



Q2

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

[Link to an accessible report](#)



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The meeting of the Board of Directors held on August 26, 2020, within the framework of approval of the Bank's Report for the second quarter of 2020, decided to approve and publish the report in the matter of "Disclosure according to the third pillar of Basel and additional information regarding risks". For further relevant information, the "Risks review" chapter in the Board of Directors and Management Report should be viewed in the 2019 Annual Report and the Report for the second quarter of 2020, including in the document "Disclosure according to the third pillar of Basel and additional information regarding risks", which was published in the framework of the 2019 Annual Report.

● PRINCIPAL REGULATORY RATIOS AND REVIEW OF RISK MANAGEMENT AND RISK ASSETS

Principal regulatory ratios (KM1)

	30.6.2020	31.03.2020	31.12.2019	30.9.2019	30.6.2019
	in NIS millions				
Available capital					
Common equity tier 1	19,391	19,218	19,009	18,788	18,505
Common equity tier 1 before applying the effect of the transition	19,104	19,092	18,895	18,618	18,318
Tier 1 capital	19,747	19,574	19,543	19,322	19,039
Tier 1 capital before applying the effect of the transition	19,104	19,092	18,895	18,618	18,318
Total capital	25,043	25,162	25,564	24,053	23,746
Total capital before applying the effect of the transition	23,919	23,375	23,004	21,439	21,106
Weighted average of risk assets					
Total weighted average of risk assets	192,355	192,299	184,446	180,483	178,452
Ratio of capital adequacy in accordance with instructions of the supervisor of banks (in %)					
Ratio of common equity tier 1	10.08	9.99	10.31	10.41	10.37
Ratio of common equity tier 1 before applying the effect of the transition	9.92	9.93	10.24	10.32	10.32
Tier I capital ratio	10.27	10.18	10.60	10.71	10.67
Tier I capital ratio before applying the effect of the transition	9.92	9.93	10.24	10.32	10.32
Ratio of total capital	13.02	13.09	13.86	13.33	13.31
Ratio of total capital before applying the effect of the transition	12.42	12.16	12.47	11.88	11.89
Ratio of common equity tier 1 required by the Supervisor of Banks	8.19	8.20	9.20	9.20	9.20
Ratio of common equity tier 1 over the required by the Supervisor of Banks	1.89	1.79	1.11	1.21	1.17
Leverage ratio according to Directives of the Supervisor of Banks					
Total exposures (in NIS millions)	306,712	299,425	284,621	272,349	269,827
Leverage ratio (in %)	6.4	6.5	6.9	7.1	7.1
Leverage ratio before applying the effect of the transition	6.2	6.3	6.6	6.8	6.8
Liquidity coverage ratio according to Directives of the Supervisor of Banks					
Total High Quality Liquidity Assets	61,403	53,421	47,875	42,897	42,384
Total cash outflows	44,839	41,472	39,494	34,747	31,800
Liquidity coverage ratio (in %)	136.9	128.8	121.2	123.5	133.3

General background and general reporting principles

General background. The report presented below ("risk report") has been prepared in accordance with the reporting directives of the Supervisor of Banks regarding "disclosure requirements detailed in the third Pillar of Basel and additional information regarding risks". It is noted that the updated instruction has clearly defined the frequency of the quantitative and qualitative disclosure requirements. Whereas, a significant part of the disclosure requirements has been defined as disclosure required on an annual basis only, this report should be read together with the risk report published as part of the Annual Report for 2019, together with the Annual Report for 2019 and the Second Quarter of 2020 Report. For further details, including details of "general principles for reporting", see the Risks Report published as part of the Annual Report for 2019 (p. 6).

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

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

Main developments in the first half of 2020

Breakout of the Corona virus

General. A new virus of the "Corona" type broke out in the first quarter of 2020, spreading quickly to most countries around the globe, causing widespread morbidity and a significant mortality rate. In March 2020, the World Health Organization announced the Corona virus a "pandemic".

Following the outbreak of the virus, governments around the world, including Israel, have adopted preventive measures, which included restrictions on passage between countries, isolation means including lockdown, restrictions on different types of activities and businesses, etc. The said measures have led to a significant impairment of business activity, to a rise in the rates of unemployment, impairment of the economic survivability of businesses and impairment of income and consumption of households (see "Principal economic developments" in the Report for the second quarter of 2020, chapter "C"). Following a significant decline in the scope of morbidity in Israel, in the months of May and June, an additional widespread outbreak of the morbidity occurred in July.

Preparations made by the Bank. With the beginning of the crisis, the Bank's Management directed its full administrative attention to the crisis and its implications. Cross-organization work teams, headed by the Bank's President & CEO, managed the different layers of the Bank's operations under the crisis, while closely following developments and adopting measures for the reduction of the different risks and the maintenance of business continuity. The business divisions increased monitoring and control operations over the condition of the credit portfolio and of the financial assets portfolio of the Bank.

Concurrently with the management of the crisis, cross-organization teams, led by the Planning, Strategy and Finance Division, have begun planning the Bank's preparations for exiting the Corona crisis and the initiation of actions in this field.

Customer support. Since the beginning of the Corona crisis and the restrictions imposed on economic activity, the Bank has prepared to support its customers in confronting the economic uncertainty and traversing the crisis (see in the Report for the second quarter of 2020 "Activity of the Group according to Principal Segments of Operation - Principal Quantitative Data and Main Developments").

Operation and business continuity. The Bank has been defined by the Government of Israel as a provider of essential services to the economy, and as such, continued uninterrupted operation, though in an emergency format, in accordance with guidelines of the Ministry of Health and instructions of the Supervisor of Banks. As a result of the above, a gradual reduction in the scope of operations took place since the middle of March, while focusing on operations defined by the Bank as essential. Operation of the branches has been gradually reduced and a part of the branches were closed to the customer population. Since the beginning of May, the Bank is gradually returning to a full format of operation. The chain work of branches of the Bank and of MDB is operating in full since the middle of May.

Human resources. During the period in which the Bank operated in an emergency format, in accordance with the guidelines, the staff required to be physically present at the Bank premises has been reduced, while a part of the employees continued to work in a distant working format (see "Human Capital" in the Report for the second quarter of 2020). As from the middle of May, the Bank reverted to working at a full format, however, with the steep increase in morbidity as from July, the Bank applied stricter measures for business continuity, reverting to splitting-up the staff, distant working and "capsules".

Reduced capital requirements and discontinuation of dividend distribution. On the background of the spreading of the Corona virus and with the aim of supporting the credit requirements of its customers during this period, The Bank's Board of Directors has decided to modify the Common Equity Tier 1 ratio to 8.9% (instead of the previous 9.9%), as permitted by the provisional Directive issued by the Supervisor of Banks. At the same time, the Bank's Board of Directors decided to discontinue, at this stage, the distribution of dividends by the Bank.

A rise in the level of risk. The Corona crisis and its domestic and global implications, have led to an increase in risk in most of the managed risk areas. The Bank estimates that exposure has particularly increased with respect to credit risk and operating risk, as follows:

- Credit risk – in view of the growth in borrower quality and in credit portfolio quality risks;
- Operating risk – Due to modifications and changes made to work procedures and controls, stemming from regulatory and internal changes, and in view of the rise in fraud and embezzlement risks, stemming from the transition to digital operations, expanded authorizations, reduction in workforce and transition to distance work. These aspects also have an effect on the increase in cyber risk.

In addition, the risk environment has grown on the background of the present assessment regarding the possible implications of the crisis on the domestic and global economy (see in the Report for the second quarter of 2020 "Risk factors Table").

Growth in credit losses. The Bank estimates that the Corona crisis may continue to affect the condition of borrowers and their repayment ability, although, at this stage, significant uncertainty exists regarding the force of the crisis and the length of time in which it is anticipated to apply its impact. On the background of the above stated, the Bank has decided to increase the group allowance in the present quarter, in order to reflect the growth in the estimated credit losses for the period, in respect of borrowers affected by the crisis, which as yet have not been identified (namely, borrowers, the information in respect of whom does not, at this stage, require the creation of a specific allowance for credit losses in their respect).

In the second quarter, the Bank maintained an allowance level near that recorded in the first quarter, following the significant increase in the group allowance made by the Bank in the first quarter.

Expenses for credit losses in the amount of NIS 1,188 million were recognized in the first half of 2020, as compared to expenses of NIS 277 million in the corresponding period last year, an increase of 328.9%. This increase stems mostly from the implications of the crisis, and in particular from the increase in the group allowance for credit losses due to the rise in uncertainty in view of the Corona crisis.

It is noted that the expense in respect of credit losses in the first half of 2020, had been examined, inter alia, in comparison with the calculations made under different scenarios conducted by the Bank from time to time.

(See in the Report for the second quarter of 2020, "Credit loss expenses" in the section "Developments in income and expenses"; "Credit risk"; and "Allowance for credit losses – allowances on a group basis" in the section "Critical accounting policies and critical accounting estimates").

Effect on the value of the securities portfolio. During March, steep declines took place on the capital markets in Israel and throughout the world, which were expressed in a decrease in the value of the Bank's marketable assets, mostly in the available-for-sale bonds portfolio. The capital markets experienced recovery during the second quarter, offsetting the decrease in the value of the securities portfolio that occurred in the first quarter.

Continuing uncertainty conditions. The economic implications of the Corona crisis depend on the time range for the curbing of the pandemic spread, the forcefulness of the steps taken in Israel and around the world for assistance to and the recovery of the economy, and in the pace of economic recovery and of the return to fulltime activity of the different economic sectors. The uncertainty, as stated, increases in view of the concerns regarding additional waves of the pandemic outbreak and the implications of such additional waves. The Bank and its principal subsidiaries continue to follow developments in this respect and are studying the possible implications on sectors and customers, which might be affected by this situation (including the effect of the decline in the markets). The Bank estimates that the Corona crisis may continue and impact the condition of borrowers and their loan repayment ability, even though, at this stage, as stated, significant uncertainty exists with respect to the force of the crisis and the length of time in which it is expected to have an effect. Accordingly, the Bank estimates that concern exists regarding the continuing impairment in the profitability of the Group, however, at this stage, it is not possible to assess its scope.

Drawing of conclusions. With the end of the first wave and the return to the Corona routine, the Bank has conducted a Group conclusion drawing process, which also provided response to the expectations of the Supervisor of Banks in this respect. Within the framework of the conclusion drawing process, the Bank formed a detailed work plan completing the preparations for possible additional waves of morbidity, which contained reference to aspects of business continuity, customer service (by telephone or digital), distant work, technologies, infrastructure, cyber and more. The treatment of most of the mapped subjects has been completed.

Forward looking information. The Bank estimates regarding the possible implications of the crisis, comprise forward looking information, based upon the information existing in the hands of the Bank at date of preparation of this report. Such estimates may not materialize or may materialize in a different manner than that estimated by the Bank.

For additional information, see in the Report for the second quarter of 2020.

The banking corporation's approach to risk management

For details regarding the Risk profile of the Discount Group and for details regarding Risk Factors Table, see in the Chapter C to the Directors and Management Report - "Risks review" in the 2019 Annual Report (pp. 54-55, 89-92).

Drafts and Instructions published during the second quarter of 2020

An update of the FAQ file regarding the implementation of the Money Laundering Prohibition Order and the Proper Conduct of Banking Business Directive No. 411, was published on April 5, 2020.

Guidelines of the Money Laundering and Financing of Terror Prohibition Authority in the matter of implementation of a risk based approach in the field of virtual assets. See below, "Other Risks".

For details regarding Directives published with regards to credit card companies, see "Credit Card Operations" in the Board of Directors and Management Report in the Report for the second quarter of 2020. For details regarding additional drafts and Directives, which may have impact on the various fields of risk management, see the Board of Directors and Management Report in the Report for the second quarter of 2020.

Material leading and developing risks

The Bank considers business model risks, cyber and data protection risks as well as business model risks, privacy protection aspects and conduct risks, as the most significant developing leading risks. For additional details see in the Risks Report, which was published as part of the 2019 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (pp. 16-17).

Macro environment risk. In light of the Corona crisis, the macro environment risk worsened in the first quarter of 2020, in light of the material implications likely to arise from the crisis for the domestic and global economy, as well as for the markets. The crisis has led to increased risk in most of the managed risk sectors and, particularly, with regard to credit risk and operational risk. At this stage, considerable uncertainty exists regarding the severity of the crisis and the length of time over which it is expected to impact the global and domestic economy and the banking sector, including the Discount Group. For additional details see "Outbreak of the Coronavirus" above.

Weighted risk assets review (OV1)

	Weighted risk assets		Minimum Capital requirements
	30.06.2020	31.03.2020	30.06.2020
in NIS millions			
Credit risk – standardised approach	162,969	162,941	19,051
Counterparty credit risk (standardised approach)	2,991	3,330	350
Credit valuation adjustment (CVA)	2,235	2,216	261
Securitization exposure (standardised approach)	218	208	25
Amounts lower than the deductible minimum (subject to the risk weight of 250%)	5,301	4,683	645
Total credit risk	173,714	173,378	20,332
Market risk (standardised approach)	4,127	4,542	482
Operational risk	14,514	14,379	1,697
Total	192,355	192,299	22,511

The rise in market risk in the first half of the year stemmed mostly from the capital allocation in respect of exchange rate risk, existing at the end of the second quarter. The increase in risk assets in respect of CVA risk, stemmed mostly from changes in interest graphs and their impact on the amount of capital required to be allocated in respect of the activity in New York.

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

For details regarding the required adjustments between the balance sheet in the published financial statements and the regulatory capital components, see the Risks Report, which was published as part of the 2019 Annual Report (pp. 103-113).

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

For details regarding the summary of movement and changes in risk-weighted assets and regarding the linkage between the weighted risk assets and the business transactions and the related risks, according to the Bank's regulatory operating segments, see the Risks Report, which was published as part of the 2019 Annual Report (pp. 18-19).

● CAPITAL AND LEVERAGE

Main developments in the first half of 2020

The Group operated during the first half of 2020 under the shadow of the Corona virus crisis, which broke out at the beginning of the first quarter causing, inter alia, a significant economic crisis.

The Corona crisis resulted in a reduction in the net profit of the Group for the first half of the year, which had an adverse effect on the capital ratio.

The first quarter of the year was characterized by steep reductions in the capital markets in Israel and the world over, which were reflected in reduction in the value of the Bank's marketable assets. The effect on the Bank's capital reserve has been moderated due to the offsetting effect of the reduction in liabilities for employee rights. The rising prices in the markets during the second quarter offset the effects observed in the first quarter. In total for the first half of the year, the value of the available-for-sale bond portfolio increased, though this increase was offset almost in full by the increase in the value of liabilities for employee rights so that no material change has taken place in the capital ratio as a result of the said changes during the period.

Composition of the capital

Capital components for calculating ratio of capital

	June 30,		December 31,
	2020	2019	2019
	in NIS millions		
A. Common Equity Tier 1			
Common equity	19,523	18,668	19,193
Difference between common equity and common equity tier 1	(226)	(186)	(178)
Total common equity tier 1 before supervisory adjustments and deductions	19,297	18,482	19,015
Supervisory adjustments and deductions			
Goodwill and other intangible assets	207	160	164
Supervisory adjustments and other deductions	(14)	3	(6)
Total supervisory adjustments and deductions before adjustments in respect to the efficiency plan	193	163	158
Total adjustments in respect to the efficiency plan	118	186	152
Total common equity tier 1 after supervisory adjustments and deductions	19,222	18,505	19,009
B. Additional tier 1 capital			
Additional tier 1 capital before deductions	356	534	534
Total additional tier 1 capital after deductions	356	534	534
C. Tier 2 capital			
Instruments before deductions	3,040	2,612	3,844
Allowance for credit losses before deductions	2,174	2,017	2,092
Minority interests in a subsidiary	85	78	85
Total tier 2 capital before deductions	5,299	4,707	6,021
Deductions	-	-	-
Total tier 2 capital	5,299	4,707	6,021

For details regarding the connection between the balance sheet and the components of the regulatory capital, see the Risks Report, which was published as part of the 2019 Annual Report (pp. 103-113).

Capital adequacy

For details regarding "evaluation of capital adequacy" as well as "capital planning process", see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2019 Annual Report, and is open for review as stated (pp. 21-24).

Leverage ratio

General. The leverage ratio is defined as the capital measurement divided by the exposure measurement. The capital for the purpose of this measurement is the common equity tier 1. The exposure measurement is the sum of the balance-sheet exposures, the exposures to derivatives, the exposures to securities funding transactions and off-balance-sheet items (for details regarding the factors which may affect the leverage ratio, see Note 25 section 2 to the financial statements as of December 31, 2019, p. 200 and Note 9 section 2 to the interim financial statements as of March 31, 2020).

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

	June 30	December 31,	
	2020	2019	2019
	NIS millions		
Total assets according to the consolidated financial statements	282,100	244,313	259,823
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	(1,592)	(750)	(1,253)
Adjustments in respect of SFTs	-	387	-
Adjustments in respect of off-balance sheet items (conversion of off-balance sheet exposure to credit equivalent amounts)	24,251	24,124	24,265
Other adjustments	1,953	1,753	1,786
Exposure for the purpose of the leverage ratio	306,712	269,827	284,621

Disclosure of the leverage ratio (LR2)

	June 30,		December 31,
	2020	2019	2019
	NIS millions		
Balance sheet exposures			
On-balance sheet items (excluding derivatives and SFTs, but including collateral and group allowance)	275,793	236,984	253,235
Asset amounts deducted in determining Tier 1 capital	(207)	(160)	(164)
Total balance sheet exposures (excluding derivatives and SFTs)	275,586	236,824	253,071
Derivative exposures			
Replacement cost associated with all derivatives transactions	2,275	1,628	1,458
Add-on amounts for PFE associated with all derivatives transactions	2,001	1,895	1,845
Gross-up for derivatives collateral provided which were 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	4,276	3,523	3,303
Securities financing transaction exposures			
Gross SFT assets (with no recognition of netting), after adjusting for transactions treated as an accounting sale	2,599	4,969	3,982
Netted amounts of cash payables and cash receivables of gross SFT assets	-	-	-
Credit risk exposure of a counterparty for SFT assets	-	387	-
Agent transaction exposures	-	-	-
Total securities financing transaction exposures	2,599	5,356	3,982
Other off-balance sheet exposures			
Off-balance sheet exposure at gross notional amount	99,914	92,993	95,920
Adjustments for conversion to credit equivalent amounts	(75,663)	(68,869)	(71,655)
Total off-balance sheet items	24,251	24,124	24,265
Capital and total exposures			
Tier 1 capital	⁽¹⁾ 19,578	⁽¹⁾ 19,039	⁽¹⁾ 19,543
Total exposures	306,712	269,827	284,621
Leverage ratio			
Leverage ratio according to Proper Conduct of Banking Business Directive No. 218	6.4	7.1	6.9

Footnote:

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



● CREDIT RISK

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

For general information regarding credit risk quality (CRA), see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2019 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. 27-34) and in the Report for the second quarter of 2020.

Outbreak of the Corona virus

A new virus of the "Corona" type broke out in the first quarter of 2020, spreading quickly to most countries around the globe, causing widespread morbidity and a significant mortality rate. In March 2020, the World Health Organization announced the Corona virus a "pandemic". Following the outbreak of the virus, governments around the world, including Israel, have adopted preventive measures, which included restrictions on passage between countries, isolation means including lockdown, restrictions on different types of activities and businesses, etc. The said measures have led to a significant impairment of business activity, to a rise in the rates of unemployment, impairment of the economic survivability of businesses and impairment of income and consumption of households.

The Bank estimates that the Corona crisis may continue to affect the condition of borrowers and their repayment ability, although, at this stage, significant uncertainty exists regarding the force of the crisis and the length of time in which it is anticipated to apply its impact. On the background of the above stated, the Bank has decided to increase the group allowance in the present quarter, in order to reflect the growth in the estimated credit losses for the period, in respect of borrowers affected by the crisis, which as yet have not been identified. For additional details, see "Main developments in the first half of 2020" above, and for details regarding "Debts whose terms have been changed within the framework of coping with the Corona virus" see the Report for the second quarter of 2020.

Credit risk by economic sectors

Presented below are data regarding credit risk by economic sectors. It should be noted that the increase in the amount of non-problematic credit, which is not classified as performing, is due mainly to giving expression to the higher credit risk in light of assessing the effect of the Corona crisis on economic activity in economy.

TOTAL CREDIT RISK CLASSIFIED BY ECONOMIC SECTORS ON A CONSOLIDATED BASIS

	June 30, 2020										
	Total Credit Risk ⁽¹⁾				Debts ⁽²⁾ and off-balance sheet Credit Risk (excluding Derivatives) ⁽³⁾						
	Total ⁽⁹⁾	Credit Performance Rating ⁽¹⁰⁾	Problematic ⁽⁵⁾	Non-problematic credit risk, not in credit granting rating	Total Debts ⁽²⁾⁽¹¹⁾	Of which: Problematic ⁽⁵⁾	Impaired ⁽¹²⁾	Credit Losses ⁽⁴⁾			
								Expenses	Periodic Credit Loss	Write-Offs Recognized during the Period	Balance of Allowance for Credit Losses
in NIS millions											
Lending Activity in Israel											
Agriculture	1,289	1,229	14	46	1,266	993	14	7	4	2	19
Mining & Quarrying	1,282	966	275	41	1,282	1,036	275	⁽¹²⁾ 274	9	4	15
Industry	14,967	13,857	685	425	14,841	9,181	683	175	54	(10)	312
Construction and Real Estate - Construction	⁽⁶⁾ 32,483	31,543	561	379	⁽⁶⁾ 32,436	16,400	561	192	106	11	340
Construction and Real Estate - Real Estate Activity	12,686	12,071	241	374	12,522	11,030	241	151	69	(4)	163
Electricity and Water	3,150	3,095	35	20	2,817	2,142	35	3	10	3	20
Commerce	22,719	21,293	517	909	22,579	18,933	517	219	153	34	549
Hotels, Hotel Services and Food	2,049	1,802	117	130	2,049	1,727	117	43	80	(2)	72
Transportation and Storage	6,143	5,634	284	225	5,991	4,946	282	130	16	4	140
Communication and Computer Services	2,265	2,093	112	60	2,195	1,706	73	62	(4)	1	96
Financial Services	15,149	14,225	359	565	12,261	8,179	359	302	4	2	94
Other Business Services	7,711	6,966	134	611	7,687	5,394	134	72	132	23	196
Public and Community Services	9,156	8,954	123	79	9,122	8,004	123	12	18	-	48
Total Commercial	131,049	123,728	3,457	3,864	127,048	89,671	3,414	1,642	651	68	2,064
Private Individuals - Housing Loans	44,090	40,756	408	2,926	44,090	39,456	408	2	90	6	290
Private Individuals - Other	65,835	62,443	543	2,849	65,827	30,426	543	197	325	128	905
Total Public	240,974	226,927	4,408	9,639	236,965	159,553	4,365	1,841	1,066	202	3,259
Banks in Israel	2,000	2,000	-	-	776	667	-	-	-	-	-
Israeli Government	29,153	29,153	-	-	3,034	2,649	-	-	-	-	-
Total Lending Activity in Israel	272,127	258,080	4,408	9,639	240,775	162,869	4,365	1,841	1,066	202	3,259

For footnotes see next page.

TOTAL CREDIT RISK CLASSIFIED BY ECONOMIC SECTORS ON A CONSOLIDATED BASIS (CONTINUED)

	June 30, 2020											
	Total Credit Risk ⁽¹⁾				Debts ⁽²⁾ and off-balance sheet Credit Risk (excluding Derivatives) ⁽³⁾							
	Total ⁽⁹⁾	Credit Performance Rating ⁽¹⁰⁾	Problematic ⁽⁵⁾	Non-problematic credit risk, not in credit granting rating	Credit Losses ⁽⁴⁾							
					Total Debts ⁽²⁾⁽¹¹⁾	Of which: Problematic ⁽⁵⁾	Impaired ⁽¹²⁾	Periodic Credit Loss Expenses	Net Accounting Write-Offs Recognized during the Period	Balance of Allowance for Credit Losses		
in NIS millions												
Lending Activity Outside of Israel												
Agriculture	293	124	-	169	293	205	-	-	1	-	3	
Mining & Quarrying	317	317	-	-	-	-	-	-	-	-	-	
Industry	6,680	6,259	339	82	5,924	3,218	339	-	(3)	(2)	60	
Construction and Real Estate - Construction	201	200	-	1	200	133	-	-	(1)	(2)	2	
Construction and Real Estate - Real Estate Activity	11,783	10,188	674	921	11,267	10,359	660	211	65	15	206	
Electricity and Water	610	610	-	-	268	13	-	-	-	-	-	
Commerce	7,169	6,417	247	505	6,931	4,124	247	38	(6)	15	51	
Hotels, Hotel Services and Food	1,562	601	87	874	1,533	1,486	87	39	20	-	31	
Transportation and Storage	952	946	6	-	771	731	-	-	3	-	9	
Communication and Computer Services	295	272	5	18	174	106	5	5	-	-	1	
Financial Services	10,555	10,510	-	45	2,324	1,074	-	-	1	-	9	
Of which: Federal agencies in the U.S. ⁽⁷⁾	6,927	6,927	-	-	-	-	-	-	-	-	-	
Other Business Services	1,145	1,034	109	2	1,001	732	109	-	9	-	16	
Public and Community Services ⁽⁸⁾	4,544	4,026	64	454	3,788	3,514	64	-	14	-	32	
Total Commercial	46,106	41,504	1,531	3,071	34,474	25,695	1,511	293	103	26	420	
Private Individuals - Housing Loans	254	243	6	5	254	250	6	-	1	-	2	
Private Individuals - Other	1,998	1,987	7	4	1,998	1,343	7	-	4	-	13	
Total Public	48,358	43,734	1,544	3,080	36,726	27,288	1,524	293	108	26	435	
Banks Outside of Israel	5,806	5,768	38	-	3,671	3,633	-	-	-	-	1	
Governments Outside of Israel	3,220	3,220	-	-	1,584	1,584	-	-	14	-	14	
Total Lending Activity Outside of Israel	57,384	52,722	1,582	3,080	41,981	32,505	1,524	293	122	26	450	
TOTAL	329,511	310,802	5,990	12,719	282,756	195,374	5,889	2,134	1,188	228	3,709	

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 agreements to resell, 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 195,374 million, NIS 39,015 million, NIS 832 million, NIS 5,857 million, NIS 88,433 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 and assets in respect of Maof Market operations.
- (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) Including acquisition groups in an amount of NIS 204 million.
- (7) Including mortgage backed securities in the amount of NIS 6,301 million, issued by GNMA and in the amount of NIS 626 million, issued by FNMA and FHLMC.
- (8) Including mainly municipal bonds and bonds of states in the U.S.
- (9) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 7,293 million.
- (10) 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 of the Bank.
- (11) The balance of commercial debts includes housing loans in the amount of NIS 203 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.
- (12) An amount of approx. NIS 130 million in respect of a certain borrower was repaid subsequently to balance sheet date.

TOTAL CREDIT RISK CLASSIFIED BY ECONOMIC SECTORS ON A CONSOLIDATED BASIS (CONTINUED)

June 30, 2019											
Total Credit Risk ⁽¹⁾					Debts ⁽²⁾ and off-balance sheet Credit Risk (excluding Derivatives) ⁽³⁾						
Total ⁽⁹⁾	Credit Performance Rating ⁽¹⁰⁾	Problematic ⁽⁵⁾	Non-problematic credit risk, not in credit granting rating	Total	Of which: Debts ⁽²⁾⁽¹¹⁾	Problematic ⁽⁵⁾	Impaired	Expenses	Credit Losses ⁽⁴⁾		
									Loss	Net Accounting Write-Offs during the Period	Balance of Allowance for Credit Losses
in NIS millions											
Lending Activity in Israel											
Agriculture	1,181	1,116	11	54	1,169	881	11	4	-	-	15
Mining & Quarrying	1,343	1,334	9	-	1,335	683	9	-	(1)	-	3
Industry	14,357	13,548	475	334	14,286	8,934	475	191	17	15	242
Construction and Real Estate - Construction	⁽⁶⁾ 30,988	30,327	314	347	⁽⁶⁾ 30,974	14,915	314	138	59	13	239
Construction and Real Estate - Real Estate Activity	11,738	11,231	300	207	11,633	10,317	300	258	(25)	(11)	84
Electricity and Water	3,068	3,038	12	18	2,660	1,685	12	2	-	-	8
Commerce	20,171	19,402	346	423	20,031	16,844	346	219	42	34	341
Hotels, Hotel Services and Food	1,963	1,747	137	79	1,947	1,664	137	111	2	2	18
Transportation and Storage	6,777	6,591	73	113	6,741	5,212	69	48	18	12	72
Communication and Computer Services	2,379	2,248	66	65	2,355	1,918	66	63	(26)	1	110
Financial Services	16,048	15,709	300	39	12,901	10,635	300	299	-	1	97
Other Business Services	7,397	6,736	83	578	7,379	5,261	83	38	24	19	79
Public and Community Services	5,283	5,141	17	125	5,279	4,228	17	9	7	2	19
Total Commercial	122,693	118,168	2,143	2,382	118,690	83,177	2,139	1,380	117	88	1,327
Private Individuals - Housing Loans	38,102	34,891	347	2,864	38,102	34,743	347	-	17	6	196
Private Individuals - Other	64,428	61,761	541	2,126	64,411	30,659	541	171	143	126	665
Total Public	225,223	214,820	3,031	7,372	221,203	148,579	3,027	1,551	277	220	2,188
Banks in Israel	880	878	-	2	312	174	-	-	-	-	-
Israeli Government	25,297	25,297	-	-	2,591	2,191	-	-	-	-	-
Total Lending Activity in Israel	251,400	240,995	3,031	7,374	224,106	150,944	3,027	1,551	277	220	2,188

For footnotes see next page.

TOTAL CREDIT RISK CLASSIFIED BY ECONOMIC SECTORS ON A CONSOLIDATED BASIS (CONTINUED)

	June 30, 2019											
	Total Credit Risk ⁽¹⁾				Debts ⁽²⁾ and off-balance sheet Credit Risk (excluding Derivatives) ⁽³⁾							
	Total ⁽¹⁹⁾	Credit Performance Rating ⁽¹⁰⁾	Problematic ⁽⁵⁾	Non-problematic credit risk, not in credit granting rating	Of which: Total Debts ⁽²⁾⁽¹¹⁾	Problematic ⁽⁵⁾	Impaired	Credit Losses ⁽⁴⁾				
Expenses								Net Accounting Loss during the Period	Write-Offs Recognized	Balance of Allowance for Credit Losses		
in NIS millions												
Lending Activity Outside of Israel												
Agriculture	266	266	-	-	266	169	-	-	-	-	-	2
Mining & Quarrying	182	182	-	-	-	-	-	-	-	-	-	-
Industry	5,786	5,322	270	194	5,556	3,632	270	8	11	(1)	-	52
Construction and Real Estate - Construction	247	247	-	-	152	123	-	-	(5)	-	-	1
Construction and Real Estate - Real Estate Activity	10,231	9,447	289	495	10,056	8,298	289	112	(8)	(1)	-	126
Electricity and Water	337	333	4	-	173	41	4	-	(1)	-	-	1
Commerce	6,269	5,169	606	494	6,216	4,212	606	-	15	(3)	-	69
Hotels, Hotel Services and Food	1,592	1,552	40	-	1,566	1,508	40	40	(4)	-	-	9
Transportation and Storage	917	907	10	-	805	792	2	2	-	-	-	8
Communication and Computer Services	411	406	5	-	132	92	5	5	(2)	-	-	1
Financial Services	10,180	10,079	-	101	2,513	1,579	-	-	(6)	-	-	9
Of which: Federal agencies in the U.S. ⁽⁷⁾	6,619	6,619	-	-	-	-	-	-	-	-	-	-
Other Business Services	964	910	46	8	962	628	46	-	-	-	-	8
Public and Community Services ⁽⁸⁾	4,997	4,521	24	452	3,834	3,472	24	24	4	-	-	18
Total Commercial	42,379	39,341	1,294	1,744	32,231	24,546	1,285	191	4	(5)	(5)	304
Private Individuals - Housing Loans	220	201	6	13	220	218	6	-	(1)	-	-	1
Private Individuals - Other	2,068	2,035	-	33	2,062	1,210	-	-	(3)	(1)	-	7
Total Public	44,667	41,577	1,300	1,790	34,513	25,974	1,291	191	-	(6)	(6)	312
Banks Outside of Israel	4,471	4,398	73	-	2,668	2,625	-	-	-	-	-	1
Governments Outside of Israel	2,789	2,789	-	-	1,304	1,304	-	-	-	-	-	-
Total Lending Activity Outside of Israel	51,927	48,764	1,373	1,790	38,485	29,903	1,291	191	-	(6)	(6)	313
TOTAL	303,327	289,759	4,404	9,164	262,591	180,847	4,318	1,742	277	214	214	2,501

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 agreements to resell, 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 180,847 million, NIS 34,542 million, NIS 683 million, NIS 4,264 million, NIS 82,991 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 and assets in respect of Maof Market operations.
- (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) Including acquisition groups in an amount of NIS 109 million.
- (7) Including mortgage backed securities in the amount of NIS 5,727 million, issued by GNMA and in the amount of NIS 892 million, issued by FNMA and FHLMC.
- (8) Including mainly municipal bonds and bonds of states in the U.S.
- (9) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 6,132 million.
- (10) 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 of the Bank.
- (11) The balance of commercial debts includes housing loans in the amount of NIS 228 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.

TOTAL CREDIT RISK CLASSIFIED BY ECONOMIC SECTORS ON A CONSOLIDATED BASIS (CONTINUED)

	December 31, 2019											
	Total Credit Risk ⁽¹⁾				Debts ⁽²⁾ and off-balance sheet Credit Risk (excluding Derivatives) ⁽³⁾							
	Total ⁽⁹⁾	Credit Performance Rating ⁽¹⁰⁾	Problematic ⁽⁵⁾	Non-problematic credit risk, not in credit granting rating	Total	Of which: Debts ⁽²⁾⁽¹¹⁾	Problematic ⁽⁵⁾	Impaired	Expenses	Credit Losses ⁽⁴⁾		
										Periodic Credit Loss	Net Accounting Write-Offs during the Period	Balance of allowance for credit loss
in NIS millions												
Lending Activity in Israel												
Agriculture	1,262	1,236	13	13	1,251	978	13	6	5	3	17	
Mining & Quarrying	1,353	1,323	30	-	1,342	1,063	30	22	5	-	8	
Industry	13,646	12,961	564	121	13,538	8,437	564	179	24	23	242	
Construction and Real Estate - Construction	⁽⁶⁾ 31,156	30,661	323	172	⁽⁶⁾ 31,134	14,539	323	207	82	8	265	
Construction and Real Estate - Real Estate Activity	12,254	11,907	248	99	12,143	10,709	248	192	(37)	(22)	85	
Electricity and Water	3,411	3,391	16	4	2,961	2,334	16	3	-	1	11	
Commerce	21,600	20,972	482	146	21,376	18,215	482	205	125	69	393	
Hotels, Hotel Services and Food	1,868	1,691	132	45	1,854	1,594	132	108	3	3	16	
Transportation and Storage	6,823	6,585	275	(37)	6,741	5,286	271	59	70	22	119	
Communication and Computer Services	2,322	2,215	64	43	2,264	1,826	64	60	(33)	3	100	
Financial Services	14,020	13,645	359	16	11,114	8,600	359	300	(4)	1	92	
Other Business Services	7,553	7,242	126	185	7,513	5,414	126	46	65	40	100	
Public and Community Services	9,011	8,910	50	51	8,991	7,794	50	9	11	6	29	
Total Commercial	126,279	122,739	2,682	858	122,222	86,789	2,678	1,396	316	157	1,477	
Private Individuals - Housing Loans	40,964	37,809	372	2,783	40,964	36,923	372	-	28	7	205	
Private Individuals - Other	67,335	65,196	565	1,574	67,327	32,559	565	189	312	252	709	
Total Public	234,578	225,744	3,619	5,215	230,513	156,271	3,615	1,585	656	416	2,391	
Banks in Israel	1,657	1,657	-	-	862	743	-	-	-	-	-	
Israeli Government	26,149	26,149	-	-	2,351	2,063	-	-	-	-	-	
Total Lending Activity in Israel	262,384	253,550	3,619	5,215	233,726	159,077	3,615	1,585	656	416	2,391	

For footnotes see next page.

TOTAL CREDIT RISK CLASSIFIED BY ECONOMIC SECTORS ON A CONSOLIDATED BASIS (CONTINUED)

December 31, 2019											
Total Credit Risk ⁽¹⁾					Debts ⁽²⁾ and off-balance sheet Credit Risk (excluding Derivatives) ⁽³⁾						
Total ⁽⁹⁾	Credit Performance Rating ⁽¹⁰⁾	Problematic ⁽⁵⁾	Non-problematic credit risk, not in credit granting rating	Of which: Problematic ⁽⁵⁾	Total Debts ⁽²⁾⁽¹¹⁾	Impaired	Expenses	Credit Losses ⁽⁴⁾			
								Periodic Credit Loss	Net Accounting Write-Offs during the Period	Balance of allowance for credit loss	
in NIS millions											
Lending Activity Outside of Israel											
Agriculture	282	282	-	-	282	191	-	-	-	-	2
Mining & Quarrying	254	254	-	-	-	-	-	-	-	-	-
Industry	6,336	5,884	292	160	5,883	3,519	292	-	20	(1)	61
Construction and Real Estate - Construction	226	225	-	1	151	105	-	-	(9)	(3)	1
Construction and Real Estate - Real Estate Activity	10,719	9,792	457	470	10,543	9,119	457	245	1	(26)	157
Electricity and Water	340	340	-	-	149	112	-	-	10	13	-
Commerce	7,456	6,265	566	625	7,406	4,698	566	9	24	2	71
Hotels, Hotel Services and Food	1,586	1,401	38	147	1,570	1,515	38	38	(3)	-	11
Transportation and Storage	936	928	8	-	725	690	2	1	(1)	-	8
Communication and Computer Services	321	303	5	13	140	98	5	5	(1)	-	1
Financial Services	10,204	10,166	-	38	2,588	1,322	-	-	(9)	(1)	8
Of which: Federal agencies in the U.S. ⁽⁷⁾	6,367	6,367	-	-	-	-	-	-	-	-	-
Other Business Services	810	770	40	-	808	561	40	-	(3)	(3)	7
Public and Community Services ⁽⁸⁾	4,777	4,297	46	434	3,673	3,332	46	23	6	-	19
Total Commercial	44,247	40,907	1,452	1,888	33,918	25,262	1,446	321	35	(19)	346
Private Individuals - Housing Loans	239	219	6	14	239	236	6	-	(1)	-	2
Private Individuals - Other	2,050	2,048	1	1	2,048	1,222	1	-	-	(1)	8
Total Public	46,536	43,174	1,459	1,903	36,205	26,720	1,453	321	34	(20)	356
Banks Outside of Israel	3,531	3,494	37	-	1,989	1,965	-	-	-	-	1
Governments Outside of Israel	3,755	3,755	-	-	1,452	1,452	-	-	-	-	-
Total Lending Activity Outside of Israel	53,822	50,423	1,496	1,903	39,646	30,137	1,453	321	34	(20)	357
TOTAL	316,206	303,973	5,115	7,118	273,372	189,214	5,068	1,906	690	396	2,748

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 agreements to resell, 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 189,214 million, NIS 36,765 million, NIS 531 million, NIS 4,545 million, NIS 85,151 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 and assets in respect of Maof Market operations.
- (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) Including acquisition groups in an amount of NIS 91 million.
- (7) Including mortgage backed securities in the amount of NIS 5,656 million, issued by GNMA and in the amount of NIS 711 million, issued by FNMA and FHLMC.
- (8) Including mainly municipal bonds and bonds of states in the U.S.
- (9) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 6,845 million.
- (10) 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 of the Bank.
- (11) The balance of commercial debts includes housing loans in the amount of NIS 233 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.

Credit Exposure to Foreign Financial Institutions

In view of the Corona crisis, the Bank conducts a follow-up of the scope of exposure, and collects the credit exposure in banks having a high rating. About 90% of the exposure as of June 30, 2020, is to financial institutions rated "A-" rating or higher, compared with about 87% as of December 31, 2019. For additional details, see the Report for the second quarter of 2020, Chapter C.

Drafts and Instructions published during the second quarter of 2020

Relief in the field of credit management in the shadow of the Corona crisis. The Supervisor of Banks published on April 2, 2020, a letter in the matter of the effort made by the banking system to assist the economy in overcoming the crisis by increasing credit and the fair pricing of loans.

On April 7, 2020, the Supervisor of Banks announced reliefs regarding housing loans in accordance with Proper Conduct of Banking Business Directive No. 451. The reliefs are intended to assist employees of banking corporations in time of reduced activity at the branches and the shortage in employees.

On April 27, the Supervisor of Banks issued a circular in the matter of additional reliefs in terms of the Proper Conduct of Banking Business Directive, in order to confront the Corona Virus (Provisional instruction), according to which, Proper Conduct of Banking Business Directive No. 311 is updated, so that financial statements presented by a borrower of a bank would be considered as up-to-date statements if presented within eleven months since the date of the financial statements (instead of nine months, as prior to the relief).

Additional relief regarding the computation of income of a borrower, in respect of a housing loan, as contained in Proper Conduct of Banking Business Directive No. 329 – for the purpose of assessing income, the banking corporation may consider the average amount of income in the three months preceding the date on which the borrower was sent on unpaid leave or was reduced to partial employment due to the Corona crisis, subject to certain conditions stated therein.

In a circular dated August 7, 2020, the Supervisor of Banks published a draft update to Proper Conduct of Banking Business Directives Nos. 203, 313 and 315. The update determines, inter alia, reduced conversion coefficients for the purpose of Directive 203, with respect to certain guarantees granted under closed finance for "clearance and construction", "National Master Plan 38 Class 2" projects or combination transactions. Upon fulfillment of the conditions stated in this section, the conversion coefficients for guarantees would be identical to those determined for guarantees under the Sales Act - 10% in case of an apartment delivered to the purchaser and 30% in the case of an apartment not yet delivered to the purchaser. Furthermore, the definition of the term "Indebtedness" in Section 3 of Directive 313, and in Section 4 of Directive 315 has been updated so that the guarantees updated in Directive 203 above, would be included in the amount of indebtedness after being averaged at an identical rate to the averaging of guarantees granted under the Sales Act.

The credit quality of credit exposures (CR1)

CREDIT QUALITY OF CREDIT EXPOSURE

	Gross balances		Allowances for credit losses or impairment in value	Net balance
	Impaired or in arrears of 90 days or over	Other		
in NIS millions				
June 30, 2020				
Debts, excluding bonds	3,586	189,548	3,409	189,725
Bonds	85	36,595	-	36,680
Off-balance sheet exposure	95	96,975	289	96,781
Total	3,766	323,118	3,698	323,186
June 30, 2019				
Debts, excluding bonds	2,154	174,136	2,290	174,000
Bonds	85	31,747	-	31,832
Off-balance sheet exposure	41	90,637	182	90,496
Total	2,280	296,520	2,472	296,328
December 31, 2019				
Debts, excluding bonds	2,292	183,237	2,503	183,026
Bonds	47	33,281	-	33,328
Off-balance sheet exposure	92	93,610	223	93,479
Total	2,431	310,128	2,726	309,833

For details regarding changes in the balance of impaired debts (CR2) and for the additional disclosure regarding the credit quality of credit exposures (CRB), see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2019 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. 34-41).

Qualitative disclosure requirements regarding credit risk mitigation techniques (CRC)

For details regarding credit risk mitigation and mitigating the risk in respect of credit concentration, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2019 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. 44-45).

Credit risk mitigation techniques – Review (CR3)

METHODS FOR CREDIT RISK MITIGATION - QUANTITATIVE DISCLOSURE

	Unsecured			Secured					
	Total balance sheet balance	Total sheet balance	Of which: secured amount	Of which: by collateral		Of which: by financial guarantees		Of which: by credit derivatives	
				Balance sheet balance	Of secured amount	Balance sheet balance	Of which: secured amount	Balance sheet balance	Of secured amount
in NIS millions									
June 30, 2020									
Debts, excluding bonds	156,819	32,906	14,690	25,755	7,539	7,151	7,151	-	-
Bonds	36,680	-	-	-	-	-	-	-	-
Total	193,499	32,906	14,690	25,755	7,539	7,151	7,151	-	-
Of which: Impaired or in arrears of 90 days or over ⁽¹⁾	1,158	1,449	776	483	36	966	740	-	-
June 30, 2019									
Debts, excluding bonds	144,667	29,333	12,892	23,890	7,449	5,443	5,443	-	-
Bonds	31,832	-	-	-	-	-	-	-	-
Total	176,499	29,333	12,892	23,890	7,449	5,443	5,443	-	-
Of which: Impaired or in arrears of 90 days or over ⁽¹⁾	1,257	98	15	98	15	-	-	-	-
December 31, 2019									
Debts, excluding bonds	155,189	27,837	13,028	21,332	6,523	6,505	6,505	-	-
Bonds	33,328	-	-	-	-	-	-	-	-
Total	188,517	27,837	13,028	21,332	6,523	6,505	6,505	-	-
Of which: Impaired or in arrears of 90 days or over ⁽¹⁾	1,221	107	14	107	14	-	-	-	-

:Note

(1) Not including an accumulating impaired debt in the amount of NIS 520 million (June 30, 2019: NIS 592 million, December 31, 2019: NIS 585 million)

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

EXPOSURES ACCORDING TO CLASSES OF ASSETS AND RISK WEIGHTS

	0%	20%	35%	50%	60%	75%	100%	150%	Total amount of credit exposure (after CCF and CRM)
in NIS millions									
June 30, 2020									
Sovereigns, their central banks and national monetary authority	68,379	119	-	-	-	-	170	-	68,668
Public sector entities (PSE) which are not central governments	1,371	7,368	-	1,476	-	-	32	-	10,247
Banks (including multilateral development banks)	-	10,476	-	101	-	-	76	-	10,653
Corporations	-	8,312	-	1,120	-	-	92,361	76	101,869
Retail exposures for private individuals	-	-	-	-	-	29,193	123	-	29,316
Loans to small businesses	-	-	-	-	-	13,076	38	-	13,114
Secured by residential property	-	-	11,977	12,327	5,832	8,935	512	-	39,583
Secured by commercial real estate	-	-	-	-	-	-	1,948	-	1,948
Loans in arrears	-	-	-	-	-	-	642	1,254	1,896
Other assets	2,897	10	-	-	-	-	4,568	1,095	8,570
Of which: in respect of shares	-	-	-	-	-	-	208	812	1,020
Total	72,647	26,285	11,977	15,024	5,832	51,204	100,470	2,425	285,864
June 30, 2019									
Sovereigns, their central banks and national monetary authority	45,637	227	-	-	-	-	391	-	46,255
Public sector entities (PSE) which are not central governments	1,293	7,132	-	2	-	-	-	-	8,427
Banks (including multilateral development banks)	-	9,092	-	92	-	-	20	-	9,204
Corporations	-	7,326	-	805	-	-	85,347	100	93,578
Retail exposures for private individuals	-	-	-	-	-	30,397	102	-	30,499
Loans to small businesses	-	-	-	-	-	13,713	19	-	13,732
Secured by residential property	-	-	11,441	10,171	3,094	9,688	443	-	34,837
Secured by commercial real estate	-	-	-	-	-	-	1,692	-	1,692
Loans in arrears	-	-	-	-	-	-	578	824	1,402
Other assets	2,789	162	-	-	-	-	3,799	998	7,748
Of which: in respect of shares	-	-	-	-	-	-	201	708	909
Total	49,719	23,939	11,441	11,070	3,094	53,798	92,391	1,922	247,374
December 31, 2019									
Sovereigns, their central banks and national monetary authority	52,420	74	-	-	-	-	451	-	52,945
Public sector entities (PSE) which are not central governments	1,326	8,146	-	1,897	-	-	31	-	11,400
Banks (including multilateral development banks)	-	8,954	-	98	-	-	22	-	9,074
Corporations	-	8,008	-	634	-	-	89,111	129	97,882
Retail exposures for private individuals	-	-	-	-	-	31,319	137	-	31,456
Loans to small businesses	-	-	-	-	-	13,744	11	-	13,755
Secured by residential property	-	-	11,711	11,153	4,380	9,321	468	-	37,033
Secured by commercial real estate	-	-	-	-	-	-	1,627	-	1,627
Loans in arrears	-	-	-	-	-	-	616	775	1,391
Other assets	2,527	157	-	-	-	-	3,601	1,000	7,285
Of which: in respect of shares	-	-	-	-	-	-	264	718	982
Total	56,273	25,339	11,711	13,782	4,380	54,384	96,075	1,904	263,848

● COUNTERPARTY CREDIT RISK

For a qualitative disclosure related to counterparty credit risk (CCRA), see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2019 Annual Report, and is open for review, as stated (pp. 49-51).

Drafts and Instructions published during the second quarter of 2020

In view of the outbreak of the Corona crisis during the first quarter of 2020, the Supervisor of Banks published a number of updates and mitigating instructions regarding different areas, including an update for the implementation of a new directive regarding the allocation of capital in respect of a counterparty credit risk (SACCR), which allows for a temporary discontinuation of the preparations for the implementation of the directive, when in December 2020, the need for a deferral in the time schedule for the final implementation would be examined.

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

	Replacement cost	Potential future exposure	EAD after CRM	RWA
in NIS millions				
June 30, 2020				
Current exposure method	2,311	1,726	3,509	2,253
The comprehensive approach to credit risk mitigation (for securities financing transactions [SFT])	-	-	1,340	508
Total	2,311	1,726	4,849	2,761
June 30, 2019				
Current exposure method	1,612	1,488	2,735	1,690
The comprehensive approach to credit risk mitigation (for securities financing transactions [SFT])	-	-	2,270	1,588
Total	1,612	1,488	5,005	3,278
December 31, 2019				
Current exposure method	1,405	1,443	2,479	1,489
The comprehensive approach to credit risk mitigation (for securities financing transactions [SFT])	-	-	1,571	1,039
Total	1,405	1,443	4,050	2,528

Credit valuation adjustment (CVA) capital charge (CCR2)

	EAD after CRM	RWA
in NIS millions		
June 30, 2020		
Total portfolios for which CVA is calculated according to the standardised approach	3,396	2,235
June 30, 2019		
Total portfolios for which CVA is calculated according to the standardised approach	2,853	1,629
December 31, 2019		
Total portfolios for which CVA is calculated according to the standardised approach	2,601	1,489

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

● MARKET RISK

For the general qualitative disclosure regarding market risks (MRA), see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2019 Annual Report, and is open for review, as stated (pp. 54-65).

Financial crisis in the markets. A financial crisis developed in the markets in the course of March, in view of the spreading of the Corona virus around the world. Following this crisis, material long-term changes occurred in markets around the world and in Israel, which led to the disruption of the correlation between the different risk factors following unprecedented fluctuations in general, and in interest rates in particular, the opening of spreads in securities, and concurrently, liquidity pressure in foreign currency and specific lack of liquidity in the bond market.

In most countries around the world, including Israel, central banks were compelled to intervene in trading on the markets in order to supply liquidity and avoid the development of an additional deep liquidity crisis. During the second quarter, the fluctuations have been toned down in view of the support of the market provided by the central banks.

Quantitative disclosure

(1) Limitations set by the Board of Directors

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2019 Annual Report, and is open for review, as stated (p. 57).

(2) Interest Risk Exposure

General

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

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

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

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

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

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

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

Assets	Affect of 100 BP as of second quarter	Affect of 100 BP as of year end	Liabilities	Affect of 100 BP as of second quarter	Affect of 100 BP as of year end
	30.06.2020	31.12.2019		30.06.2020	31.12.2019
In NIS millions					
Credit	2,330	2,203	Deposits	845	781
Available-for-sale securities portfolio	1,151	1,155	Debt notes	384	412
Trading securities portfolio	30	46	Off balance-sheet	460	205
Held-to-maturity securities portfolio	338	196	Current account spreading	1,939	1,477
Off balance-sheet			Employees rights	314	303
Other	52	59	Other	-	-
Total	3,901	3,659	Total	3,942	3,178

(3) Additional information – models and risk indices

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2019 Annual Report, and is open for review, as stated (pp. 59-63).

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 2019 Annual Report, and is open for review, as stated (p. 60).

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

	For the year ended on:			
	June 30, 2020		December 31, 2019	
	End of reported quarter	Maximum exposure during the quarter	End of reported year	Maximum exposure during the year
in NIS millions				
Actual exposure	41	(81)	(481)	(656)
Limitation set by the Board of Directors	(1,153)		(1,127)	
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 2019 Annual Report, and is open for review, as stated (p. 60).

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

	For the year ended on:			
	June 30, 2020		December 31, 2019	
	End of reported quarter	Maximum exposure during the quarter	End of reported year	Maximum exposure during the year
in NIS millions				
Actual exposure	(822)	(822)	(712)	(712)
Limitation set by the Board of Directors	(1,249)		(1,221)	

Indices and additional models

The Value at Risk (VaR)

The VaR as regards the balance sheet as a whole. The VaR of the total portfolio (the banking and the trading portfolios) is computed on a monthly basis. The calculation is performed in the historical method, at a level of significance of 99% and for a time span of one month.

The estimator of this risk is used as one of the risk estimators for the level of the exposure of the Group in the trading portfolio to market risks.

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2019 Annual Report, and is open for review, as stated (pp. 61-62).

A deviation from the limitation set by the Board of Directors (3% of the capital) was reported in the course of the second quarter. This follows the deviation created as of March 31, 2020, in view of the development of the Corona crisis and its effect on the markets. As a result of the steep increase in the volatility level of most of the parameters of the model. Following the specific rise in levels of volatility, which is expected to affect the results of the model in the coming years, the Board of Directors approved the updating of the model, so that the VaR index would be computed on the basis of the volatility values, net of the observations of March. No deviations from the limits were recorded during the second quarter, net of the month of March.

Furthermore, in July 2020, the Board of Directors approved the change in the VaR limits status for the alert levels. (Alert levels are design to warn decision makers as to a high/ exceptional risk level, though in contrast to limits, deviation there from indeed requires discussion but does not require a change in exposure).

DETAILS OF THE EXPOSURE IN TERMS OF TOTAL VAR

	For the period ended on			
	June 30, 2020	December 31, 2019		
	End of reporting quarter	Maximum exposure during the quarter	End of reporting year	Maximum exposure during the year
	In %			
Actual exposure	4.2%	5.9%	6.9%	6.9%
Limitation set by the Board of Directors	3.0%	3.0%	3.0%	3.0%

It should be noted that no exceptions to the limits were recorded to the VaR on the trading portfolios (see below).

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

The Board of Directors has set specific limits for the VaR on trading activity. No exceptions to the limits were recorded in the second quarter of 2020.

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

	Second quarter 2020		Year end 2019	
	End of quarter	Maximum exposure during the quarter	End of year	Maximum exposure during the year
	in NIS millions			
Actual exposure	14.0	21.9	9.5	23.5
Limitation set by the Board of Directors	54		54	

Note:

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

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2019 Annual Report, and is open for review, as stated (pp. 61-62).

For details regarding loss analysis in extreme scenarios (Stress Tests) and analysis of the anticipated interest income the NII (Net Interest Income) and the EaR (Earning at Risk) model, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2019 Annual Report, and is open for review, as stated (pp. 62-63).

(4) Inflation and exchange rate exposure

The Bank's Exposures to inflation and foreign currency exchange rates is performed from an economic perspective, taking into account the exposure's implications on accounting fluctuations where the accounting and the economic perspectives do not align. The measurement of the risk is performed through calculating the surplus/shortfall of assets to liabilities after including economic revisions.

The actual management of the exposures is conducted on a daily frequency on the basis of economic positions in the various linkage and currencies segments, which differ from the accounting positions which may be seen in Note 32 to the financial statements as of December 31, 2019. The principal change stems from the transfer of linkage segments of pension liabilities in respect of payroll and additional employee rights (from the shekel accounting-measurement segment to the economic-measurement linked segment).

Other changes are: the non-inclusion of losses or gains resulting from changes in the market value of foreign currency or index-linked bonds; the addition of foreign currency fixed assets as financial assets; the transfer of non-performing impaired foreign currency debts to the shekel-linked segment; and the addition of exposure to foreign currency in the severance pay fund for Bank employees (BLD) (only the difference between the severance pay provision and the value of the deposits with the fund is recorded in the accounting positions). The hedge relating to the structural position in foreign currency stemming from the investment in IDB New York has been removed in order to reduce the sensitivity of the capital ratio to changes in exchange rates.

The mix of investments in the various linkage segments is determined on current basis within the framework of the limitations presented below and on the basis of forecasts regarding the relevant market variables.

The exposure is measured separately for each material currency.

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

Segment	Second Quarter 2020					The year 2019		
	Limitation	Year end	Position range			Year end	From	To
			From	To	Average			
CPI linked*	25%-(25%)	1.5%	1.5%	6.4%	4.6%	4.6%	4.4%	11.0%
Foreign currency	15% - 40%	21.0%	21.0%	21.7%	21.4%	20.4%	19.5%	21.6%

Note:

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

The Group's underlying exposures presented in the above Table is based upon a monthly average. Notwithstanding, exposure management in each material subsidiary is conducted in an effective manner and at least once a week.

In the Bank's opinion, the exposure to the various linkage bases at the end of the period characterizes the exposure during the period.

(5) Management of positions in the trading portfolio

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

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

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

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

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

In addition, the Board of Directors has determined the variety of financial instruments available for the transaction of business by the Bank and the mode of the Bank's operation in each of them (whether on behalf of its customers 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 second quarter of 2020.

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

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

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

	June 30, 2020	December 31, 2019
	in NIS millions	
Not for trading derivatives	50,585	55,321
Of which: hedging derivatives	5,388	3,838
Trading derivatives	261,533	248,790
Total	312,118	304,111

Accounting aspects. The accounting policy with regard to the measurement of the value of derivative financial instruments and the results thereof, type of derivative financial transactions and instruments in accordance with the directives of the Supervisor of Banks, is stated in Notes 1 D 6 and 28 to the financial statements as of December 31, 2019 (pp. 127, 214-220).

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

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

Details of financing income from derivative financial instruments are presented in Note 3 to the financial statements as of December 31, 2019 (p. 136) and Note 3 to the condensed financial statements as of March 31, 2020.

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– vanilla options and "exotic" options of certain types as well as on a variety of base assets (foreign currency and interest rates).

The Bank's Board of Directors has set out guidelines regarding the permitted activity in options both as regards overall volume and in terms of the maximum impairment in value under stress tests and in cases of moderate scenarios. The scenarios relate to simultaneous changes in exchange rates, indices and in the volatility of base assets. In addition, the dealing room procedures include limitations on maximum changes in the value of the option portfolio in terms of sensitivity indices ("GREEKS").

No deviations from limitations set by the Board of Directors were recorded in the second quarter of 2020.

Market risk according to the standardized approach (MR1)

The Bank computes the capital allocation required in respect of the exposure to market risks in accordance with the standardized approach, as prescribed by Proper Conduct of Banking Business Directive No. 208. The allotment to market risks includes:

- Interest and shares risks resulting from instruments in the trading portfolio. The interest risk is computed by the "periods to maturity" method;
- Foreign exchange risk of the banking corporation as a whole (eliminating a structural position in respect of IDB New York in accordance with the approval of the Supervisor of Banks).

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

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

	Capital allocation as of	
	June 30, 2020	March 31, 2020
	In NIS millions	
Interest rate risk*	370	498
Foreign exchange rate risk	93	21
Share risk		1
Option risk	18	11
Total for the Banking Group	482	531
Allocation in risk asset terms	4,127	4,542

* Including the specific risk in the amount of NIS 5.5 million and NIS 5 million in June 2020 and March 2020 respectively.

The rise in market risk recorded in the first quarter, stemmed mostly from exposure created to the Bank following the closure of a number of customer positions in the course of the crisis, which had been hedged economically but not in full from the standpoint of the regulatory model for the allocation of market risk as of March 31, 2020, and thus, it was required to allocate risk assets in respect thereof, in accordance with the Basel Rules. It is noted that subsequent to the end of the quarter, the said position was closed and the allocation of risk assets in respect of market risk declined accordingly.

The allocation to market risks in risk asset terms comprises approx. 2.14% of the total risk assets as of June 30, 2020, compared with approx. 1.55% as of December 31, 2019.



Interest rate risk in the banking book (IRRBB)

For details regarding behavioral economic models integrated in risk management and regarding behavioral assumptions applied in the assessment of interest risks, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2019 Annual Report, and is open for review, as stated (pp. 66-67).

For quantitative information regarding interest risk in the banking book and the trading book, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2019 Annual Report, and is open for review, as stated (pp. 67-68).

Shares Risk

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2019 Annual Report, and is open for review, as stated (p. 68-69).

● LIQUIDITY RISK

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

The liquidity coverage ratio – principal disclosures table (LIQ1)

	For the period of three months ended			
	June 30, 2020		December 31, 2019	
	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)		61,403		47,875
Cash outflows				
Retail deposits from individuals and small businesses, of which:	133,553	8,829	121,227	7,670
Stable deposits	43,209	2,125	38,587	1,898
Less stable deposits	54,835	5,639	45,199	4,649
Deposits for periods exceeding 30 days (Section 84 of Proper Conduct of Banking Business Directive No. 221)	35,510	1,066	37,441	1,123
Unsecured wholesale financing, of which:	79,028	48,794	71,491	44,554
Deposits for operational purposes (all counterparties) and deposits with chains of cooperative banking corporations	-	-	-	-
Deposits not for operational purposes (all counterparties)	76,531	48,702	68,517	44,402
Unsecured debts	2,497	91	2,974	151
Secured wholesale financing	-	112	-	29
Additional liquidity requirements, of which:	73,160	17,008	68,743	15,574
Cash outflows in respect of exposure to derivatives and other collateral requirements	10,777	9,657	8,281	7,878
Cash outflows in respect of loss of financing of debt products	-	-	-	-
Credit and liquidity facilities	62,383	7,351	60,462	7,696
Other contractual financing commitments	24,302	765	24,147	775
Other conditional financing commitments	2,431	81	2,370	80
Total cash outflows		75,589		68,682
Cash inflows				
Secured loans (e.g., Reverse repo transactions)	496	496	1,211	1,211
Cash inflows from regularly performing exposure	23,670	20,074	23,414	19,870
Other cash inflows	12,922	10,180	10,639	8,107
Total cash inflows	37,088	30,750	35,264	29,188
		Total adjusted value		Total adjusted value
Total High Quality Liquidity Asset (HQLA)		61,403		47,875
Total net cash outflows		44,839		39,494
Liquidity Coverage Ratio		136.9%		121.2%

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

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2019 Annual Report, and is open for review, as stated (pp. 70-75).

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

For details regarding the Proper Conduct of Banking Business Directive No. 221 in the matter of "liquidity coverage ratio", see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2019 Annual Report, and is open for review, as stated (p. 73).

The liquidity coverage ratio of the Discount Group

As of June 30, 2020, the ratio amounted to 139.6%, compared to 128.7% on December 31, 2019. The average liquidity ratio in the second quarter of 2020 amounted to 136.94% as compared with an average ratio of 121.2% in the fourth quarter of 2019. The improvement in the liquidity ratio stemmed from the growth in liquidity of the Bank as a result of the growth in retail deposits, which increased the total high quality assets of the Group.

The liquidity coverage ratio is based on a high and quality liquidity buffer. The liquidity buffer is based in shekels on the short-term loan (MAKAM), on Israel government bonds and on current account balances and deposits with the Bank of Israel. In foreign currency, the buffer is based on U.S. government bonds (in IDB New York on the MBS portfolio, most of which issued by government and semi government agencies) and on current account balances and deposits with the Bank of Israel and the FED.

DETAILS OF THE COMPOSITION OF THE LIQUIDITY BUFFER

	Assets included	For the period ended	
		June 30, 2020	December 31, 2019
in NIS millions			
Buffer 1	Cash	27,907	16,869
	Israel Bonds/Short-term loans (MAKAM)	25,489	23,281
	Foreign bonds	6,772	5,206
Buffer 2	Sovereigns bonds	529	647
	Mortgage bonds issued by public corporations	(370)	970
	Corporation Bonds AA	914	760
Buffer 2 b	Corporation Bonds A	161	188
Total		61,403	47,921

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

Most of the liquidity surplus of the Group originates in the liquidity surplus of the Bank.

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

	For the period ended	
	June 30, 2020	December 31, 2019
	In %	
Discount Group	136.9%	121.2%
The Bank	148.5%	129.6%
IDB New York	125.3%	111.8%
Mercantile Discount Bank	141.5%	136.5%
Discount Group	136.9%	121.2%

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

The liquidity coverage ratio in the principal currencies

The Bank measures also the liquidity coverage ratios in the principal currencies. As of June 30, 2020 the coverage ratio in shekels was 124.9% compared with 121.3% at December 31, 2019. The rise in the ratio stems from the growth in retail deposits, which served to increase the Group's high quality assets.

The liquidity coverage ratio as of June 30, 2020, respecting the total of foreign currencies, amounted to 256.4% compared to 156.5% on December 31, 2019. The main factor leading to the rise in the ratio was a decline in the net cash outflow stemming from foreign currency/shekel swap transactions.

The liquidity coverage ratio with respect to US dollars as of June 30, 2020 was 230.5% as compared with 182.6% on December 31, 2019. The main factor leading to the rise in the ratio was a decline in the net cash outflow stemming from foreign currency/shekel swap transactions.

In Euros, the liquidity coverage ratio at June 30, 2020, was 138.2% compared with 101.5% at December 31, 2019. The central factor leading to the increase in the ratio, was the reduction on the net outflow from foreign currency/shekel SWAP transactions.

The Discount Group has a surplus of resources in foreign currency over applications, principally in U.S. dollars and in Euro. Accordingly, the Bank, invests its surplus liquidity in securities, bank deposits and in the interbank foreign currency/shekel SWAP transactions market. This activity allows the Bank to regulate the use of this surplus between liquidity considerations and yield considerations.

Financing risk - available and unrestricted assets

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

AVAILABLE AND UNRESTRICTED ASSETS

	30.06.2020	31.12.2019
	in NIS millions	
Total assets	85,199	67,479
Liquidity requirement	7,720	6,764
Of which pledged	8,796	7,405
Of which provided as collateral	642	513
Total available assets	68,042	52,799

• ADDITIONAL RISKS

Operational risk

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

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

Malfunction in the PayBox Application. Following a malfunction in the installation of a server for the PayBox payment application ("PayBox"), partial information regarding users of PayBox has leaked out. The malfunction was rectified within a few hours since discovery.

Based on the enquiry made, the said information included a part of the items of information existing in PayBox, though it did not include items of information the use thereof might cause users direct financial damage.

PayBox is being operated separately from the Bank's computer systems and from the Bank's regular banking services. The server, in which the malfunction had been discovered, is not connected to the operation of the Bank, and the malfunction as a whole has no relation to the accounts held with the Bank and to other information existing in the hands of the Bank with respect to customers holding accounts with the Bank.

The Bank estimates that no material effect on the Bank is expected as a result of the malfunction.

A notice regarding this event has been delivered to users of PayBox.

All as detailed in an immediate report dated January 29, 2020 (reference no. 2020-01-009258), the information provided in it is included herewith by way of reference.

For details regarding lawsuits filed with respect to the said event and motions for their approval as class action suits, see Note 26 B section 13.4 to the financial statements.

The Bank has conducted a conclusion drawing process in order to ensure that a failure of this kind is not repeated, and its implementation is at an advanced stage.

For additional details regarding operational risks, including risk of fraud and embezzlement, business continuity and outsourcing and supplier risk, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2019 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (pp. 76-81).

Other risks

Guidelines of the Money Laundering and Financing of Terror Prohibition Authority in the matter of implementation of a risk based approach in the field of virtual assets. A document was published on June 21, 2020, containing "red flag" alerts assisting the private sector to identify and face money laundering and terror financing risks stemming from activities involving virtual assets. The document relates to factors that should be examined for the purpose of the internal risk evaluation; the risks involved in the operation of providers of virtual asset services; classes of assets and their characteristics, which might interfere with or prevent compliance with duties relating to money laundering prohibition, such as the duty of identification know your customer; the business model typifying virtual asset operations, and more. Also mentioned is a list of circumstances which reduce risk – enabling the private sector to conduct an established risk evaluation, as long as the regulation in this field is not yet completed.

Information technology risk management

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 2019 Annual Report, and is open for review, as stated (pp. 81-95).

Data and cyber protection risks

Threats in the cyberspace

In the second quarter of 2020, 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.

In the second quarter, the Bank confronted the Corona crisis, allowing distant work for many employees, while tightening control and applying monitoring and control tools over their work, with the aim of hedging to the extent possible, the risk of penetration into the network of the Bank and of leakage of information, while maintaining operational continuity.

The means of monitoring operated, took into consideration the increasing external cyber risk and the level of sensitivity of different users, including the level of authorizations of transactions or exposure to customer data.

For additional details regarding data and cyber protection 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 2019 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).

Environmental risks

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2019 Annual Report, and is open for review, as stated (p. 85).

Legal risks

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2019 Annual Report, and is open for review, as stated (p. 86-87).

Compliance risks

Discount Group's activities with banks acting in the Palestinian Authority. In 2018, the Bank received immunity and indemnity letters signed by the State of Israel.

Following extension, the letter of indemnity and letter of immunity shall continue in effect until May 31, 2021. In light of the aforesaid, the Bank for the moment is continuing to provide services to banks operating in the Palestinian Authority.

For additional details regarding Discount Group's activities with banks acting in the Palestinian Authority, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2019 Annual Report, and is open for review, as stated (p. 91).

Conduct risk

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2019 Annual Report, and is open for review, as stated (p. 91).

Exposure to cross-border risks

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2019 Annual Report, and is open for review, as stated (pp. 91-94).



Strategic risk

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2019 Annual Report, and is open for review, as stated (p. 94).

Reputation risk

For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2019 Annual Report, and is open for review, as stated (p. 95).

Remuneration to senior officers

For details regarding remuneration to senior officers, in accordance with the provisions of Regulations 21 and 22 of the Securities Regulations (Periodic and Immediate Reports), 1970, see under "Corporate governance, audit and additional details of the banking corporation's business and the management thereof" in the 2019 Annual Report (pp. 301-304).

● ADDENDUMS

For details regarding linkages between the financial statements and regulatory amounts, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2019 Annual Report, and is open for review, as stated (pp. 102-112). For details regarding Securitization, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2019 Annual Report, and is open for review, as stated (p. 113).

August 26, 2020

Shaul Kobrinsky
Chairman of the
Board of Directors

Uri Levin
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 or off-balance sheet credit, before credit risk mitigation (CRM), before conversion to credit (CCF) and before allowances for credit losses.
Off-balance sheet credit	Includes: unutilized binding facilities, guarantees, documentary credit and derivatives. Binding facilities– any presentation by the corporation to its customer for the granting of credit (balance sheet and/or off-balance sheet) whether in writing or orally or in another manner of conduct where it can be expected that a reasonable customer would rely on such presentation as one which binds the Bank.
Balance sheet credit	Credit (to the public, governments) and bonds.
Collateral	Different assets (marketable and nonmarketable) designated to secure the repayment of customer debts, when the customer defaults on the current repayments agreed between him and the Bank.
Credit Risk Mitigation (CRM)	Items offsetting risk permitted according to the rules of Basel II (mainly: liquid collateral pledged as required). According to these rules, the Bank, when computing the capital requirements, may reduce its credit exposure to the counterparty, thus taking into consideration the effect of the collateral.
Allowances for credit losses	A provision created by the Bank to cover possible losses on its customer indebtedness. The Bank of Israel guidelines require that specific and group provisions should be created. Allowance for credit losses on a specific basis – an allowance required to cover expected credit losses in respect of debts examined on a specific basis and found to be impaired. Allowance for credit losses on a group basis – an allowance in respect of large groups of debts (performing and nonperforming) including allowances for credit losses in respect of housing loans measured by the "extent of the arrears period" method.
Debt under special mention	A debt having potential weaknesses that require special attention by the Management. If such weaknesses remain unattended, the result might be deterioration in the prospects of repayment of the credit, or in the Bank's status as a creditor.
Substandard debt	A debt insufficiently secured by the present value based on the collateral and the repayment ability of the debtor, creating a clear possibility that the Bank will sustain a certain loss if the deficiencies are not rectified. It is required that the weakness endangering the repayment of the debt should be well defined.
Impaired debt	A debt the Bank estimates it will not be able to collect the amounts due to it and in the due dates per the debt agreement.
Liquidity coverage ratio (LCR)	The ratio of total high quality liquid assets to total net cash outflows during the next thirty calendar days.
Business goal	A defined business target in quantitative or qualitative terms, subject to restrictions of the risk appetite.
Recorded amount	The balance of a debt, including recognized accrued interest, unamortized premium or discount, differed fees and 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).
Restriction (internal)	A statement determined by the Bank, setting out a limit to activity within the framework of the risk appetite.

Glossary (continued)

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