

## Industry Indebtedness Limitation

### Introduction

1. Credit portfolio concentration, including credit concentration by industry, is one of the sources of credit risk at banking corporations. Due to the recognition of the negative impact that per-industry concentration has on the quality of the credit portfolio at banking corporations, limitations on total indebtedness to a specific industry were set.

### Application

2. (a) This directive shall apply to a banking corporation, except for a joint service company.  
(b) This directive shall also apply to a corporation as detailed below as if it were a banking corporation—a corporation of the type noted in Sections 11(a)(3a) through (3b) and 11(b) of the Banking (Licensing) Law, 5741-1981 (hereinafter, “**the Licensing Law**”)—that was incorporated in Israel and that is controlled by a banking corporation, unless all of the following apply to the controlling banking corporation:
  - (1) Includes it in its financial statements on a consolidated basis
  - (2) Granted it indemnity for all its undertakings
  - (3) Maintains an effective control system for monitoring the fulfillment of the limitations on a consolidated basis.  
(c) This directive applies to indebtedness at the banking corporation’s offices in Israel alone (on an unconsolidated basis).
3. Canceled.

### Definitions

4. “**Indebtedness**”—(a) Total indebtedness as per its understanding in Proper Conduct of Banking Business Directive no. 313, except for investments in equities, except for total undertakings (including contingent ones) of the banking corporation to extend credit or to issue guarantees and excluding guarantees given by the borrower

to a third party to guarantee an indebtedness that the third party received from the banking corporation;

(b) Notwithstanding the above, the indebtedness of an industry against which the banking corporation bought credit protection that is suitable for the purposes of reducing credit risk as noted in Directive 203, shall be classified in accordance with the activity industry of the protection provider.

**“Industry”**—The definition of the industries is detailed in the appendix to this directive, and is based on the list in Directive no. 831 in the “Reporting to Banking Supervision Directives” file.

## **5. Limitations**

(a) The total indebtedness of a specific industry to a banking corporation shall not exceed 20 percent of the public’s total indebtedness to the banking corporation.

(b) Notwithstanding the provisions of Section (a), the indebtedness of the construction and real estate industry is to be limited to the following rates:

1. Total indebtedness of “Construction, real estate, and manufacturing and trade of nonmetal construction materials” (Industry 11 in the list of industries appearing in the Appendix to this directive), excluding indebtedness for financing projects with public sector-private sector collaboration included in Industry 42 “Civil Engineering Works” in the Standard Industry Classification (2011), shall not exceed 20 percent of the public’s total indebtedness to the banking corporation;

2. Total indebtedness of the “Construction, real estate, and manufacturing and trade of nonmetal construction materials” (Industry 11 in the list of industries appearing in the Appendix to this directive), shall not exceed 24 percent of the public’s total indebtedness to the banking corporation;

(c) The percentages noted above shall be calculated on an unconsolidated basis.

## **6. Deductions**

A banking corporation may deduct the following from the indebtedness:

(a) Amounts that may be deducted as noted in Section 5 of Proper Conduct of Banking Business Directive no. 313, provided that said deduction against sale

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guarantees shall be made before weighting said sale guarantees as noted in the definition of indebtedness. The deduction shall be made only from the numerator.

- (b) The present value of the amount of rent in respect of income-yielding real estate that is rented to a bank or to the Government of Israel, provided that:
- (1) The amount of said rent is pledged to the banking corporation and may be utilized if the customer does not meet the terms of the indebtedness;
  - (2) There is an irrevocable undertaking by the renter to pay the rent directly to the banking corporation;
  - (3) The rental cannot be terminated prior to the end of the rental period.
- (c) The indebtedness of a company that does not deal in construction in Israel, which is designated for purchasing real estate abroad (in this matter, "Israel" includes Judea, Samaria, and the Gaza Strip).

### **Deviation**

7. A banking corporation in which a deviation from the limitation detailed in this Directive has developed shall notify the Banking Supervision Department of it without delay, together with a plan to end the deviation as soon as possible.

### **Reporting**

8. A banking corporation shall report to the Banking Supervision Department once per quarter regarding its compliance with the limitations detailed in this Directive, in the reporting format in Directive #809 of the Reporting to Banking Supervision Directives.

### **Temporary directive**

- 8a. Notwithstanding the provisions of Section 5(a) above, until the end of 24 months from December 31, 2027, the indebtedness of the "Financial and insurance services" industry (industry 18 on the list of economic industries in the Appendix to this directive) shall be limited to the following percentages:

1. Total indebtedness of “the “Financial and insurance services” shall not exceed 25 percent of the public’s total indebtedness to the banking corporation, provided that the share of indebtedness does not exceed the higher of the percentage that applied on December 31, 2027 or the percentage established in Section 5(a) above.
  2. Each one of the following indebtednesses separately shall not exceed the share established in Section 5(a):
    - (a) Total indebtedness of companies in “the “Financial and insurance services” industry for which their main activity is in Israel;
    - (b) Total indebtedness of companies in “the “Financial and insurance services” industry for which their main activity is outside of Israel;
9. Notwithstanding the provisions of Section 5(b) above, until the end of 24 months from December 31, 2027, the indebtedness of the “Construction, real estate, and manufacturing and trade of nonmetal construction materials” industry (industry 11 on the list of economic industries in the appendix to this directive) shall be limited to the following percentages, provided that the share of indebtedness does not exceed the higher of the percentage that applied on December 31, 2027 or the percentage established in Section 5(b) above:
1. Total indebtedness of the “Construction, real estate, and manufacturing and trade of nonmetal construction materials” industry (Industry 11 in the list of industries appearing in the appendix to this directive), excluding indebtedness for financing projects with public sector-private sector collaboration included in Industry 42 “Civil Engineering Works” in the Standard Industry Classification (2011), shall not exceed 22 percent of the public’s total indebtedness to the banking corporation;
  2. Total indebtedness of the “construction, real estate, and manufacturing and trade of nonmetal construction materials” industry (Industry 11 in the list of industries appearing in the appendix to this directive), shall not exceed 26 percent of the public’s total indebtedness to the banking corporation.

**Appendix**

**List of Industries**

1. Agriculture
2. Mining and quarrying
3. Machinery, electrical and electronic equipment
4. Metal and metal products
5. Rubber and plastics
6. Chemicals
7. Petroleum products
8. Pharmaceuticals
9. Food, beverages, and tobacco
10. Diamonds production and trade
11. Construction, real estate, and manufacturing and trade of nonmetal construction materials
12. Electricity—electricity, gas, steam, and air conditioning supply
13. Water—water supply, sewerage, waste management, and remediation activities
14. Commerce (excluding trade in diamonds and construction materials)
15. Hotels, hospitality and catering services
16. Transport and storage, postal and courier activities
17. Information and communication services
18. Financial and insurance services
19. Other business services
20. Public and communal services

**Updates**

<b>Circular 06 number</b>	<b>Version</b>	<b>Details</b>	<b>Date</b>
1244		Original circular	9/3/86
1392		Update	22/1/89
1424		Update	6/7/89
---	1	Insertion into Proper Conduct of Banking Business Directives	8/91
1532	2	Update	11/11/91
1583	3	Update	21/7/92
1610	4	Update	11/1/92
1761	4	Update (Appendix C)	27/3/95
1778	5	Update	22/10/95
1782	6	Update (Page 3)	7/11/95
---	6	New version of Proper Conduct of Banking Business Directives file	12/95
1838	7	Update	20/11/96
1880	8	Update	3/8/97
1902		Freeze start	30/12/97
1919	9	Update	26/4/98
1972	10	Update	28/4/99
2068	11	Update	6/2/02
2094	12	Update (Appendix C)	15/12/02
2151	13	Update	13/12/04
2246	14	Update (Cancel Appendix C)	16/03/09
2249	15	Update	17/09/09
2259	16	Update	18/2/10
2277	17	Update	19/10/10
2357	18	Update	27/12/12

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2385	19	Update	30/5/13
2482	20	Update	22/10/15
2515	21	Update	29/9/16
2534	22	Update	10/7/17
2600	23	Update	12/1/20
2628	24	Update	29/09/20
2649	25	Update	07/01/21
2669	26	Update	30/9/21
2690	27	Update	27/12/21
2803	28	Update	29/10/2024