Mizrahi-Tefahot Bank

Risks report for the third quarter of 2020

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

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

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

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Risks Report

This risks report includes additional information to the condensed consolidated financial statements of Bank Mizrahi Tefahot Ltd. and its subsidiaries as of September 30, 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 November 23, 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 (FSB) and other disclosure requirements of the Financial Stability Board (FSB).

Pursuant to the Public Reporting Regulations of the Supervisor of Banks, the quarterly format of the risks report is limited and focused on qualitative and quantitative disclosures whose quarterly analysis and presentation are material for readers of the report.
If needed, this report should be read in conjunction with the 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 September 30, 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	Moshe Lari	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, November 23, 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):

	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
Key supervisory and financial ratios							
Available capital							
Tier I capital(1)	19,708	17,033	16,718	16,520	16,244	16,220	15,618
Tier I capital before effect of transitional provisions	19,571	16,956	16,653	16,390	16,102	16,073	15,457
Total capital	26,488	22,999	22,521	22,610	22,043	22,003	20,660
Total capital before effect of transitional provisions	25,458	22,029	21,563	21,139	20,561	20,516	19,159
Risk weighted assets							
Total risk weighted assets (RWA)	197,502	170,992	169,001	162,858	160,306	158,626	154,315
Capital adequacy ratio (in %)							
Tier I capital ratio(1)	9.98	9.96	9.89	10.14	10.13	10.23	10.12
Tier I capital ratio before effect of transitional provisions	9.91	9.91	9.85	10.05	10.04	10.12	10.01
Total capital ratio	13.41	13.45	13.33	13.88	13.75	13.87	13.39
Total capital ratio before effect of transitional provisions	12.89	12.88	12.75	12.97	12.82	12.92	12.40
Tier I capital ratio required by Supervisor of Banks	8.71	8.79	8.82	9.83	9.83	9.83	9.83
Available Tier I capital ratio, beyond what is required by the Supervisor of Banks	1.27	1.17	1.07	0.31	0.30	0.40	0.29
Leverage ratio							
Total exposure	376,614	317,759	309,863	297,779	288,965	285,858	281,693
Leverage ratio (in %)(2)	5.23	5.36	5.40	5.55	5.62	5.67	5.54
Leverage ratio before effect of transitional provisions (in %)	5.20	5.34	5.37	5.50	5.57	5.62	5.49
Liquidity coverage ratio(3)							
Total high-quality liquid assets	59,709	53,992	49,568	44,846	45,494	42,430	44,879
Total outgoing cash flows, net	46,783	44,280	42,300	36,979	37,376	36,014	37,414
Liquidity coverage ratio (in %)	(7)128	122	117	121	122	118	120
Performance benchmarks							
Net profit return on equity(4)(5)	9.5	9.0	9.1	11.5	11.1	15.8	11.3
Profit return on risk assets(5)(6)	0.89	0.85	0.86	1.09	1.06	1.48	1.06
Deposits from the public to loans to the public, net	114.2	108.1	106.2	103.1	102.6	102.2	104.3
Key credit quality benchmarks – including Union Bank							
Ratio of balance of provision for credit losses to total loans to the public	1.09	0.96	0.91	0.82	0.81	0.80	0.80
Ratio of impaired debts or debts in arrears 90 days or longer to loans to the public	1.20	1.34	1.41	1.36	1.29	1.28	1.25
Expenses with respect to credit losses to loans to the public, net for the period(5)	(7)0.59	0.50	0.66	0.23	0.14	0.20	0.15
Of which: With respect to commercial loans other than housing loans	(7)0.87	1.17	1.55	0.61	0.33	0.50	0.40
Of which: With respect to housing loans	(7)0.44	0.15	0.19	0.04	0.04	0.03	0.03
Ratio of net accounting write-offs to average loans to the public(5)	(7)0.13	0.15	0.16	0.12	0.07	0.13	0.14
Key credit quality benchmarks – excluding Union Bank							
Ratio of balance of provision for credit losses to total loans to the public	1.06						
Ratio of impaired debts or debts in arrears 90 days or longer to loans to the public	1.21						

	First nine months 2020	First nine months 2019	For the year ended December 31, 2019
Performance benchmarks			
Net profit return on equity(4)(5)	9.0	15.8	11.9
Profit return on risk assets(5)(6)	0.87	1.20	1.17
Key credit quality benchmarks – including Union Bank			
Expenses with respect to credit losses to loans to the public, net for the period(5)	(7)0.57	0.16	0.18
Of which: With respect to commercial loans other than housing loans	(7)1.18	0.41	0.46
Of which: With respect to housing loans	(7)0.26	0.03	0.03
Ratio of net accounting write-offs to average loans to the public(5)	(7)0.15	0.11	0.11

Financial ratios indicate:

- Net profit return in the third quarter of 2020 was 9.5%, compared to 11.1% in the corresponding period last year, and in the first nine months of this year – 9.0%, compared to 12.4% in the corresponding period last year. Return on capital was mostly affected by the significant increase in credit loss expenses due to the Corona Virus crisis and the lower interest rates in the USA and in Israel, effect of change in the Consumer Price Index and increase in loans, deposits and commissions.
- The ratio of deposits from the public to loans to the public, net was 114.2%, compared to 103.1% at the end of 2019, due to consolidation of Union Bank's financial statements. Other than consolidation of Union Bank's financial statements, the increase in deposits was due, inter alia, to significant diversion of client assets from the capital market to deposits; the increase in loans was affected, inter alia, by loans loans amounting to NIS 4.7 billion provided to businesses from State-guaranteed funds, and to the growing need of Bank clients, mostly business clients, due to the Corona Virus crisis, to utilize existing credit facilities available to them.
- Ratio of Tier I capital to risk components as of September 30, 2020 was at 9.98%, compared to the minimum rate which the Bank is required to achieve: 8.71%. This ratio was affected, inter alia, by the increase in loans extended to clients, in line with supervisory expectation in Proper Conduct of Bank Businesses Directive 250, dated March 31, 2020, with regard to Bank operations during the crisis and relief provided as a result of the crisis, for the minimum capital requirement of banking corporations. For more information see chapter "Significant Events in the Bank Group's Business" below.
- The cost-income ratio in the first nine months of 2020 reached 52.0%, due to maintaining similar expenses.
- As of September 30, 2020, the ratio of impaired debt or debt in arrears 90 days or longer, out of total loans to the public was 1.24%. Excluding the effect of Union Bank, this ratio was 1.21%, compared to 1.29% at the end of the corresponding period last year and 1.34% at the end of the second quarter of 2020. The change in the current quarter was affected, inter alia, by increase in loans and by repayment delays approved for clients. Note that the financial statements include a group-based provision for credit losses in conformity with a qualitative model, inter alia, with respect to risk associated with repayment delays approved for clients. For more information see chapter "Material developments in revenues, expenses and other comprehensive income" below.

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

(1) The Bank has no equity instruments included in "Additional Tier I capital", so that total Tier I capital equals total Tier I equity.
(2) Leverage Ratio – ratio of Tier I capital (according to Basel rules) to total exposure. This ratio is calculated in conformity with Proper Conduct of Banking Business Directive 218
(3) Liquidity Coverage Ratio – ratio of total High-Quality Liquid Assets to net cash outflow. This ratio is calculated in conformity with Proper Conduct of Banking Business Directive 221, in terms of simple averages of daily observations during the most recent reported quarter.
(4) Net profit attributable to shareholders of the Bank.
(5) Calculated on annualized basis.
(6) Net profit to average risk assets.
(7) Excluding effect of Union Bank.

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

	As of September 30, 2020 Including Union Bank	As of September 30, 2020 Excluding Union Bank	As of September 30, 2020	As of December 31, 2019
Tier I shareholders' equity	19,708	17,432	16,244	16,520
Tier II capital	6,780	6,218	5,799	6,090
Total capital	26,488	**23,650**	**22,043**	**22,610**

Total credit risk to the public(1):

	September 30, ;2020 Including Union Bank	September 30, 2020 Excluding Union Bank	September 30, 2020	December 31, 2019
Total credit risk to the public	**zz323,502**	**288,934**	**263,345**	**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 September 30, 2020 Weighted risk asset balances Including Union Bank	As of September 30, 2020 Capital requirement(1) Including Union Bank	As of September 30, 2020 Weighted risk asset balances Excluding Union Bank	As of September 30, 2020 Capital requirement(1) Excluding Union Bank	As of September 30, 2019 Weighted risk asset balances	As of September 30, 2019 Capital requirement(2)	As of December 31, 2019 Weighted risk asset balances	As of December 31, 2019 Capital requirement(3)
Credit risk	182,296	22,258	160,348	19,659	148,028	19,732	150,494	20,062
Market risk	2,022	247	1,629	200	1,778	236	1,791	239
CVA risk with respect to derivatives(4)	536	65	412	51	466	62	384	51
Operational Risk(5)	12,648	1,544	10,933	1,340	10,034	1,338	10,189	1,358
Total risk assets	**197,502**	**24,114**	**173,322**	**21,250**	**160,306**	**21,368**	**162,858**	**21,710**

(1) The capital requirement was calculated at 12.21% of risk asset balances. The capital requirement with respect to balance excluding Union Bank was calculated at 12.26%. 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.E. to Financial Statements.

(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 risk strategy and on basic principles of the Bank's business and strategic plan, on the required liquidity and capital for achieving the strategic objectives and on results of the various stress scenarios tested by the Bank.

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.

Acquisition of Union Bank

On September 30, 2020, the transaction between the controlling shareholders of Union Bank of Israel Ltd. (hereinafter: "Union Bank") and Bank Mizrahi-Tefahot closed, whereby shares of Union Bank held by the controlling shareholders were acquired in exchange for issue of Bank Mizrahi-Tefahot shares.

As from this date, the Bank holds all of the share capital of Union Bank and therefore the Bank has control over Union Bank. Therefore, the Bank's consolidated balance sheet includes Union Bank's balance sheet. Due to the short time elapsed from the acquisition date to the issue date of these financial statements, carrying amounts on Union Bank books were used as a conservative initial estimate for provisional attribution of the purchase cost (PPA Provisional) upon initial consolidation. This estimate will be revised on subsequent financial statements. Since the initial consolidation date is September 30, 2020, consolidation of these financial statements had no effect on profit and loss for the third quarter and for the first nine months of this year.

The number of shares issued in consideration, according to the agreement, is 19,865,165 and their value as of the transaction date amounted to NIS 1,207 million. The Bank's shareholder equity as of September 30, 2020 increased by said amount.

For more information see Note 17 to the financial statements and chapter "Significant developments in management of business operations" in the Report of the Board of Directors and Management.

After closing of the Union Bank acquisition transaction, financial data for Union Bank are included, for the first time, on the Bank's financial statements. The Union Bank acquisition is a significant step forward for Mizrahi-Tefahot Group in various areas of its operations, while improving the mix of sources and uses and increasing its competitiveness. According to banking system data as of June 30, 2020, the consolidated Bank's total share of lending and deposit operations in the banking system is 2.5% higher, reaching 22% of loans to the public and 18.6% of deposits from the public – beyond the targets of the Bank's strategic plan for end of 2021. Union Bank's lending operations in the various segments diversifies the Bank's lending mix, in conformity with the Bank's strategic targets, in particular with regard to the business lending segment, where the Bank's market share on consolidated basis increased to 12%. Housing loans as percentage of the Bank's total loan portfolio, after acquisition of Union Bank, decreased by 3% to 63%, with a similar increase in the commercial portfolio, of which a 1% increase in loans to individuals. In individual deposits, the consolidated Bank's market share increased to over 20%.

The merger transaction is a material, large-scale and highly complex project which entails a wide range of risks. The Bank is preparing in extensive work teams with comprehensive management by steering committees and administrations to carry out the merger plan. Risk management is an integral and dynamic part of all work teams, and the Chief Risks Officer reviews and integrates all risks of this project ans the required mitigation to reduce and manage such risk.

Union Bank has a long-standing contract with Bank Leumi for obtaining IT and operating services, which has been extended from time to time. On May 12, 2020, the Board of Directors of Union Bank approved contracting an addendum to the agreement, whereby the parties agreed, inter alia, that the agreement would be extended through December 31, 2022 with optional further extensions, subject to fulfillment of conditions as agreed by Union Bank and Bank Leumi.

The Bank is acting to complete the operating merger processes, in conformity with the expiration date of this contract.

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

Effect of the Corona Virus crisis

The Corona Virus crisis currently affecting Israel and the entire world has real economic and financial implications, with a decline in economic activity, significant increase in the unemployment rate and 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 and households, due to reduced economic activity. Moreover, as from the previous quarter, the estimated risk level in the housing loan portfolio increased due to the on-going uncertainty.

Since May, the Bank has gradually returned to normal operation, after operating at a reduced capacity in March-April. Bank branches and units operate at full capacity (including throughout the second lock-down period, starting in September-October), while maintaining social distancing and hygiene in conformity with directives of the Ministry of Health and using the remote work infrastructure as required. The Bank regularly provides detailed work instructions with regard to maintaining social distancing and proper hygiene, including work in internal capsules at branches and some headquarters units, and distributes equipment to improve protection, both personal protective equipment (masks, disinfectant) and barriers and separation means to reduce exposure among employees and to clients. The Bank’s Board of Directors, Board committees and Bank management conduct more frequent discussions in order to respond to matters related to this crisis and to constantly review the implications thereof.

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. Year to date, 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)". In view of the continued Corona Virus crisis and its implications for the state of the economy in Israel and overseas, the Interim Directive for addressing the Corona Virus has been extended, for most items, for a further 6 months (through March 31, 2021). The Bank applies these relief measures and directives and acts to provide appropriate business response for Bank clients in various areas at this time, with constant review of the implications of such activities for risk management.

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 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. Further to the communication from the Supervisor of Banks, dated April 2, 2020, the Bank and the entire banking system acted to support businesses and households in getting through this crisis, by continuing to extend credit to borrowers across all segments, while maintaining responsible credit underwriting procedures but without unneeded stricter underwriting conditions. Action taken by the Bank includes approval of a delay in current repayments, by up to 4 months, for mortgage clients who needed this due to temporary hardship resulting from the crisis, including further delay extensions granted as required: A further delay through 2020 for clients who had already delayed repayments, and a delay by up to 6 months for clients who have not yet delayed any repayments. Delays and revised repayment 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. The Bank also prepared to make arrangements with clients who wish to resume making regular mortgage payments, including allowing partial monthly payment or extension of the loan term.

Total housing loans subject to repayment delays reached a peak in May 2020, amounting to NIS 45.2 billion. The Bank allows borrowers to extend the delay period through 2020, or to apply for a delay by up to 6 months in case of an initial application, in conformity with the Bank of Israel outline. As of October 31, 2020, out of total loans subject to dalay, NIS 21.9 billion resumed repayment and NIS 23.3 billion were granted further delay. Of all current delays, NIS 3.3 billion in loan repayments are to be resumed by end of 2020, unless a further delay is applied for. NIS 17.7 billion in loan repayments are to be resumed in January 2021 and the remaining NIS 2.3 billion in loan repayments are to be resumed in February 2021 and thereafter. Note that for 60% of the balance of loans for which a repayment delay was applied for and currently due for payments to be resumed, no further delay was applied for and the clients resumed making payments. Of the loans where payments were resumed, only NIS 0.2 billion are in arrears - similar to the overall rate of arrears in the entire portfolio, at 1.2%.

As for commercial loans, total loans subject to repayment delays as of October 31, 2020 amounted to NIS 2.7 billion, of which NIS 1.3 billion for longer than 6 months. This is out of total repayment delays originally approved for loans amounting in total to NIS 7.1 billion. Of the originally-approved delays, clients with loan balance amounting to NIS 4.4 billion have resumed making payments.

Loans provided by the Bank from the State-guaranteed fund includes a State guarantee for 85% of each loan, with an aggregate total of 15% of the entire portfolio, against a deposit made by the client equal to 5% of the loan amount. These loans bear interest at the Prime lending rate + 1.5%. During the first year, no principal repayment is due for such loans, and interest is paid by the State. This fund also launched a special track for businesses at high risk ("enhanced track"), with state guarantee for 60% of the portfolio and loan terms identical to those in the general track of this fund. Concurrently, on April 30, 2020, a fund for large businesses was launched, which is guaranteed by the State at 75% per loan and up to 12% in total guarantee.

As of September 30, 2020, the Bank extended loans amounting to NIS 4.7 billion from State-guaranteed funds (as of June 30, 2020: NIS 3.5 billion). Against the loans extended, in conformity with the Bank of Israel outline, the Bank participated and obtained a special-purpose monetary loan from the Bank of Israel whose balance as of September 30, 2020 amounted to NIS 1.8 billion, for 3 years bearing fixed interest at 0%.

For more information about group-based provision for credit losses recognized with respect to loans subject to repayment delay, in conformity with the risk attributes thereof, see chapter Explanation and analysis of results and business standing in the Report of the Board of Directors and Management.

For more information about loans subject to repayment delay and loans extended from State-guaranteed funds, see chapter "Risks overview – Credit risk" in the Report of the Board of Directors and Management.

Concurrently with actions taken by the Bank to continue providing service to its clients, special emphasis was placed on potential implications of this crisis on risk management at the Bank. Credit risk is closely monitored by forums headed by the Bank President & CEO and by the Credit Risk Officer, with periodic assessments conducted by the divisions, individual monitoring of economic sectors with significant exposure to the crisis and constant monitoring of key benchmarks and specific clients with special sensitivity to implications of this crisis. For all other risks, regular management continues, with emphasis placed on potential other implications of this crisis, if any. Furthermore, normal operations of units and systems related to financial reporting continued, as did controls over disclosure and internal control over financial reporting.

The Bank addressed the Corona Virus crisis by providing on-going response to operational requirements, involving costs for technology procurement, upgrade to the remote access system, security, splitting of units and logistics cost for procurement of protective equipment and disinfectant, which had no significant impact on Bank expenses.

The Bank has conducted a comprehensive lesson learning process across all divisions, to review the function of its units and to gain insight / recommendations on changes to the nature of activity, in the normal course of business and in times of crisis.

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-medium	
Overall effect of market risk(1)	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(2)	Low	Manager, Marketing, Promotion and Business Development Division
Business-strategic risk(3)	Low-medium	President & CEO

(1) Includes options and shares risk mapped at Union Bank.
(2) The risk of impairment of the Bank's results due to negative reports about the Bank.
(3) The definition of business-strategic risk includes the capital planning and management process.

This risk assessment includes the Union Bank merger, which we believe does not materially change the Group's overall risk level.
The Corona Virus event may potentially impact the Bank's risk profile. 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.
Since the start of 2020, the Bank's overall risk profile increased 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 regularly reviews the risk benchmarks and adapts them to current business operations as necessary, subject to and in line with the Bank's overall risk appetite for various risks.
In the second quarter of 2020, the risk level in the housing loan portfolio was raised from Low to Low-Medium, due to on-going uncertainty with regard to further development of the crisis. In order to assist clients with a mortgage at the Bank, the Bank, as noted above, has allowed clients to receive a full or partial repayments delay by up to 6 months, and in conformity with the expanded Bank of Israel outline (clients who have already delayed repayments – a further extension through January 31, 2021; clients who have yet to delay repayments – delay of up to 6 months). The delayed payments were re-attributed over the remaining mortgage term. The Bank closely monitors this activity and risk aspects with regard to the following: The grace amount, number of applications, grace period, borrower profile, LTV ratio and so forth. One of the key parameters for risk review is borrower behavior after expiration of the repayment delay.
The Bank continues to monitor development of borrower behavior after expiration of the repayment delay in subsequent months, and the rate of further delay extensions in conformity with the Bank of Israel's revised outline. 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. The

Bank of Israel has also allowed clients in the individual segment and in the business segment to delay payments in conformity with outlines regularly updated by the Bank of Israel in conformity with developments. The Bank closely monitors the risk aspects with regard to the following: Number of loans subject to delay, the delay period and the delay amount and so forth. For more information about loans subject to repayment delay and loans extended from State-guaranteed funds, see chapter "Risks overview – Credit risk" in the Report of the Board of Directors and Management.

The overall effect of credit risk and risk associated with quality of borrowers and collateral increased in the first quarter of 2020 from Low-Medium to Medium and remained Medium in the second and third quarter of 2020. The higher risk level also applies to the individual segment, but primarily applies to the business segment, especially small and medium businesses, due to various restrictions with regard to social distancing imposed on different sectors in Israel. Material risk factors are the sharp increase in unemployment rate, slow-down in economic activity, and in particular in specific economic sectors (such as: Aviation, fashion, hotels, accommodation and dining services, leisure and culture) which were impacted, and volatility in financial markets affecting the 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 Report of the Board of Directors and Management.
One of the key parameters for risk review is borrower behavior after expiration of the repayment delay. Note that for 60% of the balance of loans for which a repayment delay was applied for and currently due for payments to be resumed, no further delay was applied for and the clients resumed making payments. Of the loans where payments were resumed, only NIS 0.2 billion are in arrears.

Assessment of all risk factors other than the aforementioned credit risk (including the housing loan portfolio) 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.
Technology risk and cyber and information security risk are material risks for the Bank and the potential damage due to materialization of such risk may be significant, during routine operations and even more so during an emergency. Activity during the crisis was managed in a focused manner, with all efforts marshaled to provide the service required for the Bank, focused on needs that changed along the way, taking most of the steps to reduce potential risk in as much as possible. In actual fact, there were no material events related to technology nor to cyber and information security.

Liquidity risk remained low-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 for liquidity, from Elevated to Yellow (alert level including operating measures designed to ensure that the Bank maintains appropriate liquidity during crisis periods), due to continued spread of the Corona Virus and further sharp declines in stock markets, both globally and in particular in Israel The alert level returned down to Elevated in mid-May, with resumption of routine operations. During all of the third quarter of 2002, the alert level at the Bank was High Alert. 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.
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. Due to the Corona Virus crisis and the current uncertainty, and due to closing of acquisition of all shares of Union Bank of Israel Ltd., the Bank Board of Directors would discuss a new strategic plan in late 2020. This date may be revised further down the road, in conformity with economic developments.
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 conducted a system-wide stress scenario – a uniform stress scenario delivered by the Supervisor of Banks to the banking system. The stress scenario for a 3-year horizon is based on a renewed Corona Virus outbreak in the fourth quarter of 2020 and a shut-down of the economy (to a lesser degree). Results of this scenario, provided to the Bank of Israel in late June, indicate that the Bank is capable of withstanding the impact of the Corona Virus crisis and potential losses that may be incurred under the stress scenario, 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, capital adequacy and leverage" of the Report of the Board of Directors and Management).
In October, the Supervisor of Banks issued a uniform stress scenario for the banking system, stricter than previously issued scenarios, in line with deterioration in the economic impact to the economy due to the Corona Virus crisis. The objective of this scenario is to test resilience of the banking system. The outcome of applying this scenario to Bank data would be submitted to the Bank of Israel in early December 2020.

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

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 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, credit card vouchers, invoices, pledging of contracts and current liens. Moreover, credit is extended against external collateral, such as deposits, securities portfolios and real estate. 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. 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 account for a material share of total credit risk at the Bank; as noted above, in the second quarter of 2020, the overall risk level in the mortgage portfolio increased to Low-Medium due to on-going uncertainty, and remained Low-Medium in the current quarter as well; in accordance, a further provision was made with respect to the qualitative component of this portfolio. This area typically has a widely diversified borrower base from different economic sectors with relatively low LTV ratios and extensive geographic diversification of pledged properties. The Bank also uses various risk mitigators, including property insurance and life insurance. In the third quarter of 2020, key risk benchmarks remained stable: In particular, the LTV (original LTV ratio in the portfolio: 53%) and loan repayment ratio (25.6%).

Due to the Corona Virus outbreak, the Bank is preparing to provide a response with regard to mortgage execution and management. Activities were implemented with due consideration to directives of the Bank of Israel (including relief provided for), so as to support and assist our clients during the crisis, while monitoring risk and adjusting credit policy.

The Bank closely monitors the developments and implications of the Corona Virus crisis on its clients, with attention paid to factors that may affect the risk level in the mortgage portfolio. Criteria for loan approval have been adapted to accommodate clients on furlough, taking into account their pre-crisis income, in conformity with Bank of Israel directives.

As noted above, in order to assist clients with a loan at the Bank, the Bank has allowed clients to receive a full or partial repayment delay, in conformity with updates to the Bank of Israel outline.

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 Report of the Board of Directors and Management.

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.

In view of the continued Corona Virus crisis, the Interim Directive for addressing the Corona Virus has been extended for a further 6 months (through March 31, 2021). On November 1, 2020, the Supervisor of Banks issued a draft circular revising the Interim Directive, reducing the minimum leverage ratio to be maintained by banks by 0.5%.

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 small and large businesses impacted by the Corona Virus crisis.

Loans provided by the Bank from the State-guaranteed fund includes a State guarantee for 85% of each loan, with an aggregate total of 15% of the entire portfolio, against a deposit made by the client equal to 5% of the loan amount. These loans bear interest at the Prime lending rate + 1.5%. During the first year, no principal repayment is due for such loans, and interest is paid by the State. This fund also launched a special track for businesses at high risk ("enhanced track"), with state guarantee for 60% of the portfolio and loan terms identical to those in the general track of this fund. Concurrently, on April 30, 2020, a fund for large businesses was launched, 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 periodic 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 periodic 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. 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.

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. Note that Union Bank's nostro portfolio reflects risk that is higher than the Bank's risk appetite. However, at the Bank level on consolidated basis, the impact of this portfolio is not material and the overall risk level remained Low-Medium.

The third quarter of 2020 saw a slight increase in zero coupon NIS interest rate curves, across the entire NIS and CPI-linked curve.

Risk values measured in the normal course of business and under stress scenarios were slightly higher compared to the second quarter of this year, due to current banking operations in the mortgage segment, and range at levels lower than the specified risk appetite. In the current quarter, inflationary expectations continued to decline. 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 third quarter of 2020, the Bank maintained appropriate liquidity by investing excess liquidity in liquid assets of very high quality. The average liquidity coverage ratio (consolidated, excluding data for Union Bank[1]) for the third quarter of 2020 was 128%. 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 its state of alert for liquidity, from Elevated to Yellow, an alert level including operating measures designed to ensure that the Bank maintains appropriate liquidity during crisis periods, 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[2] markets reaching record levels.

The alert level returned down to Elevated in mid-May, with resumption of routine operations. During all of the third quarter of 2020, the alert level at the Bank was High Alert. 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.

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 recent months, 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 and corporate 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) bearing fixed interest at 0.1%, so as to increase credit supply to micro and small businesses. In early July 2020, the Bank of Israel announced it was preparing to establish infrastructure whereby banks would be able to provide mortgage portfolios as collateral against monetary loans, as part of the program for increasing credit supply to micro and small businesses. In October 2020, the Bank of Israel announced its intention to launch a new layer in the program to alleviate credit terms for micro and small businesses. In conjunction with this program, the Bank of Israel would provide to the banking system loans for a 4-year term bearing fixed interest at (0.1%), against loans extended to micro and small businesses, provided that the interest for said loans extended to micro and small businesses would not exceed Prime + 1.3%.

Operational risk

Throughout the Corona Virus outbreak and in the third quarter of 2020, operational risk remained Medium. The Bank maintained a low level of losses with respect to operating failure events, and in actual fact, no material operating events occurred. The risk level reflects the potential damage that may be caused by materialization of operational risks. Activity continued to improve monitoring, management and control of operational risks, with emphasis on upgrading the IT system for management of risks surveys and further activity to identify, analyze and enhance awareness of the various operational risks.

During the crisis period, changes and relief measures were approved for operating procedures, especially with regard to online banking, suitable for operations during emergency. In May, most of the relief measures were eliminated upon return to normal operation.

Business continuity

The Bank applies Proper Conduct of Banking Business Directive 355 concerning "Management of business continuity".

In March, as part of addressing the Corona Virus crisis, the Bank raised the alert level, 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 and some employees transitioned to working remotely, using the Bank's technology infrastructure.

Since April, the Bank has been operating "under the Corona Virus shadow" while maintaining business and operational continuity. The Bank continues to work in split critical units and to work in capsules at banking centers and branches, including strict adherence to detailed work instructions with regard to social distancing and hygiene. The Bank regularly monitors cases of morbidity or infection at branches and at headquarters units and the date of return to work; as needed, the Bank uses remote work infrastructure by a rapid, structured process.

During the third quarter, the Bank completed expansion of its internal and external VC systems, so as to improve communication with entities external to the Bank as well; consequently, the Bank deployed a system for chat management and screen sharing.

With regard to suppliers and service providers, the Bank has mapped the critical suppliers for IT, logistics and security and has assessed their capacity to continue providing service even under the current restrictions.

(1) Data for Union Bank was consolidated with Group data as from September 30, 2020 and would be fully included in data for the average liquidity coverage ratio for the fourth quarter of 2020.

(2) 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.

Concurrently, the Bank continued to implement the work plan and drill plan with regard to business continuity, including further updates to the business continuity plan and conducting technology drills.
As for Group-wide control, the Bank conducts a structured process to monitor operations of Bank Yahav and Union Bank under routine Corona Virus conditions, including daily report received of employees who are sick / in isolation and any unusual events. Similar monitoring is in place for operations of the Bank's overseas affiliates.
Note that the Bank has conducted a comprehensive process to learn lessons from the Corona Virus crisis (first wave) and to prepare for the second wave, which has occurred. This comprehensive process and the conclusions drawn have been discussed by the Bank Board of Directors and have been submitted to the Bank of Israel, and the latter has provided systemic comments on this matter. The Bank regularly acts to improve its state of preparedness and to ensure appropriate business continuity.

For more information see chapter "Significant Events in the Bank Group's Business" on the Report of the Board of Directors and Management.

Information security and cyber security

In the third 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 operates 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, both due to increase in working remotely, which provided more attack vectors for organizations and due to increased fraud attempts in the shadow of the outbreak. 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.
This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought before the Bank’s Board of Directors. These assumptions may not materialize due to factors which are under the Bank's control.
IT risk remained 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 third quarter of 2020, the level of legal risk remained low-medium.
Review of legal risk level in the third 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 third quarter of 2020, at Low-Medium. This risk assessment is due, *inter alia*, to addressing of risks classified as high and to further enhancement of controls and training delivery and improvement in efficiency of work processes in this area, while incorporating technology improvements. In the current quarter, the Bank took action to implement the applicable directives by the various regulators in the wake of the Corona Virus pandemic. The Bank also applies regular controls, in order to monitor compliance risk that may materialize during this period.

The Bank has internal enforcement programs for securities and for anti-trust law.

Cross-border risk

The risk level remained unchanged in the third quarter of 2020, at Low-Medium. The Bank manages this risk, *inter alia*, by revising procedures, automating work processes, delivering training, activity of foreign residents in specialized branches and specification of work routines in processes required tor reporting under both FATCA and CRS. In the third quarter, the Bank has provided reports to the Tax Authority, in conformity with regulations for applying the FATCA agrreement and the information exchange agreement in conformity with CRS.

AML and terror financing risk

AML risk remained unchanged in the third quarter of 2020 and is defined as low-medium. This risk assessment is due, inter alia, 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. In the third quarter, the Bank provided to the Bank of Israel its semi-annual report of compliance risk, in the new format pursuant to Reporting Regulation 825.

Reputation risk

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.

Business-strategic risk

Business-strategic risk is the risk, in real time or potentially in future, of impact to Bank profits, capital or reputation, due to erroneous business decisions, improper deployment of decisions or insufficient preparation for changes in the business environment. This means the risk that the Bank chose the wrong strategy or that the Bank would not be able to implement the business and strategic plan as planned. The materiality of business-strategic risk requires the Bank to take measures which would allow it to manage this risk and take steps for assessment and early identification of events which may preclude implementation of the strategy.
The Bank operates in conformity with a five-year strategic plan, approved by the Bank's Board of Directors in November 2016, whose principles have been made public. Material deviation from Bank strategy is subject to approval by the Bank's Board of Directors. Risk is monitored by the Financial Information and Reporting Division, and is challenged by the Risks Control Division.
Implications of the impact on economic activity due to the Corona Virus crisis for business operations of the Bank, including higher credit risk and provision for credit losses and potentially lower net interest revenues for the Bank, due to the lower interest rates of the Bank of Israel and of the Federal Reserve Bank in the USA. The Bank applies measures to address the crisis and its implications. 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.
In the third 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: model risk management policy, online banking policy, policy regarding derivatives risk and OTC transactions in the trading room.

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, including top risks, evolving risks and current (or new) risks.
Top risks and evolving risks are derived from the Bank's business environment, which is impacted by the macro-economic environment, by risk associated with regulation and legislation, by changes to the business model and by social and consumer trends. In recent years, due to changes to the competitive environment, to the consumer environment, to the regulatory environment and to the technology environment, a trend of evolving non-financial risks is becoming apparent.
Top risks are risks arising from developments in the Bank's business environment, which may materialize over the coming 12 months which potentially may materially impact the Bank's financial results and stability. Furthermore, evolving risks are identified, which are risks that may materialize in the longer term and their nature and impact on the Bank are uncertain. Such risks include cyber and information security risk, IT risk and reputational 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.

Material top risks and evolving risks are: **Strategic business risk** – increased competition, changes to client behavior and to business models, that may result in material impact on the banking system over the medium to long range. Moreover, regulatory changes (such as: the Credit Data Act and transfer of bank accounts) may impact the Bank's business results. Furthermore, this risk is impacted by the Corona Virus event which may potentially impact the Bank's entire risk profile, due to uncertainty as to further development of this risk and material macro-economic implications arising from it.

Macro-economic risk – the Corona Virus event has significantly impacted both the local and global economies, with a slow-down in economic activity and changes to the macro-economic environment, including: higher unemployment, changes to interest rates, market volatility and changes to asset prices. Materialization of this risk may increase troubled debts and may negatively impact the Bank's business results.

Information security risk – increasing cyber threats towards financial institutions. The Bank applies protective measures in order to limit the ability 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.

The Corona Virus event elevates cyber risk, both due to increase in working remotely, which provided more attack vectors for organizations and due to increased fraud attempts in the shadow of the outbreak.

Technology risk – technology evolution and the age of current systems at the Bank increase the potential damage that may arise from technology risk that are material for proper operations at the Bank. During this quarter and throughout the Corona Virus crisis, 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.

Regulatory risk – increased regulation in Israel and overseas, which increases uncertainty and competition in the business environment, which may require the Bank to prepare and IT costs that may result in risk to the Bank's results. The Bank regularly acts to address the regulatory directives applicable for its operations, 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)

NIS in millions

	Risk weighted assets	Risk weighted assets		Minimum capital requirements[1]	Minimum capital requirements[1]
	As of September 30, 2020	As of September 30, 2020	Risk weighted assets	As of September 30, 2020	As of September 30, 2020
	Including Union Bank	Excluding Union Bank	As of June 30, 2020	Including Union Bank	Excluding Union Bank
Credit risk (standard approach)[2]	176,335	155,458	154,012	21,530	19,059
Counter-party credit risk (standard approach)	1,679	1,549	1,366	205	190
Credit risk value adjustment (CVA)[3]	536	412	427	65	51
Amounts lower than deduction thresholds (subject to 250% risk weighting)	4,282	3,341	2,750	523	410
Total credit risk	**182,832**	**160,760**	**158,555**	**22,323**	**19,710**
Market risk (standard approach)	2,022	1,629	1,616	247	200
Operational Risk[4]	12,648	10,933	10,821	1,544	1,340
Total	**197,502**	**173,322**	**170,992**	**24,114**	**21,250**

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

(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 increase in risk assets in the third quarter of 2020 (excluding Union Bank) was primarily due to growth in the housing loan portfolio and to growth in commercial credit.

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 adjustments with respect to liabilities for derivative instruments, due to change in the Bank's credit risk (DVA) and other supervisory adjustments and deductions.

Additional Tier I capital consists of equity instruments which fulfill the requirements specified in the directives. As of September 30, 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.

On September 30, 2020, the transaction between the controlling shareholders of Union Bank of Israel Ltd. (hereinafter: "Union Bank") and Bank Mizrahi-Tefahot closed, whereby shares of Union Bank held by the controlling shareholders were acquired in exchange for issue of Bank Mizrahi-Tefahot shares.

For more information see Note 9.F. to the financial statements.

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

	September 30, 2020 Balance Including Union Bank	September 30, 2020 Balance Excluding Union Bank	September 30, 2020 Balance	December 31, 2019 Balance
Tier I capital before regulatory adjustments and deductions	18,825	17,543	16,346	16,621
Total regulatory adjustments to and deductions from Tier I capital	(1)(883)	111	102	101
Tier I shareholders' equity	19,708	17,432	16,244	16,520
Tier II capital	6,780	6,218	5,799	6,090
Total capital	26,488	23,650	22,043	22,610
Total risk weighted assets	197,502	173,322	160,306	162,858
Ratio of Tier I capital to risk components	9.98%	10.06%	10.13%	10.14%
Ratio of total capital to risk components	13.41%	13.65%	13.75%	13.88%
Minimum Tier I capital ratio required by Supervisor of Banks	8.71%	8.76%	9.83%	9.83%
Minimum overall capital ratio required by Supervisor of Banks	12.21%	12.26%	13.33%	13.33%

(1) Includes deferred credit balance from acquisition of Union Bank. For more information see Note 9.F. to the financial statements.

For more information and detailed composition of supervisory capital, in conformity with disclosure requirements of Basel Pillar 3, as of September 30, 2020 compared to September 30, 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.E. to the financial statements.

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.

For more information about relief provided with regard to the minimum leverage ratio requirement, whereby the Bank is required to maintain a ratio of 4.5% compared to 5% prior to this change, from November 15, 2020 through March 31, 2021, see Note 9.E. to the financial statements.

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):

	As of September 30, 2020 Including Union Bank	As of September 30, 2020 Excluding Union Bank	As of September 30, 2020	As of December 31, 2019
Comparison of assets on balance sheet and exposure measurement for leverage ratio				
Total assets in consolidated financial statements	347,050	300,884	267,001	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 derivative instruments	538	777	358	687
Adjustments with respect to securities financing transactions	–	–	–	–
Adjustments with respect to off-balance sheet items(1)	27,111	24,764	20,240	22,496
Other adjustments	1,915	1,934	1,366	1,352
Exposure for leverage ratio	**376,614**	**328,359**	**288,965**	**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 September 30, 2020 Including Union Bank	As of September 30, 2020 Excluding Union Bank	As of September 30, 2020	As of December 31, 2019
Balance sheet exposure				
Assets on balance sheet	343,955	298,745	264,971	271,204
Amounts with respect to assets deducted to determine Tier I capital	(107)	(87)	(87)	(87)
Total balance sheet exposure	**343,848**	**298,658**	**264,884**	**271,117**
Exposure with respect to derivatives				
Cost of replacement with respect to all derivative transactions	2,796	1,645	1,384	1,515
Amounts added with respect to future potential exposure with respect to all derivative transactions	1,868	1,383	1,639	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	(1,191)	(217)	(261)	(254)
Exempt central counter-party leg of commercial exposure settled by the client	–	–	–	–
Effective adjusted nominal amount of credit derivatives written	275	275	279	276
Adjusted effective nominal offsets and deduction of additions with respect to credit derivatives written	–	–	–	–
Total exposure with respect to derivatives	**3,748**	**3,086**	**3,041**	**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	1,907	1,851	800	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	**1,907**	**1,851**	**800**	**938**
Other off-balance-sheet exposures				
Off-balance sheet exposure at gross nominal value	92,832	83,825	72,612	78,157
Adjustments with respect to conversion to credit equivalent amounts	(65,721)	(59,061)	(52,372)	(55,661)
Off-balance sheet items	27,111	24,764	20,240	22,496
Capital and total exposure				
Tier I capital	19,708	17,432	16,244	16,520
Total exposure	376,614	328,359	288,965	297,779
Leverage ratio				
Leverage ratio in conformity with Proper Conduct of Banking Business Directive 218	5.23%	5.31%	5.62%	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 Report of the Board of Directors and Management for the third quarter of 2020.

Credit quality of credit exposures (CR1)

September 30, 2020- Including Union Bank

	Gross balances(1) Impaired or in arrears 90 days or longer	Gross balances(1) Others	Provisions for credit losses	Net balance
Debt other than debentures	2,918	316,870	2,329	317,459
Debentures	–	16,420	–	16,420
Off-balance sheet exposure(2)	123	92,764	221	92,666
Total	**3,041**	**426,054**	**2,550**	**426,545**

September 30, 2020 - Excluding Union Bank

	Gross balances(1) Impaired or in arrears 90 days or longer	Gross balances(1) Others	Provisions for credit losses	Net balance
Debt other than debentures	2,626	282,684	2,329	282,981
Debentures	–	8,745	–	8,745
Off-balance sheet exposure(2)	83	83,763	265	83,669
Total	**2,709**	**375,192**	**2,594**	**375,395**

September 30, 2019

	Gross balances(1) Impaired or in arrears 90 days or longer	Gross balances(1) Others	Provisions for credit losses	Net balance
Debt other than debentures	2,625	246,914	1,649	247,890
Debentures	–	10,032	–	10,032
Off-balance sheet exposure(2)	68	72,544	106	72,506
Total	**2,693**	**329,490**	**1,755**	**330,428**

December 31, 2019

	Gross balances(1) Impaired or in arrears 90 days or longer	Gross balances(1) Others	Provisions for credit losses	Net balance
Debt other than debentures	2,811	253,581	1,693	254,699
Debentures	–	9,196	–	9,196
Off-balance sheet exposure(2)	54	78,020	119	77,955
Total	**2,865**	**340,797**	**1,812**	**341,850**

(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 September 30, 2020 (NIS in millions):

Including Union Bank

	Extent of arrears In arrears 30 to 89 days(1)	Extent of arrears In arrears 90 days or longer 90 days to 6 months	Extent of arrears In arrears 90 days or longer 6-15 months	Extent of arrears In arrears 90 days or longer 15-33 months	Extent of arrears In arrears 90 days or longer Over 33 months	Extent of arrears In arrears 90 days or longer Total over 90 days	Balance with respect to refinanced loans in arrears(2)	Total
Amount in arrears	9	22	14	19	197	252	35	296
Of which: Balance of provision for interest(3)	–	–	–	1	108	109	7	116
Recorded debt balance	495	737	186	128	142	1,193	73	1,761
Balance of provision for credit losses (4)	–	–	26	57	103	186	38	224
Debt balance, net	**495**	**737**	**160**	**71**	**39**	**1,007**	**35**	**1,537**

Excluding Union Bank

	Extent of arrears In arrears 30 to 89 days(1)	Extent of arrears In arrears 90 days or longer 90 days to 6 months	Extent of arrears In arrears 90 days or longer 6-15 months	Extent of arrears In arrears 90 days or longer 15-33 months	Extent of arrears In arrears 90 days or longer Over 33 months	Extent of arrears In arrears 90 days or longer Total over 90 days	Balance with respect to refinanced loans in arrears(2)	Total
Amount in arrears	9	21	13	19	195	248	35	292
Of which: Balance of provision for interest(3)	–	–	–	1	107	108	7	115
Recorded debt balance	473	712	171	127	141	1,151	73	1,697
Balance of provision for credit losses (4)	–	–	26	57	103	186	38	224
Debt balance, net	**473**	**712**	**145**	**70**	**38**	**965**	35	**1,473**

(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)

September 30, 2020 - Including Union Bank (NIS in millions)

	Unsecured Total on-balance sheet balance(1)	Secured Total on-balance sheet balance(1)	Secured Of which: Secured amount(2)	Secured Of which: By collateral Balance sheet balance	Secured Of which: By collateral Of which: Secured amount	Secured Of which: By financial guarantees Balance sheet balance	Secured Of which: By financial guarantees Of which: Secured amount
Debt other than debentures	282,003	35,456	9,490	26,887	7,710	8,569	1,780
Debentures	16,420	–	–	–	–	–	–
Total	**298,423**	**35,456**	**9,490**	**26,887**	**7,710**	**8,569**	**1,780**
Of which: Accruing interest revenues, in arrears 90 days or longer	2,143	470	103	252	40	218	63

September 30, 2020 - Excluding Union Bank (NIS in millions)

	Unsecured Total on-balance sheet balance(1)	Secured Total on-balance sheet balance(1)	Secured Of which: Secured amount(2)	Secured Of which: By collateral Balance sheet balance	Secured Of which: By collateral Of which: Secured amount	Secured Of which: By financial guarantees Balance sheet balance	Secured Of which: By financial guarantees Of which: Secured amount
Debt other than debentures	250,620	32,361	8,385	23,968	6,637	8,393	1,748
Debentures	8,745	–	–	–	–	–	–
Total	**259,365**	**32,361**	**8,385**	**23,968**	**6,637**	**8,393**	**1,748**
Of which: Accruing interest revenues, in arrears 90 days or longer	1,952	405	102	187	39	218	63

September 30, 2019 (NIS in millions)

	Unsecured Total on-balance sheet balance(1)	Secured Total on-balance sheet balance(1)	Secured Of which: Secured amount(2)	Secured Of which: By collateral Balance sheet balance	Secured Of which: By collateral Of which: Secured amount	Secured Of which: By financial guarantees Balance sheet balance	Secured Of which: By financial guarantees Of which: Secured amount
Debt other than debentures	226,097	21,793	6,304	15,706	5,379	6,087	925
Debentures	10,032	–	–	–	–	–	–
Total	**236,129**	**21,793**	**6,304**	**15,706**	**5,379**	**6,087**	**925**
Of which: Accruing interest revenues, in arrears 90 days or longer	2,235	197	25	113	17	84	8

December 31, 2019 (NIS in millions)

	Unsecured Total on-balance sheet balance(1)	Secured Total on-balance sheet balance(1)	Secured Of which: Secured amount(2)	Secured Of which: By collateral Balance sheet balance	Secured Of which: By collateral Of which: Secured amount	Secured Of which: By financial guarantees Balance sheet balance	Secured Of which: By financial guarantees Of which: Secured amount
Debt other than debentures	230,698	24,001	6,860	17,514	5,875	6,487	984
Debentures	9,196	–	–	–	–	–	–
Total	**239,894**	**24,001**	**6,860**	**17,514**	**5,875**	**6,487**	**984**
Of which: Accruing interest revenues, in arrears 90 days or longer	2,187	370	46	252	32	151	14

(1) Balance sheet balance in conformity with reported carrying amounts on the financial statements, after provisions for credit losses.
(2) Balance sheet balance of part of the debt amount secured by collateral, guarantee or credit derivative, after accounting for safety factors.

Credit risk – standard approach

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

As of September 30, 2020 (Including Union Bank)

Asset type / risk weighting	0%	20%	35%	50%	60%	75%	100%	150%	Other	Total credit exposures (after conversion factors and collateral deduction)
Sovereigns, central banks and national monetary authority	89,217	87	–	–	–	–	83	–	–	89,387
Public sector entities (PSE) other than central Government	272	1,598	–	25	–	–	–	–	–	1,895
Banks (including Multi-party Development Banks)	–	3,824	–	484	–	–	150	–	–	4,458
Securities companies	–	–	–	–	–	–	–	–	–	–
Corporations	–	6,158	–	478	–	–	51,458	–	–	58,094
Retail exposure to individuals	–	–	–	–	–	24,180	–	–	–	24,180
Loans to small businesses	–	–	–	–	–	13,128	4	–	–	13,132
Secured by residential property	–	–	55,229	37,091	21,158	37,983	1,040	–	–	152,501
Secured by commercial real estate	–	–	–	–	–	–	6,866	–	–	6,866
Loans in arrears	–	–	–	–	–	–	1,305	1,298	–	2,603
Other assets	2,338	–	–	–	–	–	3,384	113	5	5,840
Of which: with respect to shares	–	–	–	–	–	–	285	87	–	372
Total	**91,827**	**11,667**	**55,229**	**38,078**	**21,158**	**75,291**	**64,290**	**1,411**	**5**	**358,956**

As of September 30, 2020 (Excluding Union Bank)

Asset type / risk weighting	0%	20%	35%	50%	60%	75%	100%	150%	Other	Total credit exposures (after conversion factors and collateral deduction)
Sovereigns, central banks and national monetary authority	74,057	87	–	–	–	–	83	–	–	74,227
Public sector entities (PSE) other than central Government	272	1,142	–	25	–	–	–	–	–	1,439
Banks (including Multi-party Development Banks)	–	2,713	–	484	–	–	150	–	–	3,347
Securities companies	–	–	–	–	–	–	–	–	–	–
Corporations	–	5,751	–	477	–	–	44,158	–	–	50,386
Retail exposure to individuals	–	–	–	–	–	19,142	(3)	–	–	19,139
Loans to small businesses	–	–	–	–	–	12,282	3	–	–	12,285
Secured by residential property	–	–	50,154	34,678	20,408	36,515	942	–	–	142,697
Secured by commercial real estate	–	–	–	–	–	–	3,913	–	–	3,913
Loans in arrears	–	–	–	–	–	–	1,232	1,088	–	2,320
Other assets	1,696	–	–	–	–	–	2,673	59	5	4,433
Of which: with respect to shares	–	–	–	–	–	–	78	50	–	128
Total	**76,025**	**9,693**	**50,154**	**35,664**	**20,408**	**67,939**	**53,151**	**1,147**	**5**	**314,186**

Credit risk – standard approach – Continued

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

As of September 30, 2019

Asset type / risk weighting	0%	20%	35%	50%	60%	75%	100%	150%	Other	Total credit exposures (after conversion factors and collateral deduction)
Sovereigns, central banks and national monetary authority	54,505	27	–	–	–	–	153	–	–	54,685
Public sector entities (PSE) other than central Government	364	925	–	–	–	–	–	–	–	1,289
Banks (including Multi-party Development Banks)	–	1,966	–	105	–	–	95	–	–	2,166
Securities companies	–	–	–	–	–	–	–	–	–	–
Corporations	–	5,489	–	482	–	–	40,063	–	–	46,034
Retail exposure to individuals	–	–	–	–	–	20,095	–	–	–	20,095
Loans to small businesses	–	–	–	–	–	10,655	3	–	–	10,658
Secured by residential property	–	–	52,152	31,401	11,165	36,597	821	–	–	132,136
Secured by commercial real estate	–	–	–	–	–	–	3,473	–	–	3,473
Loans in arrears	–	–	–	–	–	–	1,285	1,843	–	3,128
Other assets	1,695	–	–	–	–	–	2,357	60	10	4,122
Of which: with respect to shares	–	–	–	–	–	–	76	48	–	124
Total	**56,564**	**8,407**	**52,152**	**31,988**	**11,165**	**67,347**	**48,250**	**1,903**	**10**	**277,786**

As of December 31, 2019

Asset type / risk weighting	0%	20%	35%	50%	60%	75%	100%	150%	Other	Total credit exposures (after conversion factors and collateral deduction)
Sovereigns, central banks and national monetary authority	58,627	27	–	–	–	–	84	–	–	58,738
Public sector entities (PSE) other than central Government	357	902	–	–	–	–	–	–	–	1,259
Banks (including Multi-party Development Banks)	–	1,467	–	42	–	–	77	–	–	1,586
Securities companies	–	–	–	–	–	–	–	–	–	–
Corporations	–	5,861	–	573	–	–	41,007	–	–	47,441
Retail exposure to individuals	–	–	–	–	–	20,355	–	–	–	20,355
Loans to small businesses	–	–	–	–	–	10,612	1	–	–	10,613
Secured by residential property	–	–	50,765	32,238	13,340	37,247	826	–	–	134,416
Secured by commercial real estate	–	–	–	–	–	–	4,033	–	–	4,033
Loans in arrears	–	–	–	–	–	–	987	1,528	–	2,515
Other assets	1,639	–	–	–	–	–	2,027	58	5	3,729
Of which: with respect to shares	–	–	–	–	–	–	101	48	–	149
Total	**60,623**	**8,257**	**50,765**	**32,853**	**13,340**	**68,214**	**49,042**	**1,586**	**5**	**284,685**

(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)

	Subrogation cost	Future potential exposure	Exposure after deduction of collateral	Risk assets
As of September 30, 2020 - Including Union Bank				
Current exposure method	1,535	2,015	2,556	1,378
Comprehensive approach to credit risk mitigation (for securities financing transactions)			261	261
Total	**1,535**	**2,015**	**2,817**	**1,639**
As of September 30, 2020 - Excluding Union Bank				
Current exposure method	1,358	1,530	1,977	1,248
Comprehensive approach to credit risk mitigation (for securities financing transactions)			261	261
Total	**1,358**	**1,530**	**2,238**	**1,509**
As of September 30, 2019				
Current exposure method(1)	1,035	1,683	2,011	1,050
Comprehensive approach to credit risk mitigation (for securities financing transactions)			47	47
Total	**1,035**	**1,683**	**2,058**	**1,097**
As of December 31, 2019				
Current exposure method(1)	1,196	1,679	1,878	1,023
Comprehensive approach to credit risk mitigation (for securities financing transactions)			63	63
Total	**1,196**	**1,679**	**1,941**	**1,086**

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

	As of September 30, 2020 Exposure after deduction of collateral Including Union Bank	As of September 30, 2020 Risk assets Including Union Bank	As of September 30, 2020 Exposure after deduction of collateral Excluding Union Bank	As of September 30, 2020 Risk assets Excluding Union Bank	As of September 30, 2019 Exposure after deduction of collateral	As of September 30, 2019 Risk assets	As of December 31, 2019 Exposure after deduction of collateral	As of December 31, 2019 Risk assets
Total – portfolios for which CVA is calculated using the standard approach	1,809	536	1,563	412	1,904	466	1,755	384

(1) Reclassified.

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: September 30, 2020 Including Union Bank	Risk assets as of: September 30, 2020 Excluding Union Bank	Risk assets as of: September 30, 2019	Risk assets as of: December 31, 2019
Direct products				
Interest rate risk (general and specific)	1,453	1,126	1,549	1,339
Stock position risk (general and specific)	39	–	–	–
Exchange rate risk	497	483	215	440
Commodities risk	–	–	–	–
Options	–	–	–	–
Delta Plus approach	33	20	14	12
Securitization	–	–	–	–
Total	**2,022**	**1,629**	**1,778**	**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 September 30, 2020 Total unweighted value(2) (Average)	For the three months ended September 30, 2020 Total weighted value(3) (Average)
Total high-quality liquid assets		
Total high-quality liquid assets		**59,709**
Outgoing cash flows		
Retail deposits from individuals and from small businesses, of which:	125,299	7,659
Stable deposits	35,106	1,755
Less stable deposits	41,034	4,429
Deposits for terms longer than 30 days	49,159	1,475
Unsecured wholesale financing, of which:	66,456	41,067
Deposits for operational needs (all counter-parties) and deposits with networks of co-operative banking corporations	2,676	669
Deposits other than for operational needs (all counter-parties)	63,497	40,115
Unsecured debts	283	283
Secured wholesale financing	–	947
Additional liquidity requirements, of which:	91,717	19,899
Outflows with respect to derivatives exposure and other collateral requirements	13,757	13,757
Credit lines and liquidity	45,051	3,431
Other contingent financing obligations	32,909	2,711
Total outgoing cash flows		**69,572**
Incoming cash flows		
Secured loans	1,811	957
Inflows from regularly repaid exposures	10,747	8,462
Other incoming cash flows	17,891	13,370
Total incoming cash flows	**30,449**	**22,789**

	Total adjusted value(4)
Total high-quality liquid assets	**59,709**
Total outgoing cash flows, net	**46,783**
Liquidity coverage ratio (%)	(5)**128**

(1) Information is presented in terms of simple averages of daily observations during the reported quarter. The number of observations used in calculating the averages in the third quarter of 2020 is 75.

(2) Unweighted values are 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 accounted for after applying appropriate security factors or inflow / outflow rates (for inflows and outflows).

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

(5) The average liquidity coverage ratio presented is consolidated, excluding data for Union Bank. The effect of Union Bank data on the liquidity coverage ratio is estimated to be an increase by 3%.

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

For the three months ended September 30, 2019

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

	Total adjusted value(4)
Total high-quality liquid assets	**45,494**
Total outgoing cash flows, net	**37,376**
Liquidity coverage ratio (%)	**122**

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

(2) Unweighted values are 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 accounted for after applying appropriate security factors or inflow / outflow rates (for inflows and outflows).

(4) Adjusted value are 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		**44,846**
Outgoing cash flows		
Retail deposits from individuals and from small businesses, of which:	109,361	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:	50,882	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	12,367
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	**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 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 accounted for after applying appropriate security factors or inflow / outflow rates (for inflows and outflows).

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

Key factors that impact the results of liquidity coverage ratio

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

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

Composition of high quality liquid assets (HQLA)

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

	September 30, 2020	September 30, 2019	Average for the third quarter 2020	Average for the third quarter 2019
Level 1 assets	75,691	46,022	74,089	45,481
Level 2a assets	47	13	47	13
Level 2b assets	108	–	108	–
Total HQLA	**75,846**	**46,035**	**74,244**	**45,494**

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

Composition of pledged and un-pledged available assets:

As of September 30, 2020 - Including Union Bank

	Total balance on balance sheet	Of which: Pledged	Of which: Un-pledged
Cash and deposits with central banks	75,744	(1)1,852	73,892
Debentures of the Government of Israel	14,634	(2)687	13,947
Debentures of others in Israel	1,501	–	1,501
Debentures of foreign governments	1,168	333	835
Debentures of foreign others	555	–	555
Total	**93,602**	**2,872**	**90,730**

As of September 30, 2019[3]

	Total balance on balance sheet	Of which: Pledged	Of which: Un-pledged
Cash and deposits with central banks	46,030	64	45,966
Debentures of the Government of Israel	7,404	472	6,932
Debentures of foreign governments	2,679	259	2,420
Debentures of foreign others	326	–	326
Total	**56,439**	**795**	**55,644**

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**

(1) Of which: deposits pledged to Bank of Israel against monetary loans amounting to NIS 1.8 billion.
(2) Of which: debentures pledged to the Stock Exchange and MAOF clearing houses with respect to Union Bank, amounting to NIS 289 million.
(3) Reclassified.

Developments in liquidity coverage ratio

In the third quarter of 2020, the Bank maintained appropriate liquidity by investing excess liquidity in liquid assets of very high quality – Level 1 assets. The average liquidity coverage ratio (consolidated, excluding data for Union Bank) for the third quarter of 2020 was 128%. In this quarter, there were no recorded deviations from ratio restrictions.

Additions

Addendum A – Composition of supervisory capital

		September 30, 2020 Including Union Bank	September 30, 2020 Excluding Union Bank	September 30, 2019	December 31, 2019
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	3,521	2,314	2,281	2,302
2	Retained earnings, including dividends proposed or declared after the balance sheet date	15,042	15,042	13,792	14,063
3	Accumulated other comprehensive income and retained earnings for which disclosure has been given	(160)	(235)	(183)	(208)
5	Ordinary shares issued by consolidated subsidiaries of the banking corporation, which are held by a third party (non-controlling interests)	422	422	456	464
6	**Tier I capital before regulatory adjustments and deductions**	18,825	17,543	16,346	16,621
Tier I shareholders' equity: Regulatory adjustments and deductions			–		
7	Stabilizing valuation adjustments	–	–	–	–
8	Goodwill, net of related deferred tax liability, if applicable	87	87	87	87
9	Other intangible assets, other than mortgage-servicing rights, net of related deferred tax liability(1)	–	–	–	–
10	Deferred tax assets that rely on future profitability of the banking corporation for realization, excluding those arising from temporary differences	19	–	–	–
11	Accumulated other comprehensive income with respect to cash flows hedging of items not listed at fair value on the balance sheet	19	19	8	8
12	Shortfall of provisions to expected losses	–	–	–	–
13	Increase in shareholders' equity due to securitization transactions	–	–	–	–
14	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	22	5	7	6
15	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	–	–	–	–
16	Investment in own ordinary shares, held directly or indirectly (including commitment to purchase shares subject to contractual obligations)	–	–	–	–
17	Reciprocal cross-holdings in ordinary shares of financial corporations	–	–	–	–
18	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	–	–	–	–
19	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	–	–	–	–
20	Mortgage servicing rights whose amount exceeds 10% of Tier I capital	–	–	–	–
21	Deferred tax assets arising from temporary differences, whose amount exceeds 10% of Tier I capital	–	–	–	–

		September 30, 2020 Including Union Bank	September 30, 2020 Excluding Union Bank	September 30, 2019	December 31, 2019
22	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	–	–	–	–
23	Of which: With respect to investments that exceed 10% of the ordinary share capital issued by financial corporations	–	–	–	–
24	Of which: With respect to mortgage servicing rights	–	–	–	–
25	Of which: Deferred tax assets arising from temporary differences	–	–	–	–
26	Regulatory adjustments and other deductions stipulated by the Supervisor of Banks	(1)(1,030)	–	–	–
26.א	Of which: With respect to investments in capital of financial corporations	–	–	–	–
26.ב	Of which: With respect to mortgage servicing rights	–	–	–	–
26.ג	Of which: Additional regulatory adjustments to Tier I capital, not included in sections 25.A and 25.B.	–	–	–	–
27	Deductions applicable to Tier I capital, due to insufficient additional Tier I and Tier II capital to cover deductions	–	–	–	–
28	**Total regulatory adjustments to and deductions from Tier I capital**	**(883)**	**111**	**102**	**101**
29	**Tier I shareholders' equity**	**19,708**	**17,432**	**16,244**	**16,520**
Additional Tier I capital: Instruments			–		
30	Additional Tier I capital instruments issued by the banking corporation and premium on such instruments	–	–	–	–
31	Of which: Classified as equity in conformity with Public Reporting Regulations	–	–	–	–
32	Of which: Classified as liabilities in conformity with Public Reporting Directives	–	–	–	–
34	Additional Tier I capital instruments issued by subsidiaries of the banking corporation, held by third party investors	–	–	–	–
36	**Tier I capital, before deductions**	**–**	**–**	**–**	**–**
Additional Tier I capital: Instruments			–		
37	Investment in own additional Tier I capital instruments, held directly or indirectly (including commitment to purchase such instruments subject to contractual obligations)	–	–	–	–
38	Reciprocal cross-holdings in additional Tier I capital instruments	–	–	–	–
39	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	–	–	–	–
40	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	–	–	–	–
41	Other deductions stipulated by the Supervisor of Banks	–	–	–	–
41.A	Of which: With respect to investments in capital of financial corporations	–	–	–	–
41.B	Of which: Additional regulatory adjustments to Tier I capital, not included in section 38.A	–	–	–	–
42	Deductions applicable to additional Tier I capital, due to insufficient Tier II capital to cover deductions	–	–	–	–
43	**Total deductions from additional Tier I capital**	**–**	**–**	**–**	**–**
44	**Additional Tier I capital**	**–**	**–**	**–**	**–**
45	**Tier I capital**	**19,708**	**17,432**	**16,244**	**16,520**
Tier II capital: Instruments and provisions					
46	Instruments issued by the banking corporation (not included in Tier I capital) and premium on such instruments	342	342	465	381

		September 30, 2020 Including Union Bank	September 30, 2020 Excluding Union Bank	September 30, 2019	December 31, 2019
47	Tier II capital instruments issued by the banking corporation, eligible for inclusion in regulatory capital during transitional period	894	893	1,340	1,340
48	Tier II capital instruments issued by subsidiaries of the banking corporation to third party investors	3,312	2,795	2,439	2,823
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	–	–	–	–
50	Group provisions for credit losses by effect of related tax	2,232	2,188	1,555	1,546
51	**Tier II capital, before deductions**	**6,780**	**6,218**	**5,799**	**6,090**
	Tier II capital: Deductions		–		
52	Investment in own Tier II capital instruments, held directly or indirectly (including commitment to purchase such instruments subject to contractual obligations)	–	–	–	–
53	Reciprocal cross-holdings in Tier II capital instruments of financial corporations	–	–	–	–
54	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	–	–	–	–
55	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	–	–	–	–
56	Other deductions stipulated by the Supervisor of Banks	–	–	–	–
56.A	Of which: With respect to investments in capital of financial corporations	–	–	–	–
56.B	Of which: Other deductions from Tier II capital, not included in section 51.A	–	–	–	–
57	**Total deductions from Tier II capital**	–	–	–	–
58	**Tier II capital**	**6,780**	**6,218**	**5,799**	**6,090**
59	**Total equity**	**26,488**	**23,650**	**22,043**	**22,610**
60	**Total risk weighted assets**	**197,502**	**173,322**	**160,306**	**162,858**
	Capital ratios and capital conservation buffer		–		
61	Tier I shareholders' equity	9.98%	10.06%	10.13%	10.14%
62	Tier I capital	9.98%	10.06%	10.13%	10.14%
63	Total capital	13.41%	13.65%	13.75%	13.88%
	Minimum requirements stipulated by the Supervisor of Banks				
69	Minimum Tier I shareholders' equity ratio required by Supervisor of Banks	8.71%	8.76%	9.83%	9.83%
70	Minimum Tier I capital ratio required by Supervisor of Banks	8.71%	8.76%	9.83%	9.83%
71	Minimum overall capital ratio required by Supervisor of Banks	12.21%	12.26%	13.33%	13.33%
	Amounts below deduction threshold (before risk weighting)		–		
72	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	–	–	–	–
73	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	2	2
74	Mortgage servicing rights	–	–	–	–
75	Deferred tax assets arising from temporary differences, that are below the deduction threshold	1,710	1,333	1,165	1,135

		September 30, 2020 Including Union Bank	September 30, 2020 Excluding Union Bank	September 30, 2019	December 31, 2019
Cap for inclusion of provisions in Tier II			–		
76	Provision eligible for inclusion in Tier II with respect to exposures subject to standardized approach, prior to application of cap	2,232	2,188	1,555	1,546
77	Cap on inclusion of provisions in Tier II under standardized approach	2,285	2,009	1,850	1,881
78	Provision eligible for inclusion in Tier II with respect to exposures subject to internal ratings-based approach, prior to application of cap	–	–	–	–
79	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)	1,195	893	1,340	1,340
85	Amount deducted from Tier II capital due to cap	1,813	1,813	1,393	1,381

(1) Includes deferred credit balance from acquisition of Union Bank. For more information see Note 9.F. to the financial statements.

Glossary and index of terms included in the Risks Report

Below is a summary of terms included on 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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