



September 30, 2021

Circular no. C-06-2675

To: **Banking corporations and credit card companies**

Re: Adjustments to Proper Conduct of Banking Business Directives for Dealing with the Coronavirus Crisis (Temporary Provision)

(Proper Conduct of Banking Business Directive no. 250)

Introduction

1. In view of the persistence of the COVID-19 pandemic and relatedly, some lack of certainty, I have decided to extend the validity of the temporary provision by 3 additional months, until December 31, 2021.
However, due to rethinking, the lack of relevance of some of the Directives, and additional reasons, I cancelled certain easings and extended other easings, which will allow continued orderly activity.
2. After consultation with the Advisory Committee on Banking Business Affairs, and with the consent of the Governor, I have amended Proper Conduct of Banking Business Directive no. 250 as follows.

Main points of the amendment to the Directive

3. Proper Conduct of Banking Business Directive no. 311 on “Credit Risk Management” (Section 7a of the temporary provision)
The extension of the temporary provision until December 31, 2021 makes it possible to view a financial statement as revised even if the period set in Proper Conduct of Banking Business Directive no. 311 passed, subject to the requirement of Section 7a in the temporary provision. It is clarified that the above shall apply regarding the financial report for 2020 as well.
4. Proper Conduct of Banking Business Directive no. 329 on “Limitations on Issuing Housing Loans” (Sections 11.a and 11(c) of the temporary provision)

4.1 Section 11(a) of the temporary provision was cancelled. It had allowed the bank to approve a housing loan that is not for the purpose of purchasing a right in a property and with a home as a pledge (hereinafter, “**loan for any purpose**”) up to an LTV of 70 percent instead of up to 50 percent as determined in Section 4 of Proper Conduct of Banking Business Directive no. 329.

Explanatory remarks

In view of the winding down of the economic crisis and accordingly the trend of cancelling assistance programs for households in view of the COVID-19 crisis, the easing in the limitation on the LTV of a loan for any purpose was cancelled. It had enabled the bank to provide funding at a rate of up to 70 percent instead of 50 percent.

4.2 Section 11(c) of the temporary provision was revised. Beginning from the start date of amendments to the Directive (October 1, 2021), Section 14a. of Proper Conduct of Banking Business Directive no. 329 will again apply to housing loans for purchasing rights to property and will not apply to housing loans that are a “loan for any purpose”.

Explanatory remarks

In view of the trend of return to a normal business situation, the easing in respect of loans for housing purposes was cancelled, and the easing for a “loan for any purpose” remains. Thus, beginning from the start date of the amendments to the Directive (from October 1, 2021) the additional capital required at a rate of 1 percentage point will apply to loans for housing purposes and not on loans for any purpose.

This means that in respect to housing loans that were granted beginning March 19, 2020, through September 30, 2021, the capital requirement of 1 percent does not apply.

In addition, it is hereby clarified that notwithstanding the above, refinancing a “loan for any purpose” for which capital was set aside at a rate of 1 percent as noted in Section 14a of Proper Conduct of Banking Business Directive no. 329, will require allocating capital at a rate of 1 percent.

5. Proper Conduct of Banking Business Directive no. 331 regarding dividend distributions by banking corporations (Section 11.a)

At the end of Section 4 of Proper Conduct of Banking Business Directive no. 331 there shall be “(*)”, and at the bottom of the page the following footnote is to be added: “(*) See explanatory remarks to the Directive dated September 30, 2021, within the framework of Proper Conduct of Banking Business Directive no. 250”.

Explanatory remarks

Further to what was determined in Section 3a of the Proper Conduct of Banking Business Directive on the issue of “Adjustments to Proper Conduct of Banking Business Directives for Dealing with the Coronavirus Crisis (Temporary Provision)”:

Despite the enhancement of the processes of exiting the COVID-19 crisis, the level of uncertainty remains high and impacts on the ability of the banking corporations to forecast their capital requirements in the medium term. The uncertainty and the risks noted require capital planning that continues to be cautious and conservative, and accordingly the Supervisor of Banks is encouraging the banking corporations to use a cautious and conservative approach to dividend distributions or to share buybacks (hereinafter, “**distribution**”). It is clarified that within the framework of the formulation of a decision by the board of directors on the issue of a distribution, the board is to prepare a written forecast based on the capital ratios as required in Section 4 of Proper Conduct of Banking Business Directive no. 331 and that refers to the future ramifications of the crisis on the exposures and the capital. In addition, the stance of the Supervisor of Banks is that a distribution that exceeds 30 percent of the bank’s profits (in the year 2020 and the year 2021) shall not be considered as cautious and conservative capital planning. To remove doubt, it

is clarified that said distribution, to the extent it will be carried out, is also possible when the temporary provision is in force.

It should be emphasized that the Supervisor of Banks expects banking corporations to continue to utilize the capital and liquidity surpluses from which they benefit to increase credit and support for economic activity and not for the purpose of distribution, certainly when the bank is making use of the easing that permits a decrease in the capital requirement. Despite this, not complying with the required LTV ratio and the use of the relief with regard to the leverage ratio shall not be a barrier to distributing a dividend subject to the capital plan that includes a return to the required leverage ratio.

Commencement

6. The amendments to the Directive based on this Circular shall go into effect on October 1, 2021.

Update of file

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

Remove page

(26/07/2021) [15] 250-1-8

Insert page

(30/09/2021) [16] 250-1-8

Respectfully,

Yair Avidan
Supervisor of Banks