms. Tamar Mass[1]
First Executive Vice President, Head of the Strategy Division and Chief of Staff

Ms. Ayelet Raz, Adv.[1]
Deputy Chief Legal Counsel, Head of Legal Counsel Division and Head of Legal Risk

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Ms. Bosmat Ben-Zvi, CPA[1]
First Executive Vice President, Chief Internal Auditor and Head of the Internal Audit Division

Somekh Chaikin
Brightman Almagor Zohar & Co.
The Bank's Joint Independent Auditors

(1) For information regarding changes in the Bank's management and senior officers during 2023 and until the report's publication date, please see the section entitled "Appointments and Departures". For more information regarding members of the Bank's management, please see the Bank's 2023 Annual Report and on the MAGNA website of the Israel Securities Authority: http://www.magna.isa.gov.il.
(2) The above information is as of the report's publication date, rather than as of the end of the reporting period.

The Chief Internal Auditor

The Chief Internal Auditor meets the criteria of Section 146(b) to the Companies Law, 1999 and the provisions of Section 8 to the Internal Audit Law, 1992 (hereinafter: the “Internal Audit Law") and the employees of the Internal Audit Division meet the provisions of Sections 11 and 12 to Proper Conduct of Banking Business Directive No. 307 regarding the Internal Audit function.

The Chief Internal Auditor is a full-time employee of the Bank, is a member of management and this is her sole occupation. The Internal Auditor reports to the Bank’s Chairman of the Board.

The Internal Audit Division has an annual work plan and a multi-year work plan for a period of up to three years. The annual work plan and the multi-year work plan are derived from a mapping of audit topics - which are based, inter alia, on the documents outlined in Directive No. 307. The work plans are derived from a systematic methodology for assessing risks and controls, according to which the frequency and scope of the audit for each topic are determined. Thus, audits of higher risk topics are carried out annually, while lower risk topics are audited every two to three years. Drafts of annual work plans and multi-year work plans are submitted by the Internal Audit Division and approved by the Chairman of the Board of Directors, Audit Committee and the Board of Directors’ plenum.

The Internal Audit function uses monitoring tools, analysis and advanced data investigations, investing significant resourcing in boosting its analytical infrastructure across a variety of content domains.

The Internal Audit Division’s annual work plan and the multi-year work plan allow the Chief Internal Auditor to exercise discretion in deciding to deviate from the plan, as necessary.

In addition, several audit days are allocated each year to unplanned audits and review of special incidents, enabling the Internal Auditor to examine ad hoc topics, either at the request of the Bank's management or Audit Committee, or as a result of new activities or topics undertaken by the Group.

As part of the audit work, a sample of material transactions carried out by the Bank – including their approval procedures – is examined. In this context, material transactions include a material acquisition or sale of an operation, "transactions" - in accordance with Section 270 to the Companies Law and "extraordinary transaction" – as defined by the Companies Law.

The Internal Audit Division’s annual work plan and multi-year work plan each include all audit topics for the Bank, the material consolidated subsidiaries in Israel as well as the material foreign subsidiaries, in accordance with Proper Conduct of Banking Business Directive No. 306 (as set forth in Note 15D).

Employees of the Internal Audit Division serve as internal auditors of the Bank’s consolidated subsidiaries in Israel.

Local internal auditors are appointed in the UK subsidiary.

The internal auditors of each of the material subsidiaries in Israel and abroad report to their respective boards of directors or audit committees, and Leumi’s Internal Audit Division oversees their professional activity according to the requirements of the Bank of Israel and subject to local laws.

The Chief Internal Auditor and team of auditors in the Leumi Group in Israel comprise, on annual average, 69.9 positions for 2023, as outlined below:

	Average number of auditor positions in the Leumi Group in Israel
The Bank	**66.9**
Subsidiaries in Israel	**1.2**
Supervision and control over foreign subsidiaries	**1.8**
Total	**69.9***

* Of which approx. 1 position, on average, are on maternity leave or unpaid leave.

In addition, 5.1 positions are outsourced.
Furthermore, the foreign office employs local auditors in 1.6 positions (including outsourcing)
The number of positions was approved by the Audit Committee in Israel, based on the annual and multi-year work plans.
The Chief Internal Auditor may, within the framework of the budget, use outsourcers to carry out work that requires special knowledge or in the event of insufficient staff.

Set forth below is a breakdown of the benefits and amounts which were paid or provided for in 2023 to the Chief Internal Auditor in NIS thousands

2023**						
% of the Bank's capital	Compensation for services				Other compensation	
	Salaries	Bonuses***	Value of options	Social benefit contributions	Benefit value	Total*
	(in NIS thousands)					
-	910	576	207	339	88	2,120

* Excluding salary tax.
** Data presented in the above table were calculated according to the relative part of the year, due to the Chief Internal Auditor's being on parental leave during the year.
*** Please see Note 23.E to the Financial Statements.

The amounts and components of payments to the Chief Internal Auditor are brought with the recommendation of the Chairman of the Board for approval by the Audit Committee and the Board of Directors.

The Audit Committee and Board of Directors believe that the fact that the Chief Internal Auditor holds securities and her compensation do not affect the exercise of her professional judgement.

The Chief Internal Auditor operates in accordance with the professional standards of the Institute of Internal Auditors in Israel and the Institute of Internal Auditors (IIA).

Furthermore, the Chief Internal Auditor operates in accordance with the directives and instructions of the Banking Supervision Department, including Proper Conduct of Banking Business Directive No. 307 regarding the Internal Audit function.

The Audit Committee and Board of Directors have noted the Chief Internal Auditor's written statement, according to which she complies with all of the requirements set forth in the abovementioned generally accepted professional standards, and also operates in accordance with the directives of the Banking Supervision Department. Based on this statement and on her performance, as reflected in meetings of the Board of Directors' Audit Committee, the Audit Committee and the Board of Directors are satisfied that the Chief Internal Auditor meets the aforesaid requirements.

Audit reports and records are submitted to the audited entities in writing, after the findings are discussed with them. Furthermore, towards the date of issuance of the reports and records, material findings are discussed with the heads of divisions and with the President and CEO.

Audit reports and records are discussed by the Audit Committee several times a month. In addition to the Chief Internal Auditor, members participating in meetings of the Audit Committee include representatives of the Internal Audit Division and the heads of the audited divisions and their representatives.

Ahead of Audit Committee meetings, the Chairman of the Audit Committee determines, after consulting the Chief Internal Auditor, which audit reports and records will be presented in their entirety for discussion by the Audit Committee. Furthermore, summaries of all audit reports and records issued by the Internal Audit Division throughout the relevant period are submitted on an ongoing basis for review by all Audit Committee members. Audit Committee members may review any audit report and record they deem fit and request that the Chairman of the Audit Committee present these reports and records in their entirety for discussion by the Audit Committee.

At the end of the first and second halves of the year, the Chief Internal Auditor submits reports summarizing the audit activities to the Chairman of the Board of Directors, the President and CEO and the Chairman of the Audit Committee, the Audit Committee and the Board of Directors; the reports include a summary of the material findings, the auditor’s recommendations and the audited entity’s responses.

In addition, the Chief Internal Auditor submits to the Chairman of the Board of Directors, the President and CEO and the Chairman of the Audit Committee, the Audit Committee and the Board of Directors an annual report summarizing the audit activities during the course of the entire year; the report also monitors the implementation of the annual work plan and assesses the effectiveness of the Group's internal control framework.

The Internal Audit Division's work plan for 2023 was submitted to the Audit Committee on December 21, 2022 and approved by the Committee on December 28, 2022; the plan was submitted to the Board of Directors on January 15, 2023 and was approved by the Board on January 25, 2023.

The audit report for the first half of 2023 was submitted to the Audit Committee on August 7, 2023, discussed by the Committee on August 14, 2023 and reported to the Board of Directors on September 6, 2023.

The Internal Audit Division’s report for the second half of 2023 was submitted to the Audit Committee on January 22, 2024, reported in the Committee on January 31, 2024 and reported in the Board of Directors on February 14, 2024.

The Internal Audit Division’s annual report for 2023 was submitted to the Audit Committee on February 21, 2024, discussed by the Audit Committee on February 26, 2024 and discussed by the Board of Directors on March 11, 2024.

The Internal Audit Division's work plan for 2024 was submitted to the Audit Committee on December 27, 2023 and approved by the Committee on January 1, 2024; the plan was submitted to the Board of Directors on January 15, 2024 and was approved by the Board on January 22, 2024.

The Chief Internal Auditor received documents and information as specified in Section 9 to the Internal Audit Law and was given access to information as specified in that section, including continuous and indirect access to the Bank’s information systems and to financial data.

Internal auditors auditing Leumi’s Israeli subsidiary and foreign subsidiary were provided with documents and information as specified in Section 9 of the Internal Audit Law and given access to information as specified in that Section. These auditors have continuous and direct access to the information systems of the Israeli and foreign subsidiaries, including financial data, all subject to the applicable law.

The Audit Committee and Board of Directors believe that the scope, nature and continuity of the Chief Internal Auditor’s activities and the work plan are reasonable under the circumstances, and are sufficient to implement the Internal Audit objectives of the Group.

The Independent Auditors' Fees[a][b][c][g]

	Consolidated		The Bank	
	2023	2022	**2023**	2022
	In NIS thousands			
For audit work:[d]				
Joint independent auditors	**15,926**	17,130	**12,257**	11,940
Total	**15,926**	17,130	**12,257**	11,940
For audit-related services:[f]				
Joint independent auditors	**1,054**	1,076	**1,054**	1,076
For tax services:[e]				
Joint independent auditors	**430**	745	**416**	490
For other services:				
Joint independent auditors	**4,971**	4,463	**4,549**	3,790
Other independent auditors	**110**	63	**-**	-
Total	**6,565**	6,347	**6,019**	5,356
Independent auditors' fees - total	**22,491**	23,477	**18,276**	17,296

A. The Board of Directors' Report to the Annual general meeting on the Independent Auditors' Fees in respect of Audit and Audit-Related Services, under Sections 165 and 167 to the Companies Law, 1999.

B. The Independent Auditors' fees include payments to partnerships and corporations under their control and payments required pursuant to the VAT Law.

C. Including fees paid and accumulated fees.

D. Auditing of annual financial statements and review of interim financial statements.

E. Includes the auditing of adjusted reports for income tax purposes, assessment discussions and tax advisory services.

F. Audit-related fees mainly include: prospectuses, special certificates, comfort letters, and forms or reports to authorities which require the Independent Auditor's signature.

G. Accountancy firm Somekh Chaikin (KPMG) has served as joint independent auditors of the Bank since 1950 and accountancy firm Brightman Almagor Zohar (Deloitte) serves as joint independent auditors since 2020.

Officer Compensation Policy

The Bank's Officer Compensation Policy

On August 4, 2022, the Bank's general meeting approved the updated compensation policy for the Bank's officers (hereinafter - the "Compensation Policy"). The Compensation Policy shall be in force from the beginning of 2023 to the end of 2025. The Compensation Policy is based on the provisions of Amendment No. 20 to the Companies Law regarding the Bank's officers' service and employment terms and conditions, on the provisions of Proper Conduct of Banking Business Directive No. 301A regarding compensation policy in a banking corporation and on the provisions of the Law for Compensation of Officers in Financial Corporations (Special Approval and Disallowing the Deduction of Exceptional Bonus for Tax Purposes), 2016 (hereinafter - the "Compensation Limitation Law").

The Compensation Policy sets out a framework for the compensation of Bank's officers and includes, among other things, fixed compensation components, which is the principal compensation paid to officers, which includes a fixed salary, social benefits, related benefits and retirement and post-employment benefits, as well as variable compensation components which include any compensation which is not fixed in nature, such as: a measurable annual performance bonus comprised of a bonus component based on the Bank's weighted return on capital, a bonus component based on the weighted return on the Bank's shares compared to the return on the TA-Banks Index, a bonus component based on the Bank's weighted efficiency ratio, and other components, insofar as the Compensation Committee and the Board of Directors will decide to determine additional components with regard to officers other than the President and CEO; a qualitative personal mission bonus, based on the achievement of personal targets and qualitative criteria according to the relevant officer's areas of responsibility; and a retention bonus for special events. It should be noted that the Board members, including the Chairman of the Board, are not entitled to variable annual bonuses. The Bank's President and CEO is not entitled to a variable annual bonus, unless the competent organs of the Bank decide otherwise.

The total amount payable in variable bonuses to an officer is limited to 8 monthly salaries per year; under special circumstances, the Compensation Committee and the Board of Directors may approve a further special bonus of no more than one monthly salary for any officer.

The Bank's Board of Directors may also reduce the amount of the measurable annual bonus (due to special considerations), after obtaining the approval of the Compensation Committee. Furthermore, the Compensation Policy prescribes, based on Directive 301A, a mechanism for repayment of variable bonuses, including repayment criteria and circumstances and a repayment period.

The Compensation Policy also sets out arrangements for deferral of payment of a variable annual bonus to officers, whose payment is subject to the Bank meeting the required capital adequacy ratios according to the directives of the Banking Supervision Department immediately prior to each vesting date (or the vesting conditions set in equity compensation, insofar as the deferred part of the variable bonus payment is given in the form of equity compensation).

The Compensation Policy includes various mechanisms and arrangements designed to allow the Compensation Committee and the Board of Directors to revise the Compensation Policy or service and employment terms and conditions of officers to whom the Compensation Policy applies, without being required to obtain the approval of the Bank's general meeting for every such revision. Such revisions will be made when, in the opinion of the Bank's Compensation Committee and the Board of Directors, they are justified under the circumstances on revision date.

In addition, according to the Compensation Policy, the compensation of any of the officers at the Bank (other than the Chairman of the Board or the President and CEO) may increase according to a decision by the Compensation Committee and Board of Directors beyond the ceiling set out in Section 2(a) of the Compensation Limitation Law, and in such a case, part of the salaries of these officers will not be tax deductible, subject to Section 32(17) of the Income Tax Ordinance. The Compensation Policy also includes a mechanism that enables an automatic increase in the amount of compensation to which the Chairman of the Board of Directors and the President and CEO are entitled along with the increase in the lowest compensation at the Bank, as stated in the Compensation Limitation Law (where to the extent that the updated compensation amount to the Chairman of the Board of Directors and/or the President and CEO will exceed 5% due to the linkage to the rate of the lowest increase in compensation at the Bank as stated in the Compensation Limitation Law, the update will be brought for the approval of the Compensation Committee and the Board of Directors.

In addition, the compensation policy includes the option according to which, subject to approval of the competent organs at the Bank and subject to the provisions of any law, officers at the Bank (including directors) may be entitled to equity compensation, shares or share-based instruments.

For more information regarding the compensation policy, please see the Supplementary Report to the Summons Report of the Extraordinary General Meeting of the Bank published on July 14, 2022 (Ref. No. 2022-01-089413) as well as Note 23C.2 and 23C.3.

Compensation of Senior Officers

For the year ended December 31, 2023

Set forth below is a breakdown of the benefits and amounts paid or provided for in 2023 and 2022 to the Chairman of the Board of Directors and to the highest paid senior officers of the Group. The benefits described below do not include benefits in respect of banking services that are provided to the Bank's employees, such as preferred interest rates on financial deposits with the Bank, preferred interest rates on mortgages, discounts or exemptions from fees and commissions payable on banking services provided by the Bank, etc. The amounts of the benefits awarded to each of the employees in respect of such banking services are immaterial. Certain private customers of the Bank, including customers who are included in arrangements between the Bank and employee groups, are occasionally awarded benefits that are similar to those granted to Bank employees and in some cases, even exceed them.

2023								
Details of recipient of compensation[1]		Compensation for services					Other compensation	
Name	Job title	% of the Bank's equity	Salaries / manage-ment fees	Bonuses[5]	Value of options	Social benefit contributions [3]	Benefit value[4]	Total[2]
		%	(In NIS thousand)					
Dr. Samer Haj Yehia[6]	Outgoing Chairman of the Board	-	3,112	-	-	-	-	3,112
Dr. Shmuel (Muli) Ben Zvi[7]	Chairman of the Board	-	474	-	-	-	-	474
Mr. Hanan Friedman[8][9]	President & CEO	0.01%	3,161	-	-	557	65	3,783
Mr. Michael Schiller	CEO of Bank Leumi UK	-	1,490	1,009	-	97	1,769	4,365
Mr. Ron Ben Haim[9][14]	CEO of Leumi Partners	-	1,326	1,150	435	911	90	3,912
Mr. Omer Ziv[9][11]	First Executive Vice President, Head of Capital Markets Division	-	1,994	797	258	453	105	3,607
Mr. Jaime Schcolnik[9][12]	First Executive Vice President and Head of Leumi Technologies Division	-	1,624	927	258	359	125	3,293
Mr. Ronen Mori[9][13]	First Executive Vice President and Head of Risk Management Division	-	1,255	644	170	316	89	2,474

1. The compensation recipients work full time.
2. Excluding payroll tax.
3. Social benefit contributions include contributions for severance pay, bonuses, pension (including the "unfunded pension" arrangement applicable to veteran employees and officers of the Bank - for more information, please see Note 23.B.1), study fund, and social security, as well as supplementary provision in respect of the above due to salary changes during the reporting period. The Bank's senior employees have special personal employment contracts with the Bank. For more information regarding the retirement benefits of senior employees and their eligibility for advance notice on retirement, please see Note 23.C.1.

   It is clarified that the cost of employing officers does not include the cost of interest (the interest component, which is presented according to the financial standards under operating expenses) or the cost of taxes that do not apply to the officer.
4. The value of the benefit includes, inter alia, car and telephone expenses.
5. Including an annual variable bonus for 2023 for senior officers of the Bank (other than the Chairman of the Board and the President and CEO), in accordance with the Compensation Policy of the Bank or according to the compensation policy of the relevant subsidiary. For more information regarding the eligibility of senior Bank employees for bonuses in accordance with the new officer compensation policy, please see Note 23.F.
6. On October 29, 2023, Dr. Samer Haj Yehia ended his tenure as Chairman of the Board of Directors and as a director at the Bank. On December 23, 2019 the Bank's general meeting approved terms of service of the outgoing Chairman, and on September 21, 2022, after obtaining the approval of the Compensation Committee, the Bank's Board of Directors approved the revision of the terms of service of the outgoing Chairman of the Board, effective as from October 19, 2022 as according to Proper Conduct of Banking Business Directive 301A. The outgoing Chairman's terms of service were adjusted as determined in the Bank's compensation policy, in Directive 301A and in the Compensation Limitation Law. It is clarified that the Chairman of the Bank's Board of Directors is not entitled to a variable annual bonus.

   For more information regarding the outgoing Chairman's employment terms and conditions, please see Note 23.C.3.
7. Dr. Shmuel Ben Zvi has served as Chairman of the Bank's Board of Directors since November 16, 2023, prior to which he served as director beginning on July 19, 2015. On January 4, 2024, the Bank's general meeting approved the service terms and conditions of the Chairman of the Board, which become effective as from the commencement of his service and as long as he serves as Chairman of the Board. The service terms and conditions of the Chairman of the Board are in compliance with the Bank's officer compensation policy and in accordance with revised Directive 301A, regarding structure of compensation for chairman of the board in a banking corporation without a controlling core.

   The Chairman of the Board provides services to the Bank through a management company he owns, against a tax invoice issued to the Company. In respect of these services, the Chairman is only entitled to fixed compensation. The salary stated in the table includes the pro rata compensation in respect of the Chairman of the Board's service in the reporting year, and does not include directors' compensation until the commencement date of his tenure as the Bank's Chairman of the Board.

   For more information regarding the Chairman of the Board's employment terms and conditions, please see Note 23.C.3 and the Bank's immediate report regarding convening of a general meeting, dated November 29, 2023 (Ref. No.: 2023-01-130137).
8. Mr. Hanan Friedman serves as the Bank's President and CEO as of November 1, 2019 (hereinafter - the "Effective Date"). Prior to that, Mr. Friedman served as an officer of the Bank since September 1, 2014. On December 23, 2019, the Bank's general meeting approved the service and employment terms and conditions of the Bank's President and CEO under the Bank's compensation policy. The President and CEO's service and employment terms and conditions are in accordance with the Law for Compensation of Officers

in Financial Corporations (Special Approval and Disallowing the Deduction of Exceptional Bonus for Tax Purposes), 2016 (hereinafter - the "Compensation Limitation Law") and include a fixed supplementary compensation component which is allowed in a bank under the Compensation Limitation Law.

Under the President and CEO's service and employment terms and conditions, he is not eligible for a variable annual bonus.

For more information regarding the President and CEO's terms of employment, please see Note 23.C.2. and the Bank's immediate report regarding convening of a general meeting, dated November 10, 2019 (Ref. No.: 2019-01-096531).

9. On August 16, 2022, the Bank published an outline for a securities offering to officers and employees of the Bank group totaling up to 5,000,000 registered option warrants, that are not listed for trading on the Tel Aviv Stock Exchange Ltd.; the option warrants are exercisable into up to 5,000,000 ordinary shares of NIS 1 par value each of the Bank, according to the Bank's 2022 option plan (hereinafter - the "Outline"). On September 4, 2022, 2,460,399 option warrants, that are not listed for trading, were allocated, free of charge - according to the Outline - to 108 employees of the Bank and of the Bank's subsidiaries, of which 13 are senior officers at the Bank (other than directors or the President and CEO). For more information regarding the issue of option warrants according to the said outline, please see the immediate report regarding the outline of unlisted option warrants for officers and employees of the Bank, published on August 16, 2022 (Ref. No.: 2022-01-103780).

On March 30, 2023, 239,502 additional option warrants, that are not listed for trading on the Tel Aviv Stock Exchange Ltd., were allocated to 13 employees of the Bank, of which three are senior officers at the Bank (other than directors or the President and CEO); for more information regarding the issuance of option warrants according to the aforementioned outline, please see the private offering report dated March 14, 2023 (Ref. No. 2023-01-0268811).

On June 28, 2023, the Bank's Board of Directors approved the allocation of 1,135,570 option warrants to the Bank's President & CEO and to 12 officers of the Bank who are members of the Bank's management and one employee of a subsidiary of the Bank according to the aforementioned outline published by the Bank on August 16, 2022. It should be clarified that this allocation was carried out instead of the existing entitlement of these managers to various compensation components. Of all said option warrants, the President and CEO is entitled to 145,794 option warrants, the allocation of which was approved on August 10, 2023 by the Bank's general meeting. For more information regarding the issuance of these option warrants, please see the private offering report dated July 5, 2023 (Ref. No. 2023-01-075615) and the immediate report regarding the summons to the Bank's special general meeting dated July 5, 2023 (Ref. No. 2023-01-075654).

10. During the reporting period, an unexpected expense was recorded, which is not included in the above table, due to updated actuarial calculations and/or changes in the discount rate, in respect of the Bank's liabilities for benefits acquired prior to the effective date of the Compensation Limitation Law, by employees who were subject to Generation A and Generation B terms. These employees acquired - during their work at the Bank, until October 2016 and in accordance with their prior employment terms with the Bank - benefits for "unfunded pension" (old age pension and interim pension in case of early retirement under certain conditions) and/or other benefits.

11. Mr. Omer Ziv serves as a member of management; as of August 16, 2016 - as Head of Finance Division at the Bank, and as of April 1, 2021 - also as Chief Accounting Officer. As from February 12, 2023, he was appointed head of the Capital Markets Division, First Executive Vice President and Chairman of Leumi Partners. Mr. Ziv's service and employment terms and conditions are in line with the Bank's compensation policy and the Compensation Limitation Law.

12. Mr. Jaime Schcolnik is a member of the Bank’s management as of January 1, 2021, serving as the Head of Leumi Technologies Division. Mr. Schcolnik’s service and employment terms and conditions are in line with the Bank’s compensation policy and the Compensation Limitation Law. Mr. Schcolnik will be appointed CEO of the subsidiary for the development of core systems during the first quarter of 2024.

13. Mr. Ronen Mori serves as a member of the Bank’s management and as of February 15, 2023 - as Head of the Risk Management Division. Mr. Mori’s service and employment terms and conditions are in line with the Bank’s compensation policy and the Compensation Limitation Law. During the reporting period the Bank recorded an expense amounting to NIS 2,018 thousand in respect of its liabilities as outlined in Footnote 10 above.

14. Mr. Ron Ben Haim serves as CEO of Leumi Partners, a wholly-owned subsidiary of the Bank as from April 1, 2023. Mr. Ben Haim’s annual bonus, as outlined in the table above, was approved by the Compensation Committee and Board of Directors of Leumi Partners, in accordance with his employment agreement and Leumi Partners’ key employee compensation policy.

15. Loans under beneficial terms granted, if granted, pursuant to the accepted terms and conditions for all of the Bank’s employees and their amounts were set according to uniform criteria. The said loans were marginal in terms of amount (a few thousands of shekels) and were therefore omitted from the table.

16. Directors and other officers are covered by directors and officers liability insurance policy (D&O) taken out by the Bank and its investees. The relative insurance premium is marginal and therefore not included in the above tables. The premium totaled NIS 8,042 thousand for all of the Group’s insured officers.

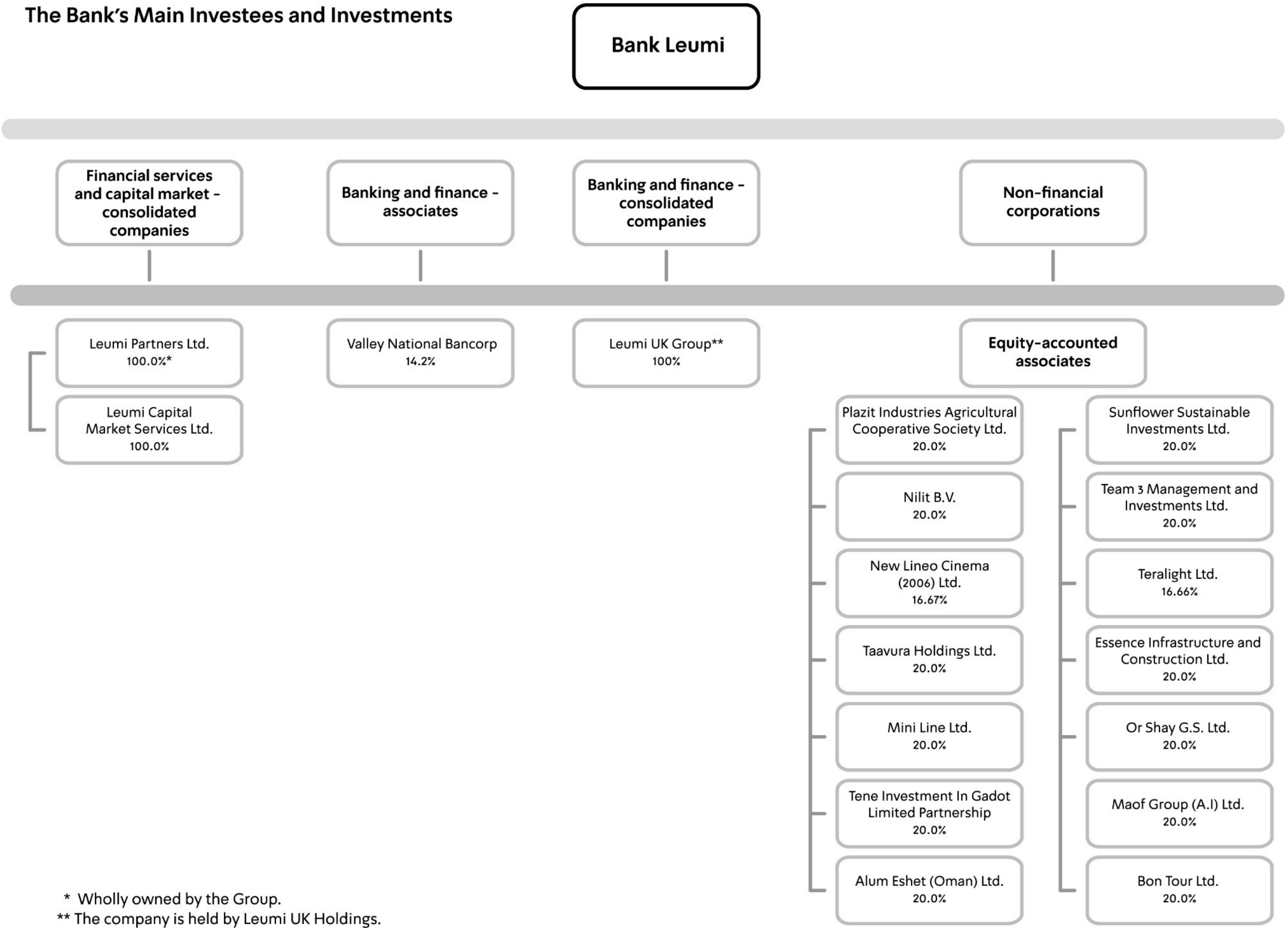
17. The Board of Directors believes - after conducting discussions, receiving explanations and proper, relevant background material and reviewing the compensation while taking into account the Bank and Group’s activity and performance in 2023 and taking into account the Group’s compensation policy and its subsidiaries’ compensation policy, as well as the work and performance of each senior officer of the Bank or Group - that the compensation paid to the aforementioned senior officers, as set out in the table and explanations above, in no way exceeds fair and reasonable compensation under the circumstances, taking into consideration each of the aforesaid officers’ contribution to the Bank's results of operations and thus believes that the compensation, as aforesaid, is for the benefit of the Bank.

2022									
Details of recipient of compensation[(1)]		Compensation for services					Other compensation		
Name	Job title	% of the Bank's equity	Salaries / management fees	Bonuses[(5)]	Value of options	Social benefit contributions[(3)]	Benefit value[(4)]	Total[(2)]
		%	(in NIS thousands)					
Dr. Samer Haj Yehia[(6)]	Chairman of the Board	-	3,539	-	-	-	-	3,539
Mr. Hanan Friedman[(7)]	President & CEO	0.01%	2,953	-	-	526	60	3,539
Dr. Avi Ortal[(8)(12)]	CEO of Leumi Partners	-	1,715	3,352	-	776	121	5,964
Mr. Michael Schiller	CEO of Bank Leumi UK	-	1,305	882	-	85	1,532	3,804
Mr. Omer Ziv[(8)(9)]	First Executive Vice President, Head of the Finance Division and Chief Accounting Officer	-	1,688	1,024	121	416	98	3,347
Mr. Ronen Agassi[(8)(10)]	First Executive Vice President, Head of Corporate Division	-	1,724	1,004	-	469	123	3,320
Mr. Eyal Efrat[(8)(11)]	First Executive Vice President, Head of Strategy, Digital, Data and Projects Division	-	1,475	1,292	97	365	81	3,310

For information and explanations regarding salaries and tenure terms of the officers outlined in the above table in respect of 2022, please see the section entitled "Officer Salaries" in the Bank's 2022 Annual Report.

Set forth below is a chart of the Bank's major investees and investments

The Bank's Main Investees and Investments



* Wholly owned by the Group.
** The company is held by Leumi UK Holdings.

Control of the Bank

The Bank is defined by law as a banking corporation without a controlling core, and no shareholder meets the definition of a controlling shareholder of the Bank.

For up-to-date information on interested parties' holdings in the Bank as of December 31, 2023, please see the immediate report dated January 7, 2024 (Ref. No. 2024-01-003417), Status of Holdings of Interested Persons and Senior Officers. Please see also the immediate report on the list of holders of significant means of control in the Bank as of March 31, 2023, dated April 10, 2023 (Ref. No.: 2023-01-035011) and a supplementary report dated March 14, 2024 (Ref. No.: 2024-01-022564), an immediate report on one who became a holder of material means of control as of June 4, 2023 (Ref. No.: 2023-01-052108), an immediate report on one who ceased to be a holder of material means of control as of October 1, 2023 (Ref. No.: 2023-01-090922) and an immediate report on one who became a holder of material means of control as of March 11, 2024 (Ref. No.: 2024-01-024282).

Property, Plant and Equipment

Buildings and equipment - the amortized cost of buildings and equipment as at December 31, 2023 amounted to NIS 2.9 billion, similar to last year.

Investments in buildings and equipment as at December 31, 2023 are as follows:

	Cost	Accumulated depreciation	Carrying value	
	December 31			
	2023			2022
	In NIS million			
Buildings and land	**2,683**	**1,366**	**1,317**	1,183
Equipment, furniture and vehicles	**3,259**	**2,495**	**764**	788
Software costs	**4,726**	**3,933**	**793**	764
Total	**10,668**	**7,794**	**2,874**	2,735

The above buildings and equipment are used primarily for the Group's activities. Buildings that are not used by the Group and are leased to non-Group parties and included in the consolidated balance sheet as of December 31, 2023, amounted to NIS 25 million.

Real estate

The majority of the buildings in which the Group conducts its business in Israel are owned by the Bank or by its subsidiaries. Most of the properties in which the Group conducts its business abroad are leased.

Set forth below are data regarding the breakdown of the areas of the Bank, Binyanei Bank Ltd. and Lin City Center Ltd.

	As at December 31	
	2023	2022
	In sq. m. thousand	
Owned	**235**	238
Leased	**73**	74
Total	**308**	312

Sale of Beit Mani

Due to the expected move of management and headquarters to the Lod facility, the Bank signed an agreement for the sale of Beit Mani (Leumi House, the main headquarters offices and Beit Mani), featuring a total above-ground built-up area of approx. 13,000 square meters. The sale was completed on February 29, 2024, upon delivery of the property.

Sale of half of Beit Lin

Due to the expected move of management and headquarters to the Lod facility, the Bank signed an agreement for the sale of half of its holdings in Beit Lin featuring a total above-ground built-up area of approx. 16,600 square meters. The sale is expected to be take place in the first quarter of 2024 with the completion of the move to the Lod facility.

IT systems

Bank Leumi has two principal IT centers: a primary center in Lod and a secondary center in Har HaHotzvim, Jerusalem; the latter is a hosting site outsourced by Binat. In addition, a third back-up copy of the data is stored at the Bank Leumi facility (the Banking Center in Har Hotzvim, Jerusalem).

The Bank's computing centers in Lod and Jerusalem (where the first and second copies are located) are underground facilities protected at an accepted level against rocket attacks, chemical warfare and earthquakes. The facilities were constructed using advanced technologies to enable the Bank to maintain its regular functionality independently in times of emergency. To the Bank's understanding, the survivability and redundancy levels of the computer center's infrastructures are equivalent to Tier-3 levels and the infrastructures comply with various international standards.

Bank Leumi has two mainframe computers, for use by the production, development, and emergency recovery systems.

Leumi's information and cyber security practices are based on the banking privacy policies or secrecy principle and various laws and directives, such as the provisions of the Protection of Privacy Law and regulations promulgated thereunder, the provisions of the Computers Law, Bank of Israel's directives, and generally accepted international standards relating to information security and cybersecurity.

Under these provisions and in light of Leumi's strategy and policy regarding cyber risk management, the Bank is highly active in this field. The main focus in this area is the implementation of controls and forward-looking information security mechanisms.

In a time of increasing threats posed both from within the organization and by external parties, Leumi takes measures to protect itself from cyberattacks and works to hedge the risks arising from various types of cyber-attacks. In addition, Leumi works in coordination with the Banking Supervision Department of the Bank of Israel, the banking sector and the National CERT to enhance its ability to tackle cyber threats.

The operations and computer-related activities of the Israeli and foreign subsidiaries are based on separate systems and the managements and boards of directors of those subsidiaries bear the managerial and professional responsibility for those activities which are coordinated with Leumi's IT strategy.

In 2023, the Group invested in equipment (including software) approx. NIS 648 million, compared with approx. NIS 720 million in 2022. The budget was adjusted to support the strategic targets set by the Bank's management.

For more information, please see Note 16.

Intangible Assets

1. The Bank is the sole proprietor in Israel of the "Leumi" trademark and its accompanying logo, in the field of banking and finance services.
2. Furthermore, as part of its activities, the Group uses the names of the companies and their logos as well as products and services' names, some of which are registered as trademarks or service marks.
3. The Group has registered databases in which it stores, among other things, information pertaining to Leumi's customers, suppliers and employees. The Group implements advanced technological means designed to secure customers' activity and the Bank's business activity, while mitigating the risks arising from using information systems.
4. The Group has various intellectual property rights and licenses to use various computer software and information systems for the purpose of managing its business, including the provision of services to its customers.

Human Resources

Work force

In 2023, the average number of positions in the Group decreased by 211 positions compared to the average number in 2022, a 2.6 percent decrease.

	No. of positions[a] as at year end		Annual average no. of positions[a]	
	2023	2022	2023	2022
The Bank in Israel	7,516	7,550	7,615	7,702
Consolidated Companies in Israel	238	231	236	228
Group in Israel - total	7,754	7,781	7,851	7,930
Consolidated Companies Outside Israel	108	112	111	243[b]
Group in Israel and abroad - total	7,862	7,893	7,962	8,173

(a) Position - a full-time position including specific overtime, working hours of service bureaus and employment of contract workers.
(b) The average number of positions in 2022 includes Bank Leumi USA positions.

Positions by operating segments - Management Approach

	Average number of jobs	
	2023	2022
Banking:		
Private individuals	3,489	3,428
Small businesses	1,278	1,406
Banking - total	4,767	4,834
Mortgages	619	596
Commercial	1,121	1,117
Corporate	397	416
Real estate	238	222
Capital markets	451	488
Other and adjustments	22	29
Bank - total	7,615	7,702
Subsidiaries in Israel	236	228
Foreign subsidiaries	111	243
Total	7,962	8,173

The number of positions by operating segments is calculated based on the management of the workforce according to the Bank's main business lines, with various adjustments, and based on estimates. When calculating the number of positions by operating segments, the Banks also included HQ employees, who serve all or some of the Bank's operating segments.

Age and seniority

As at the end of 2023, the average age of Bank's employees was 42.6, compared with 42.9 in 2022 and 43.9 in 2021. As of the end of 2023, the average seniority of Bank's employees was 13.7 years, compared with 14.1 in 2022 and 15.5 in 2021.

Compensation mechanism and salary structure

The salary structure and compensation level of the Bank’s employees is mainly affected by existing collective labor agreements. As a rule, the annual compensation is differential and is based, among other things, on the complexity of the employee's role, his/her contribution to the Bank, his/her manager's assessment, rank and pay grade.

Employee benefits

Labor relations between the Bank and its Israeli employees, except for those who have personal employment contracts, are primarily based on a basic collective labor agreement known as the "Labor Code" and on collective and supplementary agreements. The employment terms of members of the Bank's management, senior employees and certain other employees are regulated by personal employment contracts. For more information, please see Note 23.

Labor and salary costs (in the Bank)*

	2023	2022	2021
	In NIS thousands		
Cost per employee position - (excl. bonus)	**416.4**	400.1	403.9
Cost per employee position - (incl. bonus)	**446.1**	484.9	476.5
Salary per employee position - (excl. bonus)	**261.3**	256.7	255.4
Salary per employee position - (incl. bonus)	**285.3**	324.7	313.8

* Cost per employee position includes the cost of service and cost of interest (less expected return) for active employees.

Organizational development and learning

Learning and organizational development are key tools for strategic planning and management of human capital, adapting employees' skills to the changing business needs and implementing the business strategy in a changing organizational environment. The transformations that have taken place in the current period require increased attention to strengthening the sense of purpose, retaining employees, strengthening and preserving knowledge and adapting management skills.

This past year was characterized by a hybrid learning mix combining in-person meetings with remote learning and online learning in order to ensure effective learning with flexibility that enables learning at any time and in any place.

In total, approx. 328,000 learning hours were logged by the organization in 2023.

Learning and training for the future - re-skilling and up-skilling

In 2023, we also continued activities that enable flexibility and adjustment of organizational skills to the changing trends in the financial world in particular and in the work domain in general. This year, we also continued to operate "Shift" - the school for professions of the future and banking professions that continued to train Leumi employees for professional change according to the emerging and changing organizational needs. To date, approx. 225 employees have participated in Shift tracks: product managers, software testers, system analysts, analysts, investment advisers, mortgage advisers, real estate economists, hundreds of employees underwent an upskilling process in the various learning tracks in the banking professions in order to adapt the competence to the changing organizational needs.

Knowledge conservation

For organizational knowledge conservation purposes, units and functions with material effect were mapped. Subsequently, solutions were developed which include knowledge conservation measures for the units, training of additional employees for similar roles, with the units developing back-up mechanisms.

Leadership development

In 2023, Leumi's leadership model was adjusted and revised according to the Bank's vision and strategy. In that context, a leadership program adapted to the strategy and challenges of the hour was developed. The program includes a variety of processes for the development of leadership excellence with the aim of enabling a leap forward in management skills and development tracks adapted to current challenges and needs.

Some of the programs will continue in 2024 as well, with adjustments to a world undergoing continuous crises, in order to increase the impact and to continue to strengthen the leadership at Leumi.

With the outbreak of the Iron Swords War, the development programs were adjusted for employees and managers in order to provide tools for dealing with the situation, to develop resilience and to strengthen leadership during this complex period. In this context, programs were initiated for managers and employees that include: workshops for coping with a crisis, developing resilience and a gradual return to routine. In addition, peer groups were opened for employees dealing with various types of challenges, such as: parents of soldiers called up to reserve duty and regular soldiers, parents of children dealing with anxieties and employees experiencing work challenges. Discussion sessions between managers and employees were boosted across the Bank.

Corporate social responsibility, donations and employees' involvement in the community

As a financial group with major impact on Israel's business and public culture, we regard our commitment to the community as a social and ethical anchor we will continue to cultivate (from Leumi's Vision). The Bank's activity in the area of corporate responsibility reflects our commitment to the empowerment of society and the economy in Israel and is a direct continuation of Leumi's continuous and long-standing activity as an organization that operates within and for the community.

In 2023, Leumi continued to operate a "generation to generation" policy and invest in "tomorrow's generation" (youth and children) primarily through its long-term strategic partnership with Follow Me! - an NGO boosting social integration of youth from Israel's social and geographic periphery. Hundreds of the Bank's employees continued to volunteer in the NGO at a variety of events, including the increasing of financial knowledge through workshops and mentoring processes for trainees, led by dozens of senior managers at the Bank.

Leumi supported NGOs, such as: "Atidim", "The Equalizer", "Elem", "Amit Laderech", "Nitzotzot", "Etgarim", and the "Ametz Lohem" project, through which Leumi supports the Duvdevan Battalion.

In addition, Leumi boosted its outreach activity among the elderly, in several channels, which included support for the "Foundation for the Benefit of Holocaust Victims", "Grandma" which provides a diverse response to the needs of the elderly and Holocaust survivors, "Ken LaZaken" NGO - which promotes the elderly's rights in Israel, as well as for the "Zikaron BaSalon", with whom over one hundred meetings were held on the day of remembrance for the Holocaust and Heroism in the Bank's various units. Funding of courses and workshops provided free of charge, such as assistance to elderly women in the opening of a business, with the participation of the "Yozmot Atid" NGO, learning digital and financial content for the elderly, with the participation of the "Machshava Tova" NGO and volunteers from among Leumi employees. Funding of the "Shaa Tova" project with "Midrag", in which repairs are carried out in the homes of the elderly. We continued to donate to the "Keren Leumi", which was established in the "Friends for Health" NGO for the purpose of funding medicines and medical equipment for indigent elderly.

As every year, the Bank donated thousands of food packages to the needy in Jewish and Arab communities through volunteer work by branch employees serving the Arab community, donations of hundreds of schoolbags and school supplies for needy children, and donations of computers to schools.

With the outbreak of the Iron Swords War, the Bank revised its social policies with the aim of supporting the economy, the fighting and first responders and the Gaza Envelope localities. As part of this activity, Leumi announced that it was adopting Kibbutz Be'eri and its residents and will provide for all of their needs until the kibbutz is fully rehabilitated.

The "Leumi Harvest Scholarship", led by Bank Leumi and Keshet in collaboration with the National Union of Israeli Students and "Leket Israel" was established to assist with the shortage of agriculture workers. In the project, students volunteered to help pick or work the fields for a whole month in exchange for a scholarship for the academic year in the amount of ten thousand shekels from the Bank.

Leumi donated to medical centers across Israel that took in and treated thousands of injured people and which were even damaged by rocket fire. Leumi also donated to various NGOs and to the Business Forum, comprised of the 200 largest companies in Israel, which distributed pre-paid cards to Gaza Envelope residents.

In 2023, total community outreach investment exceeded NIS 52 million, with approx. 4,900 of the Bank's employees from all functions volunteering in multiple programs, investing a total of over 46,000 hours in volunteer work.

The ESG Report on Leumi's website; the report outlines the Group's ESG activity and describes how the Bank invests in the growth of Israeli society and economy to advance innovation and digital tools, develop human capital and preserve the environment - through fair business conduct and corporate governance.

Appointments and Departures

Appointments

CPA **Hagit Argov**, Chief Internal Auditor, Head of the Internal Audit Division and member of the Bank's management and First Executive Vice President, was appointed Head of the Finance Division and Chief Accounting Officer as of February 12, 2023.

CPA **Bosmat Ben Zvi**, Head of the Capital Markets Division and member of the Bank's management and First Executive Vice President, was appointed Chief Internal Auditor and Head of the Internal Audit Division as of February 12, 2023.

PA **Omer Ziv**, Head of the Finance Division, Chief Accounting Officer and member of the Bank's management and First Executive Vice President, was appointed Head of the Capital Markets Division and First Executive Vice President as of February 12, 2023. In addition, CPA Omer Ziv was appointed Chairman of the subsidiary, Leumi Partners.

CPA **Liat Shuv***, Head of the Risk Management Division and member of the Bank's management, was appointed Head of the Corporate Division as of February 15, 2023.

Mr. **Ronen Mori** was appointed Head of the Risk Management Division, as a member of the Bank's management and First Executive Vice President, as of February 15, 2023.

Mr. **Eyal Ben Haim**, Head of the Operations and Service Division and member of the Bank's management and First Executive Vice President, was appointed Head of the Retail Banking Division starting from May 16, 2023.

Ms. **Avivit Klein**, Head of the Human Resources Division and member of the Bank's management and First Executive Vice President, was appointed, in addition to her position, as Chairperson of the Leumi UK Board of Directors, starting from May 15, 2023.

Mr. **Avi Pollak** was appointed Head of the Operations and Service Division and a member of the Bank's management and First Executive Vice President starting from May 16, 2023.

Mr. **Eyal Efrat**, Head of the Strategy, Digital, Data and Projects Division, member of the Bank's management and First Executive Vice President, was appointed Head of Technologies Division as of January 31, 2024.

Ms. **Tamar Mass** was appointed Head of the Strategy Division and Chief of Staff, as a member of the Bank's management and First Executive Vice President starting from March 13, 2024.

Mr. **Ron Ben Haim** was appointed CEO of Leumi Partners as of April 1, 2023.

Adv. **Shelly Bainhoren** was appointed Secretary of the Bank and Group and Head of the Bank and Group's Secretariat, effective September 27, 2023.

Departures

CPA **Ronen Agassi**, Head of the Corporate Division and member of the Bank's management, ended his tenure on February 14, 2023, after approx. 6 years of work at Leumi.

Adv. **Mor Fingerer**, Head of the Legal Counsel Division and member of the Bank's management, ended her tenure on February 14, 2023, after two years at Leumi.

Mr. **Shmulik Arbel**, Head of the Retail Banking Division and member of the Bank's management, ended his tenure on May 15, 2023, after 28 years of work at Leumi.

Michal Alterman, Adv., Head of the Legal Counsel Division and member of the Bank's management, ends her tenure during the first quarter of 2024.

Mr. **Avi Ortal**, CEO of Leumi Partners, ended his tenure on March 31, 2023 after approx. 4 years of work in the Leumi Group.

Corporate Structure

The Leumi Group's organizational structure is divided into business lines and headquarters divisions.

Set forth below is a description of Leumi's four business lines, which focus on the different market segments:

The Retail Banking Division manages the activity of household customers, small businesses and high net-worth customers in Israel and abroad who receive the full range of services through the branches array and through a variety of digital or direct distribution channels. The services and products are adapted to all the customer segments according to the nature of their banking activity, their characteristics and their banking and service needs.

The Division is divided into business lines:

- **The Senior Retail Department** is responsible for activity and services for households and MB. A wide layout of branches, banking centers, Leumi VIP centers and counseling centers come under the Department.
- **The Business Department -** The Department is in charge of small business customers (mid-market and large businesses are handled by the Corporate Division - please see below).
- **The Private Banking Department** is responsible for high net-worth customers in Israel and abroad. The Private Banking Department provides service customized to high net worth customers.

In addition, the Retail Banking Division is responsible for the Investment Advice Department and for PEPPER.

The Mortgage Division is responsible for all mortgage-related and housing loan activity at the Bank, serving both the Bank's customers and customers of other banks taking out mortgage loans from Bank Leumi.

The Corporate Division is responsible for all business customers (except small businesses, which are managed by the Retail Banking Division - please see above) and provides them with a range of services, which include, inter alia, financing of working capital and inventory, project and investment plan funding, factoring, international trade and financing, investment activity, hedges, etc. The division also manages syndication transactions and debt selling and optimizes the credit portfolio. The Division's customers are divided into business lines:

- **The Corporate Department** is responsible for large Israeli corporations on the basis of sector expertise and synergies.
- **The Commercial Banking Department** is responsible for middle-market companies, through business centers across Israel.
- **The Construction & Real Estate Department** manages the banking activities of large construction companies, real estate entrepreneurs and contractors in Israel. The Department's employees have specific skills and expertise in all areas of the Israeli real estate market.
- **LeumiTech** serves high-tech and venture capital funds for the Group; the Department specializes in all segments of the technology industry.

The Corporate Division is also responsible for the Special Loans Department - which is responsible for reducing exposure to corporate customers in difficulties, as well as collecting debt by realizing collateral through legal means, reaching debt settlement agreements where applicable.

The Capital Markets Division is in charge of managing the Group's financial assets in Israeli currency and foreign currencies, managing the Bank's assets and liabilities, managing liquidity, setting the Bank's price policy and financial spreads, managing the nostro account, managing the activities of the Bank's trading room, developing innovative financial and investment products, coordinating the Bank's operational capital market services, and managing local and foreign financial customers.

Following are the purviews of the headquarters divisions, which provide services to the business lines:

The Finance Division is responsible for coordinating and preparing the Bank's work plan, managing P&L centers and financial and managerial measurement, measuring the Group's capital, preparing the Bank's expenditure budget and monitoring its implementation. The Division responsible for the accounting department; as such, it manages, develops and sets the Bank's accounting procedures; it manages the Bank's books of account and prepares the financial statements of the Bank and the Group; and it maintains the Bank's relations with the Bank of Israel regarding all accounting matters and related reports.

The Human Resources Division is responsible for developing and implementing the Bank's human resources strategy, labor relations, salary and compensation structure, organizational development and learning, internal communications, recruitment and job placement, employee experience, welfare and individual care.

The Technologies Division is responsible for all of the IT systems of the Bank, the technological interfaces with customers, and activities related to technological development, communications, cyber and information security and Group and coordinates the IT strategy and policy at the group level.

The Operations and Service Division deals with three main issues: dedicated professional centers, business units serving the business divisions, and construction and logistics services.

The Legal Counsel Division advises the Bank and its Israeli subsidiaries on all legal matters and manages the Bank and the Group's legal risks. The Division is also responsible for the Ombudsman.

The Risk Management Division is responsible for risk management at the Group level; creating an up-to-date overall picture of each risk for decision-making purposes; creating an infrastructure for assessing the risks inherent in new activities; leading the drafting of the Bank's risk policy; assisting the Board of Directors in determining the Bank's risk appetite; and leading the process of evaluating the Internal Capital Adequacy Assessment Process (ICAAP), including its various components.
In addition, the division includes the Compliance and Enforcement Department, which is responsible for implementing the Bank's compliance program.

Strategy Division and Chief of Staff - In charge of formulating and implementing strategy in the Leumi Group, leading strategic and process-related projects, data management, providing analysis services to the Bank's units, the Bank's credit card and payment activity and ESG management.

The Internal Audit Division is independently responsible for Leumi Group's internal auditing.

Additional Topics

Issuance of option warrants

For more details regarding issuance of option warrants, please see Note 24.A.

Collective agreement on employee benefits

On December 31, 2022, the collective agreement on salary and employee benefits expired; the agreement was effective during 2019-2022.

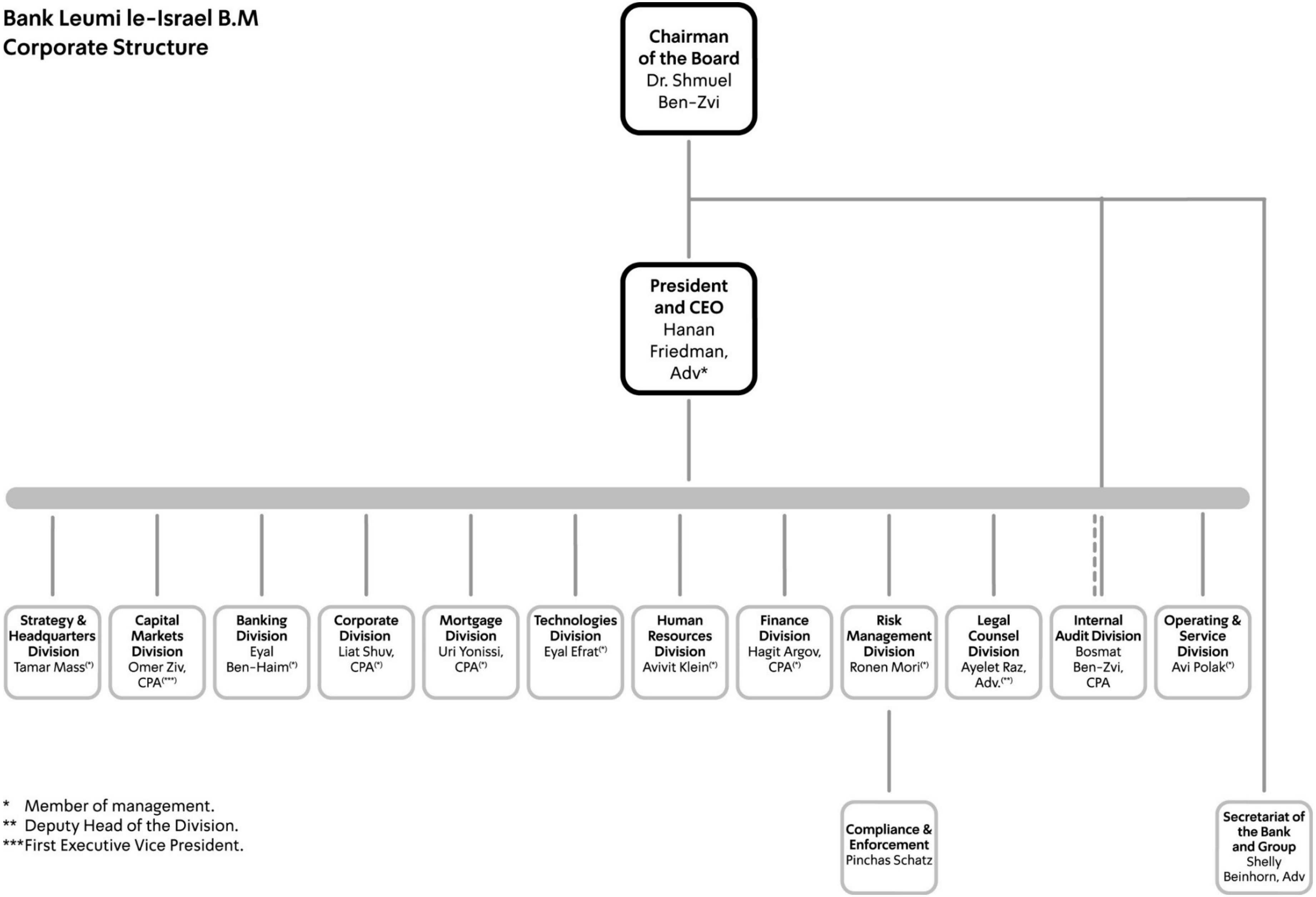
On April 16, 2023, the Bank signed a special collective agreement with the Workers' Union for 2023-2026.

For more information, please see Note 23.A. and the immediate report dated April 16, 2023.

Human resources management during the Iron Swords period

The Bank acts based on the regulations and guidance issued by government entities and is taking a series of additional measures, in order to enable business continuity at this time.

Bank Leumi le-Israel B.M
Corporate Structure



* Member of management.
** Deputy Head of the Division.
***First Executive Vice President.

Legal Proceedings

1. The Bank is party to legal proceedings, including motions to certify class actions, brought against the Bank by customers (including former customers) and various third parties, who allege to have been damaged or harmed as a result of the Bank's activity in the ordinary course of its business.
   In the opinion of the Bank's management, based on legal opinions, appropriate provisions have been made in the financial statements to cover potential damages in respect of all the claims.

   The grounds for the claims against the Bank are varied and include, among others, claims in connection with the execution of orders, account management, interest, fees and commissions charges, securities issues, labor relations and the invasion of privacy.

   For more information regarding claims filed against the Bank in material amounts, please see Note 26.

2. As part of measures taken to recover debts in the ordinary course of its business, the Bank takes, among other things, legal action against debtors and guarantors, and also pursues collateral realization proceedings. The Bank has included in the financial statements loan loss provisions based on an assessment of all the risks associated with the extension of loans to the various sectors of the economy and taking into account the extent of information available on the relevant debtor or guarantor with regard to their financial stability and the collaterals provided to the Bank to secure the repayment of the debt.

Material Agreements

1. The Bank granted officers and others letters of indemnification. For more information, please see Note 26F.
2. For information regarding agreements relating to the Bank's subsidiaries, please see Note 36 and the section entitled "Major Investee Companies" in the Report of the Board of Directors and Management.
3. For information regarding agreements with the Israel Tax Authority, please see Note 8.

Laws and Regulations Governing the Banking System

Some of the information in this section constitutes forward-looking information. For the meaning and implications of the term, please see the section entitled "Forward-Looking Information".

During the reporting period, several proposals for regulatory amendments and changes to various legal provisions were published, which could have an impact on the characteristics, scope and profitability of some of the Group's activities and on the credit, operational and legal risks to which the Group is exposed. Some of the directives are at various stages of discussion and, consequently, it is impossible to assess whether or not they will be issued as binding provisions and, if issued, what the ultimate provisions will be. As a result, at this stage, it is impossible to assess the effect of these provisions on the Group's overall activity, if any. The following section provides detailed information on newly enacted legislation, which came into effect during the reporting period and provisions expected to enter into effect, which were published after the date of signing the financial statements for 2022, which may have a significant effect on the Bank.

For a description of directives published in the reporting period before the date of signing the financial statements for 2022, please see the section entitled "Legislation and Regulation of the Banking System" in the Corporate Governance Report of 2022.

Directives Issued by the Banking Supervision Department

Letter regarding crypto-currency financial assets and amendment to Proper Conduct of Banking Business Directive No. 310 - Risk Management

On February 26, 2023, a letter by the Banking Supervision Department regarding crypto-currency financial assets and amendment to Proper Conduct of Banking Business Directive No. 310.

According to the letter, a banking corporation should exercise the utmost caution in considering activity in the crypto-currency domain. A banking corporation is required, among other things, to apply Section 16 to Proper Conduct of Banking Business Directive No. 310 to a new product, to crypto-currency activity, including the following: (a) The Bank should ensure, prior to launching its activity in this domain, that the activity comes under the areas of activity permitted to the bank by law; (b) The bank should conduct a risk-management assessment, including regarding the consumer protections required for that activity; (c) The bank should inform, in writing, the Banking Supervision Department about it intention to deal in crypto-currency, stating the timeline for the activity; (d) The Banking Supervision Department is entitled to request that the banking corporation provide additional information. If needed, the Banking Supervision Department will provide the relevant feedback after obtaining all required information.

As part of the amendment to Proper Conduct of Banking Business Directive No. 310, an obligation was established to have a new product approval process for the performance of the cryptographic asset activity, the term "cryptographic asset" was defined and the process for reporting to the Banking Supervision Department and its examination of the application was regulated.

Proper Conduct of Banking Business Directive No. 461, Banking Corporation's Activity as a Broker Dealer and the FAQ file for applying the directive

On July 19, 2023, the directive was published with the aim of regulating the financial brokerage activity of banking corporations regarding the receipt of orders to carry out transactions in securities and financial instruments for customers, by way of trading for their own account (broker dealer activity). The main points of the Directive are as follows: Establishment of an organizational structure, policies and procedures for carrying out and overseeing transactions and for the prevention of conflicts of interest; adoption of a code of conduct for operating with integrity, fairness and professionalism for the benefit of the customers' interests, including the provision of information regarding the transaction; adapting the customers' activity in securities and in financial instruments to their level of knowledge or experience; establishment of procedures for fair and swift execution of customers' orders; taking all reasonable measures to achieve the best result for customers; implementation of IT systems for protection against operational risks and cyber risks; maintaining documentation and development of monitoring and control tools.

The Directive is effective eighteen months from the date of its publication. On March 7, 2024, an amendment to the Directive was published, which postponed the effective date of the Directive to August 1, 2025 due to the Iron Swords War.

The Directive requires adjustments to be made to work processes.

Amendment to Proper Conduct of Banking Business Directive No. 451 - Housing loans procedures

Further to the Legislation and Regulation section in the Corporate Governance Report for 2022, on July 19, 2023, the Banking Supervision Department published an additional amendment to the Directive in which the early repayment process of a housing loan was revised, including by way of a loan from a banking corporation or from another institutional lender (loan recycling).

The amendment will become effective fifteen months from its publication date (after a three-months' delay, under Proper Conduct of Banking Business Directive No. 251, Adjustments to Proper Conduct of Banking Business Directives for Dealing with the Iron Swords War (Temporary Order).

Amendment to Proper Conduct of Banking Business Directive No. 311 - "Credit Risk Management"

On November 7, 2023, an amendment was published to the directive regarding significant credit exposure, which requires, among other things, a written opinion of the risk management function at the Bank, and the definition of the term "significant credit exposure" was updated, such that the threshold criteria for the involvement of the Bank's Chief Risk Officer in the credit exposure will be NIS 50 million or 1 percent of the Bank's Tier 1 Capital (whichever is lower) (instead of the NIS 25 million prior to the amendment). The Bank may set the threshold at NIS 25 million (as it was prior to the amendment), even if it exceeds 1 percent of the Bank's Tier 1 Capital. The amendment entered into effect at the time of its publication.

Revocation of Proper Conduct of Banking Business Directive No. 354 - Verification of Customer Accounts

On November 29, 2023, the Banking Supervision Department announced the revocation of Proper Conduct of Banking Business Directive No. 354, which determined the procedures for sending account statements for verification of customer accounts, as part of the internal audit, which was no longer relevant.

Amendment to Proper Conduct of Banking Business Directive No. 218, Leverage Ratio

On December 20, 2023, an amendment to the Directive was published, which extended the validity of the relief regarding the leverage ratio provided for in Proper Conduct of Banking Business Directive No. 250, Adjustments to Proper Conduct of Banking Business Directives for Dealing with the Coronavirus Crisis (Temporary Order), according to which: (1) A banking corporation must comply with a leverage ratio of no less than 4.5 percent on a consolidated basis (instead of the original 5 percent); (2) A banking corporation whose total on-balance sheet assets on a consolidated basis is 24 percent or more of the total assets in the banking system must comply with a leverage ratio of no less than 5.5 percent (instead of the original 6 percent); (3) The validity of the relief is extended until December 31, 2025; (4) A banking corporation that utilized the relief will be required to return to the original leverage ratio (prior to the temporary order) within two quarters, by June 30, 2026. (5) The directive does not prevent the distribution of dividends, subject to the overall capital planning aimed at reverting to the required leverage ratio. The amendment entered into effect at the time of its publication.

Proper Conduct of Banking Business Directive 333, Interest Rate Risk in the Banking Portfolio

On December 20, 2023, the Directive was published, replacing the existing Proper Conduct of Banking Business Directive No. 333. The Directive establishes principles according to which a banking corporation must manage the interest rate risk in the banking portfolio, and in particular there are requirements for taking active measures to identify, measure, monitor, control and provide disclosure regarding the risk. The Directive includes detailed guidance regarding the management of the interest rate risk in the banking portfolio, with emphasis on the development of standard and extreme shock scenarios. The Directive went into effect on July 1, 2025.

Amendment of Proper Conduct of Banking Business Directive No. 424 - Opening a Current Account with a Credit Balance for Financial Institutions

On December 24, 2023, the Directive was published, according to which if a banking corporation refuses to open a current account with a credit balance in Israeli currency for a financial institution (a licensed corporation under the Supervision of Financial Services Law (Institutional Financial Services), 2016, or a payments company as defined in the Regulation of Payment and Payments Initiation Services Law, 2023) or if three months have elapsed from the request of the financial entity to open an account at the banking corporation, the banking corporation will issue its written detailed decision to the financial entity, which will include a statement that it is entitled to apply to the Banking Supervision Department according to the refusal or the delay, as the case may be. The banking corporation will also submit an explanatory notice to the Banking Supervision Department regarding its refusal to provide the service or the delay in providing the service, as the case may be. The directive entered into effect at the time of its publication.

Reporting Directive to the Banking Supervision Department No. 824 regarding the reporting of a financial entity's request to open an account

At the same time as Proper Conduct of Banking Business Directive No. 424, Reporting Directive to the Banking Supervision Department No. 824 was published, which regulates the types of reports required regarding request to open an account for a financial entity, refusals to open an account and request that were not processed within three months or were processed with a delay. The Directive went into effect on March 31, 2024.

Amendment to the Reporting to the Public Directive on improving the disclosure regarding interest rate risks and regulatory operating segments

On January 11, 2024, an amendment to the Reporting to the Public Directive was published regarding an improvement to the disclosure of interest rate risks and regulatory operating segments. Among other things, the Directive made the following amendments: (1) Clarification regarding the disclosure in the Report of the Board of Directors and Management on the development of interest income and expenses; (2) Addition of disclosure regarding the sensitivity of equity to the effect of a 1 percent change in the interest rate, and an expansion of the quantitative disclosure on the effect of material behavioral assumptions regarding the banking corporation's exposure to interest rate risk; (3) A quarterly disclosure requirement instead of the annual disclosure of more detailed quantitative information on interest rate risk and additional information on the risks. The Directive went into effect on June 30, 2024.

In addition, the format for the disclosure of regulatory operating segments was updated as follows: (1) Disclosure will be added regarding outstanding other troubled debts, the loan loss provision balance and net charge-offs; (2) Disclosure regarding the balance of outstanding debt in arrears of more than 90 days will be provided together with the balance of non-performing debts. The disclosure entered into effect on December 31, 2023 and thereafter.

Revocation of Proper Conduct of Banking Business Directive No. 250, "Adjustments to Proper Conduct of Banking Business Directives for Dealing with the Coronavirus Crisis (Temporary Order)"

On February 7, 2024, Proper Conduct of Banking Business Directive No. 250 - Adjustments to Proper Conduct of Banking Business Directives for Dealing with the Coronavirus Crisis, was revoked. The Directive consolidated various amendments to Proper Conduct of Banking Business Directives, which were intended to help the banking corporations and their customers deal with the coronavirus crisis. Some of the amendments expired or were already revoked and some were incorporated in other Proper Conduct of Banking Business Directives.

Draft Amendment to Proper Conduct of Banking Business Directive No. 417 - "Activity of a Banking Corporation in a Closed System"

On February 28, 2024, a draft for public comment was published to amend Directive 417, according to which the requirement to return funds to the original account, at the end of the period, which were deposited by a customer in a banking corporation where his/her current banking activity is not managed, will be revoked and the customer will be given the option to leave the funds in the aforementioned banking corporation to be deposited for another period.

Draft Proper Conduct of Banking Business Directive - "Interest Rates on Deposits and Credit Balances in an Account"

On February 28, 2024, draft Proper Conduct of Banking Business Directive was published for public comment, which includes guidelines for the banking system regarding the presentation of information on deposits and on credit balances in an account. The draft established principles and a uniform structure for presenting information to the public so as to make it easier for customers to compare value propositions of the various banking corporations, and an obligation was established to offer customers a search mechanism in the digital apps that will enable them to receive targeted information regarding deposits that meets their needs.

Directives regarding banking consumerism

The Economic Plan Law (Legislative Amendments for Implementing the Economic Policy for Budget Years 2023 and 2024), 2023

Under the law published on June 7, 2023, the Banking Law (Service to Customers), 1981 was amended and it was determined that: (a) A banking corporation should inform its customers - in accordance with the fees and commissions list that it is entitled to charge amounts or rates that are lower than the amounts or rates listed therein; (b) A banking corporation shall not charge its customers a fee or commission in an amount or rate that are higher than those listed in the fees and commissions list; (c) If it is agreed with a customer than he/she shall be charged a fee or commission that is lower than that of the fees and commissions list - the customer may not be charged a higher fee or commission than agreed; (d) A customer may not be charged a fee or commission unless the service in respect thereof has been provided to the customer.

Amendment of Proper Conduct of Banking Business Directive No. 422 - Opening a current account with a credit balance and account management

On March 29, 2023, an amendment to the directive was published, which clarified that since a current account is an essential account, through which a customer manages the majority of his/her financial activity (and therefore a banking corporation must enable any customer to open, at least, a current account with a credit balance and to manage it, provided that there is no reasonable grounds for not providing service (hereinafter - "reasonable refusal") - according to the Banking Law (Customer Service), sweeping rules should not be established to block a customer's activity in his/her account, and the use of basic payment methods or account transactions should not be prevented just because the account or customer is a certain type of account or customer, and that each request should be examined on its merits, exercising discretion. In addition, the Directive was expanded such that it will apply not only to accounts with a credit balance but also to accounts with a debit balance that do not deviate from the approved credit facility. In addition, the basis payment services determined in the Directive were expanded in order to allow the customer to conduct his finances in an efficiently and conveniently. The amendment will become effective fifteen months from its publication date (after a three-months' delay, under Proper Conduct of Banking Business Directive No. 251, Adjustments to Proper Conduct of Banking Business Directives for Dealing with the Iron Swords War (Temporary Order).

Proper Conduct of Banking Business Directive 501 - Management of a Customer Service and Support System

On March 29, 2023, the directive was published establishing principles for the provision of service and support to customers, which express the customer-centric concept and obligates the banks to maintain efficient and responsible communication with their customers and to provide them with professional, effective and available service and support in various service channels, while addressing the customers' needs, their characteristics and the complexity of the financial products. Among other things, the directive establishes obligations regarding corporate governance, according to which the Board of Directors and senior management are required to determine a strategy and policies for the provision of service and support to customers and to promote an organizational culture, operational infrastructures, control mechanisms and work processes that will improve the quality and availability of the service and support provided to customers. The directive includes principles for providing service and support to customers, as follows: (1) An optimal service and support system - ensuring the provision of service that meets the needs of the customers, across a variety of channels, in simple, respectful and clear language and in a professional, readily available, quick and helpful manner; (2) Promoting useful communication between the banking corporation and the customer when providing the service and support: (3) Preventing barriers to service, harm or deception; (4) Availability and quality throughout the entire period of engagement; (5) Service and support adapted to the customers; (6) Providing proper and quality service across a variety of channels.

In addition, it was determined that a service level agreement and a service terms agreement must be published. The directive includes an indirect amendment to Proper Conduct of Banking Business Directive no. 401 - "Opening Days of Banking Corporations' Offices", which determined that a banking corporation may not prevent customers from entering a branch to receive service even without making an appointment in advance. It was also determined that the actual average waiting and response times must be published regarding the services and service channels detailed in the service level agreement and compared to the levels of service to which the banking corporation has committed in the service level agreement. The Directive will become effective on June 26, 2024 (after a three-months' deferral) under Proper Conduct of Banking Business Directive No. 251, Adjustments to Proper Conduct of Banking Business Directives for Dealing with the Iron Swords War (Temporary Order). Publication of the information regarding times and the manner of providing the services - the provision whereby entering the branch and receiving service as described above must not be prevented entered into effect on June 29, 2023. Publication of the actual average waiting and response times will enter into effect two years from publication of the directive.

Amendment to Proper Conduct of Banking Business Directive No. 434 - Joint Account - "Survivors" Clause

The proposed amendment, dated June 13, 2023, prescribes various provisions intended to increase awareness of partners to a bank account to the survivors' clause and its significance, and to enable a survivor to use the account in case of a partner's death, inter alia: (1) In the joint account opening agreement, the banking corporation should offer its customers a survivors' clause and present it clearly. In conjunction with the survivors' clause, an explanation regarding its significance should be included; (2) In case of a change in signatory rights in a joint account, the bank should inform the partners regarding the applicability of the survivors' clause to the account and their entitlement of alter their choice; (3) If a partner joins the account, the bank will ask the partners for their up-to-date choice regarding the applicability of the survivors' clause; (4) Processes were prescribed with the aim of enabling surviving partners to repay existing debts through means of payment issued to the deceased partner. The amendment will enter into effect fifteen months after its publication date. Within nine months of the amendment's publication date, the bank must contact, once, all existing joint account holders who did not opt for the condition to apply to them, in order to draw their attention to the issue and determine their needs (after a three-month deferral under Proper Conduct of Banking Business Directive No. 251, "Adjustments to Proper Conduct of Banking Business Directives for Dealing with the Iron Swords War" (Temporary Order).

Draft Amendment to Proper Conduct of Banking Business Directive No. 367 - "E-Banking"

Under the draft, which was published on July 5, 2023, it is proposed to amend Section 29 of the directive such that all customers can be contacted by phone messages, including voice messages, without the need for an e-banking agreement, for notices on the following topics: (1) To encourage customers with a current account balance over a certain amount - to be determined by the banking corporation - to transfer funds held in the current account to more profitable interest-bearing channels or to channels that will reduce their total interest payments; (2) Assistance from the banking corporation to mortgage holders who are in financial difficulties or are likely to.

The Banking Law (Customer Service) (Amendment No. 37), 2024

On January 28, 2024, the Amendment to the Law was published, according to which a banking corporation must send the customer a notice regarding the end of a banking benefit (a benefit given by a banking corporation to a customer in connection with the interest rate or a fee or the amount of a fee for a period exceeding three months) or regarding the end of a period that was determined for a tiered banking benefit (a banking benefit in which, according to the terms and conditions of the engagement between the parties, changes will occur in the terms of the benefit on various dates) no later than 21 days before the end date of the benefit, (1) in a manner that the banking corporation sends notices to the customer, and (2) in writing, in a manner that enables as much immediate and readily available communication as possible, unless the customer has requested not to receive notices in this manner. In cases where the Bank knows that the customer is unable to receive a written notice, a voice message will be sent as an alternative to the written notice. Regarding a debit card benefit, the banking corporation will note, in the same notice, how the customer may end the debit card engagement.

Notices regarding a change in a benefit plan for an unlimited period, a change or end of a plan that includes the accumulation of rights and notices by an issuer of a benefit plan for a limited period will be sent to the customer in writing in the same manner in which the issuer sends notices to that customer, as agreed between them and in accordance with directives promulgated by the Banking Supervision Department regarding the sending of notices;

however, in cases where the issuer knows that the customer is unable to receive written notices, a voice message will be sent as an alternative to the written notice, as stated in the same directives.

The Bill for Reducing the Use of Cash (Amendment No. 2) (Restriction on Providing Cash Loans by Regulated Financial Entities), 2024

On February 7, 2024, a bill was published, under which a regulated financial entity (including banking corporations) will be barred from giving cash loans of over NIS 6,000.

Initiatives for Increasing Competition

The following are details of directives regarding the increased competition that is expected to affect the Israeli banking system in the coming years.

Banking Regulations (Licensing) (Bank with a Broad Scope of Activity), 2023

On February 1, the Regulations were published, which defined a "bank with a broad scope of activity" as a bank whose total assets exceed 10 percent of the assets of the banking system (instead of the 20 percent prior to the amendment). In addition, the validity was extended for some of the restrictions that applied to banks with broad scope of activity in the issuing of debit cards. The amendment aims to promote the completion of the process splitting the credit card companies from the banks in accordance with the recommendations of the Committee for Increasing Competition on Common Financial Services (the Strum Committee).

Amendment of Proper Conduct of Banking Business Directive No. 368, Application of the Open Banking Standard in Israel

On January 23, 2023, an update was published to the directive regarding provision of access to information on securities, expansions regarding the level of service and the manner of use and saving the certificate, as well as clarifications regarding the need for approval from the Banking Supervision Department to act as a payment initiator.

Opening the payments systems in Israel to international payment service provider activity

On February 28, 2023, the Bank of Israel announced that it had formulated an outline aimed at enabling the opening of controlled payments systems in Israel to international payment service provider activity. This measure will allow these entities to operate immediately in the payments systems, and offer services and value propositions to the public in Israel based on a license from a foreign country.

The Economic Plan Law (Legislative Amendments for Implementing the Economic Policy for Budget Years 2023 and 2024), 2023

Under the law, which was published on June 7, 2023, the following amendments were made:

(1) It was determined that the directive in the Law for Promotion of Competition and Reduction of Concentration in the Banking Market (Legislative Amendments), 2017 that obliges a bank with a broad scope of activity that issues debit cards to limit the credit facilities of the credit cards it issued to its customers will be revoked after January 31, 2024. For additional information on this subject, please see the section entitled "Legislation and Regulation Governing the Banking System" in the Corporate Governance Report for 2022.

(2) It was determined that the directive in the Law for Promotion of Competition and Reduction of Concentration in the Banking Sector (Legislative Amendments), 2017, according to which a bank with a broad scope of activity issuing debit cards may contact customers regarding renewal of their credit cards only within the 45-day period preceding the termination date of the credit card agreement (except in cases outlined in the directive), will be revoked after May 31, 2025.

(3) The Banking Law (Customer Service), 1981 was amended such that as of September 1, 2023, a banking corporation that refuses to open an account for a financial entity (a licensed corporation under the Supervision of Financial Services Law (Institutional Financial Services), 2016, or a payments company as defined in the Regulation of Payments and Payments Initiation Services Law, 2023), will provide an explanatory notice thereof to the Banking Supervision Department. As stated above, on December 24, 2023, Proper Conduct of Banking Business Directive No. 424 - Opening a Current Account with a Credit Balance for Financial Institutions was published, which aimed to regulate the requirements applicable to a banking corporation when opening and managing an account for a financial entity, and Reporting Directive to the Banking Supervision Department No. 824 regarding the reporting of a financial entity's request to open an account.

(4) The Banking Law (Customer Service), 1981 was amended such that, starting from September 1, 2023, as part of an engagement agreement between the banking corporation and the customer to whom the debit card is issued, a provision will apply, according to which the banking corporation will allow a financial entity engaged in the operation of issuing debit cards issued by the banking corporation to request and obtain the customer's consent to make use of customer information it has received in the execution of the issue or the operation of the issue, for the purpose of providing financial services to the customer. A banking corporation will not prevent the operating entity, by act or omission, to obtain the customer's consent.

(5) The Banking Law (Customer Service), 1981 was amended, requiring the banks to notify each customer, at the beginning of each calendar month, regarding the total amount of fees and commissions and interest collected by the bank from the customer in the previous month (such amounts that were collected for a housing loan will be detailed in a separate notice). The amendment regarding fees and commissions will enter into effect as from March 1, 2024 (following the deferral of the original date in the amendment to the law dated February 28, 2024), and regarding interest and housing loans - as from June 2, 2024.

(6) The Regulation of Payment Services and Payment Initiation Law, 2023 was published. The law covers two main issues: (a) Licensing of payment services - Regulation of payment services provided by non-bank entities, (b) Payment initiation - Regulation of payment initiation, including licensing aspects and consumer protection aspects of the initiation services. The regulation of payment services is intended to produce uniform requirements for entities engaged in the provision of payment services, to encourage competition in the field of payment services in Israel and to enable the entry of new players into the market. The law will enter into effect one year from its publication date, except for certain topics as detailed in Chapter L of the Law.

Notice of the Competition Commissioner regarding the possible determination that the five largest banking groups are a concentrated groups

On June 29, 2023, the Competition Authority announced that as part of a review it is carrying out with the banks, the Competition Supervisor has decided to initiate a consultation procedure with the Governor of the Bank of Israel and Banking Supervision Department (in accordance with the law) regarding the possible determination that the five largest banks constitute a concentration group and to provide them with guidance regarding deposits and the management of current account balances, as follows: (1) Prohibition on linking a deposit with the administration of other banking services; (2) Imposition of a requirement that the banks accept deposits from non-banking payments companies that request to act as "deposit aggregators"; (3) Reduction of barriers to the transfer of deposits separately from the rest of the banking basket ("separable" deposits); (4) Directives requiring the banks to present relevant comparative information to customers by "push".

The announcement clarified that the Supervisor's reviews have not yet been completed. To the extent that the Commissioner decides to declare a concentration group and issue guidance, a hearing will be held regarding the announcement and the guidance.

Proper Conduct of Banking Business Directive No. 473, Distribution of Credit Cards by Issuers Engaged with a Banking Corporation in a Distribution Agreement

Section 7F to the Banking Law (Service to Customers), 1981 prescribes that when a customer contacts a banking corporation in order to enter a credit card agreement therewith, or when a banking corporation contacts a customer proposing such an agreement, the banking corporation should distribute the credit cards of the issuers with whom it has engaged in a distribution agreement. The clause authorizes the Banking Supervision Department to prescribe provisions regarding the distribution agreement between the banking corporations and other issuers. In the directive date June 29, 2023, provisions were prescribed regarding the said credit card distribution processes, inter alia, on the following topics: (a) Manner of distribution; (b) The details which the banking corporation is required to provide to the customer; (c) Guidance regarding unreasonable refusal to engage in a distribution agreement with an issuer.

Memorandum of Law Money Funds (Legislative Amendments), 2023

On July 30, 2023, the memorandum of law was published, which proposes to amend the Joint Investment in Trust Law, 1994 and the Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Law, 1995, with the aim of enabling the launch of new money funds with characteristics more similar to financial deposits (low-risk fund, expected return estimated in advance and fixed dates). The distribution channels of these funds will be expanded such that they can be distributed not only by an investment advisor or an investment marketer, so as to increase their accessibility to the general public. Among other things, this will increase the competition in "money market" products (the market for short-term liquid products, up to one year, with low credit risk), and encourage the entry of new players into the investment brokerage domain. Subsequently, on August 30, 2023, the Israel Securities Authority published a proposed draft directive regarding investment consulting or investment marketing with respect to a money market fund and a proposed draft directive for fund managers and trustees regarding the terms and conditions that will apply to the money market fund.

Draft for public comment by the Banking Supervision Department for a gradual outline for licensing and regulation of non-bank entities in order to boost competition in the banking system

On February 14, 2024, the Banking Supervision Department published a draft for public comment regarding a gradual outline for licensing banking corporations. The draft for public comment is issued by a team headed by the Supervisor of Banks, with the aim of formulating an outline that will allow existing non-bank entities to be licensed as banking corporations, which will entitle them to raise deposits from the public to be used for providing credit. The Banking Supervision Department intends to formulate a policy for licensing banking corporations, under which banking licenses and regulation will be adapted to requested activities and the level of risk inherent in the applicant's activity; a banking license will provide for three levels: (1) A banking corporation with a financial institution license; (2) A banking corporation with a basic banking license; (3) A banking corporation with an extended banking license.

Regulatory measures following the Iron Swords War

Against the backdrop of the Iron Swords War and its consequences for the Israeli population and economy, including for households and businesses, the Banking Supervision Department and other regulators established a series of regulatory measures - including adjustments, expedients and deferral of dates in various regulatory provisions - with the aim of ensuring business continuity and provision of ongoing services by the banking system, in accordance with the limitations of the security situation for the purpose of providing the assistance required by customers of the banking system, with heightened sensitivity to the customers' needs and difficulties. Various arrangements were also approved in legislation to meet the needs of the economy, certain population groups and the public due to the War, and some have an impact on the Bank's activities. The adjustments and reliefs were limited to various time periods, and are dynamically updated in accordance with the changing circumstances. Following are the main measures:

Directives Issued by the Banking Supervision Department

Activity of the banking system branches in view of the security situation

According to a notice dated October 8, 2023, the banking system may operate in a limited format in terms of reception hours: Closing branches within a range of up to 40 km. from the Gaza Strip; opening branches in a limited core branch format within a range of 40-80 km; changes in the opening hours of the branches, as circumstances require.

Misuse of credit cards and bank account information of victims of the security situation

In a notice dated October 11, 2023, the Banking Supervision Department announced that it had formed a special team to handle the misuse of credit cards and bank account information, with the cooperation of the relevant government and security entities. The team defined the method of dealing with the following cases: (1) When a request is made by family members to a specific bank to freeze the account activity - action must be taken to freeze the account, while operating the required risk management and a quick authentication process adapted to the situation; (2) When it is not known where the financial activity of the victim is managed, the public is asked to contact the Banking Supervision Department's inquiry center.

Emphases of the Banking Supervision Department to the banking system due to the Iron Swords War

The letter dated October 12, 2023 emphasized that the banks must operate with increased sensitivity in their contact with customers due to the complex security situation, initiate as much reliefs as possible for customers in distress, maintain continuity in the provision of services in an appropriate and professional manner and manage all the financial risks unique to this period. The letter included instructions regarding the availability and continuity of the banking services, handling and responding to customer inquiries against the backdrop of the War, lightening the burden and assisting customers in meeting their obligations, reliefs regarding limitations and clearing checks, relocation of branches in times of emergency, preparations for the distribution of allowances, providing the best telephone service to customers, preparations for overcoming cyber-attacks and attempts, and fraud events, adjustments in the risk management, reporting to the Banking Supervision Department and meetings of the Board of Directors.

Outline for assistance to bank customers in dealing with the consequences of the Iron Swords War

On October 15, 2023, an industry-wide outline was published for a three-month period, which was adopted by the banks, for relief from the burden of the credit and fees and commissions to the population living within 30 km. of the Gaza Strip, the population that was evacuated from their homes by an official government authority, as of the publication date of the outline, those serving in the reserves and under a call up order, and first kin of the War dead or the hostages or missing persons (the “First Circle Customer Group”). The outline refers to the deferral of loan payments in three operating segments (mortgages, consumer credit and business credit), an exemption from interest payments on overdraft of up to NIS 10,000 in a current account (an overdraft that is part of the facility approved by the Bank) and an exemption from payment of some of the fees and commissions. For the First Circle Customer Group, the loans will be deferred without charging interest, in accordance with the deferral method detailed in the outline. On November 8, 2023, an announcement was published regarding the expansion of the First Circle Customer Group, such that it will also include the population residing in localities in northern Israel or owners of a business in these localities who were evacuated by an official government entity. The rest of the Bank’s customers (the “second circle customer group”) will be able to defer these loans for three months, while the deferred payments will bear interest that will not exceed the rate in the loan contract, and the payments will be added at the end of the loan period. The types of loans to which the reliefs will apply are detailed in the outline. The deferral will be carried out without charging fees and commissions. According to the guidelines of the Accountant General and the Ministry of Construction and Housing, the outline will also apply to loans provided to those listed as eligible for housing. It was also determined that loans provided through the government guaranteed fund for small and mid-sized businesses are included in loans eligible for deferral according to the outline.

On December 17, 2023, a notice was published regarding the extension of the outline for three months as from January 1, 2024. New population groups were added to the First Circle Customer Group - the accounts of hostages or missing persons, the accounts of siblings of hostages or missing persons and accounts of participants of the Nova party at Re’im. Regarding the deferral of loan payments, a customer who did not defer payments under the outline will be entitled to defer payments for a period of three months, subject to submission of a request; a customer who already deferred payments for a period of three months will be entitled to defer payments for an additional three months, subject to submission of a request, so that the maximum deferral period will be a total of six months; all other benefits will automatically continue to apply for three additional months at the original outline terms and conditions. Another benefit was provided - Businesses with a turnover of up to NIS 5 million that had a debit balance just prior to the extension of the outline will be exempt from the payment of interest on the debit balance in the business account up to the amount of NIS 30,000 for a period of three months. In addition, the possibility of rescheduling the payments and deferring mortgages has been refined such that an option of providing a loan will be added in the deferred amount, without interest, for a period of at least 4 years, whose repayment date will be one year after the end of the deferral period.

On March 4, 2024, a notice was published regarding an additional extension of the outline for three months as from April 1, 2024, and its expansion to other populations as from that date. According to the notice, the residents of eight localities in the north who were evacuated under a government resolution, but who have not yet inf act been evacuated, reserve soldiers who were hospitalized for a period of at least seven days for injuries incurred during the War, victims of the Psyduck Festival and victims of the preparation meeting for the Midburn Festival will be added to the First Circle Customer Group. The terms and conditions of the outline regarding the First Circle Customer Group will be expanded in April-June, as follows: An exemption will be given to reserve soldiers from overdraft interest in a current account (with regard to a customer who had an overdraft on the eve of the publication date of this outline) up to an overdraft of NIS 10,000 for three months, according to the actual overdraft amounts; the benefits will be granted to reserve soldiers under the outline initiated by the Bank for a 3-month period, with no need for documentation.

Regulatory Emphases for Handling Debt and Reporting to the Public

The letter, dated October 18, 2023 includes emphases regarding the application of the principles prescribed by the Reporting to the Public Directives to the 2023 financial statements in view of the flexibility required of the banks in these times regarding repayment of loans, including the establishing of new payment arrangements on an individual or collective basis. Among other things, the letter discusses the following issues: (1) Debt arrears status will be determined according to the contractual terms of the debt as revised in the new payment arrangement; (2) Regarding troubled debts and charge-offs, judgment should be exercised to determine whether to classify debts as troubled debts. As a rule, the Bank is not required to classify debts that have been restructured due to the War as restructured troubled debts; (3) The required public disclosure.

Authentication of customers lacking official documentation

In the letter dated October 16, 2023, the Banking Supervision Department authorized the banking corporations to operate internal work procedures for the authentication of existing customers who lack official documentation. The authentication procedures will only be used for the provision of basic banking services (cash withdrawals and deposits, check deposits, cancelations of checks and credit cards, third party transfers and the receipt of information), while maintaining the appropriate controls and limiting exposure to risk.

Proper Conduct of Banking Business Directive 251, "Adjustments to Proper Conduct of Banking Business Directives for Dealing with the Iron Swords War" (Temporary Order)

On October 16, 2023, on October 31, 2023, November 21, 2023, December 28, 2023 and February 7, 2024, adjustments were published that will remain in effect until March 31, 2024 (excluding the following exceptions):

- Proper Conduct of Banking Business Directive No. 308A, "Handling of Public Complaints" - reliefs regarding the handling of public complaints, including the manner of answering customers, the required documentation and the time frames for providing the response. The reliefs expired on December 31, 2023.
- Proper Conduct of Banking Business Directive 325, "Managing Credit Facilities in Current Accounts" - Accounts may be overdrawn by amounts not exceeding NIS 5,000 per private individuals; NIS 10,000 per small business; and NIS 100,000 per corporation; without establishing an agreed facility in writing within one business day provided that the facility will be arranged as soon as possible.
- Proper Conduct of Banking Business Directive No. 367, "E-Banking" - Urgent notices that have a significant effect may be sent to all customers via e-banking, in addition to notices sent as agreed with the customer, even if the customer did not sign up for the e-banking service (the relief was in effect until November 22, 2023). Information that is not urgent may not be added to the urgent notices sent to those customers, including information on enlisting the customers to e-banking services.
- Proper Conduct of Banking Business Directive No. 203, "Capital Measurement and Adequacy - The Standardized Approach - Credit Risk" - An increase in the rate of financing for loans designated for the purchase of land for development or construction over a threshold of 80 percent from interest accrued until December 31, 2023 due to a "grace period" granted after October 7, 2023 will not be taken into account for the LTV calculation (in effect until March 31, 2024).
- Proper Conduct of Banking Business Directive No. 311, "Credit Risk Management" - Provision of a three-month extension regarding the obligation to receive a current financial statement from borrowers. On February 7, 2024, it

was determined that an extension of an additional three months will be given for the receipt of an updated financial statement from borrowers (a total of fifteen months from the financial statements date). In addition, the period for providing semiannual financial information (which the Bank must receive from borrowers) has been extended by an additional three months (a total of nine months).

- Proper Conduct of Banking Business Directive No. 360, “Rotation and Uninterrupted Vacation” - If the maximum period defined by a banking corporation for a manager or an employee serving in a sensitive position will expire before December 31, 2023, the banking corporation may extend the maximum period until March 31, 2024. In addition, an extension was provided for utilization of an uninterrupted vacation until April 30, 2024. The ability to shorten an uninterrupted vacation was also enabled in certain cases listed in the directive.
- Proper Conduct of Banking Business Directive No. 451, “Procedures for Providing Housing Loans” - The dates were postponed for issuing the bank notice to a borrower regarding insurance on behalf of the bank in cases where the policy provided does not meet the bank’s requirements - one calendar month instead of 14 days; letters of intent - 8 business days instead of 3 business days; settlement confirmation - 8 business days instead of 5 business days; confirmation of a junior lien on an asset - 10 days instead of 7 days; approval in principal for a housing loan - 8 business days instead of 5 business days; approval in principal, in exceptional cases of complex loans - for 10 business days instead of 7 business days.
- Proper Conduct of Banking Business Directive No. 449, “Simplifying Agreements for Customers” - The provision requiring fair disclosure using a specific form will not apply to a customer’s request for deferral of payments as part of a credit agreement, provided that the deferral is according to the Outline for Assistance to Bank Customers Dealing with the Consequences of the Iron Swords War.
- Proper Conduct of Banking Business Directive No. 460, “Presentation of Data on Activity in a Securities Deposit” - Deferral of one month in the demand for the presentation of cumulative data from the beginning of the calendar year until September 30, 2023 (they may be presented until November 30, 2023).
- Rules of Banking (Customer Service) (Fair Disclosure and Delivery of Documents), 1992 - A customer’s signature will not be required for a customer’s request to defer payments according to the Outline for Assistance to Bank Customers Dealing with the Consequences of the Iron Swords War, provided that the customer’s consent is obtained, including in a documented telephone conversation; in housing loans of two or more borrowers - if one of the borrowers finds it difficult to sign the loan papers due to the Iron Swords War, that borrower’s signature will not be required, provided adequate authentication procedures are conducted and the borrower’s consent is documented.
- A three-month extension of the effective dates of the following directives: Amendment to Proper Conduct of Banking Business Directive No. 422, “Opening and Managing a Current Account with a Credit Balance”; Amendment to Proper Conduct of Banking Business Directive No. 434, “Joint Accounts - Survivors’ Clause and Handling Existing Charges after a Death”; Amendment to Proper Conduct of Banking Business Directive No. 451, “Procedures for Providing Housing Loans”; Proper Conduct of Banking Business Directive No. 501, “Management of a Customer Service and Support System”. The updated effective dates are listed in Proper Conduct of Banking Business Directive No. 251.
- Proper Conduct of Banking Business Directive No. 301 - “Board of Directors” - Reliefs regarding a Director’s Attendance of a Meeting Using Advanced Means of Communications as Physical Attendance to Comply with the Rate of Attendance set by the directive; deferral of deadlines for approval of minutes of meetings and distribution of a draft decision list.
- Proper Conduct of Banking Business Directive No. 310, “Risk Management” - an extension was given for the review and approval of risk management papers until March 31, 2024, subject to the Board of Directors and management holding discussions regarding the implications of the security and economic situation for the risk management policy and the banking corporation’s risk profile.
- Proper Conduct of Banking Business Directive No. 411, “Management of Anti-Money Laundering and Countering Financing of Terrorism Risks” - raising the maximum annual amount allowed on prepaid cards to NIS 10,000, with no more than NIS 5,000 being allowed at any one time.

- Proper Conduct of Banking Business Directive No. 311A, “Consumer Credit Management” - Section 21.4 of the Directive, according to which it is necessary to refrain for at least three months from proactively contacting a customer who responded negatively to a similar credit offer, will not enter into effect until the end of the temporary order period.
- Proper Conduct of Banking Business Directive No. 329, “Restrictions on the Granting of Housing Loans” - An exemption was determined regarding certain restrictions on the granting of housing loans related to a loan for the construction of a mamad (residential secure space), which is exempt from a permit under the Planning and Building Regulations (Work and Structures Exempt from a Permit) (Temporary Order - Iron Swords), 2023, whose amount does not exceed NIS 200,000. The exemption is given in relation to the restrictions determined in Sections 5 to 8 of Proper Conduct of Banking Business Directive No. 329 - The restriction on granting a housing loan at a repayment rate from income exceeding 40 percent; the restriction of 66.6 percent in variable interest rate out of the total housing loan; the restriction on the final repayment period of a maximum of 30 years in a housing loan). On February 7, 2024, it was determined that the exemption from these restrictions will also apply to a loan to improve protection in a residential apartment (in an amount not exceeding NIS 200,000), as detailed in the Home Front Command listing; an exemption was also determined in relation to these restrictions regarding the restriction on the loan to value ratio (LTV), which is set in Section 4 of Proper Conduct of Banking Business Directive No. 329. The exemptions are in effect until October 25, 2024. In addition, it was determined that a banking corporation will be entitled to grant an all-purpose loan with a mortgage on an apartment (a housing loan not for the purpose of acquiring a land right), at a financing rate of 70 percent instead of 50 percent, provided that the amount of the loan that exceeds the loan to value ratio of 50 percent does not exceed NIS 200,000.
- Proper Conduct of Banking Business Directive No. 350, “Operational Risk Management” determined that a banking corporation, for which the end of the cyclical period for performing the multi-year gap survey regarding operational risks (a survey that is the Bank’s continuous operational risks mapping process) that it is required to carry out ends by March 31, 2024, will be entitled to complete it until June 30, 2024.
- Proper Conduct of Banking Business Directive No. 357, “Information Technology Management” - Banking corporations are required to perform a safety survey for high-risk systems and e-banking systems once every eighteen months. It was determined that a deferral of the final date for performing the survey of the aforementioned systems will be allowed, for which the eighteen-month period ends in the period to which the temporary order applies. The deferral will be allowed for a period of up to six months, but no later than June 30, 2024. The Chief Risk Officer will be required to approve and document the deferral while ensuring that the banking corporation will make a reasonable effort to prepare the survey even earlier than the final date possible.

Highlights in public reports

In a letter dated November 9, 2023, the Banking Supervision Department instructed the banking corporations to ensure that their reports to the public for the third quarter of 2023 reflect and provide fair disclosure regarding the effects of the War on the results of operations, financial position, risks to which they are exposed and measures taken to manage these risks and to support the needs of customers and employees. The main emphases are on the following issues: Calculation of the current expected credit losses in the third quarter reports, the disclosure required for material effects of the War - such as the financial results of the banking corporation, capital ratios, leverage and liquidity coverage, main risks, disclosure regarding the main measures taken to support the needs of customers and employees - including an estimate of the quantitative effect and an explanation regarding the estimate calculation method, material developments in the credit risk, information regarding debts whose terms and conditions have been changed and quantitative disclosure regarding the exposure status and results of interest-rate and foreign currency risk scenarios.

In another letter dated January 2, 2024, highlights for disclosure in the 2023 reports to the public were published. The disclosure of the main activities undertaken by the banking corporation in order to deal with the effects of the War and to support the needs of employees and customers will include a description of the characteristics of each main activity, quantitative disclosure regarding the scope of the activity, an estimate of its quantitative effect and an estimate of an additional quantitative effect resulting from the possibility of utilizing the granted benefits in the future. The banking corporation must provide disclosure regarding the quantitative estimates’ calculation method and to clarify the timing at which, according to its estimates, the quantitative effect is expected to be reflected in the financial results. When the effect is material, disclosure of the data is required shortly before the report’s publication date.

Capital planning and profit distribution policy

In a letter dated November 12, 2023, the Banking Supervision Department instructed the banking corporations to reexamine their policies regarding the distribution of dividends and share buybacks in the context of the War and the increased uncertainty regarding its continuation and impact on the market, in view of the new conditions and their consequences; holding sufficient capital cushions for handling the various risks; continued assistance for customers, among other things, by providing credit to customers who have repayment capacity as part of the support for economic activity and as part of the rehabilitation and development efforts following the War.

In another letter dated March 5, 2024, the Banking Supervision Department instructed the banking corporations to reexamine the policies regarding the distribution of dividends and share buybacks in the coming period in view of the continuation of the War and its impact on the economy.

Guidance by the Payments and Clearing Systems Department

Higher ceiling for mobile check deposits

On November 19, 2023, the Bank of Israel Payments and Clearing Systems Department announced that in order to assist households and businesses to continue to carry out their ongoing financial activity during the War and to offer more possibilities for performing banking transactions remotely, it was decided to increase the mobile check deposit amount limit from NIS 50,000 to NIS 100,000.

Directives of the Supervisor of Credit Data Sharing

Entering a comment in a report to the Central Credit Register in view of the Iron Swords War

In a directive dated October 19, 2023, the Supervisor of Credit Data Sharing in the Bank of Israel issued guidance regarding credit sources reported to the Central Credit Register, to identify and mark the negative data to be reported against the backdrop of the War in order to enable credit bureaus and the credit providers to differentiate between negative data generated prior to the War and negative data created following the outbreak of the War. The directive is applicable from the report for October 2023.

Amendment to Directive No. 201, "Reporting on Credit Data"

According to the amendment to the directive, dated November 9, 2023, an arrears payment of a debt to a source of financial information will be reported to the Central Credit Register only after 60 days (instead of 30 days) from the date on which the amount was due but not paid. The amendment will apply to reports for October and November 2023. On December 18, 2023, an announcement by the Supervisor of the Central Credit Register was published, according to which, due to the continuation of the War, the amendment will also apply to the reporting for December 2023. On January 25, 2024, an announcement by the Supervisor of the Central Credit Register was published according to which due to the continuation of the War, the amendment will also apply to the reporting for January and February 2024. On February 22, 2024, the Supervisor of the Central Credit Register announced that the amendment will also apply to the reporting for March and April 2024.

Adjustment to Directive No. 502, "Correction of Information in the Central Credit Register"

In the directive dated November 6, 2023, the Supervisor determined, regarding the resumption of handling a customer's request to correct information, that during the period from October 1, 2023 to December 31, 2023, the rate of complex exceptional cases for which the Bank may provide a response within 21 days, may not exceed 20 percent (instead of 5 percent) of the total requests for a correction in a calendar month.

Measures Published by Additional Entities and Specific Legislation

Appeal by the Authority for the Prohibition of Money Laundering to the financial sector and the public to increase awareness of terrorist financing attempts during the War and state of emergency

In the notice dated October 11, 2023, the Authority emphasized that at this time, appropriate preparations and maximum vigilance is required on the part of the financial sector in general and the reporting entities in particular regarding financial activity whose purpose is to finance and support terrorist activity and to assist the Hamas and Islamic Jihad terrorist organizations. The Authority asks to increase attention and devote all the necessary resources in order to monitor, detect and report to the Authority effectively and immediately regarding activities seen as having a potential risk of terror financing and support, as well as regarding any operation or attempt to perform an operation occurring in the Gaza Strip territory.

Procedure published by the Commissioner of Insolvency Proceedings regarding the deferral of the monthly payment in respect of October and November and deferral of the date for submitting bi-monthly reports

The procedure dated October 12, 2023 allows a deferral of the monthly payment of individuals in insolvency proceedings payable in October-November 2023. The date for completion of the payments will be published in an update notice at the end of the state of emergency period.

Dates Deferral Law (Temporary Order - Iron Swords) (Contract, Judgment or payment to the Authority), 2023

The law published on October 18, 2023 determines a deferral of the dates set in a contract, judgment or payment to a public authority for individuals and businesses from certain populations listed in the law who were impacted by the emergency situation. These individuals and businesses will be entitled to request a 30-day deferral of a payment date occurring in the "effective period" (October 7, 2023 to November 7, 2023). On November 7, 2023, an ordinance was published extending the effective period until December 7, 2023, and allowing payments to be deferred for 60 days (instead of 30 days) or until December 31, 2023, the earlier of the two. On December 7, 2023, an additional ordinance was published extending the effective period until December 31, 2023, and allowing payments to be deferred for 85 days or until December 31, 2023, the earlier of the two.

On December 31, 2023, an amendment to the law was published, according to which the effective period as stated above became the "first effective period"; it was determined that a deferral of the payments during the first effective period will be for 145 days or until February 29, 2024, whichever is earlier; a definition was added for the "second effective period", from January 1, 2024 to February 29, 2024, and it was determined that a deferral of the payments during the second effective period will be for 31 days. Entities were defined for whom the law will apply in the second effective period and a distinction was made between the types of those eligible for a deferral.

Non-enforcement Position - Pension advice by a banking corporation external to the Bank's branches to existing customers regarding pension advice

On November 1, 2023 the Capital Markets Authority published a draft non-enforcement position in which it was clarified that the Authority will not take enforcement measures against banking corporations that will provide pension advice digitally or by telephone to existing customers regarding pension advice, which is provided in bank branches at which banking activity is limited or which do not have reception hours, as well as customers who are residents of evacuated localities outlined in the Addendum to the Dates Deferral Law (Temporary Order - Iron Swords) (contract, judgment or payment to an authority), 2023. The position is in effect until the expiration of the declared special situation in the home front, or until January 1, 2024, whichever is earlier. On February 22, 2024, the Capital Markets Authority published a non-enforcement position that expands and extends the November 1, 2024 position. The position determined that the population to which the Bank may provide pension advice, by digital means or by telephone, will include customers who are actively serving in the reserves, soldiers in mandatory or permanent service in the IDF who are entitled to defer the date in the second effective period under the Dates Deferral Law (Temporary Order - Iron Swords) (Contract, Judicial Ruling or Payment to an Authority), 2023. The expanded position is in effect from January 1, 2024 until the expiration of the declared special situation on the home front, or until May 31, 2024, whichever is earlier.

Bad Checks Regulations (Conditions for Application of the Law), 2023

On October 26, 2023, an amendment to the Bad Checks Regulations was published, according to which from October 7, 2023 to October 31, 2023 dishonored checks will be deducted from the number of dishonored checks. In addition, dishonored checks in the accounts of the populations listed in the regulations, in the period between November 1, 2023 to November 30, 2023, will also be deducted from the number of dishonored checks. The limiting of the accounts is accordingly revoked. On December 27, 2023, an amendment to the Regulations was published, according to which the second period will be extended with regard to dishonored checks from November 1, 2023 to November 30, 2023, until January 21, 2024.

Law for the Protection of Special Grants (Iron Swords), 2023

The law, published on November 1, 2023 provides protection against the transfer, encumbering or seizure of grants given in accordance with government resolutions to individuals evacuated from their place of residence or family members of hostages and missing persons in connection with the Iron Swords War, as well as extends the period of protection set in various laws for a grant, compensation or benefit normally received by various eligible populations (National Insurance, bereaved families, disabled persons, persons disabled prosecution by the Nazis, holocaust survivors) for 90 days (instead of 30 days), if the grant was paid in the period of the special situation in the home front or during the 30 days prior to the effective date of this law. If the period of the special situation in the home front ends before 90 days will have elapsed, the protection will apply during the period from the date of payment until 30 days from the end of the period of the special situation in the home front.

The law authorizes the Minister of Finance and the Minister of Justice to determine that additional grants will also be protected. Under that authority, on December 3, 2023, the Protection of Special Grants Order (Iron Swords) (Amendment of the Addendum), 2023 was published and added to the list of protected grants - (1) a grant paid to reserve soldiers and to regular soldiers for economic damage incurred by them and their families due to their participation in the fighting or due to their call up to reserve duty on short notice; (2) a compensation grant paid to soldiers who had to cancel or move forward flights or cancel vacations due to their participation in the Iron Swords War or due to their call up to reserve duty. On January 3, 2024, the Protection of Special Grants Order (Iron Swords) (Amendment of the Addendum) (No. 2), 2024 was published, which provided for an additional grant - an occupancy grant for evacuees under previous government resolutions. The grant amount is limited: NIS 1,000 per person and up to NIS 5,000 per family.

The Succession Law (Amendment No. 19), 1965

On November 7, 2023, Amendment No. 19 to the Succession Law was published in which sections were added to the Succession Law for the purpose of facilitating the inheritance procedures of persons who died in the War and to mitigate the risk of distortions in the distribution of their estate: The ability of the heir to waive his/her share of the estate in favor of others was expanded; it was determined that - regarding the distribution of rights in an estate of two persons who died on October 7, 2023 and October 8, 2023 in the hostilities or War, none of the two shall be considered as having died first. Power was given to the Registrar for Matters of Inheritance or to the court, as the case may be, to set a distribution arrangement between the heirs that differs from the general arrangement in order to avoid unfair results.

The Law for Protection of Workers in Times of Emergency (Amendment No. 5 and Temporary Order - Iron Swords), 2023

On November 29, 2023, the Law was published, according to which, during the period of the temporary order (October 7, 2023 to January 7, 2024), sections of the Law for Protection of Workers in Times of Emergency, 2006, will be amended: An employer may not fire an employee due to his absence for the purpose of supervising his children who are with him due to the closure of the educational institution due to the state of emergency; an employer may not fire an employee due to his absence or non-performance of his work due to directives issued in a special situation on the home front, and with the existence of certain conditions regarding the employee, such as evacuation from his place of residence in a locality listed in the Law; the employee or a family member is a hostage or a missing person; the employee is supervising his children who are with him due to the military service of the employee’s partner or other parent. On January 4, 2024, the Law for Protection of Workers in Times of Emergency (Amendment No. 5 and Temporary Order - Iron Swords) (Extension of the Temporary Order Period), 2024, which determines that the temporary order period is extended until March 1, 2024. On February 29, 2024, the Law for Protection of Workers in Times of Emergency (Amendment No. 5 and Temporary Order - Iron Swords) (Extension of the Temporary Order Period) (No. 2), 2024 was published, which determines that the temporary order period is extended until July 1, 2024.

The Law Authorizing the IDF and the General Security Service to Perform an Operation on Computer Material Used to Operate a Stationary Camera (Temporary Order - Iron Swords), 2023

On December 7, 2023, the law authorizing IDF soldiers and General Security Service employees, who have the required expertise, to penetrate computer material used for operating a stationary camera and to perform operations defined in the Law in the event of exceptional circumstances (an actual risk to the country’s security or the continuity of the operational functioning of the IDF in connection with the War, the penetration is required immediately and urgently and it is not reasonably possible and in the necessary time period to achieve the goal in another way with less damage to rights). The law is effective until June 7, 2024.

The Law for Handling Serious Cyber Attacks in the Digital and Storage Services Sector (Temporary Order - Iron Swords), 2023

On December 27, 2023, the Law was published, according to which in the event of a real fear of a serious cyber-attack against a provider of storage services or digital services, i.e. a cyber-attack that a certified manager of the cyber system in the General Security Service or the security officer at the Ministry of Defense (the aforementioned entities) has found that due to a real fear that it has a significant impact that is not limited to the attacked provider and given its characteristics, and also due to its occurrence in the period of the significant military operation, there is a real fear that it will harm the security of the country, the public or the provision of essential services, the authorized employee in one of the three aforementioned entities will be able to notify the provider regarding the existence of the fear. As long as the attacked provider does not act appropriately and within a reasonable period of time to deal with the serious cyber-attack and does not submit a statement of compliance with the standard as detailed below, an authorized employee in each of the aforementioned entities may, as applicable, order the attacked provider to carry out an action in order to detect, prevent or halt the attack. According to the Law, a "provider" is (a) a provider of storage services or digital services that has a physical or logical permanent or temporary connection between its computers and the computer of the recipients of its services or that regularly transfers information from its computers to the computers of the recipients of its services; (b) one who provides maintenance, management or control services for storage services or digital services.

Additional Topics

Memorandum of The Execution Law (Novel Coronavirus - Amendment No. 68 and Temporary Order), 2020

On February 9, 2023, the Execution Law (The Novel Coronavirus - Amendment No. 68 and Temporary Order) (Amendment No. 2), 2023 was published whose purpose, among other things, was to establish the temporary order regarding the authorization of court registrars to consolidate claims of the debtor when issuing a payment order in a case as a permanent order.

The Insolvency and Economic Rehabilitation Law (Amendment No. 4 - Temporary Order - Novel Coronavirus), 2023

Further to the details in the chapter Laws and Regulations Governing the Banking System in the Corporate Governance Report for 2022, Amendment 4 to the Law prescribes a dedicated track for handling debts of debtors (corporations and private individuals) hurt by the coronavirus crisis, which will allow debtors, among other things, to reach debt settlement agreements as an alternative to full insolvency proceedings. On March 21, 2023, the amendment's validity was extended by an additional twelve months, until March 17, 2024. On February 19, 2024, a bill was submitted for an extension of the amendment until December 17, 2024.

Protection of Privacy Regulations (Instruction regarding Data Transferred to Israel from the European Economic Area), 2023

Further to the section entitled Legislation and Regulation Governing the Banking System in the Corporate Governance Report of 2022, the regulations which prescribe provisions regarding information provided to Israel from a member country of the European Economic Area, were published in the Official Gazette on May 7, 2023.

Law for Ruling on Interest and Linkage (Amendment No. 9), 2023

The amendment, dated November 19, 2023 revises the mechanisms for ruling interest and linkage by a judicial authority, and accordingly - dozens of laws were amended in which the mechanisms provided in the law were used (including in the Execution Law, 1967 and in the Banking Ordinance, 1941). According to the amendment, the NIS interest rate is the default interest rate. In addition, a mechanism was set for the payment of arrears charges that will be added every three months, from the end of three months from the repayment date, and throughout the entire payment deferral period, and for a period of less than three months, no arrears charges will be added. In addition, arrears charges will not be added to the updated principal.

Highlights for Effective Unusual Reporting to the Authority for the Prohibition of Money Laundering and Terror Financing

On December 19, 2023, the Authority for the Prohibition of Money Laundering published highlights for effective unusual reporting. The purpose of the document is to share with the reporting entities the Authority for the Prohibition of Money Laundering and Terror Financing's perception of what constitutes a high-quality and effective unusual report and how the Authority uses the reported information, with the aim of improving the financial intelligence products based on the unusual reports, which constitute a critical component in the fight against crime and terrorism.

Memorandum of Law for the Encouragement of Capital Market Activity (Legislative Amendments), 2023

On January 1, 2024, the Memorandum of Law for the Encouragement of Capital Market Activity (Legislative Amendments), 2023 was published, which proposed an expansion of the use of commercial securities (CSs) to finance the operations of corporations; to expand the option to register for trading for dual listed companies on the stock exchange in Israel; to establish a platform for creating alternative mutual funds; and to increase the interest and activity in the stock market through general consulting activity.

Value Added Tax Ordinance (Tax Rate on NPOs and Financial Institutions) (Amendment), 2024

On March 11, 2024, the Knesset plenum approved the ordinance, according to which the rate of the salary and profit tax to be paid on a financial institution's activity in Israel will be raised from 17 percent to 18 percent as from January 1, 2025.

Value Added Tax Ordinance (Tax Rate on a Transaction and on Imports of Goods) (Amendment), 2024

On February 28, 2024, the Ordinance was published, according to which the VAT rate on a transaction and on imports of goods will be raised from 17 percent to 18 percent as from January 1, 2025.

Bill for a Special Payment for Achieving the Budgetary Targets (Temporary Order - Iron Swords), 2024

On March 4, 2024, the Knesset Finance Committee approved, towards a second a third reading (as part of the approval of the Balancing Plan Bill (Legislative Amendments for Obtaining the Budgetary Targets for the 2024 Budget Year), 2024), the Bill of Special Payment for Achieving the Budgetary Targets (Temporary Order - Iron Swords), 2024, according to which a bank whose scope of activity is not small (a bank whose assets are valued more than 5 percent of Israeli banks' total assets, hereinafter - a "**paying bank**") shall pay the government - for the period beginning on April 1, 2024 and ending on December 31, 2025 (hereinafter - the "**effective period**") - an annual payment equal to 6 percent of the profits generated for its activity in Israel (hereinafter - the "**annual payment amount**").

If the total annual payment of all the paying banks exceeds NIS 1.2 billion for 2024 or NIS 1.3 billion for 2025, paying banks will be refunded the difference between the annual payment amount of all the paying banks and the maximum amount for 2024 or 2025, as the case may be, multiplied by the relative share of the said paying bank from the total annual payment of all paying banks.

The Minister of Finance may issue, with the approval of the Knesset's Finance Committee, by October 31, 2024, an ordinance shortening the effective period until December 31, 2024, if he is made aware of a material change in Israel's expected economic conditions for 2025, compared with the economic conditions expected for that year prior to the passing of the law, including in the Bank of Israel's interest rate, inflation rate or rate of the unemployed out of the labor force), such that may materially compromise the banks' ability to generate profits in 2025.

In addition, the salary and profit tax payable by a bank for its activity in Israel in 2025 will be 17 percent (instead of 18 percent, unless the Minister of Finance promulgates such an ordinance).

Bill for Supervision of Financial Services (Pension Advice, Marketing and Clearing System) (Amendment No. 13), 2024

On February 12, 2024, a bill was published, under which it was proposed to enable a banking corporation or an entity providing pension advice thereunder, even by digital means, including through the banking corporation's website of mobile app. It is also proposed to enable calling customers in and following the provision of pension advice.

Taxation

Tax rate

The taxes applicable to banking corporations' profit include corporate tax levied pursuant to the Income Tax Ordinance and profit tax levied pursuant to the Value Added Tax Law. Set forth below is a table of the statutory tax rates applicable to banking corporations from 2018 onwards:

- Corporate tax rate - 23.00 percent.
- Profit tax rate - 17.00 percent.
- Total tax rate - 34.19 percent.

The deferred tax balances were calculated in accordance with the new tax rates applicable at the date of reversal.

For information regarding the expected legislative change in the tax rate, please see Note 36.E.

Credit Ratings

Credit ratings and outlook for the State of Israel and the Bank as at March 18, 2024:

	Rating agency	Long term	Outlook	Short term
State of Israel	Moody's	A2	Negative	P-2
	S&P	AA-	Negative	A-1+
	Fitch	A+	Negative	F1+
Bank Leumi: foreign currency	Moody's	A3	Negative	P-2
	S&P	A	Negative	A-1
	Fitch	A	Negative	F1+
	Fitch	A-	Negative	F1 (xgs)
Local rating (in Israel)	S&P Maalot	AAA	Stable	A-1+
	Midroog	Aaa	Stable	P-1

Following is the development of the Bank's credit rating and credit outlook from January 1, 2023 to March 18, 2024:

On February 1, 2023, credit rating agency Moody's reiterated the Bank's rating and rating outlook.

On May 2, 2023, the Fitch rating agency announced a change in the existing rating methodology for various banks around the world, including Israeli banks and Bank Leumi, in which, in addition to reiterating the existing rating, a rating was added that takes into account a scenario where there is not state support to cover the deposits by the public in a crisis.

On August 1, 2023, credit rating agency S&P reiterated the Bank's rating and rating outlook.

On August 2, 2023, credit rating agency S&P Maalot reiterated the Bank's rating and rating outlook.

On October 19, 2023, rating agency Fitch announced that, following the placement of the State of Israel's rating on a Ratings Watch Negative (RWN) list, it is placing the long-term (A) and short-term (F1+) ratings of the Bank (and that of other Israeli banks) on the RWN list.

On October 24, 2023, rating agency Moody's announced that, following the placement of the State of Israel's rating on the Ratings Watch Negative list, it is placing the ratings of the Bank (and of other Israeli banks) for long-term deposits (A2) and short-term deposits (P1) and the Bank's (and other Israeli banks') CRR rating (A1) on the Ratings Watch Negative list.

On October 31, 2023, rating agency S&P announced that following the downgrade of the State of Israel's outlook from stable to negative, S&P downgraded the outlook of the Bank and other Israeli banks to negative. In addition, S&P reiterated the Bank's long-term rating at A and its short-term rating at A-1.

On October 31, 2023, credit rating agency S&P Maalot reiterated the Bank's rating and rating outlook.

On October 31, 2023, credit rating agency Midroog reiterated the Bank's rating and rating outlook.

On December 14, 2023, the rating agency Fitch reiterated the Bank's long-term rating (Long-Term IDR) at A, reiterated the short-term rating (Short-Term IDR) at F1+ and reiterated the outlook on a Ratings Watch Negative (after presenting the rating of the State of Israel and other Israeli banks on the Ratings Watch Negative).

On February 13, 2024, rating agency Moody's announced that following the downgrading of the State of Israel's rating from A1 to A2 with a negative outlook, the agency was also downgrading the long-term deposits to A3 and the short-term - to P-2 of the Bank and other Israeli banks, as well as the CRR rating of the Bank and other Israeli banks to A2, with a negative outlook.

Main Operating Segments According to Management Approach - Additional Information

A. Management Approach – Retail Banking Segment

General

The retail banking segment is characterized by offering value propositions and financial services to households, small businesses and high net worth customers in Israel and worldwide (Private Banking). These offers and services are provided to customers according to their changing needs and preferences and in accordance with other relevant characteristics.

Segment's structure and characteristics

Branches:

Households and small businesses – extensive deployment of 187 branches, offices and service centers nationwide. At the branches, services to customers are rendered by dedicated teams of bankers according to customer segments. These teams handle all dealings related to customers and specialize in dealing with specific customer characteristics and needs.

Private Banking customers - In Israel, this segment is run through five unique Private Banking centers deployed nationwide – two in Tel Aviv, Jerusalem, Haifa and Herzliya Pituach. The centers serve Israeli and nonresident high-net-worth private customers; bank representatives in these centers are familiar with the customers' needs, preferences and areas of interest. Furthermore, the department has three designated branches for customers who hold investment portfolios ranging from NIS 3.5 million and NIS 8 million; these branches are located in Tel Aviv, Herzliya Pituach and Haifa.

Direct and digital channels:

The banking services provided on the Leumi website and app, at the banking centers, at the Leumi VIP centers, at the consulting centers, in the technological gateways and by way of other advanced solutions. In 2023, 85 percent of the customers performed transactions on digital channels, using either Leumi's website or the Leumi app.

A significant part of the retail credit in 2023 was provided automatically by models. Among other things, the segment works towards increasing the number of customers who use the remote services at the various centers and expanding the activity on the digital channels.

Banking app Pepper, which is a mobile-only bank account, enables its customers to better manage their money. using advanced technology and customized user experience.

Developments in the segment's markets and customer characteristics

The segment is affected by demographic and economic changes which have taken place in Israel, as well as by changes in private consumption and customers' savings habits.

The competition in the segment is intensifying. In recent years, there have been new entrants (financial and other entities) trying to muscle their way into the retail banking market; these new entrants mainly include credit card companies (operating in the field of consumer loans), insurance companies, retail chains and technology-based financial ventures. Some of the new entrants are entities which are not regulated by the Bank of Israel or by any other authority and which do not operate under the restrictions applicable to banks.

Services and products

Private loans: The Bank offers its customers various loan products which suit their needs at various stages of their lives. The leverage level of Israeli households is low compared with other developed countries. However, the scope of loans is on the rise and so is the risk.

The Bank's policy is to take steps to mitigate the credit risk by setting exposure ceilings in the loans portfolio. The loan portfolio is managed according to risk considerations and return versus risk considerations.

Customers

The Bank's services are adapted to meet the needs of various population groups comprising the segment.

B. Management Approach – Mortgage Segment

The Bank offers loans for the purchase of residential apartments or loans pledged by a residential apartment or another asset. The loans are granted both from the Bank's own funds and under state-backed government plans, through 90 units deployed in Leumi branches and in the digital space that operate in a super-regional space associated with the Mortgage Division.

In addition, Leumi offers - to customers of all banks interested in taking out a mortgage or recycling their mortgage, to hold a consultation meeting with a Leumi mortgage banker via Zoom, without having to arrive at a branch, in addition to a digital mortgage offered by the Bank, which enables customers to take a mortgage without arriving at Leumi's branches (even not for the purpose of signing the final mortgage documents).

C. Management Approach – Commercial Banking Segment

General

Commercial banking - specializes in the provision of the entire spectrum of financial services to middle-market business entities across all economic sectors. This segment sometimes includes interested parties of businesses in the sector, such as shareholders and senior officers.

Service and marketing to these companies are carried out on an individual basis, including financing transactions by means of credit instruments tailored to the customers' unique requirements, adapting investment products and financial instruments in order to hedge risks, financing international trade transactions and providing funding to start-up companies.

Segment's structure and characteristics

The Israeli activities of the segment are managed by the Commercial Banking Department and LeumiTech, which are part of the Corporate Division. The service is rendered by customer relations managers, who coordinate the Group's customer service; the operational services are provided by employees of the Operations Division, as well as through technological services, etc. The Commercial Banking Department's business model involves 12 business centers deployed across Israel, with the aim of providing the best, most efficient service to commercial customers. LeumiTech operates through the LeumiTech business center located in Herzliya.

Development in the segment's markets and its customers' characteristics

The segment's customers operate mainly in various economic sectors, such as manufacturing, infrastructure, high-tech, trade and services, real estate, etc., as well as in foreign markets.

Services and products

The Commercial Banking Department and LeumiTech has an extensive product offering designed for its different customers, including, among other things, financing of long-term investments, financing of foreign trade, financing of rental properties and construction loans, invoice discounting and factoring, financing of mergers and acquisitions, investment consulting and passive etc. LeumiTech offers technology company additional, dedicated credit products, including financing, venture lending and SAAS credit.

Customers

The customers of the Commercial Banking segment are mid-sized businesses from various economic sectors: commerce, industry, real estate, high-tech, etc. Furthermore, the segment also includes interested parties in these companies.

As a rule, customers with approved credit facilities of more than NIS 12.5 million and up to NIS 150 million (inclusive) and/or customers with approved credit facilities of up to NIS 250 million to fund income-generating properties or customers with turnovers of more than NIS 20 million and up to NIS 600 million are assigned to the Commercial Banking segment. In addition, the segment includes technology companies regardless of the extent of their credit facilities or business turnover.

D. Management Approach – Corporate Banking Segment

General

The Corporate banking segment specializes in providing banking and financial services to large corporations, some of which are multinationals. The services are based on providing an overall solution for the customer's needs, bearing in mind the whole spectrum of its businesses.

Segment's structure and characteristics

The Corporate banking segment is managed in Israel by the Corporate Department of the Corporate Division. The Corporate Department includes 3 business sectors: tourism, technology, defense and authorities, chemicals, consumption, finance, manufacturing, energy, transportation and infrastructure. Services are rendered by customer relations managers, who coordinate the Group's services vis a vis customers and specialize in the business sector in which the customer operates. The segment provides a comprehensive offering of banking services to all types of companies in the various sectors. Customers' accounts are managed mainly by the Operations Division and if relevant - by the Bank's foreign offices. Special/complex transactions, such as the acquisition of means of control, assessment of investment plans and project financing, international trade activity, financing of foreign or domestic debtors, syndicated loans, etc., are dealt with by designated units specializing in dealing with such transactions, due to the complexity and risk level involved.

Developments in the segment's markets and customer characteristics

The Corporate Banking Department manages the credit risks with due care while assessing the creditworthiness of customers on an ongoing basis, especially the creditworthiness of risk-sensitive customers; the department also assesses the impact of trends and developments on these customers.

Services and products

The services rendered include, among other things, ongoing financing according to the customers' needs, financing of investments to maintain and expand operations, provision of financing and international trade solutions (including financing with credit insurance or private insurance companies of projects abroad), financing of mergers and acquisitions, granting loans for extensive transactions carried out through syndicates in collaboration with the institutional entities and foreign and Israeli banks, financial instruments hedging foreign exchange risks, interest risks and fluctuations in commodities prices. The service also includes promotion of banking services to the companies, managers and companies' employees.

Customers

This segment's customers are mostly market leaders in their fields. Some of these companies are public, operating in various economic sectors and have complex and multi-tiered organizational structures comprising several management and control tiers.

Generally, customers with approved credit facilities of more than NIS 150 million or with a turnover of more than NIS 600 million are assigned to the Corporate Banking segment.

E. Management Approach – Real Estate Segment

General

The Real Estate Department specializes in providing banking and financial services to customers operating mainly in the fields of construction and real estate. Construction loans are granted using unique, industry-specific instruments and analysis tools and implementing a well-balanced policy. The projects are funded through construction loans and are closely monitored and supervised with an emphasis on meticulous review of each project.

Segment’s structure and characteristics

Leumi’s Real Estate segment in Israel is mostly managed by the Construction and Real Estate Department of the Corporate Division. The department provides a comprehensive offering of banking services to construction companies and large real estate developers and contractors in Israel; the department’s areas of expertise cover all aspects of real estate activities. Customers' accounts are managed by the Operations Division. Services are rendered by customer relations managers, who coordinate the Group’s services vis a vis customers and specialize in the business sector in which the customer operates.

Developments in the segment’s markets and customer characteristics

In the first nine months of 2023, economic activity in the local economy continued to grow, albeit at a slower pace relative to the strong recovery years from the coronavirus crisis (2021-2022). Among other things, this occurred against the backdrop of rising interest rates in Israel and around the world during 2022-2023 (the Bank of Israel interest rate in December 2023 is 4.75 percent compared to 0.1 percent until the beginning of 2022), the increasing economic-political uncertainty in Israel and in view of the slowdown in Israel’s high-tech export activity.

The Iron Swords War embodies a significant adverse effect on economic activity, and the severity of the impact will depend, inter alia, on the duration and extent to which further areas in Israel are directly affected by the War, the extent of harm to the population and the various components of the economic response. The damage to economic activity reflects adverse effects both on the supply side of the economy, and on the demand side. Among other things, on the supply side, the continued recruitment of workers to reserve duty, a sharp decrease in the availability of non-Israeli workers to the economy (with emphasis on the construction and agriculture sectors) and damage to the economic infrastructure near the borders. On the demand side, there was a substantial decline in consumer trust and business confidence, with a substantial adverse effect on the aggregate demand in the economy and a decrease in exports.

In the base scenario, according to which the war will continue at a high intensity until the beginning of 2024 and will continue to be concentrated mainly on the Gaza Strip front, a gradual recovery from the War’s damage is expected during 2024, although at a slower rate than the economy’s recovery from the coronavirus crisis. Under that scenario, the growth rate in 2024 is expected to be approx. 1.0 percent. The weak demand is expected to support the moderation of inflation back to the price stability target and to lead to several interest rate decreases by the Bank of Israel during 2024. These developments are also expected to significantly affect the local real estate market activity.

The Real Estate function manages the credit risks with due care while assessing the creditworthiness of customers on an ongoing basis, especially the creditworthiness of risk-sensitive customers; the department also assesses the impact of trends and developments on these customers.

In residential housing construction, just prior to the War, a certain slowdown in housing starts was evident along with a slow increase in housing completions, which is still relatively low relative to the current annual housing needs of the economy. The slowdown in starts is largely in response to the weakening demand in the market, against the backdrop of an inflationary environment and relatively high interest rates, and in view of the moderate decrease in apartment prices. The War led to a sharp decrease in apartment purchases in the market and in residential construction activity. The weakening demand is expected to lead to a continued decrease in apartment prices in the coming quarters. In the mid-term, on the other hand, there may be a renewed increase in prices in the setting of the expected gradual recovery of demand in the market and in view of the expectation of continued weakness in residential construction activity (particularly in view of the availability problem of non-Israeli workers), which may impact the future housing supply.

The commercial real estate market is significantly affected by developments in private consumption and households' preferences. In 2023 until the eve of the War, there was a slowdown in retail sectors, due to the deterioration in the macro environment (the damage from inflation and rising interest rates on the public's purchasing power, along with the increasing economic uncertainty and the weakening consumer sentiment), and continued expansion in the share of online commerce. The damage to consumer trust due to the War caused further damage to the activity of retail commerce sectors. The weakness in those sectors is expected to continue to burden the activity of the shopping centers and may even lead to a decrease in demand for commercial space during the upcoming year. Most of the adverse effect may be felt in large shopping centers, while neighborhood shopping centers may continue to fare well.

The office sector experienced a slowdown in demand since the second half of 2022 and into 2023, including a substantial decrease in rental prices in Tel Aviv. This slowdown in demand for office space is expected to continue in the coming year, along with the substantial deterioration of the macroeconomic environment, in light of the effects of the War on economic growth as well as the slowdown in the high-tech service industry. The slowdown in demand alongside an expected substantial growth in the supply of new office space (especially in the suburbs of Tel Aviv and in the Jerusalem area) are factors that are expected to lead to a decrease in prices and in occupancy rates in the upcoming year.

In 2023, real estate activity is expected to be affected by the following factors: the macroeconomic environment; regulatory changes - particularly those relating to the residential housing market; continued implementation of government programs - especially in the real estate domain; completion of construction projects; as well as the scope of the government's investments in national infrastructures.

Services and products

Construction and real estate projects are funded through industry-specific and unique monitoring and analysis tools, which support the decision-making process and the monitoring of loans extended to the various projects and properties. Funding is extended with the aim of diversifying the credit portfolio and distinguishing between the various segments – housing, income-generating properties - especially commercial and office space, and construction for industry and commerce. Generally, loans granted in the construction phase are extended by way of construction loans, which allow the Bank to closely monitor and supervise the relevant project.

Furthermore, as part of its activities in the Construction and Real Estate segment, the Bank funds real estate transactions abroad, providing credit, financing the initiation and development of real estate and hotel projects through the Bank's branch in England and capital raising carried out by the Bank through collaborations in the United States.

The financing of the business activity in the Bank's major service centers abroad contributes to the risk diversification through exposure to different macroeconomic environments and different customer characteristics. Therefore, the Bank's real estate financing mix is also comprised of transactions by the Bank's branch in England and capital raising carried out by the Bank through collaborations in the United States.

Customers

The segment's customers include large and mid-sized real estate development companies, executive and infrastructure contractors and selected business companies engaged in real estate development and contracting in the field of rental properties.

The information in this section constitutes forward-looking information. For the meaning of this term, please see the section entitled "Forward-Looking Information".

F. Management Approach – Capital Markets Segment

General

The financial management function of the Bank and the Group manages the trading room and provides various services to banks and institutional investors, including serving as an account manager on their behalf. Set forth below are the segment's main areas of activity:

- Management of the nostro portfolio by investing the Bank's own funds in marketable and non-marketable investment instruments and by management of direct investments in shares of marketable and non-marketable companies; non-financial investments are managed by Leumi Partners.
- Management of the trading room, which provides trading services to the Bank's customers, including market-making, primarily in currencies, securities and derivatives.
- Management of resources and liquidity sources and applications.
- Management of market risk exposures – including management of underlying exposures, interest and liquidity exposures.
- Price management – by setting transfer prices and pricing of special financial transactions.
- Management of banking activity of institutional customers and other corporations with extensive capital market activities.
- Development of financial instruments.

Segment's structure

Financial management is carried out by the Capital Markets Division, which coordinates the function at the Group level. The division manages the banking portfolio and the held-for-trading portfolio and provides services to customers with capital markets and financial markets activities, including institutional customers. The banking portfolio activity is managed by the Financial Management Department and includes the management of liquidity sources and applications, as well as of exposures to market and liquidity risks and the nostro portfolios. The trading activity is carried out by the trading room and nostro units in NIS and in foreign currency.

The main tools for managing the banking portfolio are transfer prices, trading activity in the available-for-sale and held-to-maturity nostro portfolios, and the use of derivatives.

The ALM Department's main areas of responsibility include managing the Bank's financial capital and market risk exposures, managing corporate and statutory liquidity and liquidity risk, as well as allocating liquidity sources to the various applications by implementing the transfer prices policy. This policy is determined according to the Bank's needs, planning and management of the mix of liquidity sources and applications as well as developments in the business environment and forecasts. As part of this activity, the Bank also sets the methodology for netting P&L centers and prices complex and special transactions.

The liquidity is managed on a regular basis in accordance with the Bank's policy and pursuant to the binding directives. Liquidity is also managed by a special-purpose unit, whose main function is optimal planning and management of liquidity balances, subject to the risk appetite, while ensuring a liquidity level that enables the Bank to carry out its business activity while meeting all of its financial obligations in a normal business environment as well as under extreme scenarios. The measurement, analysis, planning and reporting activities are carried out through the OneSumX risk management system, which provides extensive information on all of the Bank's financial activities and on the market and liquidity risks associated therewith. The system enables to assess and monitor the effect of various scenarios (price and quantity) on the Bank's financial profitability and capital.

For a description of the principal points of the securities investment (nostro) policy, please see the section entitled "Structure of, and Changes in, Assets, Liabilities, Capital, and Capital Adequacy", under "Securities".

Segment’s profit

The segment’s profit is mainly impacted by the nostro activity, the trading room activity, ALM management, management of customers’ accounts and accounts of other corporations with extensive capital market activities, as well as the results of non-financial associates. Set forth below are the main components of the net income:

- Results of market risks management, including changes in transfer prices. Income and expenses resulting from changes in transfer prices are carried in full to the financial segment, to which all of the market risks from the other operating segments are also transferred.
- Realized gains/losses of securities and from provisions for impairment of securities in respect of a decline which is not temporary in nature in the value of securities and unrealized gains/losses from adjustments of held-for-trading securities to market value.
- Adjustments of derivatives to market value.
- Effects of exchange rate differentials (foreign currency/NIS) and linkage differences (to the CPI), including adjustments from translation of foreign investments and the effect of the related tax effect.
- Income arising from market-making activities.
- Income/expenses arising from investment of pension, jubilee and regular leave reserves.
- Certain costs relating to pension liabilities, calculated on an actuarial basis.
- Profits of associates.

The segment’s operating expenses mainly include direct operating expenses, as well as overheads associated with management of market risks, the Bank’s own securities (nostro) portfolios and the trading room.

Services and products

The segment's activity mainly involves custodian services, brokerage, and marketable and non-marketable derivatives. In addition, the Bank provides operating services to provident funds, mutual funds and investment funds’ management companies.

Customers

The segment's customers include insurance companies, provident funds, study funds, pension funds, mutual funds, exchange-traded funds, commercial banks and investment banks, as well as other customers with extensive capital market activities.

Income and Expenditure Rates[a] and Analysis of Changes in Interest Income and Expenses

Part A - Average Balances and Interest Rates – Assets

	2023			2022			2021		
	Average balance[b]	Interest income	% of income	Average balance[b]	Interest income	% of income	Average balance[b]	Interest income	% of income
	In NIS million		In %	In NIS million		In %	In NIS million		In %
Interest-bearing assets									
Loans to the public[c]									
In Israel	**395,467**	**24,360**	**6.16**	350,329	14,842	4.24	289,306	9,658	3.34
Outside Israel	**7,483**	**594**	**7.94**	10,617	466	4.39	22,976	879	3.83
Total[i]	**402,950**	**24,954**	**6.19**	360,946	15,308	4.24	312,282	10,537	3.37
Loans to the government									
In Israel	**1,209**	**54**	**4.47**	1,160	46	3.97	843	26	3.08
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**1,209**	**54**	**4.47**	1,160	46	3.97	843	26	3.08
Deposits with banks									
In Israel	**15,072**	**613**	**4.07**	15,929	215	1.35	11,234	58	0.52
Outside Israel	**243**	**-**	**-**	185	-	-	184	-	-
Total	**15,315**	**613**	**4.00**	16,114	215	1.33	11,418	58	0.51
Deposits with central banks									
In Israel	**78,781**	**3,478**	**4.41**	132,593	1,693	1.28	118,717	119	0.10
Outside Israel	**39**	**2**	**5.13**	993	5	0.50	1,949	3	0.15
Total	**78,820**	**3,480**	**4.42**	133,586	1,698	1.27	120,666	122	0.10
Securities borrowed or purchased under reverse repurchase agreements									
In Israel	**2,839**	**127**	**4.47**	2,473	33	1.33	5,333	6	0.11
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**2,839**	**127**	**4.47**	2,473	33	1.33	5,333	6	0.11
Bonds held-to-maturity and available-for-sale[d]									
In Israel	**113,356**	**4,167**	**3.68**	79,347	1,411	1.78	71,080	784	1.10
Outside Israel	**-**	**-**	**-**	1,108	27	2.44	5,634	117	2.08
Total	**113,356**	**4,167**	**3.68**	80,455	1,438	1.79	76,714	901	1.17
Bonds - held-for-trading[d]									
In Israel	**7,276**	**260**	**3.57**	2,981	57	1.91	2,744	22	0.80
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**7,276**	**260**	**3.57**	2,981	57	1.91	2,744	22	0.80
Total interest-bearing assets	**621,765**	**33,655**	**5.41**	597,715	18,795	3.14	530,000	11,672	2.20
Non-interest-bearing receivables for credit cards	**6,188**			6,074			5,647		
Other non-interest-bearing assets[e]	**72,760**			65,432			52,079		
Total assets[k]	**700,713**	**33,655**		669,221	18,795		587,726	11,672	
Total interest-bearing assets attributed to foreign operations	**7,765**	**596**	**7.68**	12,903	498	3.86	30,743	999	3.25

Please see comments below.

Part B - Average Balances and Interest Rates - Liabilities and Equity

	2023			2022			2021		
	Average balance[b]	Interest expenses	% of expense	Average balance[b]	Interest expenses	% of expense	Average balance[b]	Interest expenses	% of expense
	In NIS million		In %	In NIS million		In %	In NIS million		In %
Interest-bearing liabilities									
Deposits by the public									
In Israel	**381,508**	**15,678**	**4.11**	279,202[l]	4,386	1.57[l]	221,711[l]	810	0.37[l]
Demand deposits	**117,020**	**4,376**	**3.74**	108,114[l]	1,254	1.16[l]	86,161[l]	15	0.02[l]
Fixed deposits	**264,488**	**11,302**	**4.27**	171,088	3,132	1.83	135,550	795	0.59
Outside Israel	**5**	**-**	**-**	3,191	18	0.56	12,382	37	0.30
Demand deposits	**5**	**-**	**-**	1,874	2	0.11	8,385	8	0.10
Fixed deposits	**-**	**-**	**-**	1,317	16	1.21	3,997	29	0.73
Total	**381,513**	**15,678**	**4.11**	282,393[l]	4,404	1.56[l]	234,093[l]	847	0.36[l]
Deposits by the Israeli Government									
In Israel	**225**	**2**	**0.89**	275	2	0.73	191	2	1.05
Outside Israel	**-**	**-**	**-**	-	-	-	9	-	-
Total	**225**	**2**	**0.89**	275	2	0.73	200	2	1.00
Deposits by central banks									
In Israel	**14,325**	**12**	**0.08**	16,953	11	0.06	14,362	10	0.07
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**14,325**	**12**	**0.08**	16,953	11	0.06	14,362	10	0.07
Deposits by banks									
In Israel	**6,001**	**105**	**1.75**	6,465	33	0.51	5,935	4	0.07
Outside Israel	**14**	**-**	**-**	39	-	-	137	-	-
Total	**6,015**	**105**	**1.75**	6,504	33	0.51	6,072	4	0.07
Securities loaned or sold under repurchase agreements									
In Israel	**10,627**	**630**	**5.93**	3,388	61	1.80	703	2	0.28
Outside Israel	**-**	**-**	**-**	-	-	-	253	-	-
Total	**10,627**	**630**	**5.93**	3,388	61	1.80	956	2	0.21
Bonds									
In Israel	**29,243**	**1,231**	**4.21**	23,165	1,073	4.63	13,707	461	3.36
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**29,243**	**1,231**	**4.21**	23,165	1,073	4.63	13,707	461	3.36
Total interest-bearing liabilities	**441,948**	**17,658**	**4.00**	332,678[l]	5,584	1.68[l]	269,390[l]	1,326	0.49[l]
Non-interest-bearing deposits by the public	**156,866**			252,103			244,767		
Non-interest-bearing payables for credit cards	**1,891**			1,694			2,510		
Other non-interest bearing liabilities[f]	**44,694**			35,665			31,958		
Total liabilities	**645,399**	**17,658**		622,140	5,584		548,625	1,326	
Total capital resources	**55,314**			47,081			39,101		
Total capital commitments and resources	**700,713**	**17,658**		669,221	5,584		587,726	1,326	
Interest rate spread		**15,997**	**1.41**		13,211	1.46[l]		10,346	1.71[l]
Net yield on interest-bearing assets[g][j]									
In Israel	**614,000**	**15,401**	**2.51**	584,812	12,731	2.18	499,257	9,384	1.88
Outside Israel	**7,765**	**596**	**7.68**	12,903	480	3.72	30,743	962	3.13
Total	**621,765**	**15,997**	**2.57**	597,715	13,211	2.21	530,000	10,346	1.95
Total interest-bearing liabilities attributed to foreign operations	**19**	**-**	**-**	3,230	18	0.56	12,781	37	0.29

Please see comments below.

Part C - Average Balances and Interest Rates - Additional Information on Interest-Bearing Assets and Liabilities Attributed to Activities in Israel

	2023			2022			2021		
	Average balance[b]	Interest income (ex-penses)	% of income (ex-pense)	Average balance[b]	Interest income (expenses)	% of income (expense)	Average balance[b]	Interest income (expenses)	% of income (ex-pense)
	In NIS million		In %	In NIS million		In %	In NIS million		In %
Non-linked NIS									
Total interest-bearing assets	**445,361**	**24,832**	**5.58**	434,967	12,186	2.80	368,295	6,954	1.89
Total interest-bearing liabilities	**296,619**	**(10,750)**	**(3.62)**	233,554[l]	(2,547)	(1.09)[l]	178,691[l]	(351)	(0.20)[l]
Interest rate spread			**1.96**			1.71[l]			1.69[l]
CPI-linked NIS									
Total interest-bearing assets	**62,458**	**3,593**	**5.75**	56,585	4,232	7.48	50,822	2,694	5.30
Total interest-bearing liabilities	**27,864**	**(1,135)**	**(4.07)**	23,756	(1,364)	(5.74)	18,130	(696)	(3.84)
Interest rate spread			**1.68**			1.74			1.46
Foreign currency (including foreign-currency linked NIS)									
Total interest-bearing assets	**106,181**	**4,634**	**4.36**	93,260	1,879	2.01	80,140	1,025	1.28
Total interest-bearing liabilities	**117,446**	**(5,773)**	**(4.92)**	72,138[l]	(1,655)	(2.29)[l]	59,788	(242)	(0.40)
Interest rate spread			**(0.56)**			(0.28)[l]			0.88
Total activity in Israel									
Total interest-bearing assets	**614,000**	**33,059**	**5.38**	584,812	18,297	3.13	499,257	10,673	2.14
Total interest-bearing liabilities	**441,929**	**(17,658)**	**(4.00)**	329,448[l]	(5,566)	(1.69)[l]	256,609[l]	(1,289)	(0.50)[l]
Interest rate spread			**1.38**			1.44[l]			1.64[l]

Please see comments below.

Part D - Analysis of Changes in Interest Income and Interest Expenses

	2023 vs. 2022			2022 vs. 2021		
	Increase (decrease) due to change[h]		Net change	Increase (decrease) due to change[h]		Net change
	Quantity	Price		Quantity	Price	
	In NIS million					
Interest-bearing assets						
Loans to the public						
In Israel	**2,780**	**6,738**	**9,518**	2,585	2,599	5,184
Outside Israel	**(249)**	**377**	**128**	(542)	129	(413)
Total	**2,531**	**7,115**	**9,646**	2,043	2,728	4,771
Other interest-bearing assets						
In Israel	**(635)**	**5,879**	**5,244**	361	2,079	2,440
Outside Israel	**(14)**	**(16)**	**(30)**	(77)	(11)	(88)
Total	**(649)**	**5,863**	**5,214**	284	2,068	2,352
Total interest income	**1,882**	**12,978**	**14,860**	2,327	4,796	7,123
Interest-bearing liabilities						
Deposits by the public						
In Israel	**4,204**	**7,088**	**11,292**	903	2,673	3,576
Outside Israel	**-**	**(18)**	**(18)**	(52)	33	(19)
Total	**4,204**	**7,070**	**11,274**	851	2,706	3,557
Other interest-bearing liabilities						
In Israel	**333**	**467**	**800**	360	341	701
Total	**333**	**467**	**800**	360	341	701
Total interest expenses	**4,537**	**7,537**	**12,074**	1,211	3,047	4,258
Total interest, net	**(2,655)**	**5,441**	**2,786**	1,116	1,749	2,865

Comments:

(a) The data in the above tables are stated after the effect of hedging derivatives.

(b) Based on monthly opening balances, except for the non-linked Israeli currency segment where the average balance is calculated according to daily inputs, and before deducting the average on-balance sheet loan loss provisions; foreign subsidiaries - based on quarterly opening balances.

(c) Before deducting the average balance of loan loss provisions. Including non-accrual impaired debts.

(d) The average balance of unrealized gains/losses from fair value adjustments of available-for-sale bonds were deducted/added from the average balance of held-for-trading bonds and available-for-sale bonds, as were gains/losses in respect of available-for-trading bonds included in shareholder's equity under accumulated other comprehensive income, in the adjustments in respect of presentation of available-for-sale securities at fair value item in respect of bonds transferred from the available-for-sale portfolio, in the amount of NIS (3,821) million (December 31, 2022 – NIS 1,666 million; December 31, 2021 - NIS 1,441 million).

(e) Including book balances of derivatives, other non-interest-bearing assets, non-monetary assets, and less loan loss provision.

(f) Including book balances of derivatives and non-monetary liabilities.

(g) Net yield – net interest income divided by total interest-bearing assets.

(h) The change attributed to the quantity change was calculated by multiplying the new price by the change in quantity. The change attributed to the change in price was calculated by multiplying the former quantity by the new price.

(i) Fees and commissions in the amount of NIS 393 million were included in interest income from loans to the public (December 31, 2022 - NIS 481 million; December 31, 2021 - NIS 526 million).

(j) Net yield on interest-bearing assets (NIM) for the fourth quarter of 2023 and 2022 was approx. 2.42 percent and approx. 2.44 percent, respectively.

(k) Total assets in the fourth quarter of 2023 and 2022 totaled NIS 711,831 million and NIS 700,298 million, respectively.

(l) Reclassified. During the first quarter of 2023, a change in classification was made between interest-bearing and non-interest-bearing deposits. For comparability reasons, the Bank made an immaterial adjustment to the comparative figures. The aforementioned had no effect on the Bank's profit and loss or equity. For additional information, please see Note 19.

Quarterly Consolidated Income Statement - Multi-Quarter Information

	For the year ended December 31							
				2023				2022
	4	3	2	1	4	3	2	1
	In NIS million							
Interest income	**8,662**	**8,758**	**8,663**	**7,572**	6,430	4,978	4,026	3,361
Interest expenses	**4,812**	**4,823**	**4,379**	**3,644**	2,657	1,564	901	462
Interest Income, Net	**3,850**	**3,935**	**4,284**	**3,928**	3,773	3,414	3,125	2,899
Loan loss expenses (income)	**668**	**991**	**318**	**406**	313	99	126	(40)
Interest income, net after loan loss expenses (income)	**3,182**	**2,944**	**3,966**	**3,522**	3,460	3,315	2,999	2,939
Noninterest income								
Noninterest finance income (expenses)	**336**	**435**	**483**	**25**	762	(56)	688	14
Fees and Commissions	**936**	**963**	**890**	**948**	861	872	872	930
Other income (expenses)	**25**	**3**	**39**	**98**	33	39	(3)	6
Total noninterest income	**1,297**	**1,401**	**1,412**	**1,071**	1,656	855	1,557	950
Operating and other expenses								
Salaries and related expenses	**872**	**852**	**915**	**845**	971	998	961	1,005
Buildings and equipment - maintenance and depreciation	**390**	**449**	**361**	**341**	355	323	315	364
Other expenses	**598**	**421**	**407**	**443**	403	350	365	425
Total operating and other expenses	**1,860**	**1,722**	**1,683**	**1,629**	1,729	1,671	1,641	1,794
Profit before taxes	**2,619**	**2,623**	**3,695**	**2,964**	3,387	2,499	2,915	2,095
Provision for profit tax	**869**	**866**	**1,364**	**889**	1,166	908	1,007	483
Profit after taxes	**1,750**	**1,757**	**2,331**	**2,075**	2,221	1,591	1,908	1,612
The Bank's share in associates' profits (losses), net after tax	**76**	**10**	**122**	**(1,094)**	105	191	84	7
Net income:								
Before attribution to owners of non-controlling interests	**1,826**	**1,767**	**2,453**	**981**	2,326	1,782	1,992	1,619
Attributable to non-controlling interests	**-**	**-**	**-**	**-**	-	-	-	(10)
Attributable to the Bank's shareholders	**1,826**	**1,767**	**2,453**	**981**	2,326	1,782	1,992	1,609
Basic and diluted earnings per share (in NIS):								
Basic and diluted earnings attributable to the Bank's shareholders	**1.20**	**1.15**	**1.59**	**0.64**	1.51	1.15	1.36	1.11

Loan loss expenses (income)

	For the year ended December 31							
				2023				2022
	4	3	2	1	4	3	2	1
	In NIS million							
Loan loss expense (income) - specific	**192**	**122**	**19**	**17**	(21)	(134)	(111)	(164)
Collective loan loss expense	**476**	**869**	**299**	**389**	334	233	237	124
Total loan loss expense (income)	**668**	**991**	**318**	**406**	313	99	126	(40)
Of which:								
Loan loss expenses (income) for credit risk for commercial credit risk	**365**	**722**	**112**	**351**	218	(21)	42	1
Loan loss expenses (income) for credit risk in respect of housing loans	**102**	**75**	**31**	**13**	58	47	14	(7)
Loan loss expenses (income) for other credit risk in respect of for private individuals	**204**	**197**	**174**	**74**	27	70	63	(48)
Loan loss expenses (income) for credit risk for banks, governments and bonds	**(3)**	**(3)**	**1**	**(32)**	10	3	7	14
Total loan loss expense (income)	**668**	**991**	**318**	**406**	313	99	126	(40)
Ratios (in %):[a]								
Percentage of the specific loan loss expense (income) out of the average outstanding loans to the public	**0.18**	**0.12**	**0.02**	**0.02**	(0.02)	(0.14)	(0.12)	(0.18)
Percentage of loan loss expense (income) out of the average outstanding loans to the public	**0.63**	**0.95**	**0.31**	**0.41**	0.32	0.11	0.14	(0.04)
Percentage of net write-offs for loans to the public out of the average outstanding loans to the public	**0.12**	**0.17**	**0.14**	**0.08**	0.18	0.03	0.07	-[b]
Percentage of net write-offs for loans to the public out of the outstanding loan loss provision for loans to the public	**7.44**	**11.20**	**10.58**	**6.24**	13.80	2.29	5.07	0.16

(a) Annualized.
(b) Rate of less than 0.01 percent.

Noninterest income

	For the year ended December 31							
				2023				2022
	4	3	2	1	4	3	2	1
	In NIS million							
Noninterest finance income (expenses)	**336**	**435**	**483**	**25**	**762**	(56)	688	14
Fees and Commissions	**936**	**963**	**890**	**948**	**861**	872	872	930
Other income (expenses)	**25**	**3**	**39**	**98**	**33**	39	(3)	6
Total	**1,297**	**1,401**	**1,412**	**1,071**	**1,656**	855	1,557	950

Fees and Commissions

	For the year ended December 31							
	2023				2022			
	4	3	2	1	4	3	2	1
	In NIS million							
Account management	**147**	**158**	**152**	**159**	167	159	163	162
Credit cards	**76**	**105**	**104**	**98**	94	102	94	94
Activity in securities and certain derivatives	**151**	**149**	**136**	**155**	147	157	161	199
Financial products distribution fees and commissions	**46**	**47**	**45**	**46**	49	50	52	60
Management, operating and trust services provided to institutional entities	**25**	**25**	**25**	**24**	25	23	25	24
Credit handling	**51**	**65**	**59**	**73**	46	49	53	63
Exchange rate differentials	**116**	**124**	**118**	**143**	111	124	122	120
Foreign trade activity	**39**	**40**	**38**	**43**	35	33	31	32
Net income from loan portfolio servicing	**2**	**1**	**1**	**1**	1	1	2	1
Management fees and commissions on life and home insurance	**10**	**10**	**11**	**10**	12	11	11	12
Financing fees and commissions	**248**	**211**	**173**	**169**	148	137	132	134
Other fees and commissions	**25**	**28**	**28**	**27**	26	26	26	29
Total fees and commissions	**936**	**963**	**890**	**948**	861	872	872	930

Salary Expenses

	For the year ended December 31							
	2023				2022			
	4	3	2	1	4	3	2	1
	In NIS million							
Salaries and related expenses	781	766	831	754	882	918	882	920
Pension, severance pay and retirement expenses	91	86	84	91	89	80	79	85
Total salary expenses	872	852	915	845	971	998	961	1,005

Consolidated Balance Sheet as of End of Quarter - Multi-Quarter Information

	December 31							
				2023				2022
	4	3	2	1	4	3	2	1
	In NIS million							
Assets								
Cash and deposits with banks	105,476	101,311	116,678	134,381	186,569	183,625	171,948	164,974
Securities:								
Held-to-maturity bonds	15,406	15,834	15,054	14,790	14,528	14,528	14,030	9,710
Available-for-sale bonds	126,137	103,740	91,303	76,284	61,809	57,500	66,074	78,149
Equity securities not held for trading	4,828	4,684	4,360	4,367	4,353	4,414	4,385	4,191
Held-for-trading securities	13,677	7,121	7,323	3,933	2,260	3,230	2,679	2,310
Total securities	160,048	131,379	118,040	99,374	82,950	79,672	87,168	94,360
Securities borrowed or purchased under reverse repurchase agreements	3,053	2,930	1,278	3,282	3,034	1,345	2,006	2,882
Loans to the public	426,203	423,477	415,047	409,136	389,768	387,919	369,811	354,578
Loan loss provision	(6,717)	(6,216)	(5,482)	(5,319)	(4,986)	(4,896)	(4,887)	(4,803)
Loans to the public, net	419,486	417,261	409,565	403,817	384,782	383,023	364,924	349,775
Loans to governments	1,806	1,356	1,194	1,123	1,109	1,272	1,314	1,153
Investment in associates	4,014	4,078	3,976	3,786	4,947	4,867	4,438	1,027
Buildings and equipment	2,874	2,795	2,792	2,767	2,735	2,698	2,678	2,640
Assets for derivatives	27,410	32,615	26,173	26,959	26,638	41,359	26,972	19,997
Other assets	7,330	7,036	7,161	6,988	6,402	6,256	6,232	6,727
Held-for-sale assets	-	-	-	-	-	-	-	25,896
Total assets	731,497	700,761	686,857	682,477	699,166	704,117	667,680	669,431
Liabilities and equity								
Deposits by the public	567,824	544,519	533,977	532,906	557,084	546,706	532,737	516,711
Deposits by banks	20,776	16,068	19,793	24,042	22,306	25,427	23,701	26,482
Deposits by Governments	160	213	190	383	247	275	332	316
Securities loaned or sold under repurchase agreements	13,776	16,853	11,007	4,739	3,952	5,632	2,862	2,055
Bonds, promissory notes and subordinated notes	32,114	27,569	31,585	28,288	27,805	27,613	23,678	21,459
Liabilities for derivatives	26,636	28,503	23,107	25,601	23,311	37,308	23,954	20,445
Other liabilities	15,709	14,513	15,422	16,722	15,018	13,107	13,351	15,797
Held for sale liabilities	-	-	-	-	-	-	-	23,305
Total liabilities	676,995	648,238	635,081	632,681	649,723	656,068	620,615	626,570
Equity attributable to the Bank's shareholders	54,497	52,518	51,771	49,791	49,438	48,044	47,060	42,433
Non-controlling interests	5	5	5	5	5	5	5	428
Total equity	54,502	52,523	51,776	49,796	49,443	48,049	47,065	42,861
Total liabilities and equity	731,497	700,761	686,857	682,477	699,166	704,117	667,680	669,431

Consolidated Income Statement for 2019-2023 - Multi-Year Information

	2023	2022	2021	2020	2019
	In NIS million				
Interest income	**33,655**	18,795	11,672	10,175	11,437
Interest expenses	**17,658**	5,584	1,326	1,452	2,596
Interest Income, Net	**15,997**	13,211	10,346	8,723	8,841
Loan loss expenses (income)	**2,383**	498	(812)	2,552	609
Interest income, net after loan loss expenses (income)	**13,614**	12,713	11,158	6,171	8,232
Noninterest income					
Noninterest finance income	**1,279**	1,408	1,714	1,026	1,686
Fees and Commissions	**3,737**	3,535	3,506	3,281	3,225
Other income	**165**	75	291	59	170
Total noninterest income	**5,181**	5,018	5,511	4,366	5,081
Operating and other expenses					
Salaries and related expenses	**3,484**	3,935	4,242	3,742	4,325
Buildings and equipment - maintenance and depreciation	**1,541**	1,357	1,535	1,602	1,580
Other expenses	**1,869**	1,543	1,651	1,702	2,003
Total operating and other expenses	**6,894**	6,835	7,428	7,046	7,908
Profit before taxes	**11,901**	10,896	9,241	3,491	5,405
Provision for profit tax	**3,988**	3,564	3,275	1,356	1,830
Profit after taxes	**7,913**	7,332	5,966	2,135	3,575
The banking corporation's share in associates' (losses) profits after tax effect	**(886)**	387	101	(13)	(15)
Net income					
Before attribution to owners of non-controlling interests	**7,027**	7,719	6,067	2,122	3,560
Attributable to non-controlling interests	**-**	(10)	(39)	(20)	(38)
Attributable to the Bank's shareholders	**7,027**	7,709	6,028	2,102	3,522
Basic and diluted earnings per share (in NIS):					
Basic earnings attributable to the Bank's shareholders	**4.58**	5.14	4.15	1.44	2.37
Diluted net income attributable to the Bank's shareholders	**4.58**	5.14	4.15	1.44	2.37

Consolidated Balance Sheet as at December 31 - Multi-Year Information

	2023	2022	2021	2020	2019
	In NIS million				
Assets					
Cash and deposits with banks	**105,476**	186,569	197,402	136,194	76,213
Securities:					
Held-to-maturity bonds	**15,406**	14,528	8,031	7,002	5,445
Available-for-sale bonds	**126,137**	61,809	71,430	76,927	72,268
Equity securities not held for trading	**4,828**	4,353	4,344	4,335	3,712
Held-for-trading securities	**13,677**	2,260	3,122	4,033	3,524
Total securities	**160,048**	82,950	86,927	92,297	84,949
Securities borrowed or purchased under reverse repurchase agreements	**3,053**	3,034	2,447	3,019	1,117
Loans to the public	**426,203**	389,768	347,391	300,631	285,806
Loan loss provision	**(6,717)**	(4,986)	(4,512)	(5,290)	(3,328)
Loans to the public, net	**419,486**	384,782	342,879	295,341	282,478
Loans to governments	**1,806**	1,109	940	632	744
Investment in associates	**4,014**	4,947	1,113	795	765
Buildings and equipment	**2,874**	2,735	2,720	2,932	3,043
Goodwill	**-**	-	14	15	16
Assets for derivatives	**27,410**	26,638	14,027	15,252	10,970
Other assets	**7,330**	6,402	7,985	9,558	8,486
Total assets	**731,497**	699,166	656,454	556,035	468,781
Liabilities and equity					
Deposits by the public	**567,824**	557,084	537,269	447,031	373,644
Deposits by banks	**20,776**	22,306	25,370	15,143	6,176
Deposits by Governments	**160**	247	300	208	315
Securities loaned or sold under repurchase agreements	**13,776**	3,952	2,282	605	123
Bonds, promissory notes and subordinated notes	**32,114**	27,805	15,428	16,303	19,958
Liabilities for derivatives	**26,636**	23,311	15,551	17,315	11,528
Other liabilities	**15,709**	15,018	18,202	21,335	21,163
Total liabilities	**676,995**	649,723	614,402	517,940	432,907
Non-controlling interests	**5**	5	442	431	468
Equity attributable to the Bank's shareholders	**54,497**	49,438	41,610	37,664	35,406
Total equity	**54,502**	49,443	42,052	38,095	35,874
Total liabilities and equity	**731,497**	699,166	656,454	556,035	468,781

Glossary of Terms

Term	Definition
A	
Actuarial Calculation	Any calculation that reflects uncertainties, i.e., is risk-adjusted. For example, an Actuarial Calculation reflects past experience and management's estimates as to the expected retirement dates of a bank's employees and the expected retirement benefits which are allocated on a linear basis over the expected service period.
Active Market	A market in which transactions in an asset or liability exist at a sufficient frequency and volume to provide information about pricing on an ongoing basis.
Actuarial Gain/Loss	Mostly reflects adjustments in respect of actuarial estimates, as at the end of the year, of defined benefit pension plans and a deduction of amounts previously recorded in other comprehensive income.
Asset and Liability Management (ALM)	Management of the Bank's assets and liabilities with the aim of avoiding a mismatch between the two and, in the long-term, increasing the Bank's capital for the benefit of its shareholders.
Asset-Backed Securities (ABSs)	A security whose interest and principal payments are collateralized or pledged by a specific financial asset.
Auxiliary Corporation	A corporation which is not in itself a bank and whose activities are limited to the fields of activity permitted to the bank controlling it, except activities reserved exclusively for corporations defined as banks under law.
Average Duration (AD)	Average duration is measured in years and weights the periodic interest payments of the financial instrument over its life until final redemption.
B	
Balanced Score Card (BSC)	A performance metric used for measuring the performance of the Bank and its business lines on a number of quantitative and qualitative issues defined by Bank's management in its strategic plan.
Basel II/Basel III	Banks' risk management directives set by the Basel Committee on Banking Supervision (BCBS), which is the primary supervision and global standard setter for prudential regulation and supervision of banks. The BCBS's directives serve as the benchmark for leading standards designed to ensure the stability of financial institutions.
Basic Earnings per Share	Basic earnings per share will be calculated by dividing the profit or loss attributed to holders of the parent company's ordinary shares (the numerator) by the weighted average number of ordinary shares outstanding during the period (the denominator).
Basis Point (BP)	1/100th of 1 percent; BP is used as a common unit of measure for interest rates.

Basis Risks	Basis Risk is the potential loss as a result of changes in the consumer price index and exchange rates due to the difference between the value of assets and the value of liabilities, including the impact of future transactions in each of the linkage bases.
Benchmark Interest Rate	Interest determined on an external objective basis according to a pre-set formula, i.e., the bank plays no direct role in setting it.
Bid-Ask Spread	The difference between the offered purchase price and selling price. This is, in fact, the difference between the highest price a buyer is willing to pay for an asset and the lowest price in which a seller is willing to sell it.
Build Operate Transfer (BOT)	A model used to finance public projects whereby a public entity grants a concession to a private company to finance, plan, build and operate a public facility for a fixed period of time, at the end of which control of the facility is transferred to the government.
C	
Capital Adequacy Ratio	The ratio between the Bank's qualifying Regulatory Capital and its risk-weighted assets (the Bank's assets weighted to reflect credit, market and operational risks), calculated in accordance with the Bank of Israel's directives and to reflect the risk associated with exposures undertaken by the Bank during the course of its activities.
Collateralized Debt Obligation (CDO)	A bond backed by a portfolio of bonds and/or loans of various seniority levels and ratings.
Collateralized Loan Obligation (CLO)	A bond backed by a loans portfolio.
Collective Provision	A Collective Provision for Loan losses is applied to large groups of relatively small and homogeneous debts and to debts that were reviewed specifically and were found to be non-performing. The Collective Provision in respect of the off-balance sheet instruments is based on provision rates that were set for on-balance sheet loans, while taking into account the Bank's estimates regarding the probability of utilizing the various off-balance-sheet items..
Common Equity Tier 1 Capital	Going Concern Capital Common Equity Tier 1 (CET1) Capital includes the equity attributed to a bank's shareholders, with the addition of some of the non-controlling interests (minority interests) of consolidated subsidiaries less goodwill, other intangible assets and regulatory adjustments and additional deductions, pursuant to Proper Conduct of Banking Business Directive No. 202, "Measurement and Capital Adequacy – Regulatory Capital" and pursuant to the transitional provisions of Proper Conduct of Banking Business Directive No. 299, "Measurement and Capital Adequacy – Regulatory Capital – Transitional Provisions".

Conduct Risk	Conduct Risk is the risk that any dealings with Bank's customers which are not fair, transparent and aimed to meet their needs will lead to losses due to legal damages, fines or reputational damage.
Committee Of Sponsoring Organizations of the Treadway Commission (COSO)	A structured internal controls model. The model is intended to assist businesses and other entities to assess, estimate and enhance their internal control functions.
Cost of Interest	The interest component allocated to a current year and classified into payroll expenses.
Cost of Service	All components of employee benefits costs allocated to a specific period.
Credit Default Swap (CDS)	A financial instrument that transfers the credit exposure between parties to a transaction to the issuing entity.
Credit Derivative	A contract that transfers the credit risk from a buyer to a seller. There are various forms of Credit Derivatives: Credit Default Swap (CDS), a note for partial cover of credit risk, Total Return Swap (TRS), etc..
Credit Valuation Adjustment (CVA)	The calculation of credit risk in derivatives reflects the expected loss to the bank in case the counterparty to the transaction will default.
Credit Risk	Credit risk is the Bank's risk of loss as a result of the possibility that a borrower or counterparty fails to meet its agreed commitments towards the bank.
Cross Border Activity	A term referring to various cross-border financing arrangements, such as cross border loans, letters of credit or bankers' acceptances.
Current Expected Credit Losses (CECL)	A model for expected credit losses.
Cyber Event	An event during which the Bank's IT and/or computer-embedded systems and infrastructures are attacked by, or on behalf of, opponents (whether external or internal to the bank) and such attack may result in the materialization of the cyber risk, including an attempted attack even if it did not result in actual damage.
D	
Defined Benefit Plan	Fixed and predetermined pension or insurance amounts which are paid to eligible employees, whether or not they depend on the investment results of the pension fund or insurer.

Delinquent Debt	The delinquency (arrears) status of a debt is determined according to its contractual repayment terms. The debt is in arrears if some or all of the debt amount has not been repaid within 30 days of its due date. For this purpose, a debt in a current account in excess of the authorized credit facility will be regarded as being in arrears if not repaid within 30 days, or if that account is not credited with sums sufficient to cover the debt under the credit facility within the period determined by the Bank's management.
Diluted Earnings Per Share	Dividing the profit or loss attributed to holders of the parent company by the weighted average number of ordinary shares outstanding, to assume conversion of all potentially dilutive ordinary shares.
Dodd Frank Wall Street Reform and Consumer Protection Act (DFA)	The DFA is a U.S. federal law which came into force on July 28 2019. The DFA sets in motion a comprehensive financial reform which has various implications for the Leumi Group, the principal of which is associated with transactions involving over-the-counter derivative swaps.
E	
Embedded Derivatives	Embedded Derivatives are derivative instruments which are embedded into other financial contracts and instruments or into commercial contracts for the purchase or sale of products and services (these contracts are known as host contracts). The accounting treatment is applied according to the economic substance of the items and transactions, rather than according to their legal form; therefore, embedded derivatives whose economic characteristics are not clearly and closely related to those of the host contract are bifurcated therefrom for the purpose of measurement in the Bank's books of accounts.
European Market Infrastructure Regulation (EMIR)	A regulation of the European Union which is intended to enhance the stability of over-the-counter markets in all EU countries.
Exposure at Default (EAD)	The expected amount of counterparty exposure in case of credit default.
F	
Fair Value	The amount for which an asset can be exchanged or a liability assumed in a transaction between knowledgeable, willing parties. This value is determined according to the fair value hierarchy set in accounting standards: • Level 1 – Value based on quoted market prices; • Level 2 – Estimated value based on observable inputs; • Level 3 – Estimated value determined by using valuation techniques that include unobservable inputs.

Fannie Mae (FNMA)	A U.S. government-sponsored enterprise which purchases and securitizes mortgages and sells them on the free market. (The company is not backed by the U.S. government).
Federal Deposit Insurance Corporation (FDIC)	An independent federal agency insuring deposits in U.S. banks; FDIC is one of the U.S.'s banking supervisory bodies.
Foreign Accounts Tax Compliance Act (FATCA)	A U.S. tax law intended to improve tax enforcement. Pursuant to FATCA, non-U.S. financial entities must disclose to the U.S. Internal Revenue Service information about accounts held by them for anyone who is required to report under FATCA, even if he/she is not a U.S. resident.
Forwards	Forwards are contracts between two parties for the sale of a specified quantity of an asset at a particular price on a stipulated future date (the settlement date). Such contracts are binding on both parties to the agreement. Forwards are not standard contracts and are not traded on capital markets, but are drawn up specifically according to the parties' needs.
Freddie Mac (FHLMC)	FHLMC is a U.S. government-sponsored agency that purchases and securitizes mortgages and sells them to the public. (The company is not backed by the U.S. government).
Futures	Futures are contracts between two parties for the sale of a specified quantity of an asset at a particular price on a stipulated future date (the settlement date). Such contracts are binding on both parties to the agreement. Futures are standard contracts traded on capital markets.
G	
Ginnie Mae (GNMA)	A federal mortgage company. The bonds issued by GNMA are backed by the Government National Mortgage Association.
I	
Indebtedness	The Bank's loan exposures to a borrower or group of borrowers, including loans under the bank's responsibility, the bank's investments in the borrower's securities, commitments of the bank to pay money on a customer's behalf (including guarantees and Documentary Credit) and transactions in over the counter (OTC) derivatives. Indebtedness is calculated according to the provisions of Proper Conduct of Banking Business Directive No. 313 of the Banking Supervision Department.
Interest Rate Risk	The risk of loss or impairment as a result of changes in interest rates across various currencies.

Internal Capital Adequacy Assessment Process (ICAAP)	The capital adequacy assessment process is aimed at calculating the capital required to support the various risks to which the Group is exposed in order to ensure that the Group's effective capital exceeds the capital requirements at any time.
Internal Rate of Return (IRR)	A measure used to estimate the profitability of potential investments. This metric is an indicator of the efficiency and quality of a specific investment in relation to the net present value, which is an indicator of the value and size of the investment. The Internal Rate of Return is the interest rate that discounts the expected cash flow from a financial instrument to its balance in the Bank's balance sheet.
L	
Leverage Ratio	Defined as the measured capital (the numerator) divided by the measured exposure (the denominator), with the ratio expressed as a percentage.
Linkage Base and Exchange Rate Exposure	The exposure to the basis risk is the potential loss as a result of changes in the consumer price index and exchange rates due to the difference between the value of assets and the value of liabilities, including the impact of future transactions in each of the linkage bases. The exposure to basis risks is measured as a percentage of the Group's exposed capital. At the Bank level, the exposed capital includes common equity and certain provisions, net of property, plant and equipment and investments in investees.
Liquidity Coverage Ratio	Liquidity Coverage Ratio examines a time-horizon of 30 days under a stress scenario, and is intended to ensure that a bank has an inventory of high-quality liquid assets that is able to cover the corporation's liquidity requirements in this time horizon.
Liquidity Risk	Liquidity Risk is the risk arising from uncertainty regarding the possibility of raising resources and/or disposing of assets, unexpectedly and within a very short time, without incurring a substantial loss.
Loan-to-Value (LTV) Ratio	The ratio of a bank loan to the value of a purchased asset. LTV reflects one aspect of the loan risk; a higher LTV reflects a higher risk to the lending bank.
Loss Given Default (LGD)	This is the percentage out of a borrower's total Exposure at Default (EAD), which the Bank is expected to lose on default.
M	
Market Risks	Market Risk is defined as the risk of loss in balance sheet and off-balance sheet positions as a result of a change in the fair value of a financial instrument due to change in market conditions (i.e., changes in: price levels in various markets; interest rate volatility; foreign exchange rates; inflation rates; share and commodity prices, as well as in other economic measures).

Mortgage-Backed Securities (MBS)	Bonds which are backed by financial assets, the principal and interest payments of which are based on a cash flow from repayment of loans collateralized by financial assets. The collateral assets may be pools of loans, including housing mortgages or other financial assets.
N	Impaired non-accruing loans.
Net Interest Margin (NIM)	Ratio between net interest income and the average balance of interest-bearing assets.
Net Stable Funding Ratio (NSFR)	The purpose of NSFR is to improve the long-term liquidity ratio profile of banking corporations by requiring them to maintain a stable funding ratio according to the composition of their assets and off-balance-sheet activities. The ratio limits banking corporations' over-relyance on wholesale short-term financing. Measurement - both for consolidated and separate reporting purposes - is made each quarter and the requirement is to comply with a 100 percent rate.
Non-Performing Credit	On-balance sheet credit that is assessed on a case by case basis and which - based on present circumstances and information - it is probable that the Bank will be unable to collect the full amounts payable (principal plus interest) under the contractual terms of the debt agreement. A debt which is assessed on a case by case basis shall be classified as non-performing whenever the principal or interest has been past due for a period of 90 consecutive days or more, unless it is both well secured and in the process of collection. Off-balance sheet credit is classified as non-performing if it is at least reasonably possible that the contingent liability in respect of the off-balance sheet item will materialize, and if the debts that may result from the materialization of the contingent liability should be classified into this category. Furthermore, a non-performing debt which is assessed on a specific basis and whose terms were changed due to restructuring of a troubled debt will also be considered as non-performing loans.
Non-Performing Loan (NPL)	Non-accrual troubled debt.
O	
OECD	An international organization whose members are developed countries that accept the principles of liberal democracy and free market. The organization is a platform for discussing policy, benchmarking, identifying solutions to difficulties and drawing up codes, guiding principles and shared standards for the implementation of domestic economic and social policies. Each member state can make a significant contribution to the organization’s policy and development of shared policies.

Off-Balance Sheet Exposures	These exposures arise from the Bank's undertakings to its borrowers that have not yet been realized/utilized by the borrowers as of the reporting date and therefore have not yet been recorded as a balance sheet asset or liability. Such exposures include, among other things: • Unutilized undertakings to extend loans; • Unutilized credit facilities; • Undertakings pursuant to guarantee agreements; • Undertakings pursuant to an approval in principle where the Bank is committed to maintain the interest rate over a certain period, • and more.
On-call Credit	Loan granted for several days and repaid on call, in accordance with the conditions of the agreement between the Bank and the customer.
Operational Risk	Operational Risk is the risk of loss as a result of inadequate, or failure of, internal processes, people and systems, or external events. This definition includes legal risk, but does not include strategic risk and reputational risk.
Option Contract/Option	There are two types of Option Contracts: an option to buy (call option) or an option to sell (put option). A call option is the right to buy a specified asset at an agreed price (strike price) up to (American-style option) or on (European-style option) a stipulated date. A put option is the right to sell a specified asset at an agreed price (strike price) up to (American-style option) or at (European-style option) a stipulated date.
P	
Performance Stock Units (PSU)	Performance Stock Unit awards are restricted shares and depend on the bank's future performance.
Pillar 1	The allocation of minimum capital against credit, market and operational risks, using a method that correlates the scope of exposure to the various risks and Regulatory Capital requirement. The Pillar 1 Directives set by BCBS were adopted as part of Proper Conduct of Banking Business Directives No. 201 to No. 209; these directives set a supervisory method for calculation of risk-weighted assets and calculation of the capital requirements in respect of such risk-weighted assets.

Private Individuals	Persons who are not corporations (whether registered or non-registered) and who are not engaged in business activity. According to the directives of the Bank of Israel, private persons are defined such that this category includes non-business loans to individuals who are classified into the private individuals sector according to uniform definitions of the Central Bureau of Statistics including households and private banking.
Probability of Default (PD) (Within one year of the rating date in a given period)	A financial term describing the likelihood of borrower default within a given period of time from the date on which rating is issued. It provides an estimate of the likelihood that a borrower will be unable to meet its contractual debt obligations.
R	
Regulatory Capital	Capital used to calculate the Bank's capital adequacy ratio and other regulatory ratios (such as: leverage ratio, credit concentration and more). Accounting capital components and other qualifying Regulatory Capital instruments (such as subordinated notes that qualify as Regulatory Capital).
Repurchase Agreement or Reverse Repurchase Agreement	These repo agreements are agreements for the purchase or sale of securities in consideration for cash or securities; when entering into these agreements, the seller and the buyer agree to enter into a reverse transaction at a predetermined date and price.
Reputational Risk	The risk that the publication or public disclosure of a customer-related transaction or practice, as well as the Group's business results and events relating thereto will have an adverse effect on the public's trust in the Group or reduce its customer base or that the Group will incur high legal costs or that its revenues will decline.
Residual Risk	Residual Risk is the risk of loss remaining after all other specific risks have been factored in. For example: when a person purchases an asset, he is exposed to various risks. Many of these risks are not unique to the purchased asset, but rather reflect broader scenarios, such as increase or decrease in share prices, increase or decrease in interest rates or change in growth rate of a specific economy or industry. The exposure to this risk can be reduced by diversification.
Restricted Share Units (RSUs)	An ordinary share whose issuance terms restrict its tradability over a certain period or until the occurrence of a certain event where the period has not yet elapsed and/or the event has not yet occurred.
Restructuring of Troubled Debt	A debt, for which the Bank, whether for economic or legal reasons related to financial difficulties of the borrower, grants the borrower a waiver by changing the terms of the debt, in order to enable the borrower to repay the cash payments in the short term or by accepting other assets as debt repayment.

Return on Equity	Net income less dividend for preferred shares which was not recorded as an expense in profit or loss and was declared in the reported period only, divided by the average common equity.
Rate of Return on Equity (ROE)	The ratio between a business's return (net income) and its common equity. This rate measures the Bank's ability to generate profit from its net assets and illustrates how efficiently the Bank operates to utilize further investments in order to increase its revenues. Return on Equity in banks is reflected in the following ratios: • Net income attributed to bank's shareholders net of dividend distributed in respect of preferred shares which was not recorded as an expense in profit or loss and was declared during the reporting period, divided by the average common equity; • Net income attributed to bank's shareholders net of dividend distributed to preferred shares which was not recorded as an expense in the income statement and was declared during the reporting period, divided by the average common equity net of average balance of preferred shares that were included in common equity.
Return on Risk-Adjusted Capital (RORAC)	A Rate of Return measure used to compare returns on various investments taking into account the risk. Actual return is adjusted by measuring the asset's exposure to risk and curtails the return on higher-risk assets. The method's effectiveness depends on the accuracy of the risk associated with different assets and on the extent to which the "sanction" imposed on higher-risk assets does, indeed, reflect each investor's risk aversion. Risk assessment of new types of assets, such as financial derivatives, involves high levels of uncertainty due to the actual behavior of their prices.
Risk-Weighted Assets (RWA) or Risk Assets	Risk-Weighted Assets reflect balance sheet and off-balance sheet exposures arising from the Bank's activities and weighted by their level of credit, market and operational risk according to Proper Conduct of Banking Business Directives No. 203 to No. 209. Such Risk Assets are designed to reflect the weighted risk in respect of which the Bank is required to comply with the Regulatory Capital Requirement as part of the Capital Adequacy requirements.
S	
Securitization	A process whereby bank loans and credit are pooled to create a long-term loan through bonds.

Securitization Structures	Structures created in order to transfer cash flows from other instruments or assets to bondholders, for which a Special-Purpose Entity (SPE) is set up that pools the underlying cash flow-generating assets that are transferred by the originator and forwards the cash-flows to the bondholders according to a structure agreed upon with the bondholders in accordance with the seniority of the different series of bonds (tranches). Such assignment of rights creates a legal structure in which the assets of the transferring entity will not be accessible to creditors of the SPE and the creditors will not be exposed to the risks associated with other activities of the transferring entity. The sole function of the SPE is to receive the said cash flows and transfer them to the bondholders.
Small Business Administration (SBA)	A U.S. government agency that supports small businesses in the U.S.A.
Special Mention Loan	Special Mention Loan is credit for which there are potential weaknesses which should be monitored closely by the Bank's management. Off-balance sheet loan is classified as loan under special supervision if the materialization of the contingent liability in respect of the item is defined as "reasonably possible" and if the debts that may be recognized as a result of the materialization of the contingent liability meet the criteria for classification into this category.
Standby Letter of Credit (SBLC)	A Standby Letter of Credit is a bank guarantee in the format of a commercial letter of credit, whose main goal is to secure a payment. A Standby Letter of Credit is similar to a guarantee in the sense that it constitutes an undertaking by the Bank to pay the amount specified therein against a payment demand by the beneficiary, whereas in the case of a commercial letter of credit one is required to present various documents in order to secure the payment by the Bank in respect of the guarantee.
Specific Provision	A provision that is determined specifically for each debt, excluding housing loans (including any restructuring of troubled debt subject to specific assessment according to the Bank’s policy). The provision amount is estimated according to the projected cash flows which are discounted at the debt’s original effective interest rate or, when the debt is defined as a debt whose collection is contingent on collateral or when an asset is expected to be seized - according to the fair value of the collateral net of disposal costs and after appropriate cushions are utilized. In order to determine the appropriate provision, the Bank assesses the relevant borrowers on an ongoing basis and according to procedure.

Strategic Risk	A business risk that includes current and future adverse effects on capital, profits, reputation or standing as a result of erroneous business decisions, inappropriate implementation of the decisions or lack of response to industry-specific, economic, regulatory and technological changes.
Subordinated Notes	Bonds the interests in which are subordinate to the claims of all other creditors of the bank, excluding other bonds of the same type.
Substandard Loan	A loan which is insufficiently guaranteed by the current sound worth and repayment capacity of a borrower or a pledged collateral, if any. Balance sheet credit risk that has been classified in this manner should have a well-defined weakness or weaknesses, which jeopardize the repayment of the debt. Loan, in respect of which a collective loan loss provision is recorded, shall be classified as a Substandard Loan when it has been past due for 90 days or more.
Supervisory Review Process (SREP)	The processes intended to ensure that banks have adequate capital to support all the risks associated with their business and also to encourage banks to develop and use better risk management techniques in monitoring and managing their risks. As part of the process, the Banking Supervision Department assesses a bank's risk profile and its internal process for assessing the adequacy of the regulatory capital it maintains against the exposures. This process is designed to provide regulators with tools for independent assessment of the Bank's risk profile and risk management and to enable early intervention in order to prevent compromising the Bank's financial stability.
Swap	A series of forward contracts or a series of futures contracts for several stipulated periods in which two parties agree to exchange cash flows on a notional amount.
Syndication	A transaction in which several lenders share extending a loan to a single borrower, but each borrower extends a loan at a certain amount to a borrower and has the right to be repaid by that borrower. Often, groups of lenders finance such loans together, with the amount extended greater than any single lender is willing to lend.
Synthetic Collateralized Debt Obligation (SCDO)	An agreement backed by a portfolio of (derivative) collateralized debt securities of various seniority levels.
T	
The Economic Capital Model	The Bank uses the Economic Capital Model, which is based on the borrowers' rating, in order to assess the overall credit risk of the entire loan portfolio and portions thereof.

Tier 2 Capital	A tier of capital included in the calculation of qualifying regulatory capital. Tier 2 capital (also known as "gone concern capital") is a substandard component of the Bank's capital; it mainly comprises qualifying instruments previously issued by the Bank and included in Tier 2 capital pursuant to the transitional provisions for the implementation of Basel III Directives as well as the new qualifying capital instruments that constitute the Bank's Contingent Convertible (CoCo) capital instruments issued by the Bank and which will be converted into the Bank's shares if the Bank reaches the point of non-viability. In addition, this Tier 2 capital also includes items, such as: a collective loan loss provision before the relating tax effect up to a ceiling of 1.25 percent of total credit risk assets
Total Indebtedness	A customers' total debts to the bank.
Treasury Shares	Shares directly held by the company. These shares do not have equity or voting rights.
V	
Value at Risk (VaR)	A model for measuring the maximum potential loss as a result of market risks materialization in a set time period and given a predetermined statistical probability. This method requires the revaluation of all of the corporation's positions based on the fair value of the assets and liabilities. The model's objectives are to estimate the risks to which financial institutions are exposed, stemming from materialization of market risks in various activities.