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

Link to an accessible report

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

The meeting of the Board of Directors held on May 26, 2020, within the framework of approval of the Bank's Report for the first 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 first 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)

	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
			in NIS millions		
Available capital					
Common equity tier 1	19,218	19,009	18,788	18,505	17,966
Common equity tier 1 before applying the effect of the transition	19,092	18,895	18,618	18,318	17,762
Tier 1 capital	19,574	19,543	19,322	19,039	18,500
Tier 1 capital before applying the effect of the transition	19,092	18,895	18,618	18,318	17,762
Total capital	25,162	25,564	24,053	23,746	23,186
Total capital before applying the effect of the transition	23,375	23,004	21,439	21,106	20,543
Weighted average of risk assets					
Total weighted average of risk assets	**192,299**	**184,446**	**180,483**	**178,452**	**176,646**
Ratio of capital adequacy in accordance with instructions of the supervisor of banks (in %)					
Ratio of common equity tier 1	9.99	10.31	10.41	10.37	10.17
Ratio of common equity tier 1 before applying the effect of the transition	9.93	10.24	10.32	10.32	10.05
Tier I capital ratio	10.18	10.60	10.71	10.67	10.47
Tier I capital ratio before applying the effect of the transition	9.93	10.24	10.32	10.32	10.05
Ratio of total capital	13.09	13.86	13.33	13.31	13.13
Ratio of total capital before applying the effect of the transition	12.16	12.47	11.88	11.89	11.63
Ratio of common equity tier 1 required by the Supervisor of Banks	8.20	9.20	9.20	9.20	9.19
Ratio of common equity tier 1 over the required by the Supervisor of Banks	1.79	1.11	1.21	1.17	0.98
Leverage ratio according to Directives of the Supervisor of Banks					
Total exposures (in NIS millions)	**19,574**	**284,621**	**272,349**	**269,827**	**264,166**
Leverage ratio (in %)	6.5	6.9	7.1	7.1	7.0
Leverage ratio before applying the effect of the transition	6.3	6.6	6.8	6.8	6.7
Liquidity coverage ratio according to Directives of the Supervisor of Banks					
Total High Quality Liquidity Assets	**53,421**	**47,875**	**42,897**	**42,384**	**43,860**
Total cash outflows	**41,472**	**39,494**	**34,747**	**31,800**	**32,886**
Liquidity coverage ratio (in %)	128.8	121.2	123.5	133.3	133.4

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 First 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 quarter 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 first quarter of 2020, p. 14-15).

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 Bank's different segments of operation 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 first quarter of 2020 "Activity of the Group according to Principal Segments of Operation - Principal Quantitative Data and Main Developments", p. 31-36).

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. Following the operation of the Bank in an emergency format, in accordance with the guidelines, the workforce required to appear in person at the premises of the Bank has been reduced, while a part of the employees continuing to operate in a distant work format (see "Human Capital" in the Report for the first quarter of 2020, p. 176).

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 first quarter of 2020 "Risk factors Table", p. 64).

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.

Expenses for credit losses in the amount of NIS 656 million were recognized in the first three months of 2020, as compared to NIS 141 million in the corresponding period last year, an increase of 365.2%. 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.

The said increase is in addition to credit loss expenses in the amount of approx. NIS 50 million, recorded in the financial statements as at December 31, 2019, in view of the implications of the Corona virus outbreak including the decline in prices in the markets.

(See in the Report for the first quarter of 2020, "Credit loss expenses" in the section "Developments in income and expenses", p. 17; "Credit risk"; and "Allowance for credit losses – allowances on a group basis" in the item "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. The value of the available-for-sale bonds portfolio fell by approx. NIS 300 million during the first quarter, although this decrease was fully offset by a decrease in the value of the liability for employee rights.

During April, the capital markets began to recover, 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 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.

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 first quarter of 2020, pp. 12-14.

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 first quarter of 2020

Draft Amendment to Proper Conduct of Banking Business Directive in the matter of retail credit management. See below, credit risks.

Amendment of proper Conduct of Banking Business Directive No. 411 regarding management of anti-money laundering and anti-terror financing risks. See below, compliance risks.

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.

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 first 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 first 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
	March 31, 2020	December 31, 2019	March 31, 2020
	in NIS millions		
Credit risk – standardised approach	162,941	158,407	19,064
Counterparty credit risk (standardised approach)	3,330	2,733	390
Credit valuation adjustment (CVA)	2,216	1,489	259
Securitization exposure (standardised approach)	208	213	24
Amounts lower than the deductible minimum (subject to the risk weight of 250%)	4,683	4,530	548
Total credit risk	173,378	167,372	20,285
Market risk (standardised approach)	4,542	2,858	531
Operational risk	14,379	14,216	1,682
Total	**192,299**	**184,446**	**22,498**

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.

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 quarter of 2020

The Group operated during the first quarter of 2020 under the shadow of the Corona virus crisis, which broke out at the beginning of the 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 quarter of the year, which had an adverse effect on the capital ratio.

During March 2020, 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. The value of the available-for-sale bonds portfolio, fell during the first quarter, although this decrease was fully offset by a decrease in the value of the liability for employee rights, resulting in no material change occurring in the capital ratio with respect to these changes during the first quarter. Nevertheless, as a result of the volatility of the markets, there has been an increase in the risk assets with respect to market risk and with respect to CVA risk, which led to approx. 0.1% reduction in the capital ratio.

Composition of the capital

Capital components for calculating ratio of capital

	March 31,		December 31,
	2020	2019	2019
	in NIS millions		
A. Common Equity Tier 1			
Common equity	19,444	18,145	19,193
Difference between common equity and common equity tier 1	(216)	(219)	(178)
Total common equity tier 1 before supervisory adjustments and deductions	19,228	17,926	19,015
Supervisory adjustments and deductions			
Goodwill and other intangible assets	164	160	164
Supervisory adjustments and other deductions	(19)	3	(6)
Total supervisory adjustments and deductions before adjustments in respect to the efficiency plan	145	163	158
Total adjustments in respect to the efficiency plan	135	203	152
Total common equity tier 1 after supervisory adjustments and deductions	**19,218**	**17,966**	**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	3,334	2,612	3,844
Allowance for credit losses before deductions	2,167	1,997	2,092
Minority interests in a subsidiary	87	77	85
Total tier 2 capital before deductions	5,588	4,686	6,021
Deductions	-	-	-
Total tier 2 capital	**5,588**	**4,686**	**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 item 2 to the financial statements as of December 31, 2019, p. 200 and Note 9 item 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)

	March 31,		December 31,
	2020	2019	2019
	NIS millions		
Total assets according to the consolidated financial statements	276,404	239,440	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	(2,800)	(464)	(1,253)
Adjustments in respect of SFTs	-	100	-
Adjustments in respect of off-balance sheet items (conversion of off-balance sheet exposure to credit equivalent amounts)	23,981	23,353	24,265
Other adjustments	1,840	1,737	1,786
Exposure for the purpose of the leverage ratio	**299,425**	**264,166**	**284,621**

Disclosure of the leverage ratio (LR2)

	March 31,		December 31,
	2020	2019	2019
	NIS millions		
Balance sheet exposures			
On-balance sheet items (excluding derivatives and SFTs, but including collateral and group allowance)	268,353	232,176	253,235
Asset amounts deducted in determining Tier 1 capital	(164)	(160)	(164)
Total balance sheet exposures (excluding derivatives and SFTs)	**268,189**	**232,016**	**253,071**
Derivative exposures			
Replacement cost associated with all derivatives transactions	2,875	1,186	1,458
Add-on amounts for PFE associated with all derivatives transactions	2,093	1,766	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	**4,968**	**2,952**	**3,303**
Securities financing transaction exposures			
Gross SFT assets (with no recognition of netting), after adjusting for transactions treated as an accounting sale	2,288	5,745	3,982
Netted amounts of cash payables and cash receivables of gross SFT assets	-	-	-
Credit risk exposure of a counterparty for SFT assets	-	100	-
Agent transaction exposures	-	-	-
Total securities financing transaction exposures	**2,288**	**5,845**	**3,982**
Other off-balance sheet exposures			
Off-balance sheet exposure at gross notional amount	96,600	90,033	95,920
Adjustments for conversion to credit equivalent amounts	(72,619)	(66,680)	(71,655)
Total off-balance sheet items	**23,981**	**23,353**	**24,265**
Capital and total exposures			
Tier 1 capital	(1)19,574	(1)18,500	(1)19,543
Total exposures	299,425	264,166	284,621
Leverage ratio			
Leverage ratio according to Proper Conduct of Banking Business Directive No. 218	6.5	7.0	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 first quarter of 2020 (pp. 42-43).

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 quarter 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 first quarter of 2020 (p. 41).

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

	March 31, 2020									
	Total Credit Risk[1]			Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
								Credit Losses[4]		
	Total[9]	Credit Performance Rating[10]	Problematic[5]	Total	Of which: Debts[2][11]	Problematic[5]	Impaired	Periodic Credit Loss Expenses	Net Accounting Write-Offs Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions									
Lending Activity in Israel										
Agriculture	1,279	1,213	15	1,246	975	15	7	2	1	18
Mining & Quarrying	1,394	1,001	349	1,360	1,073	316	308	17	1	25
Industry	14,486	13,347	592	14,254	8,700	590	167	46	2	279
Construction and Real Estate - Construction	[6]31,658	30,848	543	[6]31,622	15,158	543	200	47	6	307
Construction and Real Estate - Real Estate Activity	12,284	11,455	213	12,137	10,859	213	137	17	(7)	110
Electricity and Water	3,524	3,471	35	3,228	2,480	35	2	10	2	19
Commerce	22,060	20,443	546	21,913	18,734	546	208	118	19	496
Hotels, Hotel Services and Food	1,946	1,603	136	1,932	1,666	136	108	13	1	29
Transportation and Storage	6,173	5,396	397	6,007	4,907	395	144	31	8	145
Communication and Computer Services	2,444	2,294	72	2,364	1,909	72	61	7	1	106
Financial Services	14,390	13,795	484	10,468	8,027	480	423	3	1	93
Other Business Services	7,688	6,847	135	7,664	5,455	135	85	49	11	138
Public and Community Services	9,053	8,868	83	9,014	7,916	83	12	13	1	42
Total Commercial	**128,379**	**120,581**	**3,600**	**123,209**	**87,859**	**3,559**	**1,862**	**373**	**47**	**1,807**
Private Individuals - Housing Loans	41,846	38,781	386	41,846	38,144	385	5	29	-	234
Private Individuals - Other	67,660	63,753	588	67,654	31,470	589	192	182	63	827
Total Public	**237,885**	**223,115**	**4,574**	**232,709**	**157,473**	**4,533**	**2,059**	**584**	**110**	**2,868**
Banks in Israel	2,130	1,690	-	777	656	-	-	-	-	-
Israeli Government	31,781	31,781	-	3,103	2,853	-	-	-	-	-
Total Lending Activity in Israel	**271,796**	**256,586**	**4,574**	**236,589**	**160,982**	**4,533**	**2,059**	**584**	**110**	**2,868**

For footnotes see next page.

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

	March 31, 2020									
	Total Credit Risk[1]			Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
								Credit Losses[4]		
	Total[9]	Credit Performance Rating[10]	Problematic[5]	Total	Of which: Debts[2][11]	Problematic[5]	Impaired	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	300	129	-	300	205	-	-	-	-	3
Mining & Quarrying	327	327	-	-	-	-	-	-	-	-
Industry	6,761	6,287	319	5,951	3,764	319	-	(3)	(2)	61
Construction and Real Estate - Construction	236	235	-	163	118	-	-	-	-	1
Construction and Real Estate - Real Estate Activity	11,504	10,124	701	10,961	10,041	695	224	44	15	189
Electricity and Water	645	645	-	335	195	-	-	-	-	1
Commerce	7,463	6,342	309	7,239	4,666	309	70	(4)	15	55
Hotels, Hotel Services and Food	1,569	1,310	40	1,539	1,501	40	40	4	-	15
Transportation and Storage	960	953	6	782	756	1	1	3	-	8
Communication and Computer Services	263	234	5	154	115	5	5	-	-	1
Financial Services	11,131	11,095	-	2,629	1,531	-	-	5	-	13
Of which: Federal agencies in the U.S.[7]	7,249	7,249	-	-	-	-	-	-	-	-
Other Business Services	849	733	114	816	626	114	-	8	-	15
Public and Community Services[8]	4,602	4,127	28	3,841	3,615	28	-	11	-	30
Total Commercial	**46,610**	**42,541**	**1,522**	**34,710**	**27,133**	**1,511**	**340**	**68**	**28**	**392**
Private Individuals - Housing Loans	248	233	6	248	247	6	-	1	-	3
Private Individuals - Other	1,982	1,964	13	1,982	1,362	13	-	3	-	12
Total Public	**48,840**	**44,738**	**1,541**	**36,940**	**28,742**	**1,530**	**340**	**72**	**28**	**407**
Banks Outside of Israel	4,217	4,181	36	2,178	2,150	-	-	-	-	1
Governments Outside of Israel	3,113	3,113	-	1,553	1,553	-	-	-	-	-
Total Lending Activity Outside of Israel	**56,170**	**52,032**	**1,577**	**40,671**	**32,445**	**1,530**	**340**	**72**	**28**	**408**
TOTAL	**327,966**	**308,618**	**6,151**	**277,260**	**193,427**	**6,063**	**2,399**	**656**	**138**	**3,276**

Footnotes:

(1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts[2], bonds, securities borrowed or purchased under resale agreements, assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 193,427 million, NIS 41,512 million, NIS 488 million, NIS 7,757 million, NIS 84,782 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 152 million.

(7) Including mortgage backed securities in the amount of NIS 6,549 million, issued by GNMA and in the amount of NIS 700 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 7,206 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.

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

	March 31, 2019									
	Total Credit Risk[1]			Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]				Credit Losses[4]		
	Total[1][9]	Credit Performance Rating[10]	Problematic[5]	Total	Of which: Debts[2][11]	Problematic[5]	Impaired	Periodic Credit Loss Expenses	Net Accounting Write-Offs Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions									
Lending Activity in Israel										
Agriculture	1,220	1,153	11	1,203	937	11	5	-	-	15
Mining & Quarrying	1,479	1,469	9	1,453	692	9	-	-	-	4
Industry	14,541	13,760	421	14,449	9,115	421	122	(3)	6	230
Construction and Real Estate - Construction	[6]29,091	28,364	328	[6]29,071	13,851	328	148	46	7	230
Construction and Real Estate - Real Estate Activity	11,280	10,755	291	11,182	9,990	291	259	(15)	(3)	86
Electricity and Water	3,117	3,084	13	2,713	1,588	13	2	(1)	-	8
Commerce	21,254	20,408	368	21,085	18,106	368	242	29	14	351
Hotels, Hotel Services and Food	1,946	1,713	141	1,929	1,631	141	85	1	-	17
Transportation and Storage	6,659	6,456	70	6,617	5,112	68	46	6	3	69
Communication and Computer Services	2,354	2,224	67	2,329	1,903	67	63	(21)	-	115
Financial Services	15,161	14,698	302	13,162	10,895	302	300	4	-	102
Other Business Services	7,226	6,585	82	7,207	5,162	82	39	11	9	77
Public and Community Services	4,152	3,998	18	4,145	2,975	18	9	2	1	15
Total Commercial	**119,480**	**114,667**	**2,121**	**116,545**	**81,957**	**2,119**	**1,320**	**59**	**37**	**1,319**
Private Individuals - Housing Loans	36,545	33,678	344	36,545	33,583	344	-	7	-	191
Private Individuals - Other	62,827	60,052	559	62,799	29,950	559	177	74	59	663
Total Public	**218,852**	**208,397**	**3,024**	**215,889**	**145,490**	**3,022**	**1,497**	**140**	**96**	**2,173**
Banks in Israel	1,002	554	-	483	238	-	-	-	-	-
Israeli Government	25,796	25,794	-	2,698	2,023	-	-	-	-	-
Total Lending Activity in Israel	**245,650**	**234,745**	**3,024**	**219,070**	**147,751**	**3,022**	**1,497**	**140**	**96**	**2,173**

For footnotes see next page.

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

	March 31, 2019									
	Total Credit Risk(1)			Debts(2) and off-balance sheet Credit Risk (excluding Derivatives)(3)						
								Credit Losses(4)		
	Total(1)(9)	Credit Performance Rating(10)	Problematic(5)	Total	Of which: Debts(2)(11)	Problematic(5)	Impaired	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	296	296	-	296	188	-	-	-	-	2
Mining & Quarrying	227	227	-	-	-	-	-	-	-	-
Industry	5,468	4,951	(12)201	5,228	3,410	(12)201	9	5	(1)	47
Construction and Real Estate - Construction	242	242	-	144	126		-	(5)	-	1
Construction and Real Estate - Real Estate Activity	10,413	9,718	318	10,296	9,208	318	137	(9)	(1)	126
Electricity and Water	163	159	4	23	22	4	-	(2)	-	1
Commerce	6,782	5,995	(12)413	6,734	4,709	(12)413	-	9	-	61
Hotels, Hotel Services and Food	1,473	1,265	52	1,446	1,416	52	-	3	-	17
Transportation and Storage	988	979	10	915	897	2	2	2	-	10
Communication and Computer Services	411	405	5	135	95	5	5	(2)	-	1
Financial Services	9,573	9,487	-	2,359	1,532	-	-	(1)	-	15
Of which: Federal agencies in the U.S.(7)	6,438	6,438	-	-	-	-	-	-	-	-
Other Business Services	1,102	1,052	49	1,099	700	49	-	1	-	9
Public and Community Services(8)	5,307	4,779	29	3,928	3,598	29	24	2	-	16
Total Commercial	**42,445**	**39,555**	**1,081**	**32,603**	**25,901**	**1,074**	**177**	**3**	**(2)**	**306**
Private Individuals - Housing Loans	218	198	7	218	218	7	-	-	-	3
Private Individuals - Other	2,040	2,006	-	2,032	995	-	-	(2)	-	7
Total Public	**44,703**	**41,759**	**1,088**	**34,853**	**27,114**	**1,081**	**177**	**1**	**(2)**	**316**
Banks Outside of Israel	5,069	4,998	71	3,040	2,998	-	-	-	-	1
Governments Outside of Israel	2,541	2,541	-	1,200	1,200	-	-	-	-	-
Total Lending Activity Outside of Israel	**52,313**	**49,298**	**1,159**	**39,093**	**31,312**	**1,081**	**177**	**1**	**(2)**	**317**
TOTAL	**297,963**	**284,043**	**4,183**	**258,163**	**179,063**	**4,103**	**1,674**	**141**	**94**	**2,490**

Footnotes:

(1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts(2), bonds, securities borrowed or purchased under resale agreements, assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 179,063 million, NIS 34,623 million, NIS 823 million, NIS 3,404 million, NIS 80,050 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 102 million.

(7) Including mortgage backed securities in the amount of NIS 5,465 million, issued by GNMA and in the amount of NIS 973 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 5,673 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 226 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]						
								Credit Losses[4]		
	Total[9]	Credit Performance Rating[10]	Problematic[5]	Total	Of which: Debts[2][11]	Problematic[5]	Impaired	Periodic Credit Loss Expenses	Net Accounting Write-Offs Recognized during the Period	Balance of allowance for credit loss
	in NIS millions									
Lending Activity in Israel										
Agriculture	1,262	1,236	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	13,538	8,437	564	179	24	23	242
Construction and Real Estate - Construction	[6]31,156	30,661	323	[6]31,134	14,539	323	207	82	8	265
Construction and Real Estate - Real Estate Activity	12,254	11,907	248	12,143	10,709	248	192	(37)	(22)	85
Electricity and Water	3,411	3,391	16	2,961	2,334	16	3	-	1	11
Commerce	21,600	20,972	482	21,376	18,215	482	205	125	69	393
Hotels, Hotel Services and Food	1,868	1,691	132	1,854	1,594	132	108	3	3	16
Transportation and Storage	6,823	6,585	275	6,741	5,286	271	59	70	22	119
Communication and Computer Services	2,322	2,215	64	2,264	1,826	64	60	(33)	3	100
Financial Services	14,020	13,645	359	11,114	8,600	359	300	(4)	1	92
Other Business Services	7,553	7,242	126	7,513	5,414	126	46	65	40	100
Public and Community Services	9,011	8,910	50	8,991	7,794	50	9	11	6	29
Total Commercial	**126,279**	**122,739**	**2,682**	**122,222**	**86,789**	**2,678**	**1,396**	**316**	**157**	**1,477**
Private Individuals - Housing Loans	40,964	37,809	372	40,964	36,923	372	-	28	7	205
Private Individuals - Other	67,335	65,196	565	67,327	32,559	565	189	312	252	709
Total Public	**234,578**	**225,744**	**3,619**	**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**	**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)						
								Credit Losses(4)		
	Total(9)	Credit Performance Rating(10)	Problematic(5)	Total	Of which: Debts(2)(11)	Problematic(5)	Impaired	Periodic Credit Loss Expenses	Net Accounting Write-Offs Recognized 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	5,883	3,519	292	-	20	(1)	61
Construction and Real Estate - Construction	226	225	-	151	105	-	-	(9)	(3)	1
Construction and Real Estate - Real Estate Activity	10,719	9,792	457	10,543	9,119	457	245	1	(26)	157
Electricity and Water	340	340	-	149	112	-	-	10	13	-
Commerce	7,456	6,265	566	7,406	4,698	566	9	24	2	71
Hotels, Hotel Services and Food	1,586	1,401	38	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	140	98	5	5	(1)	-	1
Financial Services	10,204	10,166	-	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	3,673	3,332	46	23	6	-	19
Total Commercial	**44,247**	**40,907**	**1,452**	**33,918**	**25,262**	**1,446**	**321**	**35**	**(19)**	**346**
Private Individuals - Housing Loans	239	219	6	239	236	6	-	(1)	-	2
Private Individuals - Other	2,050	2,048	1	2,048	1,222	1	-	-	(1)	8
Total Public	**46,536**	**43,174**	**1,459**	**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**	**39,646**	**30,137**	**1,453**	**321**	**34**	**(20)**	**357**
TOTAL	**316,206**	**303,973**	**5,115**	**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 resale agreements, assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 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 92% of the exposure as of March 31, 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 first quarter of 2020 (p. 47).

Drafts and Instructions published during the first quarter of 2020

Draft Amendment to Proper Conduct of Banking Business Directive in the matter of retail credit management. Within the framework of the draft published on February 18, 2020, the Supervisor of Banks detailed the minimum requirements regarding the activity of banking corporations with retail customers. The draft states that the board of directors has to outline the management and marketing strategy applying to retail credit and the framework for risk management, with an emphasis on conduct risk and the marketing of the credit in a responsible manner. The directive refers to matters that should be included in the credit policy document and in the procedures (target populations for credit initiation, classes of retail loans, guidelines relating to the granting of loans and to fair pricing, quantitative indices and minimum requirements regarding the assessment of the repayment ability of the borrower, etc.), and includes instructions regarding the marketing of initiated credit.

The credit quality of credit exposures (CR1)

CREDIT QUALITY OF CREDIT EXPOSURE

	Gross balances			
	Impaired or in arrears of 90 days or over	Other	Allowances for credit losses or impairment in value	Net balance
	in NIS millions			
	March 31, 2020			
Debts, excluding bonds	2,778	188,006	3,016	187,768
Bonds	43	37,767	-	37,810
Off-balance sheet exposure	97	94,046	247	93,896
Total	**2,918**	**319,819**	**3,263**	**319,474**
	March 31, 2019			
Debts, excluding bonds	2,067	171,913	2,273	171,707
Bonds	81	32,403	-	32,484
Off-balance sheet exposure	44	87,220	181	87,083
Total	**2,192**	**291,536**	**2,454**	**291,274**
	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							
				Of which: by collateral		Of which: by financial guarantees		Of which: by credit derivatives	
	Total balance sheet balance	Total balance sheet balance	Of which: secured amount	Balance sheet balance	Of which: secured amount	Balance sheet balance	Of which: secured amount	Balance sheet balance	Of which: secured amount
	in NIS millions								
	March 31, 2020								
Debts, excluding bonds	160,468	27,300	13,296	20,897	6,893	6,403	6,403	-	-
Bonds	37,810	-	-	-	-	-	-	-	-
Total	**198,278**	**27,300**	**13,296**	**20,897**	**6,893**	**6,403**	**6,403**	**-**	**-**
Of which: Impaired or in arrears of 90 days or over	1,407	342	61	342	61	-	-	-	-
	March 31, 2019								
Debts, excluding bonds	142,817	28,890	12,269	23,959	7,338	4,931	4,931	-	-
Bonds	32,484	-	-	-	-	-	-	-	-
Total	**175,301**	**28,890**	**12,269**	**23,959**	**7,338**	**4,931**	**4,931**	**-**	**-**
Of which: Impaired or in arrears of 90 days or over	1,226	47	7	47	7	-	-	-	-
	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	1,221	107	14	107	14	-	-	-	-

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								
	March 31, 2020								
Sovereigns, their central banks and national monetary authority	60,325	115	-	-	-	-	461	-	60,901
Public sector entities (PSE) which are not central governments	1,390	7,857	-	1,533	-	-	32	-	10,812
Banks (including multilateral development banks)	-	8,784	-	128	-	-	17	-	8,929
Corporations	-	8,718	-	672	-	-	92,559	106	102,055
Retail exposures for private individuals	-	-	-	-	-	30,167	144	-	30,311
Loans to small businesses	-	-	-	-	-	13,297	5	-	13,302
Secured by residential property	-	-	11,786	11,745	5,139	9,070	515	-	38,255
Secured by commercial real estate	-	-	-	-	-	-	1,690	-	1,690
Loans in arrears	-	-	-	-	-	-	894	827	1,721
Other assets	3,043	700	-	-	-	-	4,700	1,094	9,537
Of which: in respect of shares	-	-	-	-	-	-	304	768	1,072
Total	**64,758**	**26,174**	**11,786**	**14,078**	**5,139**	**52,534**	**101,017**	**2,027**	**277,513**
	March 31, 2019								
Sovereigns, their central banks and national monetary authority	43,001	146	-	11	-	-	551	-	43,709
Public sector entities (PSE) which are not central governments	1,260	6,277	-	2	-	-	-	-	7,539
Banks (including multilateral development banks)	-	9,803	-	88	-	-	25	-	9,916
Corporations	-	7,322	-	889	-	-	84,993	136	93,340
Retail exposures for private individuals	-	-	-	-	-	29,598	387	-	29,985
Loans to small businesses	-	-	-	-	-	13,785	67	-	13,852
Secured by residential property	-	-	11,191	9,605	2,499	9,777	590	-	33,662
Secured by commercial real estate	-	-	-	-	-	-	1,572	-	1,572
Loans in arrears	-	-	-	-	-	-	511	827	1,338
Other assets	2,821	182	-	-	-	-	3,876	1,047	7,926
Of which: in respect of shares	-	-	-	-	-	-	327	657	984
Total	**47,082**	**23,730**	**11,191**	**10,595**	**2,499**	**53,160**	**92,572**	**2,010**	**242,839**
	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 first 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			
	March 31, 2020			
Current exposure method	2,819	1,748	4,000	2,487
The comprehensive approach to credit risk mitigation (for securities financing transactions [SFT])	-	-	1,116	665
Total	**2,819**	**1,748**	**5,116**	**3,152**
	March 31, 2019			
Current exposure method	1,154	1,472	2,353	1,334
The comprehensive approach to credit risk mitigation (for securities financing transactions [SFT])	-	-	2,313	1,488
Total	**1,154**	**1,472**	**4,666**	**2,822**
	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	
	March 31, 2020	
Total portfolios for which CVA is calculated according to the standardised approach	**3,852**	**2,216**
	March 31, 2019	
Total portfolios for which CVA is calculated according to the standardised approach	**2,524**	**1,406**
	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 crisis. Since the beginning of April, certain stabilization has been recorded in the markets, though the risk inherent in the different parameters still remains at a high level, compared with the end of 2019.

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 March 31, 2020	Affect of 100 BP as of December 31, 2019	Liabilities	Affect of 100 BP as of March 31, 2020	Affect of 100 BP as of December 31, 2019
			In NIS millions		
Credit	2,212	2,203	Deposits	877	781
Available-for-sale securities portfolio	1,046	1,155	Debt notes	378	412
Trading securities portfolio	61	46	Off balance-sheet	304	205
Held-to-maturity securities portfolio	325	196	Current account spreading[(1)]	1,843	1,477
Off balance-sheet	-	-	Employees rights	297	303
Other	52	59	Other	-	-
Total	3,696	3,659	Total	3,699	3,178

Note:
(1) Including the effect of behavioral models. Most of the gap stems from changes in the interest environment in the U.S. and its effect on the sensitivity to the rise in interest rate at IDB New York. In view of the steep decrease in interest occurring in the U.S. in the first quarter, a part of the deposits reached the "interest floor" – the minimum interest paid on certain deposits unrelated to the market interest rate. In view of the fact that the market interest rate at the end of the first quarter was found below the interest floor, the assumption is that in a scenario of rising interest, the interest on these deposits does not rise and does not increase interest expenses in a manner creating an increase in net interest income.

(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 period ended on			
	March 31, 2020		December 31, 2019	
	End of reported quarter	Maximum exposure during the reported quarter	End of reported year	Maximum exposure during the reported year
	in NIS millions			
Actual exposure	4	(402)	(481)	(656)
Limitation set by the Board of Directors	(1,195)	-	(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 period ended on			
	March 31, 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	(600)	(736)	(712)	(712)
Limitation set by the Board of Directors	(1,294)	-	(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).

The Board of Directors set a limitation according to which the VaR of the Group shall not exceed 3.0% of the capital. During the quarter, the VaR limit set by the Board of Directors (3% of capital) was exceeded due to the extreme volatility and correlation breakdown in the markets, in light of their response to the crisis that broke-out following the global spread of the Corona virus. For further details, see above "Financial crisis in the markets".

The Bank is managing the risk during this period in a focused manner.

DETAILS OF THE EXPOSURE IN TERMS OF TOTAL VAR

	For the period ended on			
	March 31, 2020		December 31, 2019	
	End of reporting period	Maximum exposure during the quarter	End of reporting period	Maximum exposure during the year
	In %			
Actual exposure	6.9%	6.9%	1.2%	1.6%
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 first 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

	First quarter		End of year	
	2020		2019	
	End of quarter	Maximum exposure during the quarter	End of year	Maximum exposure during the year
	in NIS millions			
Actual exposure	10.3	26.6	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)

		First Quarter 2020				The year 2019		
			Position range					
Segment	Limitation	Year end	from	to	average	from	to	average
CPI linked*	25%-(25%)	1.8%	(0.7%)	2.7%	1.3%	4.6%	4.4%	11.0%
Foreign currency	15% - 40%	22.5%	21.1%	22.5%	21.7%	20.4%	19.8%	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 of or its own account), a scope restriction has also been set, intended to limit the operational risk involved in transactions made in such instrument. The volume of activity in respect of a certain instrument does not necessarily represent the level of financial risk inherent therein.
The total exposure and compliance with the Board of Directors limits are being measured and controlled on an ongoing basis by control functions of the first line of defense.
No deviations from limitations set by the Board of Directors were recorded in the first 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

	March 31, 2020	December 31, 2019
	in NIS millions	
Not for trading derivatives	71,608	55,321
Of which: hedging derivatives	5,244	3,838
Trading derivatives	261,288	248,790
Total	**332,896**	**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 first 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	
	March 31, 2020	December 31, 2019
	In NIS millions	
Interest rate risk*	498	303
Foreign exchange rate risk	21	42
Share risk	1	1
Option risk	11	17
Total for the Banking Group	**531**	**363**
Allocation in risk asset terms	**4,542**	**2,858**

* Including the specific risk in the amount of NIS 5 million and NIS 7 million in March 2020 and December 2019 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 2.36% of the total risk assets as of March 31, 2020, compared with 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			
	March 31, 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)		53,421		47,875
Cash outflows				
Retail deposits from individuals and small businesses, of which:	123,226	7,910	121,227	7,670
Stable deposits	39,818	1,958	38,587	1,898
Less stable deposits	47,372	4,872	45,199	4,649
Deposits for periods exceeding 30 days (Section 84 of Proper Conduct of Banking Business Directive No. 221)	36,035	1,081	37,441	1,123
Unsecured wholesale financing, of which:	76,010	48,201	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)	73,185	47,964	68,517	44,402
Unsecured debts	2,824	237	2,974	151
Secured wholesale financing	-	123	-	29
Additional liquidity requirements, of which:	71,718	16,813	68,743	15,574
Cash outflows in respect of exposure to derivatives and other collateral requirements	9,664	8,992	8,281	7,878
Cash outflows in respect of loss of financing of debt products	-	-	-	-
Credit and liquidity facilities	62,054	7,820	60,462	7,696
Other contractual financing commitments	24,318	757	24,147	775
Other conditional financing commitments	2,384	79	2,370	80
Total cash outflows		**73,884**		**68,682**
Cash inflows				
Secured loans (e.g., Reverse repo transactions)	1,000	1,000	1,211	1,211
Cash inflows from regularly performing exposure	25,738	22,091	23,414	19,870
Other cash inflows	12,005	9,320	10,639	8,107
Total cash inflows	**38,743**	**32,411**	**35,264**	**29,188**
		Total adjusted value		Total adjusted value
Total High Quality Liquidity Asset (HQLA)		**53,421**		**47,875**
Total net cash outflows		**41,472**		**39,494**
Liquidity Coverage Ratio		128.8%		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 March 31, 2020, the ratio amounted to 132.6%, compared to 128.7% on December 31, 2019. The average liquidity ratio in the first quarter of 2020 amounted to 128.8% 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

		For the period ended	
	Assets included	March 31, 2020	December 31, 2019
		in NIS millions	
Buffer 1	Cash	21,780	16,869
	Israel Bonds/Short-term loans (MAKAM)	23,215	23,281
	Foreign bonds	6,133	5,206
Buffer 2	Sovereigns bonds	560	647
	Mortgage bonds issued by public corporations	776	970
	Corporation Bonds AA	763	760
Buffer 2 b	Corporation Bonds A	194	188
Total		**53,421**	**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 IDBNY in the group model, is limited accordingly. The surplus of Mercantile Discount Bank, operating under a regulatory framework identical to that of the Bank, is included in the Group model.

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

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

	For the period ended	
	March 31, 2020	December 31, 2019
	In %	
Discount Group	128.8%	121.2%
The Bank	148.2%	129.6%
IDB New York	110.1%	111.8%
Mercantile Discount Bank	134.9%	136.5%
Discount Group	**128.8%**	**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 March 31, 2020 the coverage ratio in shekels was 134.1% compared with 121.3% at December 31, 2019. The rise in the ratio stems from the growth in retails deposits, which served to increase the Group's high quality assets.
The liquidity coverage ratio as of March 31, 2020, respecting the total of foreign currencies, amounted to 127.9% compared to 156.5% on December 31, 2019. The main factor leading to the rise in the ratio was a growth in the net cash outflow stemming from foreign currency/shekel swap transactions.
The liquidity coverage ratio with respect to US dollars as of March 31, 2020 was 122.3% as compared with 182.6% on December 31, 2019. The main factor leading to the reduction in the ratio was the growth in the net cash outflow stemming from foreign currency/shekel swap transactions.
In Euros, the liquidity coverage ratio at March 31, 2020, was 90.6% compared with 101.5% at December 31, 2019. The main factor leading to a reduction in the ratio was a decline in high quality assets, stemming from the redemption of government bonds in Euro currency.
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

	March 31, 2020	December 31, 2019
	in NIS millions	
Total assets	77,320	67,479
Liquidity requirement	7,451	6,764
Of which pledged	6,476	7,405
Of which provided as collateral	499	513
Total available assets	**62,894**	**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.
The Bank conducts a process of drawing and implementing conclusions with respect to PayBox in order to ensure that such malfunction does not happen again.
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 item 13.4 to the financial statements.

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

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 first 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.
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 indemnification shall continue in effect until February 28, 2021 (with the State being authorized to extend this date to May 31, 2021).

On May 30, 2019, the Bank received a notice from the Attorney-General regarding the extension of the immunity period, according to the current letter of immunity, through May 31, 2020. On March 2, 2020, the Bank was informed that the Attorney General had extended the validity of the letter of immunity for a further month, through June 30, 2020, so as to allow for discussion on this topic to be held at the Security Cabinet. 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).

May 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 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 items to credit equivalents – according to the standard approach of Basel II, off-balance sheet items are converted to equivalent credit exposure by means of credit conversion coefficients
Credit support annex (CSA)	An Annex to the ISDA which regularizes the matter of collateral regarding derivative transactions against the counterparty. This Annex determines a threshold amount reflecting the maximum exposure which each of the counterparties is ready to accept without collateral.
International Swaps and Derivatives Association (ISDA)	An international agreement which allows the setting off of liabilities and mutual requirements stemming from over the counter derivative transactions, in the case of insolvency of a counterparty.
Foreign Account Tax Compliance Act (FATCA)	In order to reduce tax evasion by American taxpayers, the Foreign Account Tax Compliance Act (FATCA) was enacted in 2010 in the United States. Under the FATCA provisions, financial bodies outside the US are required to identify and report to the U.S. Tax Authorities, any U.S. citizen or any U.S. resident having a financial account with them. This Regulation entered to effect on July 1, 2014. The Regulation is being implemented in many countries, including Israel, within the framework of an inter-state treaty signed by Israel and the United States.