

Mizrahi-Tefahot Bank

Risks report for the third quarter of 2019

This translation of the financial statement is for convenience purposes only.
The only binding version of the financial statement is the Hebrew version.

This report includes additional information to the Bank's financial statements and is compiled in conformity with directives of the Supervisor of Banks, which include disclosure requirements of Basel Pillar 3 and additional disclosure requirements of the Financial Stability Board (FSB).

The following reports are available on ISA's MAGNA website: This Risks Report and other supervisory information about supervisory capital instruments issued by the Bank (hereinafter: "the Reports"). In conformity with instructions of the Supervisor of Banks, the condensed financial statements for the interim period and the aforementioned Reports are also available on the Bank website:

www.mizrahi-tefahot.co.il > about the bank > investor relations > financial statements

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Risks Report

This risks report includes additional information to the condensed consolidated financial statements of Bank Mizrahi Tefahot Ltd. and its subsidiaries as of September 30, 2019. The condensed financial statements and additional information to the condensed financial statements, including the Report of the Board of Directors and Management, this Risks Report and other supervisory disclosures have been approved for publication by the Bank's Board of Directors at its meeting held on November 18, 2019.

The Risks Report and other supervisory disclosures are compiled in conformity with directives of the Supervisor of Banks, which include disclosure requirements of Basel Pillar 3, disclosure requirements published by the Financial Stability Board (FSB) and other disclosure requirements of the Financial Stability Board (FSB).

Pursuant to the Public Reporting Regulations of the Supervisor of Banks, the quarterly format of the risks report is limited and focused on qualitative and quantitative disclosures whose quarterly analysis and presentation are material for readers of the report.

If needed, this report should be read in conjunction with the 2018 Risks Report.

The disclosure in this report is designated to allow users to evaluate significant information included with regard to implementation of the framework for capital measurement and adequacy and to implementation of provisions of "Basel III: A global regulatory framework for more resilient banks and banking systems".

All of these reports are also available on the Bank's website.

www.mizrahi-tefahot.co.il >> about the bank >> investor relations >> financial statements.

As directed by the Supervisor of Banks, additional information with regard to risks is provided in the Report of the Board of Directors and Management in the financial statements as of September 30, 2019, in the following chapters:

- Chapter "Overview, targets and strategy" / major risks
- Chapter "Explanation and analysis of results and business standing" / Key and emerging risks
- Chapter "Risks Overview"

In conformity with the Equal Rights to Handicapped Persons Regulations (Service Accessibility Adaptations), 2013, the website also provides accessible reports.



Moshe Vidman
Chairman of the Board
of Directors



Eldad Fresher
President & CEO



Doron Klauzner
Vice-president, Chief
Risks Officer (CRO)

Approval date of the financial statements and the Risks Report:
Ramat Gan, November 18, 2019

Forward-Looking Information

Some of the information in the Risks Report, which does not relate to historical facts, constitutes "forward-looking information", as defined in the Securities Law, 1968 (hereinafter: "the Law").

Actual Bank results may materially differ from those provided in the forward-looking information due to multiple factors including, inter alia, changes in local and global capital markets, macro-economic changes, geo-political changes, changes in legislation and regulation and other changes outside the Bank's control, which may result in non-materialization of estimates and/or in changes to business plans.

Forward-looking information is characterized by the use of certain words or phrases, such as: "we believe", "expected", "forecasted", "estimating", "intending", "planning", "readying", "could change" and similar expressions, in addition to nouns, such as: "plan", "goals", "desire", "need", "could", "will be". These forward-looking information and expressions involve risks and lack of certainty, because they are based on current assessments by the Bank of future events which includes, inter alia: Forecasts of economic developments in Israel and worldwide, especially the state of the economy, including the effect of macroeconomic and geopolitical conditions; changes and developments in the inter-currency markets and the capital markets, and other factors affecting the exposure to financial risks, changes in the financial strength of borrowers, the public's preferences, legislation, supervisory regulations, the behavior of competitors, aspects related to the Bank's image, technological developments and human resources issues.

The information presented here relies, inter alia, on publications of the Central Bureau of Statistics and the Ministry of Finance, on data from the Bank of Israel data, the Ministry of Housing and others who issue data and assessments with regard to the capital market in Israel and overseas as well as forecasts and future assessments on various topics, so that there is a possibility that events or developments predicted to be anticipated would not materialize, in whole or in part.

Key supervisory ratios and overview of risk management and risk assets

Key supervisory ratios - Key Data

Below is key data relevant for the Bank's risk profile (NIS in millions):

	For the quarter ended						
	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Key supervisory and financial ratios							
Available capital							
Tier I capital ⁽¹⁾	16,244	16,220	15,618	15,172	14,951	14,508	14,436
Tier I capital before effect of transitional provisions	16,102	16,073	15,457	15,004	14,755	14,295	14,188
Total capital	22,043	22,003	20,660	20,687	19,825	19,368	19,249
Total capital before effect of transitional provisions	20,561	20,516	19,159	18,733	17,843	17,369	17,215
Risk weighted assets							
Total risk weighted assets (RWA)	160,306	158,626	154,315	151,627	147,872	145,784	142,129
Capital adequacy ratio (in %)							
Tier I capital ratio ⁽¹⁾	10.13	10.23	10.12	10.01	10.11	9.95	10.16
Tier I capital ratio before effect of transitional provisions	10.04	10.12	10.01	9.88	9.96	9.79	9.96
Total capital ratio	13.75	13.87	13.39	13.64	13.41	13.29	13.54
Total capital ratio before effect of transitional provisions	12.82	12.92	12.40	12.35	12.05	11.90	12.09
Tier I capital ratio required by Supervisor of Banks	9.83	9.83	9.83	9.84	9.84	9.84	9.86
Available Tier I capital ratio, beyond what is required by the Supervisor of Banks	0.30	0.40	0.29	0.17	0.27	0.11	0.30
Leverage ratio							
Total exposure	288,965	285,858	281,693	279,827	273,087	269,911	265,621
Leverage ratio (in %) ⁽²⁾	5.62	5.67	5.54	5.42	5.47	5.38	5.43
Leverage ratio before effect of transitional provisions (in %)	5.57	5.62	5.49	5.36	5.40	5.30	5.34
Liquidity coverage ratio⁽³⁾							
Total high-quality liquid assets	45,494	42,430	44,879	40,572	40,361	39,599	40,648
Total outgoing cash flows, net	37,376	36,014	37,414	35,118	33,417	32,875	32,545
Liquidity coverage ratio (in %)	122	118	120	116	121	120	(7)125
Performance benchmarks							
Net profit return on equity ⁽⁴⁾⁽⁵⁾	11.1	15.8	11.3	5.7 ⁽⁸⁾	13.4	(8)6.1	10.3
Profit return on risk assets ⁽⁵⁾⁽⁶⁾	1.06	1.48	1.06	0.54	1.24	0.60	0.97
Deposits from the public to loans to the public, net	102.6	102.2	104.3	102.6	101.7	101.5	101.9
Key credit quality benchmarks							
Ratio of balance of provision for credit losses to total loans to the public	0.81	0.80	0.80	0.80	0.81	0.81	0.81
Ratio of impaired debts or debts in arrears 90 days or longer to loans to the public	1.29	1.28	1.25	1.23	1.17	1.12	1.09
Expenses with respect to credit losses to loans to the public, net for the period ⁽⁵⁾	0.14	0.20	0.15	0.16	0.13	0.19	0.18
Of which: With respect to commercial loans other than housing loans	0.33	0.50	0.40	0.44	0.27	0.49	0.49
Of which: With respect to housing loans	0.04	0.03	0.03	0.01	0.05	0.04	0.02
Ratio of net accounting write-offs to average loans to the public ⁽⁵⁾	0.07	0.13	0.14	0.12	0.09	0.11	0.13

	For the nine months ended September 30		For the year ended December 31,
	2019	2018	2018
Performance benchmarks			
Net profit return on equity ⁽⁴⁾⁽⁵⁾	12.4	⁽⁸⁾ 9.7	⁽⁸⁾ 8.5
Profit return on risk assets ⁽⁵⁾⁽⁶⁾	1.20	0.93	0.83
Key credit quality benchmarks			
Expenses with respect to credit losses to loans to the public, net for the period ⁽⁵⁾	0.16	0.16	0.16
Of which: With respect to commercial loans other than housing loans	0.41	0.40	0.40
Of which: With respect to housing loans	0.03	0.04	0.03
Ratio of net accounting write-offs to average loans to the public ⁽⁵⁾	0.11	0.11	0.11

Financial ratios indicate:

- Net profit return in the first nine months was 12.4%, compared to return excluding extraordinary items⁽⁸⁾ of 12.3% in the corresponding period last year, and compared to the 11.6% return excluding extraordinary items⁽⁸⁾ in all of 2018, despite the lower impact of CPI on financing revenues in the first nine months of 2019.
- Cost-income ratio for the first nine months of 2019 was lower than 55%.

Items of profit and loss, balance sheet items and various financial ratios are analyzed in detail in the Report of the Board of Directors and Management, in chapter "Explanation and analysis of results and business standing" and in chapter "Risks overview", as the case may be.

- (1) The Bank has no equity instruments included in "Additional Tier I capital", so that total Tier I capital equals total Tier I equity.
- (2) Leverage Ratio – ratio of Tier I capital (according to Basel rules) to total exposure. This ratio is calculated in conformity with Proper Conduct of Banking Business Directive 218
- (3) Liquidity Coverage Ratio – ratio of total High-Quality Liquid Assets to net cash outflow. This ratio is calculated in conformity with Proper Conduct of Banking Business Directive 221, in terms of simple averages of daily observations during the most recent reported quarter.
- (4) Net profit attributable to shareholders of the Bank.
- (5) Calculated on annualized basis.
- (6) Net profit to average risk assets.
- (7) Includes the effect of implementation of Bank of Israel guidelines to apply a reduced withdrawal rate with respect to operational deposits, as from the first quarter of 2018.
- (8) Operating and other expenses for 2018 include a provision, amounting to NIS 546 million, with respect to the investigation by the US Department of Justice (NIS 425 million in the second quarter of 2018 and NIS 121 million in the fourth quarter of 2018). The Bank's return on equity, excluding extraordinary items with respect to the investigation and with respect to provisions for bonus payments in line with profitability from business operations in that period and related tax expenses, was:
In the second quarter of 2018: 14.1%.
In the fourth quarter of 2018: 10.7%.
In the first half of 2018: 12.0%.
In all of 2018: 11.6%.

Risks Report

As of September 30, 2019

Below is the capital for calculating the capital ratio after supervisory adjustments and deductions:

	As of September 30, 2019	As of September 30, 2018	As of December 31, 2018
Tier I shareholders' equity	16,244	14,951	15,172
Tier II capital	5,799	4,874	5,515
Total capital	22,043	19,825	20,687

Total credit risk to the public⁽¹⁾:

	September 30, 2019	September 30, 2018	December 31, 2018
Total credit risk to the public	263,345	251,761	253,910

(1) For more information about total credit risk to the public, see the chapter "Risks overview" in the Report by the Board of Directors and Management.

Risk assets and capital requirements with respect to credit risk, market risk, CVA risk and operational risk are as follows:

	As of September 30, 2019		As of September 30, 2018		As of December 31, 2018	
	Weighted risk asset balances	Capital requirement ⁽¹⁾	Weighted risk asset balances	Capital requi- rement ⁽²⁾	Weighted risk asset balances	Capital requi- rement ⁽³⁾
Credit risk	148,028	19,732	136,742	18,242	139,996	18,676
Market risk	1,778	236	1,462	195	1,494	198
CVA risk with respect to derivatives ⁽⁴⁾	466	62	353	47	576	77
Operational Risk ⁽⁵⁾	10,034	1,338	9,315	1,243	9,561	1,275
Total risk assets	160,306	21,368	147,872	19,727	151,627	20,226

(1) The capital requirement was calculated at 13.33% of risk asset balances.

(2) The capital requirement was calculated at 13.34% of risk asset balances.

(3) The capital requirement was calculated at 13.34% of risk asset balances.

(4) Credit Value Adjustments – mark to market with respect to credit risk of counter-party, in conformity with Basel III provisions.

(5) Capital allocation with respect to operational risk was calculated using the standard approach.

Bank approach to risk management (OVA)

General information regarding management of various risks and the risk profile

The Bank complies with directives concerning risk management and control, as stipulated by the Supervisor of Banks, and in particular with Proper Conduct of Banking Business Directive³¹⁰ "Risks Management", which is based on the Basel Committee recommendations, which specifies the principles for risks management and control in the Israeli banking system and stipulates the standards required of the banks for creating their risks management and control framework in line with regulatory requirements, the Bank's risk profile and its business targets. All policy documents for risk management and control at the Bank are based on these basic principles.

The risks management and control framework at the Bank, as recommended by the Basel Committee, specifies three pillars:

Pillar 1 – minimum capital – minimum capital allocation requirements with respect to credit risk, market risk and operational risk calculated by standard models.

Pillar 2 – Supervision and control process over capital adequacy, the Internal Capital Adequacy Assessment Process (ICAAP) conducted by the Bank, as well as the Supervisory Review and Evaluation Process (SREP).

Pillar 3 – "market discipline" – reporting and disclosure to the regulating authority and to the public.

Efficient, comprehensive risks management is a key foundation for ensuring the Bank's stability over time. Risks management and control processes at the Bank and at the Group are designed to identify, manage, quantify and mitigate all material risks associated with Bank operations and to support achievement of the Bank's business objectives. The Bank is exposed to a succession of risks which may potentially impact its financial results and its image. The Bank exposed to financial risks, such as: credit risks, liquidity risk and market and interest risks, as well as non-financial risks, such as: compliance and regulatory risk, operational Risk (including IT risk and information and cyber security risk, legal risk, reputational risk and other risks.

Risks management at the Group is conducted from a comprehensive viewpoint of Bank operations in Israel and at overseas affiliates and in conformity with regulatory requirements, so as to support achievement of the Group's strategic objectives, while assuming risks in an informed manner and maintaining a risk level in line with the overall risk appetite specified by the Bank's Board of Directors.

The risk appetite defines, at the highest level, the overall risk level which the Bank wishes to and can assume. The risk appetite defines where the Bank would like to be in terms of reward (proceeds/benefit) vs. risk (cost) from a forward-looking viewpoint. Risk appetite is defined in qualitative and quantitative terms in the normal course of business and under stress scenarios, and is based on the outcome of various stress scenarios applied by the Bank, on its risk strategy and on basic principles of the Bank's business and strategic plan and on the required liquidity and capital for achieving the strategic objectives.

Risk tolerance is a specific determination of risk levels for all risks to which the Bank is exposed. Risk levels are determined by a range of qualitative and quantitative benchmarks, in support of achieving the business goals, while keeping the Bank within the overall limits of the specified risk appetite and subject to strict regulatory restrictions. These risk restrictions, on aggregate, reflect the overall risk level which the Bank is willing and able to assume.

General mapping of risk factors and their impact

Below is a mapping of risk factors, their potential impact on the Bank Group and executives appointed Risk Owners for each risk factor:

Risk factor	Risk factor impact	Risk Owner
Overall effect of credit risks	Low-medium	Manager, Business Division
Risk from quality of borrowers and collateral	Low-medium	
Risk from industry concentration	Low-medium	
Risk from concentration of borrowers/ borrower groups	Low	
Risk with respect to mortgage portfolio	Low	
Overall effect of market risk	Low-medium	Manager, Financial Division
Interest risk	Low-medium	
Inflation risk	Low-medium	
Exchange rate risk	Low	
Liquidity risk	Low-medium	Manager, Financial Division
Overall effect of operational risk	Medium	Manager, Risks Control Division
Cyber and information security	Medium	Manager, Risks Control Division
Information technology risk	Medium	Manager, Mizrahi-Tefahot Technology Division Ltd.
Legal risk	Low-medium	Chief Legal Counsel
Compliance and regulatory risk	Low-medium	Manager, Risks Control Division
AML risk and terrorism financing	Low-medium	Manager, Risks Control Division
Cross-border risk	Low-medium	Manager, Risks Control Division
Reputation risk ⁽¹⁾	Low	Manager, Marketing, Promotion and Business Development Division
Business-strategic risk ⁽²⁾	Low-medium	President & CEO

(1) The risk of impairment of the Bank's results due to negative reports about the Bank.

(2) The definition of Business-strategic risk includes the capital planning and management process.

The impact of the various risks factors in the table above have been determined based on management assessment, as provided from time to time. These assessments are based on monitoring of various quantitative risk benchmarks specified by the Bank, includes the expected direction of their development and are based on qualitative assessment of risks management and the effectiveness of control circles, in line with the Bank's ICAAP process and its results , led by the Bank's Risk Managers.

In the third quarter of 2019, the Bank's risk profile is low, similar to the risk profile in the first and second quarters of 2019. Risks with a risk level other than Low typically arise from inherent risk in Bank operations, and are in line with the specified risk appetite principles. The potential loss due to unexpected events, relative to the Bank's capital and profit, is low. Bank profitability is stable, i.e. profit volatility is low and the capital cushion available to the Bank is adequate even under stress scenarios.

The Bank conducts processes for risk identification and measurement, based on a range of methodologies to assess risk levels and exposure to various risks, in the normal course of business and under stress scenarios. The Bank applies quantitative measurement methods (models, benchmarks / indicators, scenarios and sensitivity analysis, *inter alia*) and qualitative measurement methods (expert assessments and surveys).

Summary of Bank policy on major risks and developments in the third quarter of 2019

Business goals and strategy

For more information about the Bank's business goals and strategy for 2017-2021, see chapter "Business goals and strategy" of the 2018 Report of the Board of Directors and Management.

Credit risk

At the center of the multi-annual strategic plan, operations of the business segment are being developed and expanded. Business loans are managed using a range of risk benchmarks and its risk level is low-medium. The Bank has the business, legal and operating infrastructure for flexible management of credit risk by selling and/or sharing risk. In the third quarter of 2019, there were no deviations from risk limits, and the Bank is acting and constantly reviewing the risk profile and limits, in line with the scope of operations and risk.

Loans in the micro and small business segment are a key growth engine and a component of the Bank's strategic plan. This segment is highly diversified in terms of clients in various economic sectors, mostly in small industry, trade, business and financial services. Financing in the micro and small business segment is mostly provided for short terms, for current operations and for financing of working capital, covering gaps in cash flow, financing trade receivables, inventory and import activities. Such financing is provided against appropriate collateral, such as checks for collateral / checks receivable, invoices, pledging of contracts and current liens. The risk level in the credit portfolio for small and micro-businesses is constantly monitored, including use of custom credit rating models and setting the appropriate risk appetite. The Bank also monitors high-risk economic sectors. In the third quarter of 2019, the Bank continued development of computer-based processes for credit applications and a model to determine differential interest authorizations.

Loans to medium businesses are typically highly diversified across clients, total credit per client, economic sectors and by geography. Financing is provided to this segment for current operations through financing of working capital, including financing of trade receivables and inventory, which is typically short-term financing, expansion and investment in the firm, which is typically medium- and long-term financing. This financing is backed by most existing collateral types, such as: deposits, securities, real estate, equipment, vehicles, current liens, various guarantees and personal guarantees. In addition, financial covenants are used for these clients, in order to mitigate risk.

Loans to large business clients is typically less diversified than in other segments. These clients typically have complex financial activities and diverse financing sources, both from the banking system in Israel and overseas, from institutional investors and from the capital market. Collateral for such loans is typically general collateral, such as a current lien, negative pledge along with financial covenants. These clients are involved with various credit products, including credit for the capital market.

Loans to the individual client segment are highly diversified – by number of clients and by geographic location. Most clients in this segment are salaried employees with an individual account or joint household account. A recession in non-banking operations is a major risk factor for household activity and higher unemployment may increase the number of clients who face difficulties. Clients of the Retail Division are rated using custom advanced models. These models quantify the probability of default (PD) and the loss given default (LGD) for small businesses and individual clients of the Retail Division. Current management at the Retail Division is primarily based on the MADHOM system (for client management, rating and pricing). In the third quarter of 2019, the Bank continued to deploy, implement and use advanced models under development for optimal analysis and management of retail credit. The credit risk profile of individual clients, in view of the risk appetite determined based also on the internal model, shows a low-medium risk level that is stable over time.

Housing loans carry a significant weight out of total credit risk of the Bank; however, the overall risk level in the mortgage portfolio is low. This area typically has a widely diversified borrower base from different economic sectors with relatively low LTV ratios and extensive geographic diversification of pledged properties. The Bank also uses various risk mitigators, including property insurance and life insurance. In the third quarter of 2019, key risk benchmarks remained stable: In particular: LTV ratio (original LTV ratio in the portfolio: 52.5%), repayment ratio (26.1%), rate of oblige in default; rate of arrears for new loans (up to one year since origination) and the arrears rate for new loans (up to one year since origination) has been low in recent years.

Market and interest risk in the bank portfolio

Activity in the negotiable portfolio (portfolios managed by the trading room) is low, with most of the Bank's financial activity and risk associated with the banking portfolio. The Bank's banking portfolio mostly includes long-term uses

(mortgages), against which the Bank raises resources which may be short-term. The portfolio structure exposes the Bank EV to erosion in case of rising interest rates.

In 2018, the Bank conducted an extensive review of the risk estimation methodology, in line with common practice for application of Basel guidelines. Consequently, Bank policy, including measurement methods and the resulting risk limits, was significantly revised in the first quarter of 2019, so as to more reliably reflect the interest exposure, including dynamic effects of behavioral options inherent in the mortgage portfolio and in deposits, which are dependent on interest. In the third quarter of 2019, the risk benchmark values calculated in conformity with the revised methodology were in line with restrictions posed by management and by the Board of Directors. In the normal course of business, risk values (such as VaR) ranged at relatively low risk levels and risk values under stress scenarios, which reflect extreme concurrent increase in interest rates, are lower than the current risk appetite specified. The overall risk level remained low-medium.

Liquidity risk

In the third quarter of 2019, the Bank maintained appropriate liquidity by investing excess liquidity in liquid assets of very high quality. The average (consolidated) liquidity coverage ratio for the third quarter of 2019 was 122%. In this quarter, there were no exceptions from the risk appetite limits and concentration benchmarks, and there were no material unusual events.

Operational risk

In the third quarter of 2019, operational risk remained Medium. There were no material operational events, and the risk level reflects the potential damage that may be caused by materialization of operational risks. Activity continued to improve monitoring, management and control of operational risks, with emphasis on upgrading the IT system for management of risks surveys and further activity to identify, analyze and enhance awareness of the various operational risks.

Business continuity

The Bank applies Proper Conduct of Banking Business Directive 355 concerning "Management of business continuity". In the third quarter of 2019, the Bank continued to operate in conformity with the work plan. Multiple drills took place, including a technology drill at the **DRP IT** site, and a major annual drill which included multiple components, including: Exercise of emergency financial forum, exercise of situation room under various scenarios, exercise of crisis management forum and employee relocation to the Bank's backup site in Lod.

Information security and cyber security

In the third quarter of 2019, the risk level remained Medium. In this quarter, a small number of fraud attempts against clients were identified (through fishing attacks), which resulted in stealing their account credentials in order to conduct unauthorized transactions in their accounts. Thanks to defensive measures applied by the Bank, despite these fraud attempts, there were no unauthorized transactions in client accounts.

The Bank continues to reinforce the defense mechanisms applied in Bank systems, in order to further limit the ability to defraud clients and to conduct un-authorized transactions in client accounts. These actions were taken as part of debriefing processes and lessons learned by the Bank with regard to this emerging threat.

Information technology risk

Given current developments in the financial market, the age of current Bank systems and following a comprehensive review process, the Bank launched, in the first quarter of 2019, a project to replace the Bank's capital market core system to the capital market module of the new platform.

The project for replacing the **CRM** system, based on the **PEGA SYSTEM** platform, was also launched. The system would be gradually implemented over 3 years.

This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought before the Bank's Board of Directors. These assumptions may not materialize due to factors which are under the Bank's control.

Legal risk

In the third quarter of 2019, legal risk remained Low-Medium, similar to the estimate in the first and second quarters of 2019 and in the 2018 annual report, due to the agreement signed by the Bank and by US authorities. For more information see Note 10.B.4 to the financial statements.

Compliance risk

Compliance risk remained unchanged in the third quarter of 2019, at Low-Medium. This risk assessment is due, inter alia, to further addressing of risks classified as high, enhancement of controls and training frequency and improvement in efficiency of work processes in this area.

Cross-border risk

The risk level remaining unchanged in the third quarter of 2019, at Low-Medium. The Bank manages risk by, *inter alia*, revising procedures, automating work processes, delivering training and assigning specialized branches to do business with such clients. The Bank regularly improves, updates and validates existing information about Bank clients. In the third quarter of 2019, the Bank filed two reports in conformity with **CRS (Common Reporting Standard)** regulations with respect to 2017 and 2019, and reported in conformity with **FATCA** regulations with respect to 2018.

AML risk and terrorism financing

The risk level remaining unchanged in the third quarter of 2019, at Low-Medium. This was due to continued intensive training and deployment activity, along with risk-focused controls and taking effective action to avoid recurrence of extraordinary events and compliance failures. The technology-based system for identifying and reporting unusual activity is in regular use at branches and allows for close monitoring of banking activity.

Reputation risk

In the third quarter of 2019 there were no material changes and events which negatively impacted the Bank's reputation. The risk level is assessed as Low, similar to its assessment in the first and second quarters of 2019.

In the third quarter of 2019, as part of the annual process for approval of all policy documents, Bank management and the Board of Directors approved multiple Bank policy documents with regard to risk management and control, including: Credit policy (update to risk appetite), operational risk policy, settlement policy and legal risk policy.

The Bank is preparing according to the Bank of Israel update (of February 2019) with regard to buy-back by banking corporations (Proper Conduct of Banking Business Directive 332), which rescinds the prohibition of share buy-back by banking corporations and allows banking corporations to buy-back their shares subject to certain conditions.

The Bank is also preparing to conduct a cyber stress test based on the uniform scenario, in conformity with Bank of Israel directives to the banking system on this matter.

Furthermore, in line with expectations of the Supervisor of Banks with regard to promoting innovation and defining the promotion of deployment of technology innovation as a supervisory target, the Bank is preparing and reviewing these new technologies and options available to the Bank for adopting such technologies.

Key and emerging risks

Bank business exposes it to various financial and non-financial risks, which may impact the Bank's business results and reputation.

In the risk identification and mapping process, the Bank reviews all of its risk exposures. Top risks, existing (or new) risks which may materialize over the coming 12 months which potentially may materially impact the Bank's financial results and stability (such as: credit, interest and liquidity risks). The Bank also identifies emerging risks, which may materialize over the longer term and subject to uncertainty with regard to their nature and impact on the Bank. Of these risks, one may note the following: information security and cyber risk, IT risk and reputation risk. As noted, the risks mapping is regularly reviewed to ensure that it encompasses all risk associated with business operations at the Bank, and risk arising from market conditions and regulatory requirements.

The Bank continues to upgrade the framework for handling "emerging" risks, such as compliance and regulatory risk, AML risk and cross-border risk – while allocating the required resources for addressing these risks. Note that the Bank has zero appetite for non-compliance with applicable regulatory directives of the Bank of Israel. Bank operations with regard to these risks are primarily qualitative actions designed to create the required framework for addressing these emerging risks.

Overview of weighted risk assets (OV1)

	Risk weighted assets		Minimum capital requirements ⁽¹⁾
	As of September 30, 2019	As of June 30, 2019	As of September 30, 2019
Credit risk (standard approach) ⁽²⁾	145,699	143,988	19,421
Counter-party credit risk (standard approach)	1,162	1,046	155
Credit risk value adjustment (CVA) ⁽³⁾	466	391	62
Amounts lower than discount thresholds (subject to 250% risk weighting)	1,167	1,141	156
Total credit risk	148,494	146,566	19,794
Market risk (standard approach)	1,778	2,214	236
Operational Risk ⁽⁴⁾	10,034	9,846	1,338
Total	160,306	158,626	21,368

(1) An additional capital requirement was added to this requirement, at 1% of the housing loan balance as of the report date.

(2) Credit risk excludes counter-party credit risk, credit risk value adjustment, settlement risk, securitization exposures and amounts lower than the deduction thresholds.

(3) Credit Value Adjustments – mark to market with respect to credit risk of counter-party, in conformity with Basel III provisions.

(4) Capital allocation with respect to operational risk was calculated using the standard approach.

The change in risk assets in the third quarter of 2019 was primarily due to growth of credit in the housing loan portfolio.

Capital and leverage

Composition of capital

Supervisory capital is composed of two tiers: Tier I capital (including Tier I capital and Tier I additional capital) and Tier II capital.

Tier I capital includes equity attributable to equity holders of the Bank and the interest of external shareholders in equity of subsidiaries (excess capital at subsidiaries is not taken into account).

Tier I capital includes supervisory adjustments and deductions from capital – goodwill, investments in capital components of financial institutions, cumulative other comprehensive income with regard to cash flow hedges for items not presented at fair value on the balance sheet and adjustments with respect to liabilities for derivative instruments, due to change in the Bank's credit risk (DVA).

Additional Tier I capital consists of equity instruments which fulfill the requirements specified in the directives. As of September 30, 2019, the Bank had no equity instruments included in additional Tier I capital.

Tier II capital consists of a group provision for credit losses and equity instruments which fulfill the specified requirements.

Restrictions on capital structure:

- Tier II capital shall not exceed 100% of Tier I capital after required deductions from such capital.
- Capital instruments qualified for inclusion in Tier II capital shall not exceed 50% of Tier I capital after required deductions from such capital.

Below is a summary of supervisory capital components, capital ratios to risk components for the Group and minimum supervisory capital ratios specified by the Supervisor of Banks:

	September 30, 2019		September 30, 2018		December 31, 2018	
	Balance	Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with Basel III	Balance	Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with Basel III	Balance	Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with Basel III
	NIS in millions					
Tier I capital before regulatory adjustments and deductions	16,346	–	15,047	–	15,272	–
Total regulatory adjustments to and deductions from Tier I capital	102	–	96	–	100	–
Tier I shareholders' equity	16,244	–	14,951	–	15,172	–
Tier II capital	5,799	1,340	4,874	1,786	5,515	1,786
Total capital	22,043	1,340	19,825	1,786	20,687	1,786
Total risk weighted assets	160,306	–	147,872	–	151,627	–
Ratio of Tier I capital to risk components	10.13%	–	10.11%	–	10.01%	–
Ratio of total capital to risk components	13.75%	–	13.41%	–	13.64%	–
Minimum Tier I capital ratio required by Supervisor of Banks	9.83%	–	9.84%	–	9.84%	–
Minimum overall capital ratio required by Supervisor of Banks	13.33%	–	13.34%	–	13.34%	–

For more information and detailed composition of supervisory capital, in conformity with disclosure requirements of Basel Pillar 3, as of September 30, 2019 compared to September 30, 2018 and December 31, 2018, see Addendum A below.

Leverage ratio

The Bank applies Proper Banking Conduct Regulation 218 with regard to leverage ratio, which adopts the Basel Committee recommendations with regard to leverage ratio, stipulated in January 2014.

The leverage ratio is reflected in percent, defined as the ratio of Tier I capital to total exposure. Total exposure for the Bank is the sum of balance sheet exposures, exposures to derivatives and to securities financing transactions and off-balance sheet items.

According to the directive, banking corporations must maintain a leverage ratio of 5% or higher on a consolidated basis.

The leverage ratio is managed as part of capital management by the capital planning and management forum.

The Bank's leverage ratio as of September 30, 2019 is 5.62%, compared to 5.47% as of September 30, 2018 and 5.42% as of December 31, 2018.

Below is information about the Bank's leverage ratio (NIS in millions):

Comparison of assets on balance sheet and exposure measurement for leverage ratio	As of September 30, 2019	As of September 30, 2018	As of December 31, 2018
Total assets in consolidated financial statements	267,001	248,831	257,873
Adjustments with respect to investments in banking, finance, insurance or commercial entities consolidated for accounting purposes but not within the scope of consolidation for supervisory purposes	–	–	–
Adjustments with respect to trust assets recognized on the balance sheet in conformity with Public Reporting Directives but not included in the exposure measurement of leverage ratio	–	–	–
Adjustments with respect to financial derivative instruments	358	1,203	1,293
Adjustments with respect to securities financing transactions	–	–	–
Adjustments with respect to off-balance sheet items ⁽¹⁾	20,240	21,736	19,390
Other adjustments	1,366	1,317	1,271
Exposure for leverage ratio	288,965	273,087	279,827

(1) Conversion of off-balance sheet exposures to equivalent credit amounts, in conformity with Basel rules for capital adequacy measurement.

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As of September 30, 2019

Disclosure with regard to leverage ratio (NIS in millions)

Composition of exposures and leverage ratio (NIS in millions)	As of September 30, 2019	As of September 30, 2018	As of December 31, 2018
Balance sheet exposure			
Assets on balance sheet	264,971	247,062	255,457
Amounts with respect to assets deducted to determine Tier I capital	(87)	(87)	(87)
Total balance sheet exposure	264,884	246,975	255,370
Exposure with respect to derivatives			
Cost of replacement with respect to all derivative transactions	1,123	1,460	2,165
Amounts added with respect to future potential exposure with respect to all derivative transactions	1,639	2,011	2,042
Gross-up of collateral provided with respect to derivatives, deducted from assets on the balance sheet in conformity with Public Reporting directives	–	–	–
Deduction of debtor assets with respect to variable cash collateral provided in conjunction with derivative transactions	–	–	–
Exempt central counter-party leg of commercial exposure settled by the client	–	–	–
Effective adjusted nominal amount of credit derivatives written	279	290	300
Adjusted effective nominal offsets and deduction of additions with respect to credit derivatives written	–	–	–
Total exposure with respect to derivatives	3,041	3,761	4,507
Exposure with respect to securities financing transactions			
Gross assets with respect to securities financing transactions (without offsets), after adjustment for transactions accounted for as an accounting sale	800	615	561
Offset amounts of cash payable and cash receivable from gross assets with respect to securities financing transactions	–	–	–
Credit risk exposure for central counter-party with respect to securities financing assets	–	–	–
Exposure with respect to transactions as agent	–	–	–
Total exposure with respect to securities financing transactions	800	615	561
Other off-balance-sheet exposures			
Off-balance sheet exposure at gross nominal value	72,612	66,508	68,821
Adjustments with respect to conversion to credit equivalent amounts	(52,372)	(44,772)	(49,431)
Off-balance sheet items	20,240	21,736	19,390
Capital and total exposure			
Tier I capital	16,244	14,951	15,172
Total exposure	288,965	273,087	279,827
Leverage ratio			
Leverage ratio in conformity with Proper Conduct of Banking Business Directive 218	5.62%	5.47%	5.42%

Credit risk

This chapter discusses credit risk, in conformity with disclosure requirements of the Basel Committee and the FSB; the chapter structure and topic order (adjusted for the nature of Bank operations) are also in conformity with these requirements.

The chapter "Counter party credit risk" below includes qualitative and quantitative disclosures about the capital requirement with respect to this risk and adjustment to capital requirements with respect to credit risk (CVA).

Credit risk is the risk that a borrower or counter-party of the Bank would not fulfill its obligations towards the Bank. Credit risk is a material risk to Bank operations. This risk is affected by multiple factors: Business risk due to client activities, concentration risk due to over-exposure to a borrower / borrower group and to economic sectors, geographic concentration risk, risk due to exogenous changes which mostly involve changes to the borrower's macro-economic environment, overseas credit risks and operational risks which, should they materialize, would have implications for credit risks. This risk is also correlated with other risks, such as: Market and interest risk, liquidity risk, compliance risk and other risks.

Credit is at the core of banking operations and therefore, credit risk is the major risk addressed by the banking system. Accordingly, the lion's share of capital allocated in Tier I is with respect to credit risk.

For more information about credit risk, see chapter "Credit risk" in the 2018 Risks Report, available on the Bank website.

Credit quality of credit exposures (CR1)

	September 30, 2019			
	Gross balances⁽¹⁾			
	Impaired or in arrears 90 days or longer	Others	Provisions for credit losses	Net balance
Debt other than debentures	2,625	246,874	1,649	247,850
Debentures	–	10,032	–	10,032
Off-balance sheet exposure ⁽²⁾	68	72,544	106	72,506
Total	2,693	329,450	1,755	330,388

	September 30, 2018			
	Gross balances⁽¹⁾			
	Impaired or in arrears 90 days or longer	Others	Provisions for credit losses	Net balance
Debt other than debentures	2,235	229,829	1,554	230,510
Debentures	–	9,828	–	9,828
Off-balance sheet exposure ⁽²⁾	59	61,868	100	61,827
Total	2,294	301,525	1,654	302,165

	December 31, 2018			
	Gross balances⁽¹⁾			
	Impaired or in arrears 90 days or longer	Others	Provisions for credit losses	Net balance
Debt other than debentures	2,417	235,833	1,579	236,671
Debentures	–	10,701	–	10,701
Off-balance sheet exposure ⁽²⁾	72	68,749	98	68,723
Total	2,489	315,283	1,677	316,095

(1) Gross balances in conformity with reported carrying amounts on the financial statements for on- and off-balance sheet items, creating exposure to credit risk pursuant to Proper Conduct of Banking Business Directive 203.

(2) Off-balance sheet exposures are before credit conversion factors (CCF).

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Below are details of the provision for credit losses with respect to housing loans for which a minimum provision for credit losses was made by extent of arrears, in accordance with appendix to Proper Conduct of Banking Business Directive 314, as of September 30, 2019 (NIS in millions):

	Extent of arrears					Total	Balance with respect to refinanced loans in arrears ⁽²⁾	Total
	In arrears 30 to 89 days ⁽¹⁾	90 days to 6 months	6-15 months	15-33 months	Over 33 months			
Amount in arrears	9	21	17	15	206	259	37	305
Of which: Balance of provision for interest ⁽³⁾	–	–	–	1	114	115	6	121
Recorded debt balance	630	786	283	100	123	1,292	78	2,000
Balance of provision for credit losses ⁽⁴⁾	–	–	36	48	86	170	38	208
Debt balance, net	630	786	247	52	37	1,122	40	1,792

- (1) In conformity with Public Reporting Directives, excludes the balance of housing loans in arrears up to 2 months.
(2) Loans for which an agreement was signed for repayment of arrears by borrower, where a change was made in the repayment schedule for the loan balance not yet due.
(3) With respect to interest on amounts in arrears.
(4) Excludes balance of provision for interest.

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Credit risk mitigation methods (CR3)

As of September 30, 2019									
	Unsecured					Secured			
	Total on- sheet balance ⁽¹⁾	Total on- sheet balance ⁽¹⁾	Of which: Secured amount ⁽²⁾	Of which: By	Of which: By	Of which: Secured amount	Of which: Secured amount	Of which: Secured amount	Of which: Secured amount
				collateral	financial guarantees				
Debt other than debentures	226,810	22,496	6,853	16,409	5,927	6,087	925	-	-
Debentures	10,032	-	-	-	-	-	-	-	-
Total	236,842	22,496	6,853	16,409	5,927	6,087	925	-	-
Of which: Accruing interest revenues**, in arrears 90 days or longer	2,515	178	24	113	17	84	8	-	-

As of September 30, 2018									
	Unsecured					Secured			
	Total on- sheet balance ⁽¹⁾	Total on- sheet balance ⁽¹⁾	Of which: Secured amount ⁽²⁾	Of which: By	Of which: By	Of which: Secured amount	Of which: Secured amount	Of which: Secured amount	Of which: Secured amount
				collateral	financial guarantees				
Debt other than debentures	208,140	23,776	9,045	18,808	7,979	4,968	1,066	-	-
Debentures	9,828	-	-	-	-	-	-	-	-
Total	217,968	23,776	9,045	18,808	7,979	4,968	1,066	-	-
Of which: Accruing interest revenues**, in arrears 90 days or longer	1,987	307	103	196	35	111	68	-	-

As of December 31, 2018									
	Unsecured					Secured			
	Total on- sheet balance ⁽¹⁾	Total on- sheet balance ⁽¹⁾	Of which: Secured amount ⁽²⁾	Of which: By	Of which: By	Of which: Secured amount	Of which: Secured amount	Of which: Secured amount	Of which: Secured amount
				collateral	financial guarantees				
Debt other than debentures	214,047	24,203	8,870	18,994	7,845	5,209	1,024	-	-
Debentures	10,701	-	-	-	-	-	-	-	-
Total	224,748	24,203	8,870	18,994	7,845	5,209	1,024	-	-
Of which: Accruing interest revenues**, in arrears 90 days or longer	2,220	269	89	154	24	124	65	-	-

(1) Balance sheet balance in conformity with reported carrying amounts on the financial statements, after provisions for credit losses.

(2) Balance sheet balance of part of the debt amount secured by collateral, guarantee or credit derivative, after accounting for safety factors.

Credit risk – standard approach

Standard approach – exposures by asset type and risk weighting⁽¹⁾⁽²⁾ (CR5)

Asset type / risk weighting	As of September 30, 2019									Total credit exposures (after conversion factors and collateral deduction)
	0%	20%	35%	50%	60%	75%	100%	150%	Other	
Sovereigns, central banks and national monetary authority	54,505	27	–	–	–	–	153	–	–	54,685
Public sector entities (PSE) other than central Government	364	925	–	–	–	–	–	–	–	1,289
Banks (including Multi-party Development Banks)	–	1,966	–	105	–	–	95	–	–	2,166
Securities companies	–	–	–	–	–	–	–	–	–	–
Corporations	–	5,663	–	482	–	–	40,477	–	–	46,622
Retail exposure to individuals	–	–	–	–	–	21,420	–	–	–	21,420
Loans to small businesses	–	–	–	–	–	9,330	3	–	–	9,333
Secured by residential property	–	–	52,152	31,401	11,165	36,597	821	–	–	132,136
Secured by commercial real estate	–	–	–	–	–	–	3,473	–	–	3,473
Loans in arrears	–	–	–	–	–	–	1,285	1,302	–	2,587
Other assets	1,695	–	–	–	–	–	2,357	60	10	4,122
Of which: with respect to shares	–	–	–	–	–	–	76	48	–	124
Total	56,564	8,581	52,152	31,988	11,165	67,347	48,664	1,362	10	277,833

Asset type / risk weighting	As of September 30, 2018									Total credit exposures (after conversion factors and collateral deduction)
	0%	20%	35%	50%	60%	75%	100%	150%	Other	
Sovereigns, central banks and national monetary authority	45,779	3,452	–	–	–	–	128	–	–	49,359
Public sector entities (PSE) other than central Government	523	–	–	836	–	–	–	–	–	1,359
Banks (including Multi-party Development Banks)	–	1,453	–	362	–	–	84	–	–	1,899
Securities companies	–	–	–	–	–	–	–	–	–	–
Corporations	–	7,634	–	803	–	–	37,334	–	–	45,771
Retail exposure to individuals	–	–	–	–	–	19,623	–	–	–	19,623
Loans to small businesses	–	–	–	–	–	9,027	4	–	–	9,031
Secured by residential property	–	–	55,433	29,712	–	37,151	763	–	–	123,059
Secured by commercial real estate	–	–	–	–	–	–	2,395	–	–	2,395
Loans in arrears	–	–	–	–	–	–	1,245	1,062	–	2,307
Other assets	1,908	–	–	–	–	–	1,810	62	3	3,783
Of which: with respect to shares	–	–	–	–	–	–	11	48	–	59
Total	48,210	12,539	55,433	31,713	–	65,801	43,763	1,124	3	258,586

Asset type / risk weighting	As of December 31, 2018									Total credit exposures (after conversion factors and collateral deduction)
	0%	20%	35%	50%	60%	75%	100%	150%	Other	
Sovereigns, central banks and national monetary authority	51,947	31	–	–	–	–	156	–	–	52,134
Public sector entities (PSE) other than central Government	557	806	–	–	–	–	–	–	–	1,363
Banks (including Multi-party Development Banks)	–	1,922	–	162	–	–	76	–	–	2,160
Securities companies	–	–	–	–	–	–	–	–	–	–
Corporations	–	5,357	–	523	–	–	38,078	–	–	43,958
Retail exposure to individuals	–	–	–	–	–	20,014	4	–	–	20,018
Loans to small businesses	–	–	–	–	–	9,638	5	–	–	9,643
Secured by residential property	–	–	53,994	28,696	4,572	37,548	814	–	–	125,624
Secured by commercial real estate	–	–	–	–	–	–	2,495	–	–	2,495
Loans in arrears	–	–	–	–	–	–	1,237	1,190	–	2,427
Other assets	1,758	–	–	–	–	–	2,111	62	–	3,931
Of which: with respect to shares	–	–	–	–	–	–	12	47	–	59
Total	54,262	8,116	53,994	29,381	4,572	67,200	44,976	1,252	–	263,753

(1) Balances in this disclosure include on- and off-balance sheet debt balances that reflect credit risk, excluding deferred tax amounts and investments in financial institutions below the discount thresholds (subject to 250% risk weighting), exposures with respect to counter-party credit risk and securitization exposures.

(2) The balances reflect the supervisory exposure amounts, net of provisions and write-offs, after credit conversion factors and after credit risk mitigators.

Counter-party credit risk

Analysis of exposure to counter-party credit risk (CCR) based on the supervisory approach (CCR1)

	As of September 30, 2019			
	Subrogation cost	Exposure after Future potential exposure	deduction of collateral	Risk assets
Current exposure method	1,123	1,918	2,334	1,115
Comprehensive approach to credit risk mitigation (for securities financing transactions)	737	–	47	47
Total	1,860	1,918	2,381	1,162

	As of September 30, 2018			
	Subrogation cost	Exposure after Future potential exposure	deduction of collateral	Risk assets
Current exposure method	1,460	2,301	2,652	1,565
Comprehensive approach to credit risk mitigation (for securities financing transactions)	500	–	68	68
Total	1,960	2,301	2,720	1,633

	As of December 31, 2018			
	Subrogation cost	Exposure after Future potential exposure	deduction of collateral	Risk assets
Current exposure method	2,165	2,342	3,242	2,053
Comprehensive approach to credit risk mitigation (for securities financing transactions)	535	–	136	136
Total	2,700	2,342	3,378	2,189

Capital allocation with respect to credit risk valuation adjustment (CVA) (CCR2)

	As of September 30, 2019		As of September 30, 2018		As of December 31, 2018	
	Exposure after deduction of collateral	Risk assets	Exposure after deduction of collateral	Risk assets	Exposure after deduction of collateral	Risk assets
Total – portfolios for which CVA is calculated using the standard approach	1,904	466	2,126	353	2,626	576

Market risk

Market risk – This is the risk of loss from on – and off-balance sheet positions, arising from change in fair value of financial instruments, due to change in market risk factors (interest rates, exchange rates, inflation, prices of equities and commodities). The Bank has no exposure to commodities and its exposure to equities is not material, so that Bank exposure to such risk is primarily due to basis risk – the risk exists when the Bank's assets and liabilities are denominated in different currencies or are in different linkage segments – and from **interest rate risk**, which the risk to Bank profit and to Bank capital, primarily due to fluctuations in interest rates, fluctuations of various curves used by the Bank in its business operations or from the fact that a change in interest rates may result in a change in composition of the Bank's assets and liabilities due to exercise of options for early repayment due to change in market interest rates. Changes in interest rates impact Bank profits (change in revenues) and the value of Bank assets (change in fair value). For more information about market risk, see chapter "Market risk" in the 2018 Risks Report, available on the Bank website.

Market risk using the standard approach

Below are the capital requirement components under the standard approach for market risk (NIS in millions):

	Risk assets as of:		
	September 30, 2019	September 30, 2018	December 31, 2018
Direct products			
Interest rate risk (general and specific)	1,549	1,132	1,163
Stock position risk (general and specific)	–	9	2
Exchange rate risk	215	292	309
Commodities risk	–	–	–
Options	–	–	–
Delta Plus approach	14	29	20
Securitization	–	–	–
Total	1,778	1,462	1,494

As noted above, exposure in the negotiable portfolio is low and mostly associated with interest risk. Risk assets with respect to interest risk were impacted by positions in derivatives which were not offset according to the standard measurement approach, due to changes in interest rate curves.

Liquidity risk

Liquidity risk – risk resulting from uncertainty as to the availability of sources and the ability to realize assets within a specified period of time and at a reasonable price.

Liquidity risk is a material and unique, due to the need to respond to it in the shortest possible time. Risk materialization may cause the Bank to incur significant loss and may even result in collapse of the Bank.

For more information about liquidity risk, see chapter "Liquidity risk" in the 2018 Risks Report, available on the Bank website.

Liquidity coverage ratio (LIQ1)

Below is information about liquidity coverage ratio⁽¹⁾ (NIS in millions):

	For the three months ended September 30, 2019	
	Total unweighted value ⁽²⁾ (Average)	Total weighted value ⁽³⁾ (Average)
Total high-quality liquid assets		45,494
Outgoing cash flows		
Retail deposits from individuals and from small businesses, of which:	108,719	6,316
Stable deposits	30,358	1,518
Less stable deposits	31,535	3,393
Deposits for terms longer than 30 days	46,826	1,405
Unsecured wholesale financing, of which:	51,001	33,260
Deposits for operational needs (all counter-parties) and deposits with networks of co-operative banking corporations	1,393	348
Deposits other than for operational needs (all counter-parties)	49,168	32,472
Unsecured debts	440	440
Secured wholesale financing	–	142
Additional liquidity requirements, of which:	73,178	14,944
Outflows with respect to derivatives exposure and other collateral requirements	10,346	10,347
Credit lines and liquidity	37,859	2,514
Other contingent financing obligations	24,973	2,083
Total outgoing cash flows		54,662
Incoming cash flows		
Secured loans	827	220
Inflows from regularly repaid exposures	8,893	6,482
Other incoming cash flows	15,779	10,584
Total incoming cash flows	25,499	17,286
		Total adjusted value⁽⁴⁾
Total high-quality liquid assets		45,494
Total outgoing cash flows, net		37,376
Liquidity coverage ratio (%)		122

(1) Information is presented in terms of simple averages of daily observations during the reported quarter. The number of observations used in calculating the averages in the third quarter of 2019 is 76.

(2) Unweighted values are to be accounted for as outstanding balances payable or which may be payable by the holder, within 30 days (for both inflows and outflows).

(3) Weighted values are to be accounted for after applying appropriate security factors or inflow / outflow rates (for inflows and outflows).

(4) Adjusted value are to be calculated after applying: Safety factors and inflow / outflow rates; and all applicable restrictions (i.e. restriction on High-Quality Liquid Assets and restriction on inflows, as specified in Proper Conduct of Banking Business Directive 221).

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Below is information about liquidity coverage ratio⁽¹⁾ (NIS in millions):

	For the three months ended September 30, 2018	
	Total unweighted value ⁽²⁾ (Average)	Total weighted value ⁽³⁾ (Average)
Total high-quality liquid assets		40,361
Outgoing cash flows		
Retail deposits from individuals and from small businesses, of which:	99,470	6,040
Stable deposits	29,785	1,489
Less stable deposits	31,696	3,411
Deposits for terms longer than 30 days	37,989	1,140
Unsecured wholesale financing, of which:	45,650	29,329
Deposits for operational needs (all counter-parties) and deposits with networks of co-operative banking corporations	1,471	368
Deposits other than for operational needs (all counter-parties)	43,858	28,640
Unsecured debts	321	321
Secured wholesale financing	–	216
Additional liquidity requirements, of which:	80,342	19,366
Outflows with respect to derivatives exposure and other collateral requirements	15,036	15,036
Credit lines and liquidity	35,558	2,401
Other contingent financing obligations	29,748	1,929
Total outgoing cash flows		54,951
Incoming cash flows		
Secured loans	653	284
Inflows from regularly repaid exposures	7,716	5,578
Other incoming cash flows	20,896	15,672
Total incoming cash flows	29,265	21,534
		Total adjusted value⁽⁴⁾
Total high-quality liquid assets		40,361
Total outgoing cash flows, net		33,417
Liquidity coverage ratio (%)		121

- (1) Information is presented in terms of simple averages of daily observations during the reported quarter. The number of observations used in calculating the averages in the third quarter of 2018 is 73.
- (2) Unweighted values are to be accounted for as outstanding balances payable or which may be payable by the holder, within 30 days (for both inflows and outflows).
- (3) Weighted values are to be accounted for after applying appropriate security factors or inflow / outflow rates (for inflows and outflows).
- (4) Adjusted value are to be calculated after applying: Safety factors and inflow / outflow rates; and all applicable restrictions (i.e. restriction on High-Quality Liquid Assets and restriction on inflows, as specified in Proper Conduct of Banking Business Directive 221).

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Below is information about liquidity coverage ratio⁽¹⁾ (NIS in millions):

	For the three months ended December 31, 2018	
	Total unweighted value ⁽²⁾ (Average)	Total weighted value ⁽³⁾ (Average)
Total high-quality liquid assets		40,572
Outgoing cash flows		
Retail deposits from individuals and from small businesses, of which:	101,194	6,121
Stable deposits	29,632	1,482
Less stable deposits	32,171	3,457
Deposits for terms longer than 30 days	39,390	1,182
Unsecured wholesale financing, of which:	49,596	31,690
Deposits for operational needs (all counter-parties) and deposits with networks of co-operative banking corporations	1,514	378
Deposits other than for operational needs (all counter-parties)	47,710	30,940
Unsecured debts	372	372
Secured wholesale financing	–	205
Additional liquidity requirements, of which:	77,000	18,798
Outflows with respect to derivatives exposure and other collateral requirements	14,513	14,513
Credit lines and liquidity	34,863	2,373
Other contingent financing obligations	27,624	1,912
Total outgoing cash flows		56,814
Incoming cash flows		
Secured loans	628	269
Inflows from regularly repaid exposures	8,728	6,241
Other incoming cash flows	20,304	15,187
Total incoming cash flows	29,659	21,696
		Total adjusted value⁽⁴⁾
Total high-quality liquid assets		40,572
Total outgoing cash flows, net		35,118
Liquidity coverage ratio (%)		116

- (1) Information is presented in terms of simple averages of daily observations during the reported quarter. The number of observations used in calculating the averages in the fourth quarter of 2018 is 77.
- (2) Unweighted values are to be accounted for as outstanding balances payable or which may be payable by the holder, within 30 days (for both inflows and outflows).
- (3) Weighted values are to be accounted for after applying appropriate security factors or inflow / outflow rates (for inflows and outflows).
- (4) Adjusted value are to be calculated after applying: Safety factors and inflow / outflow rates; and all applicable restrictions (i.e. restriction on High-Quality Liquid Assets and restriction on inflows, as specified in Proper Conduct of Banking Business Directive 221).

Key factors that impact the results of liquidity coverage ratio

The major factors affecting the liquidity coverage ratio results are composition of Bank sources and uses. High-Quality Liquid Assets ("HQLA") are Level 1 assets, which are typically highly negotiable and associated with low risk. These include cash, current accounts and deposits with central banks, debentures of sovereigns with a 0% risk weighting and debentures of the State of Israel. Cash outflows primarily consist of unsecured wholesale financing – deposits which corporations and financial institutions deposited with the Bank, as well as outflows with respect to exposure to derivatives. Cash inflows primarily consist of credit receipts and inflows with respect to exposure to derivatives.

The ratio is primarily cyclical and may be forecast based on internal estimates by the Bank. The key factor which affects evolution of this ratio over time is growth in Bank business, both in raising and management of source composition and increase in uses. There is some volatility between days of the month, due to current activity of clients and interchangeability between NIS and foreign currency, primarily due to activity in NIS / foreign currency derivatives.

Composition of high quality liquid assets (HQLA)

Below are details of liquid assets by level, as required by Directive 221 (NIS in millions):

	September 30, 2019	Average for third quarter of 2019
Level 1 assets	46,022	45,481
Level 2a assets	13	13
Level 2b assets	–	–
Total HQLA	46,035	45,494

There is a regulatory limit applicable to the Los Angeles branch, with regard to use of liquidity reserve by this entity; Bank scenarios assume use of branch liquidity in conformity with this limit.

Composition of pledged and un-pledged available assets:

	As of September 30, 2019		
	Total balance on balance sheet	Of which: Pledged	Of which: Un-pledged
Cash and deposits with central banks	44,493	92	44,401
Debentures of the Government of Israel	7,027	472	6,555
Debentures of foreign governments	2,679	170	2,509
Debentures of foreign others	326	–	326
Total	54,525	734	53,791

	As of September 30, 2018		
	Total balance on balance sheet	Of which: Pledged	Of which: Un-pledged
Cash and deposits with central banks	39,410	36	39,374
Debentures of the Government of Israel	7,869	358	7,511
Debentures of foreign governments	1,654	169	1,485
Debentures of foreign others	478	–	478
Total	49,411	563	48,848

	As of December 31, 2018		
	Total balance on balance sheet	Of which: Pledged	Of which: Un-pledged
Cash and deposits with central banks	41,331	41	41,290
Debentures of the Government of Israel	8,625	345	8,280
Debentures of foreign governments	1,862	174	1,688
Debentures of foreign others	502	–	502
Total	52,320	560	51,760

Developments in liquidity coverage ratio

In the third quarter of 2019, the Bank maintained appropriate liquidity by investing excess liquidity in liquid assets of very high quality – Level 1 assets. The average (consolidated) liquidity coverage ratio for the third quarter of 2019 was 122%. In this quarter, there were no recorded deviations from ratio restrictions.

Additions

Addendum A – Composition of supervisory capital

		September 30, 2019		
		Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with		
		Balance	Basel III	References from step 2
Tier I shareholders' equity: Instruments and retained earnings				
1	Ordinary share capital issued by the banking corporation and ordinary share premium for shares included in Tier I capital	2,281	–	1+2
2	Retained earnings, including dividends proposed or declared after the balance sheet date	13,792	–	3
3	Accumulated other comprehensive income and retained earnings for which disclosure has been given	(183)	–	4
4	Ordinary shares issued by consolidated subsidiaries of the banking corporation, which are held by a third party (non-controlling interests)	456	–	5
5	Tier I capital before regulatory adjustments and deductions	16,346	–	
Tier I shareholders' equity: Regulatory adjustments and deductions				
6	Stabilizing valuation adjustments	–	–	–
7	Goodwill, net of related deferred tax liability, if applicable	87	–	6
8	Other intangible assets, other than mortgage-servicing rights, net of related deferred tax liability	–	–	7+8
9	Deferred tax assets that rely on future profitability of the banking corporation for realization, excluding those arising from temporary differences	–	–	9
10	Accumulated other comprehensive income with respect to cash flows hedging of items not listed at fair value on the balance sheet	8	–	10
11	Shortfall of provisions to expected losses	–	–	–
12	Increase in shareholders' equity due to securitization transactions	–	–	–
13	Unrealized gains / losses from changes to fair value of liabilities arising from change to own credit risk of the banking corporation. In addition, with regard to liabilities with respect to derivative instruments, all debt value adjustments (DVA) arising from own credit risk of the banking corporation is to be deducted	7	–	11
14	Net assets with respect to defined-benefit plans, net of deferred tax liabilities to be settled should the asset become impaired or be disposed in conformity with Public Reporting Directives	–	–	12+13
15	Investment in own ordinary shares, held directly or indirectly (including commitment to purchase shares subject to contractual obligations)	–	–	–
16	Reciprocal cross-holdings in ordinary shares of financial corporations	–	–	–
17	Investments in the capital of financial corporations not consolidated in the public financial statements of the banking corporation, where the banking corporation does not hold more than 10% of the issued ordinary share capital of the financial corporation	–	–	14
18	Investments in the capital of financial corporations not consolidated in the public financial statements of the banking corporation, where the banking corporation holds more than 10% of the issued ordinary share capital of the financial corporation	–	–	–

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		<u>September 30, 2019</u>		
		Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with		
		Balance	Basel III	References from step 2
19	Mortgage servicing rights whose amount exceeds 10% of Tier I capital	–	–	–
20	Deferred tax assets arising from temporary differences, whose amount exceeds 10% of Tier I capital	–	–	–
21	Amount of mortgage servicing rights, deferred tax assets arising from temporary differences and investments that exceed 10% of the ordinary share capital issued by financial corporations, which exceeds 15% of Tier I capital of the banking corporation	–	–	–
22	Of which: With respect to investments that exceed 10% of the ordinary share capital issued by financial corporations	–	–	–
23	Of which: With respect to mortgage servicing rights	–	–	–
24	Of which: Deferred tax assets arising from temporary differences	–	–	–
25	Regulatory adjustments and other deductions stipulated by the Supervisor of Banks	–	–	–
25.A	Of which: With respect to investments in capital of financial corporations	–	–	–
25.B	Of which: With respect to mortgage servicing rights	–	–	–
25.C	Of which: Additional regulatory adjustments to Tier I capital, not included in sections 25.A and 25.B.	–	–	–
26	Deductions applicable to Tier I capital, due to insufficient additional Tier I and Tier II capital to cover deductions	–	–	–
27	Total regulatory adjustments to and deductions from Tier I capital	102	–	
28	Tier I shareholders' equity	16,244	–	
Additional Tier I capital: Instruments				
29	Additional Tier I capital instruments issued by the banking corporation and premium on such instruments	–	–	–
30	Of which: Classified as equity in conformity with Public Reporting Regulations	–	–	15a+16a
31	Of which: Classified as liabilities in conformity with Public Reporting Directives	–	–	–
32	Additional Tier I capital instruments issued by subsidiaries of the banking corporation, held by third party investors	–	–	17
33	Tier I capital, before deductions	–	–	
Additional Tier I capital: Instruments				
34	Investment in own additional Tier I capital instruments, held directly or indirectly (including commitment to purchase such instruments subject to contractual obligations)	–	–	–
35	Reciprocal cross-holdings in additional Tier I capital instruments	–	–	–
36	Investments in the capital of financial corporations not consolidated in the public financial statements of the banking corporation, where the banking corporation does not hold more than 10% of the issued ordinary share capital of the financial corporation	–	–	–
37	Investments in the capital of financial corporations not consolidated in the public financial statements of the banking corporation, where the banking corporation holds more than 10% of the issued ordinary share capital of the financial corporation	–	–	–
38	Other deductions stipulated by the Supervisor of Banks	–	–	–
38.A	Of which: With respect to investments in capital of financial	–	–	–

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		<u>September 30, 2019</u>		
		Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with		References
		Balance	Basel III	from step 2
	corporations			
38.B	Of which: Additional regulatory adjustments to Tier I capital, not included in section 38.A	-	-	-
39	Deductions applicable to additional Tier I capital, due to insufficient Tier II capital to cover deductions	-	-	-
40	Total deductions from additional Tier I capital	-	-	
41	Additional Tier I capital	-	-	
42	Tier I capital	16,244	-	
Tier II capital: Instruments and provisions				
43	Instruments issued by the banking corporation (not included in Tier I capital) and premium on such instruments	465	-	18a
	Tier II capital instruments issued by the banking corporation, eligible for inclusion in regulatory capital during transitional period	1,340	1,340	
44	Tier II capital instruments issued by subsidiaries of the banking corporation to third party investors	2,439	-	19
45	Group provisions for credit losses by effect of related tax	1,555	-	20
46	Tier II capital, before deductions	5,799	1,340	
Tier II capital: Deductions				
47	Investment in own Tier II capital instruments, held directly or indirectly (including commitment to purchase such instruments subject to contractual obligations)	-	-	-
48	Reciprocal cross-holdings in Tier II capital instruments of financial corporations	-	-	-
49	Investments in the capital of financial corporations not consolidated in the public financial statements of the banking corporation, where the banking corporation does not hold more than 10% of the issued ordinary share capital of the financial corporation	-	-	-
50	Investments in the capital of financial corporations not consolidated in the public financial statements of the banking corporation, where the banking corporation holds more than 10% of the issued ordinary share capital of the financial corporation	-	-	-
51	Other deductions stipulated by the Supervisor of Banks	-	-	-
51.A	Of which: With respect to investments in capital of financial corporations	-	-	-
51.B	Of which: Other deductions from Tier II capital, not included in section 51.A	-	-	-
52	Total deductions from Tier II capital	-	-	
53	Tier II capital	5,799	1,340	
54	Total equity	22,043	1,340	
55	Total risk weighted assets	160,306	-	
Capital ratios and capital conservation buffer				
56	Tier I shareholders' equity	10.13%		
57	Tier I capital	10.13%		
58	Total capital	13.75%		
59	Not applicable			
60	Not applicable			

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		September 30, 2019	
		Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with	
		Balance	References Basel III from step 2
61	Not applicable		
62	Not applicable		
63	Not applicable		
Minimum requirements stipulated by the Supervisor of Banks			
64	Minimum Tier I shareholders' equity ratio required by Supervisor of Banks	9.83%	
65	Minimum Tier I capital ratio required by Supervisor of Banks	9.83%	
66	Minimum overall capital ratio required by Supervisor of Banks	13.33%	
Amounts below deduction threshold (before risk weighting)			
67	Investments in capital of financial corporations (other than banking corporations and their subsidiaries), that do not exceed 10% of ordinary share capital issued by the financial corporation and that are below the deduction threshold	–	–
68	Investments in Tier I capital of financial corporations (other than banking corporations and their subsidiaries), that do exceed 10% of ordinary share capital issued by the financial corporation and that are below the deduction threshold	2	–
69	Mortgage servicing rights	–	–
70	Deferred tax assets arising from temporary differences, that are below the deduction threshold	1,165	–
Cap for inclusion of provisions in Tier II			
71	Provision eligible for inclusion in Tier II with respect to exposures subject to standardized approach, prior to application of cap	1,555	–
72	Cap on inclusion of provisions in Tier II under standardized approach	1,850	–
73	Provision eligible for inclusion in Tier II with respect to exposures subject to internal ratings-based approach, prior to application of cap	–	–
74	Cap on inclusion of provisions in Tier II under internal ratings-based approach	–	–

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		September 30, 2018		December 31, 2018		
		Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with Basel III	Balance	Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with Basel III	Balance	References from step 2
Tier I shareholders' equity: Instruments and retained earnings						
1	Ordinary share capital issued by the banking corporation and ordinary share premium for shares included in Tier I capital	2,245	–	2,245	–	1+2
2	Retained earnings, including dividends proposed or declared after the balance sheet date	12,580	–	12,782	–	3
3	Accumulated other comprehensive income and retained earnings for which disclosure has been given	(197)	–	(186)	–	4
4	Ordinary shares issued by consolidated subsidiaries of the banking corporation, which are held by a third party (non-controlling interests)	419	–	431	–	5
5	Tier I capital before regulatory adjustments and deductions	15,047	–	15,272	–	
Tier I shareholders' equity: Regulatory adjustments and deductions						
6	Stabilizing valuation adjustments	–	–	–	–	–
7	Goodwill, net of related deferred tax liability, if applicable	87	–	87	–	6
8	Other intangible assets, other than mortgage-servicing rights, net of related deferred tax liability	–	–	–	–	7+8
9	Deferred tax assets that rely on future profitability of the banking corporation for realization, excluding those arising from temporary differences	–	–	–	–	9
10	Accumulated other comprehensive income with respect to cash flows hedging of items not listed at fair value on the balance sheet	3	–	4	–	10
11	Shortfall of provisions to expected losses	–	–	–	–	–
12	Increase in shareholders' equity due to securitization transactions	–	–	–	–	–
13	Unrealized gains / losses from changes to fair value of liabilities arising from change to own credit risk of the banking corporation. In addition, with regard to liabilities with respect to derivative instruments, all debt value adjustments (DVA) arising from own credit risk of the banking corporation is to be deducted	6	–	9	–	11
14	Net assets with respect to defined-benefit plans, net of deferred tax liabilities to be settled should the asset become impaired or be disposed in conformity with Public Reporting Directives	–	–	–	–	12+13
15	Investment in own ordinary shares, held directly or indirectly (including commitment to purchase shares subject to contractual obligations)	–	–	–	–	–

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	September 30, 2018		December 31, 2018		References from step 2
	Balance	Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with Basel III	Balance	Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with Basel III	
16	Reciprocal cross-holdings in ordinary shares of financial corporations	-	-	-	-
17	Investments in the capital of financial corporations not consolidated in the public financial statements of the banking corporation, where the banking corporation does not hold more than 10% of the issued ordinary share capital of the financial corporation	-	-	-	14
18	Investments in the capital of financial corporations not consolidated in the public financial statements of the banking corporation, where the banking corporation holds more than 10% of the issued ordinary share capital of the financial corporation	-	-	-	-
19	Mortgage servicing rights whose amount exceeds 10% of Tier I capital	-	-	-	-
20	Deferred tax assets arising from temporary differences, whose amount exceeds 10% of Tier I capital	-	-	-	-
21	Amount of mortgage servicing rights, deferred tax assets arising from temporary differences and investments that exceed 10% of the ordinary share capital issued by financial corporations, which exceeds 15% of Tier I capital of the banking corporation	-	-	-	-
22	Of which: With respect to investments that exceed 10% of the ordinary share capital issued by financial corporations	-	-	-	-
23	Of which: With respect to mortgage servicing rights	-	-	-	-
24	Of which: Deferred tax assets arising from temporary differences	-	-	-	-
25	Regulatory adjustments and other deductions stipulated by the Supervisor of Banks	-	-	-	-
25.A	Of which: With respect to investments in capital of financial corporations	-	-	-	-
25.B	Of which: With respect to mortgage servicing rights	-	-	-	-
25.C	Of which: Additional regulatory adjustments to Tier I capital, not included in sections 25.A and 25.B.	-	-	-	-
26	Deductions applicable to Tier I capital, due to insufficient additional Tier I and Tier II capital to cover deductions	-	-	-	-
27	Total regulatory adjustments to and deductions from Tier I capital	96	-	100	-
28	Tier I shareholders' equity	14,951	-	15,172	-

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	September 30, 2018		December 31, 2018		References from step 2
	Balance	Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with Basel III	Balance	Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with Basel III	
Additional Tier I capital: Instruments					
29					
29	Additional Tier I capital instruments issued by the banking corporation and premium on such instruments	-	-	-	-
30	Of which: Classified as equity in conformity with Public Reporting Regulations	-	-	-	15a+16a
31	Of which: Classified as liabilities in conformity with Public Reporting Directives	-	-	-	-
32	Additional Tier I capital instruments issued by subsidiaries of the banking corporation, held by third party investors	-	-	-	17
33	Tier I capital, before deductions	-	-	-	
Additional Tier I capital: Instruments					
34	Investment in own additional Tier I capital instruments, held directly or indirectly (including commitment to purchase such instruments subject to contractual obligations)	-	-	-	-
35	Reciprocal cross-holdings in additional Tier I capital instruments	-	-	-	-
36	Investments in the capital of financial corporations not consolidated in the public financial statements of the banking corporation, where the banking corporation does not hold more than 10% of the issued ordinary share capital of the financial corporation	-	-	-	-
37	Investments in the capital of financial corporations not consolidated in the public financial statements of the banking corporation, where the banking corporation holds more than 10% of the issued ordinary share capital of the financial corporation	-	-	-	-
38	Other deductions stipulated by the Supervisor of Banks	-	-	-	-
38.A	Of which: With respect to investments in capital of financial corporations	-	-	-	-
38.B	Of which: Additional regulatory adjustments to Tier I capital, not included in section 38.A	-	-	-	-
39	Deductions applicable to additional Tier I capital, due to insufficient Tier II capital to cover deductions	-	-	-	-
40	Total deductions from additional Tier I capital	-	-	-	
41	Additional Tier I capital	-	-	-	
42	Tier I capital	14,951	-	15,172	

Tier II capital: Instruments and provisions

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	September 30, 2018		December 31, 2018		References from step 2	
	Balance	Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with Basel III	Balance	Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with Basel III		
43	Instruments issued by the banking corporation (not included in Tier I capital) and premium on such instruments	584	–	501	–	18a
	Tier II capital instruments issued by the banking corporation, eligible for inclusion in regulatory capital during transitional period	1,786	1,786	1,786	1,786	
44	Tier II capital instruments issued by subsidiaries of the banking corporation to third party investors	1,006	–	1,725	–	19
45	Group provisions for credit losses by effect of related tax	1,498	–	1,503	–	20
46	Tier II capital, before deductions	4,874	1,786	5,515	1,786	
Tier II capital: Deductions						
47	Investment in own Tier II capital instruments, held directly or indirectly (including commitment to purchase such instruments subject to contractual obligations)	–	–	–	–	–
48	Reciprocal cross-holdings in Tier II capital instruments of financial corporations	–	–	–	–	–
49	Investments in the capital of financial corporations not consolidated in the public financial statements of the banking corporation, where the banking corporation does not hold more than 10% of the issued ordinary share capital of the financial corporation	–	–	–	–	–
50	Investments in the capital of financial corporations not consolidated in the public financial statements of the banking corporation, where the banking corporation holds more than 10% of the issued ordinary share capital of the financial corporation	–	–	–	–	–
51	Other deductions stipulated by the Supervisor of Banks	–	–	–	–	–
51.A	Of which: With respect to investments in capital of financial corporations	–	–	–	–	–
51.B	Of which: Other deductions from Tier II capital, not included in section 51.A	–	–	–	–	–
52	Total deductions from Tier II capital	–	–	–	–	
53	Tier II capital	4,874	1,786	5,515	1,786	
54	Total equity	19,825	1,786	20,687	1,786	
55	Total risk weighted assets	147,872	–	151,627	–	
Capital ratios and capital conservation buffer						
56	Tier I shareholders' equity	10.11%	0.00%	10.01%		
57	Tier I capital	10.11%	0.00%	10.01%		
58	Total capital	13.41%	0.00%	13.64%		

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		September 30, 2018		December 31, 2018		
		Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with		Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with		
		Balance	Basel III	Balance	Basel III	References from step 2
59	Not applicable					
60	Not applicable					
61	Not applicable					
62	Not applicable					
63	Not applicable					
Minimum requirements stipulated by the Supervisor of Banks						
64	Minimum Tier I shareholders' equity ratio required by Supervisor of Banks	9.84%	0.00%	9.84%		
65	Minimum Tier I capital ratio required by Supervisor of Banks	9.84%	0.00%	9.84%		
66	Minimum overall capital ratio required by Supervisor of Banks	13.34%	0.00%	13.34%		
Amounts below deduction threshold (before risk weighting)						
67	Investments in capital of financial corporations (other than banking corporations and their subsidiaries), that do not exceed 10% of ordinary share capital issued by the financial corporation and that are below the deduction threshold	–	–	–	–	
68	Investments in Tier I capital of financial corporations (other than banking corporations and their subsidiaries), that do exceed 10% of ordinary share capital issued by the financial corporation and that are below the deduction threshold	2	–	2	–	
69	Mortgage servicing rights	–	–	–	–	
70	Deferred tax assets arising from temporary differences, that are below the deduction threshold	1,061	–	1,071	–	
Cap for inclusion of provisions in Tier II						
71	Provision eligible for inclusion in Tier II with respect to exposures subject to standardized approach, prior to application of cap	1,498	–	1,503	–	
72	Cap on inclusion of provisions in Tier II under standardized approach	1,709	–	1,750	–	
73	Provision eligible for inclusion in Tier II with respect to exposures subject to internal ratings-based approach, prior to application of cap	–	–	–	–	
74	Cap on inclusion of provisions in Tier II under internal ratings-based approach	–	–	–	–	

Glossary and index of terms included in the Risks Report

Below is a summary of terms included on the Risks Report:

Terms with regard to risks management at the Bank and to capital adequacy

B	Basel – Basel II / Basel III – Framework for assessment of capital adequacy and risk management, issued by the Basel Committee on Bank Supervision.
C	CVA - Credit Valuation Adjustment – CVA is the component of the fair value of a derivative, which accounts for the credit risk of the counter-party to the transaction. CVA risk is the risk of loss due to mark-to-market with respect to expected counter-party risk for OTC derivatives. This means – loss due to impairment of fair value of derivatives, due to an increase in counter-party credit risk (such as: lower rating). Counter-party credit risk – The risk that the other party to a transaction would be in default before final settlement of cash flows in the transaction.
H	HQLA – High-Quality Liquid Assets which may be easily and quickly converted into cash at a small loss (or no loss) under a stress scenario.
I	ICAAP – Internal Capital Adequacy Assessment Process by the Bank. This process includes, <i>inter alia</i> , setting capital targets, capital planning processes and review of capital status under various stress scenarios. This process is part of Pillar 2 of the Basel II directive.
M	Minimum capital ratio – This ratio reflects the minimum supervisory capital requirements which the Bank is required to maintain in conformity with Proper Conduct of Banking Business Directive 201.
P	Pillar 2 – The second pillar of the Basel II project, refers to the Supervisory Review Process. This part consists of the following basic principles: The Bank shall conduct the ICAAP process, as defined above. The Supervisor shall conduct a process to assess the ICAAP process conducted by the Bank, to review the Bank's capacity to monitor and achieve supervisory capital ratios. The Bank is expected to operate above the specified minimum capital ratios. Pillar 3 – The third pillar of the Basel II project, designed to promote market discipline by developing a set of disclosure requirements, which would allow market participants to assess the capital, risk exposure and risk assessment processes – and use these to assess the Bank's capital adequacy.
R	Risk assets – These consist of credit risk, operational risk and market risk, calculated using the standard approach as stated in Proper Conduct of Banking Business Directives 201-211. Risks document – A document which concisely presents the Bank's risk profile, in order to allow the Board of Directors to monitor action taken by management and to ensure that such action is in line with the risk appetite and with the risks management framework approved by the Board of Directors. The Risks Document is compiled and presented to the Board of Directors quarterly.
S	Standard approach – An approach used to calculate the required capital with respect to credit risk, market risk or operational risk. Calculation of capital allocation is based on a formula, which is based on supervisory assessment components which have been specified by the Supervisor of Banks. Supervisory capital (total capital) – Supervisory capital consists of two tiers: Tier I capital, which includes Tier I capital, additional Tier I capital and Tier II capital. As defined in Proper Conduct of Banking Business Directive 202 "Measurement and capital adequacy – supervisory capital". Stress tests – A title for various methods used to assess the financial standing of a banking corporation under a n extreme scenario.

Terms with regard to banking and finance

D	Debentures – Securities which are obligations by the issuer to pay to the debenture holder the principal issued plus interest, on specified dates or upon realization of a specified condition.
	Derivatives – A financial instrument or contract whose value changes in response to changes in the price of the underlying asset (a financial instrument, physical asset, index, credit rating or other underlying asset), requires a small or minimal initial investment, compared to other contract types, and is expected to be settled on a future date.
I	Indebtedness – On- and off-balance sheet credit, as defined in Proper Conduct of Banking Business Directive 313.
	Impaired debt – Debt is classified as impaired when its principal or interest is in arrears over 90 days, unless the debt is well secured and is in collection proceedings. Further, any debt whose terms and conditions have been changed in conjunction with restructuring of problematic debt would be classified as impaired debt, unless prior to and following such restructuring, a provision for credit losses by extent of arrears was made with respect to the debt pursuant to the appendix to Proper Conduct of Banking Business Directive 314 on problematic debt in housing loans.
R	Recorded debt balance – The debt balance, including recognized accrued interest, premium or discount yet to be amortized, net deferred commissions or net deferred costs charged to the debt balance and yet to amortized, net of the debt amount subject to accounting write-off.
	Financial instrument – A contract that creates a financial asset for one entity and a financial liability or capital instrument for another entity.

Terms with regard to regulatory directives

L	LCR – Liquidity Coverage Ratio – Defined as the ratio of High Quality Liquid Assets and net cash outflow for the next 30 days, under a stress scenario. This ratio is a benchmark for the Bank's capacity to fulfill its liquidity needs for the coming month.
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