



BANK OF ISRAEL
Banking Supervision Department, Examination Division

April 21, 2020
8.272.5422

To
The Banking Corporations and Credit card
companies
Attn: Chief Accountant

To
Ms. Eileen Toledano – Chairman of the
Coordinating Committee of the Israel Institute
of Chartered Accountants with the Banking
Supervision Department, and Members of the
Committee

Dear Madam/Sir:

Re: Guidance for reports to the public for the first quarter of 2020

In view of the material ramifications of the corona pandemic on the operations of the banking corporations and credit card companies (hereinafter—the banking corporations), the banking corporations must ascertain that their reports to the public for the first quarter of 2020 reflect the main effects of the corona pandemic on the results of their operations, their financial position, the risks to which they are exposed, and the manner in which they are acting to manage those risks and to support the needs of their customers and employees. The following are points of emphasis for preparing reports to the public for the first quarter of 2020:

1. **Allowance for credit losses:** The Banking Supervision Department is aware of the fact that under the existing circumstances, there is a high level of uncertainty that makes it necessary for the banking corporations to exercise significant judgement in the assessment of expected credit losses in their credit portfolios. In this situation, the banking corporation's management shall, prior to the date of publication, consider all relevant available information in order to determine the better estimate of expected credit losses within a range of loss estimates, update accordingly the qualitative adjustments in the calculation of the allowance, and increase the amounts included in the allowance for credit losses. This is in order to make sure that the allowance for credit losses is sufficient to cover the current estimate of expected credit losses on the banking corporation's loan portfolio in a safe, sound and prudent manner, including the effect of the corona pandemic. Over time, as the banking corporation receives additional information regarding the borrowers' ability to repay, the estimations of the effect will be adjusted to consider the new information.
2. **Disclosure in the quarterly report:** In order to reflect in the reports to the public the main effects of the corona pandemic on the banking corporation's financial results, financial

position, and exposures to risks, it must provide disclosure on the following topics, among other¹:

- 2.1 Material developments in the banking corporation's results, its financial position, its capital ratio and leverage ratio, its sources of financing, its state of liquidity and liquidity coverage ratio, including a discussion of significant developments that occurred at the end of the quarter, and the extent to which these developments materially affect expected trends in the near future and in the longer term.
- 2.2 Material developments in the banking corporation's net interest income, including a discussion on the influence of the decrease in interest rates and significant changes in interest bearing assets and liabilities on net interest income.
- 2.3 Significant changes at the end of the quarter in commercial loans, residential loans and other consumer loans, in off balance sheet instruments, and in deposits from the public, including the extent to which these developments reflect expected trends in the near future.
- 2.4 Material developments in the banking corporation's overall credit risk by industry², including a discussion of material industries and segments that in the banking corporation's assessment, may be more exposed to credit risk in the near future.
- 2.5 Material developments in the allowance for credit losses and other credit quality indicators, with reference to commercial loans, residential loans and other consumer loans, to main factors that were considered in determining the allowance and the manner in which the banking corporation is taking the existing uncertainty into account in determining the estimate of its allowance for credit losses.
- 2.6 Disclosure regarding debt modifications as part of dealing with the corona pandemic, in accordance with our supervisory letter of April 21, 2020 on "Corona pandemic - regulatory guidance regarding the treatment of debts and reporting to the public".
- 2.7 Material developments in credit exposure to foreign financial institutions, with a discussion on foreign institutions where there has been a material increase in their market spreads or a material decline in their credit rating.
- 2.8 Material developments in the banking corporation's exposure to liquidity risks and to market risks, including exposures to foreign exchange risks and to interest rate risks, with a discussion of significant changes in trading and in asset and liability management activities, and of material effects of changes in market indices on the state of the banking corporation's liquidity, profits, and capital ratio.
- 2.9 Material developments in commission income related to capital market activity, credit card activity and other commission income.

¹ Additional examples of topics regarding which the banking corporation may consider discussing are included in the guidelines by the US Securities and Exchange Commission staff on this matter: CF Disclosure Guidance: Topic No. 9, Coronavirus (COVID-19), 25.3.2020.

² The information shall be prepared in accordance with the disclosure format included in the annual risk report. See Appendix 5 of the Reporting to the Public Directives regarding Basel's Pillar 3 disclosure requirements of, and additional information on risks, with necessary changes. A banking corporation is permitted to present comparative figures relating to the end of 2019 only.

- 2.10 The main effects of remote working arrangements on the banking corporation's activity and on the manner of operations with customers, including the effects on financial reporting systems and on disclosure controls and on internal controls over financial reporting.
- 2.11 Expenses required in order to change the nature of activity and conduct business continuity actions, with discussion of material changes in employee benefits.
- 2.12 The main actions taken by the banking corporation in order to deal with these developments and to support the needs of its customers and employees.
3. **The date of publication of the report to the public:** In view of the operational difficulties that may be encountered by the banking corporations in preparing the reports, and consistent with the Israel Securities Authority staff guidelines of April 1, 2020, the banking corporations are permitted to publish their reports to the public for the first quarter of 2020 up to June 30, 2020. A banking corporation planning to make use of this relief shall update Mr. Ido Galil, Head of Financial Reporting.

Sincerely,

Or Sofer,
Assistant Supervisor of Banks

CC: Dr. Hedva Ber, Supervisor of Banks