CHAPTER 2

ACTIVITIES OF THE BANKING SUPERVISION DEPARTMENT

The main objective of the Banking Supervision Department is to protect the public good by maintaining the stability and resilience of the banking system, maintaining fairness in the relations between banks and their customers, and strengthening public confidence in the banking system. The Banking Supervision Department also works to increase competition and efficiency in the banking system. These functions are closely related and are intended to protect the public's financial assets and to ensure continuity of banking services.

In 2013, the Banking Supervision Department continued working to strengthen the stability of the banking corporations, to ensure their conservative management, and to increase fairness in their activities.

- Measures were adopted with the objective of continuing to strengthen capital adequacy and liquidity in the banking system: The Banking Supervision Department continued implementing the Basel III principles in Israel, formulating a directive that adopts the Basel III capital framework, and examining the banks' capital planning and their preparedness to meet capital targets. In addition, a work process was initiated in conjunction with the banking system, with the aim of establishing the liquidity coverage ratio in accordance with the Basel Committee's recommendations and conditions in Israel.
- The credit underwriting and management processes in the banking system, concentration risks, and the risks of credit to the construction and real estate industry and of housing credit were focused on. The Banking Supervision Department took steps to reduce the risk in the housing credit portfolio and increased its monitoring of the development of the banks' exposure to the construction and real estate industry.
- A stress test was conducted based on a uniform regulatory scenario that was carried out simultaneously by the Banking Supervision Department and the banks. This test was intended to improve the understanding of a variety of risks to which the banking system and individual banks are exposed, and was carried out in accordance with the recommendations of international supervisory entities and accepted practice worldwide.
- The Banking Supervision Department focused attention on business continuity risks and the banking system's emergency preparedness, by requiring the banks to take actions to strengthen the level of protection of their main activity sites, among other things. In addition, the Banking Supervision Department began instructing the banking system on how to deal with cyber risk and took action to increase awareness among the banking corporations' boards of directors, due to the increases in that risk.
- In the area of corporate governance, and further to measures adopted in previous years, the Banking Supervision Department emphasized the assessment of compensation policies in banking corporations, and issued a specific directive on this topic, with the objective of ensuring that

compensation is in line with risk management and does not encourage taking excessive risks. At the same time, the Banking Supervision Department is encouraging the banks to improve their operational efficiency.

- The Banking Supervision Department monitored the steps taken by authorities abroad concerning cross-border compliance, and examined the measures adopted by the banks in Israel in order to locate and prevent illegitimate activity that may be executed through them.
- The Banking Supervision Department acted to implement the recommendations published in March 2013 by the Interministerial Team to Increase Competitiveness in the Banking System, including promoting credit unions, providing information to customers by way of a banking "identification card", increasing regulation of fees, and providing relief to small businesses (see Box 2.1).
- Regulation activity to protect banking customers continued, including expanding information to customers, and improving availability of information and its publication on the Internet. In addition, fee regulations were set concerning the tracks service, and guidelines and legislative amendments in the area of fees came into effect.
- The Banking Supervision Department continued to handle public enquiries and complaints. These increased by about 24 percent in 2013, partially as a result of increased public awareness and the public accessibility of information. The share of justified complaints declined in the past two years, to about 22 percent.
- The Banking Supervision Department continued to update the legal tools for handling a bank in distress or a failed bank, and to bring them in line with international standards, with the assistance of a team of experts from the International Monetary Fund.

This chapter provides an in-depth review of the principal activities of the Banking Supervision Department in 2013. A timeline of regulatory activity for 2013 and the organizational structure of the Banking Supervision Department, including its divisions and units, are included as appendices.

1. STRENGTHENING CAPITAL ADEQUACY AND LIQUIDITY: BASEL III

Following the global crisis that began at the end of 2007, the Basel Committee on Banking Supervision decided that it was necessary to strengthen the banks' capital base by increasing the share of Common Equity Tier 1 capital out of total capital and improving the quality of its components, among other things. Accordingly, the Committee published the Basel III principles, an updated framework on capital adequacy and liquidity. In 2013, the Banking Supervision Department continued working to integrate these principles into the Israeli banking system:

a. Strengthening capital adequacy

As part of the adoption of Basel III, Proper Conduct of Banking Business Directive 201 was revised in the area of requirements concerning the calculation of the minimum capital ratio. For the banking system overall, the Directive set out that as of January 1, 2015, the minimum ratio of Common Equity Tier 1 capital to total risk-weighted assets will be 9 percent, and that the total capital ratio is to be at least 12.5 percent. For the large banking corporations—banking corporations whose balance sheet assets on a consolidated basis constitute at least 20 percent of total balance sheet assets in the banking system[1]—the Directive set out that as of January 1, 2017, the capital ratios must be higher: The minimum Common Equity Tier 1 capital ratio is to be 10 percent, and the total capital ratio is to be 13.5 percent.

Over the course of 2013, the Banking Supervision Department monitored the banks' preparedness to meet this capital requirement outline on a quarterly basis, and assessed how the implementation of the Basel III recommendations affects capital ratios. Within this framework, the Banking Supervision Department also assessed the ramifications of the banks' work plans, including the planned increase in risk assets and the planned distribution of dividends. The Banking Supervision Department also examined the effects on each bank separately. When it was found that meeting the capital requirements posed a challenge for a banking corporation, the required measures were taken.

b. Liquidity

The Banking Supervision Department began preparations to implement the Basel III liquidity recommendations in the Israeli banking system. The recommendations include two detailed international standards for measuring liquidity: the Liquidity Coverage Ratio, and the Net Stable Funding Ratio. The second of these standards has not yet been formulated in final form, and is therefore not included in this stage of preparations.

The preparations included establishing a work team with the banks and the credit card companies, and holding discussions with their representatives on the main issues. In February 2014, a Quantitative Impact Study was distributed to the banking system in order to identify and assess the possible effects of implementing the guidelines in Israel, and to ascertain that the implementation will be compatible with the characteristics of the domestic economy. Together with the study, draft guidelines for the adoption of the Basel III liquidity requirements in Israel were distributed. A final draft will be distributed after analyzing the results of the study and holding consultations with the banking system and other parties.

In accordance with the timetables set out in Basel III, the Israeli banking system is expected to gradually implement the liquidity coverage ratio beginning in January 2015.

2. IDENTIFYING RISKS AND MONITORING RISK MANAGEMENT

The Banking Supervision Department's activities include assessing and closely tracking the risk profiles of the individual banks and of the banking system as a whole, taking into account developments that take place in the domestic and global banking activity environment. The risk assessments help in formulating a position regarding the required capital adequacy, and in identifying weaknesses in risk management procedures and in corporate governance areas, and in formulating the measures necessary to strengthen them. The findings and evaluations are sent to the banking corporations by way of audit reports, letters and designated meetings with the boards of directors and management bodies.

[1] This is relevant for the Bank Leumi group and the Bank Hapoalim group.

The Banking Supervision Department carries out this function mainly through monitoring, evaluation and audit processes, in accordance with the various risks, through evaluating corporate governance and through economic analysis, including international comparisons and stress tests. For this purpose, the Banking Supervision Department relies on a variety of sources of information that it collects in all areas of activity and that it processes through orderly work methods.

a. Business policy and risk appetite

The banks' work plans reflect the strategy and objectives of the banking corporations for the coming year, and include operating indices that serve in achieving the objectives at the various organizational levels. These plans are a central and integral part of a banking corporation's management processes.

The Banking Supervision Department reviews the plans with the aim of formulating an overall view of the banking system's objectives and of the risks it faces, and the review assists in the ongoing evaluation process carried out by the Department, and in adjusting the regulatory work plan. The Department assesses the process of formulating the work plans, the targets and the risk level inherent in them (for the specific banking corporation and for the banking system), and the banking corporation's ability to achieve them. This year, particular emphasis was placed on assessing how the work plans support achieving capital targets and increasing efficiency.

b. Credit underwriting and management processes

In 2013, the Banking Supervision Department continued examining the credit underwriting and management processes, and emphasized the validation of the banking corporations' risk assessments and how they classify credit as problematic and provide allowances for expected credit losses. The Department focused on the state of the large borrowers in the economy, the concentration of borrowers and the evaluation of the risk inherent in leveraged financing.

The Department also assessed the structural risk in the banking corporations' credit portfolios and their risk appetites, their credit provision policies, their credit exposure restrictions, and the measures taken to assess risk. When credit exposures reflected a high risk appetite, the Banking Supervision Department required that an outline be set for reducing them.

Additionally, the Department provided guidance for the banking corporations in their preparations for implementation of the Proper Conduct of Banking Business directives regarding risk management: It examined the risk management, control and measurement principles, the definition of the structure of corporate governance, and the division of responsibility and authority among the various functions in the banking corporation.

c. Housing credit

The increase in home prices and in the volume of new mortgages issued by the banking system continued in 2013. These developments led to an increase in the risks inherent in the housing credit portfolio, and exposed borrowers and the banking system to the possibility of a negative impact resulting from changes in the economic environment. Against this background, the Supervisor of Banks took two additional measures in the area of housing credit. In March 2013, the Supervisor published guidelines intended to increase the capital buffers and the group allowance for credit losses in respect of the increase in the risks inherent in the housing credit portfolio. In August 2013, the Supervisor limited the share of a housing loan that could be issued with variable-rate interest to 66.7 percent, prohibited the provision of housing loans where the payment to income ratio is more than 50 percent and required the allocation of additional capital for loans where the payment to income ratio is greater than 40 percent, and limited the term to final payment, to 30 years. These measures contributed to a decline in risks for both borrowers and lenders. More information appears in Box 1.1.

d. Credit to the construction and real estate industry

Since real estate prices in the domestic market continued to escalate and the assessment was that the risk level continued to increase, in 2013 the Banking Supervision Department increased its monitoring of the development of banks' exposure to the construction and real estate industry, and of how they managed the risk inherent in this activity, while focusing on focal points of risk—yield-generating real estate, and residential construction projects. The Department assessed the amount of exposure, the policies and restrictions set by the banking corporations' boards of directors and management, stress scenarios, and how the banks track the risk developments in the portfolio.

At the completion of the process, a risk assessment was formulated and corrective measures were required: The relevant banks were required to update their exposure limitations, to add restrictions for the activities with high risk potential, to improve stress testing as part of risk management in the area, to tighten monitoring of exposure developments, and to expand reporting to the banking corporations' boards of directors in order to reinforce oversight regarding fulfilling the policy rules and the risk appetite.

e. Cyber risks[2]

During the reviewed year, the Banking Supervision Department continued dealing with cyber events and advancing the banking system's ability to deal with these risks. Among other things, the sharing of information and know-how in the field continued, by conveying reports and warnings, and through discussions in a professional forum—the cyber protection forum—established by the Banking Supervision Department in 2012.

This year, the Department began providing individual guidelines to each banking corporation regarding the means necessary to strengthen their ability to withstand cyber threats, with guidance from experts from the National Information Security Authority. In December 2013, the Banking Supervision Department held a conference for the senior echelons of the banking system with the objective of continuing to strengthen awareness of cyber risks while presenting them from a broad perspective.

f. Business continuity risks

In 2013, the Banking Supervision Department's handling of business continuity risks centered on an examination of the implementation of the Proper Conduct of Banking Business directive regarding business continuity and regulation of the daily reporting format during emergencies.

During the year, the formulation of industry-wide reference scenarios for the banking system (war, earthquake, pandemic outbreak), based on the national reference scenarios, was completed. The Home

[2] Cyber risk is the risk associated with the realization of damage to the information technology array as a result of an attack on the computer systems. A more in-depth discussion appears in Box 2.2 of Israel's Banking System Annual Survey for 2011.

Front Defense Ministry approved the scenarios, which were distributed to the banking system as a basis for planning the preparedness and prevention.

At the beginning of January 2013, the Banking Supervision Department took part in a joint exercise for all financial system regulators. The Department also participated in some of the exercises conducted by the banks themselves, and received reports on other exercises.

g. Compensation policy and operational efficiency

The Banking Supervision Department continued to work this year to strengthen corporate governance at the banks and to encourage streamlining their operations. It emphasized the assessment of compensation policy at the banks and published a designated directive on this matter. Among other things, the directive set out that, excluding special cases, variable compensation should not exceed 100 percent of fixed compensation. The Department acted with the objective of making sure that the banks would bring appropriate compensation policies, which are consistent with the new directive, for approval of their General Shareholders Meetings. This directive is intended to make sure that the banking system has fair incentives, which encourage excellence without encouraging excessive risk taking.

h. Moneyval evaluation regarding the prohibition of money laundering and countering the financing of terrorism (AML/CFT)

On February 6, 2014, the Moneyval organization[3] published an evaluation report concerning the AML/CFT regime in Israel.[4] The evaluation process took place during the course of March 2013, and assessed the legislative, regulatory, monitoring and enforcement processes in Israel according to the international standards published by the Financial Action Task Force (FATF) in this regard.

The Banking Supervision Department received the highest grade (compliance) in relation to the two FATF recommendations dealing with banking system supervision: recommendation number 29—which deals with the authorities granted to the Supervisor to carry out audits and to obtain all of the information necessary for his activity, as well as the suitability of the regulatory activity carried out in the AML-CFT field on the basis of risk-focused regulatory methodology; and recommendation number 30—which deals with the suitability of regulatory resources, the professional standards that form the basis for regulatory work in the AML-CFT field, and the suitability of employee training.

The evaluation report indicates a number of gaps between the international standards and the directives concerning banking corporations in Israel. The report also notes that various definitions should be adjusted and that documentation should be improved.

On February 2, 2014, an amendment to the Banking Order regarding the Prohibition of Money Laundering was published in *Reshumot*, containing changes made based on some of the recommendations in the evaluation report. The Banking Supervision Department continues to act to bring legal and

[3] Moneyval is an organization that operates within the Council of Europe, and is intended to advance the struggle against money laundering and the financing of terrorism. The organization conducts audits in which its member countries prepare mutual evaluations concerning meeting the standards in the field. Israel has active observer status in the organization, and the audits promote recognition of its position and reputation as a country based on the rule of law and as a partner in the international struggle against money laundering and the financing of terrorism.

[4] http://www.coe.int/t/dghl/monitoring/moneyval/Evaluations/round4/ISR4-MERMONEYVAL(2013)24_en.pdf

regulatory provisions in line with international AML recommendations, including the FATF and Moneyval recommendations.

i. Cross-border compliance and enforcement processes abroad

In recent years, the means of enforcement adopted by tax authorities in Europe and the US have been expanded in order to collect money from citizens who owe taxes. Among other things, these efforts include measures to locate money transferred by their citizens by way of banking corporations outside the originating country, including Israeli banks or their overseas offices.

To that end, the US government passed the Foreign Account Tax Compliance Act (FATCA)[5] instructions. According to these instructions, financial institutions operating outside the United States are required to report to US authorities regarding American customers' accounts. Avoiding such reporting leads to significant sanctions. The directives will come into force on July 1, 2014.

During the year, the Banking Supervision Department closely tracked these developments, including reference to the monetary costs and other problems that they may cause to the banks. The Department intends to continue examining all of the measures adopted by the banks in order to find and prevent illegitimate activity through the banking system and to report on it.

3. LEGISLATION, REGULATION AND LICENSING

In 2013, the Banking Supervision Department acted in the areas of legislation, regulation and licensing, with the objective of protecting the public good and strengthening the stability of the banking system. Appendix A provides details of all of the regulatory activities in which the Banking Supervision engaged this year.

a. Strengthening the legal infrastructure for handling a failed bank

Over the past few years, many governments provided financial institutions with assistance in order to lessen the negative impact of the financial crisis that began in 2007. This assistance led to an increase in the budgetary burden and a further negative impact on the real economy. As a result, those countries, the central banks, and the various regulatory authorities understood that a change was required in laws intended to handle failing financial institutions.

The Banking Supervision Department, with the assistance of the Bank of Israel's Legal Department, worked during 2013 to formulate a draft amendment to the Banking Ordinance regarding the handling of a failing banking corporation. This was done in line with legislative changes around the world, and took into consideration the International Monetary Fund's recommendations. The draft was formulated in consultation and conjunction with government ministries and other supervisory authorities in Israel. At the beginning of 2014, a special mission from the International Monetary Fund visited Israel to assess the draft. In April 2014, the mission submitted a report to the Bank of Israel, which included their main findings, in accordance with the global standard in this area. The Bank of Israel is continuing its work in drafting the legislation.

[5] See Box 2.2 of the Annual Survey for 2012.

b. The payment system by payment card—the policy for licensing merchant acquirers

Amendment 18 of the Banking (Licensing) Law entrusts the Bank of Israel with the granting of clearing licenses for entities wishing to serve as merchant acquirers for payment card transactions. Further to this legislative amendment, the Banking Supervision Department acted, in conjunction with the Accounting, Payment and Settlement Systems Department at the Bank of Israel to formulate a regulatory infrastructure for licensing and overseeing merchant acquirers. In December 2013, the Banking Supervision Department published the regulatory policy for receiving a clearing license, as well as criteria and general conditions for the controller and holder of means of control of a body requesting a clearing license. The policy includes details of the considerations involved in granting the license, the standard requirements of a merchant acquirer, the stages in the licensing process, and the information necessary for assessing a request to receive a license. In order to complete the regulatory framework, a draft of a Proper Conduct of Banking Business Directive entitled "Clearing Transactions by Payment Card" was formulated, and published for public comments during 2013.

4. ACTIVITY TO INCREASE COMPETITION AND FAIRNESS IN THE BANKING SYSTEM

During 2013, the Banking Supervision Department acted to increase fairness in relations between the banking corporations and their customers, to enhance competition in the banking system, and to strengthen the customer's position vis-à-vis the bank. These actions were carried out through legislation and directives in the area of bank-customer relations, providing consumer information and financial education to the banks' customers, dealing with bank fees, investigating complaints and enquiries from the public, and dealing with restricted accounts and restricted customers.

a. Regulation for the protection of bank customers

During 2013, the Banking Supervision Department continued to enact Proper Conduct of Banking Business directives, publish circulars and letters to the entire banking system, and take an active part in the legislative process in bank-customer matters. The department presented the Bank of Israel's position in Knesset committees and ministerial committees on matters of banking consumer affairs, and provided professional opinions concerning many legislative proposals, some of which developed into legislation that came into effect during 2013.

Most of the regulation conducted in 2013 in the banking consumer area, including in the area of fees, was connected to the implementation of the recommendations of the Team to Examine Increasing Competitiveness in the Banking System (See Box 2.1). In addition, other guidelines and legislative amendments in the area of fees came into effect, including: guidelines requiring the banking corporations to publish a direct link to fee schedules on their websites, an amendment of the definition of "senior citizen" in the fee rules, an amendment to the fee rules to the effect that a reduced rate will be collected on the fee for guarantees backed by a monetary deposit, and an amendment to the fee rules regarding the tracks service, to the effect that the banks are required to include a basic track and an expanded track within the current account management services they offer their customers. The price of the basic track was placed under control, and was set at no more than NIS 10. The Banking Supervision Department reported to the Knesset and to the public on the proposed costs for common current account services and for holding a credit card, and on fee data in the area of securities.

The Banking Supervision Department also acted to regulate other matters, including Directive 451, "Procedures for Extending Housing Loans", and Directive 420, "Electronic Transfer of Information" (See Appendix A).

Box 2.1: Implementation of the recommendations of the Team to Examine Increasing Competitiveness in the Banking System

The Interministerial Team to Examine Increasing Competitiveness in the Banking System was appointed by the former Governor of the Bank of Israel, Prof. Stanley Fischer, and the Minister of Finance at the time, Dr. Yuval Steinitz, and was chaired by the Supervisor of Banks. On July 16, 2012, the Team published an interim report containing recommendations to increase competitiveness in the banking system. On March 19, 2013, the team published its final report, including its decision to leave the recommendations published in the interim report in place, and to continue working on issues whose implementation is essential.

The Banking Supervision Department acted to implement the recommendations within the authority of the Bank of Israel, and to promote legislative amendments that are necessary for implementing the other recommendations.

Encouraging the establishment of credit unions: The Banking Supervision Department assessed which models of cooperative banking are accepted practice around the world, and whether they are appropriate for the business, competitive and legal situation in Israel. The Department defined the characteristics that are desirable for the credit unions—meaning which characteristics would allow them to contribute to competitiveness in the banking areas where there is not sufficient competition, while ensuring their stability. In April 2014, the Supervisor of Banks published a draft document on the matter of licensing and establishing a credit union in Israel. The final document will be published after comments are obtained from the public and from the relevant authorities, and will lay out a detailed outline for establishing a banking union in Israel and the requirements of such a union. In parallel, the Bank of Israel is promoting legislative amendments, in conjunction with the Cooperative Unions Division in the Ministry of Economy and with the assistance of the Ministry of Justice, which will enable credit unions of the desired type to operate in Israel and will enable the authorities to efficiently supervise them.

Support for Internet banking as leverage for competition: The Banking Supervision Department published a draft of Proper Conduct of Banking Business Directive 439, “Debits by Authorization”, which regulates the process of transferring authorized debits when moving from one bank to another. The amendment is intended to remove impediments that existed until now and to simplify the process of moving customers’ authorized debits by cancelling the need to come to the bank branch and by preventing extraneous bother. In addition, the Department acted to prepare a draft amendment of the law authorizing the Supervisor of banks to publish information on the actual interest rates provided on credit and on deposits.

Providing information to customers through a banking “identity card”: The Banking Supervision Department formulated a draft document to contain information that is written and arranged in a simple and clear manner regarding all of the customer’s assets and liabilities at the bank over the course of a year, their current activities in the account, and their credit rating at the bank. Sending the collected information to the customers, at the bank's initiative, will reinforce the efficiency of disclosure to the customers, assist them in making informed consumer decisions, and motivate them to act to improve their conditions. At the same time, the Banking Supervision Department is acting to prevent the misuse of this information.

Regulation of aspects of the nonbank credit market: The Ministry of Justice published a memorandum to amend the Nonbank Loans Law, which stated that the mechanism by which the interest rate ceiling is calculated will be updated and the distinction that currently exists between lenders in the banking system and nonbank lenders will be cancelled, such that the new interest rate ceiling will apply to all lenders in the market.

Increasing competition over short-term household savings: The Banking Supervision Department cancelled the management fees for *makam* and money market funds in order to create investment tools that are alternatives to bank deposits and increase competition in this field.

Supervision of fees and securities activity by bank customers: The Banking Supervision Department amended the fees rules and issued the following guidelines to the banking system: guidelines regarding the repricing of commissions for the purchase and sale of securities; guidelines regarding discount contracts to be based on price and not on the rate of the discount from the price list; guidelines regarding differential pricing of various securities activity channels; setting maximum commissions for the purchase and sale of securities; determining that the controlled price for transferring a securities deposit from one bank to another shall also apply to its transfer to outside the banking system; raising the exemption ceiling for the fee for handling credit and collateral on nonhousing loans; cancelling the fee for changing the credit card payment date; and cancelling the fee for information cards and cash withdrawal cards.

In addition, the Banking Supervision Department published a draft of Directive 414, "Disclosure of the cost of securities services", on April 3, 2014. The directive requires banks to show their customers who deal in securities, alongside the fee rate that they actually paid, the average rate of fees actually collected for similar transactions. The directive also requires them to provide the customers with more detailed information on securities fees actually collected from them. This directive will come into effect on January 1, 2015.

The small business sector: The Banking Supervision Department changed the definition of "small business" in the Fees Rules, from a business whose maximum business turnover is up to NIS 1 million to a business whose maximum turnover is up to NIS 5 million. This change makes it possible for more businesses to be included within the retail fee schedule. In addition, the Department took up the fee that a banking corporation may collect for total services in the full price list, which will be calculated such that it will not exceed the amount or rate of the fee collected for the same service from a corporation that is not a small business. In addition, the small business account management fee was cancelled, with the aim of making it easier for small businesses and lowering the monetary burden inherent in managing an account. In parallel, the Department is acting to draft a directive on reporting for statistical purposes, with the aim of collecting comprehensive information on the volume, quality and cost of credit.

Maintaining benefits and discounts on credit and deposits: The Banking Supervision Department published Proper Conduct of Banking Business Directive 421. This directive establishes that when the interest rate on loans or deposits is not fixed or is not known, the same discount from the base interest rate or the same premium on the base interest rate shall apply to them as applied on the date the loan was made available or on the date of deposit. This directive is intended to make it easier for bank customers to compare between the banking services and products offered to them.

b. Providing consumer information and financial education

(1) Information program regarding youth accounts

The Banking Supervision Department continued to run the financial education program via Facebook. This information program, launched in 2011, is intended to increase the financial knowledge of youth and to provide them with tools for proper economic conduct.

(2) The "Consumer Information" section

The content in the "Consumer Information" section of the Bank of Israel's website was improved and expanded.

c. Handling public enquiries and complaints

(1) Introduction

The Banking Supervision Department's role in maintaining fairness in the relations between banking corporations—the banks and credit card companies—and their customers is carried out through the Bank–Customer Division.[6] The Public Enquiries Unit operates within this division.[7] Its role is to investigate customer enquiries and complaints against the banking corporations, and to derive lessons from the information obtained in handling complaints. This activity includes, among other things, deciding on complaints and providing suitable relief, the detection and correction of systemic deficiencies, and providing information to the banks' customers in order to reduce the knowledge and information gaps between them and the banking corporations.

[6] Other banking consumer protection activities are also carried out through the On-Site Division of the Banking Supervision Department.

[7] The Public Enquiries Unit operates under Section 16 of the Banking (Service to the Customer) Law, 5741–1981, which confers upon the Supervisor of Banks the authority to investigate enquiries from the public regarding their dealings with the banking corporations.

(2) Handling public enquiries and complaints: general data[8]

The total number of enquiries and complaints submitted by customers of the banking system, the handling of which was completed in 2013, increased by about 20 percent compared with 2012. The number of telephone enquiries and complaints during 2013 increased by about 34 percent compared with the previous year, while the number of written enquiries declined by about 17 percent. The number of complaints out of total written enquiries increased by about 24 percent compared with 2012. In the Banking Supervision Department's assessment, the increase in numbers is the result of two main factors—increasing consumer awareness, and the accessibility of information to the public. The number of complaints regarding which a position was taken—the complaint was justified or the complaint was not justified—increased by about 27 percent in 2013 compared with 2012. No position was taken regarding the remaining complaints, among other reasons due to the inability to decide between contradicting verbal claims, due to concurrent legal proceedings, or due to the bank's readiness to accede to the customer's request before the Banking Supervision Department took a position.

Table 2.1
Activities of the Public Enquiries and Bank Fees Unit, 2013 Compared with 2012

	2012	2013
Enquiries and complaints handled by the unit	22,459	26,517
of which:		
Telephone enquiries and complaints	16,045	21,450
Written enquiries and complaints	6,095	5,067
Written complaints	1,253	1,549
Written complaints regarding which a position was taken	898	1,131
Justified complaints as a share of those regarding which a position was taken	21.5%	22.2%

As a result of the Banking Supervision Department's intervention in individual complaints, the banking corporations paid their customers a total of about NIS 1.5 million.

The table below presents the distribution of written enquiries and complaints[9], the handling of which has been completed, by the length of time spent in processing them by the Public Enquiries Unit. Most of the written enquiries and complaints submitted in 2013 were handled within 3 months. Sometimes, the handling of complaints takes longer, as the activity is conducted vis-à-vis the banks and credit card companies. In some cases, a number of clarifications are necessary in order to make a decision on a complaint, depending on its scale and complexity. In contrast, enquiries regarding requests for information are answered shortly after they are received.

8 A detailed presentation of the data on the banking corporations based on the information drawn from handling public enquiries and complaints appears in a separate survey published on the Bank of Israel's website on June 1, 2014.

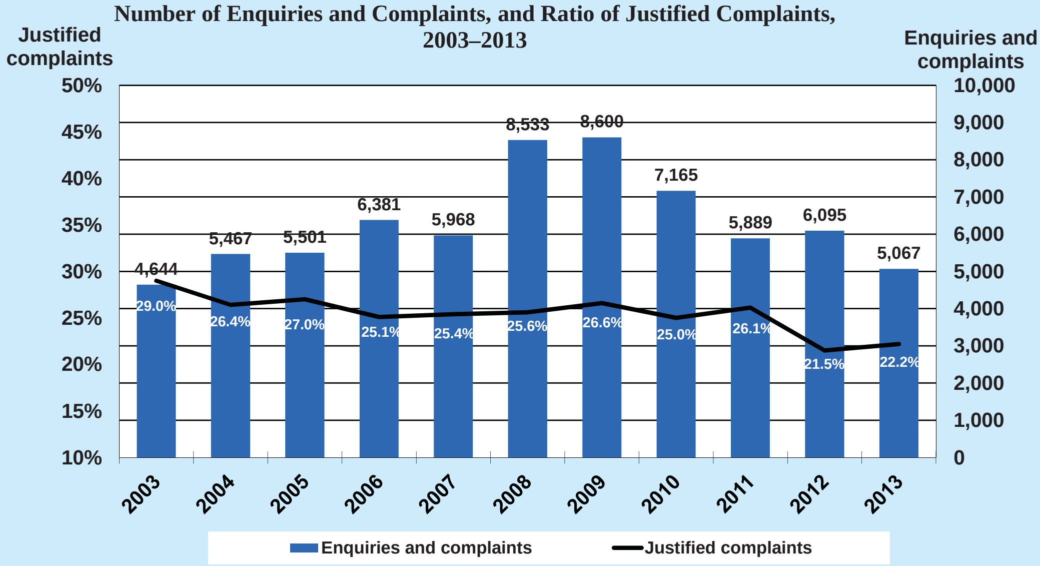
9 Telephone complaints are generally answered within one day and are not included in these data.

Table 2.2
Distribution of handling time for written enquiries and complaints

Up to 3 months	3–6 months	6-9 months	9-12 months	More than 12 months
79%	9%	5%	3%	4%

In 2013, 22.2 percent of complaints regarding which a position was taken were found to be justified—a slightly higher rate than the percentage of justified complaints in 2012 (21.5 percent). Figure 2.1 indicates that in the past two years, the percentage of justified complaints declined from an average of about 26 percent to an average of about 22 percent.

Figure 2.1
Number of Enquiries and Complaints, and Ratio of Justified Complaints, 2003–2013



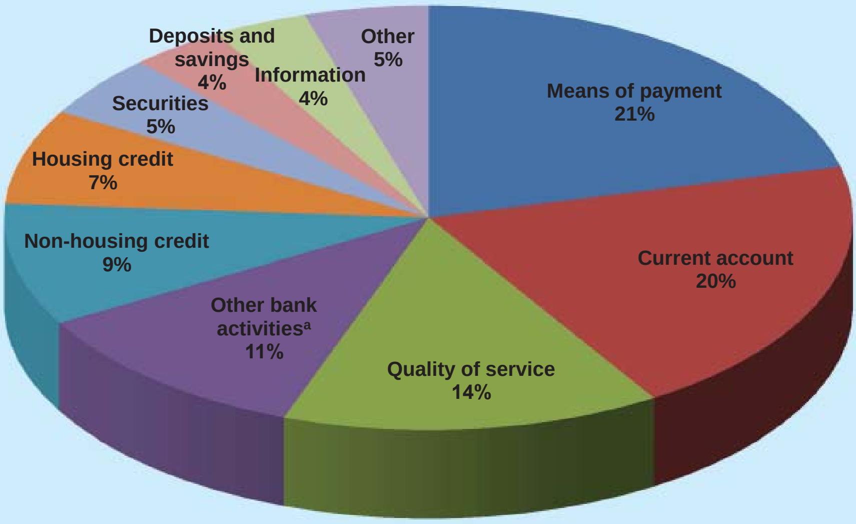
SOURCE: Banking Supervision Department.

(3) The topics that were the subject of complaints

Most of the enquiries and complaints received in 2013 were regarding means of payment and current accounts. In terms of means of payment, the enquiries and complaints focused on checks and credit cards. The enquiries and complaints regarding current accounts related to a variety of aspects, including opening or closing an account, its management fees, and various transactions in the account, as well as the various account types—business accounts, joint accounts, youth accounts, and so forth.

The share of complaints regarding housing loans has declined in recent years. In 2013, they constituted 7 percent of all complaints, compared with 10 percent in 2012 and 17 percent in 2011. We attribute the decline to the fact that the Banking Supervision Department has in recent years increased the enforcement of regulatory directives regarding housing loans.

Figure 2.2
Distribution of Enquiries by Topic, 2013



[a] Other bank activities: Debt collection, estate distribution, execution of court orders, reporting to credit data companies, and more.
SOURCE: Banking Supervision Department.

d. Restricted Accounts and Customers Section

(1) The number of restricted customers and restricted accounts

At the end of 2013, there were 292,532 restricted customers. Of those, 22,750 were restricted under regular circumstances, 14,919 were restricted under aggravated circumstances, and 254,863 were restricted under special circumstances. Customers restricted under special circumstances include those who are restricted by the Execution Office, those who are restricted by the Official Receiver, those who are restricted by the Center for the Collection of Fines, Fees and Expenses, and those who refuse to grant a divorce and are restricted by the rabbinic courts. (See Figure 2.3.) There were 539,424 restricted accounts[10] at the end of 2013, including accounts that were restricted due to checks returned for reason of "insufficient cover", and accounts that were restricted as a result of aggravated restriction or special restriction imposed on the account holders. (See Figure 2.4.) The table below presents numeric data regarding restricted customers between 2008 and 2013.

[10] Accounts restricted as a result of special restriction or aggravated restriction imposed on the account holder also include closed accounts.

Table 2.3
Distribution of the number of restricted customers, 2008–2013[a]

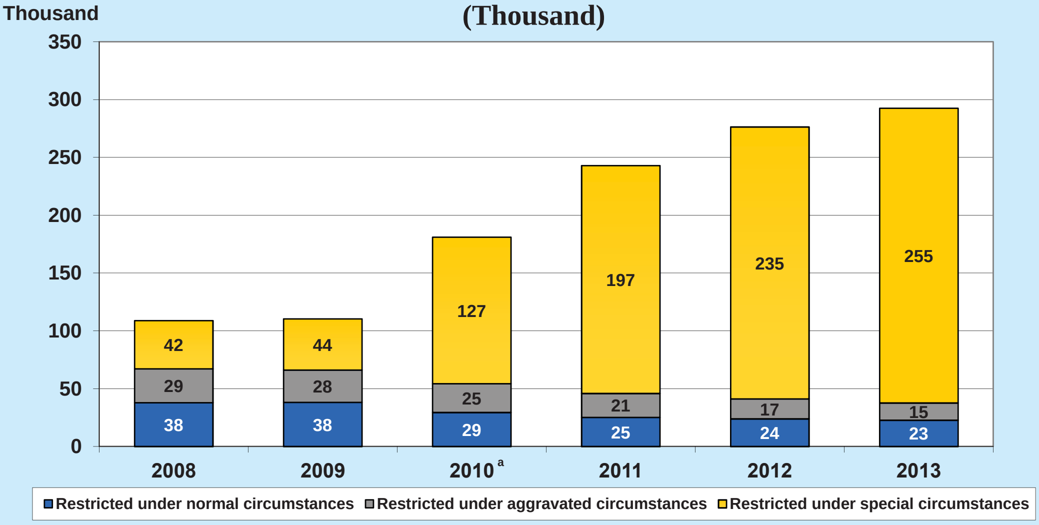
Year	Restricted under normal circumstances	Restricted under aggravated circumstances	Restricted under special circumstances	Total
2013	22,750	14,919	254,863	292,532
2012	23,920	17,257	235,120	276,297
2011	25,201	20,709	196,970	242,880
2010[a]	29,444	24,887	126,712	181,043
2009	38,193	27,989	44,226	110,408
2008	37,942	29,234	41,679	108,855

[a] In 2010, the number of customers restricted under special circumstances increased as a result of a legislative change in the processes accompanying debt collection by the Execution Office (Amendment 29 to the Execution Law, 5769–2008).

(2) Enquiries and appeals of restrictions

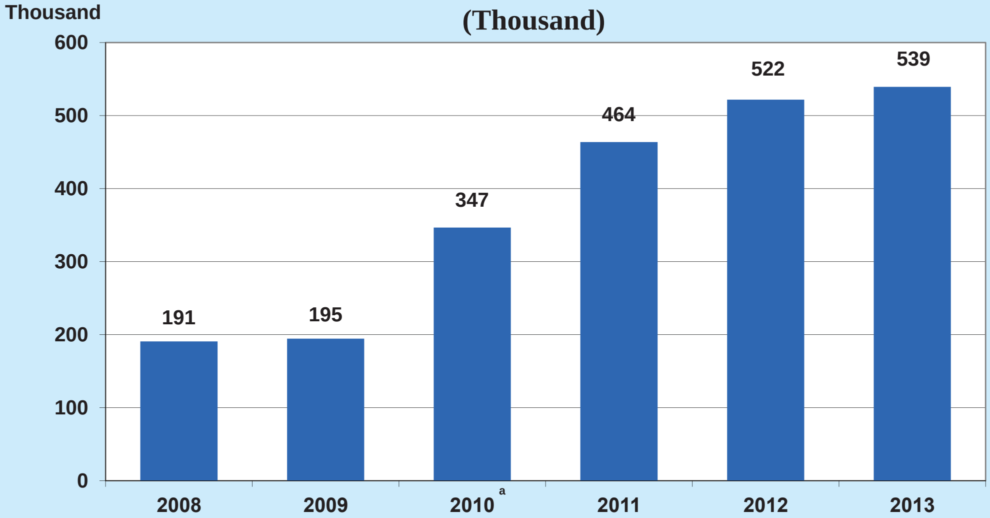
Over the course of 2013, the Section handled about 4,000 written enquiries and answered about 16,600 phone calls that were received through the call center. Some of the enquiries were requests for information regarding the restriction, its meaning and implications, while others requested that a restriction be cancelled or that the propriety of a restriction be examined. In addition, the Unit monitors banking corporations' execution of court decisions on an ongoing basis, and manages the appeal files connected with the various restrictions accordingly.

Figure 2.3
Number of Restricted Customers
(Thousand)



[a] In 2010, the number of customers restricted under special circumstances increased as a result of a legislative change in the processes accompanying debt collection by the Execution Office (Amendment 29 to the Execution Law, 5769–2008).
SOURCE: Banking Supervision Department.

Figure 2.4
Number of Restricted Accounts
(Thousand)



[a] In 2010, the number of accounts restricted under special circumstances increased as a result of a legislative change in the processes accompanying debt collection by the Execution Office (Amendment 29 to the Execution Law, 5769–2008).
SOURCE: Banking Supervision Department.

APPENDIX A: REGULATORY TIMELINE FOR 2013

January 1

Amendment to the Banking (Customer Service)(Fees) Rules, 5768–2008

The following changes were made as part of the amendment to the Banking (Customer Service)(Fees) Rules, 5768–2008:

- Banking corporations were instructed to publish a direct link to their fee schedules on their websites.
- The definition of "senior citizen" was amended with the aim of making senior citizens' entitlement to receive four teller-executed transactions per month at the price of a customer-executed transaction automatic.
- The commission for a guarantee that is backed by a monetary deposit was set at a lower rate than the commission for a guarantee that is not backed by a deposit.
- Guidelines were issued regarding differential pricing of the various securities transaction channels.
- A maximum fee was set for the purchase or sale of securities.
- The supervised price for the transfer of a securities deposit from one bank to another will also apply to its transfer to outside the banking system.
- The exemption ceiling on fees for the handling of credit and collateral was raised from NIS 50,000 to NIS 100,000 for nonhousing loans.
- The fee for changing the payment date on credit cards was cancelled.
- The fee for an information card and for a cash withdrawal card was cancelled.
- The small business account management fee was cancelled.

January 13

Update of the Reporting to the Public Directives on disclosure regarding deposits

The disclosure requirements on deposits in the Reporting to the Public Directives were brought in line with the disclosure requirements accepted in the financial statements of US banking corporations, in order to provide broader information on the sources of the banking corporations' activities.

January 15

Amendment to Directive 342, "Liquidity Risk Management"

Proper Conduct of Banking Business Directive 342, "Liquidity Risk Management" was amended following the experience gained and conclusions drawn from audits that were carried out.

February 17

Update to Directive 304A, "The External Auditor—Performing Audits and Reviews in Accordance with Certain US Standards"

Following amendments to the auditing standards in the US, Proper Conduct of Banking Business Directive 304A, "The External Auditor—Performing Audits and Reviews in Accordance with Certain US Standards" was updated.

March 1 — **The Supervisor's letter regarding the repricing of commissions for securities transactions takes effect**

Since there is a large gap between the commission listed in the fee schedule and the commission actually collected, the banking corporations were required (in a Supervisor's letter from November 28, 2012) to reprice the commissions for the purchase or sale of securities. The banking corporations were also given guidelines regarding agreements to provide price-based discounts rather than a percentage discount from the price in the fee schedule.

March 21 — **Housing loan limitations**

Since there was a rapid growth in the volume of loan portfolios secured by a residential property, and since this increased the risks inherent in the housing loans portfolios at the banking corporations, it was set out that:

- The risk weighting in respect of housing loans would be updated in accordance with the loan's LTV ratio.
- The credit conversion coefficient for guarantees according to the Sale Law would be reduced to 10 percent after delivery of the home.
- The balance of the group allowance for credit loss in respect of housing loans would not be less than 0.35 percent of the balance of those loans on the reporting date.

April 30 — **Amendment to Directive 314, "Sound Credit Risk Assessment and Valuation for Loans"**

Directive 314 was amended following the recommendations of the Basel Committee and the changes in the Reporting to the Public directives regarding valuation and disclosure of impaired loans, credit risk and the allowance for credit losses, and following past experience.

May 1 — **Amendment to Directive 451, "Procedures for Extending Housing Loans"**

The section on "Arrears and Warning Prior to Foreclosure" was amended by (a) expanding the information that must be provided to the borrower in the Notice of Arrears in the loan payments: A requirement was added to note the methods of communication with the banking corporation, and (b) imposing the obligation to adopt fair means in order to be aware of a borrower's request to restructure a debt in arrears. This directive came into effect on August 1, 2013.

May 30 — **Directive 333, "Management of Interest Rate Risk"**

As part of brining the Proper Conduct of Banking Business directives in line with the Basel Committee recommendations, Proper Conduct of Banking Business Directive 333, "Management of Interest Rate Risk" was formulated. The management of interest rate risk is intended to ensure that the risk level remains within reasonable bounds so that the banking corporation is not exposed to significant losses and so that stability is maintained.

Amendment to Directive 339, "Market Risk Management"
Following the formulation of the "Management of Interest Rate Risk" directive, Proper Conduct of Banking Business Directive 339, "Market Risk Management" was amended.

Amendments to Directives 201–211 as part of the adoption of the Basel III recommendations
Within the framework of adopting Basel III in Israel, Proper Conduct of Banking Business Directives 201–211, which deal with the calculation of the banking corporations' capital adequacy ratios, were amended, and a transition directive was formulated that allows the gradual implementation of the recommendations. As to the minimum capital targets, it was determined that the total capital ratio would be no less than 12.5 percent in the entire banking system and 13.5 percent in the two large banks.

Amendment to Directive 313, "Limitations on the Indebtedness of a Borrower and a Group of Borrowers", and Directive 315, "Supplementary Provision for Doubtful Debts"
Following amendments to a number of directives in various areas, Proper Conduct of Banking Business Directive 313, "Limitations on the Indebtedness of a Borrower and a Group of Borrowers", and Proper Conduct of Banking Business Directive 315, "Supplementary Provision for Doubtful Debts" were amended.

June 20

Integrating letters on disclosure and valuation in Reporting to the Public directives
Guidelines published in recent years in letters, which related to disclosure and measurement in the following areas, were integrated in Reporting to the Public directives: exposure to foreign financial institutions, housing loans and loans to purchase groups, external auditor's report, investments in securities, disclosure of investment in asset-backed securities, decline in the value of securities, associations with securitization structures, and conditions for disclosure of liabilities to a credit provider or the issuance of guarantees.

August 1

Amendment of the Banking (Service to the Customer) (Fees) Rules, 5768–2008
As part of the amendment of the Banking (Customer Service)(Fees) Rules, 5768–2008, the definition of "small business" was changed in the retail fee schedule from a business with a maximum turnover of up to NIS 1 million to a business with a maximum turnover of up to NIS 5 million. The amendment also related to the fee that a banking corporation may collect for service included in the full fee schedule, which will be calculated so that it does not exceed the amount or the fee rate collected for the same services from a corporation that is not a small business.

August 4

Amendment to Directive 420, "Electronic Transfer of Information"
In view of the multiplicity of statements sent by the banks to their customers and the costs implicit in this, and in view of technological advancements, Proper Conduct of Banking Business Directive 420, "Electronic Transfer of Information" was amended, and it was determined in which cases the banking corporations would be able to send information electronically.

August 5

Amendment to Directive 318, "Collateral Database"

As part of the amendment of Proper Conduct of Banking Business Directive 318, "Collateral Database", a decision was made to expand the database on collaterals and to include within it detailed data on the structure of the transaction, and particularly on the collateral provided as part of the transaction, in order to improve the array of information on housing loans.

Amendment to Directive 306, "Control or Substantial Noncontrolling Interest in Nonbank Financial Corporations"

As part of bringing the Proper Conduct of Banking Business directives in line with the Basel Committee recommendations, Proper Conduct of Banking Business Directive 306 "Control or Substantial Noncontrolling Interest in Nonbank Financial Corporations" was amended. The amendment is intended to set forth the rules for approving or rejecting banks' requests before a financial corporation is purchased or established.

August 29

Update to the Reporting to the Public directives on capital structure in accordance with Basel III

The capital structure disclosure requirements in the Reporting to the Public directives were updated in accordance with the Basel III recommendations, as adopted in Proper Conduct of Banking Business Directive 202, "Regulatory Capital". The main points of the updates include:

- Expanded disclosure of the main characteristics of the capital instruments that have been issued.
- Updated disclosure of the components of regulatory capital.
- Setting out a format for presenting the connection between the balance sheet in the financial statements and the components of regulatory capital.

Imposing additional limitations on housing loans

Since the volume of loans backed by residential properties continued to increase, and since this led to increased risk taken on by borrowers and increased risk inherent in the housing loan portfolios of banking corporations, the following limitations were imposed:

- Payment to income ratio: It was determined that a banking corporation shall not approve and not provide a housing loan if the payment to income ratio is greater than 50 percent. In addition, in a case where the payment to income ratio exceeds 40 percent, the risk weight for the loan shall be 100 percent.
- The share of the loan at variable-rate interest: It was determined that approval and provision of a housing loan shall be permitted only where the share of the loan at variable-rate interest does not exceed 66.66 percent of the total loan. In addition, the proportion of the loan at variable-rate interest that bears interest that may change within 5 years from the date the loan was approved, shall not exceed 33.33 percent of the total loan.
- The term to final repayment: It was determined that a loan shall not be approved or granted if the term to final repayment exceeds 30 years.

September 1 **The Supervisor's letter regarding the amendment of the definition of "Small business" takes effect – notice to customers**

In view of the effect of the change in the definition of "small business" in the Banking (Customer Service)(Fees) Rules, 5768–2008 on the volume of fees charged, the banking corporations were required (in the Supervisor's letter from July 31, 2013) to approach their customers and notify them regarding the change. The banking corporations were required to send notices by September 1, 2013.

September 9 **Proper Conduct of Banking Business Directive 421, "Interest Rate Reduction or Increase"**

Proper Conduct of Banking Business Directive 421, "Interest Rate Reduction or Increase" was formulated, containing detailed rules for granting a reduction or increase in the interest rates on loans or deposits for a limited period. This directive is intended to make it easier for banking corporation customers to compare between the banking services and products offered to them. It was determined that this directive would come into effect on January 1, 2014, except for Section 2, which will come into effect on July 1, 2014.

September 29 **Update of Reporting to the Public directives regarding the publication date of financial statements**

The Reporting to the Public directives were amended to bring the publication date of the financial statements of Israeli banking corporations into line with the accepted date in the US. Accordingly, each banking corporation is required to publish its annual report no later than two months from the publication date of its balance sheet.

September 30 **Reporting to the Public directives requiring that cash flows in respect of assets and liabilities be presented with a distinction between domestic and foreign currencies**

In order to enable those reading the financial statements to better understand the liquidity risk to which the banking corporation is exposed, Reporting to the Public directives were amended, such that the corporations are required to present the cash flows in respect of assets and liabilities with a distinction between domestic and foreign currencies.

October 22 **Supervisor's letter regarding the publication of fee schedules on the banking corporation's website**

The banking corporations were instructed to enable customers to download the fee schedules from the websites in Excel or PDF formats, starting on January 1, 2014.

November 19 **Proper Conduct of Banking Business Directive 301A, "Remuneration Policy in a Banking Corporation"**

In accordance with that stated in Amendment 20 of the Companies Law, 5773–2012, and in order to set out rules intended to ensure that the compensation arrangements at a banking corporation are consistent with the risk management framework, Proper Conduct of Banking Business Directive 301A, "Remuneration Policy in a Banking Corporation" was formulated. The directive is based mainly on the guidelines of international supervisory organizations, and includes requirements that apply to the remuneration array in a banking corporation, including requirements concerning the roles of the Board of Directors and the Compensation Committee, and concerning compensation policy, the controls over it, and documentation of it. A maximum ratio between variable remuneration and fixed remuneration was set for key employees, and it was determined that the payment of variable remuneration would be delayed and would be made in installments that come due over a number of years. Further to this, disclosure requirements in this matter were published on November 26, as part of the Reporting to the Public Directives.

November 28 **Amendment to the Banking (Customer Service)(Fees) Rules, 5768–2008**

As part of the amendment to the Banking (Customer Service)(Fees) Rules, 5768–2008, the tracks service was added. It was decided that the current account management services would include a basic track and an expanded track. In addition, on March 26, 2014, a Supervision Order placing the price for the basic track under control was published, and it was determined that the maximum price would not exceed NIS 10. The amendment and the Supervisory Order came into effect on April 1, 2014.

December 25 **Amendment to Proper Conduct of Banking Business Directive 301, "Board of Directors"**

Proper Conduct of Banking Business Directive 301 "Board of Directors" was amended after the Supervisor of Banks and the Commissioner of Capital Markets, Insurance and Savings drafted a joint policy regarding a situation in which a director serves simultaneously at a banking corporation and a capital market corporation.

APPENDIX B: STRUCTURE OF THE BANKING SUPERVISION DEPARTMENT

a.The Off-Site Evaluation Division

The Division collates and compiles the Banking Supervision Department's periodic appraisals of the stability, robustness and management of the banking corporations, including auxiliary corporations, banking subsidiaries and overseas branches of the Israeli banks. The Division is also responsible for preparedness for business continuity during emergencies. Since the Banking Supervision Department serves as the banking financial authority, it is tasked with ensuring that the entities under the Bank of Israel's supervision during routine times —the commercial banks, credit card companies, Shva and Masav (automated clearing house)—operate during emergencies as well.

The Institutional Evaluation Units

The institutional evaluation units' responsibilities are divided by banking groups. The units are charged with assessing the risks of each bank. The risk assessment process makes it possible to determine operational arrangements for assisting in the early detection of negative and unusual developments in the activity and risk exposure of the banks. This process is carried out under the risk-focused supervision method: The overall evaluation of the banking corporation is based on an appraisal of its corporate governance, the quality of risk management, and the level of the bank's risk exposure and the capital which it holds for the purpose of supporting its overall risk profile. (The banks' capital adequacy relative to their risk profile is assessed through the SREP.[1]) The evaluation processes include an analysis of the bank's exposure to risk, an assessment of the characteristics and performance of the management and control functions. In addition, the units are also responsible for the current processing of enquiries from the banking corporations, and for ensuring that the banking coporations meet Supervisor of Banks requirements.

b. The On-Site Division

The Division carries out in-depth and comprehensive on-site examination processes at the banks and the credit card companies. The purpose of these examinations is to identify and assess the risks inherent in the entire range of the banking corporations' activities and to examine the quality of the bank's risk management—is it dealing appropriately with the issue at the focus of the audit—with an emphasis on compliance with the bank's policies and procedures, laws and the Supervisor of Banks' directives and guidelines, and while challenging the judgment of the Board of Directors and senior management. Examination reports warn of deficiencies and malfunctions, present requirements and set timetables for their rectification. The examination findings and conclusions are used in compiling an assessment of the banking corporations' stability, their risk management culture, and their fair treatment of customers. The examination also supports regulation of activity within the banking system.
Auditing activity is carried out via five auditing units that each specialize in a particular risk area:

[1] Supervisory Review and Evaluation Process.

(1) The Credit Risk Audit Unit

The Unit's principal functions are to identify and assess the risks inherent in the extension of credit at the level of the single transaction and the single borrower and at the level of borrower groups and sectors. Among other things, the Unit examines credit policy and procedures and the manner in which they are implemented, credit approval and credit operations processes, control over these processes, the problem loan detection and classification processes, and compliance with the Supervisor of Banks' directives in the area of risk management.

(2) The Market Risk and Liquidity Risk Audit Unit

The Unit's principal functions are to identify market and liquidity risks and assess the quality of their management and control processes. The Unit conducts audits in the following areas: asset and liability management (interest rate risks, indexation basis risk), securities portfolio management, the management of risks deriving from dealing rooms' activity in derivatives, liquidity risk management, and the management of risks deriving from bank customers' capital market activities. The audits include an examination of the relevant risk management policies, their assimilation in the management, monitoring and control processes, an assessment of the models that serve in the risk estimation, an assessment of the management information infrastructure, and an examination of various aspects of corporate governance.

(3) The Operational Risk Audit Unit

The Unit's principal functions are to examine the banking corporation's operational risks and to assess the management of those risks. An emphasis is placed on IT risks, including information security and cyber risks, risks deriving from material changes in the area of information technology, potential risks deriving from the link-up of the banks' systems to external networks, business continuity risks, and outsourcing risks. The unit also examines the propriety of the operational risk management framework, cross-organizational processes, critical systems, and activities with high operational risk.

(4) The Compliance Risk Audit Unit

The Unit's principal functions are to examine the banking corporation's compliance with directives concerning the prevention of money laundering and of the financing of terrorism, and the observance of Proper Conduct of Banking Business directives in the consumer area. In the course of the Unit's audits, it examines the propriety of policy, the implementation of policy and the operation of efficient control mechanisms, including the compliance officer and the internal audit.

(5) The Corporate Governance Risk Audit Unit

The Unit's principal function is to identify the weak points in the functions and characteristics of the various entities which make up the banking corporation's corporate management. In the course of the Unit's audits, it examines the effectiveness and efficiency of the board of directors, the senior management, the risk management system, the internal audit department and the compliance officer. It also deals with broader issues such as remuneration policy and verification of capital reports.

c. The Policy and Regulation Division

The Division formulates directives for the regulation of supervisory policy, regulates banking activity, and draws up measurement, disclosure and reporting principles, while collecting and analyzing data on developments in risks and banking activity. This activity is carried out via four units:

(1) The Regulation Unit

The Unit is responsible for the regulatory arrangement of banking activity, mainly through Proper Conduct of Banking Business directives and Supervisor's circulars, and also by means of promoting legislation. The purpose of these activities is to assure the proper and cautious management of the banking corporations, to provide regulatory coverage for the activity of the bank's board of directors and management, and to strengthen internal risk management and control systems.

(2) The Financial Reporting Unit

The Unit is responsible for determining principles for measurement, disclosure and reporting to the public by the banking corporations. In addition, the Unit conducts audits for the purpose of examining the banking corporations' adherence to these principles.

(3) The Information and Reporting Unit

The Unit is responsible for receiving the banks' reports to the Banking Supervision Department, scrubbing and processing and editing these reports, and turning them into readily available information for serving the Department's purposes. The Unit also publishes data about the banking system on the Bank of Israel's website.

(4) The Economics Unit

The Unit is responsible for analyzing the risks to the stability of the banking system that are inherent in the activity of the banks, in the development of credit and liquidity risks, and in other areas. In addition, the Unit constructs tools to analyze the state of the banking system and the risks within it (stress tests and other tools), helps determine supervisory policy, and also compiles and publishes periodic reviews as well as the annual survey of the banking system.

d. The Bank-Customer Division

The Division is charged with promoting fairness in the relations between the banking corporations and their customers while protecting the rights of the banking consumer; enforcing bank-customer related legislation and directives; encouraging competition in the banking system; and increasing the public's awareness of their consumer rights in the area of banking. In order to achieve these objectives, the Division operates via two units and a section:

(1) The Public Enquiries Unit

The Unit examines customers' complaints against the banking corporations (banks and credit card companies), and makes decisions regarding disputes that are presented to it. The information accrued from complaints helps to detect and remedy deficiencies at the banking corporations. The Unit also provides information and answers questions from the public on banking consumer matters.

(2) The Regulation (Bank-Customer) Unit

The Unit provides regulatory coverage in the area of banking consumer related legislation and Proper Conduct of Banking Business directives. The Unit monitors compliance with the Supervisor of Banks' directives, other provisions of the law in the bank-customer area, and consumer-related directives. In addition, the Unit applies and enforces provisions of the law concerning commission fees, including measures for increasing the transparency of the prices of banking services and the ability to compare between them. The Unit also engages in consumer-related explanatory activity to customers in order to increase their awareness of their rights and to reduce information gaps on banking matters.

(3) The Restricted Accounts and Customers Section

The Section collates all the information received from the banks regarding restricted customers and restricted bank accounts, as well as information on special restrictions imposed by the Execution Office, the Official Receiver, and rabbinic courts (regarding recalcitrant husbands). The Section deals with clarifications concerning restricted accounts and customers, and customer enquiries on these matters.

e. The International Relations Unit

The Unit maintains regular contact with supervisory authorities worldwide, as part of home-host cooperation required by formal agreements signed with these authorities, and in accordance with the recommendations of the Basel Committee. In addition, the Unit reviews developments that may have implications for the Israeli banking system, and holds meetings with ratings agencies, international organizations, and foreign banks, with the aim of increasing transparency to the global financial communities and reducing the risk to the Israeli banking system.

f. The Central Services Unit

The Central Services Unit engages in the coordination and monitoring of the Banking Supervision Department's work programs, and in the promotion of cross-organizational projects. The Unit's areas of responsibility include the development of information infrastructures and making them accessible to the Department's employees, the preparation of work plans, budgetary planning, procurement activity, and the cultivation of human resources, including the construction and application of training programs. The Supervisor's Office also deals with the promotion of the framework for the operation of credit unions.

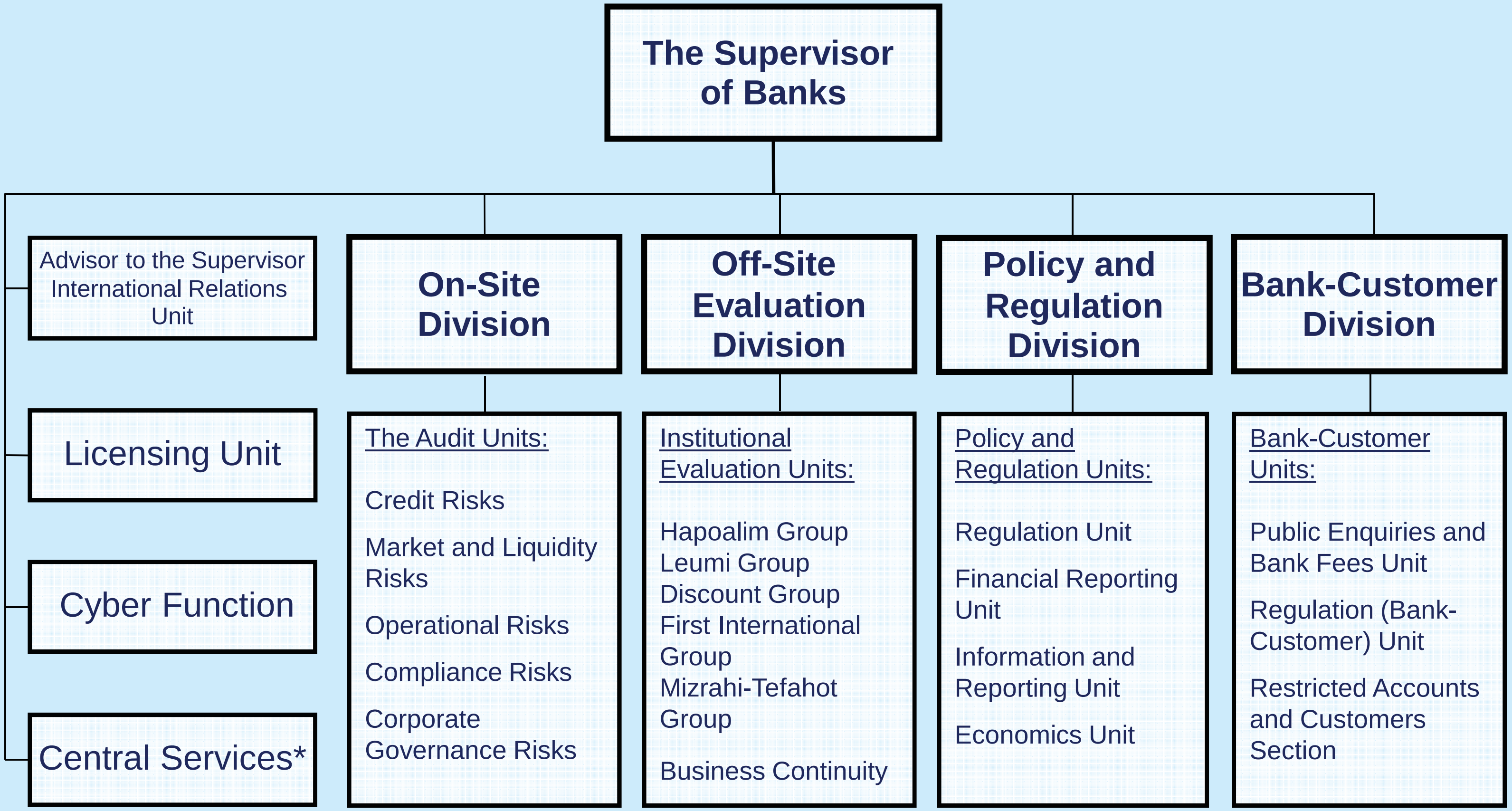
g. The Licensing Unit

The Unit processes applications that under the law require licensing from the Governor of the Bank of Israel or from the Supervisor of Banks. The Unit's activity includes the examination of candidates for control of banking corporations or for holding the means of control in banking corporations, a fit and proper test for senior office holders at the banking corporations, licensing for branches, the activity of foreign banks in Israel, and more.

h. The Cyber Function

The main role of the cyber function is to strengthen the ability of the banks and credit card companies to withstand cyber attacks. As part of its activity, the function maintains regular contact with the banking corporations, external consultants, the National Cyber Bureau, and the National Information Security Authority.

The Bank of Israel's Banking Supervision Department



*** Includes responsibility for promoting a framework for the operation of credit unions and for the development of a supervised information infrastructure.**