

Banking Supervision Department

Supervisor's office

Jerusalem, November 12, 2023
23LM5030

Attn: The banking corporations

Re: Capital plans and profit distribution policy

The Swords of Iron War that was forced upon the State of Israel on October 7 also compelled the banking system to make required adjustments.

The banking system in Israel entered the war period in a strong state—high liquidity level, adequate capital cushions, and moderate credit risk indices—enabled the banks, already from the beginning of the current crisis, and in accordance with the Banking Supervision Department's expectations, to assist customers. This was, among other things, by deferring payments and providing credit to households and businesses that were adversely impacted as a result of the war.

Since the dividend distribution and buyback policy was approved by the boards of directors, economic conditions changed substantially—macroeconomic growth forecasts were revised downward, and they still may not reflect the entire expected decline; there is high volatility in exchange rates and in domestic financial markets; there has been an increase in credit risks, and credit losses are expected to grow markedly in the coming period, and in general, uncertainty has grown considerably. Against the background of these changes, when examining the capital plans and the decision on dividend distributions, you are to take into account the new conditions and the effects related to that, and to verify that you hold capital cushions that are sufficient enough to deal with the various risks. Alongside that, it is important that you will be able to continue to assist customers, among other ways, by providing credit to creditworthy customers. This is part of the support for economic activity at this complex time, and as part of the efforts at rehabilitation and development that will arrive after the war period. Limited access to credit for borrowers is liable to increase the severity of the economic crisis, to make exiting from it more difficult, and later on, to increase credit losses.

In view of the above, we request that you reexamine your dividend distribution and share buyback policies for the coming period, against the background of the war and the increase in lack of certainty regarding the continuation of the war and the scope of its impact on the economy.

We request that you submit to the Supervisor of Banks the results of the examination and the renewed decision by November 15, 2023.

Sincerely,

Daniel Hahashvili
Supervisor of Banks

cc: Prof. Amir Yaron, Governor of the Bank of Israel