DISCLOSURE ACCORDING TO THE THIRD PILLAR OF BASEL AND ADDITIONAL INFORMATION REGARDING RISKS

Q3

Link to an accessible report

This report is a translation from the Hebrew and has been prepared for convenience only. In case of any discrepancy the Hebrew will prevail.

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 November 14, 2018, in the framework of approval of the Bank's Report for the third quarter of 2018, 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".

PRINCIPAL REGULATORY RATIOS AND REVIEW OF RISK MANAGEMENT AND RISK ASSETS

Principal regulatory ratios (KM1)

	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
	in NIS millions				
Available capital					
Common equity tier 1	16,990	16,642	16,180	16,003	15,698
Common equity tier 1 before applying the effect of the transition	16,751	16,390	16,007	15,689	15,378
Tier 1 capital	17,702	17,354	16,892	16,893	16,588
Tier 1 capital before applying the effect of the transition	16,751	16,390	16,007	15,689	15,378
Total capital	22,899	22,549	22,033	22,288	22,137
Total capital before applying the effect of the transition	19,444	19,081	18,645	18,277	17,981
Weighted average of risk assets					
Total weighted average of risk assets	**169,503**	**169,409**	**164,313**	**160,070**	**160,806**
Ratio of capital adequacy in accordance with instructions of the supervisor of banks (in %)					
Ratio of common equity tier 1	10.02	9.82	9.85	10.00	9.76
Ratio of common equity tier 1 before applying the effect of the transition	9.87	9.67	9.74	9.80	9.57
Tier I capital ratio	10.44	10.24	10.28	10.55	10.32
Tier I capital ratio before applying the effect of the transition	9.87	9.67	9.74	9.80	9.57
Ratio of total capital	13.51	13.31	13.41	13.92	13.77
Ratio of total capital before applying the effect of the transition	11.45	11.25	11.35	11.41	11.18
Ratio of common equity tier 1 required by the Supervisor of Banks	9.19	9.18	9.18	9.18	9.17
Ratio of common equity tier 1 over the required by the Supervisor of Banks	0.83	0.64	0.57	0.82	0.58
Leverage ratio according to Directives of the Supervisor of Banks					
Total exposures (in NIS millions)	**259,412**	**257,743**	**255,319**	**248,020**	**245,654**
Leverage ratio (in %)	6.8	6.7	6.6	6.8	6.8
Leverage ratio before applying the effect of the transition	6.5	6.4	6.3	6.3	6.3
Liquidity coverage ratio according to Directives of the Supervisor of Banks					
Total High Quality Liquidity Assets	**43,164**	**46,038**	**46,131**	**44,410**	**46,368**
Total cash outflows	**34,519**	**34,097**	**34,133**	**35,058**	**34,588**
Liquidity coverage ratio (in %)	125.0	135.0	135.1	126.7	134.1

Material leading and developing risks

The Bank considers business model risks, cyber and data protection risks as well as cross-border risks, as the most significant developing leading risks. In the first nine months of 2018, no material changes took place concerning this matter. For additional details see in the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2017 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. 5-6).

CAPITAL AND LEVERAGE

For details regarding Basel and the regulatory capital requirements, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2017 Annual Report, and is open for review, as stated (p. 7).

For details regarding the framework for measurement and capital adequacy according to the first Pillar of Basel (table 1), and for details regarding Basel III, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2017 Annual Report, and is open for review as stated (p. 7).

Capital structure

CAPITAL COMPONENTS FOR CALCULATING RATIO OF CAPITAL

	Unaudited		Audited
	September 30,		December 31,
	2018	2017	2017
	in NIS millions		
A. Common Equity Tier 1			
Common equity	17,137	15,755	16,068
Difference between common equity and common equity tier 1	(223)	(60)	(59)
Total common equity tier 1 before supervisory adjustments and deductions	16,914	15,695	16,009
Supervisory adjustments and deductions			
Goodwill and other intangible assets	160	160	160
Supervisory adjustments and other deductions	2	4	6
Total supervisory adjustments and deductions before adjustments in respect to the efficiency plan	162	164	166
Total adjustments in respect to the efficiency plan	238	167	160
Total common equity tier 1 after supervisory adjustments and deductions	**16,990**	**15,698**	**16,003**
B. Additional tier 1 capital			
Additional tier 1 capital before deductions	712	890	890
Total additional tier 1 capital after deductions	**712**	**890**	**890**
C. Tier 2 capital			
Instruments before deductions	3,221	3,731	3,543
Allowance for credit losses before deductions	1,905	1,818	1,804
Minority interests in a subsidiary	71	--	48
Total tier 2 capital before deductions	5,197	5,549	5,395
Deductions	-	--	-
Total tier 2 capital	**5,197**	**5,549**	**5,395**

PRESENTATION OF THE COMPONENTS OF THE REGULATORY CAPITAL, AS STATED IN THE CONSOLIDATED REGULATORY BALANCE SHEET (TABLE 3)

	Consolidated regulatory balance sheet	Consolidated regulatory balance sheet	Consolidated regulatory balance sheet	References to components of the regulatory capital(1)
	September 30, 2018	September 30, 2017	December 31, 2017	
	In NIS million			
Assets				
Cash and deposits with banks	21,400	24,815	28,026	
Securities*	36,748	34,490	32,703	
* Of which: Investments in the equity of financial corporations, which do not exceed 10% of the share capital of the financial corporation	-	31	31	14
* Of which: Investments in the equity of financial corporations, which exceed 10% of the share capital of the financial corporation and which do not exceed the deduction threshold	-	-	-	21
* Of which: Other securities	36,748	34,459	32,672	
securities borrowed or purchased under resale agreements	697	840	954	
Credit to the public	163,334	151,059	150,868	
allowance for credit losses*	(2,181)	(2,119)	(2,111)	
* Of which: group allowance for credit losses included in tier 2	(1,710)	(1,618)	(1,610)	20
* Of which: Allowance for credit losses not included in the regulatory capital	(471)	(501)	(501)	
Credit to the public, net	161,153	148,940	148,757	
Credit to Government	2,915	1,200	1,493	
Investments in affiliated companies*	119	148	153	
* Of which: Investments in the equity of financial corporations, which exceed 10% of the share capital of the financial corporation and which do not exceed the deduction threshold	25	24	24	21
* Of which: Investment in other affiliated companies	94	124	129	
Buildings and equipment	2,396	2,265	2,366	
Intangible assets and goodwill*	160	160	160	
* Of which: goodwill	160	160	160	6
* Of which: other Intangible assets	-	-	-	7
Assets in respect of derivative instruments	3,606	3,310	2,953	
Other assets *	3,959	3,497	3,656	
* Of which: Deferred tax assets**	(2)1,710	(2)1,691	(2)1,695	21+75
** Of which: Deferred tax assets excluding those attributed to timing differences	-	-	-	9
** Of which: Deferred tax liabilities in respect of intangible assets	-	-	-	8
** Of which: Other deferred tax assets	1,710	1,691	1,695	
* Of which: Excess of deposits over provision	-	-	-	12
* Of which: Additional other assets	2,249	1,806	1,961	
Total assets	**233,153**	**219,665**	**221,221**	
Liabilities and Equity				
Deposits from the public	184,826	173,356	175,170	
Deposits from banks	6,013	4,284	4,804	
Deposits from the Government	262	275	267	
Securities loaned or sold under repurchase agreements	1,600	2,968	1,943	
Bonds and subordinated capital notes*	7,340	7,961	7,639	
* Of which: Deferred debt notes not recognized as regulatory capital	3,407	3,340	3,206	
* Of which: Deferred debt notes recognized as regulatory capital**	3,933	4,621	4,433	16b,18b
** Of which: Qualified as regulatory capital components	784	784	784	16a,18a
** Of which: Not qualified as regulatory capital components and subject to transitional provisions	3,149	3,837	3,649	16b,18b

For footnotes see next page.

PRESENTATION OF THE COMPONENTS OF THE REGULATORY CAPITAL, AS STATED IN THE CONSOLIDATED REGULATORY BALANCE SHEET (TABLE 3)(CONTINUED)

	Consolidated regulatory balance sheet	Consolidated regulatory balance sheet	Consolidated regulatory balance sheet	References to components of the regulatory capital(1)
	September 30, 2018	September 30, 2017	December 31, 2017	
		In NIS million		
Liabilities in respect of derivative instruments*	3,374	3,598	3,232	
* Of which: In respect of self credit risk	2	5	7	11
Other liabilities*	12,601	11,468	12,098	
* Of which: group allowance for credit losses included in tier 2	195	200	193	20
* Of which: Deferred tax liability attributed to pension	-	-	-	13
* Of which: Adjustment in respect of put option for Non-controlling interests holders in a subsidiary which is subject to transitional provisions	-	-	-	
Liabilities held for sale	-	-	-	
Total liabilities	**216,016**	**203,910**	**205,153**	
Equity attributed to the banking corporation's shareholders*	16,630	15,294	15,594	
* Of which: Ordinary share capital**	12,457	11,120	11,420	
** Of which: Ordinary share capital	676	676	676	1
** Of which: Retained earnings	12,367	10,875	11,246	3
** Of which: Accumulated other comprehensive income***	(587)	(431)	(502)	4
*** Of which: Net losses on the hedging of cash flows from items not presented in the balance sheet at fair value	-	-	-	10
*** Of which: Net loss on financial statements translation adjustments	(167)	(259)	(313)	
* Of which: Capital reserves	4,174	4,174	4,174	2
* Of which: Preference share capital**	-	-	-	
** Of which: Qualified as regulatory capital components	-	-	-	15a
** Of which: Not qualified as regulatory capital components and subject to transitional provisions	-	-	-	15b
* Of which: Other capital instruments**	-	-	-	
** Of which: Qualified as regulatory capital components	-	-	-	
** Of which: Not qualified as regulatory capital components and subject to transitional provisions	-	-	-	
Non-controlling interests*	507	461	474	
* Of which: Non-controlling interests that can be attributed to common equity tier 1	284	290	302	5
* Of which: Non-controlling interests that can be attributed to additional tier 1 capital	-	-	-	17
* Of which: Non-controlling interests attributed to tier 2 capital	71	-	48	19
* Of which: Non-controlling interests not attributable to the regulatory capital	152	171	124	
Total equity capital	**17,137**	**15,755**	**16,068**	
Total assets and liabilities	**233,153**	**219,665**	**221,221**	

Notes:

(1) The references are to the Table "Mapping of the components used for the presentation of the composition of the regulatory capital", presented

(2) In view of the relief granted by the Supervisor of Banks with respect to the efficiency plans, the balance of deferred tax assets does not include the deferred taxes in respect of the efficiency plans.

MAPPING OF THE COMPONENTS USED FOR THE PURPOSE OF PRESENTATION OF THE REGULATORY CAPITAL COMPOSITION (TABLE 3)

		September 30, 2018		September 30, 2017		December 31, 2017		
				In NIS million				
	Common equity tier 1 : instruments and retained earnings		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III	
1	Ordinary share capital issued by the banking corporation and premium on ordinary shares included in Common equity tier 1	4,850	-	4,850	-	4,850	-	1+2
2	Retained earnings, including dividends proposed or declared subsequent to balance sheet date	12,367	-	10,885	10	11,256	10	3
3	Disclosed accumulated other comprehensive income and retained earnings	(587)	-	(330)	101	(399)	103	4
4	Common equity tier 1 instruments issued by the corporation qualified for inclusion in the regulatory capital in the transitional period	-	-	-	-	-	-	
5	Ordinary shares issued by consolidated subsidiaries of the banking corporation and held by third parties (minority interests)	284	-	290	43	302	43	5
6	**Common Equity tier 1: before regulatory adjustments and deductions**	16,914	-	15,695	154	16,009	156	
Common Equity tier 1 capital: regulatory adjustments and deductions								
7	Adjustments/provisions, stabilization reserves in respect of value assessments	-	-	-	-	-	-	-
8	Goodwill, less deferred taxes liability	160	-	160	-	160	-	6
9	Other intangible assets, excluding mortgage service rights, less deferred taxes liability	-	-	-	-	-	-	7+8
10	Deferred tax assets the realization of which depends on future profitability of the banking corporation, excluding deferred tax assets arising from timing differences	-	-	-	-	-	-	9
11	Amount of accumulated other comprehensive income in respect of the hedge of cash flows from items not presented in the balance sheet at fair value	-	-	-	-	-	-	10
12	Negative differences between provisions and anticipated losses	-	-	-	-	-	-	
13	Increase in equity capital due to securitization transactions	-	-	-	-	-	-	
14	Unrealized income and losses due to changes in fair value of liabilities deriving from changes in self credit risk of the banking corporation. Furthermore, in relation to liabilities in respect of derivative instruments, all accounting debt valuation adjustments (DVA) deriving from the self credit risk of the bank should be deducted	2	-	4	1	6	1	11
15	Surplus deposits over provision, net of deferred tax liability to be settled if the asset is impaired or is eliminated in accordance with the reporting to the public directives	-	-	-	-	-	-	12+13
16	Investment in own ordinary shares, held directly or indirectly (including a commitment to purchase shares subject to contractual agreements)	-	-	-	-	-	-	
17	Mutual cross-investments in ordinary shares of financial corporations	-	-	-	-	-	-	
18	Investment in equity of financial corporations that are not consolidated in the statements to the public of a banking corporation, where the holdings of the banking corporation does not exceed 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	-	-	14
19	Investment in equity of financial corporations that are not consolidated in the statements to the public of a banking corporation, where the holdings of the banking corporation exceed 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	-	-	
20	Mortgage service rights the amount of which exceeds 10% of the Common equity tier 1	-	-	-	-	-	-	

For footnotes see p. 12.

MAPPING OF THE COMPONENTS USED FOR THE PURPOSE OF PRESENTATION OF THE REGULATORY CAPITAL COMPOSITION (TABLE 3)(CONTINUED)

		September 30, 2018		September 30, 2017		December 31, 2017		
		In NIS million						
	Common equity tier 1 : instruments and retained earnings		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III	
21	Deferred tax assets created by timing differences, the amount of which exceeds 10% of the Common equity tier 1	-	-	97	24	76	19	
22	Amount of mortgage service rights, deferred tax assets arising from timing differences and investments at a rate exceeding 10% of the ordinary share capital issued by financial corporations exceeding 15% of the Common equity tier 1 of the banking corporation	-	-	-	-	-	-	
23	Of which: in respect of investments at a rate exceeding 10% of the ordinary share capital issued by financial corporations	-	-	-	-	-	-	
24	Of which: in respect of mortgage service rights	-	-	-	-	-	-	
25	Of which: deferred tax assets created by timing differences	-	-	-	-	-	-	
26	Regulatory adjustments and additional deductions determined by the Supervisor of Banks	(238)	-	(264)	-	(236)	-	
26A	Of which: in respect of investments in the equity of financial corporations	-	-	-	-	-	-	
26B	Of which: in respect of mortgage service rights	-	-	-	-	-	-	
26C	Of which: additional regulatory adjustments to Common equity tier 1	-	-	(97)	-	(76)	-	
	Of which: adjustments in respect to the efficiency plan	(238)		(167)		(160)		
	Regulatory adjustments to Common equity tier 1 subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III	-	-	-	-	-	-	
	Of which: investment in equity of financial corporations that are not consolidated in the statements to the public of a banking corporation, where the holdings of the banking corporation exceed 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	-	-	
27	Deductions applying to Common equity tier 1 since the amounts of additional tier 1 capital and of tier 2 capital are insufficient to cover the deductions	-	-	-	-	-	-	
28	**Total regulatory adjustments and deductions from Common equity tier 1**	(76)	-	(3)	25	6	20	
29	**Common equity tier 1**	16,990	-	15,698	179	16,003	176	
Additional tier 1 capital: instruments:								
30	Additional tier 1 share capital instruments issued by the banking corporation and premium on these instruments	-	-	-	-	-	-	
31	Of which: classified as equity capital in accordance with the reporting to the public directives	-	-	-	-	-	-	15a+16a
32	Of which: classified as a liability in accordance with the reporting to the public directives	-	-	-	-	-	-	
33	Additional tier 1 capital instruments issued by the banking corporation qualified for inclusion in the regulatory capital for the transitional period	712	712	890	890	890	890	15b+16b
34	Additional tier 1 capital instruments issued by subsidiary companies of the banking corporation and held by third party investors	-	-	-	-	-	-	17
35	Of which: Additional tier 1 capital instruments issued by subsidiary companies of the banking corporation and held by third party investors, which are deducted gradually from additional tier 1 capital	-	-	-	-	-	-	
36	Additional tier 1 capital before deductions	712	712	890	890	890	890	
Additional tier 1 capital: deductions								
37	Investment in own capital instruments included in additional tier 1 capital, held directly or indirectly (including a commitment to purchase shares subject to contractual agreements)	-	-	-	-	-	-	
38	Mutual cross-investments in capital instruments included in additional tier 1 capital	-	-	-	-	-	-	

For footnotes see p. 12.

MAPPING OF THE COMPONENTS USED FOR THE PURPOSE OF PRESENTATION OF THE REGULATORY CAPITAL COMPOSITION (TABLE 3)(CONTINUED)

		September 30, 2018		September 30, 2017		December 31, 2017		
		In NIS million						
	Additional tier 1 capital: deductions		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III	
39	Investment in equity of financial corporations that are not consolidated in the statements to the public of a banking corporation, where the holdings of the banking corporation does not exceed 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	-	-	
40	Investment in equity of financial corporations that are not consolidated in the statements to the public of a banking corporation, where the holdings of the banking corporation exceed 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	-	-	
41	Additional deductions determined by the Supervisor of Banks	-	-	-	-	-	-	
41A	Of which: in respect of investments in the capital of financial corporations	-	-	-	-	-	-	
41B	Of which: additional deductions from tier 1 capital not included in the framework of Section 41(A)	-	-	-	-	-	-	
	Deductions from additional tier 1 capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III	-	-	-	-	-	-	
	Of which: investment in equity of financial corporations that are not consolidated in the statements to the public of a banking corporation, where the holdings of the banking corporation exceed 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	-	-	
42	Deductions applying to additional tier 1 capital because the amount of tier 2 capital is insufficient to cover the deductions	-	-	-	-	-	-	
43	**Total deductions from additional tier 1 capital**	-	-	-	-	-	-	
44	**Additional tier 1 capital**	712	712	890	890	890	890	
45	**Tier 1 capital**	17,702	712	16,588	1,069	16,893	1,066	
Tier 2 capital: Instruments and Provisions								
46	Instruments issued by the banking corporation (not included in tier 1 capital) and premium on such instruments	784	-	784	-	784	-	18a
47	Tier 2 capital instruments issued by the banking corporation, which are qualified for inclusion in the regulatory capital during the transitional period	2,437	2,437	2,947	2,947	2,759	2,759	18b
48	Tier 2 capital instruments issued by subsidiary companies of the banking corporation to third party investors	-	-	-	-	-	-	19
49	Of which: Tier 2 capital instruments issued by subsidiary companies of the banking corporation and held by third party investors, which are deducted gradually from tier 2 capital	-	-	-	-	-	-	
50	Group allowances for credit losses before the related tax effect	1,905	-	1,818	-	1,804	-	20
	minority interest in a subsidiary	71	-	-	-	48	-	
51	**Tier 2 capital before deductions**	5,197	2,437	5,549	2,947	5,395	2,759	
Tier 2 capital: deductions								
52	Investment in own tier 2 capital instruments, held directly or indirectly (including commitment to purchase instruments subject to contractual obligation)	-	-	-	-	-	-	
53	Mutual cross-holdings of tier 2 capital instruments of financial corporations	-	-	-	-	-	-	
54	Investment in equity of financial corporations that are not consolidated in the statements published to the public of the banking corporation, when the holdings of the banking corporation does not exceed 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	-	-	

For notes see p. 12.

MAPPING OF THE COMPONENTS USED FOR THE PURPOSE OF PRESENTATION OF THE REGULATORY CAPITAL COMPOSITION (TABLE 3)(CONTINUED)

		September 30, 2018		September 30, 2017		December 31, 2017		
		In NIS million						
	Tier 2 capital: deductions		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III	
55	Investment in equity of financial corporations that are not consolidated in the statements published to the public of the banking corporation, when the holdings of the banking corporation exceed 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	-	-	
56	Additional deduction determined by the Supervisor of Banks	-	-	-	-	-	-	
56A	Of which: in respect of investments in the capital of financial corporations	-	-	-	-	-	-	
56B	Of which: additional deductions to tier 2 capital	-	-	-	-	-	-	
	Regulatory adjustments to tier 2 capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III	-	-	-	-	-	-	
	Of which: investment in equity of financial corporations that are not consolidated in the statements published to the public of the banking corporation, when the holdings of the banking corporation exceed 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	-	-	
57	**Total deductions to tier 2 capital**	-	-	-	-	-	-	
58	**Tier 2 capital**	5,197	2,437	5,549	2,947	5,395	2,759	
59	**Total capital**	22,899	3,149	22,137	4,016	22,288	3,824	
	Total weighted average of risk assets in accordance with the treatment required prior to the adoption of Directive 202 in accordance with Basel III	-	-	24	-	19	-	
	Of which: deferred tax assets the realization of which is based on the future profitability of the banking corporation, excluding deferred tax assets arising from timing differences	-	-	-	-	-	-	
	Of which: deferred tax assets arising from timing differences	-	-	24	-	19	-	
60	**Total weighted average of risk assets**	(3)169,503	-	(3)160,806	-	(3)160,070	-	
Capital ratios and capital conservation buffers (percentages)								
61	Common equity tier 1	10.02	-	9.76	-	10.00	-	
62	Tier 1 capital	10.44	-	10.32	-	10.55	-	
63	Total capital	13.51	-	13.77	-	13.92	-	
64	Not relevant	-	-	-	-	-	-	
65	Not relevant	-	-	-	-	-	-	
66	Not relevant	-	-	-	-	-	-	
67	Not relevant	-	-	-	-	-	-	
68	Not relevant	-	-	-	-	-	-	
Minimum requirements determined by the Supervisor of Banks								
69	Minimum Common equity tier 1 ratio determined by the Supervisor of Banks	(1)9.19	-	(1)9.18	-	(1)9.18	-	
70	Minimum Tier I capital ratio determined by the Supervisor of Banks	(1)9.19	-	(1)9.18	-	(1)9.18	-	
71	Overall capital ratio determined by the Supervisor of Banks	(1)12.69	-	(1)12.68	-	(1)12.68	-	
Amounts below the deduction threshold (before the averaging of risk)								
72	Investment in the capital of financial corporations (except for banking corporations and their subsidiary companies) which does not exceed 10% of the ordinary share capital issued by the financial corporation, and which are below the deduction threshold	-	-	31	-	31	-	14
73	Investment in Common equity tier 1 of financial corporations (except for banking corporations and their subsidiary companies) which exceed 10% of the ordinary share capital issued by the financial corporation, and which are below the deduction threshold	25	-	24	-	24	-	21
74	Mortgage service rights (net of deferred tax liability)	-	-	-	-	-	-	
75	Deferred tax assets arising from timing differences that are below the deduction threshold	1,699	-	1,570	-	1,600	-	

For notes see next page.

MAPPING OF THE COMPONENTS USED FOR THE PURPOSE OF PRESENTATION OF THE REGULATORY CAPITAL COMPOSITION (TABLE 3)(CONTINUED)

		September 30, 2018		September 30, 2017		December 31, 2017	
		In NIS million					
	Tier 2 capital: deductions		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III
Ceiling for inclusion of provisions in tier 2							
76	Provision qualified for inclusion in tier 2 considering exposure under the standard approach, before implementation of the ceiling	2,135	-	1,890	-	1,890	-
77	Upper limit for inclusion of a provision in tier 2 under the standard approach	1,905	-	1,818	-	1,804	-
78	Provision qualified for inclusion in tier 2 considering exposure under the internal ratings-based approach, before implementation of the ceiling	-	-	-	-	-	-
79	Upper limit for inclusion of a provision in tier 2 under the internal ratings-based approach	-	-	-	-	-	-
Capital instruments not qualified as regulatory capital that are subject to the transitional instructions							
80	The present ceiling amount for instruments included in Common equity tier 1 that are subject to the transitional instructions (according to the transitional provisions in Directive No. 299)	-	-	-	-	-	-
81	Amount deducted from Common equity tier 1 due to the ceiling	-	-	-	-	-	-
82	The present ceiling amount for instruments included in additional Common equity tier 1 that are subject to the transitional provisions (according to the transitional provisions in Directive No. 299)	712	-	890	-	890	-
83	Amount deducted from additional Common equity tier 1 due to the ceiling	1,068	-	890	-	890	-
84	The present maximum amount for instruments included in tier 2 capital that are subject to the transitional provisions (according to the transitional provisions in Directive No. 299)	2,437	-	2,947	-	2,759	-
85	Amount deducted from tier 2 capital due to the ceiling	-	-	-	-	-	-

Notes:

(1) with an addition of 0.19% (September 30, 2017: 0.18%, December 31, 2017: 0.18%), in accordance with the additional capital requirements with respect to housing loans – see note 9 to the condensed financial statements.

(2) The references are to the Table "Presentation of components comprising the regulatory capital taken from the regulatory consolidated balance sheet", presented above, to the figure presented under the column "References to components of the regulatory capital".

(3) The total weighted balances of the risk assets have been reduced by NIS 126 million (September 30, 2017: NIS 46 million, December 31,2017:NIS 32 million) due to adjustments in respect to the efficiency plan.

Statement of flows of the regulatory capital (Table 2 D)

Summary of movements and changes in the regulatory capital

	The third quarter of 2018	The first nine months of 2018	For the year 2017
Balance at the beginning of period	22,549	22,288	21,124
Common Equity Tier 1 before deductions			
Paid up share capital	-	-	3
Share premium	-	-	216
Retained earnings, including dividends proposed or declared after the balance sheet date	400	1,114	1,259
Unrealized profit (loss) from adjustments of available-for-sale securities to fair value	(21)	(275)	25
Unrealized profit (loss) in respect of cash flow hedging	(1)	(2)	(1)
Translation adjustments of autonomous units held abroad	(21)	146	(335)
Other reserves which received the Supervisor's approval	(10)	18	(191)
Minority interests in the equity of consolidated subsidiaries	(2)	(18)	(4)
Total Common Equity Tier 1 before deductions	**345**	**983**	**971**
Goodwill and Intangible assets	-	-	-
Deferred taxes the realization of which is based on future profitability of a banking corporation	-	-	-
Deferred taxes attributable to timing differences (over 10% of Common Equity Tier 1)	-	-	-
Unrealized profit (loss) as a result of changes in fair value of liabilities resulting from changes in the Bank's self credit risk	(2)	(4)	3
Threshold deductions - the amount exceeding 15% (in accordance with Section 13 of Directive No. 202)	-	-	-
Others	-	-	-
Total deductions from Common Equity Tier 1	**(2)**	**(4)**	**3**
Total Common Equity Tier 1 after deductions	**347**	**987**	**968**
Instruments issued by the banking corporation qualified for inclusion in regulatory capital in accordance with transitional instructions in Directive No. 299	-	(178)	(178)
Total Additional Tier 1 Capital after deductions	**-**	**(178)**	**(178)**
Instruments issued by the banking corporation and premium on these instruments (in accordance with Section 10A and 10B of Directive No. 202)	-	-	784
Instruments issued by the banking corporation qualified for inclusion in regulatory capital in accordance with transitional instructions in Directive No. 299	-	(322)	(542)
Minority interests in consolidated subsidiaries	3	23	48
Group allowances for credit losses before related tax effect	-	101	84
Total Common Equity Tier 2 before deductions	**3**	**(198)**	**374**
Deduction in respect of investment in financial corporations mainly in respect of FIBI	-	-	-
Total deductions from Tier 2 Capital	**-**	**-**	**-**
Total Tier 2 Capital after deductions	**3**	**(198)**	**374**
Balance at period end	**22,899**	**22,899**	**22,288**

Capital adequacy

For details regarding the evaluation of capital adequacy (Table 3 A), see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2017 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. (p. 17). For details regarding the Capital planning process (Table 3 A1), see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2017 Annual Report, and is open for review, as stated (pp. 19-20).

Risk assets and capital requirements (Table 3 B, D, E, F)

	September 30,				December 31,	
	2018		2017		2017	
	Risk assets	Capital requirements[1]	Risk assets	Capital requirements[1]	Risk assets	Capital requirements[1]
	in NIS millions					
Risk assets and capital requirements in respect of credit risk deriving from exposures of:						
Sovereigns	392	50	750	95	865	110
Public sector entities	1,330	169	1,905	242	1,999	253
Banking corporations	2,122	269	2,416	306	2,493	316
Corporations	86,521	10,980	83,310	10,564	80,826	10,249
Secured by commercial real estate	1,493	189	1,619	205	1,558	198
Retail exposures for private individuals	21,860	2,774	20,065	2,544	20,648	2,618
Small business loans	10,349	1,313	10,180	1,291	10,219	1,296
Housing mortgages	17,315	2,197	15,322	1,943	15,754	1,998
Securitization	62	8	28	4	10	1
Other assets	9,285	1,178	8,652	1,097	8,804	1,116
Total risk assets and capital requirements in respect of credit risk	**[2]150,729**	**19,127**	**[2]144,247**	**18,291**	**[2]143,176**	**18,155**
Risk assets and capital requirements in respect of market risk according to the standardized approach	**4,325**	**548**	**3,146**	**399**	**3,443**	**437**
Risk assets and capital requirements in respect of CVA risk	**1,693**	**215**	**1,171**	**148**	**1,116**	**142**
Risk assets and capital requirements in respect of operational risk according to the standardized approach	**12,756**	**1,617**	**12,242**	**1,552**	**12,335**	**1,564**
Total risk assets and capital requirements	**169,503**	**21,507**	**160,806**	**20,390**	**160,070**	**20,298**

Footnotes:

(1) With an addition of 0.19% (September 30, 2017: 0.18%, December 31, 2017: 0.18%), in accordance with the additional capital requirements with respect to housing loans - see Note 9 (B) to the condensed financial statements.

(2) The total weighted balances of the risk assets have been reduced by NIS 126 million (September 30, 2017: NIS 46 million, December 31,2017: NIS 32 million) due to adjustments in respect to the efficiency plans.

Capital for calculating ratio of capital (Table 3 G)

	Unaudited		Audited
	September 30,		December 31,
	2018	2017	2017
	in NIS millions		
Common equity tier 1 after deductions	16,990	15,698	16,003
Additional tier 1 capital after deductions	712	890	890
Tier 1 capital	17,702	16,588	16,893
Tier 2 capital after deductions	5,197	5,549	5,395
Total capital	**22,899**	**22,137**	**22,288**

Ratio of capital to risk assets (Table 3 H and I)

	Unaudited		Audited
	September 30,		December 31,
	2018	2017	2017
	In %		
A. Consolidated			
Ratio of common equity tier 1 to risk assets	10.02	9.76	10.00
Ratio of total capital to risk assets	13.51	13.77	13.92
Ratio of minimum common equity tier 1 required by the Supervisor of Banks	(4)9.19	(4)9.18	(4)9.18
Minimum total capital adequacy ratio required by the Supervisor of Banks	(4)12.69	(4)12.68	(4)12.68
B. Significant subsidiaries			
1. Mercantile Discount Bank LTD. and its consolidated companies			
Ratio of common equity tier 1 to risk assets	11.2	10.7	10.9
Ratio of total capital to risk assets	13.9	13.2	13.9
Ratio of minimum common equity tier 1 required by the Supervisor of Banks	(4)9.2	(4)9.2	(4)9.2
Minimum total capital adequacy ratio required by the Supervisor of Banks	(4)12.7	(4)12.7	(4)12.7
2. Discount Bancorp Inc. (1)			
Ratio of common equity tier 1 to risk assets	14.2	13.3	13.6
Ratio of total capital to risk assets	15.2	14.3	14.7
Ratio of minimum common equity tier 1 required in accordance with local regulation	(2)4.5	(2)4.5	(2)4.5
Minimum total capital adequacy ratio required in accordance with local regulation	(2)8.0	(2)8.0	(2)8.0
3. Israel Credit Cards LTD.			
Ratio of common equity tier 1 to risk assets	15.0	14.6	14.4
Ratio of total capital to risk assets	16.2	15.8	15.6
Ratio of minimum common equity tier 1 required by the Supervisor of Banks	8.0	9.0	8.0
Minimum total capital adequacy ratio required by the Supervisor of Banks	(3)11.5	(3)12.5	(3)11.5

Footnotes:
(1) The data in this item was computed in accordance with the rules mandatory in the U.S.A.
(2) IDB New York is subject to the new Basel III capital rules based on the final rules published by the FRB. Capital ratios are as follows: 4.5% CET1 to risk-weighted assets; 6.0% Tier 1 capital to risk-weighted assets; and 8.0% Total capital to risk-weighted assets.
(3) In accordance with of the approach by the Supervisor of Banks, ICC was required to maintain a total capital ratio of not less than 15%, starting from December 31, 2010. The Supervisor of banks announced the cancellation of the restriction on February 4, 2018.
(4) With an addition of 0.19% (September 30, 2017: 0.18%, December 31, 2017: 0.18%), in accordance with the additional capital requirements with respect to housing loans - see item 1 (b) above.

Additional information regarding capital adequacy not included in the disclosure requirements of the third Pillar

RISK WEIGHTED ASSETS ACCORDING TO REGULATORY OPERATING SEGMENTS

	Domestic operations								International operations	
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses	Institutional bodies	Financial management	Total Domestic operations	Total International operations	Total
	in NIS millions									
	For the nine months ended September 30, 2018									
Average Risk-assets(1)	45,189	459	31,242	12,967	37,522	1,088	13,930	142,397	22,739	165,136
Balance of Risk-assets at the period end (1)	45,867	475	31,631	12,427	39,935	773	15,061	146,169	23,334	169,503
	For the nine months ended September 30, 2017 (4)									
Average Risk-assets(1)	41,021	422	30,396	13,313	34,963	1,545	11,853	133,513	23,116	156,629
Balance of Risk-assets at the period end (1)	42,375	415	31,380	13,540	36,880	1,439	12,000	138,029	22,777	160,806

Footnote:
(1) Risk weighted assets – as computed for capital adequacy purposes.

SUMMARY OF MOVEMENT AND CHANGES IN RISK-WEIGHTED ASSETS

	The third quarter of 2018	The first nine months of 2018	For the year 2017
	NIS millions		
Balance at the beginning of period	152,433	144,292	138,335
Change in exposures			
Realizations (balance-sheet credit)	2,886	9,548	5,802
Bonds	(309)	(49)	(635)
Derivatives	(557)	474	(137)
Facilities	(2,544)	919	1,397
Guarantees	277	2,426	1,445
Other assets	(22)	594	228
Total Change in exposures	**(269)**	**13,912**	**8,100**
CCF effect	1,412	(3,121)	(1,223)
Change in exposures after CCF effect	1,143	10,791	6,877
Changes in risk mitigates			
Guarantees (replacement)	1,886	3,304	2,572
Financial risk mitigates	632	2,138	(775)
Total	**2,518**	**5,442**	**1,798**
CCF effect	(1,462)	(2,204)	(703)
Change in risk mitigates after CCF effect	1,056	3,238	1,095
Change in CVA	(98)	577	174
Total Change in credit risk-weighted assets	**(11)**	**8,130**	**5,956**
Balance at period end	152,422	152,422	144,292

Leverage ratio

Comparison between Balance sheet assets and the measurement of exposure for the purpose of the leverage ratio (Table 3 A)

	September 30		December 31,
	2018	2017	2017
	NIS millions		
Total assets according to the consolidated financial statements	233,153	219,665	221,221
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	(101)	(143)	53
Adjustments in respect of SFTs	338	1,069	1,542
Adjustments in respect of off-balance sheet items (conversion of off-balance sheet exposure to credit equivalent amounts)	24,407	23,555	23,703
Other adjustments	1,615	1,508	1,501
Exposure for the purpose of the leverage ratio	**259,412**	**245,654**	**248,020**

Disclosure of the leverage ratio (Table 3 B)

	September 30		December 31,
	2018	2017	2017
	NIS millions		
Balance sheet exposures			
On-balance sheet items (excluding derivatives and SFTs, but including collateral and group allowance)	226,690	214,368	215,856
Asset amounts deducted in determining Tier 1 capital	(160)	(160)	(160)
Total balance sheet exposures (excluding derivatives and SFTs)	**226,530**	**214,208**	**215,696**
Derivative exposures			
Replacement cost associated with all derivatives transactions	1,737	1,561	1,401
Add-on amounts for PFE associated with all derivatives transactions	1,779	1,622	1,622
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	**3,516**	**3,183**	**3,023**
Securities financing transaction exposures			
Gross SFT assets (with no recognition of netting), after adjusting for transactions treated as an accounting sale	4,621	3,639	4,056
Netted amounts of cash payables and cash receivables of gross SFT assets	-	-	-
Credit risk exposure of a counterparty for SFT assets	338	1,069	1,542
Agent transaction exposures	-	-	-
Total securities financing transaction exposures	**4,959**	**4,708**	**5,598**
Other off-balance sheet exposures			
Off-balance sheet exposure at gross notional amount	84,194	79,651	79,161
Adjustments for conversion to credit equivalent amounts	(59,787)	(56,096)	(55,458)
Total off-balance sheet items	**24,407**	**23,555**	**23,703**
Capital and total exposures			
Tier 1 capital	(1)17,702	(1)16,588	(1)16,893
Total exposures	259,412	245,654	248,020
Leverage ratio			
Leverage ratio according to Proper Conduct of Banking Business Directive No. 218	6.8	6.8	6.8

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.

EXPOSURE TO RISKS AND RISK MANAGEMENT

For details regarding the Risk profile of the Discount Group and for details regarding Risk Factors Table, see the 2017 Annual Report, in Chapter C to the Directors and Management Report - "Risks review" (p. 56 and pp. 98-100).

For an additional qualitative general disclosure regarding risk management, (including risk management principles – pp. 25-27, risk management corporate governance – pp. 27-30, risk management tools – p. 30, risk culture and absorption of the usefulness of risk management procedures – p. 31) see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2017 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.

Drafts and Instructions published during the third quarter of 2018

Draft amendment to Proper Conduct of Banking Business Directive No. 311, "Credit Risk Management". The draft was issued on September 13, 2018. For details, see "Credit Risks" below.

Draft letter regarding compliance risks management in light of tax offenses being included as predicate offenses. The draft was issued on September 14, 2018. For details, see "Compliance Risks" below.

Q&A file for implementing the proper conduct of banking business directive dealing with the management of credit risk inherent in customers' trading activity in derivative instruments and securities. The file was distributed on October 22, 2018.

Draft Amendment of Proper Conduct of Banking Business Directive No. 362 – cloud computing. The draft was issued on October 31, 2018. For details, see "Data and cyber protection risks" below.

Draft Amendment of Proper Conduct of Banking Business Directive No. 357 – "information technology management". The draft, published on October 31, 2018, proposes to remove the need to obtain a permit for storing information outside the premises of a bank, relating to customers of that banking corporation.

Draft Amendments of Proper Conduct of Banking Business Directive No. 203 – "measurement and capital adequacy – the Standardized approach – credit risk" and of Proper Conduct of Banking Business Directive No. 313 – "limitations on indebtedness of a single borrower and of a group of borrowers". The drafts were published on November 1, 2018.

Proper Conduct of Banking Business Directive in the matter of outsourcing. The Directive, published on October 8, 2018, includes principles according to which banking corporations would be required to act upon when transferring operations to outsourcing services.

For details regarding published instructions relating to credit card companies, see "Credit Card Operations" in the Board of Directors and Management report. For details regarding drafts and additional instructions, which may have implications regarding different areas of risk management, see the Board of Directors and Management Report.

CREDIT RISKS

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 details and for qualitative disclosure regarding credit risk management, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2017 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. 35-42).

Drafts and Instructions published during the third quarter of 2018

Draft amendment to Proper Conduct of Banking Business Directive No. 311, "Credit Risk Management". Within the framework of the draft, it is proposed to update the Directive on several topics: determining the terms under which credit may be granted on a "personal credit authority" basis; updating the threshold at which the involvement of the risk manager is required in the credit granting process; and, easing the requirements regarding the dates for the receipt of borrowers' financial statements.

Proper Conduct of Banking Business Directive No. 330, "Management of the credit risk inherent in customer trading activity in derivative instruments and securities". The Directive entered into effect on July 1, 2018. The Directive states requirements for the management of the risk, emphasizing the activity with customers engaged in speculative operations (a customer engaged in speculative operations is defined as a customer engaged in significant trading operations in derivative instruments and/or in securities, such operations having a potential for high leverage financing or exposed to high fluctuations). The Directive requires, inter alia, that the Board of Directors determines the Bank's appetite for such risk. It is noted that exposure to this risk is affected by many risk factors, including market and liquidity risks.

In accordance with the above, the Bank has determined principles according to which the assessment of exposure would be performed, and has also defined restrictions on such activity, both at the level of the individual customer and at the level of total exposure.

The Supervisor of Banks has issued a FAQ file regarding the implementation of this Directive.

Draft Amendments of Proper Conduct of Banking Business Directive No. 203 – "measurement and capital adequacy – the Standardised approach – credit risk" and of Proper Conduct of Banking Business Directive No. 313 – "limitations on indebtedness of a single borrower and of a group of borrowers". The drafts propose to update the instructions in the matter of definition of indebtedness, so that the coefficient for conversion into credit of guarantees securing investments by apartment purchasers, granted under the Sales Act, shall be 30% if the apartment has not yet been delivered to the purchaser. This, in view of low default rates regarding housing construction and regarding the forfeiture of Sales Act guarantees during the past twenty years. In addition, it is proposed to add to Directive No. 203 a clarification according to which the mapping of the long-term ratings by the Moody's Agency relates also to the IFS ratings of this Agency.

Credit risk mitigation

For details regarding qualitative disclosure regarding credit risk mitigation, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2017 Annual Report, and is open for review, as stated (pp. 35-42).

Credit risk mitigation (table 7)

	Gross credit exposure before allowance for credit losses(1)(2)	Gross credit exposure after allowance for credit losses(1)(2)	Credit exposure covered by eligible financial collateral(3)(4)	Total amounts subtracted(5)	Total amounts added(5)	Net credit exposure
			in NIS millions			
			September 30, 2018			
Sovereigns debts	47,676	47,676	(13)	(1,121)	48	46,590
Public sector entities debts	7,698	7,691	-	-	1,355	9,046
Banking corporations debts	7,262	7,254	(226)	(283)	8,564	15,309
Corporations debts	127,675	127,674	(8,966)	(14,463)	14,026	118,271
Secured by commercial real estate debts	1,633	1,626	(135)	-	-	1,491
Retail exposures for private individuals	61,209	61,160	(1,426)	(8,072)	-	51,662
Small business loans	21,051	20,806	(2,749)	(54)	-	18,003
Housing mortgages	33,818	33,655	(10)	-	-	33,645
Securitization	309	309	-	-	-	309
Other assets	9,722	9,722	-	-	-	9,722
Total	**318,053**	**317,573**	**(13,525)**	**(23,993)**	**23,993**	**304,048**
			September 30, 2017			
Sovereigns debts	49,904	49,904	(8)	(769)	28	49,155
Public sector entities debts	7,014	7,007	(1)	-	950	7,956
Banking corporations debts	4,972	4,971	(53)	(62)	7,940	12,796
Corporations debts	121,881	121,878	(7,077)	(12,293)	11,756	114,264
Secured by commercial real estate debts	1,817	1,810	(193)	-	-	1,617
Retail exposures for private individuals	54,305	54,190	(1,509)	(7,520)	-	45,161
Small business loans	20,536	20,321	(2,731)	(30)	-	17,560
Housing mortgages	30,141	29,985	(5)	-	-	29,980
Securitization	142	142	-	-	-	142
Other assets	8,794	8,794	-	-	-	8,794
Total	**299,506**	**299,002**	**(11,577)**	**(20,674)**	**20,674**	**287,425**
			December 31, 2017			
Sovereigns debts	52,845	52,845	(11)	(907)	29	51,956
Public sector entities debts	7,329	7,321	-	-	1,308	8,629
Banking corporations debts	5,630	5,630	(108)	(284)	8,100	13,338
Corporations debts	118,876	118,853	(6,825)	(13,042)	12,456	111,442
Secured by commercial real estate debts	1,749	1,743	(186)	-	-	1,557
Retail exposures for private individuals	55,314	55,234	(1,459)	(7,627)	-	46,148
Small business loans	20,540	20,310	(2,706)	(33)	-	17,571
Housing mortgages	30,714	30,557	(5)	-	-	30,552
Securitization	52	52	-	-	-	52
Other assets	8,572	8,572	-	-	-	8,572
Total	**301,621**	**301,117**	**(11,300)**	**(21,893)**	**21,893**	**289,817**

Footnotes:

(1) Off balance sheet credit risk is stated prior to conversion to credit equivalent (before multiplication by the CCF coefficient).

(2) Credit risk in respect of transactions in derivative financial instruments is presented in terms of credit equivalent, after netting effect and after multiplication by the "add-on" coefficient.

(3) After, were relevant, balance sheet and off-balance sheet offsetting and after applying haircuts, including positive adjustments added to the exposure.

(4) Including gold.

(5) The amount of exposure covered by guarantees is presented within the framework of debts of the counterparty that provided the guaranty.

Additional disclosures

For details regarding Description of the approach and statistical methods for the creation of specific and general allowances, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2017 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. (p. 45).

Quantitative disclosure regarding credit risk (Table 4 B)

Segmentation of credit risk according to main credit exposure types

Gross credit risk exposure

	September 30, 2018	Average for the period[1]	September 30, 2017	Average for the period[1]	December 31, 2017	Average for the period[1]
			in NIS millions			
Credit	187,461	185,042	176,892	174,687	180,855	176,884
Bonds	33,669	31,829	31,367	32,790	30,420	31,625
Others[2]	9,722	9,179	8,794	8,620	8,572	8,638
Guarantees and other liabilities on account of clients[3]	83,685	83,254	79,269	77,104	78,751	77,889
Transactions in derivative financial instruments[4]	3,516	3,483	3,184	2,729	3,023	2,889
Total	**318,053**	**312,787**	**299,506**	**295,930**	**301,621**	**297,925**

Footnotes:

(1) The average is computed on a quarterly basis.

(2) Primarily: cash, shares, fixed assets.

(3) Off balance sheet credit risk is stated prior to conversion to credit equivalent (before multiplication by the CCF coefficient).

(4) Credit risk in respect of transactions in derivative financial instruments is presented in terms of credit equivalent (after netting effect and after multiplication by the "add-on" coefficient).

DISTRIBUTION OF EXPOSURES ACCORDING TO MAIN GEOGRAPHICAL AREAS AND PROBLEMATIC DEBTS ACCORDING TO MAIN GEOGRAPHICAL AREAS

	Total Credit Risk[1]			Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
								Credit Losses[4]		
	Total	Credit Performance Rating[6]	Problematic[5]	Total	Of which: Debts[2][7]	Problematic[5]	Impaired	Periodic Credit Loss Expenses	Net Accounting Write-Offs Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions									
	September 30, 2018									
Lending Activity in Israel										
Total Commercial	113,891	109,120	2,277	111,020	77,131	2,273	1,404	158	151	1,271
Total Public	207,867	198,744	3,177	204,985	137,544	3,173	1,538	429	353	2,071
Total Lending Activity in Israel	**234,678**	**225,551**	**3,177**	**208,239**	**139,666**	**3,173**	**1,538**	**429**	**353**	**2,071**
Lending Activity Outside of Israel										
Total Commercial	41,132	38,869	929	30,898	24,378	922	380	(65)	(51)	292
Total Public	43,226	40,886	932	32,987	25,790	925	380	(65)	(51)	305
Total Lending Activity Outside of Israel	**51,844**	**49,473**	**963**	**37,309**	**30,049**	**925**	**380**	**(65)**	**(51)**	**306**
TOTAL	**286,522**	**275,024**	**4,140**	**245,548**	**169,715**	**4,098**	**1,918**	**364**	**302**	**2,377**
	September 30, 2017									
Lending Activity in Israel										
Total Commercial	108,116	103,494	2,950	105,439	71,209	2,947	2,041	301	360	1,311
Total Public	192,156	184,146	3,711	189,464	126,715	3,708	2,120	540	530	1,999
Total Lending Activity in Israel	**217,782**	**209,171**	**3,711**	**192,331**	**127,764**	**3,708**	**2,120**	**540**	**530**	**1,999**
Lending Activity Outside of Israel										
Total Commercial	40,714	38,215	1,147	30,625	22,977	1,134	568	2	11	302
Total Public	42,759	40,241	1,152	32,667	24,344	1,139	570	3	11	320
Total Lending Activity Outside of Israel	**49,653**	**47,102**	**1,185**	**36,263**	**27,858**	**1,139**	**570**	**3**	**11**	**320**
TOTAL	**267,435**	**256,273**	**4,896**	**228,594**	**155,622**	**4,847**	**2,690**	**543**	**541**	**2,319**
	December 31, 2017									
Lending Activity in Israel										
Total Commercial	107,323	103,258	2,695	104,859	71,035	2,691	1,712	232	336	1,268
Total Public	192,023	184,362	3,498	189,541	127,249	3,494	1,800	564	558	1,999
Total Lending Activity in Israel	**216,240**	**208,576**	**3,498**	**192,673**	**128,387**	**3,494**	**1,800**	**565**	**558**	**2,000**
Lending Activity Outside of Israel										
Total Commercial	39,113	36,874	1,123	29,372	22,216	1,110	459	11	24	292
Total Public	41,094	38,839	1,127	31,351	23,619	1,114	459	9	24	305
Total Lending Activity Outside of Israel	**47,902**	**45,615**	**1,158**	**34,831**	**27,035**	**1,114**	**459**	**9**	**24**	**305**
TOTAL	**264,142**	**254,191**	**4,656**	**227,504**	**155,422**	**4,608**	**2,259**	**574**	**582**	**2,305**

Footnotes:

(1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts[2], bonds, securities borrowed or purchased under resale agreements, assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 169,715, 35,749, 697, 3,606, 76,751 million, respectively.(As at 30.9.2017 amount of NIS 155,622, 33,638, 840 3,310, 74,025 million, respectively and As at 31.12.2017 amount of NIS 155,422, 31,815, 954, 2,954, 72,997 million, respectively).

(2) Credit to the Public, Credit to Governments, deposits with banks and other debts, excluding investments in bonds and securities borrowed or purchased under resale agreements.

(3) Credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, excluding in respect of derivative instruments.

(4) Including in respect of off-balance sheet credit instruments (stated in the balance sheet under "Other liabilities").

(5) Balance sheet and off-balance sheet credit risk, which is impaired, substandard or under special mention, including in respect of housing loans, in respect of which an allowance is made according to the extent of arrears, and housing loans in respect of which no allowance is made according to the extent of arrears, and are in arrears of 90 days or more.

(6) Credit risk,the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy.

(7) The balance of commercial debts includes housing loans in the amount of NIS 200 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.(As at 30.9.2017 amount of NIS 282 million, As at 31.12.2017 amount of NIS 250 million).

DISTRIBUTION OF THE EXPOSURE ACCORDING TO COUNTERPARTY, CLASSIFIED ACCORDING TO MAIN TYPES OF CREDIT EXPOSURE (TABLE 4 H)

	Credit	Bonds	Other[1]	Guarantees and other liabilities on account of clients[2]	Transactions in derivative financial instruments[3]	Total
			in NIS millions			
			September 30, 2018			
Sovereigns	18,910	27,836	-	925	5	47,676
Public sector entities	3,095	2,619	-	1,633	351	7,698
Banking corporations	4,532	1,203	-	270	1,257	7,262
Corporations	82,991	1,702	-	41,108	1,874	127,675
Secured by commercial real estate	1,633	-	-	-	-	1,633
Retail exposures for private individuals	29,497	-	-	31,690	22	61,209
Small business loans	15,123	-	-	5,922	6	21,051
Housing mortgages	31,680	-	-	2,137	1	33,818
Securitization	-	309	-	-	-	309
Other assets	-	-	9,722	-	-	9,722
Total	**187,461**	**33,669**	**9,722**	**83,685**	**3,516**	**318,053**
			September 30, 2017			
Sovereigns	21,657	26,573	-	1,661	13	49,904
Public sector entities	2,630	2,949	-	1,089	346	7,014
Banking corporations	2,755	649	-	202	1,366	4,972
Corporations	77,492	1,054	-	41,914	1,421	121,881
Secured by commercial real estate	1,817	-	-	-	-	1,817
Retail exposures for private individuals	27,510	-	-	26,763	32	54,305
Small business loans	14,873	-	-	5,659	4	20,536
Housing mortgages	28,158	-	-	1,981	2	30,141
Securitization	-	142	-	-	-	142
Other assets	-	-	8,794	-	-	8,794
Total	**176,892**	**31,367**	**8,794**	**79,269**	**3,184**	**299,506**
			December 31, 2017			
Sovereigns	25,568	25,564	-	1,683	30	52,845
Public sector entities	2,817	2,887	-	1,241	384	7,329
Banking corporations	3,059	652	-	280	1,639	5,630
Corporations	75,589	1,265	-	41,091	931	118,876
Secured by commercial real estate	1,749	-	-	-	-	1,749
Retail exposures for private individuals	28,317	-	-	26,963	34	55,314
Small business loans	14,921	-	-	5,615	4	20,540
Housing mortgages	28,835	-	-	1,878	1	30,714
Securitization	-	52	-	-	-	52
Other assets	-	-	8,572	-	-	8,572
Total	**180,855**	**30,420**	**8,572**	**78,751**	**3,023**	**301,621**

Footnotes:

(1) Mostly cash, shares, fixed assets.

(2) Off balance sheet credit risk is stated prior to conversion to credit equivalent (before multiplication by the CCF coefficient).

(3) Credit risk in respect of transactions in derivative financial instruments is presented in terms of credit equivalent (following the netting effect and after multiplication by the "add-on" coefficient).

DIVISION OF THE PORTFOLIO ACCORDING TO REMAINING CONTRACTUAL MATURITY PERIODS (TABLE 4 E)

	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	No fixed maturity date[2]	Total Cash Flow
			September 30, 2018		
Credit	100,521	59,551	44,277	2,211	[1]206,560
Bonds	7,937	16,347	17,912	-	42,196
Others[3]	3,654	205	924	4,990	9,773
Guarantees and other liabilities on account of clients[4]	54,718	19,828	1,110	8,056	83,712
Transactions in derivative financial instruments[5]	2,079	1,549	889	599	5,116
Total	**168,909**	**97,480**	**65,112**	**15,856**	**347,357**
			September 30, 2017		
Credit	96,499	55,695	39,337	1,594	193,125
Bonds	7,571	17,287	13,824	-	38,682
Others[3]	3,129	489	699	4,506	8,823
Guarantees and other liabilities on account of clients[4]	50,947	19,646	[6]1,858	[6]6,742	79,193
Transactions in derivative financial instruments[5]	1,933	1,474	475	503	4,385
Total	**160,079**	**94,591**	**56,193**	**13,345**	**324,208**
			December 31, 2017		
Credit	99,478	55,682	40,111	1,919	197,190
Bonds	7,052	16,560	13,294	-	36,906
Others[3]	2,759	320	937	4,585	8,601
Guarantees and other liabilities on account of clients[4]	50,268	19,390	[6]1,853	[6]7,280	78,791
Transactions in derivative financial instruments[5]	1,441	1,303	475	668	3,887
Total	**160,998**	**93,255**	**56,670**	**14,452**	**325,375**

Footnotes:

(1) This note presents the anticipated future contractual cash flows in respect of the exposures, according to the remaining periods to the contractual maturity date of each cash flow. The data is shown net of the allowance for credit losses, the allocation of which over periods is made in accordance with an estimate based on the credit periods in respect of which they were made.

(2) Including assets whose maturity data has passed in the amount of NIS 298 million (September 30, 2017: NIS 378 million, December 31, 2017: NIS 347 million).

(3) Primarily: cash, shares, fixed assets.

(4) Off balance sheet credit risk is pre conversion to credit equivalent (pre multiplying by CCF coefficient).

(5) Presented as calculated for the purpose of limitation on borrowers indebtedness.

(6) Reclassified

DISTRIBUTION OF THE EXPOSURES ACCORDING TO MAIN SECTORS

	September 30, 2018			December 31, 2017		
Economic Sectors	Total credit risk	Of which: Problematic credit risk	Rate of problematic risk	Total credit risk	Of which: Problematic credit risk	Rate of problematic risk
	in NIS millions		%	in NIS millions		%
Industry	19,848	595	3.0	20,005	510	2.5
Construction and real estate - construction	27,787	310	1.1	25,280	344	1.4
Construction and real estate - real estate activity	20,620	674	3.3	19,840	702	3.5
Commerce	26,842	577	2.1	26,791	869	3.2
Financial services	22,822	373	1.6	19,799	422	2.1
Private individuals - housing loans	33,880	330	1.0	30,780	312	1.0
Private individuals - other	62,190	573	0.9	55,901	495	0.9
Other Sectors	37,104	677	1.8	34,721	971	2.8
Total Public	**251,093**	**4,109**	**1.6**	**233,117**	**4,625**	**2.0**
Banks	6,717	31	0.5	5,472	31	0.6
Governments	28,712	-	-	25,553	-	-
Total	**286,522**	**4,140**	**1.4**	**264,142**	**4,656**	**1.8**

CHANGE IN THE BALANCE OF ALLOWANCE FOR CREDIT LOSSES (TABLE 4 H)

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other	Total	Banks and Governments	Total
	In NIS millions					
	Nine months ended September 30, 2018					
Balance of allowance for credit losses, as at December 31, 2017	1,560	178	566	2,304	1	2,305
Expenses for credit loss	93	14	257	364	-	364
Accounting write-offs	(364)	(11)	(337)	(712)	-	(712)
Collection of debts written-off in previous years	264	-	146	410	-	410
Net accounting write-offs	(100)	(11)	(191)	(302)	-	(302)
Financial statements translation adjustments	10	-	-	10	-	10
Balance of allowance for credit losses, as at September 30, 2018	**1,563**	**181**	**632**	**2,376**	**1**	**2,377**
Of which: In respect of off-balance sheet credit instruments	146	-	49	195	-	195
	Nine months ended September 30, 2017					
Balance of allowance for credit losses, as at December 31, 2016	1,702	168	469	2,339	-	2,339
Expenses for credit loss	303	9	231	543	-	543
Accounting write-offs	(590)	(4)	(310)	(904)	-	(904)
Collection of debts written-off in previous years	219	-	144	363	-	363
Net accounting write-offs	(371)	(4)	(166)	(541)	-	(541)
Financial statements translation adjustments	(21)	-	(1)	(22)	-	(22)
Balance of allowance for credit losses, as at September 30, 2017	**1,613**	**173**	**533**	**2,319**	**-**	**2,319**
Of which: In respect of off-balance sheet credit instruments	163	-	37	200	-	200

Exposure amounts according to risk weights[2][1] (Table 5)

AMOUNT OF EXPOSURE AFTER ALLOWANCE FOR CREDIT LOSSES AND BEFORE CREDIT RISK MITIGATION

	0%	2%	20%	35%	50%	60%	75%	100%	150%	250%	Total
					in NIS millions						
					September 30, 2018						
Sovereigns	45,963	-	153	-	30	-	-	1,530	-	-	47,676
Public sector entities	-	-	7,688	-	2	-	-	1	-	-	7,691
Banking corporations	-	-	7,112	-	55	-	-	87	-	-	7,254
Corporations	-	1,475	1,897	-	746	-	-	122,459	1,097	-	127,674
Commercial real estate	-	-	-	-	-	-	-	1,623	3	-	1,626
Retail exposures for private individuals	-	-	-	-	-	-	60,835	174	151	-	61,160
Small business loans	-	-	-	-	-	-	20,503	92	211	-	20,806
Housing mortgages	-	-	-	11,524	9,318	1,943	10,082	707	81	-	33,655
Securitization	-	-	309	-	-	-	-	-	-	-	309
Other	3,215	-	1	-	-	-	-	3,553	1,219	1,734	9,722
Total	**49,178**	**1,475**	**17,160**	**11,524**	**10,151**	**1,943**	**91,420**	**130,226**	**2,762**	**1,734**	**317,573**
					September 30, 2017						
Sovereigns	46,627	-	2,155	-	-	-	-	1,122	-	-	49,904
Public sector entities	-	-	4,320	-	2,678	-	-	6	3	-	7,007
Banking corporations	-	-	3,895	-	1,012	-	-	64	-	-	4,971
Corporations	-	1,111	1,640	-	526	-	-	116,893	1,708	-	121,878
Commercial real estate	-	-	-	-	-	-	-	1,808	2	-	1,810
Retail exposures for private individuals	-	-	-	-	-	-	53,910	130	150	-	54,190
Small business loans	-	-	-	-	-	-	20,056	70	195	-	20,321
Housing mortgages	-	-	-	11,416	7,481	-	10,211	821	56	-	29,985
Securitization	-	-	142	-	-	-	-	-	-	-	142
Other	2,816	-	60	-	-	-	-	3,203	1,025	1,690	8,794
Total	**49,443**	**1,111**	**12,212**	**11,416**	**11,697**	**-**	**84,177**	**124,117**	**3,139**	**1,690**	**299,002**
					December 31, 2017						
Sovereigns	49,282	-	2,106	-	19	-	-	1,438	-	-	52,845
Public sector entities	-	-	4,385	-	2,936	-	-	-	-	-	7,321
Banking corporations	-	-	4,506	-	1,003	-	-	121	-	-	5,630
Corporations	-	1,092	1,529	-	705	-	-	114,296	1,231	-	118,853
Commercial real estate	-	-	-	-	-	-	-	1,741	2	-	1,743
Retail exposures for private individuals	-	-	-	-	-	-	54,867	194	173	-	55,234
Small business loans	-	-	-	-	-	-	20,047	66	197	-	20,310
Housing mortgages	-	-	-	11,359	7,806	-	10,581	746	65	-	30,557
Securitization	-	-	52	-	-	-	-	-	-	-	52
Other	2,504	-	1	-	-	-	-	3,296	1,071	1,700	8,572
Total	**51,786**	**1,092**	**12,579**	**11,359**	**12,469**	**-**	**85,495**	**121,898**	**2,739**	**1,700**	**301,117**

For footnotes see next page.

AMOUNT OF EXPOSURE AFTER ALLOWANCE FOR CREDIT LOSSES AND AFTER CREDIT RISK MITIGATION

	0%	2%	20%	35%	50%	60%	75%	100%	150%	250%	Total
						in NIS millions					
						September 30, 2018					
Sovereigns	46,011	-	153	-	30	-	-	396		-	46,590
Public sector entities	1,353	-	7,690	-	2	-	-	1		-	9,046
Banking corporations	-	-	15,167	-	63	-	-	79	-	-	15,309
Corporations	-	1,475	15,582	-	1,087	-	-	99,050	1,077	-	118,271
Commercial real estate	-	-	-	-	-	-	-	1,488	3	-	1,491
Retail exposures for private individuals	-	-	-	-	-	-	51,356	159	147	-	51,662
Small business loans	-	-	-	-	-	-	17,727	79	197	-	18,003
Housing mortgages	-	-	-	11,524	9,318	1,943	10,074	705	81	-	33,645
Securitization	-	-	309	-	-	-	-	-	-	-	309
Other	3,215	-	1	-	-	-	-	3,553	1,219	1,734	9,722
Total	**50,579**	**1,475**	**38,902**	**11,524**	**10,500**	**1,943**	**79,157**	**105,510**	**2,724**	**1,734**	**304,048**
						September 30, 2017					
Sovereigns	46,653	-	2,155	-	-	-	-	347	-	-	49,155
Public sector entities	950	-	4,320	-	2,678	-	-	5	3	-	7,956
Banking corporations	-	-	5,608	-	7,132	-	-	56	-	-	12,796
Corporations	-	1,111	13,228	-	693	-	-	97,578	1,654	-	114,264
Commercial real estate	-	-	-	-	-	-	-	1,615	2	-	1,617
Retail exposures for private individuals	-	-	-	-	-	-	44,910	107	144	-	45,161
Small business loans	-	-	-	-	-	-	17,315	64	181	-	17,560
Housing mortgages	-	-	-	11,416	7,481	-	10,206	821	56	-	29,980
Securitization	-	-	142	-	-	-	-	-	-	-	142
Other	2,816	-	60	-	-	-	-	3,203	1,025	1,690	8,794
Total	**50,419**	**1,111**	**25,513**	**11,416**	**17,984**	**-**	**72,431**	**103,796**	**3,065**	**1,690**	**287,425**
						December 31, 2017					
Sovereigns	49,311	-	2,101	-	19	-	-	525		-	51,956
Public sector entities	1,308	-	4,385	-	2,936	-	-	-		-	8,629
Banking corporations	-	-	6,282	-	6,943	-	-	113	-	-	13,338
Corporations	-	1,092	13,820	-	869	-	-	94,436	1,225	-	111,442
Commercial real estate	-	-	-	-	-	-	-	1,555	2	-	1,557
Retail exposures for private individuals	-	-	-	-	-	-	45,806	176	166	-	46,148
Small business loans	-	-	-	-	-	-	17,326	60	185	-	17,571
Housing mortgages	-	-	-	11,359	7,806	-	10,576	746	65	-	30,552
Securitization	-	-	52	-	-	-	-	-	-	-	52
Other	2,504	-	1	-	-	-	-	3,296	1,071	1,700	8,572
Total	**53,123**	**1,092**	**26,641**	**11,359**	**18,573**	**-**	**73,708**	**100,907**	**2,714**	**1,700**	**289,817**

Footnotes:

(1) Off balance sheet credit risk is started prior to conversion to credit equivalent (before multiplication by the CCF coefficient).

(2) Credit risk in respect of transactions in derivative financial instruments is presented in terms of credit equivalent (after netting effect and after multiplication by the "add-on" coefficient).

GENERAL DISCLOSURE REGARDING EXPOSURE RELATED TO COUNTERPARTY CREDIT RISK

Counterparty credit risk is the risk that the counterparty to the transaction will be in default before the final settlement of the cash flows in respect of the transaction. 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 2017 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. 52-53).

Disclosure regarding derivatives (Table 8)

	September 30,		December 31,
	2018	2017	2017
	in NIS millions		
Gross positive fair value of contracts[1]			
Interest rate contracts:			
Shekel/CPI	125	194	163
Other	1,604	1,352	1,103
Foreign currency contracts	1,286	1,248	1,004
Contracts on shares	600	538	703
Commodities and other contracts	6	1	2
Total Gross positive fair value of contracts	**3,621**	**3,333**	**2,975**
Potential off balance sheet exposure[2]	3,189	2,712	2,449
Netting benefits	(3,295)	(2,861)	(2,401)
Current credit exposure after netting[2]	**3,515**	**3,184**	**3,023**
Held collateral	(525)	(229)	(266)
Net credit exposure in respect of derivatives	**2,990**	**2,955**	**2,757**

Footnotes:

(1) Including embedded derivatives in the amount of NIS 15 million (September 30 ,2017 NIS 23 million .December 31,2017 NIS 22 million).

(2) Potential off-balance sheet credit exposure with respect to derivative instruments is calculated based on the notional principal amount of the entire counter-party portfolio, multiplied by the "Add-on" coefficient.

ACTIVITY IN DERIVATIVE FINANCIAL INSTRUMENTS

The Bank's operations in derivative financial instruments involve special risk factors, including credit risk. The singularity of credit risk in such transactions stems from the fact that the stated value of the transaction does not necessarily reflect the credit risk involved therein. For further 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 2017 Annual Report, and is open for review, as stated (pp. 52-53).

Note 11 to the condensed financial statements presents details of operations in derivative instruments - scope, credit risk and maturities. Part B of the aforementioned Note presents details of credit risk with respect to derivatives by counter party, on a consolidated basis. Appendix 3 contains further details of the data presented in the said Part B of the Note.

SECURITIZATION EXPOSURE

IDB New York invests in several types of securitized securities, in marketable mortgage backed securities (CMBS), in securities of the "Trust Preferred CDO" type and residential mortgage backed securities (RMBS).

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 2017 Annual Report, and is open for review, as stated (p. 54).

SECURITIZATION EXPOSURE (TABLE 9)

The securitization exposure included in the following table does not include mortgage backed securities issued by GNMA, FNMA and FHLMC. This, due to the fact that all layers of the said securities reflect identical credit risk.

SECURITIZATION EXPOSURE

	Total exposure		
	September 30		December 31
	2018	2017	2017
	in NIS millions		
Asset-backed securities (ABS):			
Collaterized bonds CLO	310	142	53
Total asset-backed securities	**310**	**142**	**53**
Total mortgage and asset-backed securities	**310**	**142**	**53**

	September 30				December 31	
	2018		2017		2017	
	Exposure	Capital requirements	Exposure	Capital requirements	Exposure	Capital requirements
		12.7%		12.7%		12.7%
	in NIS millions					
Risk weights:						
20%	310	8	142	4	53	1
50%	-	-	-	-	-	-
Total	**310**	**8**	**142**	**4**	**53**	**1**

ADDITIONAL DISCLOSURE REGARDING CREDIT RISK IN RESPECT OF SIGNIFICANT EXPOSURE TO GROUPS OF BORROWERS

For details regarding one group of borrowers, whose indebtedness as of September 30, 2018 reached 15.98%, see in "Additional disclosure regarding risk in respect of significant exposure to groups pf borrowers" in the Board of Directors and Management report.

Additional details regarding the credit risks – including: quality of the credit and problematic credit risk, the total credit risk by economic sectors; exposure to foreign countries; credit exposure to foreign financial institutions; credit risks in housing loans; credit risk of private individuals (excluding housing credit risk); credit risk in relation to the construction and real estate sector, credit risk in respect of leveraged finance – presented in chapter C of the Directors and Management Report regarding "Risks review" and in Note 14 to the condensed financial statements as of March 31, 2018.

MARKET RISKS

Market risk is the risk of impairment of the Bank's equity and profitability stemming from changes in financial markets and in fluctuations of these market risk factors which have an effect on the accounting or economic value of the Bank's assets and liabilities, (balance-sheet and off-balance-sheet) and which includes several sub-risks, as detailed below:

Interest risk – risk applying to profits or to the capital stemming from fluctuations in interest rates:

- Return graph risk - the risk arises when unexpected fluctuations in the return graph adversely affect the economic or accounting value of the capital. These fluctuations stem from changes in the relation between interest rates for different maturity dates;
- Risk of renewed pricing – a risk stemming from timing differences between maturity periods (at fixed interest rates) and the dates of renewed pricing (at variable interest rates) of assets, liabilities and off-balance sheet positions. This risk includes also the spread risk stemming from changes in spreads between riskless interest graphs and interest rates used for the pricing of assets and liabilities;
- Interest base risk – the risk stemming from an imperfect correlation of changes in interest rates serving as a basis for the pricing of different assets and liabilities on the financial markets;
- Optional risk – a change in timing or scope of cash flows produced by a financial instrument following changes in market interest rates and its fluctuations.

Linkage base risk – The risk of impairment to the economic or accounting value of the capital that might occur as a result of changes in exchange rates or in the consumer price index, due to the difference between the value of assets and the value of liabilities including the off-balance-sheet activity;
Shares, commodities and nonfinancial investments risk – the risk of impairment in the value of the Bank and its profitability stemming from changes in prices of shares, commodities and in the value of nonfinancial investments;
Options risk – the risk of a loss stemming from changes in parameters affecting the value of options, including inherent options and derivative financial instruments, while taking into account the fluctuations in prices of underlying assets.
Market risks are presented in this review on a Group basis, including the Bank, Mercantile Discount Bank, IDB New York, ICC, the severance pay fund for the Bank's employees (hereunder in this section: "the Group"). The other group companies do not have material exposure to market risk.
For general details and for qualitative disclosure regarding market risk management, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2017 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. 55-59).

Quantitative disclosure

(1) INTEREST RISK EXPOSURE

General

Interest risk is the risk of impairment of the Bank's capital and earnings as a result of changes in market interest rates. The risk derives from the exposure to future changes in interest rates and their possible effect on the present value of assets and liabilities including certain economic amendments. Management of interest risk exposure is performed for each of the linkage segments separately.

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.

Risk indices used for the management of market risk in the trading portfolio include VaR, stress tests and limitations on specific operations, such as: limitations in scenario terms on interest rate risks, limitations in "Greek" terms on transactions in options, etc.
The risk indices used for market risk management relating to the banking book, are presented in details in the item regarding additional information as to exposure to market risks, above.

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 for end of 2017	Liabilities	Affect of 100 BP for end of the second quarter	Affect of 100 BP for end of 2017
	September 30, 2018	December 31, 2017		September 30, 2018	December 31, 2017
			In NIS millions		
Credit	1,687	1,578	Deposits	693	714
Available-for-sale securities portfolio	1,008	741	Debt notes	200	255
Trading securities portfolio	42	53	Off balance-sheet	182	224
Held-to-maturity securities portfolio	168	123	Current account spreading	1,101	865
Off balance-sheet	-	-	Employees rights	274	261
Other	55	51	Other	-	(2)
Total	2,959	2,546	Total	2,450	2,317

THE CHARACTERISTICS OF INTEREST RATE RISK WITH RESPECT TO THE BANKING BOOK

The banking book contains most of the interest rate risks of the Group and includes the Bank's activity in the granting of credit, in the purchase of securities and in attracting deposits and the issuance of capital notes. This activity is affected by strategic considerations and by a long-term view of the Bank's interest rate risk appetite.

DETAILS OF THE EFFECT OF PARALLEL CHANGES OF 100 BASE POINTS IN THE INTEREST RATE APPLYING TO THE BANKING BOOK

The change in interest rates	Non-linked	CPI linked	US dollar	Other foreign currency	Total
			In NIS millions		
		For the third quarter ended on September 30, 2018			
An increase of 100BP in interest rates	(198)	(137)	(144)	8	(471)
A decrease of 100BP in interest rates	272	136	74	(6)	475
		For the year ended on December 31, 2017			
An increase of 100BP in interest rates	(87)	(32)	(58)	3	(175)
A decrease of 100BP in interest rates	244	23	(141)	(10)	116

For details regarding models and risk indices, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2017 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. (p. 60).

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 2017 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 period ended on:			
	2018 September 30		2017 December 31	
	End of reporting year	Maximum exposure during the year	End of reporting year	Maximum exposure during the year
	in NIS millions			
Actual exposure	(509)	(537)	(228)	(238)
Limitation set by the Board of Directors	749		709	
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 2017 Annual Report, and is open for review, as stated (p. 62).

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

	For the period ended on:			
	September 30, 2018		December 31, 2017	
	End of third quarter of 2018	Maximum exposure in the first nine months of 2018	End of 2017	Maximum exposure during the year 2017
	in NIS millions			
Actual exposure	(566)	(589)	(258)	(502)
Limitation set by the Board of Directors	(832)		(788)	

Indices and additional models

The Value at Risk (VaR). At the beginning of 2018, the Bank and the Group changed the method of calculation of the VaR to the historical simulation method, with a level of significance of 99% and for a time span of one month, instead of the parametric method of the VaR calculation used until the end of 2017. In view of the said change, comparison of the current data to the data of prior periods should be treated with care.

The Board of Directors decided that the VaR of the Group shall not exceed 3.0% of equity. No deviations from this restriction were recorded during the third quarter.

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 2017 Annual Report, and is open for review, as stated (pp. 62-63).

DETAILS OF THE EXPOSURE IN TERMS OF TOTAL VAR

	For the period ended on			
	September 30, 2018		December 31, 2017	
	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%	0.9%	0.9%
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 by the parametric method, 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 third quarter of 2018.

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 third quarter ended on		For	
	September 30, 2018		December 31, 2017	
	End of quarter	Maximum exposure during the quarter	End of reporting year	Maximum exposure during the year
	in NIS millions			
Actual exposure	15.8	18.3	6.8	19.0
Limitation set by the Board of Directors	54		54	

Note:
The VaR is computed at level of significance of 99% and for time span of 10 days.

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 2017 Annual Report, and is open for review, as stated (pp. 63-64).

(2) BASE RISK EXPOSURE

Management of the Bank's base exposures 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 the basis of economic positions in the various linkage segments, which differ from the accounting positions which may be seen in Note 15 to the condensed financial statements. The principal change stems from the 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 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)

		Third Quarter of 2018				The year 2017		
			Range of exposure					
Segment	Limitation	Period end	From	To	Average	End of year	From	To
CPI linked	25%-(25%)	9.8%	6.1%	9.8%	7.5%	6.7%	6.7%	16.4%
Foreign currency	15% - 40%	20.9%	20.9%	21.4%	21.1%	21.6%	21.6%	25.4%

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.
The Bank estimates that exposure to the different linkage bases during the third quarter is similar to the average exposure during 2017.

(3) 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 are concentrated mostly in the dealing room as part of the activity of the Bank as a "market maker" and the dynamic management of the liquid financial assets portfolio. Occasional trading exposures occur at the subsidiaries in immaterial volume. The trading activity is intended at creating income while enabling exposure within the approved risk limits for this activity, and maintaining daily and sub-daily monitoring and control.
The Bank's dealing room conducts both 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.
In this connection, it should be noted that the Group investment policy prescribes that the Group should not invest in entities most of whose business is transactions in derivative financial instruments and short selling, such as hedge funds.
The Board of Directors has determined separate 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 is 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.

Market exposure created as a result of transactions in derivative financial instruments, both as regards linkage base and as regards interest rates, is included within the framework of the various limits imposed by the Board of Directors on exposure to linkage base, interest rates and options.

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 deviations from limitations set by the Board of Directors were recorded in the third quarter of 2018.

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. The Bank permits selected customers to operate on credit in the Ma’of market while monitoring closely, on an ongoing basis, the risk involved in the portfolio as compared with security received.

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

	September 30, 2018	December 31, 2017
	in NIS millions	
Hedging derivatives	3,247	1,749
ALM derivatives	30,017	33,245
Other derivatives	240,331	171,124
SPOT foreign currency swap contracts	1,941	2,492
Total	**275,536**	**208,610**

Accounting aspects. The accounting policy with regard to the measurement of the value of derivative financial instruments and the results thereof is stated in Notes 1 D 6 and 28 to the financial statements as of December 31, 2017 (pp. 136-137 and pp. 223-230).

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 while the results of the transactions in derivative financial instruments defined as "ALM transactions" are computed, according to "fair value" and are not recognized in the statement of profit and loss. 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.

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, interests 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 third quarter of 2018.

(4) The standardized approach to the allocation of Capital to Market Risks

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 risks and shares 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 STANDARDIZED APPROACH

	Capital allocation as of	
	September 30, 2018	December 31, 2017
	In NIS millions	
Interest rate risk*	485	311
Foreign exchange rate risk	54	53
Share risk	1	9
Option risk	10	63
Total for the Banking Group	**549**	**437**
Allocation in risk asset terms	4,325	3,443

* Including the specific risk in the amount of NIS 19 million and NIS 20 million in September 2018 and December 2017, respectively.

The allocation to market risks in risk asset terms comprises 2.65% of the total risk assets as of June 30, 2018, compared with 2.15% as of December 31, 2017.

Shares position in the Banking book (Table 13)

Strategy and processes

Within the framework of the policy for the diversification of investments, the Bank acts in two principal areas:

- Private equity funds, venture capital funds and a fund of hedge funds;
- Direct investments in companies considered as non-financial investments.

For details as to the investment policy and the entities in which the Bank invests, see "Investments in Non-financial companies" under "Activity of the group according to principal segments of operation" in 2017 Annual Report (pp. 353-354).

DETAILS REGARDING INVESTMENTS IN SHARES

	September 30		December 31
	2018	2017	2017
	In NIS millions		
Investments in shares of affiliated companies[(1)]:			
Non marketable shares	119	148	153
Shares in the available-for-sale portfolio:			
Marketable shares	58	38	37
Non marketable shares	878	799	814
Total shares in the available for sale portfolio	936	837	851
Total investment in shares	**1,055**	**985**	**1,004**

Footnote:
(1) For additional information see Note 15 to the Financial Statements as of December 31, 2017.

CAPITAL REQUIREMENT REGARDING SHARE POSITION

	September 30		December 31
	2018	2017	2017
	In NIS millions		
In respect of investments in venture capital funds, in private equity funds and in a fund of hedge funds[(2)]	177	154	160
In respect of investments in other shares[(3)]	57	58	59
Total capital requirement regarding share position[(1)]	**234**	**212**	**219**

Footnotes:
(1) The capital requirement was computed according to 12.7% and does not include capital requirement in respect of investment in shares in the trading portfolio.
(2) These investments are weighted at risk weight of 150%.
(3) These investments are weighted at risk weight of 100% and 250%.

LIQUIDITY AND FINANCE RISKS

A liquidity risk is the risk of the Bank finding it difficult to meet its liabilities due to unforeseen developments, and being forced to raise funds in a way that would cause it a material loss. The Bank has determined the limitation of maximum exposure to liquidity risk.
For a quantitative disclosure regarding liquidity and finance 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 2017 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. 69-72).

Liquidity coverage ratio

For details regarding 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 2017 Annual Report, and is open for review, as stated (p. 72).
Between December 31, 2017 and September 30, 2018, the liquidity coverage ratio decreased from 126.7% to 125.0%.
Within the framework of calculating the liquidity coverage ratio, the Bank assesses the volume of the liquidity buffer, which includes assets that may be speedily realized in the event of crisis in the markets. The shekel liquidity buffer includes balances of current accounts and deposits with the Bank of Israel as well as the holding by the Group of short-term loans (MAKAM) and bonds of the Government of Israel. The foreign currency liquidity buffer includes the holding by the Bank of U.S. Government bonds, of bonds issued by government and semi-government agencies, and balances of current accounts and deposits in foreign currency held with the Bank of Israel and the FED.

DETAILS OF THE COMPOSITION OF THE LIQUIDITY BUFFER

	Assets included	For the period ended September 30, 2018	December 31, 2017
		in NIS millions	
Buffer 1	Cash	14,123	18,775
	Israel Bonds/Short-term loans (MAKAM)	21,508	19,537
	Foreign bonds	4,923	3,986
Buffer 2	Sovereigns bonds	344	242
	Mortgage bonds issued by public corporations	1,214	902
	Corporation Bonds AA	939	871
Buffer 2 b	Corporation Bonds A	113	98
Total		**43,164**	**44,410**

The computation of the Group liquidity coverage ratio is based on independent calculations 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 U.S. regulation. Accordingly, the liquidity surplus of IDB New York (in excess of 100%) is computed in the Group model subject to this limitation. The surplus liquidity of MDB, operating in the same markets and under a supervisory framework identical to that of the parent company, is included in the Group model. The parent company (the Bank) has the largest volume of liquidity surplus in the Group.

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

	For the period ended September 30, 2018	December 31, 2017
	In %	
Discount Group	125.1%	126.7%
The Bank	131.9%	143.7%
IDB New York	114.2%	121.1%
Mercantile Discount Bank	148.1%	139.6%
Discount Group	**125.0%**	**126.7%**

Concentrating the liquidity surplus at the parent company (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 the liquidity coverage ratios in the principal currencies in which it operates. As of September 30, 2018 the coverage ratio in Shekels was 107.8% compared with 124.1% at December 31, 2017. The principal factor for the decrease in the ratio is the growth in credit to the public, which was partly financed by deposits from the public and partly by the decrease in the liquidity buffer, as well as by NIS/foreign currency "swap" transactions made in the ordinary course of operation in the foreign currency market, recorded at the end of the quarter.

The liquidity coverage ratio in foreign currencies amounted to 184.5% on September 30, 2018, compared to 170.1% on December 31, 2017. The main factors leading to the increase in the ratio were the growth in deposits by the public, and by NIS/foreign currency "swap" transactions made in the ordinary course of operation in the foreign currency market, recorded at the end of the quarter.

The liquidity coverage ratio in U.S. dollars, as at September 30, 2018, was 145.1% compared with 164.8% at December 31, 2017. The main factors leading to the decrease in the ratio were: growth in credit to the public, which was partly financed by deposits from the public and partly by the decrease in the liquidity buffer, as well as by NIS/foreign currency "swap" transactions made in the ordinary course of operation in the foreign currency market, recorded at the end of the quarter.

The liquidity coverage ratio in Euros, as at September 30, 2018, was 162.9% compared with 195.8% at December 31, 2017. The main factors leading to the decrease in the ratio were: growth in credit to the public, which was partly financed by deposits from the public and partly by the decrease in the liquidity buffer.

Liquidity coverage ratio (Table 16)

	For the period of three months ended			
	September 30, 2018		December 31, 2017	
	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)		43,164		44,410
Cash outflows				
Retail deposits from individuals and small businesses, of which:	113,752	7,114	113,766	7,019
Stable deposits	36,086	1,772	34,255	1,678
Less stable deposits	41,214	4,248	40,311	4,166
Deposits for periods exceeding 30 days (Section 84 of Proper Conduct of Banking Business Directive No. 221)	36,452	1,094	39,200	1,176
Unsecured wholesale financing, of which:	64,510	40,201	60,841	38,134
Deposits for operational purposes (all counterparties) and deposits with chains of cooperative banking corporations	-	-	5	-
Deposits not for operational purposes (all counterparties)	61,444	40,106	58,031	38,047
Unsecured debts	3,066	95	2,804	84
Secured wholesale financing	-	32	-	22
Additional liquidity requirements, of which:	65,727	13,665	64,284	13,910
Cash outflows in respect of exposure to derivatives and other collateral requirements	6,506	6,207	6,647	6,525
Cash outflows in respect of loss of financing of debt products	-	-	-	-
Credit and liquidity facilities	59,221	7,458	57,637	7,386
Other contractual financing commitments	19,790	708	16,949	639
Other conditional financing commitments	2,441	74	2,597	76
Total cash outflows		**61,795**		**59,800**
Cash inflows				
Secured loans (e.g., Reverse repo transactions)	2,517	2,517	1,578	1,578
Cash inflows from regularly performing exposure	21,909	18,377	21,601	16,792
Other cash inflows	8,060	6,382	7,372	6,372
Total cash inflows	**32,486**	**27,276**	**30,550**	**24,742**

	Total adjusted value	Total adjusted value
Total High Quality Liquidity Asset (HQLA)	**43,164**	**44,410**
Total net cash outflows	**34,519**	**35,058**
Liquidity Coverage Ratio	125.0%	126.7%

Financing risk

Financing risk is the risk of creating a resources structure that is not stable enough in the long-run, to serve the planned applications.
The financing risk management is conducted by an annual financing strategy, one of its cornerstones is the determination of long-term goals, with a lookout over several years, including the determination by each of the subsidiary companies of goals in relation to the long-term sources mix at the parent company (the Bank), as well as from a Group standpoint.

Financing risk – available and unrestricted assets

The Bank pledges assets, included in the liquidity buffer, for several purposes, in particular for use as collateral for transactions made with entities such as the Stock Exchange, the Ministry of Finance and the Bank of Israel. The balance of pledged liquid assets is deducted from the liquidity buffer for the purpose of the daily measurement, with the exception of assets pledged as part of securing the ability to realize liquidity not actually realized. These are deducted only if actually realized. For the purpose of calculating the liquidity buffer, the Bank does not recognize as liquid assets any assets deposited with it as collateral.

	September 30, 2018	December 31, 2017
	in NIS millions	
Total assets as at	59,015	58,962
Liquidity requirement	5,983	5,625
Of which pledged	7,470	5,840
Of which provided as collateral	512	886
Total available assets	**45,050**	**46,611**

OPERATIONAL RISKS

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 and business continuity, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2017 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. 81-85).

OTHER RISKS

Proper Conduct of Banking Business Directive in the matter of ”supervision over overseas extensions”

The Supervisor of Banks published on May 2, 2018 a circular in the matter of "supervision over foreign extensions" within the framework of which, a new Proper Conduct of Banking Business Directive was added in the matter (Directive No. 306). The Directive takes effect on January 1, 2019.

For additional details, see the document "Disclosure according to the third pillar of Basel and additional information regarding risks", which had been published within the framework of the 2017 annual report.

Data and cyber protection risks

Instructions published during the third quarter of 2018

Proper Conduct of Banking Business Directive in the matter of the management of cyber risks involved in the chain of supply. The aim of the directive is to determine the responsibility of banking corporations for maintaining a secured work format regarding significant suppliers, and the duty of the banks to adequately manage cyber risks involved in the activity of suppliers in their own premises, in the premises of the banking corporation and in the interface between them.

The directive will take effect not later than six months after the publication date. However, a start must immediately be made on implementing the measures prescribed under section 10 of the directive, whereby – in every period – mapping of significant suppliers must be conducted, the engagement agreement and fulfillment of contractual obligations must be examined and the risks stemming from such suppliers' services must be assessed.

The directive will apply to engagement agreements with suppliers that were signed or renewed subsequent to the date of the directive taking effect. In regard to agreements signed or renewed prior to the date of the directive taking effect, on the next renewal date or not later than nine months after the publication date, management of the banking corporation is required to consider the continuation of the engagement with the supplier, the need for the existing agreement to be updated and the date for the updating to take place.

Amendment of Proper Conduct of Banking Business Directives Nos. 462 and 367, "E-Banking". The amended Directives were published on October 4, 2018 and enable the online granting of a power of attorney to a portfolio manager and also allows an authorized signatory who is a portfolio manager to act on an online account.

Draft Amendment of Proper Conduct of Banking Business Directive No. 362 – cloud computing. The essence of the proposed Amendment is the removal of the requirement for the approval by the Supervisor of Banks prior to the use of cloud computing in certain cases stated at present in the Directive. In accordance with the proposed Amendment, the policy that would be formed by Management will have to determine the classes of cloud computing technology applications that would require approval by the Board of Directors (hereunder – "material cloud computing") and the classes of applications requiring approval by Management. In accordance with the proposed Amendment, in the case of material cloud computing the Bank would be subject to various duties, as defined in the Directive. The Amendment also adds the duty of an annual report to the Supervisor of Banks, both in respect of existing cloud computing applications and in respect of future applications.

Threats in the cyberspace

In the third quarter of 2018, 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 2017 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. 83-85).

Compliance risks

The Authority for the Protection of Privacy – a new enforcement layout (cross subject supervision)

The Authority for the Protection of Privacy announced in August 2018, the formation of a new enforcement layout (cross subject supervision) that would join the criminal and administrative enforcement arms of the Authority. The new layout is intended to conduct cross sectoral or thematic supervision in order to examine the implementation of the provisions of the Privacy Protection Act and Regulations in the Israeli economy, and would also operate to discover violations of the Act and Regulations as stated, and would act to increase the economy's awareness of the provisions of the Act, and to locate sectoral failures that require intervention and special guidance.

Prohibition of money laundering and terror financing

Discount Group's activities with banks acting in the Palestinian Authority. During 2017, different meetings were held between the Bank and the Ministry of Finance, the Ministry of Justice and the Supervisor of Banks with a view of forming tools for the hedge of the risk involved in the provision of services to the Palestinian banks, through the granting of a letter of commitment not to institute criminal charges and by providing a letter of indemnity in respect of possible monetary claims.

During the second quarter of 2018, the Bank received immunity and indemnity letters signed by the State of Israel. In the letter of immunity, the State of Israel undertook not to file an indictment against the Bank, Mercantile Discount Bank, its officers and employees for certain offenses in the area of the prohibition of money laundering and the financing of terror, in connection with the provision of services to the Palestinian banks during the period from March 28, 2016, until May 31, 2019 ("the period of immunity and indemnity"). In the letter of indemnification, the state of Israel has undertaken to indemnify the Bank and MDB in an amount of up to NIS 1.5 billion for the expenses (liability under a peremptory ruling and court costs), which will be incurred by the banks in connection with the conduct of civil proceedings or criminal proceedings (that had not concluded with a conviction), which will be brought against the banks, their officers or their employees, in connection with the provision of services to Palestinian banks in the period of immunity and indemnity.

The aforesaid immunity and indemnity undertaking from the state is subject to reservations and conditions with which the banks need to comply, and which are specified in the letters of immunity and indemnity.

In continuation, the Bank has approached the Ministry of Finance and the Supervisor of Banks in the matter of its position with respect to the continuation of providing services to the Palestinian banks at the end of the immunity and indemnity period, and the need to find a long-term governmental solution to this matter.

On June 26, 2018, the Supervisor of Banks informed the Bank and MDB that she would not take any enforcement measures in respect of everything relating to the operation of the banks regarding the correspondence services provided by them to which the immunity letter applies.

On October 21, 2018, the Government Secretariat published an announcement stating that the government had decided to establish a government company, wholly-owned by the State of Israel, which will provide correspondence services to the Palestinian banking system via the Palestinian Monetary Authority, using the payments array in Israel, with this replacing to a certain extent the service that some of the commercial banks are currently providing, and in light of their having announced their intention to cease providing such service.

It is noted that the establishment of a government company and the setting up by it of services to the Palestinian banking system would require a period of preparations.

For additional details regarding other 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 2017 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. (and including information technology risks – pp. 81-83; environmental risks – p. 85, legal risks – pp. 85-87, conduct risks – p. 91, exposure to cross-border risks in respect of the activities of foreign resident customers – pp. 91-95; strategic risk – pp. 95-96, reputation risk – p. 96).

November 14, 2018	Dr. Yossi Bachar Chairman of the Board of Directors	Lilach Asher-Topilsky President & Chief Executive Officer	Avi Levi Senior Executive Vice President Chief Risk Officer

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 and 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 thresholds	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 treaty 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 standardized 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.