



July 26, 2021

Circular no. C-06-2666

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 improvement in economic activity and the enhancement of the trend of a gradual return to the precrisis level, we reexamined the guideline to banking corporations to avoid distributing dividends.

In general, the banking corporations have accrued capital cushions again, but the risk remains that the effects of the crisis have not yet been fully realized. Therefore, we are adopting a cautious and conservative approach and allowing the banking system to distribute dividends, but on a limited basis. The above is consistent with the trend of dividend distributions being permitted by supervisory authorities worldwide.

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. 331 on “Distribution of Dividends 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 July 26, 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. In addition, in view of the marked lag of the effects of the crisis on the banking corporations’ balance sheets, there is a risk that credit losses have not yet been fully realized. 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 share

buybacks (hereinafter, “distribution”). It should be 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 the Directive 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 is a distribution that exceeds 30 percent to the profits from the year 2020 shall not be considered as cautious and conservative capital planning. To remove doubt, it is clarified that 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.

4. Proper Conduct of Banking Business Directive no. 329 on the issue of “Limitations on Issuing Housing Loans” (Section 11b)

In order to estimate the income as established in Section 5(a) of Proper Conduct of Banking Business Directive no. 329, Section 11(b) in the Directive was revised regarding income by the self-employed. In accordance with the revision, a banking corporation may take into account the average amount of income in assessment reports for 2018 and 2019 given the existence of the conditions detailed in the Section in addition to the specific term with which it is required to comply regarding a self-employed individual, which is that the 2020 assessment report (or alternatively, an accountant’s authorization) is the most recent report that the borrower has.

Explanatory remarks

In view of the continuation of the crisis and its ramifications on the income of self-employed individuals in 2020, the self-employed are liable not to comply with the “Payment to Income” ratio limitation set in the Directive when they come to take out a housing loan in 2021. This update establishes that with regard to estimating self-employed income, the bank may rely on the self-employed person’s income before the effect of the crisis, in the average of the self-employed income in assessment reports for 2018 and 2019.

This is subject to the terms set in Section 11(b) of the Directive with the addition of another condition, which is that the assessment report for 2020 (or alternatively, an accountant’s authorization of income for 2020) is the most recent report that the borrower has.

Commencement

5. The amendments to the Directive based on this Circular shall go into effect on the date of the Circular’s publication on the Bank of Israel website.

Update of file

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

Remove page

(19/07/2021) [14] 250-1-8

Insert page

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

Respectfully,

Yair Avidan
Supervisor of Banks