Bank of Israel
Supervisor of Banks

Jerusalem
June 13, 2017
17LM2582
REG15.027.020

To: **The banking corporations and credit card companies**
Attn: CEO

Re: Increasing operational efficiency of the banking system in Israel—increasing efficiency in real estate

General

1. In our letter dated January 12, 2016, on "Increasing operational efficiency of the banking system in Israel" (16LM2211) (hereinafter, "**the Letter**"), banking corporations were required to formulate and implement a multiyear plan for increasing efficiency. The Letter defined leniencies that will be granted in capital adequacy requirements, as a result of implementing said plan, and the conditions under which such leniencies will be granted.

Increasing efficiency in real estate

2. Further to the said Letter, it is clarified that the Banking Supervision Department encourages banking corporations to also examine, in addition to increasing efficiency in human resources, the possibilities of reducing real estate and maintenance costs of headquarters and management units, including through a re-examination of their geographical location (hereinafter, "increasing efficiency in real estate").

Conditions under which the leniencies will be granted

3. The Banking Supervision Department will authorize certain leniencies in capital adequacy for a banking corporation that will implement a plan for increasing efficiency in real estate, subject to all of the following conditions:

   3.1 The banking corporation presented to the Banking Supervision Department a concrete plan referring to, among other things, the following aspects:

   (a) The plan includes changing locations of the corporation's headquarters and management units;

   (b) The plan is economically worthwhile and is expected to achieve long term savings in costs. Pro forma data should be presented, indicating a reduction in

operating and maintenance costs, while taking into account the one-off as well as long term costs of the transfer (such as improvements in leased facilities);
(c) The plan fits the banking corporation's needs—current as well as expected over the corporation's strategic plan horizon;
3.2 The banking corporation is able to show concrete commitment to executing the plan for increasing efficiency—for example, via presenting obligating contracts for changing the headquarters and management units' locations.
3.3 The plan for increasing efficiency in real estate is to include a defined and reasonable timetable, taking into account the type of processes being taken as well as interim targets—among other things, setting a timetable for establishing a new location for the headquarters and management units, moving dates, and years of leasing temporary offices until the move.

Leniency in respect of increased efficiency in real estate

4. In reference to Section 7 of the Letter, the leniency in meeting capital adequacy targets will be calculated as the sum of :
   4.1 Capital gains created from the sale of the real estate asset that has not yet been recognized in the profit and loss statement, and therefore has not yet been recognized in regulatory capital; and
   4.2 The cumulative amount of direct costs recorded by the banking corporation in respect of the increasing efficiency plan.

   It is hereby clarified that the leniency in measuring regulatory capital will be amortized over the period covered by the plan for increasing efficiency. At the end of that time period, regulatory capital will be measured without being effected by the leniency.

Period during which the Letter is in force

5. The period during which the Letter shall be in force shall be extended for another year and a half, through June 30, 2018. The extension of the period that the letter is in force will enable the banking corporation to:
   5.1 Examine and carry out a plan to increase efficiency in real estate.
   5.2 Expand the plan to increase efficiency in human resources.

Sincerely,

Dr. Hedva Ber
Supervisor of Banks