MINIMUM CAPITAL RATIO

Introduction

1. The content of Section 200 of the Proper Conduct of Banking Business (Measurement and Capital Adequacy) notwithstanding, banking corporations will continue to calculate and maintain the minimum capital ratio as specified in this directive.

2. Capital adequacy is a key element in maintaining the stability of banking corporations. A crucial - though not the only - tool for testing capital adequacy is the maintenance of a minimum ratio of capital to the weighted risk elements of banking business.
   However, it must be emphasized that the minimum ratio required in this directive is not necessarily the optimum ratio, and most banking corporations are expected to maintain a higher ratio.

3. This directive is essentially based on recommendations of the Basle Committee on Banking Supervision, which was first published in July 1988. These recommendations lay down a uniform formula for the measurement of capital ratios and the determination of the minimum ratio required. They have already been adopted by a large number of countries in addition to those represented on the Committee. The Committee emphasized the importance of applying the restrictions to internationally active banks. Initially, the Committee's recommendations dealt mainly with credit risk, and more recently with other risks, such as interest-rate risk, market risk, etc.

Applicability

4. (a) This directive will apply to all banking corporations except foreign banks and joint services companies.
   (b) This directive will also apply to the following corporations as if they were banking corporations: a corporation as specified in sections 11(a)(3a) to (3c) and 11(b) of the Banking (Licensing) Law, 5741–1981 (henceforth, the Licensing Law), that is incorporated in Israel and is controlled by a banking corporation, unless the controlling banking corporation meets all the following requirements:
      (1) It includes it in its financial statements on a consolidated basis;
      (2) It has granted it indemnity on all its obligations;
      (3) It maintains an efficient system of control for monitoring the limitations on a

consolidated basis.

Minimum capital ratio

5. (a) The capital of a corporation to which this directive applies shall not be less than 9% of the total risk-weighted elements of balance-sheet assets and off-balance-sheet items.

(b) Notwithstanding the aforesaid in subsection (a), the Supervisor of Banks may adopt a higher minimum capital ratio for certain corporations.

6. The calculation of the capital ratios is to be based on the consolidated financial statements of the banking corporation and its subsidiaries.

Measurement of capital

7. The method of calculating capital for the purpose of this directive is set out in Appendix A. The method is based on the classification of capital as core capital, supplementary capital and tertiary capital. Supplementary capital includes two categories which will not exceed a certain proportion of the core capital; certain investments in affiliated companies which are not non-banking corporations, in unconsolidated subsidiaries, and in another banking corporation are to be deducted from capital. The tertiary capital will only be used to cover the exposure to market risk.

Risk weighting

8. The sum of the risk-weighted elements in the business of banking corporations will be the sum of:

(a) The balances of all balance-sheet assets and off-balance-sheet items, weighted according to the degree of credit risk.

(b) The multiple of the capital requirement for market risk exposure, calculated according to Directive no. 341 of the Proper Conduct of Banking Business, being the converse of the minimum required capital ratio - namely (1/0.09).

9. The risk weights are based on the type of customer or counterparty. When the ultimate responsibility has been transferred by means of guarantees or letters of indemnity, this must be taken into account when assigning risk weights. If an asset held by a bank is under a lien or collateralized a third-party debt, or if a banking corporation makes a deposit with another banking corporation earmarked for loans to a third party on the depositor's

responsibility, the weighting will be according to the third party's risk category.

10. Risk weighting of balance-sheet assets according to risk levels is to be computed as set out in Appendix B.

11. Taking into consideration the differences in the credit-risk element in transactions defined as off-balance-sheet items (guarantees, documentary credits, futures transactions, etc.), a credit conversion factor is to be applied before the credit risk weighting is computed. The method of aggregating the risks of off-balance-sheet items is set out in Appendix C.

12. The banking corporation will first calculate whether its core and supplementary capital meet the required ratio for credit risk. Thereafter, to the extent the core and supplementary capital are not sufficient in fulfilling the requirements for market risks too, the banking corporation will ensure that it has tertiary capital which will be used for that purpose.

Basis of calculation

13. The ratios specified in this directive will be based on balances calculated in accordance with the instructions for the preparation of annual financial statements, unless otherwise prescribed in this directive.

Reporting

14. Reports on compliance with this directive are to be submitted quarterly. A bank should nonetheless monitor on an ongoing basis its minimum capital ratio.

Appendix A

Calculation the capital of a banking group

A. Capital elements

Capital is the sum of:

1. **Core capital**

(a) Paid-up share capital, excluding cumulative or redeemable preference shares and reserves arising from share premiums paid at issue; in this respect, only preference shares that have been approved by the Supervisor of Banks may be included in core capital;

(b) Other reserves, foreign-currency translation adjustments of autonomous units held abroad, and surpluses, less any losses (excluding adjustments for presentation of securities available for sale at fair value);

(c) Receipts on account of shares provided that there is an irrevocable commitment to purchase and allot them, and sums received in exchange for options to purchase shares, provided these sums are non-refundable;

(d) Minority interests in the equity of consolidated subsidiaries;

Less

(e) Goodwill which is not attributable to tangible assets. Nonetheless, negative goodwill should not be added to capital;

(f) Losses not yet realized from adjustments to the fair value of shares available for sale less the effect of the relevant tax (for this purpose, "shares"- as defined in the Reporting Regulations to the Public, annual financial reports, section 24.g);

2. **Supplementary capital**

(a) (1) Hybrid capital instruments and cumulative or redeemable preference shares that meet the terms of hybrid capital instruments;

(2) The general loan-loss reserves, in accordance with section 6 of Directive no. 315;

(b) (1) Convertible subordinated debt, if its future conversion as shares of the bank seems reasonably assured;

(2) (i) Other subordinated debt with the period to maturity of the principal is at least five years from their original date of issue or deferral of their

maturity; in cases where the principal is paid off in installments, only those parts whose term to maturity is at least five years will be included;

(ii) From the amount of subordinated debt defined in subsection 2(b)(2)(i). above, 20% will be deducted at the beginning of each year of the last five years to maturity; if a subordinated debt is redeemed in installments, this percentage shall be deducted for each amount;

(iii) As an example, the sum to be included in supplementary capital for an issue of NIS 1,000 in subordinated debt for 10 years, with the principal to be redeemed in 10 equal payments, is:

Year 1:	NIS 580	**Year 6**:	NIS 200
Year 2:	NIS 540	**Year 7**:	NIS 120
Year 3:	NIS 480	**Year 8**:	NIS 60
Year 4:	NIS 400	**Year 9**:	NIS 20
Year 5:	NIS 300	**Year 10**:	NIS 0

(iv) For subordinated debt with an option for early redemption, whether by the bank or by the debt holder, the first exit date will be used as the final maturity date, and the period of deduction as defined in subsection 2(b)(2)(ii). above will begin five years before the first exit date; if the early redemption is not exercised, then the debt security will be recognized as subordinated debt subject to its meeting all the defined terms again;

(3) Subordinated debt issued by consolidated subsidiaries, on terms detailed in paragraphs 2(b)(1) and 2(b)(2) respectively;

3. **<u>Tertiary capital</u>**

Subordinated debt which meets all the following requirements:

(a) The term to maturity is at least two years from their original date of issue or deferral of their maturity;

(b) Include an expressed condition whereby repayment of debt (even on the original maturity date) will not be made, if as a result of the payment, the minimum capital ratio will fall below the Supervisor's minimum requirements.

4. **<u>The Capital</u>**

(a) Core capital;

(b) (1) Supplementary capital, as specified in section 2, in an amount not exceeding

100% of the core capital;

(2) Supplementary capital, as specified in section 2(b), in an amount not exceeding 50% of the core capital not allocated against market risks.

(c) The tertiary capital as specified in section 3, which is held against market risks. For this purpose, tertiary capital held against market risks shall not exceed 250% of core capital held against such risks.

(d) Less

The banking corporation's investments in:

(1) Shares and subordinated debt of unconsolidated subsidiaries;

(2) Shares and subordinated debt of affiliated companies which are not non-financial corporations, unless the Supervisor of Banks has approved that the investments therein will not be deducted from capital;

(3) Subordinated debt including securities backed by subordinated debt of another banking corporation.

(e) Financing the purchase of subordinated debt including securities backed by subordinated debt of another banking corporation.

(f) A lien of subordinated debt including securities backed by subordinated debt of another banking corporation, the sum of which in each account of a particular customer is greater than NIS 1 million.

B. Basis of calculation

The elements of capital are to be calculated as they are recorded in the most recent financial statement. If any changes in capital elements other than those listed in paragraphs A.1 (b) and (d) have occurred since the most recent statement, they should be included.

C. Definitions

The following may be included in capital (but not for the purpose of a deduction from capital);

"Subordinated debt" - provided all the following conditions are met:

1. It is issued by the banking corporation or its subsidiary;
2. It has been fully paid-up;
3. It is not insured by means of collateral;

3a. It is neither financed nor mortgaged as collateral for a loan given by the banking corporation or its subsidiary;

4. The rights are subordinated to the claims of all the other creditors of the issuing corporation, except for the rights of creditors under similar subordinated debt;
5. It has not been repurchased by the banking corporation or its subsidiary;
6. It may not be redeemed before maturity or altered unless with the prior consent of the Supervisor of Banks; on this point, transferring ownership of the non-tradable debt security will not be regarded as a change, but if the transfer was to a related party as defined in Section (3) of Directive 312 (Banking Transactions with Related Parties), the banking corporation, at a meeting of the directors' committee on related parties, will approve the deal and will report it to the Supervisor of Banks with the minutes of the said meeting attached;
7. The Supervisor of Banks is informed of the issue or has approved it (in accordance with Appendices E, E1, E2, E3 and E4).

"Hybrid capital instruments" - provided all the following conditions are met:

1. Everything stated in the definition of “subordinated debt”;
2. They participate in losses even when the bank has not ceased trading;
3. Payment of dividend or interest thereunder may be deferred where profitability of the banking corporation would not support payment.

D. Transitional regulations

Notwithstanding the foregoing, subordinated debt issued by a banking corporation or its subsidiary, and approved by the Supervisor of Banks in accordance with section C of Appendix A before 1.4.1998, will be considered for the purpose of calculating the capital of a banking group, even if it does not meet the amended definition of subordinated debt, in accordance with the deduction rules set out in section 2 of Appendix A before 1.4.1998.

Appendix B

Risk weighting of balance-sheet assets

1. Weighting of balance-sheet assets

Weight		Type of asset
(a) 0%	(1)	Cash.
	(2)	Claims on the Bank of Israel, the Government of Israel and claims guaranteed by them, including the Israeli Foreign Trade Risks Insurance Corporation Ltd. (IFTRIC), which is a fully owned government company whose obligations are fully guaranteed as to the payment of principal and interest by the Government of Israel, in accordance with the Foreign Trade Guarantees Law – 5719-1959, as long as the guarantee is in effect and provided that the transaction was approved by the inter-ministerial committee headed by the Accountant General of the Ministry of Finance, or collateralised by State loans.
	(3)	Claims on central banks and governments of OECD Countries and claims guaranteed by them or collateralised by securities issued by them.
	(4)	Claims on other central banks and governments and claims guaranteed by them denominated in their national currency and funded in that currency.
	(5)	Claims on others which meet the following: (a) The banking corporation has the right to net them against the counterparty deposit with it, or on which it holds a first degree lien on a deposit securing the debt; (b) There is a written commitment that the deposit will not be withdrawn as long as the debt remains unpaid.
	(6)	Excess advance income tax payments made on current reserves.

(b) 20% (1) Claims on other banking corporations in Israel and claims guaranteed by them.

(2) Claims on multilateral development banks and claims guaranteed by them or collateralized by a lien on securities issued by them

(3) Claims on banks incorporated in OECD countries and claims guaranteed by them.

(4) Claims on banks in other countries and claims guaranteed by them, with a residual maturity of up to one year.

(5) Claims on public authorities (as listed in Appendix D; excluding corporations controlled by them) and claims guaranteed by them.

(6) Claims on public sector entities in OECD countries and claims guaranteed by them.

(7) Items in the process of clearing or collection.

(c) 50% (1) Claims on Israeli local authorities (not including corporations controlled by them) and claims guaranteed by them, provided the local authority's total independent income in the last two budget years in respect of which an up-to-date financial statement exists, exceeds the overall deficit and credit burden in those budget years; for the purposes of this clause, "deficit", "independent income", and "credit burden" are as defined in the financial statements of local authorities;

(2) Housing loan extended as of 1.1.1998, which meet one of the following:

(a) The ratio between the loan amount (at the responsibility of the banking corporation) and the value of the encumbered asset (in accordance with the banking corporation's share in the lien) does not exceed 60% on the date the loan was extended;

(b) A loan in which the ratio as specified in subsection (a), does not exceed 80%, insured in a mortgage insurance by a recognized insurance company, in a manner whereby the ratio as specified in subsection (a), where the loan amount was reduced by that amount of the loan which has insurance coverage by the recognized insurance company, is not greater than 60%.

However, the balance of housing loans regarding which the percentage ratio between the loan (at the responsibility of the banking corporation), and the value of the encumbered asset is greater than 60%, and which are insured by a single recognized insurance company (as stated in subsection (b)), that will be recognized for weighting purposes at the rate of 50%, shall not exceed 4% of the balance of housing loans (at the responsibility of the banking corporation).

(3) A loan earmarked for the purchase of a residential apartment, as specified in this directive prior to 1.1.1998 and provided they were implemented prior to 1.1.1998.

(d) 100% (1) Net deferred taxes receivable.

(2) All other assets not elsewhere classified, unless deducted from capital.

2. Definitions

"Guaranteed" - By guarantee or letter of indemnity;

"Multilateral development banks" - IBRD, IADB, ASDB, AFDB, EIB, EBRD.

"Up-to-date financial statement" - As defined in section 2 of Directive no. 317 (Financial information in borrowers' portfolios).

"Housing loan" - A loan that meets the following:

1. The loan is earmarked for the purchase, lease, construction, extension, or renovation of a residential apartment - not for business purposes, or a loan earmarked for financing an

early repayment of a loan in full or in part, provided no more than 30 days from the early repayment date have elapsed and the loan amount does not exceed the amount of the loan that was repaid plus expenses;

For the purpose of this section, “expenses”, is every charge related directly to the loan, such as: early repayment fee, stamps, cost of opening a file etc.

2. The loan is secured by a mortgage on the apartment or any other lien on rights to the land, for which a caution has been registered in the Land Registry as security therefore;
3. Except:
   (a) A loan, on which the outstanding balance exceeds NIS 650,000 (indexed to the Consumer Price Index, basis 153.5, February 1998) or 1% of the capital of the bank, whichever is lower;
   (b) A term loan which is not being repaid by periodic installments of principal and interest (monthly or quarterly).

"Recognized insurance company" - An insurance company (henceforth, the company) which meets all of the following:

(1) It has been granted an operating license in Israel by the Commissioner of Insurance, and meets all its terms and regulations.

(2) The Company’s sole occupation is in the field of insuring loans against a first lien on single residential real estate.

(3) The company only insures loans which has been granted by financial institutions supervised by the supervisory authorities in Israel.

(4) Revoked

(5) The company is rated locally at least AA (or Aa3 by

Moody's), updated at least annually, by two of the following five approved rating companies:

(a) Maalot – The Israel Securities Rating Company Ltd.

(b) Midrug, Ltd.

(c) Fitch, Inc.

(d) Moody's Investor Service

(e) Standard and Poor's

(6) The company's equity capital is not lower than the minimum equity capital prescribed for an insurance company, by the Commissioner of Insurance.
For this purpose, "equity capital" is as defined in the Insurance Supervision Regulations (Minimal Equity Capital Required from an Insurer) 5758 – 1997.

(7) The company neither pays nor grants the lender (the insured party) any benefits, directly or indirectly (except for the amount of the insurance coverage).

(8) The company does not make any use of the information regarding the borrower and the insured party, except for the purpose of insuring the loans.

(9) The Commissioner of Insurance has approved the policy.

(10) The company executes insurance only directly (not via delegated underwriting).

(11) Revoked.

(12) The company has assured the bank that it will at any time meet all of the above requirements, and give immediate notice of any material event in the company such as: a change in rating, ownership, equity capital, and financial difficulties of the company.

"Claims" - Deposits, loans, securities, etc.

″OECD countries″ - The 29 countries which are full members:
Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Luxembourg, Mexico, Netherlands, New Zealand Norway, Poland, Portugal, South Korea, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States.

Except for a country included in this list and which has restructured its national debt in the last 5 years, and except for countries specified by the Supervisor of Banks.

″Public sector entities in OECD countries″ - As defined by the banking supervisory authorities in these countries for the purpose of setting capital ratios.

″Lien″ - The right to net or impose a first degree lien to secure repayment of the loan.

3. Basis of calculation

(a) The amounts of the assets are to be calculated as included in financial statements. It should be noted that the asset balances are to be calculated net of accounting write-offs, individual and group provision for credit losses and other provisions for impairment of assets. However, the general loan-loss provision, which is included in supplementary capital, should be added to the assets.

(b) That part of the general provision, which has not been included in supplementary capital, should not be added to the balance of the assets.

(c) Notwithstanding section 1 of this Appendix, credit risk with negative classification, credit risk under special supervision and other credit risk in arrears of at least 90 days, except for that portion of the loan that is covered by the amounts allowed for deduction, as specified in section 5 of Directive no. 313, shall be weighted at 100%.

Appendix C

Credit conversion factors for off-balance-sheet items

1. Classification by credit conversion factor

	Conversion factor	Transaction
(a)	0%	Commitments to extend credit or provide guarantees with an original maturity of up to one year, or which can be unconditionally canceled at any time.
(b)	10%	Futures transactions Guarantees to secure rights of provident fund participants.
(c)	20%	Formal guarantees Open documentary credits Guarantees to secure homebuyer's investments, where the apartment has been delivered to the mortgagor
(d)	50%	Performance guarantees Guarantees for subscription to securities issue Commitments to extend credit or provide guarantees with an original maturity of over one year Unclassified commitments on behalf of customers Underwriting arrangements for the reissue of short-term commitments.
(e)	60%	Guarantees of homebuyer's investments, where the apartment has yet to be delivered to the mortgagor.
(f)	100%	Credit Guarantees Other documentary credits Commitments which have been called in Commitments to the Ma'of (futures) clearing house.

2. Definitions

1. ″**Futures transactions**″ **-** Any of the following, whether or not the banking corporation is a party to or guarantor of the transaction:
   - (a) Forward or future transaction in a currency which is a legal tender, in a currency basket, commodities, securities, or rights; unless there is a futures transaction of the same type with the same counterparty, to be netted against the first transaction at maturity;
   - (b) Swap transactions in interest or other yields including indexation differentials or exchange-rate differentials;
   - (c) Forward rate agreement or future rate agreement;
   - (d) Purchase of an option by the banking corporation to buy or sell one of the assets listed in this section;

   Excluding

   - (e) Transaction in a contract traded on an exchange where the exchange clearinghouse is responsible to the counterparty for fulfillment of the contract and for which there are daily margin-adjustment requirements.

1a**.** ″**Guarantees to secure the rights of provident fund participants**″ **-** The amount of the guarantee multiplied by the ratio between the amount of such guarantee and the fund's total assets;

2. ″**Formal guarantees**″ **-** Commitments on behalf of customers of one of the following types:
   - (a) Guarantee to a court of law;
   - (b) Guarantee granted under a tender to ensure completion of a contract if the bidder secures the contract;
   - (c) Guarantee for marine carrier in connection with release of freight prior to the arrival of the relevant documents;
   - (d) Guarantee for the quality of work or repairs by a building contractor or other supplier of goods or services;
   - (e) Guarantee to a qualified authority for compliance with terms of a legally issued license.

3. **"Open documentary credits" -** Documentary credits opened or confirmed by the banking corporation or acceptances issued by it on a bill of exchange in connection with international merchandise trade, to cover the period before receipt by the banking corporation or its correspondent of the documents required to make the banking corporation's commitment absolute, except for an open documentary credit, which does not give the bank control over the merchandise;

4. **"Performance bond"** - Commitments on behalf of customers, of the following types:
   (a) Guarantee to the purchaser that the supplier of goods or services (including building contractor) will carry out his obligations;
   (b) Guarantee of registration of a mortgage given for a maximum period of three years from date of issue thereof or from date of issue of a previous guarantee referring to the same matter, whichever is the earlier;
   (c) Guarantee in favor of the government to secure the payment of goods supplied by it, provided that the purchaser has not used the goods in any way and that they have not become part of his business inventory;

5. **"Guarantee to secure homebuyer's investment"** - Guarantee given to the purchaser of an apartment under section 2(1) of the Sale (Apartments) (Assurance of Investments of Persons Acquiring Apartments) Law, 5735-1974;

6. **"Guarantee for subscription to securities issue"**- Guarantee to issuer (or his agent) of securities offered to the public in Israel by way of prospectus for payment of the balance due on the amount subscribed by the banking corporation on behalf of its customers;

7. **"Credit guarantees"** - Commitments on behalf of customers, of the following types:
   (a) Guarantee, letter of indemnity, or other commitment in favor of a lender or a debtor's guarantor;
   (b) Discounting of bills and sale of assets with recourse on the selling banking corporation;
   (c) Futures transaction with a customer of the types listed above in paragraph 1.(a), which is to be netted at maturity against an opposite futures transaction of the same type and with the same customer - in the amount due from the customer after netting;

(d) Guarantee in favor of suppliers of goods or services to secure payment for the goods or services supplied;

(e) Guarantee in favor of lessor of equipment to secure payment by the lessee;

(f) A commitment arising from the use of credit cards, to the amount known at the time, as the customers have already committed themselves to that amount by means of the credit cards and those amounts have not yet been repaid.

8. **"Other documentary credit"** - Open documentary credit which does not give the bank control of the merchandise;

9. **"Commitments which have been called in"**- Commitments on behalf of customers which the bank is committed to repay upon demand within a specified period from the date of the demand;

10. **"Commitments to extend credit"** - commitments (e.g., formal standby facilities, commitments to extend credit, unutilized credit lines, and commitments on behalf of customers) including contingent liabilities;

11. **"Commitments to the Ma'of (futures) clearing house"** - As defined in Directive no. 337.

3. **Basis of calculation**

(a) In a futures transaction, the amount of the transaction will be calculated according to the nominal value constituting the basis for calculating the interest, differentials or yield, as the case may be.

(b) The balances of the transactions are first to be multiplied by the credit conversion factors as laid down in Section 1 of this Appendix and then risk-weighted according to the type of customer or counterparty as prescribed in Appendix B.

(c) Prior to calculating the above amounts, the accounting write-offs and the individual and group provisions to credit losses are to be deducted from them.

(d) Section (6) regarding the definition of “indebtedness” in Directive no. 313 (Limitations on indebtedness of a borrower and a group of borrowers), will apply respectively to commitments to extend credit or provide guarantees in this Appendix.

(e) Commitments to extend credit of a type included in section 1(d) of this Appendix will be weighted at the rate of 50% of the weight given to that credit if it has been realized. (For example, a commitment to extend credit with an original maturity of over one year that meets the criteria of “a housing loan” and under the terms of section 1(c)(2) of Appendix B will be weighted at the rate of 25%).

(f) Notwithstanding the aforesaid in sections 1(d) and 2(10) of this Appendix, judgment concerning the completion of a project accompanied financially by a banking corporation and an insurance company, is not exclusively in the hands of that banking corporation, and the insurance company which provides guarantees for home buyer’s investments, has a contractual right (either alone or with others), to force the banking corporation to provide the entire credit line which it undertook to extend in the accompanying agreement, the banking corporation’s commitments will be weighted at 100% (and not at 50% as specified in section 1(d) of this Appendix).

Appendix D

PUBLIC AUTHORITIES

The public authorities for the purpose of section 1(b)5 in Appendix B are as follows:

The National Insurance Institute

The Israel Lands Administration

The Postal Authority

The Ports and Railways Authority

The Broadcasting Authority

The Airports Authority

The Employment Service

Other authorities, to be announced by the Supervisor of Banks.

* * *

Appendix E

Procedure for Requesting Approval of Subordinated Debt and Announcement of Debt Issue

Request for approval of subordinated debt

1) A banking corporation will request prior approval from the Supervisor to recognize subordinated debt for the purpose of its supplementary or tertiary capital, in the following circumstances:
    a) The issue is by prospectus.
    b) The issue is to a related party as defined in Directive 312 on Proper Conduct of Banking Business (Banking Transactions with Related Parties).
    c) One or more of the conditions in section 1 of Appendix E1 and E2 has not been met.
    d) The format of the subordinated debt is not identical to that in Appendix E4.
    e) An announcement by the Supervisor has been sent to the banking corporation.

2) The request as stated in section 1) above (hereafter, the "request") will be submitted to the Supervisor in a standard format as set out in Appendix E1 (Request to approve subordinated debt as supplementary capital) and in Appendix E2 (Request to approve subordinated debt as tertiary capital). The request will be signed, inter alia, by the legal adviser of the banking corporation, and the names and positions of all signatories will be listed.

3) A request will be accompanied by the following documentation:
    i) In the case of issuing subordinate debt without a prospectus, the format of the debt security (for identically written debt securities, a single copy should be attached, with the remark that there are other debt securities, each of them identical), Table 1 (the list of subordinated debt securities issued) and Table 2 (report on capital).
    ii) In the case of issuing subordinated debt with a prospectus, a draft of the prospectus which should include concise clarifications on meeting this directive, the format of the debt security, the format of the trust deed and Table 2 (report on capital). The Supervisor should also be informed immediately of any change in the prospectus.

4) In the case of an issue to a related party, the request will be accompanied by the minutes of the discussion by the directors' committee on related parties together with background material as stated in the Directive 312 on Proper Conduct of Banking Business (Banking Transactions with Related Parties). When the related party is a corporation controlled by the banking corporation, then the request will be accompanied by the minutes and background material from the discussion by the audit committee of the related party.

5) a) In the case of a public issue with a prospectus, the banking corporation must request approval prior to the issue.

b) In the case of an issue without a prospectus, the request will be submitted to the Supervisor of Banks no later than two weeks before the sought approval date.

c) It is recommended that the banking corporation aggregate its requests for subordinated debt recognition, so that the sums presented for approval are significant and not less than 0.1 percentage points of the banking corporation's total capital. The banking corporation may submit one request a quarter, even if the sum of the request does not total 0.1 percentage points of its total capital.

Announcement of a subordinated debt issue

6) a) For cases not covered by section 1) above, the banking corporation will inform the Supervisor of Banks of an issue within ten days of the date of issue and in accordance with format in Appendix E3 (hereafter, the "announcement"). The announcement will include confirmation from the CEO/chief accountant and the legal advisor of the banking corporation of the details, the format of the subordinated debt identical to that in Appendix E4, and Tables 1 and 2.

b) If the conditions in subsection 6)a) are satisfied, then the subordinated debt will be considered as recognized for the purposes of supplementary and tertiary capital of the banking corporation.

Appendix E1

Procedure for Requesting Approval of Subordinated Debt as Supplementary Capital*

I hereby request that you recognize the issued subordinated debt/convertible subordinated debt, as detailed in Table 1 attached, as supplementary capital for the purpose of meeting the minimum capital ratio, according to Appendix A Sections A.2.(b) and C. of Directive 311 on Proper Conduct of Banking Business (Minimum Capital Ratio), and as supplementary capital for the purposes of meeting the definition of banking corporation capital according to the Banking (Licensing) Rules (Definition of banking corporation capital concerning Section 23a of the law) 5750-1990.

1. I hereby confirm that the subordinated debt securities satisfy all the conditions as laid out in Appendix A Sections A.2.(b)(2)i. (supplementary capital) and C. (definitions).

2. The following will be written in bold on the back of each subordinated debt security: "This debt security is not used as a deposit. The rights of the debt holder are subordinated to the claims of all other creditors, except for the rights of creditors with similar debt securities. This debt cannot be mortgaged as collateral for a loan made by the banking corporation or by its subsidiary, and is unsecured. This debt security is not redeemable before maturity and cannot be altered without prior agreement in writing from the Supervisor of Banks."

3. I hereby confirm that the subordinated debt securities have been/not been issued to related parties. If the security has been issued to related parties:
   a) I hereby confirm that the transaction meets all the instructions and conditions of Directive 312 on Proper Conduct of Banking Business (Banking Transactions with Related Parties), and attached are the minutes of the discussion by the directors' committee on related parties together with the background material.
   b) I hereby confirm that the purchase of the debt securities by corporations controlled by the bank has been approved also by these corporations' audit committees and attached are the minutes of the audit committee together with the background material.

4. The following tables are attached:
   a) Table 1 - the list of subordinate debt securities issued.
   b) Table 2 - report on capital.

* If the debt was issued with a prospectus, then the headline should include "…that will be issued according to a prospectus to be published before…"

Appendix E2

Procedure for Requesting Approval of Subordinated Debt as Tertiary Capital*

I hereby request that you recognize the issued subordinated debt/convertible subordinated debt, as detailed in Table 1 attached as tertiary capital for the purpose of meeting the minimum capital ratio, according to Appendix A Sections A.3 and C. of Directive 311 on Proper Conduct of Banking Business (Minimum Capital Ratio).

1. I hereby confirm that the subordinated debt securities satisfy all the conditions as laid out in Appendix A Sections A.3 (tertiary capital) and C. (definitions).

2. The following will be written in bold on the back of each subordinated debt security: "This debt security is not used as a deposit. The rights of the debt holder are subordinated to the claims of all other creditors, except for the rights of creditors with similar debt securities. This debt cannot be mortgaged as collateral for a loan made by the banking corporation or by its subsidiary, and is unsecured. This debt security is not redeemable before maturity and cannot be altered without prior agreement in writing from the Supervisor of Banks."
3. I hereby confirm that the subordinated debt have been/not been issued to related parties. If the debt security has been issued to related parties:

   a) I hereby confirm that the transaction meets all the instructions and conditions of Directive 312 on Proper Conduct of Banking Business (Banking Transactions with Related Parties), and attached are the minutes of the discussion by the directors' committee on related parties together with the background material.
   b) I hereby confirm that the purchase of the debt securities by corporations controlled by the bank has been approved also by these corporations' audit committees and attached are the minutes of the audit committee together with the background material.

4. The following tables are attached:
   a) Table 1 - the list of subordinate debt securities issued.
   b) Table 2 - report on capital.

* If the debt was issued with a prospectus, then the headline should include "…that will be issued according to a prospectus to be published before…"

Appendix E3

Announcement of the Issue of Subordinated Debt

Date___________

To: Supervisor of Banks
Bank of Israel
Jerusalem

We hereby inform you that on (*date*), (*name of the bank*) issued subordinated debt of the sum of NIS …, that bears an interest rate of … percent, and which reaches maturity on (*date*).

This issue meets the requirements of Directive 311 on Proper Conduct of Banking Business (Minimum Capital Ratio), and satisfies all the conditions as set forth in Sections 1 and 2 of Appendixes E1 and E2 of the same directive.

A signed copy of the debt security is attached, together with Tables 1 and 2 as instructed.

____

Bank representative

We hereby confirm the above:

_________________ ___________________

CEO/Chief accountant **Legal advisor**

Appendix E4

Format for Subordinated Debt that Receives the Supervisor's Automatic Approval

(This wording must be strictly obeyed)

This debt security is not used as a deposit. The rights of the debt holder are subordinated to the claims of all other creditors, except for the rights of creditors with similar debt securities. This debt security cannot be mortgaged as collateral for a loan made by the banking corporation or by a subsidiary, and is unsecured. This debt security is not redeemable before maturity and cannot be altered without prior agreement in writing from the Supervisor of Banks.

On (*day*), (*name of buyer*) deposited with (*name of the bank*) a sum of NIS … (hereafter the "principal").

The principal will bear an interest rate of … percent on the balance that has not been paid off.

The principal and interest (*is indexed to the $/CPI/is unindexed*) according to….

The principal (with indexation supplements) together with accumulated and unpaid interest will be repaid as follows:

____

The interest will be paid (*annually/each six months*) on the dates … until final maturity.

The bank reserves the right to redeem the security before maturity without prior notice or fine, subject to the Supervisor's approval.

In situations beyond the regular line of business, such as in the case of appointing an authorized manager, liquidation or receivership, in which the bank is required to distribute its assets or part of them or/and in cases where the bank is required to operate according to the order of priority of the bank's creditors, the rights of the depositor to receive any sums according to this security will be subordinate to the claims of the bank's other creditors, but will be equal to the rights of other creditors of similar securities as issued by the bank.

The bank is permitted to add terms and clarifications to this format of the debt securities, but cannot make any stipulations to the above.

Bank's signature _____________
Name _____________
Title _____________

Table 1

List of Debt Securities Issued

Name of Depositor	Date of raising funds	Total sum raised	Date of maturity and form of payment[1]	Interest rate	Period to maturity of principal[2]	Connection code[3]
Non-related parties						
Total						
Related parties[4]						
Total						

[1] Provide details if the payment is in installments, the payment is at the end of the period, grace + payments in installments.
[2] If the principal is paid off in installments, provide details of the period to maturity for each amount.
[3] This column will be completed if the depositor is a related party. The relationship code will be according to Directive 815 on reporting to the Supervisor of Banks.
[4] This section will be completed only in the event of a request for the Supervisor to recognize subordinated debt.

Table 2

Report on Capital

(NIS thousands)

		Last figure at the bank for date ddmmyy in quarter X	As of last day in quarter X-1	As of last day in quarter X-2
1	Core capital			
2	*Of which*: Against market risks			
3	Supplementary capital			
4	*Of which*: Subordinated debt			
5	Tertiary capital against market risks			
6	Investments deductions			
7	Total capital (1+3+5 less 6)			
Calculation of estimates to the end of quarter X assuming approval of request				
8	Additional request under discussion	supplementary capital		
9		tertiary capital		
10	Expected estimate of debt maturities from the last given date at the bank to the end of quarter X	supplementary capital		
11		tertiary capital		
12	Estimate of total capital (7+8+9-10-11)			
13	Total risk assets			
14	Ratio of debt approved as supplementary capital to core capital not held against market risks ((4+8-10)/(1-2)) (%)			
15	Ratio of tertiary capital held against market risks to core capital held against market risks ((5+9-11)/2) (%)			
16	Ratio of capital to risk assets (12/13) (%)			