



January 7, 2021

Circular no. C-06-2648

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

Re: Additional 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. Against the background of the development of the coronavirus event and its ramifications on the economy in Israel and abroad, and in order to assist households and businesses to endure the challenging period, following is an additional easing step that we formulated to revise the temporary provision.
2. The adjustments in this Directive are intended to provide the banking corporations with the business flexibility required at this time. However, we emphasize that it is important that the decisions regarding the providing of credit and assistance to businesses and households are in line with the banking corporation's risk assessment and risk tolerance.
3. After consultation with the Advisory Committee on Banking Business Affairs, and with the consent of the Governor, I have established the following Proper Conduct of Banking Business Directive as detailed below.

Main revisions to the Temporary Provision

Proper Conduct of Banking Business Directive no. 311 on "Credit risk management" (Section 7a)

4. Section 7a of the Directive was updated, so that when the borrower is a small or micro company, then "the report shall be considered updated if submitted within 14 months from the date of the financial statement".

Explanatory remarks

In view of the protracted coronavirus crisis and the continued limitations on movement in the public sphere in certain areas, it turns out that the limited scope of work weighs on the preparation of financial statements on time. In order to allow the continued providing of credit to small and micro businesses that have not yet prepared financial statements, it was suggested to give an extension of 3 additional months beyond the 2-month extension that was granted in the temporary provision (of April 27, 2020).

We emphasize that the approval of credit to small businesses in the absence of a financial statement for 2019 shall be carried out subject to receiving updated financial data, which allow the reliable analysis of their financial situation, such as a VAT (value added tax) report. In addition, the

conditions on the basis of which the bank will agree to provide credit should be in accordance with its risk management.

With regard to this Section – “small business” and “micro business” are as they are defined in “Supervisory activity segments”.

Proper Conduct of Banking Business Directive no. 315 on “Industry indebtedness limitation”

5. Section 8 of the Directive was revised, so that the total indebtedness of construction and real estate does not exceed 26 percent of the total public indebtedness to the bank. This is instead of the industry limitation of 24 percent established in Section 5(b)2 of Proper Conduct of Banking Business Directive no. 315.

Explanatory remarks

In the said revision, the limitation of credit to the construction and real estate industry (including indebtedness for national infrastructures) will increase from a share of 24 percent to 26 percent of the total indebtedness of the public. The above will enable banks to increase the supply of credit to construction projects in accordance with the bank’s risk policy and risk tolerance. This means that the banks may increase their exposure to the construction and real estate industry so long as the total indebtedness of the industry does not exceed 26 percent and that the total indebtedness of the industry net of indebtedness of national infrastructure financing does not exceed 22 percent.

6. Section 16(5) was added to the Directive, according to which the validity of the leniency regarding the industry limitation shall be extended until 24 months from December 31, 2025, provided that the share of indebtedness does not exceed the higher of the share on December 31, 2025 or the share of the industry limitation as established in Section 5(b) of Proper Conduct of Banking Business Directive no. 315.

Explanatory remarks

In the said revision, the validity of the easing was extended to 5 years. According to the easing, credit to the construction and real estate industry net of indebtedness of national infrastructures shall be increased from a share of 20 percent to 22 percent of total indebtedness of the public and the limitation of credit of the construction and real estate industry shall be increased from 24 percent to 26 percent of total indebtedness of the public.

The banks may increase the exposure to the construction and real estate industry subject to that at the end of the validity of the easing, the share of industry exposure will be reduced to the share of the industry limitation as established in Proper Conduct of Banking Business Directive no. 315, based on the mechanism established in the temporary order, within 24 months.

Application

7. The start date of the amendments to the Directive shall be the date of publication of this circular on the Bank of Israel website.

Update of file

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

Remove page

(15/11/2020) [11] 250-1-9

Insert page

(07/01/2021) [12] 250-1-9

Respectfully,

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