RISK MANAGEMENT REPORT AS AT 31.03.2020

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מזרחי טפחות
MIZRAHI TEFAHOT

To see in each person **his personal imprint**

This report includes supplementary information to the Bank's financial statements and is prepared in accordance with the Supervisor of Banks' directives, which include disclosure requirements from Basel Pillar III and additional disclosure requirements by the Financial Stability Board (FSB). The Israel Securities Authority's MAGNA website includes the following reports: Condensed financial statements of interim periods, a detailed risk management report and additional supervisory information regarding supervisory capital instruments issued by the Bank. In conformity with the Supervisor of Banks' directives, these reports, including XBRL format, are also available on the Bank website at www.mizrahi-tefahot.co.il/en ▶ financial reports.

Mizrahi-Tefahot Bank

Risks report for the first quarter of 2020

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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List of tables included on the Risks Report

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, 2020. 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 31, 2020.

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 (FSF) 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 2019 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 capital 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, 2020, 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	**Eldad Fresher**	**Doron Klauzner**
Chairman of the Board of Directors	President & CEO	Vice-president, Chief Risks Officer (CRO)

Approval date of the financial statements and the Risks Report:

Ramat Gan, May 31, 2020

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):

	2020 First quarter	2019 Fourth quarter	Third quarter	Second quarter	First quarter	2019 Annual
Key supervisory and financial ratios						
Available capital						
Tier I capital[1]	16,718	16,520	16,244	16,220	15,618	16,520
Tier I capital before effect of transitional provisions	16,653	16,390	16,102	16,073	15,457	16,390
Total capital	22,521	22,610	22,043	22,003	20,660	22,610
Total capital before effect of transitional provisions	21,563	21,139	20,561	20,516	19,159	21,139
Risk weighted assets						
Total risk weighted assets (RWA)	169,001	162,858	160,306	158,626	154,315	162,858
Capital adequacy ratio (in %)						
Tier I capital ratio[1]	9.89	10.14	10.13	10.23	10.12	10.14
Tier I capital ratio before effect of transitional provisions	9.85	10.05	10.04	10.12	10.01	10.05
Total capital ratio	13.33	13.88	13.75	13.87	13.39	13.88
Total capital ratio before effect of transitional provisions	12.75	12.97	12.82	12.92	12.40	12.97
Tier I capital ratio required by Supervisor of Banks	8.82	9.83	9.83	9.83	9.83	9.83
Available Tier I capital ratio, beyond what is required by the Supervisor of Banks	1.07	0.31	0.30	0.40	0.29	0.31
Leverage ratio						
Total exposure	309,863	297,779	288,965	285,858	281,693	297,779
Leverage ratio (in %)[2]	5.40	5.55	5.62	5.67	5.54	5.55
Leverage ratio before effect of transitional provisions (in %)	5.37	5.50	5.57	5.62	5.49	5.50
Liquidity coverage ratio[3]						
Total high-quality liquid assets	49,568	44,846	45,494	42,430	44,879	44,846
Total outgoing cash flows, net	42,300	36,979	37,376	36,014	37,414	36,979
Liquidity coverage ratio (in %)	117	121	122	118	120	121
Performance benchmarks						
Net profit return on equity[4][5]	9.1	11.5	11.1	15.8	11.3	11.9
Profit return on risk assets[5][6]	0.86	1.09	1.06	1.48	1.06	1.17
Deposits from the public to loans to the public, net	106.2	103.1	102.6	102.2	104.3	103.1
Key credit quality benchmarks						
Ratio of provision for credit losses to total loans to the public	0.91	0.82	0.81	0.80	0.80	0.82
Ratio of impaired debts or debts in arrears 90 days or longer to loans to the public	1.41	1.36	1.29	1.28	1.25	1.36
Expenses with respect to credit losses to loans to the public, net for the period[5]	0.66	0.23	0.14	0.20	0.15	0.18
Of which: With respect to commercial loans other than housing loans	1.55	0.61	0.33	0.50	0.40	0.46
Of which: With respect to housing loans	0.19	0.04	0.04	0.03	0.03	0.03
Ratio of net accounting write-offs to average loans to the public[5]	0.16	0.12	0.07	0.13	0.14	0.11

Financial ratios indicate:

- Net profit return in the first quarter was at 7.7% (reported net profit return: 9.1%), compared to 11.3% in the corresponding period last year. The decrease in return on capital is due to the significant increase in credit loss expenses due to the Corona Virus crisis and the lower interest rates in Israel and in the USA, offset by increase in loans, deposits and commissions due to the Corona Virus crisis.
- Ratio of Tier I capital to risk components decreased to 9.89%, compared to the minimum rate which the Bank is required to achieve: 8.82%. This decrease is due to increase in loans extended to clients, and to decrease in net profit in the first quarterly of 2020, as noted above. This is in line with the supervisory expectation in Proper Conduct of Bank Business Directive 250, dated March 31, 2020, regarding Bank operations during this crisis and relief provided due to this crisis regarding the minimum capital required of banking corporations. For more information see chapter "Significant Events in the Bank Group's Business" on the Report of the Board of Directors and Management.

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.

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

	As of March 31, 2020	As of March 31, 2019	As of December 31, 2019
Tier I shareholders' equity	16,718	15,618	16,520
Tier II capital	5,803	5,042	6,090
Total capital	**22,521**	**20,660**	**22,610**

Total credit risk to the public(1):

	March 31, 2020	March 31, 2019	December 31, 2019
Total credit risk to the public	**278,120**	**256,479**	**271,105**

(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, 2020		As of March 31, 2019		As of December 31, 2019	
	Weighted risk asset balances	Capital requirement(1)	Weighted risk asset balances	Capital requirement(2)	Weighted risk asset balances	Capital requirement(3)
Credit risk	155,968	19,215	142,373	18,979	150,494	20,062
Market risk	1,843	227	1,790	238	1,791	239
CVA risk with respect to derivatives(4)	673	83	443	59	384	51
Operational Risk(5)	10,517	1,296	9,709	1,294	10,189	1,358
Total risk assets	**169,001**	**20,821**	**154,315**	**20,570**	**162,858**	**21,710**

(1) The capital requirement was calculated at 12.32% of risk asset balances.
(2) The capital requirement was calculated at 13.33% of risk asset balances.
(3) The capital requirement was calculated at 13.33% 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 operates in conformity with directives of the Supervisor of Banks with regard to risk management and control, and in conformity with Proper Conduct of Banking Business Directives, and in particular with Directive 310 "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	Medium	Manager, Business Division
Risk from quality of borrowers and collateral	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 and terror financing risk	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.

The overall risk profile for the Bank is slightly higher in the first quarter of 2020, due to higher credit risk due to implications of the global Corona Virus pandemic, which started in Israel in late February 2020, and its effect on the Israeli and global economy. However, the impact of this crisis on the quality of the Bank's loan portfolio may not be fully assessed as yet.

The Bank of Israel issued a range of relief measures in directives and adjustments to Proper Conduct of Banking Business Directive in order to address the Corona Virus crisis, assist the economy in getting through this crisis and increasing lending in the economy. These directives include relief measures for measurement and capital adequacy, sector indebtedness, management of credit facilities in checking accounts, restrictions on extending housing loans and so forth.

Furthermore, the Government has issued guidelines for an economic plan to help the economy, and has launched a fund to provide loans to small and large businesses impacted by the Corona Virus crisis.

The overall impact of credit risk and of risk with respect to borrower and collateral quality increased from Low-Medium to Medium. The higher risk level primarily applies to the business segment, especially small and medium businesses, due to reduced economic activity as a result of the prolonged lock-down imposed in Israel. Material risk factors are the sharp increase in unemployment rate, specific economic sectors (such as: Aviation, fashion, hotels, accommodation and dining services) which were impacted, and declines in financial markets resulting in erosion of collateral value. These factors may result in more clients facing difficulties over time.

The Bank strictly manages and monitors its credit risk and has taken active steps in conformity with the situation, in order to help clients get through this crisis period and to reduce the likelihood of default, while maintaining the risk management policy of the Bank. As part of these steps, a delay by several months was approved for current payments to mortgage clients who needed this, due to temporary difficulties due to the crisis; delays and updated payment schedules were also approved for individual and commercial clients who face temporary difficulties; loans guaranteed by the State were extended as part of the Government plan. For quantitative data with regard to Bank activity designed to help clients in view of the Corona Virus crisis, see chapter "Significant events in the Bank Group's business" of the Board of Directors' Report.

The assessment of credit concentration risk and of risk in the mortgage portfolio remained unchanged at Low. The risk associated with the mortgage portfolio is assessed to be Low, even given the implications of the crisis. In order to provide relief to mortgage clients in facing the Corona Virus crisis, the Bank allowed mortgage payments to be delayed for up to 4 months, with delayed payments re-attributed over the remaining mortgage term. Analysis of those applying for delay shows that the risk profile for these loans is similar to that of the overall housing loan portfolio at the Bank. The Bank closely monitors the risk in the mortgage portfolio and development of mortgage payments upon expiration of the delay granted to clients. The Bank also applies the mortgage underwriting process, in conformity with relief granted by the Bank of Israel with regard to review of repayment capacity, considering the pre-crisis income level and expectation of return to employment later on.

Assessment of all risk factors other than the aforementioned credit risk remained unchanged from end 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.

During the Corona Virus crisis, the Bank has operated in conformity with emergency procedures and transitioned from routine operations to a state of alert, and later on to an emergency routine, which included the following: regular meetings of the situation room to determine operating principles in conformity with changing directives from regulators, operation of a Corona Virus specific forum to manage current operations, and holding regular specific discussions by the Board of Directors and by management. The Bank maintained business continuity throughout this period, as required.

During the Corona Virus crisis, the Bank reinforced is monitoring and defense systems for IT and cyber risk, which risk has increased across the entire system in this period. In this period, there were no material events at the Bank. Moreover, the Bank's Technology Division operated in emergency outline, for current operation of the production floor and for maintaining continuous operations, including expansion of infrastructure capabilities and systems for supporting increased use of online banking and remote working.

The liquidity risk level remained Medium. In February 2020, the Bank raised its alert level to Elevated Alert, due to concern with regard to the Corona Virus outbreak and the sharp declines in stock markets. In early March, the Bank raised its state of alert, due to further sharp declines in stock markets, both globally and in particular in Israel The alert level includes operating measures designed to ensure that the Bank maintains appropriate liquidity during crisis periods. Throughout this period, the Bank maintained high excess liquidity. As from mid-May, as the Bank resumed routine operations, the state of alert was lowered to Elevated.

Reputation risk remained low; the Bank continues to regularly monitor the situation and no material effect is evident with regard to reputation risk of the Bank.

The Bank regularly reviews the implications of this crisis on business-strategic risk. At this stage and due to the current uncertainty, the full impact of the crisis on Bank operations may not be assessed. The Bank operates pursuant to a five-year strategic plan approved in November 2016, for the years 2017-2021; the targets of this plan were achieved in 2019, hence the Bank Board of Directors has instructed the Bank to prepare for a new strategic plan for 2021-2025. In view of the Corona Virus crisis and the current uncertainty, discussion by the Bank Board of Directors with regard to setting a new strategic plan would be postponed to late 2020. This date may be revised in future.

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 has executed scenarios to assess the impact of the Corona Virus crisis and changes to macro-economic parameters on its business results and capital ratios for a 3-year period. Under the major scenario, the economy reaches the peak of the crisis in the second quarter of 2020 and resumes routine operations in the third quarter of 2020; under the stress scenario, the recovery process and return to routine operations only take place in the first quarter of 2021. These results demonstrate the Bank's capacity to withstand potential losses under both these scenarios, and to maintain capital ratios that exceed the minimum capital ratios required by the Supervisor of Banks, which were temporarily reduced in conformity with the crisis period (for more information about relief measures with regard to capital requirements, see chapter "Capital adequacy and dividend distribution" of the Board of Directors' Report.

Summary of Bank policy on major risks and developments in the first quarter of 2020

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 2019 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 credit is managed based on multiple risk benchmarks, including internal models for assessment of client credit ratings. The Bank has the business. legal and operating infrastructure for flexible management of credit risk by selling and/or sharing risk.

Loans in the micro and small business segment are a key growth engine and a key 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 loan 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.

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).

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 2020, key risk benchmarks remained stable: In particular, the LTV (original LTV ratio in the portfolio: 52.5%) and loan repayment ratio (26.1%).

As noted above, the Corona Virus crisis currently affecting Israel and the entire world has real economic and financial implications, with a sharp decline in economic activity, significant increase in the unemployment rate and sharp volatility in financial markets. These events resulted in higher credit risk in the Israeli economy and world-wide. The higher risk level primarily applies to the business segment, especially small and medium businesses, due to reduced economic activity.

The provision for credit losses recognized on these financial statements includes an estimate with respect to the effect of the Corona Virus crisis, primarily reflected in the group-based provision. For more information about the increase in provision and the methodology used to calculate the provision, see chapter "Significant events in the Bank Group's business" of the Board of Directors' Report.

The Bank of Israel issued a range of relief measures and directives in Proper Conduct of Banking Business Directive 250 "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus (Interim Directive)". These include diverse relief measures, including measurement and capital adequacy, sector indebtedness, management of credit facilities in checking accounts, restrictions on extending housing loans and so forth. These relief measures indicate that the Supervisor expects banks to assist the economy in overcoming this crisis, both by providing various relief measures and by increased lending and pricing loans at prices which may not strictly reflect the risk in its entirety.

Furthermore, the Government has issued guidelines for an economic plan to help the economy, and has launched a fund to provide loans to businesses with revenues of up to NIS 400 million, designed to help businesses impacted by the Corona Virus crisis. The fund is guaranteed by the State at 85% per loan and 15% of the portfolio at the Bank, against a 5% deposit by the client. The loans bear interest at Prime + 1.5% with a one-year grace period for principal and interest paid by the State for the first year. Furthermore, a fund for large businesses, launched on April 30, 2020, which is guaranteed by the State at 75% per loan and up to 12% in total guarantee.

The Bank strictly manages and monitors credit risk and holds a weekly emergency credit forum meeting, headed by the Manager, Business Division and the Credit Risk Officer, attended by the Manager, Risk Control Division (the CRO) and representatives from the business divisions, as well as a bi-weekly meeting on this matter, headed by the Bank President & CEO and attended by the Manager, Business Division and the Manager, Risks Control Division, as well as regular assessments conducted by divisions. At these meetings, economic sectors with high exposure to the crisis are individually monitored, as are key benchmarks determined and specific clients who are significantly impacted by the crisis.

The business units are regularly in close contact with clients, in order to assess their business standing and the implications of the crisis for these clients, in order to help the business sector face the challenges resulting from this crisis, while maintaining balances and minimizing credit risk.

The Bank has applied a wide range of measures to provide an immediate response to needs arising from the situation, from operational response to clients to adjustments made to the credit underwriting and credit risk policy. The Bank is acting and constantly reviewing the risk profile against the risk appetite, in line with the scope of operations and risk. In conformity with directives of the Bank of Israel and with Bank policy for review of credit policy upon occurrence of material external events, the Bank Board of Directors conducted a comprehensive review in early April 2020, due to implications of the Corona Virus crisis. In this regard, adjustments were made to the credit policy, including authorizations and risk appetite, to multiple parameters, in conformity with business operations and with directives / relief measures from the Bank of Israel with regard to credit operations.

Business activity with clients included: delays in loan repayments to clients (both individual and business clients) designed to alleviate cash flow issues, and loans extended on a large scale through the funds guaranteed by the State.

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.

The Bank regularly reviews the risk estimation methodology, in line with global common practice. Thus, in the first quarter of 2020, measurement methods were slightly revised to also include future receipts with respect to early repayment commission expected under the various scenarios. Consequently, the risk measured under lower interest scenarios decreased.

Risk benchmark values calculated in conformity with the revised methodology, both in the normal course of business and under stress scenarios, which reflect extreme changes in interest rates, are lower than the risk appetite specified. The overall risk level remained low-medium.

March saw a sharp increase in zero coupon NIS interest rate curves, across the entire NIS and CPI-linked curve. Increase in interest rate curves, both for Government and highly-rated corporate debt, resulted in higher cost of funds for the Bank. The Corona Virus crisis resulted in lower inflationary expectations due to the expected decline in demand. The Bank continued to strictly manage its CPI-linked position, based on creating a daily linkage balance sheet and establishing a forecast position under various scenarios.

Liquidity risk

In the first quarter of 2020, 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 2020 was 117%. In this quarter, there were no exceptions from the risk appetite limits and concentration benchmarks.

In February 2020, the Bank raised its alert level to Elevated. The decision to raise the alert level was due to concern with regard to the Corona Virus outbreak and the sharp declines in stock markets.

In early March, the Bank raised the state of alert for liquidity, due to the Corona Virus outbreak and further sharp declines in stock markets, both globally and in particular in Israel, and due to the integrated benchmark for monitoring financial markets[1] reaching record levels. The alert level includes operating measures designed to ensure that the Bank maintains appropriate liquidity during crisis periods.

The sharp declines in financial markets resulted in households selling securities and in heavy redemptions, primarily in the mutual fund market. Consequently, the Bank's liquidity ratios improved due to the sharp increase in balance of deposits from the public for households and businesses, offset by a decrease in the balance of deposits from the public for financial institutions.

During the current period, the Bank closely monitors (at daily level) qualitative and quantitative indicators (both internal and external) and conducts daily reviews of multiple stress scenarios for various time frames – liquidity is appropriate across all these scenarios and the Bank is in compliance with all internal limitations.

(1) A benchmark developed by the Bank for identifying and monitoring financial markets in Israel, in order to identify any instability in the financial system in Israel – this benchmark is a decision-support tool for declaring a state of alert due to systemic failure.

According to the liquidity planning for the short term and for longer terms, the Bank is expected to further maintain appropriate liquidity ratios, with due consideration to its known operations and to expected operations including assumptions appropriate for crisis situations.

In March-April, the Bank of Israel applied a range of monetary measures to support economic activity and financial stability.

The measures applied by the Bank of Israel included buy-back of Government debentures, Repo transactions with institutional entities, USD/NIS swap transactions and a plan to provide monetary loans for a 3-year term to the banking system (against collateral), so as to increase credit supply to micro and small businesses.

The alert level returned down to Elevated in mid-May, with resumption of routine operations.

Operational risk

In the first quarter of 2020, 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 operational risks, and further activity to identify, analyze and enhance awareness of the various operational risks. As part of Bank preparations for the Corona Virus crisis and the impact of changes to operational conduct resulting from the relief measures applied, the likelihood of realization of certain potential operating risk increased, primarily due to the load on branch and banking center operations, which may result in increase in the number of operating errors in conducting transactions and in a higher number of fraud attempts. In fact, there were no unusual operational events.

Business continuity

The Bank applies Proper Conduct of Banking Business Directive 355 concerning "Management of business continuity". In the first quarter of 2020, the Bank started to operate in conformity with the work plan. In February, as the Corona Virus outbreak started, the Bank transitioned from routine operations to a state of alert and later on – to an emergency routine. The Bank, as part of addressing the emergency routine, convened an expanded situation room to determine work guidelines and established a Corona Virus forum to manage current operations under these conditions, including the relevant parties for such operations. Several measures were applied to address this event, including the following:

- Splitting Bank units in order to maintain operating continuity of critical services, avoiding infection or isolation of entire units. Floors in existing buildings and sites were thus split.
- Special protective equipment and disinfecting material were distributed to branches and to headquarters staff, including masks, gloves, disinfectants and other equipment. Moreover, separation barriers and sneeze barriers were installed to reduce contact with clients and to avoid potential infection.
- Significant increase in use of remote work platform – the lists of employees that are required to work remotely were established jointly with the business divisions, based on multiple aspects: Employees required to work from home due to their age group / state of health, critical employees requiring another work alternative to ensure operational continuity and employees working from home due to isolation orders. The work format was determined in conformity with instructions from information security and human resources, and was monitored on daily basis. Where needed, the Bank provided ruggedized equipment to those in sensitive positions, as well as indirect equipment provided in special cases. An IT support team is constantly available to support users.
- In conformity with the emergency directives, the Bank switched to reduced operations, specifying the core branches that would remain open to the public (all other branches are by appointment only. Persons with disabilities, the elderly and pensioners also receive in-person service at these branches, in conformity with instructions from the Retail Division).
- Following an update to the Corona Virus emergency regulations, the Bank started personal temperature measurements at all Bank facilities and Bank employees are required to complete a health certification when starting work.

As the Bank returned to full operation in early May 2020, the Bank prepared to continue working while maintaining separation and, in some cases, continuing to work in split units and with remote work. For more information see chapter "Significant Events in the Bank Group's Business" of the Board of Directors' Report.

Information security and cyber security

In the first quarter of 2020, 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.

During the Corona Virus crisis, the Bank's information security team operated fully and continuously, improving and bolstering defense capabilities and mechanisms, in conformity with expansion of threats and challenging needs which the Bank is required to face.

We should note that the Corona Virus pandemic has elevated cyber risk across the world, primarily due to increase in working remotely, which provided more attack vectors for organizations. Bank operations during this period retained the risk level at the Bank unchanged.

Information technology risk

Given current developments in the financial market, the age of current Bank systems, the Bank launched, in the first quarter of 2019, a project to replace the Bank's capital market core system based on a new platform. Moreover, the Bank launched in 2019 a project for replacing the CRM system, based on the PEGA SYSTEM platform. The system would be gradually implemented over 3 years.

IT risk is assessed as Medium, reflecting the potential damage due to materialization of technology risks that are material for proper operations at the Bank.

The risk level during this quarter and throughout the Corona Virus crisis remained unchanged. The Technology Division operated in providing full support for regular operations at the Bank and for technology needs required for Bank operations during emergency routine operations. There were no material events and/or malfunctions during this period.

Legal risk

In the first quarter of 2020, legal risk remained Low-Medium, similar to the assessment in in the 2019 annual report. For more information see Note 10.B.4 to the financial statements.

Review of legal risk level in the first quarter of 2020 included, *inter alia*, a review of potential implications of the Corona Virus crisis on legal risk, which found that in general, there was no impact on the level of legal risk and the quality of management of said risk.

Compliance risk

Compliance risk remained unchanged in the first quarter of 2020, 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. In the current quarter, due to the Corona Virus crisis, management of compliance risk was reviewed and adapted to the state of emergency.

Cross-border risk

The risk level remained unchanged in the first quarter of 2020, at Low-Medium. The Bank manages this risk, *inter alia*, by revising procedures, automating work processes, delivering training, concentrating activity of foreign residents in specialized branches and specification of work routines in processes required tor reporting under both FATCA and CRS.

AML and terror financing risk

The risk level remained unchanged in the first quarter of 2020, at Low-Medium. This was due to continued intensive training and deployment activity, along with risk-focused controls, improvement of documents and classifications and taking effective action to avoid recurrence of extraordinary events and compliance failures. The new AML system – MEA – in order to identify unusual activity and for reporting to the AML Authority, is operating in branches on regular basis and enables close control over the banking activity.

Reputation risk

In the first quarter of 2020, the Bank monitors and reviews the impact of the Corona Virus pandemic, globally and in Israel, on business activity as a whole and on reputation risk in particular, with regard to negative perception of the Bank specifically, and as part of the overall perception of the banking system. Bank management believes that at this stage, the reputational risk level has not changed materially. The Bank continues to regularly monitor this matter.

The Bank, as most banks in Israel, was included in the Black List issued by the UN Human Rights Council, listing companies that operate in territories beyond the Green Line. This publication may impact discussion in the media and activities of various organizations, including analysts and shareholders overseas, which would impact all of the business sector, including the banking system. The Bank is acting on this matter in co-operation with the Banking Association and with the Bank of Israel; at this stage, the Bank is unable to assess the impact on Bank operations.

In the first quarter of 2020, 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: General framework policy on risk management and control (master policy), policy on management of market and interest risk, policy on management of reputation risk, policy on management of suppliers and outsourcing, in conformity with Proper Conduct of Banking Business Directive 359A concerning outsourcing, and policy on capital adequacy and leverage, in conformity with the interim directive, including adjustments to Proper Conduct of Banking Business Directives in order to address the Corona Virus crisis, which revised the minimum capital ratios. As well as several updates to the Bank's credit policy, in line with credit operations during the Corona Virus crisis, as described above.

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 March 31, 2020	As of December 31, 2019	As of March 31, 2020
Credit risk (standard approach)[2]	151,051	146,494	18,616
Counter-party credit risk (standard approach)	2,042	1,157	252
Credit risk value adjustment (CVA)[3]	673	384	83
Amounts lower than discount thresholds (subject to 250% risk weighting)	2,875	2,843	354
Total credit risk	**156,641**	**150,878**	**19,305**
Market risk (standard approach)	1,843	1,791	227
Operational Risk[4]	10,517	10,189	1,296
Total	**169,001**	**162,858**	**20,828**

(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 2020 was primarily due to growth of business credit and housing loan.

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, 2020, 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:

	March 31, 2020		March 31, 2019		December 31, 2019	
	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	16,847	–	15,712	–	16,621	–
Total regulatory adjustments to and deductions from Tier I capital	129	–	94	–	101	–
Tier I shareholders' equity	16,718	–	15,618	–	16,520	–
Tier II capital	5,803	893	5,042	1,340	6,090	1,340
Total capital	22,521	893	20,660	1,340	22,610	1,340
Total weighted risk assets	169,001	–	154,388	–	162,858	–
Ratio of Tier I capital to risk components	9.89%	–	10.12%	–	10.14%	–
Ratio of total capital to risk components	13.33%	–	13.38%	–	13.88%	–
Minimum Tier I capital ratio required by Supervisor of Banks	8.82%	–	9.83%	–	9.83%	–
Minimum overall capital ratio required by Supervisor of Banks	12.32%	–	13.33%	–	13.33%	–

For more information and detailed composition of supervisory capital, in conformity with disclosure requirements of Basel Pillar 3, as of March 31, 2020 compared to March 31, 2019 and December 31, 2019, see Addendum A below.

For more information about reduction of minimum capital ratios which banks are required to maintain in the normal course of business, by one percentage point, see Note 9 to the financial statements as of March 31, 2020.

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.

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, 2020	As of March 31, 2019	As of December 31, 2019
Total assets in consolidated financial statements	284,731	260,011	273,244
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 derivatives	611	701	687
Adjustments with respect to securities financing transactions	–	–	–
Adjustments with respect to off-balance sheet items(1)	22,959	19,643	22,496
Other adjustments	1,562	1,338	1,352
Exposure for leverage ratio	**309,863**	**281,693**	**297,779**

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

Disclosure with regard to leverage ratio (NIS in millions)

Composition of exposures and leverage ratio (NIS in millions)	As of March 31, 2020	As of March 31, 2019	As of December 31, 2019
Balance sheet exposure			
Assets on balance sheet	281,021	258,525	271,204
Amounts with respect to assets deducted to determine Tier I capital	(87)	(87)	(87)
Total balance sheet exposure	**280,934**	**258,438**	**271,117**
Exposure with respect to derivatives			
Cost of replacement with respect to all derivative transactions	2,734	1,118	1,261
Amounts added with respect to future potential exposure with respect to all derivative transactions	1,918	1,606	1,691
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	285	291	276
Adjusted effective nominal offsets and deduction of additions with respect to credit derivatives written	–	–	–
Total exposure with respect to derivatives	**4,937**	**3,015**	**3,228**
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	1,033	597	938
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	**1,033**	**597**	**938**
Other off-balance-sheet exposures			
Off-balance sheet exposure at gross nominal value	77,839	71,237	78,157
Adjustments with respect to conversion to credit equivalent amounts	(54,880)	(51,691)	(55,661)
Off-balance sheet items	22,959	19,546	22,496
Capital and total exposure			
Tier I capital	16,718	15,618	16,520
Total exposure	309,863	281,596	297,779
Leverage ratio			
Leverage ratio in conformity with Proper Conduct of Banking Business Directive 218	5.40%	5.54%	5.55%

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. For Bank operations with regard to credit management during the Corona Virus crisis, see chapter "Credit risk" of the Board of Directors' Report for the first quarter of 2020.

Credit quality of credit exposures (CR1)

	March 31, 2020			
	Gross balances[(1)]			
	Impaired or in arrears 90 days or longer	Others	Provisions for credit losses	Net balance
Debt other than debentures	2,995	262,786	1,936	263,845
Debentures	–	7,783	–	7,783
Off-balance sheet exposure[(2)]	40	77,820	132	77,728
Total	**3,035**	**348,389**	**2,068**	**349,356**

	March 31, 2019			
	Gross balances[(1)]			
	Impaired or in arrears 90 days or longer	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**

	December 31, 2019			
	Gross balances[(1)]			
	Impaired or in arrears 90 days or longer	Others	Provisions for credit losses	Net balance
Debt other than debentures	2,417	235,863	1,579	236,701
Debentures	–	10,701	–	10,701
Off-balance sheet exposure[(2)]	72	68,759	98	68,733
Total	**2,489**	**315,323**	**1,677**	**316,135**

(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).

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 March 31, 2020 (NIS in millions):

	Extent of arrears							
		In arrears 90 days or longer						
	In arrears 30 to 89 days(1)	90 days to 6 months	6-15 months	15-33 months	Over 33 months	Total over 90 days	Balance with respect to refinanced loans in arrears(2)	Total
Amount in arrears	10	27	17	16	196	256	36	302
Of which: Balance of provision for interest(3)	–	–	–	1	107	108	7	115
Recorded debt balance	637	991	268	100	117	1,476	71	2,184
Balance of provision for credit losses(4)	–	–	34	48	86	168	37	205
Debt balance, net	**637**	**991**	**234**	**52**	**31**	**1,308**	**34**	**1,979**

(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.

Credit risk mitigation methods (CR3)

	As of March 31, 2020								
	Unsecured	Secured							
				Of which: By collateral		Of which: By financial guarantees		Of which: By credit derivatives	
	Total on-balance sheet balance(1)	Total on-balance sheet balance(1)	Of which: Secured amount(2)	Balance sheet balance	Of which: Secured amount	Balance sheet balance	Of which: Secured amount	Balance sheet balance	Of which: Secured amount
Debt other than debentures	239,451	24,394	6,708	17,688	5,723	6,706	984	–	–
Debentures	7,783	–	–	–	–	–	–	–	–
Total	**247,234**	**24,394**	**6,708**	**17,688**	**5,723**	**6,706**	**984**	**–**	**–**
Of which: Accruing interest revenues, in arrears 90 days or longer	2,193	518	154	334	66	228	88	–	–

	As of March 31, 2019								
	Unsecured	Secured							
				Of which: By collateral		Of which: By financial guarantees		Of which: By credit derivatives	
	Total on-balance sheet balance(1)	Total on-balance sheet balance(1)	Of which: Secured amount(2)	Balance sheet balance	Of which: Secured amount	Balance sheet balance	Of which: Secured amount	Balance sheet balance	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 December 31, 2019								
	Unsecured	Secured							
				Of which: By collateral		Of which: By financial guarantees		Of which: By credit derivatives	
	Total on-balance sheet balance(1)	Total on-balance sheet balance(1)	Of which: Secured amount(2)	Balance sheet balance	Of which: Secured amount	Balance sheet balance	Of which: Secured amount	Balance sheet balance	Of which: Secured amount
Debt other than debentures	212,519	24,182	8,481	18,973	7,456	5,209	1,024	–	–
Debentures	10,701	–	–	–	–	–	–	–	–
Total	**223,220**	**24,182**	**8,481**	**18,973**	**7,456**	**5,209**	**1,024**	**–**	**–**
Of which: Accruing interest revenues, in arrears 90 days or longer	1,978	269	89	154	24	124	65	–	–

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

Asset type / risk weighting	0%	20%	35%	50%	60%	75%	100%	150%	Other	Total credit exposures (after conversion factors and collateral deduction)
										As of March 31, 2020
Sovereigns, central banks and national monetary authority	60,855	31	–	–	–	–	91	–	–	60,977
Public sector entities (PSE) other than central Government	297	1,041	–	25	–	–	–	–	–	1,363
Banks (including Multi-party Development Banks)	–	1,992	–	279	–	–	119	–	–	2,390
Securities companies	–	–	–	–	–	–	–	–	–	–
Corporations	–	6,055	–	503	–	–	42,923	–	–	49,481
Retail exposure to individuals	–	–	–	–	–	19,979	–	–	–	19,979
Loans to small businesses	–	–	–	–	–	10,894	6	–	–	10,900
Secured by residential property	–	–	50,905	33,186	16,108	35,974	1,215	–	–	137,388
Secured by commercial real estate	–	–	–	–	–	–	4,132	–	–	4,132
Loans in arrears	–	–	–	–	–	–	1,178	1,404	–	2,582
Other assets	1,769	–	–	–	–	–	2,693	59	5	4,526
Of which: with respect to shares	–	–	–	–	–	–	88	49	–	137
Total	**62,921**	**9,119**	**50,905**	**33,993**	**16,108**	**66,847**	**52,357**	**1,463**	**5**	**293,718**
										As of March 31, 2019
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**	**46,908**	**1,300**	**1**	**269,068**
										As of December 31, 2019
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	–	–	38,143	–	–	44,023
Retail exposure to individuals	–	–	–	–	–	19,171	4	–	–	19,175
Loans to small businesses	–	–	–	–	–	10,481	5	–	–	10,486
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	–	–	–	–	–	–	1,036	1,190	–	2,226
Other assets	1,758	–	–	–	–	–	2,111	62	–	3,931
Of which: with respect to shares	–	–	–	–	–	–	45	47	–	92
Total	**54,262**	**8,116**	**53,994**	**29,381**	**4,572**	**67,200**	**44,885**	**1,299**	**–**	**263,709**

(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, 2020			
	Subrogation cost	Future potential exposure	Exposure after deduction of collateral	Risk assets
Current exposure method	2,734	2,203	3,545	1,916
Comprehensive approach to credit risk mitigation (for securities financing transactions)	997	–	126	126
Total	**3,731**	**2,203**	**3,671**	**2,042**

	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 December 31, 2019			
	Subrogation cost	Future potential exposure	Exposure after 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 March 31, 2020		As of March 31, 2019		As of December 31, 2019	
	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	2,863	673	1,755	443	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 2019 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, 2020	**March 31, 2019**	**December 31, 2019**
Direct products			
Interest rate risk (general and specific)	1,393	1,342	1,339
Stock position risk (general and specific)	–	–	–
Exchange rate risk	369	421	440
Commodities risk	–	–	–
Options	–	–	–
Delta Plus approach	81	27	12
Securitization	–	–	–
Total	**1,843**	**1,790**	**1,791**

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 2019 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, 2020	
	Total unweighted value[2] (Average)	**Total weighted value[3] (Average)**
Total high-quality liquid assets		
Total high-quality liquid assets (HQLA)		**49,568**
Outgoing cash flows		
Retail deposits from individuals and from small businesses, of which:	111,504	6,520
Stable deposits	30,868	1,543
Less stable deposits	32,989	3,547
Deposits for terms longer than 30 days	47,647	1,429
Unsecured wholesale financing, of which:	57,649	38,088
Deposits for operational needs (all counter-parties) and deposits with networks of co-operative banking corporations	1,524	381
Deposits other than for operational needs (all counter-parties)	54,990	36,571
Unsecured debts	1,136	1,136
Secured wholesale financing	–	239
Additional liquidity requirements, of which:	85,230	19,335
Outflows with respect to derivatives exposure and other collateral requirements	14,126	14,126
Credit lines and liquidity	41,765	2,827
Other contingent financing obligations	29,339	2,383
Total outgoing cash flows		**64,182**
Incoming cash flows		
Secured loans	1,128	296
Inflows from regularly repaid exposures	9,530	6,931
Other incoming cash flows	19,671	14,655
Total incoming cash flows	**30,329**	**21,882**
		Total adjusted value[4]
Total high-quality liquid assets (HQLA)		**49,568**
Total outgoing cash flows, net		**42,300**
Liquidity coverage ratio (%)		**117**

(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 2020 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).

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		
Total high-quality liquid assets (HQLA)		**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	1,871	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	17,851
Outflows with respect to derivatives exposure and other collateral requirements	13,471	13,471
Credit lines and liquidity	35,684	2,420
Other contingent financing obligations	24,480	1,959
Total outgoing cash flow		**57,745**
Incoming cash flows		
Secured loans	774	265
Inflows from regularly repaid exposures	9,332	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 (HQLA)		**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).

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

	For the three months ended December 31, 2019	
	Total unweighted value[2] (Average)	**Total weighted value[3] (Average)**
Total high-quality liquid assets		
Total high-quality liquid assets (HQLA)		**44,846**
Outgoing cash flows		
Retail deposits from individuals and from small businesses, of which:	109,362	6,342
Stable deposits	30,504	1,525
Less stable deposits	31,738	3,403
Deposits for terms longer than 30 days	47,119	1,414
Unsecured wholesale financing, of which:	50,881	32,808
Deposits for operational needs (all counter-parties) and deposits with networks of co-operative banking corporations	1,737	434
Deposits other than for operational needs (all counter-parties)	49,019	32,248
Unsecured debts	126	126
Secured wholesale financing	–	207
Additional liquidity requirements, of which:	76,241	17,201
Outflows with respect to derivatives exposure and other collateral requirements	12,366	12,366
Credit lines and liquidity	38,981	2,620
Other contingent financing obligations	24,894	2,214
Total outgoing cash flows		**56,558**
Incoming cash flows		
Secured loans	1,008	293
Inflows from regularly repaid exposures	9,234	6,503
Other incoming cash flows	18,069	12,783
Total incoming cash flows	28,311	**19,579**
		Total adjusted value[4]
Total high-quality liquid assets (HQLA)		**44,846**
Total outgoing cash flows, net		**36,979**
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 fourth quarter of 2019 is 74.

(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, 2020	Average for first quarter of 2020
Level 1 assets	51,310	49,556
Level 2a assets	12	12
Level 2b assets	–	–
Total HQLA	**51,322**	**49,568**

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, 2020		
	Total balance on balance sheet	Of which: Pledged	Of which: Un-pledged
Cash and deposits with central banks	54,731	82	54,649
Debentures of the Government of Israel	7,618	496	7,122
Debentures of others in Israel	164	–	164
Debentures of foreign governments	678	217	461
Debentures of foreign others	112	–	112
Total	**63,303**	**795**	**62,508**

	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 December 31, 2019		
	Total balance on balance sheet	Of which: Pledged	Of which: Un-pledged
Cash and deposits with central banks	50,924	17	50,907
Debentures of the Government of Israel	7,821	332	7,489
Debentures of foreign governments	1,781	205	1,576
Debentures of foreign others	362	–	362
Total	**60,888**	**554**	**60,334**

Developments in liquidity coverage ratio

In the first quarter of 2020, 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 2020 was 117%. In this quarter, there were no recorded deviations from ratio restrictions.

Additions

Addendum A – Composition of supervisory capital

		March 31, 2020		
		Balance	**Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with 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	2,302	–	1+2
2	Retained earnings, including dividends proposed or declared after the balance sheet date	14,295	–	3
3	Accumulated other comprehensive income and retained earnings for which disclosure has been given	(167)	–	4
4	Ordinary shares issued by consolidated subsidiaries of the banking corporation, which are held by a third party (non-controlling interests)	417	–	5
5	**Tier I capital before regulatory adjustments and deductions**	**16,847**	**–**	
	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	29	–	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	13	–	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	–	–	–

		March 31, 2020		
		Balance	Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with Basel III	References from step 2
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**	**129**	**–**	
28	**Tier I shareholders' equity**	**16,718**	**–**	
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 corporations	–	–	–
38.B	Of which: Additional regulatory adjustments to Tier I capital, not included in section 38.A	–	–	–

		March 31, 2020		
		Balance	**Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with Basel III**	**References from step 2**
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**	**16,718**	**–**	
Tier II capital: Instruments and provisions				
43	Instruments issued by the banking corporation (not included in Tier I capital) and premium on such instruments	339	–	18a
	Tier II capital instruments issued by the banking corporation, eligible for inclusion in regulatory capital during transitional period	893	893	
44	Tier II capital instruments issued by subsidiaries of the banking corporation to third party investors	2,800	–	19
49	Of which: Tier II capital instruments issued by subsidiaries of the banking corporation, held by third party investors, subject to phase-out from Tier II capital	–	–	
45	Group provisions for credit losses by effect of related tax	1,771	–	20
46	**Tier II capital, before deductions**	**5,803**	**893**	
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**	**5,803**	**893**	
54	**Total equity**	**22,521**	**893**	
55	**Total weighted risk assets**	**169,001**	**–**	
Capital ratios and capital conservation buffer				
56	Tier I shareholders' equity	9.89	–	
57	Tier I capital	9.89	–	
58	Total capital	13.33	–	
59	Not applicable	–	–	
60	Not applicable	–	–	
61	Not applicable	–	–	
62	Not applicable	–	–	

		March 31, 2020		
		Balance	Amounts not deducted from equity, subject to required treatment prior to adoption of Directive 202, in conformity with Basel III	References from step 2
63	Not applicable	–	–	
Minimum requirements stipulated by the Supervisor of Banks				
64	Minimum Tier I shareholders' equity ratio required by Supervisor of Banks	8.82	–	
65	Minimum Tier I capital ratio required by Supervisor of Banks	8.82	–	
66	Minimum overall capital ratio required by Supervisor of Banks	12.32	–	
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	1,148	–	
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	1,771	–	
72	Cap on inclusion of provisions in Tier II under standardized approach	1,950	–	
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	–	–	
74		–	–	
80		–	–	–
81	Amount deducted from Tier I shareholders' equity due to cap	–	–	
82	Current cap for instruments included in additional Tier I capital that are subject to transitional provisions (pursuant to transitional provisions of Directive 299)	–	–	
83	Amount deducted from additional Tier I capital due to cap	–	–	
84	Current cap for instruments included in Tier II capital that are subject to transitional provisions (pursuant to transitional provisions of Directive 299)	893	893	
85	Amount deducted from Tier II capital due to cap	1,792	–	

		March 31, 2019		December 31, 2019		
		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	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	–	2,302	–	1+2
2	Retained earnings, including dividends proposed or declared after the balance sheet date	13,186	–	14,063	–	3
3	Accumulated other comprehensive income and retained earnings for which disclosure has been given	(156)	–	(208)	–	4
4	Ordinary shares issued by consolidated subsidiaries of the banking corporation, which are held by a third party (non-controlling interests)	437	–	464	–	5
5	**Tier I capital before regulatory adjustments and deductions**	**15,712**	**–**	**16,621**	**–**	
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	–	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	4	–	6	–	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

		March 31, 2019		December 31, 2019		
		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	References from step 2
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**	**94**	**–**	**101**	**–**	
28	**Tier I shareholders' equity**	**15,618**	**–**	**16,520**	**–**	
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	–	–	–	–	–

		March 31, 2019		December 31, 2019		
		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**	**References from step 2**
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**	**15,618**	**–**	**16,520**	**–**	
	Tier II capital: Instruments and provisions					
43	Instruments issued by the banking corporation (not included in Tier I capital) and premium on such instruments	463	–	381	–	18a
	Tier II capital instruments issued by the banking corporation, eligible for inclusion in regulatory capital during transitional period	1,340	1,340	1,340	1,340	
44	Tier II capital instruments issued by subsidiaries of the banking corporation to third party investors	1,723	–	2,823	–	19
	Of which: Tier II capital instruments issued by subsidiaries of the banking corporation, held by third party investors, subject to phase-out from Tier II capital	–	–	–	–	
45	Group provisions for credit losses by effect of related tax	1,516	–	1,546	–	20
46	**Tier II capital, before deductions**	**5,042**	**1,340**	**6,090**	**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	–	–	–	–	–

		March 31, 2019		December 31, 2019		
		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**	**References from step 2**
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**	**5,042**	**1,340**	**6,090**	**1,340**	
54	**Total equity**	**20,660**	**1,340**	**22,610**	**1,340**	
55	**Total weighted risk assets**	**154,315**	**–**	**162,858**	**–**	
Capital ratios and capital conservation buffer						
56	Tier I shareholders' equity	10.12	–	10.14	–	
57	Tier I capital	10.12	–	10.14	–	
58	Total capital	13.39	–	13.88	–	
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	9.83	–	9.83	–	
65	Minimum Tier I capital ratio required by Supervisor of Banks	9.83	–	9.83	–	
66	Minimum overall capital ratio required by Supervisor of Banks	13.33	–	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	–	2	–	
69	Mortgage servicing rights	–	–	–	–	
70	Deferred tax assets arising from temporary differences, that are below the deduction threshold	1,142	–	1,135	–	

		March 31, 2019		December 31, 2019	
	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	References from step 2
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	1,516	–	1,546	–	
72 Cap on inclusion of provisions in Tier II under standardized approach	1,780	–	1,881	–	
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	–	–	–	–	
Equity instruments not eligible as regulatory capital subject to transitional provisions					
80 Current cap for instruments included in Tier I capital that are subject to transitional provisions (pursuant to transitional provisions of Directive 299)	–	–	–	–	
81 Amount deducted from Tier I shareholders' equity due to cap	–	–	–	–	
82 Current cap for instruments included in additional Tier I capital that are subject to transitional provisions (pursuant to transitional provisions of Directive 299)	–	–	–	–	
83 Amount deducted from additional Tier I capital due to cap	–	–	–	–	
84 Current cap for instruments included in Tier II capital that are subject to transitional provisions (pursuant to transitional provisions of Directive 299)	1,340	1,340	1,340	1,340	
85 Amount deducted from Tier II capital due to cap	1,332	–	1,381	–	

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, *inter alia*, 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.
L	**LGD (Loss Given Default)** – Loss as percentage of credit should the client go into default.
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.
	PD (Probability Of Default) – Probability in percent of a borrower going into default within a specified time.
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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To see in each person his personal imprint

At Mizrahi Tefahot we view each person's individuality as representing the way we treat our customers; each customer is a person, a unique and complete world.

When we adopt such a view of our customers, we are committed to acting according to our customers' individual needs and wishes, in a fair and empathetic manner.

By doing so, we realize one of the most significant values of the Bank - the person is in the center, a value that guides us in all of our actions and operations.

מזרחי טפחות
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