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July 10, 2017

**Circular no. C-06-2533**

Attn:

**The banking corporations and the credit card companies**

**Re: Credit Risk Management**

(Proper Conduct of Banking Business Directives No. 311)

**Introduction**

1. Proper Conduct of Banking Business Directive no. 311 was updated with the goal of easing the requirements regarding the date for receiving financial statements from borrowers and solving the timing problem in receiving a financial statement from a borrowing corporation. Likewise, a requirement was added for receiving semiannual financial statements from a corporation that is a large borrower in order to allow a reliable analysis of its updated overall financial condition.
2. After consulting with the Advisory Committee on Banking Matters and with the approval of the Governor, I have decided to revise Proper Conduct of Banking Business Directive No. 311 on “Credit Risk Management” (hereinafter, “the Directive”).

**The main amendments to the Directive**

**Part A—Establishing an appropriate credit risk environment**

1. Section 15 (Credit policy statement)

Subsection (h)—with regard to the credit policy, an additional requirement was added, for credit granting to be based on updated financial data.

**Explanatory notes**

The requirement is intended to ensure that the analysis of the borrower’s overall financial condition is based on up to date data, to the extent possible.

**Part B—Operating under a sound credit granting process**

2. Section 27a (Requirement for receiving financial statement)

When granting credit to a corporation, the banking corporation is required to take into account the updated financial statement in accordance with the provisions of the law applying to the corporation.

**Explanatory notes**

The change in said section is a leniency and solves the problem of lack of correlation between the requirement in the Directive before the revision and the requirements of the law that apply to the borrowing corporation.

### 3. Section 27b. (Exemption from financial statement)

The section exempts the banking corporation from receiving a financial statement in certain cases, such as: the total indebtedness is less than NIS 1 million; factoring under certain circumstances;

#### **Explanatory notes**

The section details cases that essentially exist currently before the revision as detailed in the Appendix to the Directive (Compulsory receipt of financial statements) and in Supervisor of Banks letters.

### 4. Section 27c (Requirement for semiannual statements)

The section establishes that the updated financial statement of a large borrower (total indebtedness exceeding NIS 50 million) is to include financial data for June 30, as detailed below:

4.1 Total indebtedness up to NIS 200 million—semiannual financial data signed by the corporation's management and in the format to be determined by the banking corporation in accordance with its risk policy.

4.2 Total indebtedness exceeding NIS 200 million—semiannual financial data signed by the corporation's management and in the format of a semiannual financial statement.

#### **Explanatory note:**

When granting credit to a large borrower, higher-frequency financial data will be required, in order to allow reliable analysis of its updated overall financial condition.

## **Appendix**

### 5. Appendix (Compulsory receipt of financial statement)

The Appendix was deleted and the main points of Section 4 of the Appendix were integrated into Section 27b of the Directive as noted above.

## **Start**

6. The amendments to the Directive pursuant to this Circular will go into effect beginning on 1.1.2018.

7. Early implementation of this circular is possible and even recommended.

## **Revised file**

8. Update pages for the Proper Conduct of Banking Business Directive file are attached. Following are the provisions of the update:

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(07/17) [4] 311-1-32	(04/15) [3] 311-1-33
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Respectfully,

Dr. Hedva Ber

Supervisor of Banks