Q2

Disclosure According to the Third Pillar of Basel and Additional Information Regarding Risks

Link to an accessible report

Disclosure according to the third pillar of Basel and additional information regarding risk – List of tables

The meeting of the Board of Directors held on May 15, 2019, in the framework of approval of the Bank's Report for the first quarter of 2019, decided also to approve and publish the report in the matter of "Disclosure according to the third pillar of Basel and additional information regarding risks". For further relevant information, the "Risks review" chapter in the Board of Directors and Management Report should be viewed in the 2018 Annual Report and the Report for the first quarter of 2019, including in the document "Disclosure according to the third pillar of Basel and additional information regarding risks", which was published in the framework of the 2018 Annual Report.

PRINCIPAL REGULATORY RATIOS AND REVIEW OF RISK MANAGEMENT AND RISK ASSETS

Principal regulatory ratios (KM1)

	June 30, 2019	March 31, 2019	December 31, 2018	September 30 ,2018	June 30, 2018
			in NIS millions		
Available capital					
Common equity tier 1	18,505	17,966	17,504	16,990	16,642
Common equity tier 1 before applying the effect of the transition	18,318	17,762	17,284	16,751	16,390
Tier 1 capital	19,039	18,500	18,216	17,702	17,354
Tier 1 capital before applying the effect of the transition	18,318	17,762	17,284	16,751	16,390
Total capital	23,746	23,186	23,356	22,899	22,549
Total capital before applying the effect of the transition	21,106	20,543	20,000	19,444	19,081
Weighted average of risk assets					
Total weighted average of risk assets	**178,452**	**176,646**	**170,921**	**169,503**	**169,409**
Ratio of capital adequacy in accordance with instructions of the supervisor of banks (in %)					
Ratio of common equity tier 1	10.37	10.17	10.24	10.02	9.82
Ratio of common equity tier 1 before applying the effect of the transition	10.32	10.05	10.11	9.87	9.67
Tier I capital ratio	10.67	10.47	10.66	10.44	10.24
Tier I capital ratio before applying the effect of the transition	10.32	10.05	10.11	9.87	9.67
Ratio of total capital	13.31	13.13	13.67	13.51	13.31
Ratio of total capital before applying the effect of the transition	11.89	11.63	11.70	11.45	11.25
Ratio of common equity tier 1 required by the Supervisor of Banks	9.20	9.19	9.19	9.19	9.18
Ratio of common equity tier 1 over the required by the Supervisor of Banks	1.17	0.98	1.05	0.83	0.64
Leverage ratio according to Directives of the Supervisor of Banks					
Total exposures (in NIS millions)	**269,827**	**264,166**	**264,000**	**259,412**	**257,743**
Leverage ratio (in %)	7.1	7.0	6.9	6.8	6.7
Leverage ratio before applying the effect of the transition	6.8	6.7	6.5	6.5	6.4
Liquidity coverage ratio according to Directives of the Supervisor of Banks					
Total High Quality Liquidity Assets	**42,384**	**43,860**	**42,830**	**43,164**	**46,038**
Total cash outflows	**31,800**	**32,886**	**34,326**	**34,519**	**34,097**
Liquidity coverage ratio (in %)	133.3	133.4	124.8	125.0	135.0

General background and general reporting principles

General background. The report presented below ("risk report") has been prepared in accordance with the reporting directives of the Supervisor of Banks regarding "disclosure requirements detailed in the third Pillar of Basel and additional information regarding risks". This report implements in full, for the first time, the updated reporting directive published as part of the circular regarding "improvement of the usefulness of reports to the public of banking corporations for the years 2017-2018", with respect to the quarterly report, it is noted that the updated instruction has clearly defined the frequency of the quantitative and qualitative disclosure requirements. Whereas, a significant part of the disclosure requirements has been defined as disclosure required on an annual basis only, this report should be read together with the risk report published as part of the Annual Report for 2018. For further details, including details of "general principles for reporting", see the Risks Report published as part of the Annual Report for 2018 (p. 5).

General reporting principles. Towards the publication of the first risk report, as part of the annual report for 2015, general reporting principles had been determined, that were validated and updated within the framework of the preparations for the implementation of the updated reporting directive, all subject to the reporting directives.

- The risk report is an integral part of the annual report, and respectively, the processes applying to the annual report shall apply to it (including: controls and procedures regarding internal control over financial reporting (SOX), statements by the President & CEO and the Chief Accounting Officer regarding the disclosure);
- In order to present an appropriate report and avoid repetition of details, it has been determined that the principal disclosure document in the risk management field would be the risk report. With respect to issues requiring disclosure in two of the documents – the extended disclosure shall be presented in the risk report while in the Chapter "Risk review" in the report by the Board of Directors and Management a very concise summary shall be presented, with reference to the risk report. With respect to issues that require specific disclosure relating to the "Risk review" Chapter – disclosure would generally be presented only in this chapter;
- The risk population to which the Bank relates will be in line with the risks identified and presented in the framework of the assessment of the capital adequacy (ICAAP);
- The disclosure will describe the principal activities of the Group and the significant risks, based on relevant data and information;
- The disclosures will include qualitative information and sufficient quantitative data regarding procedures of the Group for the identification, measurement and management of risks. The level of details given in the disclosures should be proportional;
- In order to assist users to understand in an optimal manner the Group's risk tolerance/risk appetite, the disclosure shall be flexible in a way that enables to reflect the manner in which senior Management and the Board of Directors assess and manage risk and strategy internally within the organization;
- A mechanism of a controlling nature has been established securing the appropriateness and relevancy of the disclosures included in the report, based on the work processes applied in the framework of assessment of the capital adequacy (ICAAP) and of the preparation of the quarterly risk document;
- Attention should be paid to especially material changes in data and to the study of the need to provide explanations for such changes.

The banking corporation's approach to risk management

For details regarding the Risk profile of the Discount Group and for details regarding Risk Factors Table, see in the Chapter C to the Directors and Management Report - "Risks review" in the 2018 Annual Report (pp. 54-55, 89-91).

Drafts and Instructions published during the second quarter of 2019

Draft update of Proper Conduct of Banking Business Directive No. 353 in the matter of control over the issuance of guaranties by a banking corporation. See below, credit risks.

Standardised approach for measuring counterparty credit risk exposures. See below, counterparty credit risk.

Update of the FAQ file for the implementation by credit card companies of the Prohibition of Money Laundering Order and of Proper Conduct of Banking Business Directive No. 411. See below, compliance risks.

Amendment of Proper Conduct of Banking Business Directive No. 308 regarding measurement and capital adequacy – market risk. See below, market risk.

Draft circular regarding the supervision over foreign extensions and compliance as well as the compliance function in a banking corporation – Amendments to Proper Conduct of Banking Business Directives Nos. 306 and 308, as well as a draft update of the FAQ file regarding the implementation of Directive No. 308. See below, other risks.

Letter of the Supervisor of Banks regarding risk management with respect to the Antitrust Act. On May 16, 2019, the Supervisor of Banks published a letter regarding risk management with respect to an amendment of the Antitrust Act. The letter requires banks to examine, evaluate and manage the overall risks (compliance risk, legal risk, regulatory risk and reputation risk) expected as a result of the amendment of the Act, including the prohibition on the misuse of market power regarding the provision of assets and services in a way that might impair competition. The banks are also required to follow regulatory and legal developments in the world of enforcement of competition laws.

Banks are required to verify the existence of an administrative framework that would coordinate this field, while identifying, monitoring, controlling and managing risks, including the interface with the different functions at the bank, to establish in the policy and procedures of the bank the prohibition on the improper use of a significant market power (including in geographical areas, banking services and customers), to implement an integration process of the policy and procedures and to hold discussions on this subject by Management and the Board of Directors of the bank.

The Bank is preparing for the implementation of the contents of the letter within the framework of a review of competition enactments held by the Bank and the Group.

Material leading and developing risks

The Bank considers business model risks, cyber and data protection risks as well as business model risks, privacy protection aspects and conduct risks, as the most significant developing leading risks. In the first three months of 2019, no material changes took place concerning this matter. For additional details see in the Risks Report, which was published as part of the 2018 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (pp. 16-17).

Weighted risk assets review (OV1)

	Weighted risk assets		Minimum Capital requirements
	30.06.2019	31.03.2019	30.06.2019
	in NIS millions		
Credit risk – standardised approach	151,804	150,916	19,279
Counterparty credit risk (standardised approach)	3,560	3,044	452
Credit valuation adjustment (CVA)	1,629	1,406	207
Securitization exposure (standardised approach)	174	119	22
Amounts lower than the deductible minimum (subject to the risk weight of 250%)	4,193	4,241	533
Total credit risk	161,360	159,726	20,493
Market risk (standardised approach)	3,497	3,635	444
Operational risk	13,595	13,285	1,727
Total	**178,452**	**176,646**	**22,664**

Disclosure regarding the linkage between the balance sheet and the regulatory capital components

For details regarding the required adjustments between the balance sheet in the published financial statements and the regulatory capital components, see the Risks Report, which was published as part of the 2018 Annual Report (pp. 105-114).

Additional information regarding risk exposure and its assessment that is not included in the Third Pillar disclosure requirements

For details regarding the summary of movement and changes in risk-weighted assets and regarding the linkage between the weighted risk assets and the business transactions and the related risks, according to the Bank's regulatory operating segments, see the Risks Report, which was published as part of the 2018 Annual Report (pp. 18-19).

CAPITAL AND LEVERAGE

Main developments in the first quarter of 2019

The increase in the Common Equity Tier 1 ratio in the second quarter of 2019 stemmed mainly from the increase in net profit and from the increase in unrealized gains on adjustment to fair value of available-for-sale bonds.

Composition of the capital

Capital components for calculating ratio of capital

	Unaudited		Audited
	June 30,		December 31,
	2019	2018	2018
	in NIS millions		
A. Common Equity Tier 1			
Common equity	18,668	16,761	17,669
Difference between common equity and common equity tier 1	(186)	(209)	(222)
Total common equity tier 1 before supervisory adjustments and deductions	18,482	16,552	17,447
Supervisory adjustments and deductions			
Goodwill and other intangible assets	160	160	160
Supervisory adjustments and other deductions	3	4	3
Total supervisory adjustments and deductions before adjustments in respect to the efficiency plan	163	164	163
Total adjustments in respect to the efficiency plan	186	254	220
Total common equity tier 1 after supervisory adjustments and deductions	**18,505**	**16,642**	**17,504**
B. Additional tier 1 capital			
Additional tier 1 capital before deductions	534	712	712
Total additional tier 1 capital after deductions	**534**	**712**	**712**
C. Tier 2 capital			
Instruments before deductions	2,612	3,221	3,135
Allowance for credit losses before deductions	2,017	1,905	1,932
Minority interests in a subsidiary	78	69	73
Total tier 2 capital before deductions	4,707	5,195	5,140
Deductions	-	-	-
Total tier 2 capital	**4,707**	**5,195**	**5,140**

For details regarding the connection between the balance sheet and the components of the regulatory capital, see the Risks Report, which was published as part of the 2018 Annual Report (pp. 105-114).

Capital adequacy

For details regarding "evaluation of capital adequacy" as well as "capital planning process", see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2018 Annual Report, and is open for review as stated (pp. 21-22).

Leverage ratio

General. The leverage ratio is defined as the capital measurement divided by the exposure measurement. The capital for the purpose of this measurement is the common equity tier 1. The exposure measurement is the sum of the balance-sheet exposures, the exposures to derivatives, the exposures to securities funding transactions and off-balance-sheet items (for details regarding the factors which may affect the leverage ratio, see Note 25 item 2 to the financial statements as of December 31, 2018, p. 200).

Comparison between Balance sheet assets and the measurement of exposure for the purpose of the leverage ratio (LR1)

	June 30		December 31,
	2019	2018	2018
	NIS millions		
Total assets according to the consolidated financial statements	244,313	230,788	239,176
Adjustment in respect of investments in entities in the banking, finance, insurance and commercial fields, consolidated for accounting purposes, but not included in consolidation for regulatory purposes	-	-	-
Adjustments in respect of trusteeship assets recognized in the balance sheet according to the Reporting to the Public Directives, but not included in the measurement of exposure of the leverage ratio	-	-	-
Adjustments in respect of derivative financial instruments	(750)	(136)	369
Adjustments in respect of SFTs	387	353	-
Adjustments in respect of off-balance sheet items (conversion of off-balance sheet exposure to credit equivalent amounts)	24,124	25,108	22,798
Other adjustments	1,753	1,630	1,657
Exposure for the purpose of the leverage ratio	**269,827**	**257,743**	**264,000**

Disclosure of the leverage ratio (LR2)

	June 30		December 31,
	2019	2018	2018
	NIS millions		
Balance sheet exposures			
On-balance sheet items (excluding derivatives and SFTs, but including collateral and group allowance)	236,984	224,087	232,917
Asset amounts deducted in determining Tier 1 capital	(160)	(160)	(160)
Total balance sheet exposures (excluding derivatives and SFTs)	**236,824**	**223,927**	**232,757**
Derivative exposures			
Replacement cost associated with all derivatives transactions	1,628	2,073	2,039
Add-on amounts for PFE associated with all derivatives transactions	1,895	1,887	2,066
Gross-up for derivatives collateral provided which where deducted from the balance sheet assets pursuant to the Reporting to the Public Directives	-	-	-
Deductions of receivables assets for cash variation margin provided in derivatives transactions	-	-	-
Exempted CCP leg of client-cleared trade exposures	-	-	-
Adjusted effective notional amount of written credit derivatives	-	-	-
Adjusted effective notional offsets and add-on deductions for written credit derivatives	-	-	-
Total derivative exposures	**3,523**	**3,960**	**4,105**
Securities financing transaction exposures			
Gross SFT assets (with no recognition of netting), after adjusting for transactions treated as an accounting sale	4,969	4,395	4,340
Netted amounts of cash payables and cash receivables of gross SFT assets	-	-	-
Credit risk exposure of a counterparty for SFT assets	387	353	-
Agent transaction exposures	-	-	-
Total securities financing transaction exposures	**5,356**	**4,748**	**4,340**
Other off-balance sheet exposures			
Off-balance sheet exposure at gross notional amount	92,993	86,608	87,673
Adjustments for conversion to credit equivalent amounts	(68,869)	(61,500)	(64,875)
Total off-balance sheet items	**24,124**	**25,108**	**22,798**
Capital and total exposures			
Tier 1 capital	(1)19,039	(1)17,354	(1)18,216
Total exposures	269,827	257,743	264,000
Leverage ratio			
Leverage ratio according to Proper Conduct of Banking Business Directive No. 218	7.1	6.7	6.9

Footnote:
(1) The Tier I capital and the total exposure are presented after the relief granted by the Supervisor of Banks in respect of the efficiency plans.

CREDIT RISK

Credit risk is the risk of material impairment to the value of the Group and its ability to attain its goals as a result of deterioration in the ability of a borrower or counterparty to honor their obligations towards the Bank, in whole or in part.

For general information regarding credit risk quality (CRA), see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2018 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (pp. 28-33).

Drafts and Instructions published during the second quarter of 2019

Draft update of Proper Conduct of Banking Business Directive No. 353 in the matter of control over the issuance of guaranties by a banking corporation. A draft, dated April 16, 2019, intended to remove obstructions and allow updated technological innovations, so that following its approval, it would be possible to issue a bank guarantee by digital media.

The credit quality of credit exposures (CR1)

CREDIT QUALITY OF CREDIT EXPOSURE

	Gross balances			
	Impaired or in arrears of 90 days or over	Other	Allowances for credit losses or impairment in value	Net balance
	in NIS millions			
	June 30, 2019			
Debts, excluding bonds	2,154	174,136	2,290	174,000
Bonds	85	31,747	-	31,832
Off-balance sheet exposure	41	90,637	182	90,496
Total	**2,280**	**296,520**	**2,472**	**296,328**
	June 30, 2018			
Debts, excluding bonds	2,230	157,404	2,113	157,521
Bonds	56	32,932	-	32,988
Off-balance sheet exposure	138	84,487	190	84,435
Total	**2,424**	**274,823**	**2,303**	**274,944**
	December 31, 2018			
Debts, excluding bonds	2,068	167,138	2,248	166,958
Bonds	79	34,325	-	34,404
Off-balance sheet exposure	67	85,529	176	85,420
Total	**2,214**	**286,992**	**2,424**	**286,782**

For details regarding changes in the balance of impaired debts (CR2) and for the additional disclosure regarding the credit quality of credit exposures (CRB), see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2018 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (pp. 35-45).

Qualitative disclosure requirements regarding credit risk mitigation techniques (CRC)

For details regarding credit risk mitigation and mitigating the risk in respect of credit concentration, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2018 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (pp. 45-46).

Credit risk mitigation techniques – Review (CR3)

METHODS FOR CREDIT RISK MITIGATION - QUANTITATIVE DISCLOSURE

	Unsecured	Secured							
				Of which: by collateral		Of which: by financial guarantees		Of which: by credit derivatives	
	Total balance sheet balance	Total balance sheet balance	Of which: secured amount	Balance sheet balance	Of which: secured amount	Balance sheet balance	Of which: secured amount	Balance sheet balance	Of which: secured amount
	in NIS millions								
	June 30, 2019								
Debts, excluding bonds	144,667	29,333	12,892	23,890	7,449	5,443	5,443	-	-
Bonds	31,832	-	-	-	-	-	-	-	-
Total	**176,499**	**29,333**	**12,892**	**23,890**	**7,449**	**5,443**	**5,443**	**-**	**-**
Of which: Impaired or in arrears of 90 days or over	1,257	98	15	98	15	-	-	-	-
	June 30, 2018								
Debts, excluding bonds	128,639	28,882	12,105	24,903	8,126	3,979	3,979	-	-
Bonds	32,988	-	-	-	-	-	-	-	-
Total	**161,627**	**28,882**	**12,105**	**24,903**	**8,126**	**3,979**	**3,979**	**-**	**-**
Of which: Impaired or in arrears of 90 days or over	1,289	117	18	117	18	-	-	-	-
	December 31, 2018								
Debts, excluding bonds	137,912	29,046	13,074	24,285	8,313	4,761	4,761	-	-
Bonds	34,404	-	-	-	-	-	-	-	-
Total	**172,316**	**29,046**	**13,074**	**24,285**	**8,313**	**4,761**	**4,761**	**-**	**-**
Of which: Impaired or in arrears of 90 days or over	1,222	57	20	57	20	-	-	-	-

Standardized approach – exposures by asset classes and risk weights (CR5)

EXPOSURE ACCORDING TO CLASSES OF ASSETS AND RISK WEIGHTS

	0%	20%	35%	50%	60%	75%	100%	150%	Total amount of credit exposure (after CCF and CRM)
	in NIS millions								
	June 30, 2019								
Sovereigns, their central banks and national monetary authority	45,637	227	-	-	-	-	391	-	46,255
Public sector entities (PSE) which are not central governments	1,293	7,132	-	2	-	-	-	-	8,427
Banks (including multilateral development banks)	-	9,092	-	92	-	-	20	-	9,204
Corporations	-	7,326	-	805	-	-	85,347	100	93,578
Retail exposures for private individuals	-	-	-	-	-	30,397	102	-	30,499
Loans to small businesses	-	-	-	-	-	13,713	19	-	13,732
Secured by residential property	-	-	11,441	10,171	3,094	9,688	443	-	34,837
Secured by commercial real estate	-	-	-	-	-	-	1,692	-	1,692
Loans in arrears	-	-	-	-	-	-	578	824	1,402
Other assets	2,789	162	-	-	-	-	3,799	998	7,748
Of which: in respect of shares	-	-	-	-	-	-	201	708	909
Total	**49,719**	**23,939**	**11,441**	**11,070**	**3,094**	**53,798**	**92,391**	**1,922**	**247,374**
	June 30, 2018								
Sovereigns, their central banks and national monetary authority	46,091	2,314	-	30	-	-	488	-	48,923
Public sector entities (PSE) which are not central governments	1,078	4,409	-	1,871	-	-	-	-	7,358
Banks (including multilateral development banks)	-	5,544	-	2,191	-	-	47	-	7,782
Corporations	-	8,715	-	609	-	-	78,773	132	88,229
Retail exposures for private individuals	-	-	-	-	-	28,333	101	-	28,434
Loans to small businesses	-	-	-	-	-	13,365	14	-	13,379
Secured by residential property	-	-	10,868	8,133	776	10,223	471	-	30,471
Secured by commercial real estate	-	-	-	-	-	-	1,610	-	1,610
Loans in arrears	-	-	-	-	-	-	570	981	1,551
Other assets	2,605	6	-	-	-	-	3,598	937	7,146
Of which: in respect of shares	-	-	-	-	-	-	302	621	923
Total	**49,774**	**20,988**	**10,868**	**12,834**	**776**	**51,921**	**85,672**	**2,050**	**234,883**
	December 31, 2018								
Sovereigns, their central banks and national monetary authority	47,706	227	-	11	-	-	551	-	48,495
Public sector entities (PSE) which are not central governments	1,291	6,638	-	2	-	-	-	-	7,931
Banks (including multilateral development banks)	-	8,411	-	64	-	-	54	-	8,529
Corporations	-	7,694	-	758	-	-	81,377	153	89,982
Retail exposures for private individuals	-	-	-	-	-	29,524	150	-	29,674
Loans to small businesses	-	-	-	-	-	13,651	48	-	13,699
Secured by residential property	-	-	11,187	9,244	1,996	9,919	472	-	32,818
Secured by commercial real estate	-	-	-	-	-	-	1,559	-	1,559
Loans in arrears	-	-	-	-	-	-	513	816	1,329
Other assets	2,831	4	-	-	-	-	3,800	951	7,586
Of which: in respect of shares	-	-	-	-	-	-	104	878	982
Total	**51,828**	**22,974**	**11,187**	**10,079**	**1,996**	**53,094**	**88,524**	**1,920**	**241,602**

Counterparty credit risk

For a qualitative disclosure related to counterparty credit risk (CCRA), see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2018 Annual Report, and is open for review, as stated (pp. 50-51).

Drafts and Instructions published during the first quarter of 2019

Standardised approach for measuring counterparty credit risk exposures. In a letter dated April 1, 2019, the Supervisor of Banks informed that it is his intention to give effect to the guidelines in the matter of "Standardised approach for measuring counterparty credit risk exposures", as published in March 2014 by the Basel Committee on Banking Supervision (BCBS), which replaces the approaches detailed in Appendix "C" to Proper Conduct of Banking Business Directive No. 203, that is based on non-internal models. This, on June 1, 2021, or one year following the date of actual application by the European Union, whichever is later. The Supervisor of Banks informed that as part of the preparations made for the implementation, it intends to conduct work sessions with the banking corporations for the purpose of discussing the issues arising and the results of the survey regarding the quantitative effect (QIS) delivered to the Supervisor. The Bank has begun preparations for the implementation of the guidelines.

Analysis of exposure to counterparty credit risk (CCR) according to the regulatory approach (CCR1)

	Replacement cost	Potential future exposure	EAD after CRM	RWA
	in NIS millions			
	June 30, 2019			
Current exposure method	1,612	1,488	2,735	1,690
The comprehensive approach to credit risk mitigation (for securities financing transactions [SFT])	-	-	2,270	1,588
Total	**1,612**	**1,488**	**5,005**	**3,278**
	June 30, 2018			
Current exposure method	2,036	1,545	3,048	2,036
The comprehensive approach to credit risk mitigation (for securities financing transactions [SFT])	-	-	2,017	1,528
Total	**2,036**	**1,545**	**5,065**	**3,564**
	December 31, 2018			
Current exposure method	1,959	1,708	3,058	1,821
The comprehensive approach to credit risk mitigation (for securities financing transactions [SFT])	-	-	1,595	820
Total	**1,959**	**1,708**	**4,653**	**2,641**

Credit valuation adjustment (CVA) capital charge (CCR2)

	EAD after CRM	RWA
	in NIS millions	
	June 30, 2019	
Total portfolios for which CVA is calculated according to the standardised approach	**2,853**	**1,629**
	June 30, 2018	
Total portfolios for which CVA is calculated according to the standardised approach	**3,563**	**1,791**
	December 31, 2018	
Total portfolios for which CVA is calculated according to the standardised approach	**3,167**	**1,441**

The increase in the allocation of capital in respect of the adjustment of revaluation to credit risk stems from an increase in the derivatives activity with customers.

• MARKET RISK

For the general qualitative disclosure regarding market risks (MRA), see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2018 Annual Report, and is open for review, as stated (pp. 55-58).

Drafts and Instructions published during the second quarter of 2019

Amendment of Proper Conduct of Banking Business Directive No. 208 regarding measurement and capital adequacy – market risk. A circular dated June 20, 2019, in which the Supervisor of Banks updated the conditions, which once existing, allow a banking corporation to recognize a structural position (a position related to the hedging against the effect of fluctuations in foreign exchange rates on the capital ratio). Inter alia, the requirement to obtain a written prior approval by the Supervisor of Bank has been removed, and instead comes a requirement to report to the Supervisor of Banks in advance of the intention to recognize the structural position, which is to include also a confirmation by the banking corporation with respect to its compliance with the conditions as well as a confirmation by the external auditors; also added are requirements for a periodic review of the compliance with the terms of the Directive and for the documentation of such reviews.

Quantitative disclosure

(1) Limitations set by the Board of Directors

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2018 Annual Report, and is open for review, as stated (p. 58).

(2) Interest Risk Exposure

General

The risk of loss, stemming from parallel and non-parallel movements in the return graph, and the impact of the optionality embedded in different financial instruments.

Relation between balance sheet items and the positions included in the disclosure of Market risk

The Group differentiates between two classes of portfolios: the trading portfolio and the banking book. These portfolios differ in the nature of exposure to market risks, reflected also in the management tools used in managing their market risks.

- The trading portfolio comprises of positions in financial instruments held for trading or with the aim of earning gains in the short-term. These positions are marketable and may be hedged in full. As a general rule, the trading portfolio is held by the dealing room and in trading bonds portfolios held by the "Nostro" unit.
- The banking book – all balance sheet assets and liabilities and the off-balance sheet items of the Group that are not included in the trading portfolio.

The risk indices used for the overall interest risk management, are presented in detail in the item "Additional information regarding exposure to market risk" below.

The models used for the management of interest risk in the banking portfolio only, are presented in detail in the Chapter "Interest risk" (IRRBB) in the banking portfolio below.

RELATION BETWEEN BALANCE SHEET ITEMS AND THE POSITIONS INCLUDED IN THE DISCLOSURE OF MARKET RISK

Assets	Affect of 100 BP for end of the second quarter	Affect of 100 BP as of	Liabilities	Affect of 100 BP for end of the second quarter	Affect of 100 BP as of
	June 30, 2019	December 31, 2018		June 30, 2019	December 31, 2018
			In NIS millions		
Credit	1,944	1,726	Deposits	767	720
Available-for-sale securities portfolio	955	1,028	Debt notes	210	244
Trading securities portfolio	38	27	Off balance-sheet (derivatives)	203	175
Held-to-maturity securities portfolio	197	188	Current account spreading	1,284	1,036
Off balance-sheet (derivation)	-	-	Employees rights	263	266
Other	49	47	Other	-	1
Total	3,184	3,016	Total	2,728	2,444

(3) Additional information – models and risk indices

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2018 Annual Report, and is open for review, as stated (p. 58).

Principal indices for management

Index for the sensitivity of economic value to changes in interest rates. For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2018 Annual Report, and is open for review, as stated (p. 61).

DETAILS OF THE GROUP EXPOSURE AND LIMITATIONS - IN THE INDEX OF ECONOMIC VALUE SENSITIVITY TO PARALLEL CHANGES IN INTEREST GRAPHS BY 100 BASE POINTS (THE EVE MODEL)

	For the year ended on:			
	June 30, 2019		December 31, 2018	
	End of reported quarter	Maximum exposure during the quarter	End of reported year	Maximum exposure during the year
	in NIS millions			
Actual exposure	(456)	(506)	(572)	(572)
Limitation set by the Board of Directors	(808)		(765)	
The scenario in which the exposure was measured	UP 100	UP 100	UP 100	UP 100

The sensitivity of the accounting value index to changes in interest rates in intermediate scenarios. For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2018 Annual Report, and is open for review, as stated (p. 61).

DETAILS OF THE GROUP EXPOSURE AND LIMITATIONS - REDUCTION IN ACCOUNTING VALUE IN INTERMEDIARY SCENARIOS

	For the year ended on:			
	June 30, 2019		December 31, 2018	
	End of reported quarter	Maximum exposure during the quarter	End of reported year	Maximum exposure during the year
	in NIS millions			
Actual exposure	(519)	(638)	(603)	(603)
Limitation set by the Board of Directors	(898)		(850)	

Indices and additional models

The Value at Risk (VaR)

The VaR as regards the balance sheet as a whole. The VaR of the total portfolio (the banking and the trading portfolios) is computed on a monthly basis. At the beginning of 2018, the Bank changed into calculation in the historical method, at a level of significance of 99% and for a time span of one month. The Board of Directors set a limitation according to which the VaR of the Group shall not exceed 3.0% of the capital. No deviations from this limitation were recorded in the second quarter of 2019.

The estimator of this risk is used as one of the risk estimators for the level of the exposure of the Group in the banking book and in the trading portfolio to market risks. The current management of market risks is conducted on the basis of sensitivity tests.

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2018 Annual Report, and is open for review, as stated (pp. 61-62).

DETAILS OF THE EXPOSURE IN TERMS OF TOTAL VAR

	For the period ended on			
	30.06.2019		31.12.2018	
	End of reporting quarter	Maximum exposure during the quarter	End of reporting year	Maximum exposure during the year
	In %			
Actual exposure	1.4%	1.4%	1.8%	1.8%
Limitation set by the Board of Directors	3.0%	3.0%	3.0%	3.0%

The VaR of trading operations. The VaR of the trading operations is computed on a daily basis with the combination of a parametric method and a stress test, at a level of significance of 99% and for a time span of one day and of ten days.

The Board of Directors has set specific limits for the VaR on trading activity. No exceptions to the limits were recorded in the first quarter of 2019.

This estimate serves as one of the main tools in the management of the trading activity.

DETAILS OF THE EXPOSURE IN TERMS OF - VAR IN TRADING ACTIVITY

	For the year ended on December 31			
	2015		2014	
	End of reporting year	Maximum exposure during the year	End of reporting year	Maximum exposure during the year
	in NIS millions			
Actual exposure	11.9	18.0	10.2	21.4
Limitation set by the Board of Directors	54		54	

Note:
The VaR was calculated for 10 business days in probability of 99%.

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2018 Annual Report, and is open for review, as stated (p. 62).

For details regarding loss analysis in extreme scenarios (Stress Tests) and analysis of the anticipated interest income the NII (Net Interest Income) and the EaR (Earning at Risk) model, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2018 Annual Report, and is open for review, as stated (p. 63).

(4) Inflation and exchange rate exposure

The Bank's Exposures to inflation and foreign currency exchange rates is performed from an economic perspective, taking into account the exposure's implications on accounting fluctuations where the accounting and the economic perspectives do not align. The measurement of the risk is performed through calculating the surplus/shortfall of assets to liabilities after including economic revisions.
The actual management of the exposures is conducted on a daily frequency on the basis of economic positions in the various linkage and currencies segments, which differ from the accounting positions which may be seen in Note 32 to the financial statements. The principal change stems from the transfer of linkage segments of pension liabilities in respect of payroll and additional employee rights (from the shekel accounting-measurement segment to the economic-measurement linked segment).
Other changes are: the non-inclusion of losses or gains resulting from changes in the market value of foreign currency or index-linked bonds; the addition of foreign currency fixed assets as financial assets; the transfer of non-performing impaired foreign currency debts to the shekel-linked segment; and the addition of exposure to foreign currency in the severance pay fund for Bank employees (BLD) (only the difference between the severance pay provision and the value of the deposits with the fund is recorded in the accounting positions). The hedge relating to the structural position in foreign currency stemming from the investment in IDB New York has been removed in order to reduce the sensitivity of the capital ratio to changes in exchange rates.
The mix of investments in the various linkage segments is determined on current basis within the framework of the limitations presented below and on the basis of forecasts regarding the relevant market variables.
The exposure is measured separately for each material currency.

ACTUAL DISTRIBUTION OF INVESTMENT OF THE EQUITY IN RELATION TO THE SET LIMITATIONS (THE DATA IS STATED IN RELATION TO THE EQUITY)

		Second Quarter 2019				The year 2018		
			Position range					
Segment	Limitation	Period end	From	To	Average	Year end	From	To
CPI linked*	25%-(25%)	10.7%	8.3%	10.7%	9.5%	5.7%	5.7%	11.9%
Foreign currency	15% - 40%	20.3%	20.3%	21.4%	20.7%	21.9%	20.4%	21.9%

(1) Timing of position computation: the managed position is computed on the basis of the capital data as of the end of the previous quarter together with changes occurring during the last quarter until date of the computation. These changes are based on data that is not final as it is known at date of computation. On the other hand, the position in the linkage balance sheet is computed on the basis of audited data used in the framework of the financial statements.

The Group's underlying exposures presented in the above Table is based upon a monthly average. Notwithstanding, exposure management in each material subsidiary is conducted in an effective manner and at least once a week.
In the Bank's opinion, the exposure to the various linkage bases at the end of the period characterizes the exposure during the period.

(5) Management of positions in the trading portfolio

Trading portfolios. The Group distinguishes between exposure created in the course of managing the Bank's assets and liabilities and exposure to trading. Generally, trading exposures exist only at the parent company and they are concentrated mostly in the dealing room as part of the activity of the Bank as a "market maker" in government bonds in foreign currency and in derivatives. Occasional trading exposures occur at the subsidiaries in immaterial volume. The trading activity is intended at creating income while creating exposure within the approved risk limits for this activity, and maintaining daily and sub-daily monitoring and control.

As stated, trading activity is mainly focused on the dealing room, which both conducts trading with customers and transactions hedging the risks, and operations to generate profit as part of the management of market risks. In addition, a non-significant trading portfolio exist at the investments unit.

The Board of Directors has determined additional sets of limits pertaining to trading activities and to asset and liability management activities. Limitations on various trading activities were determined in terms of scope of activity, and in terms of sensitivity to risk factors including the VaR and the theoretical loss involved in stress tests. The limitations are monitored on a daily and intra-day basis by the control units of the Financial Markets Division. The Head of the Division has set a series of internal limits, within the framework of the limits set by the Board of Directors, aimed at providing advance warning when the Board of Directors' limits are approached and thereby preventing such limits being exceeded.

Activity in derivative financial instruments. The Bank is active in a wide range of derivative financial instruments both in shekels and in foreign currency and acts also as a "market maker" for some of which. A substantial part of the transactions are made "over the counter" (OTC) in accordance with customer needs and those of the Bank. The price determination for these transactions is based on returns and prices of base assets using accepted pricing models and taking into account market competition.

The market exposures, which are created as a result of activity in derivative financial instruments, both for inflation and foreign currency exchange rates and also for interest, are included within the framework of the Board of Directors' various limits. The counterparty exposures are managed under agreements for the transfer and set-off of collateral and vis-à-vis central clearing houses.

In addition, the Board of Directors has determined the variety of financial instruments available for the transaction of business by the Bank and the mode of the Bank's operation in each of them (whether on behalf of its customers of or its own account), a scope restriction has also been set, intended to limit the operational risk involved in transactions made in such instrument. The volume of activity in respect of a certain instrument does not necessarily represent the level of financial risk inherent therein.

The total exposure and compliance with the Board of Directors limits are being measured and controlled on an ongoing basis by control functions of the first line of defense.

No material deviations from limitations set by the Board of Directors were recorded in the first quarter of 2019.

The Bank's transactions in derivative financial instruments are made partly with banking institutions or with Tel-Aviv Stock Exchange members, who are subject to capital adequacy requirements or compliance with the level of security required by the Tel-Aviv Stock Exchange, and partly with other Bank's customers, who provide security in accordance with the Bank's procedures.

Activity in the Ma'of market. The Bank operates in the Ma'of share index market only on behalf of customers, while maintaining the security level required by the Tel-Aviv Stock Exchange. The Bank operates in options on the dollar exchange rates in the Ma'of market both on customers' behalf and on behalf of the Bank itself.

ACCOUNTING DATA AS TO THE VOLUME OF OPERATION IN DERIVATIVE FINANCIAL INSTRUMENTS OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES

	June 30, 2019	December 31, 2018
	in NIS millions	
Not for trading derivatives	53,658	43,932
Of which: hedging derivatives	3,465	3,522
Trading derivatives	289,142	239,163
Total	**342,800**	**283,095**

Accounting aspects. The accounting policy with regard to the measurement of the value of derivative financial instruments and the results thereof, type of derivative financial transactions and instruments in accordance with the directives of the Supervisor of Banks, is stated in Notes 1 D 6 and 28 to the financial statements as of December 31, 2018 (pp. 126, 216-223).

According to the said directives of the Supervisor of Banks, most of the transactions in derivative financial instruments made by the Bank for managing market risks resulting from its financial base assets (ALM) are classified as "ALM transactions" and not as "hedging transactions". In terms of the said directives more stringent criteria have to be complied with so that transactions in derivative financial instruments could be considered as "hedging transactions".

The majority of base assets, the exposure of which to market risk, as stated, was managed by derivative financial instruments, are not marketable. Income and expenses generated by such assets are recognized on the accrual basis to the statements of profit and loss while the results of the transactions in derivative financial instruments defined as "ALM transactions" are computed, according to "fair value". Accordingly, no correlation exists between the recording of the base assets and the results they produce in accordance with

generally accepted accounting principles and the transactions in derivative financial instruments in respect of those base assets, which are classified as "ALM transactions".
Details of financing income from derivative financial instruments are presented in Note 3 to the financial statements as of December 31, 2018 (p. 136) and Note 3 to the condensed financial statements as of March 31, 2019 (p. 88).
Option risks. Option risks relate to the loss that might be incurred as a result of changes in base assets and the volatility thereof, which affect the value of such options, including standard deviations. The Bank is active in a variety of types of options– regular options and "exotic" options of certain types as well as on a variety of base assets (foreign currency and interest rates).
The Bank's Board of Directors has set out guidelines regarding the permitted activity in options both as regards overall volume and in terms of the maximum impairment in value under stress tests and in cases of moderate scenarios. The scenarios relate to simultaneous changes in exchange rates, indices and in the volatility of base assets. In addition, the dealing room procedures include limitations on maximum changes in the value of the option portfolio in terms of sensitivity indices ("GREEKS").
No deviations from limitations set by the Board of Directors were recorded in the first quarter of 2019.

Market risk according to the standardized approach (MR1)

The Bank computes the capital allocation required in respect of the exposure to market risks in accordance with the standardized approach, as prescribed by Proper Conduct of Banking Business Directive No. 208. The allotment to market risks includes:
- Interest and shares risks resulting from instruments in the trading portfolio. The interest risk is computed by the “periods to maturity” method;
- Foreign exchange risk of the banking corporation as a whole (eliminating a structural position in respect of IDB New York in accordance with the approval of the Supervisor of Banks).

In addition, in respect of each of the above mentioned risks, an optional component shall be added, in accordance with the "delta plus" method of the instruments included.

DETAILS OF CAPITAL ALLOCATION TO MARKET RISKS ACCORDING TO THE STANDARD APPROACH

	Capital allocation as of	
	June 30 2019	December 31, 2018
	In NIS millions	
Interest rate risk*	354	379
Foreign exchange rate risk	44	31
Share risk	3	1
Option risk	43	22
Total for the Banking Group	**444**	**433**
Allocation in risk asset terms	**3,497**	**3,412**

* Including the specific risk in the amount of NIS 9 million and NIS 18 million in June 2019 and December 2018, respectively.

The allocation to market risks in risk asset terms comprises 2.0% of the total risk assets as of June 30, 2019, similar to December 31, 2018.

Interest rate risk in the banking book (IRRBB)

For details regarding behavioral economic models integrated in risk management and regarding behavioral assumptions applied in the assessment of interest risks, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2018 Annual Report, and is open for review, as stated (p. 67).
For quantitative information regarding interest risk in the banking book and the trading book, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2018 Annual Report, and is open for review, as stated (pp. 68-69).

Shares Risk

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2018 Annual Report, and is open for review, as stated (p. 69).

LIQUIDITY RISK

Liquidity risk is the risk to the stability of the Group stemming from the inability to provide for its liquidity needs and the difficulty to honor its obligations, due to unexpected developments, as a result thereof the Group would be compelled to raise funds and/or realize assets in a way that would result in a material loss. The Bank has determined a maximum exposure limitation to the liquidity risk.

The liquidity coverage ratio – principal disclosures table (LIQ1)

	For the period of three months ended			
	June 30, 2019		December 31, 2018	
	In NIS millions			
	Total non-weighted value (average)	Total weighted value (average)	Total non-weighted value (average)	Total weighted value (average)
Total high quality liquid assets				
Total high quality liquid assets (HQLA)		42,384		42,830
Cash outflows				
Retail deposits from individuals and small businesses, of which:	121,136	7,592	116,299	7,322
Stable deposits	37,970	1,867	36,591	1,797
Less stable deposits	44,353	4,561	42,994	4,423
Deposits for periods exceeding 30 days (Section 84 of Proper Conduct of Banking Business Directive No. 221)	38,813	1,164	36,714	1,101
Unsecured wholesale financing, of which:	65,053	39,411	65,051	39,904
Deposits for operational purposes (all counterparties) and deposits with chains of cooperative banking corporations	-	-	-	-
Deposits not for operational purposes (all counterparties)	61,737	39,310	61,916	39,780
Unsecured debts	3,316	101	3,134	123
Secured wholesale financing	-	2	-	33
Additional liquidity requirements, of which:	66,552	15,072	65,567	14,848
Cash outflows in respect of exposure to derivatives and other collateral requirements	7,660	7,466	7,859	7,510
Cash outflows in respect of loss of financing of debt products	-	-	-	-
Credit and liquidity facilities	58,892	7,606	57,708	7,338
Other contractual financing commitments	23,002	763	20,320	710
Other conditional financing commitments	2,484	78	2,455	76
Total cash outflows		**62,918**		**62,893**
Cash inflows				
Secured loans (e.g., Reverse repo transactions)	2,257	2,257	2,687	2,687
Cash inflows from regularly performing exposure	24,617	21,305	21,776	18,284
Other cash inflows	9,656	7,556	9,021	7,596
Total cash inflows	**36,529**	**31,118**	**33,483**	**28,567**
		Total adjusted value		Total adjusted value
Total High Quality Liquidity Asset (HQLA)		**42,384**		**42,830**
Total net cash outflows		**31,800**		**34,326**
Liquidity Coverage Ratio		133.3%		124.8%

Liquidity risk – qualitative disclosure and additional disclosures in respect to the liquidity coverage ratio (LIQA)

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2018 Annual Report, and is open for review, as stated (pp. 71-74).

Liquidity coverage ratio - Proper Conduct of Banking Business Directive No. 221 in the matter of "liquidity coverage ratio"

For details regarding the Proper Conduct of Banking Business Directive No. 221 in the matter of "liquidity coverage ratio", see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2018 Annual Report, and is open for review, as stated (p. 74).

The liquidity coverage ratio of the Discount Group

As of June 30, 2019, the ratio amounted to 132.6%, compared to 134% on December 31, 2018. The average liquidity ratio in the first quarter of 2019 amounted to 133.3% as compared with an average ratio of 125% in the fourth quarter of 2018. The increase seen in the liquidity ratio, despite the increase in the balance of credit to the public, stemmed from the increase in deposits from the public and from the increase in weight of the stable deposits in the total cash outflow.
The liquidity coverage ratio is based on a high and quality liquidity buffer. The liquidity buffer is based in shekels on the short-term loan (MAKAM), on Israel government bonds and on current account balances and deposits with the Bank of Israel. In foreign currency, the buffer is based on U.S. government bonds (in IDB New York on the MBS portfolio, most of which issued by government and semi government agencies) and on current account balances and deposits with the Bank of Israel and the FED.

DETAILS OF THE COMPOSITION OF THE LIQUIDITY BUFFER

		For the period ended	
	Assets included	June 30, 2019	December 31, 2018
		in NIS millions	
Buffer 1	Cash	13,136	12,535
	Israel Bonds/Short-term loans (MAKAM)	21,687	22,478
	Foreign bonds	5,224	5,023
Buffer 2	Sovereigns bonds	781	404
	Mortgage bonds issued by public corporations	607	1,358
	Corporation Bonds AA	588	897
Buffer 2 b	Corporation Bonds A	180	135
Total		**42,202**	**42,830**

The computation of the Group liquidity coverage ratio is based on an independent calculation of each of the Group companies. The Bank's Management has defined for each Company in the Group a minimum target for the liquidity coverage ratio. The transfer of liquidity from IDB New York to its parent company (the Bank) is limited by local regulation, and therefore, the recognition of surplus liquidity of IDBNY in the group model, is limited accordingly. The surplus of Mercantile Discount Bank, operating under a regulatory framework identical to that of the Bank, is included in the Group model.
Most of the liquidity surplus of the Group originates in the liquidity surplus of the Bank.

DISTRIBUTION OF THE LIQUIDITY COVERAGE RATIO (AVERAGE FOR THE FOURTH QUARTER) ACCORDING TO THE LEGAL ENTITIES WITHIN THE GROUP

	For the period ended	
	June 30, 2019	December 31, 2018
	In %	
Discount Group	133.3%	124.8%
The Bank	148.4%	136.4%
IDB New York	120.0%	110.8%
Mercantile Discount Bank	164.6%	133.1%
Discount Group	**133.3%**	**124.8%**

Concentrating the liquidity surplus at the Bank allows for higher flexibility in the management of the Group's liquidity. Alongside the expectation for the independent management of the liquidity risk by the subsidiaries, the Management of the Group is able to shift liquidity between the companies in the Group.

The liquidity coverage ratio in the principal currencies

The Bank measures also the liquidity coverage ratios in the principal currencies. As of June 30, 2019 the coverage ratio in shekels was 127.9% compared with 139.1% at December 31, 2018. The main factors leading to the decrease in the ratio were an increase in credit to the public and in the net cash outflow from foreign currency/shekel swap transactions proximate to the end of the quarter. On the other hand, the growth in the deposits from the public portfolio has offset a part of the reduction.
The liquidity coverage ratio as of June 30, 2019, respecting the total of foreign currencies, amounted to 145.4% compared to 121.5% on December 31, 2018. The main factor leading to the rise in the ratio was a growth in the net cash inflow from foreign currency/shekel swap transactions.
The liquidity coverage ratio with respect to US dollars as of June 30, 2019 was 143.2% as compared with 119.0% on December 31, 2018. The main factor leading to the rise in the ratio was a growth in the net cash inflow from foreign currency/shekel swap transactions.
In Euros, the liquidity coverage ratio at June 30, 2019, was 103.5% compared with 107.6% at December 31, 2018. The main factor leading to the decrease in the ratio was a decrease in the net cash inflow from foreign currency/shekel swap transactions.
The Discount Group has a surplus of resources in foreign currency over applications, principally in U.S. dollars and in Euro. Accordingly, the Bank, invests its surplus liquidity in securities, bank deposits and in the interbank foreign currency/shekel SWAP transactions market. This activity allows the Bank to regulate the use of this surplus between liquidity considerations and yield considerations.

Financing risk - available and unrestricted assets

The Bank pledges assets belonging to the liquidity buffer for several purposes, with an emphasis for use as collateral for financial transactions with entities as the Stock Exchange, the Bank of Israel, etc. As a general rule, all pledged liquid assets are excluded from the liquidity buffer for the purpose of the daily measurement, except for assets pledged to secure the ability to realize liquidity, which in fact has not been utilized. These are being excluded only upon utilization. Collaterals pledged in favor of the Bank, are not recognized in the liquidity buffer.

AVAILABLE AND UNRESTRICTED ASSETS

	June 30, 2019	December 31, 2018
	in NIS millions	
Total assets	60,404	59,928
Liquidity requirement	6,023	6,128
Of which pledged	7,387	7,562
Of which provided as collateral	615	534
Total available assets	**46,378**	**45,704**

ADDITIONAL RISKS

Operational risk

Operational risk is the risk of loss caused by impropriety or by the failure of internal procedures, individuals and systems or as a result of external events

The operational risk is inherent in all business lines, products, systems and the work processes performed at the Bank. Accordingly, awareness and management of the operational risk at all levels of duty are of importance.

For additional details regarding operational risks, including risk of fraud and embezzlement, business continuity and outsourcing and supplier risk, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2018 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (pp. 76-81).

Other risks

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2018 Annual Report, and is open for review, as stated (pp. 81-96).

Draft circular regarding the supervision over foreign extensions and compliance as well as the compliance function in a banking corporation – Amendments to Proper Conduct of Banking Business Directives Nos. 306 and 308, as well as a draft update of the FAQ file regarding the implementation of Directive No. 308. The drafts were distributed on July 11, 2019. The update of the Directives is being proposed within the framework of the measures taken by the Supervisor of Banks to strengthen the supervision of banking corporations over their overseas extensions and over their foreign related activity.

Data and cyber protection risks

Threats in the cyberspace

In the first quarter of 2019, there were no one or more cybernetic incidents that materially affected the products or services offered by the Bank or by the Group, their relation with customers or the competitive conditions.

For additional details regarding data protection and cyber defense risks, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2018 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (pp. 83-86).

Environmental risks

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2018 Annual Report, and is open for review, as stated (p. 86).

Legal risks

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2018 Annual Report, and is open for review, as stated (p. 86-88).

Compliance risks

Discount Group's activities with banks acting in the Palestinian Authority. On June 30, 2019, the Bank received a letter of indemnity signed by the Accountant General, which extends the indemnification period through February 28, 2021 (with the State being authorized to extend this date to May 31, 2021). Inter alia, the State has undertaken in the letter of indemnity to indemnify the Bank and MDB in an amount of up to NIS 1.5 billion for each indemnifiable event. Moreover, the State has also undertaken to indemnify the banks for proceedings that conclude in a mutually agreed fine in the United States (without conviction). The State's undertaking of indemnity is subject to qualifications and terms with which the banks must comply, which are similar to the qualifications and terms prescribed in the original letter of indemnity.

On May 30, 2019, the Bank received a notice from the Attorney-General regarding the extension of the immunity period, according to the current letter of immunity, through May 31, 2020. In light of the aforesaid, the Bank for the moment will continue to provide services to banks operating in the Palestinian Authority.

For additional details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2018 Annual Report, and is open for review, as stated (pp. 88-92).

Update of the FAQ file for the implementation by credit card companies of the Prohibition of Money Laundering Order and of Proper Conduct of Banking Business Directive No. 411. The Supervisor of Banks issued on April 17, 2019, an updated version of the file. Inter alia, the guideline relating to the allocation of responsibility between banks and credit card companies with respect to monitoring irregular activity and reporting to the Money Laundering Prohibition Authority was updated. The guideline states that upon a joint issuance, the credit card company and the banking corporation shall determine which of the parties would be responsible for monitoring the operation, while the party with no such responsibility, shall have the duty to provide to the responsible party the relevant information existing in its hands regarding the customer.

Conduct risk

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2018 Annual Report, and is open for review, as stated (p. 92).

Exposure to cross-border risks

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2018 Annual Report, and is open for review, as stated (pp. 92-96).

Strategic risk

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2018 Annual Report, and is open for review, as stated (p. 96).

Reputation risk

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2018 Annual Report, and is open for review, as stated (p. 97).

Remuneration to senior officers

For details regarding remuneration to senior officers, in accordance with the provisions of Regulations 21 and 22 of the Securities Regulations (Periodic and Immediate Reports), 1970, see under "Corporate governance, audit and additional details of the banking corporation's business and the management thereof" in the 2018 Annual Report (pp. 302-305).

ADDENDUMS

For details regarding "Addendum A – Linkages between the financial statements and regulatory amounts", see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2018 Annual Report, and is open for review, as stated (pp. 105-114). For details regarding Securitization, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2018 Annual Report, and is open for review, as stated (p. 115).

Shaul Kobrinsky Chairman of the Board of Directors	Lilach Asher-Topilsky President & Chief Executive Officer	Avi Levi Senior Executive Vice President Chief Risk Officer	August 14, 2019

Glossary

Management quality	Assessment of the appropriateness and effectiveness of risk management (effectiveness of the controls).
Key Risk Indicator	Means/pointer showing the risk exposure situation in relation to the risk.
Failure event	An event where risk is realized, whether or not causing damage to the Bank.
Gross credit	Balance sheet or off-balance sheet credit, before credit risk mitigation (CRM), before conversion to credit (CCF) and before allowances for credit losses.
Off-balance sheet credit	Includes: unutilized binding facilities, guarantees, documentary credit and derivatives. Binding facilities– any presentation by the corporation to its customer for the granting of credit (balance sheet and/or off-balance sheet) whether in writing or orally or in another manner of conduct where it can be expected that a reasonable customer would rely on such presentation as one which binds the Bank.
Balance sheet credit	Credit (to the public, governments) and bonds.
Collateral	Different assets (marketable and nonmarketable) designated to secure the repayment of customer debts, when the customer defaults on the current repayments agreed between him and the Bank.
Credit Risk Mitigation (CRM)	Items offsetting risk permitted according to the rules of Basel II (mainly: liquid collateral pledged as required). According to these rules, the Bank, when computing the capital requirements, may reduce its credit exposure to the counterparty, thus taking into consideration the effect of the collateral.
Allowances for credit losses	A provision created by the Bank to cover possible losses on its customer indebtedness. The Bank of Israel guidelines require that specific and group provisions should be created. Allowance for credit losses on a specific basis – an allowance required to cover expected credit losses in respect of debts examined on a specific basis and found to be impaired. Allowance for credit losses on a group basis – an allowance in respect of large groups of debts (performing and nonperforming) including allowances for credit losses in respect of housing loans measured by the "extent of the arrears period" method.
Debt under special mention	A debt having potential weaknesses that require special attention by the Management. If such weaknesses remain unattended, the result might be deterioration in the prospects of repayment of the credit, or in the Bank's status as a creditor.
Substandard debt	A debt insufficiently secured by the present value based on the collateral and the repayment ability of the debtor, creating a clear possibility that the Bank will sustain a certain loss if the deficiencies are not rectified. It is required that the weakness endangering the repayment of the debt should be well defined.
Impaired debt	A debt the Bank estimates it will not be able to collect the amounts due to it and in the due dates per the debt agreement.
Liquidity coverage ratio (LCR)	The ratio of total high quality liquid assets to total net cash outflows during the next thirty calendar days.
Business goal	A defined business target in quantitative or qualitative terms, subject to restrictions of the risk appetite.
Recorded amount	The balance of a debt, including recognized accrued interest, unamortized premium or discount, differed commissions or deferred costs charged to the debt and not yet amortized, after deduction of any amount written off accounting wise. Non-recognized interest, or interest which had been recognized in the past and reversed at a later date, should not be included in the recorded amount.
Uniform macro-economic stress test	A stress test published by the Supervisor of Banks, based on a uniform scenario for all the banking industry and on macro-economic parameters formed by the Regulator
Sensitivity tests	A method which assesses the effect of a change in a single risk factor, or in a number of risk factors, on the financial condition of the banking corporation (for example: in market risk – steep decline in interest rate; in credit risk – steep decline in housing prices).

Glossary (continued)

Restriction (internal)	A statement determined by the Bank, setting out a limit to activity within the framework of the risk appetite.
Capital outline	A detailed plan of the capital ratios forecast for the coming years, which includes the assumptions used for the forecast, a description of the expected implications in the capital layers and capital ratios, sensitivity analysis regarding the principal risks, and conformity by the Bank with the capital targets. The capital outline serves as a basis for the determination of a recommendation to the Management and to the Board of Directors regarding the capital targets of the work plan, including the capital buffer, the risk asset budget, capital issuance and dividend distribution.
Over the counter (OTC) derivatives	Transactions in derivatives not traded on a formal stock exchange, to which the Bank is a party.
Monitoring of capital ratios	Monitoring changes in risk assets and in the capital base of the Group, and an assessment of attaining the capital targets as determined by the Board of Directors.
Alert levels	Intended to indicate exposure to risk when it reaches a certain level below the stated restriction.
Risk profile	Assessment of the combined risk inherent in the exposures and in the activity of the Bank
Risk appetite	Reflects the level of risk a corporation is ready to accept, consistently with its business strategy, capital planning, liquidity planning and financing resources of the corporation. The risk appetite includes quantitative restrictions and qualitative goals, which outline the determination of the group business policy in the various risk fields, and comprises a central tool of the Board of Directors for the supervision and control of the risk profile of the corporation.
Available-for-sale portfolio	Securities not classified as bonds held to maturity or as trading securities.
Trading portfolio	Composed of positions in financial instruments held with the intension of trading, for the purpose of resale within a short period of time, and/or with the intent of earning gains from actual or expected changes in prices in the short-term or of realizing arbitrage gains. In order for a financial instrument to be considered part of the trading portfolio, it has to be free of any encumbrance on its marketability, or that it may be hedged in full.
Held-to –maturity portfolio	Securities in respect of which the Bank has the intention and ability to hold them for a long period of time/to maturity. The portfolio is stated at the rate of return to maturity inherent therein since purchase date.
Stress tests	A risk management method used to assess the potential effects of a specific event and/or a change in a set of financial variables on the financial condition of a banking corporation. Traditionally, the focus of stress tests is on exceptional events though reasonable.
Credit conversion factors (CCF)	Conversion of off-balance sheet items to credit equivalents – according to the standard approach of Basel II, off-balance sheet items are converted to equivalent credit exposure by means of credit conversion coefficients
Credit support annex (CSA)	An Annex to the ISDA which regularizes the matter of collateral regarding derivative transactions against the counterparty. This Annex determines a threshold amount reflecting the maximum exposure which each of the counterparties is ready to accept without collateral.
International Swaps and Derivatives Association (ISDA)	An international agreement which allows the setting off of liabilities and mutual requirements stemming from over the counter derivative transactions, in the case of insolvency of a counterparty.
Foreign Account Tax Compliance Act (FATCA)	In order to reduce tax evasion by American taxpayers, the Foreign Account Tax Compliance Act (FATCA) was enacted in 2010 in the United States. Under the FATCA provisions, financial bodies outside the US are required to identify and report to the U.S. Tax Authorities, any U.S. citizen or any U.S. resident having a financial account with them. This Regulation entered to effect on July 1, 2014. The Regulation is being implemented in many countries, including Israel, within the framework of an inter-state treaty signed by Israel and the United States.