

Mizrahi-Tefahot Bank

Risks report for the first 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 March 31, 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 May 20, 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 March 31, 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, May 20, 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 relevant

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

	For the quarter ended March 31, 2019	For the quarter ended December 31, 2018	For the quarter ended September 30, 2018	For the quarter ended June 30, 2018	For the quarter ended March 31, 2018	For 2018
Key supervisory and financial ratios						
Available capital						
Tier I capital ⁽¹⁾	15,618	15,172	14,951	14,508	14,436	15,172
Tier I capital before effect of transitional provisions	15,457	15,004	14,755	14,295	14,188	15,004
Total capital	20,660	20,687	19,825	19,368	19,249	20,687
Total capital before effect of transitional provisions	19,159	18,733	17,843	17,369	17,215	18,733
Risk weighted assets						
Total risk weighted assets (RWA)	154,315	151,627	147,872	145,784	142,129	151,627
Capital adequacy ratio (in %)						
Tier I capital ratio ⁽¹⁾	10.12	10.01	10.11	9.95	10.16	10.01
Tier I capital ratio before effect of transitional provisions	10.01	9.88	9.96	9.79	9.96	9.88
Total capital ratio	13.39	13.64	13.41	13.29	13.54	13.64
Total capital ratio before effect of transitional provisions	12.40	12.35	12.05	11.90	12.09	12.35
Tier I capital ratio required by Supervisor of Banks	9.83	9.84	9.84	9.84	9.86	9.84
Available Tier I capital ratio, beyond what is required by the Supervisor of Banks	0.29	0.17	0.27	0.11	0.30	0.17
Leverage ratio						
Total exposure	281,693	279,827	273,087	269,911	265,621	279,827
Leverage ratio (in %) ⁽²⁾	5.54	5.42	5.47	5.38	5.43	5.42
Leverage ratio before effect of transitional provisions (in %)	5.49	5.36	5.40	5.30	5.34	5.36
Liquidity coverage ratio⁽³⁾						
Total high-quality liquid assets	44,879	40,572	40,361	39,599	40,648	40,572
Total outgoing cash flows, net	37,414	35,118	33,417	32,875	32,545	35,118
Liquidity coverage ratio (in %)	120	116	121	120	125 ⁽⁷⁾	116
Performance benchmarks						
Net profit return on equity ⁽⁴⁾⁽⁵⁾	11.3	5.7 ⁽⁸⁾	13.4	6.1 ⁽⁸⁾	10.3	8.5 ⁽⁸⁾
Profit return on risk assets ⁽⁵⁾⁽⁶⁾	1.06	0.54	1.24	0.58	0.97	0.83
Deposits from the public to loans to the public, net	104.3	102.6	101.7	101.5	101.9	102.6
Key credit quality benchmarks						
Ratio of balance of provision for credit losses to total loans to the public	0.80	0.80	0.81	0.81	0.81	0.80
Ratio of impaired debts or debts in arrears 90 days or longer to loans to the public	1.25	1.23	1.17	1.12	1.09	1.23
Expenses with respect to credit losses to loans to the public, net for the period ⁽⁵⁾	0.15	0.16	0.13	0.19	0.18	0.16
Of which: With respect to commercial loans other than housing loans	0.40	0.44	0.27	0.49	0.49	0.40
Of which: With respect to housing loans	0.03	0.01	0.05	0.04	0.02	0.03
Ratio of net accounting write-offs to average loans to the public ⁽⁵⁾	0.14	0.12	0.09	0.11	0.13	0.11

Financial ratios indicate:

- Net profit return for the quarter was 11.3%, higher than the corresponding period last year (10.3%).
- In the past quarter, the safety margins for ratio of Tier I capital to risk components improved.

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) Net profit return in 2018 was affected by 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).
Net profit return from the Bank's current operations, excluding the aforementioned provision and taking into account the provisions for bonus payments in line with operating profitability and related tax expenses, is as follows:
In the second quarter of 2018 - 14.1%.
In the fourth quarter of 2018 - 10.7%.
In 2018 - 11.6%.

Risks Report

As of March 31, 2019

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

	As of March 31, 2019	As of March 31, 2018	As of December 31, 2018
Tier I shareholders' equity	15,618	14,436	15,172
Tier II capital	5,042	4,813	5,515
Total capital	20,660	19,249	20,687

Total credit risk to the public⁽¹⁾:

	March 31, 2019	March 31, 2018	December 31, 2018
Total credit risk to the public	256,479	244,814	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 March 31, 2019 Weighted risk asset balances	As of March 31, 2019 Capital requirement ⁽¹⁾	As of March 31, 2018 Weighted risk asset balances	As of March 31, 2018 Capital requirement ⁽²⁾	As of December 31, 2018 Weighted risk asset balances	As of December 31, 2018 Capital requirement ⁽³⁾
Credit risk	142,373	18,979	131,263	17,537	139,996	18,676
Market risk	1,790	238	1,699	227	1,494	198
CVA risk with respect to derivatives ⁽⁴⁾	443	59	538	72	576	77
Operational Risk ⁽⁵⁾	9,709	1,296	8,629	1,153	9,561	1,275
Total risk assets	154,315	20,572	142,129	18,989	151,627	20,226

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

(2) The capital requirement was calculated at 13.36% 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 Directive 310 "Risks Management", which is based on the Basel Committee recommendations and 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 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 is exposed to financial risks, such as: credit risks and market and interest risks, as well as non-financial risks, such as: compliance risks, operating, legal, reputation 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 and is based on the 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 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	Medium	
Inflation risk	Low-medium	
Exchange rate risk	Low	
Share price 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 and 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, See Note 9 to the financial statements

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 first quarter of 2019, the Bank's risk profile is low, similar to the risk profile at the end of 2018.

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 satisfactory under stress scenarios as well.

The Bank conducts processes for risk identification and measurement, base 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 first quarter of 2019

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.

Forward-Looking Information – Strategic plan

In 2018, the Bank Board of Directors has not declared any dividends with respect to earnings in the second, third and fourth quarters of 2018, following developments in the investigation by the US DOJ, including the signing of a DPA agreement, dated March 12, 2019, with the US DOJ to conclude the investigation into the Bank Group's business with its US clients.

For more information see Note 26.C.12 to the 2018 financial statements.

The Bank's Board of Directors, upon approving the signing of the agreement by the Bank, estimated that the Bank can achieve the outline for the five-year strategic plan for 2017-2021.

The Board of Directors further estimated at that time that in 2019, the Bank could resume acting in conformity with its policy of distributing dividends, subject to terms and conditions prescribed in the strategic plan, including compliance with statutory requirements and limits stipulated by the Supervisor of Banks.

Developments in the first quarter of 2019

- On the financial statements, the capital adequacy presented is: Tier I capital ratio – 10.12% and total capital ratio – 13.39% (see Note 9 to these financial statements).
- The Bank's Board of Directors has not declared any dividends with respect to earnings in the first quarter of 2019.
- The Bank's aforementioned estimates remain unchanged with regard to the capacity to achieve the the outline for the strategic plan for 2017-2021.
- The Bank's Board of Directors believes that the Bank would resume dividend distributions with respect to earnings in the second quarter of 2019 and thereafter.

The Board of Directors shall continue to monitor execution of the strategic plan, and may make changes to this plan from time to time, as required, including due to changes in factors which may affect the plan, as described above.

This information constitutes forward-looking information, as defined in the Securities Act, 1968 and based on assumptions, facts and data underlying the strategic plan and listed therein, which may fail to materialize due to factors not solely under Bank control, causing the the strategic plan, including with regard to the policy of distribution of dividends, to fail to materialize.

Credit risk

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 first 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.

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 first quarter of this year, key risk benchmarks remained stable: In particular: LTV ratio (original LTV ratio in the portfolio: 52.5%), repayment ratio, rate of oblige in default; rate of arrears for new loans (up to one year since origination).

Furthermore, the rate of arrears for new loans (up to one year since origination) has been low in recent years.

Credit risk in the capital market is the risk of the borrower failing to meet their obligations towards the Bank, including the obligation to cover losses due to capital market activity conducted through the Bank.

The scope of business and risk level at the Bank in this area are low.

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 monitoring of high-risk economic sectors.

In the first quarter of 2019, the Bank continued development of computer-based processes for credit applications and a model to determine differential interest authorizations.

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. As from the second half of 2018, clients of the Retail Division are rated using advanced custom 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 first 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 risk level which is not high and stable over time.

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 downwards 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 first quarter of this year, the overall risk level remained Low-Medium (the interest risk level remained Medium). Risk benchmark values were calculated in conformity with the revision to the methodology in the policy and were in line with limits imposed 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.

Liquidity risk

In the first 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 first quarter of 2019 was 120%. In this quarter, there were no exceptions from the risk appetite limits and concentration benchmarks, and there were no material unusual events. Note that in March 2019, the Bank raised its state of alert to Elevated Alert, due to tensions around Gaza and in the South. In practice, no events and/or indications were observed which would indicate realization of a liquidity event. In early April 2019, after return to normal conditions, the Bank decided to return to the normal course of business.

Operational risk

In the first quarter of this year, 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 first quarter of 2019, the Bank continued to operate in conformity with the work plan.

A periodic questionnaire was launched to review the integrity and currency of the branch emergency file, emergency procedures were revised and branch operation using power generators was exercised.

Concurrently, the list of services under Business Impact Analysis (BIA) were reviewed and planning of the major annual drill were started.

Information security and cyber security

In the first 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.

Most of these attempts to conduct unauthorized transactions were identified and blocked by the defense systems applied by the Bank to protect its client accounts.

Concurrently, towards the end of this quarter the Bank reinforced 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 transition of Bank Yahav to a new platform, the Bank concluded the review of transition of the Bank's core capital market system to the capital market module of the new platform and launched this project in the first quarter of 2019.

Legal risk

In the first quarter of 2019, legal risk remained Low-Medium, similar to the estimate 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 at Low-Medium. The Bank believes the risk is trending downwards due, *inter alia*, to continued addressing of risks rated high and to further enhancement of controls and training and further streamlining of work processes in this area and measures taken to improve interfaces between units.

This is in view of further increased regulatory activity reflected, *inter alia*, in new directives being issued frequently, which the Bank is preparing for.

Cross-border risk

Risk remaining unchanged at Low-Medium.

The Bank continues its processes for improvement of risk management quality by, *inter alia*, computer-based work processes and delivery of training with regard to cross-border risks and disabling activity of non-cooperative clients.

The Bank is completing its preparations for reporting in conformity with regulations issued in early 2019 with regard to Common Reporting Standard (CRS), so as to meet the specified schedules.

Prohibition of money laundering

Risk level remained unchanged, due to further intensive training and deployment activity, along with risk-focused controls and taking effective action to avoid recurrence of unusual events and compliance failures, against the backdrop of business growth and further enhanced regulatory activity reflected, *inter alia*, in new directives issued more frequently, for which the Bank is preparing as required.

In 2018, the Bank implemented a new AML system (MEA), used to monitor unusual transactions which give rise to concerns with regard to AML.

Reputation risk

In the first quarter of 2019 there were no events which negatively impacted the Bank's reputation.

Risk estimate is Low, similar to the estimate in the 2018 report, due to the agreement signed by the Bank and US authorities.

In the first quarter of 2019, Bank management and the Bank's Board of Directors approved some of the Bank's risk management and control policy documents: The market and interest risk management policy was updated, after changes were made to the methodology for measuring interest risk, in conformity with the Basel principles and common practice, which is compatible with the Bank implementation of such principles; the IT risk management policy was updated in line with leading technology trends in the market today, in particular with regard to cloud computing and open source.

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.

For more information about business-strategic risk, see chapter "Business-strategic risk" below.

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 business operations at the Bank, 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 December 31, 2018	Risk weighted assets December 31, 2018	Minimum capital requirements ⁽¹⁾ December 31, 2018
Credit risk (standard approach) ⁽²⁾	139,991	136,734	18,661
Counter-party credit risk (standard approach)	1,238	2,189	165
Credit risk value adjustment (CVA) ⁽³⁾	443	576	59
Amounts lower than deduction thresholds (subject to 250% risk weighting)	1,144	1,073	152
Total credit risk	142,816	140,572	19,037
Market risk (standard approach)	1,790	1,494	239
Operational Risk ⁽⁴⁾	9,709	9,561	1,296
Total	154,315	151,627	20,572

(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 first quarter of 2019 is primarily due to growth in commercial loans and in the housing loans portfolio, offset by transactions for sale of loans conducted during the first quarter of 2019.

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 March 31, 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 (NIS in millions) :

	March 31, 2019		March 31, 2018		December 31, 2018	
	March 31, 2019 Balance	Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with Basel III	March 31, 2018 Balance	Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with Basel III	December 31, 2018 Balance	Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with Basel III
Tier I capital before regulatory adjustments and deductions	15,712	–	14,536	–	15,272	–
Total regulatory adjustments to and deductions from Tier I capital	94	–	100	–	100	–
Tier I shareholders' equity	15,618	–	14,436	–	15,172	–
Tier II capital	5,042	1,340	4,813	1,786	5,515	1,786
Total capital	20,660	1,340	19,249	1,786	20,687	1,786
Total weighted risk assets	154,315	–	142,129	–	151,627	–
Ratio of Tier I capital to risk components	10.12%		10.16%		10.01%	
Ratio of total capital to risk components	13.39%		13.54%		13.64%	
Minimum Tier I capital ratio required by Supervisor of Banks	9.83%		9.86%		9.84%	
Minimum overall capital ratio required by Supervisor of Banks	13.33%		13.36%		13.34%	

For more information and detailed composition of supervisory capital, in conformity with disclosure requirements of Basel Pillar 3, as of March 31, 2019 compared to March 31, 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 March 31, 2019 is 5.54%, compared to 5.43% as of March 31, 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 March 31, 2019	As of March 31, 2018	As of December 31, 2018
Total assets in consolidated financial statements	260,108	242,805	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	701	1,465	1,293
Adjustments with respect to securities financing transactions	-	-	-
Adjustments with respect to off-balance sheet items ⁽¹⁾	19,546	20,081	19,390
Other adjustments	1,338	1,270	1,323
Exposure for leverage ratio	281,693	265,621	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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Disclosure with regard to leverage ratio (NIS in millions)

	As of March 31, 2019	As of March 31, 2018	As of December 31,2018
Balance sheet exposure			
Assets on balance sheet	258,622	240,462	255,457
Amounts with respect to assets deducted to determine Tier I capital	(87)	(87)	(87)
Total balance sheet exposure	258,535	240,375	255,370
Exposure with respect to derivatives			
Cost of replacement with respect to all derivative transactions	1,409	1,730	2,465
Amounts added with respect to future potential exposure with respect to all derivative transactions	1,606	2,857	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	–	–	–
Adjusted effective nominal offsets and deduction of additions with respect to credit derivatives written	–	–	–
Total exposure with respect to derivatives	3,015	4,587	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	597	578	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	597	578	561
Other off-balance-sheet exposures			
Off-balance sheet exposure at gross nominal value	71,237	64,175	68,821
Adjustments with respect to conversion to credit equivalent amounts	(51,691)	(44,094)	(49,431)
Off-balance sheet items	19,546	20,081	19,390
Capital and total exposure			
Tier I capital	15,618	14,436	15,172
Total exposure	281,693	265,621	279,827
Leverage ratio			
Leverage ratio in conformity with Proper Conduct of Banking Business Directive 218	5.54%	5.43%	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.

Moreover, such risk is interrelated to multiple other risks, such as market and interest risk, liquidity risk, compliance risks 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)

March 31, 2019

	Gross balances⁽¹⁾ Impaired or in arrears 90 days or longer	Gross balances⁽¹⁾ Others	Provisions for credit losses	Net- balance
Debt other than debentures	2,479	242,141	1,588	243,032
Debentures	–	8,529	–	8,529
Off-balance sheet exposure ⁽²⁾	58	71,217	96	71,179
Total	2,537	321,887	1,684	322,740

March 31, 2018

	Gross balances⁽¹⁾ Impaired or in arrears 90 days or longer	Gross balances⁽¹⁾ Others	Provisions for credit losses	Net- balance
Debt other than debentures	2,015	224,609	1,501	225,123
Debentures	–	8,774	–	8,774
Off-balance sheet exposure ⁽²⁾	63	63,346	96	63,313
Total	2,078	296,729	1,597	297,210

December 31, 2018

	Gross balances⁽¹⁾ Impaired or in arrears 90 days or longer	Gross balances⁽¹⁾ 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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As of March 31, 2019

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, as of March 31, 2019, in accordance with appendix to Proper Conduct of Banking Business Directive 314. (NIS in millions):

	Extent of arrears In arrears 30 to 89 days ⁽¹⁾	Extent of arrears In arrears 90 days or longer 6-15 months	Extent of arrears In arrears 90 days or longer 15-33 months	Extent of arrears In arrears 90 days or longer Over 33 months	In arrears 90 days or longer Total over 90 days	Balance with respect to refinance d loans in arrears ⁽²⁾	Total	
Amount in arrears	8	21	17	14	202	254	39	301
Of which: Balance of provision for interest ⁽³⁾	–	–	–	1	110	111	6	117
Recorded debt balance	520	768	286	80	131	1,265	85	1,870
Balance of provision for credit losses ⁽⁴⁾	–	–	37	39	88	164	41	205
Debt balance, net	520	768	249	41	43	1,101	44	1,665

(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.

For more information about movement in balance of the provision for credit losses and details of credit exposures which have been re-structured, see Note 13 to the financial statements as of March 31, 2019.

Credit risk mitigation methods (CR3)

As of March 31, 2019

	Unsecured Total on- balance sheet balance ⁽¹⁾	Secured Total on- balance sheet balance ⁽¹⁾	Secured Of which: Secured amount ⁽²⁾	Secured Of which: By collateral Balance sheet balance	Secured Of which: By collateral Of which: Secured amount	Secured Of which: By financial guarantees Balance sheet balance	Secured Of which: By financial guarantees Of which: Secured amount	Secured Of which: By credit derivatives Balance sheet balance	Secured Of which: By credit derivatives Of which: Secured amount
Debt other than debentures	220,463	23,997	8,356	18,575	7,372	5,422	983	–	–
Debentures	8,529	–	–	–	–	–	–	–	–
Total	228,992	23,997	8,356	18,575	7,372	5,422	983	–	–
Of which: Accruing interest revenues**, in arrears 90 days or longer	2,296	241	39	198	32	58	7	–	–

As of March 31, 2018

	Unsecured Total on- balance sheet balance ⁽¹⁾	Secured Total on- balance sheet balance ⁽¹⁾	Secured Of which: Secured amount ⁽²⁾	Secured Of which: By collateral Balance sheet balance	Secured Of which: By collateral Of which: Secured amount	Secured Of which: By financial guarantees Balance sheet balance	Secured Of which: By financial guarantees Of which: Secured amount	Secured Of which: By credit derivatives Balance sheet balance	Secured Of which: By credit derivatives Of which: Secured amount
Debt other than debentures	203,889	22,593	8,755	18,016	7,737	4,577	1,018	–	–
Debentures	8,774	–	–	–	–	–	–	–	–
Total	212,663	22,593	8,755	18,016	7,737	4,577	1,018	–	–
Of which: Accruing interest revenues**, in arrears 90 days or longer	1,734	344	237	166	36	231	201	–	–

As of December 31, 2018

	Unsecured Total on- balance sheet balance ⁽¹⁾	Secured Total on- balance sheet balance ⁽¹⁾	Secured Of which: Secured amount ⁽²⁾	Secured Of which: By collateral Balance sheet balance	Secured Of which: By collateral Of which: Secured amount	Secured Of which: By financial guarantees Balance sheet balance	Secured Of which: By financial guarantees Of which: Secured amount	Secured Of which: By credit derivatives Balance sheet balance	Secured Of which: By credit derivatives Of which: Secured amount
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 (CR5) ⁽¹⁾⁽²⁾ As of March 31, 2019

Asset type / risk weighting	0%	20%	35%	50%	60%	75%	100%	150%	Ot-her	Total credit exposures (after conversion factors and collateral deduction)
Sovereigns, central banks and national monetary authority	54,043	31	–	–	–	–	193	–	–	54,267
Public sector entities (PSE) other than central Government	525	854	–	–	–	–	–	–	–	1,379
Banks (including Multi-party Development Banks)	–	1,708	–	204	–	–	105	–	–	2,017
Securities companies	–	–	–	–	–	–	–	–	–	–
Corporations	–	5,217	–	527	–	–	39,351	–	–	45,095
Retail exposure to individuals	–	–	–	–	–	20,533	–	–	–	20,533
Loans to small businesses	–	–	–	–	–	9,519	3	–	–	9,522
Secured by residential property	–	–	53,201	29,083	5,995	37,789	805	–	–	126,873
Secured by commercial real estate	–	–	–	–	–	–	3,087	–	–	3,087
Loans in arrears	–	–	–	–	–	–	1,293	1,194	–	2,487
Other assets	1,630	–	–	–	–	–	2,059	60	1	3,750
Of which: with respect to shares	–	–	–	–	–	–	12	46	–	58
Total	56,198	7,810	53,201	29,814	5,995	67,841	46,896	1,254	1	269,010

As of March 31, 2018

Asset type / risk weighting	0%	20%	35%	50%	60%	75%	100%	150%	Ot-her	Total credit exposures (after conversion factors and collateral deduction)
Sovereigns, central banks and national monetary authority	46,077	3,176	–	–	–	–	77	–	–	49,330
Public sector entities (PSE) other than central Government	646	–	–	1,498	–	–	–	–	–	2,144
Banks (including Multi-party Development Banks)	–	1,451	–	295	–	–	130	–	–	1,876
Securities companies	–	–	–	–	–	–	–	–	–	–
Corporations	–	5,788	–	377	–	–	34,374	–	–	40,539
Retail exposure to individuals	–	–	–	–	–	19,064	–	–	–	19,064
Loans to small businesses	–	–	–	–	–	8,914	2	–	–	8,916
Secured by residential property	–	–	55,228	26,936	–	37,275	777	–	–	120,216
Secured by commercial real estate	–	–	–	–	–	–	2,493	–	–	2,493
Loans in arrears	–	–	–	–	–	–	1,089	870	–	1,959
Other assets	1,725	–	–	–	–	–	1,847	60	2	3,634
Of which: with respect to shares	–	–	–	–	–	–	12	43	–	55
Total	48,448	10,415	55,228	29,106	–	65,253	40,789	930	2	250,171

As of December 31, 2018

Asset type / risk weighting	0%	20%	35%	50%	60%	75%	100%	150%	Ot-her	Total credit exposures (after conversion factors and collateral deduction)
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 March 31, 2019

	Subrogation cost	Future potential exposure	Exposure after deduction of collateral	Risk assets
Current exposure method	1,409	1,606	2,233	1,168
Comprehensive approach to credit risk mitigation (for securities financing transactions)	555	–	70	70
Total	1,964	1,606	2,303	1,238

As of March 31, 2018

	Subrogation cost	Future potential exposure	Exposure after deduction of collateral	Risk assets
Current exposure method	1,703	2,074	2,728	1,895
Comprehensive approach to credit risk mitigation (for securities financing transactions)	532	–	60	60
Total	2,235	2,074	2,788	1,955

As of December 31, 2018

	Subrogation cost	Future potential exposure	Exposure after deduction of collateral	Risk assets
Current exposure method	2,465	2,042	3,242	2,053
Comprehensive approach to credit risk mitigation (for securities financing transactions)	535	–	136	136
Total	3,000	2,042	3,378	2,189

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

	As of March 31, 2019 Exposure after deduction of collateral	As of March 31, 2019 Risk assets	As of March 31, 2018 Exposure after deduction of collateral	As of March 31, 2018 Risk assets	As of December 31, 2018 Exposure after deduction of collateral	As of December 31, 2018 Risk assets
Total – portfolios for which CVA is calculated using the standard approach	1,755	443	2,679	539	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: March 31, 2019	Risk assets as of: March 31, 2018	Risk assets as of: December 31, 2018
Direct products			
Interest rate risk (general and specific)	1,342	1,316	1,163
Stock position risk (general and specific)	–	10	2
Exchange rate risk	421	273	309
Commodities risk	–	–	–
Options	–	–	–
Delta Plus approach	27	100	20
Securitization	–	–	–
Total	1,790	1,699	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 in foreign currency.

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 March 31, 2019

	Total unweighted value ⁽²⁾ (Average)	Total weighted value ⁽³⁾ (Average)
Total high-quality liquid assets		44,879
Outgoing cash flows		
Retail deposits from individuals and from small businesses, of which:	104,571	6,219
Stable deposits	29,793	1,490
Less stable deposits	32,113	3,449
Deposits for terms longer than 30 days	42,665	1,280
Unsecured wholesale financing, of which:	52,708	33,528
Deposits for operational needs (all counter-parties) and deposits with networks of co-operative banking corporations	1,870	468
Deposits other than for operational needs (all counter-parties)	50,080	32,302
Unsecured debts	758	758
Secured wholesale financing	–	148
Additional liquidity requirements, of which:	73,636	17,850
Outflows with respect to derivatives exposure and other collateral requirements	13,472	13,471
Credit lines and liquidity	35,684	2,420
Other contingent financing obligations	24,480	1,959
Total outgoing cash flows		57,745
Incoming cash flows		
Secured loans	774	265
Inflows from regularly repaid exposures	9,331	6,482
Other incoming cash flows	18,244	13,584
Total incoming cash flows	28,349	20,331
		Total adjusted value⁽⁴⁾
Total high-quality liquid assets		44,879
Total outgoing cash flows, net		37,414
Liquidity coverage ratio (%)		120

(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 first 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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As of March 31, 2019

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

For the three months ended March 31, 2018

	Total unweighted value ⁽²⁾ (Average)	Total weighted value ⁽³⁾ (Average)
Total high-quality liquid assets		
Total high-quality liquid assets		40,648
Outgoing cash flows		
Retail deposits from individuals and from small businesses, of which:	94,580	5,880
Stable deposits	28,940	1,447
Less stable deposits	31,620	3,412
Deposits for terms longer than 30 days	34,020	1,021
Unsecured wholesale financing, of which:	45,368	28,741
Deposits for operational needs (all counter-parties) and deposits with networks of co-operative banking corporations	1,309	327
Deposits other than for operational needs (all counter-parties)	43,975	28,330
Unsecured debts	84	84
Secured wholesale financing	–	148
Additional liquidity requirements, of which:	70,907	18,326
Outflows with respect to derivatives exposure and other collateral requirements	14,347	14,347
Credit lines and liquidity	29,702	2,034
Other contingent financing obligations	26,858	1,945
Total outgoing cash flows		53,095
Incoming cash flows		
Secured loans	590	243
Inflows from regularly repaid exposures	7,748	5,536
Other incoming cash flows	19,216	14,771
Total incoming cash flows	27,554	20,550
		Total adjusted value⁽⁴⁾
Total high-quality liquid assets		40,648
Total outgoing cash flows, net		32,545
Liquidity coverage ratio (%)		125⁽⁵⁾

- (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 first quarter of 2018 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).
- (5) 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.

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		
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):

	March 31, 2019	Average for first quarter of 2019
Level 1 assets	47,181	44,866
Level 2a assets	13	13
Level 2b assets	–	–
Total HQLA	47,194	44,879

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 March 31, 2019

	Total balance on balance sheet	Of which: Pledged	Of which: Un-pledged
Cash and deposits with central banks	45,239	37	45,202
Debentures of the Government of Israel	6,713	344	6,369
Debentures of foreign governments	1,838	414	1,424
Debentures of foreign others	470	–	470
Total	54,260	795	53,465

As of March 31, 2018

	Total balance on balance sheet	Of which: Pledged	Of which: Un-pledged
Cash and deposits with central banks	40,539	49	40,490
Debentures of the Government of Israel	7,152	332	6,820
Debentures of foreign governments	1,350	304	1,046
Debentures of foreign others	466	–	466
Total	49,507	685	48,822

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	285	1,577
Debentures of foreign others	502	–	502
Total	52,320	671	51,649

Developments in liquidity coverage ratio

In the first 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 first quarter of 2019 was 120%.

In this quarter, there were no recorded deviations from ratio restrictions.

Additions

Addendum A – Composition of supervisory capital

		NIS in millions March 31, 2019		
		Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with Basel III		
		NIS in millions March 31, 2019 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	–	1+2
2	Retained earnings, including dividends proposed or declared after the balance sheet date	13,186	–	3
3	Accumulated other comprehensive income and retained earnings for which disclosure has been given	(156)	–	4
4	Ordinary shares issued by consolidated subsidiaries of the banking corporation, which are held by a third party (non-controlling interests)	437	–	5
5	Tier I capital before regulatory adjustments and deductions	15,712	–	
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	3	–	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	4	–	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	–	–	
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	–	–	

Risks Report

As of March 31, 2019

	NIS in millions March 31, 2018 Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with Basel III	NIS in millions December 31, 2018 Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with Basel III	NIS in millions March 31, 2018 Balance	NIS in millions December 31, 2018 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	12,056	–	12,782	–	3
3	Accumulated other comprehensive income and retained earnings for which disclosure has been given	(173)	–	(186)	–	4
4	Ordinary shares issued by consolidated subsidiaries of the banking corporation, which are held by a third party (non-controlling interests)	408	–	431	–	5
5	Tier I capital before regulatory adjustments and deductions	14,536	–	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	10	–	9	–	11

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As of March 31, 2019

	NIS in millions March 31, 2018 Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with Basel III	NIS in millions December 31, 2018 Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with Basel III	NIS in millions March 31, 2018 Balance	NIS in millions December 31, 2018 Balance	References from step 2
credit risk of the banking corporation is to be deducted					
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	–	–	–	–	
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	–	–	–	–	

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As of March 31, 2019

	NIS in millions March 31, 2018 Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with Basel III NIS in millions March 31, 2018 Balance	NIS in millions March 31, 2018 Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with Basel III	NIS in millions December 31, 2018 Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with Basel III NIS in millions December 31, 2018 Balance	NIS in millions December 31, 2018 Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with Basel III	References from step 2
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	100	-	100	
28	Tier I shareholders' equity	14,436	-	15,172	
	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	-	-	-	

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As of March 31, 2019

	NIS in millions March 31, 2018		NIS in millions December 31, 2018		
	Amounts not deducted from equity, subject to required		Amounts not deducted from equity, subject to required		
	NIS in millions March 31, 2018 Balance	treatment prior to adoption of Directive 202, in conformity with Basel III	NIS in millions December 31, 2018 Balance	treatment prior to adoption of Directive 202, in conformity with Basel III	References from step 2
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	14,436	–	15,172	–	
Tier II capital: Instruments and provisions					
43 Instruments issued by the banking corporation (not included in Tier I capital) and premium on such instruments	579	–	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	1,002	–	1,725	–	19
45 Group provisions for credit losses by effect of related tax	1,446	–	1,503	–	20
46 Tier II capital, before deductions	4,813	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	–	–	–	–	

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As of March 31, 2019

	NIS in millions March 31, 2018	NIS in millions December 31, 2018		
	Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with Basel III	Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with Basel III	NIS in millions March 31, 2018 Balance	NIS in millions December 31, 2018 Balance
				References from step 2
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	4,813	1,786	5,515	1,786
54 Total equity	19,249	1,786	20,687	1,786
55 Total weighted risk assets	142,129	–	151,627	–
Capital ratios and capital conservation buffer				
56 Tier I shareholders' equity	10.16%		10.01%	
57 Tier I capital	10.16%		10.01%	
58 Total capital	13.54%		13.64%	
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	9.86%		9.84%	
65 Minimum Tier I capital ratio required by Supervisor of Banks	9.86%		9.84%	
66 Minimum overall capital ratio required by Supervisor of Banks	13.36%		13.34%	
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	–	–	–	–

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As of March 31, 2019

	NIS in millions March 31, 2018	NIS in millions December 31, 2018			
	Amounts not deducted from equity, subject to required	Amounts not deducted from equity, subject to required			
	NIS in millions March 31, 2018 Balance	treatment prior to adoption of Directive 202, in conformity with Basel III	NIS in millions December 31, 2018 Balance	treatment prior to adoption of Directive 202, in conformity with Basel III	
				References from step 2	
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	953	–	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	1,446	–	1,503	–
72	Cap on inclusion of provisions in Tier II under standardized approach	1,641	–	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	–	–	–	–

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.
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. Stress tests – A title for various methods used to assess the financial standing of a banking corporation under a n extreme scenario. 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".

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 be 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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