

Industry Indebtedness Limitation

Introduction

1. Credit portfolio concentration, including credit concentration by industry, is one of the sources of credit risk at banking corporations. Due to the recognition of the negative impact that per-industry concentration has on the quality of the credit portfolio at banking corporations, limitations on total indebtedness to a specific industry were set.

Application

2. (a) This directive shall apply to a banking corporation, except for a joint service company.
(b) This directive shall also apply to a corporation as detailed below as if it were a banking corporation—a corporation of the type noted in Sections 11(a)(3a) through (3b) and 11(b) of the Banking (Licensing) Law, 5741-1981 (hereinafter, “**the Licensing Law**”) that was incorporated in Israel and that is controlled by a banking corporation, unless all of the following apply to the controlling banking corporation:
 - (1) Includes it in its financial statements on a consolidated basis
 - (2) Granted it indemnity for all its undertakings
 - (3) Maintains an effective control system for monitoring the fulfillment of the limitations on a consolidated basis.
(c) This directive applies to indebtedness at the banking corporation’s offices in Israel alone (on an unconsolidated basis).
3. The Supervisor may establish certain directives other than those detailed below, that shall apply to certain corporations.

Definitions

4. “**Indebtedness**”—(a) Total indebtedness as per its understanding in Proper Conduct of Banking Business Directive #313, except for investments in equities, except for total undertakings (including contingent ones) of the banking corporation to extend credit or to issue guarantees and excluding guarantees given

by the borrower to a third party to guarantee an indebtedness that the third party received from the banking corporation;

(b) Notwithstanding the above, 70 percent of total bank guarantees to a mortgage borrower granted pursuant to the Sale (Homes) (Guaranteeing Homebuyers' Investments) Law, 5735-1974 (hereinafter, "Sales guarantees") and against which the banking corporation purchased credit protection suitable for purposes of reducing credit risk as noted in Directive 203, shall be classified in accordance with the activity industry of the protection provider.

"Industry"—The definition of the industries is detailed in the appendix to this directive, and is based on the list in Directive no. 831 in the "Reporting to Banking Supervision Directives" file.

5. Limitations

- (a) The total indebtedness of a specific industry to a banking corporation shall not exceed 20 percent of the public's total indebtedness to the banking corporation.
- (b) Notwithstanding the provisions of Section (a), a banking corporation may, on any reporting date, establish the extent of the limitation in respect of total indebtedness to the "construction, real estate, and manufacturing and trade of construction materials" (Industry 11 in the list of industries appearing in the appendix to this directive) at 22 percent of the public's total indebtedness to the banking corporation, on condition that total indebtedness listed above, excluding Industry 42 "civil engineering works" in the Standard Industry Classification (2011), does not exceed 18 percent.
- (c) The percentages noted above shall be calculated on an unconsolidated basis.

6. Deductions

A banking corporation may deduct the following from the indebtedness:

- (a) Amounts that may be deducted as noted in Section 5 of Proper Conduct of Banking Business Directive #313, provided that said deduction against sale guarantees shall be made before weighting said sale guarantees as noted in the definition of indebtedness. The deduction shall be made only from the numerator.

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- (b) The present value of the amount of rent in respect of income-yielding real estate that is rented to a bank or to the Government of Israel, provided that:
- (1) The amount of said rent is pledged to a banking corporation and may be utilized if the customer does not meet the terms of the indebtedness;
 - (2) There is an irrevocable undertaking by the renter to pay the rent directly to the banking corporation;
 - (3) The rental cannot be terminated prior to the end of the rental period.
- (c) The indebtedness of a company that does not deal in construction in Israel, which is designated for purchasing real estate abroad (in this matter, "Israel" includes Judea, Samaria, and the Gaza Strip).

Deviation

7. A banking corporation in which a deviation from the limitation detailed in this Directive developed shall notify the Banking Supervision Department of it without delay, together with a plan to end the deviation as soon as possible.

Reporting

8. A banking corporation shall report, to the Banking Supervision Department once per quarter regarding its compliance with the limitations detailed in this Directive, in the reporting format in Directive #809 of the Reporting to Banking Supervision Directives.

Appendix

List of Industries

1. Agriculture
2. Mining and quarrying
3. Machinery, electrical and electronic equipment
4. Metal and metal products
5. Rubber and plastics
6. Chemicals
7. Petroleum products
8. Pharmaceuticals
9. Food, beverages, and tobacco
10. Diamonds production and trade
11. Construction, real estate, and manufacturing and trade of nonmetal construction materials
12. Electricity—electricity, gas, steam, and air conditioning supply
13. Water—water supply, sewerage, waste management, and remediation activities
14. Commerce (excluding trade in diamonds and construction materials)
15. Hotels, hospitality and catering services
16. Transport and storage, postal and courier activities
17. Information and communication services
18. Financial and insurance services
19. Other business services
20. Public and communal services

Updates

Circular 06 number	Version	Details	Date
1244		Original circular	9/3/86
1392		Update	22/1/89
1424		Update	6/7/89
---	1	Insertion into Proper Conduct of Banking Business Directives	8/91
1532	2	Update	11/11/91
1583	3	Update	21/7/92
1610	4	Update	11/1/92
1761	4	Update (Appendix C)	27/3/95
1778	5	Update	22/10/95
1782	6	Update (Page 3)	7/11/95
---	6	New version of Proper Conduct of Banking Business Directives file	12/95
1838	7	Update	20/11/96
1880	8	Update	3/8/97
1902		Freeze start	30/12/97
1919	9	Update	26/4/98
1972	10	Update	28/4/99
2068	11	Update	6/2/02
2094	12	Update (Appendix C)	15/12/02
2151	13	Update	13/12/04
2246	14	Update (Cancel Appendix C)	16/03/09
2249	15	Update	17/09/09
2259	16	Update	18/2/10
2277	17	Update	19/10/10
2357	18	Update	27/12/12

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2385	19	Update	30/5/13
2482	20	Update	22/10/15
2515	21	Update	29/9/16
2534	22	Update	10/7/17