Bank of Israel
Banking Supervision Department
Policy and Regulation Division

June 9, 2015
Circular Number C-06-2466

To:
The banking corporations and the credit card companies

Issue: Limitations on the Indebtedness of a Borrower and of a Group of Borrowers
(Proper Conduct of Banking Business Directive 313)

Introduction

1. Further to previous actions by the Banking Supervision Department intended to reduce concentration of credit portfolios in the domestic banking system, and against the background of the recommendations of the Basel Committee in the most recent standard on the issue of large exposures (Supervisory Framework for Measuring and Controlling Large Exposures, April 2014), the need has arisen to revise the Supervisor's guidelines regarding limitations on the indebtedness of a borrower and a group of borrowers.
2. Following consultations with the Advisory Committee on Banking Business, and with the approval of the Governor, I have found it appropriate to revise Directive number 313 regarding "Limitation on the Indebtedness of a Borrower and of a Group of Borrowers".

Main amendments to the directive

3. **Section 3 – Definitions**
   The definition of capital has been narrowed to Tier I capital after regulatory adjustments and deductions, as defined in Proper Conduct of Banking Business Directive no. 202, thereby making the limitations on the provision of credit to a borrower or a group of borrowers more rigid. The new definition of capital is in line with the definition set out by the Basel Committee.

4. **Section 4(b)(2) – Limitation on the indebtedness of a banking group of borrowers to a banking corporation**
   The limitation, which until now had been 25 percent of capital, was made more rigid, and will now be 15 percent of capital. The limitation was revised in accordance with the recommendations of the Basel Committee, and based on the

concept that all the banking corporations in Israel are Domestic Systemically Important Banks (D-SIB).

5. **Section 5 – Deductions**
   For purposes of simplicity and uniformity, the method of calculating the deductions permitted in Directive 313 has been adjusted to the method of calculation of recognized credit risk mitigants as set out in Proper Conduct of Banking Business Directive 203.

Start and transition arrangement

6. The amendments to the Directive shall become effective on January 1, 2016.
7. Notwithstanding the foregoing, the following shall apply regarding the definition of capital:
   Tier 1 capital as stated in the definition of capital, plus Tier 2 capital as published in the financial statements to December 31, 2015. This addition shall be reduced in equal parts over 12 quarters, reaching zero on December 31, 2018.

File update

8. The updated pages of the Proper Conduct of Banking Business file are attached. The following are the update instructions:

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Sincerely,

David Zaken
Supervisor of Banks