Banking Supervision Department
Jerusalem, May 22, 2022
Circular Number C-06-2709

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

Re: Update of Proper Conduct of Banking Business Directive 203
(Measurement and Capital Adequacy – The Standardized Approach – Credit Risk)

Introduction

1. Recently the growth in credit risk inherent in the construction and real estate industries has continued. This is reflected in, among other things, accelerated growth of outstanding credit to the industry, as well as increased risk appetite and easing of underwriting terms for the industry in some banking corporations.
2. As such, and further to previous steps taken in this regard by the Banking Supervision Department, and with the goal of strengthening the resilience of the banking system to such risks, the need arose to give expression to the increased risk by updating the risk weights in the Directive.
3. After consulting with the Advisory Committee on Banking Business Affairs and with the approval of the Governor, I have amended Proper Conduct of Banking Business Directives 203.

Main provisions of the update

4. **Section 79:**
   Added to the list of claims risk weighted at 150 percent were loans intended for purchasing land for development or construction purposes, at a value that exceeds 80 percent of the value of the asset purchased (LTV). This excludes loans for purchasing agricultural land that does not have a planning horizon or intention to request planning consent, and excludes loans for purchasing land for the personal use of a borrower who is not classified in the construction and real estate industry based on the industry specification in Reporting to Banking Supervision Directive 831, “Overall Credit Risk by Economic Industry”.

   Explanatory notes
   The Banking Supervision Department sees financing the purchase of land at a value that exceeds 80 percent as credit at heightened risk, and the risk weight was adjusted accordingly.

Commencement

5. These updates to the Directive shall go into effect regarding the financial statements for June 30, 2022, and onward (hereinafter, **“the start date”**). However, a banking corporation may spread out the effect of the change in the risk weight on the capital adequacy ratio in respect of the stock of loans it has on the start date, at fixed quarterly rates until June 30, 2023.

File update

6. Update pages for the Proper Conduct of Banking Business Directives file are attached. The following are the update instructions:

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Respectfully,

Yair Avidan
Supervisor of Banks