



January 19, 2015

Circular Number C-06-2453

To:

The banking corporations and the credit card companies

Issue: Group allowance in respect of credit to individuals

(Reporting to the Public Directives)

Introduction

1. In recent years there has been a rapid increase in the amount of credit to individuals, in general, and nonhousing credit to individuals (hereinafter, credit to individuals) in particular, and there has been a decline in the ratio of allowance for credit losses to total credit to individuals. In contrast, the risk inherent in credit to individuals has increased, among other things in view of the trends in economic activity. In light of the above, it has become necessary to revise the Reporting to the Public Directives.
2. Following consultations with the Advisory Committee on Banking Business, and with the approval of the Governor, I have decided to amend the Reporting to the Public Directives as follows.

The amendments to the Directives

3. The Reporting to the Public Directives shall be amended as detailed in the directive.

Explanation

4. In accordance with the requirements in the Supervisor's Directives, in determining the appropriate allowance for credit losses, banking corporations and credit card companies (hereinafter, "banking corporations") are to take into account both past losses in respect of credit to individuals as well as adjustments in respect of factors relevant to the collection of the credit to individuals (hereinafter, the qualitative adjustments).
5. The amendments to the Reporting to the Public Directives, which were integrated into Section 29b.4 of the directives, are intended to provide examples of factors that could be relevant to the evaluation of qualitative adjustments of this type of credit. In addition, according to the amendments, banking corporations are to verify that beginning with 2014 reports to the public, the ratio of the qualitative adjustments to the group allowance for credit losses in respect of non-criticized credit to individuals shall not be less than 0.75 percent of the balance of non-criticized credit to individuals at that time. Excluded from the above is credit risk



- derived from debtors in respect of bank credit cards without interest charges, and individual treatment was set for banking corporations whose annual rate of losses is especially low.
6. Within the amendment, the temporary order regarding “Group allowance for credit losses in 2011–12” was integrated into section 29b.3 of the Reporting to the Public Directives.
 7. To remove all doubt, banking corporations are to continue to work to improve the process of managing credit to individuals, the quality of existing data related to credit risk and credit losses, and the methods for measuring the group allowance for credit losses.
 8. The Banking Supervision Department:
 - 8.1 Shall continue to monitor developments in credit risk in respect of individuals and will update the directives in this issue as necessary
 - 8.2 Shall continue to monitor developments in the method of measuring the group allowance of credit, and in the future will consider the need to update the directives on group allowance for credit losses, including the need to continue calculating the minimum amount of group allowance based on the balance of the general, supplemental and special allowance for doubtful debts.

Applicability

9. A banking corporation shall implement the amendments to the Reporting to the Public directives in accordance with this circular beginning from the reports to the public for 2014.
10. The provisions of Section 29b.4.1, related to the minimum ratio of adjustments in respect of environmental factors, do not apply to a banking corporation regarding which the Banking Supervision Department submitted specific guidelines.
11. A banking corporation that finds the implementation of these directives difficult shall approach Mr. Ido Galil, Head of Financial Reporting, to receive specific guidelines.

File update

12. The updated pages of the Reporting to the Public Directives file are attached. The following are the update instructions:



| Insert page: | Remove page: |
|------------------------|---------------------|
| (1/15) [11] 662-7 | (3/12) [10] 662-7 |
| (1/15) [1] 662-7.1-7.9 | ----- |
| *(3/12) [14] 662-8 | (3/12) [14] 662-8 |
| (1/15) [21] 690-1 | (4/14) [20] 690-1 |
| *(4/11) [1] 698-4 | (4/11) [1] 698-4 |
| *(4/11) [1] 698-5 | (4/11) [1] 698-5 |
| ----- | 698A-1-11(4/11) [2] |
| *(1/15) [1] 699-116 | (1/15) [1] 699-116 |
| (1/15) [2] 699-117 | (1/15) [1] 699-117 |

Sincerely,

David Zaken
 Supervisor of Banks