

BANKING (LICENSING) LAW, 5741-1981*

Chapter One: Interpretation

1. Definitions

In this Law -

"means of control", in relation to a body corporate - any of the following:

- (1) the right to vote at a general meeting of a company or at a corresponding gathering of another body corporate;
- (2) the right to appoint a director of the body corporate;
for this purpose -
 - (a) the person who appointed a director shall be deemed to have the right to appoint him;
 - (b) if an officer of a body corporate was appointed director in another body corporate, and on the entity that controls that corporation, than it shall be presumed that they have the right to appoint him;#
- (3) the right to share in the profits of the body corporate;
- (4) the right to the surplus assets of the body corporate at the time of its liquidation after the discharge of its liabilities;

"credit" - includes a guarantee, the acceptance of bills, the discount of bills, financing by means of the letting of property, the opening or confirmation of documentary credit, and an undertaking to pay money on account of another person;

"long-term credit" - credit under the terms of which the average period for the repayment of the principal is two years or more;

See section 23 to Amendment No. 11, p. 57 below, as to commencement.

- "have an interest"** - hold more than twenty five per cent of a particular category of means of control;##
- "the Advisory Committee"** - the Advisory Committee appointed under section 6 of the Ordinance;
- "holding" or "acquisition"** - alone or together with others, directly or indirectly, including by a controlled body corporate;
- "with others"** - jointly with others regularly acting in concert with him; without derogating from the generality of the aforesaid, regular acting in concert will be assumed, in respect of an individual - himself, his relative and a body corporate which one of them controls; and in respect of a body corporate - itself, whoever controls it and whoever is controlled by either of them.
- "the Supervisor"** - the Supervisor of Banks appointed under section 5 of the Ordinance;
- "the Governor"** - the Governor of the Bank of Israel appointed under section 8 of the Bank of Israel Law, 5714-1954;
- "the Ordinance"** - the Banking Ordinance, 1941;
- "underwriting obligation"** - as defined in the Securities Law, 5728-1968;
- "The Pension Consulting and Marketing Law"** - Supervision of Financial Services (Engagement in Pension Consulting and Marketing) Law, 5765-2005;

Amendment to this provision, according to which the words "more than twenty five per cent", shall be replaced by "more than twenty per cent", shall enter into force on 31 December 1999. See section 23 to Amendment No. 11, p. 57 below.

"The Regulation of Engagement

in Investment Consulting Law" - The Regulation of Engagement in Investment Consulting, Investment Marketing, and Management of Investment Portfolios Law, 5755-1995;

"Investment Consulting" and

"Investment Marketing" - as defined in the Regulation of Engagement in Investment Consulting Law;

"Pension Consulting" and

"Pension Marketing" - as defined in the Pension Consulting and Marketing Law;

"Insurer" and

"Insurance Agent" - as defined in the Supervision of Financial Services (Insurance) Law, 5741-1981;

"immovable property" - has the same meaning as in the Land Law, 5729-1969, and includes a right in immovable property and an undertaking to effect a transaction in immovable property;

"management of

investment portfolios" - within its meaning in section 1 of the Regulation of Investment Consulting;

"officer" -

as defined in Chapter 4A of the Companies Ordinance [New Version] 5743-1983, and any other employee directly subordinate to him;

"branch" -

any place where a banking corporation accepts money deposits or conducts business with its customers, including a mobile branch, but excluding

an installation by means of which customers can perform activities in their accounts with the banking corporation;

"money deposits" - includes loans;

"provident fund" and

"managing company" - as defined in the Supervision of Financial Services (Provident Funds) Law, 5765-2005;

"relative" - a spouse, a brother, a sister, a parent, a descendant, a descendant of the spouse and the spouse of any of these;

"A mutual joint

investment fund" - a fund as defined in the Mutual Joint Investment Fund Law, 5754-1994;

"control" -

the ability - whether alone or together with others - to direct the activity of a body corporate, other than the ability arising solely out of holding the office of director or other officer in the body corporate; without derogating from the generality of the aforesaid, a person will be deemed to control a body corporate, if one of the following applies:

- (1) he holds one half or more of a certain category of the means of control in the body corporate;
- (2) he is able to prevent the adoption of business decisions by the body corporate, other than decisions that concern the issue of means of control in the body corporate or other decisions that concern the sale, liquidation or

substantive alteration of most of the business of the body corporate;

"banking corporation" - a bank, a foreign bank, a mortgage bank, an investment finance bank, a merchant bank, a financial institution and a joint services company;

"bank holding corporation" - a body corporate which meets the following two requirements:

- (1) it controls a banking corporation;
- (2) more than five per cent of its assets are means of control of, and loans to, banking corporations controlled by it;

"foreign corporation" - a body corporate incorporated in a foreign state;

"auxiliary corporation" - a body corporate, not being itself a banking corporation, the business of which is only within the field of activities permitted to the banking corporation controlling it but does not include a business reserved to banking corporations under sections 13 or 21;

"real body corporate" - a body corporate which a banking corporation is prohibited from controlling, or from having an interest in, under the provisions of Chapter Three.

2. Conditions of licenses

A person empowered to issue a license, permit or approval under this Law may attach conditions thereto, and limit it, in accordance with the considerations set out in this Law.

Chapter Two: Licensing of Banking Corporations

3. Requirement of license

There shall be no banking corporation save under a license by virtue of this Law.

4. Licenses

(a) The Governor may, at his discretion and after consultation with the Licenses Committee appointed under section 5, issue -

(1) to a company, other than a private company, incorporated in Israel under the Companies Ordinance -

- (a) a bank license;
- (b) a mortgage bank license;
- (c) an investment finance bank license;
- (d) a merchant bank license;
- (e) a financial institution license;
- (f) a joint services company license;

(2) to a foreign corporation, being a bank in a foreign state, registered in Israel - a foreign bank license.

(b) A license shall not be transferable.

5. Licenses Committee

(a) The Governor shall appoint five members of the Advisory Committee to be the Licenses Committee.

(b) A controlling person, a director or an employee of a banking corporation or of a body corporate controlling a banking corporation shall not serve as a member of the Licenses Committee.

(c) A person who ceases to be a member of the Advisory Committee shall cease to serve as a member of the Licenses Committee.

(d) Decisions of the Licenses Committee shall be taken by a majority of its members.

- (e) The Licenses Committee may prescribe the procedure of its work and deliberations.

6. Considerations governing the issue of licenses

The following matters shall be taken into account in regard to the issue of licenses under this Law:

- (1) the applicant's plan of operations and his prospects of implementing it;
- (2) the suitability of the holders of the means of control, directors and the managers of the applicant for their functions;
- (3) the contribution which the issue of the license will make to competition in the capital market and particularly its contribution to competition and to the standard of services in the banking system;
- (4) the economic policy of the Government;
- (5) the public good;
- (6) in the case of a foreign bank - reciprocity as to the licensing of banking corporations between Israel and the state in which the centre of the applicant's business is situated.

7. Minimum capital

- (a) A license shall only be issued if the issued and paid-up share capital of the applicant is not less than the amount specified in the First Schedule.
- (b) The Governor may by order, with the approval of the Minister of Finance and the Finance Committee of the Knesset, increase the amounts specified in the First Schedule.
- (c) If the amounts specified in the First Schedule are increased, every banking corporation shall, within one year, bring its issued and paid-up share capital up to the increased amount; the Examiner may extend the three-year period in respect of a particular banking corporation.

8. Revocation of license

The Governor may, after consultation with the Licenses Committee, revoke a license in any of the following cases after giving the banking corporation a reasonable opportunity to be heard:

- (1) if the corporation has applied for the revocation of its license;
- (2) if the corporation has not begun, or has ceased, to conduct business;
- (3) if the corporation has infringed a material condition of the license;
- (4) if the capital of the corporation falls short of the amount specified in the Schedule or if the corporation has not increased its capital under section 7(c);
- (5) if the corporation has infringed a provision of any enactment in such a manner as to impair its reliability;
- (6) if an order has been made for the winding-up of the corporation or for the appointment of a receiver for it, other than a receiver appointed under section 27, 33 or 35;
- (7) if the corporation has resolved upon its voluntary winding-up;
- (8) if reasons of the public good point to the necessity of revoking the license.

9. Continued supervision where license has been revoked

- (a) A banking corporation whose license has been revoked shall, for the purposes of the Ordinance and the Bank of Israel Law, 5714-1954, be treated as a banking corporation for three years from the date of the revocation.
- (b) The Governor may issue to a banking corporation whose license has been revoked directions as to the conduct of its business as far as he deems it necessary to do so to protect the creditors of the corporation and other customers who entered into contractual relationships with it before the cancellation of the license; this provision shall not release the corporation from responsibility for the fulfillment of any undertaking incurred before the cancellation.

Chapter Three: Fields of Activity of Banking Corporations and Activities reserved to them

10. Fields of activity of a bank

A bank may only carry on the following activities:

- (1) the acceptance of money deposits in current accounts, subject to withdrawal by check upon demand;
- (2) the acceptance of other money deposits;
- (3) the issue of securities;
- (4) maintenance of a system of payments, including the collection, transfer and conversion of moneys;
- (4a) Purchase and sale of foreign currency;
- (5) the granting of credit;
- (6) investments in securities or in gold held for monetary purposes;
- (7) the safekeeping and administration, as an agent, bailee, dealer or trustee, provided that he does not manage, within the framework of his activities as aforesaid, a business enterprise, and excluding the granting of underwriting obligation, the management of a provident fund, the management of a mutual joint investment fund, and management of investment portfolios;
- (8) the letting of safe-deposit-boxes;
- (9) the purchase and sale of securities as a dealer or agent;
- (10) financial and economic consulting in the sphere of its business;
- (11) broking in financial and economic transactions in the sphere of its business, except broking in transactions concerning the purchase or sale of goods or immovable property;
- (11a) Pension consulting and also the performance of a transaction for a client, as these terms are defined in the Pension Consulting and Marketing Law, as part of the pension consulting service, and subsequently, subject to the provisions of Sections 11 and 52(b) and (c) of the Pension Consulting and Marketing Law;

- (11b) Investment consulting, subject to the provisions of Section 9(b) of the Regulation of Engagement in Investment Consulting Law;
- (11c) Investment marketing, in accordance with the provisions of Section 9(c1) of the Regulation of Engagement in Investment Consulting Law;
- (11d) Management of a set of accounts of provident funds for the management company, including the management of members' accounts for the fund, processing of information for members, and the transfer [of said information] to him;
- (12) any activity expressly permitted to a bank by Law;
- (13) any other operation accessory to an activity permitted to a bank.

11. Control, and holding of means of control, by bank

- (a) A bank may only control or have an interest in the following bodies corporate:
 - (1) repealed;
 - (2) a foreign corporation which, if it conducted business in Israel, would require a license under this Law;
 - (3) repealed;
 - (3a) a body corporate that engages in the provision of underwriting obligations, its other activities being activities in which a bank is permitted to engage under section 10;
 - (3b) a body corporate that engages in management of investment portfolios;
 - (3c) repealed;
 - (4) repealed;
 - (5) a particular body corporate of another type, which is approved by the Supervisor after consultation with the Licenses Committee.
- (b) In addition to the provisions of Subsection (a), a bank may also control a corporation that is one of the following:

- (1) An auxiliary corporation, provided that the bank controls it exclusively and has received prior written authorization to this effect in writing from the Supervisor, which confirms, *inter alia*, the fields of activity of the auxiliary corporation; however, the Supervisor may, after consulting with the Licenses Committee, allow the bank to control the auxiliary corporation in conjunction with others;
- (2) A corporation that is an insurance agent (in this Paragraph - insurance agent), provided that all of the following circumstances are present:
 - (a) All of the insurance agent's business is in life insurance for borrowers or homeowner's insurance, where said insurance is sold incidental to the issue of housing loans to customers of the bank or another banking corporation that controls that bank or is controlled thereby;
 - (b) The bank exercises sole control of the insurance agent;
 - (c) The bank holds by itself all means of control in the insurance agent;

However, the Supervisor may, after consulting with the Licenses Committee, allow the bank to have sole control of the insurance agent even if it engages in the forms of insurance stated in Subparagraph (a), incidental to the issue of housing to customers of a banking corporation that is not as stated in said Subparagraph, and also if the conditions set forth in Subparagraph (c) do not apply to the bank, and provided that the Supervisor is convinced that the issue of a permit is not adverse to the development of competition as stated in Subparagraph (a) in particular; For the purposes of this Paragraph, the term "**housing loan**" denotes a loan that is not given for a business purpose and is secured by a lien on the right to a dwelling or any right in regard thereto.

11A. Holdings by controlled bodies corporate

For the purposes of this Chapter and of section 47, means of control shall not be counted, if they are held by -

- (1) a body corporate engaged in assuming underwriting obligations and controlled by a banking corporation, on condition that the means of control are held by virtue of an underwriting obligation, that no longer than one year has passed since they were acquired, and that the body corporate does not vote at shareholder meetings by virtue of holding those means of control;
- (2) a body corporate controlled by a banking corporation, which manages a joint investments trust fund, a benefit fund or a company that manages a benefit fund.

12. Fields of activity of a foreign bank

- (a) A foreign bank may carry on in Israel only the activities permitted to a bank by section 10.
- (b) A foreign bank shall not control or have an interest in a body corporate conducting business in Israel unless a bank would be permitted to control or have an interest in it under section 11.

12A. Special provisions for certain banks and foreign banks

Notwithstanding the provisions of Sections 10–12:

- (1) A bank and a foreign bank to which the provisions of Chapter Three "B" do not apply, as stated in Section 27I, may control and also be a principal in a management company and in the management of a mutual joint investment fund;
- (2) A bank and a foreign bank as stated in Paragraph (1) that are not entitled, under the provisions of Sections 10 or 12, to engage in pension consulting or investment consulting, may also engage in the following activities:

- (a) Pension marketing and performance of transactions for customers, as these are defined in the Pension Consulting and Marketing Law, as part of and pursuant to the pension marketing, provided that the bank or the foreign bank meet the conditions set forth in Section 3(1) of the Pension Consulting and Marketing Law;
- (b) Investment marketing.

13. Activities reserved to bank and foreign bank

Only a bank or a foreign bank may carry on the acceptance of money deposits, subject to withdrawal by check upon demand, in current accounts.

14. Fields of activity of a mortgage bank

A mortgage bank shall only carry on the following activities:

- (1) the issue of securities;
- (2) the acceptance of money deposits earmarked for the grant of loans and other money deposits approved by the Supervisor;
- (3) the grant of long-term credits to finance the acquisition of immovable property or to finance the acquisition with key-money of a right in premises to which the Tenant's Protection Law (consolidated version), 5732-1972, applies or to finance construction, and the grant of short-term credits to finance construction, repayable when the acquirer of the immovable property receives from the bank or another banking corporation a long-term credit to finance the acquisition of the immovable property;
- (4) the grant of credit to finance the acquisition of immovable property, to finance the acquisition with key-money of a right as specified in paragraph (3), or to finance government-directed construction, out of money deposits for the grant of loans;
- (5) the giving of a guarantee under the Sale (Apartments)(Assurance of Investments of Persons Acquiring Apartments) Law, 5735-1974;
- (6) investments in securities;

- (7) making money deposits with banking corporations and with the Treasury;
- (8) financial and economic counseling within the sphere of its activities;
- (9) broking in financial and economic transactions within the sphere of its activities;
- (10) any activity expressly permitted to a mortgage bank by Law;
- (11) any other operation accessory to an activity permitted to a mortgage bank.

15. Control, and holding of means of control, by mortgage bank

A mortgage bank may only control or have an interest in the following bodies corporate:

- (1) repealed;
- (2) an auxiliary corporation, provided the provisions of section 11(b)(1) were complied with;
- (2a) a corporation that is an insurance agent, provided that the provisions of Section 11(b)(2) are fulfilled;
- (3) a particular body corporate of another type, which is approved by the Supervisor consultation with the Licenses Committee.

16. Fields of activity of investment finance bank

An investment finance bank may only carry on the following activities:

- (1) the issue of securities;
- (2) the acceptance of money deposits earmarked for the grant of loans and other money deposits approved by the Supervisor;
- (3) the grant of long-term credits to finance investments, other than credits to finance the acquisition of a residence, and the grant of short-term credits repayable when the borrower receives a long-term credit from the bank;
- (4) the grant, directed by the Government, of credits to finance investments out of money deposits earmarked for the grant of loans;

- (5) giving guarantees in favor of the State or another banking corporation for customers who have charged all their assets with a fixed charge in favor of the bank, there being no further charge thereon, or the giving of guarantees in favor of another person for customers who have charged all their fixed assets in favor of the bank;
- (6) investments in securities;
- (7) making money deposits with banking corporations and the Treasury;
- (8) financial and economic counseling within the sphere of its activities;
- (9) broking in financial and economic transactions within the sphere of its activities;
- (10) any activity expressly permitted to an investment finance bank by Law;
- (11) any other operation accessory to an activity permitted to an investment finance bank.

17. Control and holding of means of control, by investment finance bank

An investment finance bank may only control or have an interest in the following bodies corporate:

- (1) repealed;
- (2) an auxiliary corporation, provided the provisions of section 11(b)(1) were complied with;
- (3) a particular body corporate of another type, which is approved by the Supervisor after consultation with the Licenses Committee.

18. Fields of activity of a merchant bank

A merchant bank may only carry on an activity mentioned in section 10, except paragraph (1).

19. Control and holding of means of control by a merchant bank

- (a) A merchant bank shall control and be an interested party only in bodies corporate enumerated in section 11.
- (b) A merchant bank shall not hold means of control in a banking corporation or in a bank holding corporation.
- (c) Notwithstanding the provisions of subsection (a), a merchant bank may control and be an interested party also in another body corporate during a period of not more than six years, provided that the following conditions have been met:
 - (1) the control and interest are within the framework of its activity in these spheres:
 - (a) the promoting or setting up of bodies corporate, other than bodies corporate whose main business is in real estate, or the expansion of the activity of aforesaid bodies corporate during the first five years of their business activity;
 - (b) the rehabilitation of bodies corporate in difficulties, which reached an agreement with their creditors on their debts, or as part of a said agreement;
 - (2) the total assets of any other body corporate under paragraph (1)(a), as shown on its consolidated financial report, shall not be at any time exceed NIS 50 million, and the said total assets of any other body corporate said in paragraph (1)(b), shall not at any time exceed NIS 100 million; the amounts said in this paragraph shall be adjusted on January 1 of each year according to the rate of increase of the index, from the index published for January 1996 to the index last published before the adjustment date.
- (d) For purposes of this chapter, a bank in control of a merchant bank shall not be deemed in control of or interested in any other company, which the merchant bank controls or in which it has an interest as said in subsection (c), unless the banking corporation holds, in some other manner, 10% or more of a category of means of control of the other body corporate.

- (e) The Governor may, with approval by the Minister of Finance and of the Knesset Finance Committee, prescribe by order -
- (1) a maximum rate of the investments of a merchant bank in a body corporate under its control or in which it has an interest, and a maximum rate of all its investments in all aforesaid bodies corporate, expressed as a percentage of the capital of the merchant bank;
 - (2) a maximum rate of the assets of a body corporate which a merchant bank controls or in which it has an interest, and a maximum rate of all the assets of all aforesaid bodies corporate, expressed as a percentage of the capital of the merchant bank;
 - (3) a maximum proportion of the investments of a banking corporation or of a bank holding corporation in a merchant bank under its control expressed as a percentage of the capital of the banking corporation or of the bank holding corporation.
- (f) An order under subsection (e) may prescribe rules on the definition of capital, investments and assets, and on the manner of their calculation.

20. Fields of activity of a financial institution

- (a) A financial institution may only carry on an activity mentioned in section 10, except paragraph (1), which is designated in its license.
- (b) A financial institution may only control or have an interest in a body corporate mentioned in section 11 which is designated in its license.
- (c) The Supervisor shall publish in Reshumot a notice of the issue of a license to a financial institution, specifying the activities permitted to it.

20A. Holding means of control in another banking corporation

- (a) The provisions of this paragraph notwithstanding, a banking corporation shall not hold a means of control in another banking corporation or in a banking holding corporation unless one of the following applies:
- (1) The share of their control in any type of means of control does not exceed one percent, and their total holdings as stated in this paragraph in means of control of banking corporations and banking holding corporations does not exceed five percent of its capital, as in the sense of this expression per Section 23A; In this matter, the holdings of the controlling principal of the banking corporation that performs the holding function, and that is not a banking corporation itself, shall not be taken into account.
 - (2) It controls the banking corporation or the banking holding corporation by himself and holds by himself more than half of any type of means of control, according to a permit given to it in accordance with the provisions in Section 34.
- (b) The provisions of this Section shall not apply to holding of means of control that were intended in good faith to serve as a guarantee for a debt.

21. Activities reserved to banking corporations

- (a) Anyone not being a banking corporation shall not carry on -
- (1) both the acceptance of money deposits and the grant of credit;
 - (2) both the issue of securities requiring a prospectus under section 15 of the Securities Law, 5728-1968, and the grant of credit.
- (b) For the purposes of this section -
- "acceptance of money deposits"** means the acceptance of money deposits from thirty or more persons at the same time but does not include -
- (1) the acceptance of credit from a banking corporation;
 - (2) the acceptance of credit from suppliers;
 - (3) the acceptance of advance payments from purchasers;
 - (4) the acceptance of a money deposit as security for an obligation.

"**securities**" does not include shares, securities convertible into shares and securities conferring a right to acquire shares;

"**grant of credit**" does not include -

- (1) making a money deposit with a banking corporation;
- (2) the grant of credit to suppliers or purchasers as an operation accessory to the lender's other business;
- (3) the grant of credit to employees of the lender;
- (4) investments in securities traded on a stock exchange;
- (5) the grant of credit to a body corporate controlling the lender or to a body corporate in which the lender or a person controlling the lender holds more than twenty-five per cent of a particular category of means of control;
- (6) the grant of long-term credit originating in debentures issued to the public under a prospectus in accordance with the provisions of section 15 of the Securities Law, 5728-1968 (hereinafter referred to as "the Securities Law") if all the following requirements are fulfilled:
 - (a) the grantor of the Credit is a body corporate engaged only in the granting of credit originating in its equity capital and in debentures as aforesaid to bodies corporate fulfilling the following requirements:
 - (1) they are linked together by a professional or organizational interest (hereinafter referred to as a "link"); for this purpose, the receipt of credit from a grantor of credit shall not be regarded as a link;
 - (2) there is a link between them and the grantor of the credit or between them and a body corporate controlling the grantor of the credit, or the grantor of the credit controls them or they control the grantor of the credit.
 - (b) balances not used for credit as aforesaid have been deposited with a banking corporation or invested in debentures issued by the Government;
 - (c) the grantor of the credit does not operate for the purpose of producing profit;

- (d) the prospectus specifies the names of the recipients of credit or classes of recipients of credit; credit shall not be granted save to those specified as aforesaid;
 - (e) the final dates of repayment of any credit shall not be later than the final dates of repayment of the debentures issued for the purpose of granting that credit.
- (7) the grant of long-term credit originating in debentures issued to the public under a prospectus in accordance with the provisions of section 15 of the Securities Law, 5728-1968, if the prospectus under which the debentures are offered to the public indicate that the offeror intends to apply the proceeds of the issue to the granting of credit to a person named in the prospectus or to the acquisition of the rights of a banking corporation against the borrowers.

22. Insurance companies and benefit funds

For the purpose of section 21, the acceptance of funds by the insurer or by a management company for the provident fund that it manages shall not be regarded as acceptance of money deposits.

23. Fields of activity of joint services company

A joint services company shall only carry on the giving of services to banking corporations or their customers.

23A. Total amount of means of control of real bodies corporate

- (a) The total amount of means of control which a banking corporation is permitted to hold under this Law in real bodies corporate shall not exceed the following rates of the capital of the banking corporation as defined for that purpose by rules prescribed by the Governor after consultation with the Advisory Committee and with the approval of the Minister of Finance -
 - (1) up to fifteen percent of its capital - in any real bodies corporate;

- (2) up to an additional five percent of its capital, provided it does not hold more than five percent of a certain category of means of control in any one body corporate, and provided it does not hold the right to appoint a director;
- (3) up to an additional five percent of its capital, in real bodies corporate that are foreign bodies corporate without substantive and continuous business activity in Israel.

The Governor may permit the holding of a higher rate than said in paragraph (1) to (3), if it appears to him that the value of the means of control of the real bodies corporate has increased by reason of their profits, or that the banking corporation's capital has decreased by reason of its losses.

- (b) There shall not, for the purposes of this section, be counted means of control of a real body corporate which are held by -
 - (1) another real body corporate which the bank controls according to section 47;
 - (2) the banking corporation, or a body corporate controlled by it or in which it has an interest, if the means of control are held by the banking corporation or the body corporate in trust or for another or under the provisions of sections 26 and 27;
 - (3)-(4) repealed.

24. Holding of means of control of joint services company

- (a) Banking corporations not controlled by one person shall not in the aggregate hold more than fifty per cent of the means of control of a body corporate which carries on the giving of services to its members or their customers and which does not hold a joint services company license.
- (b) The provisions of this section shall not apply to the holding of means of control of a stock exchange licensed under section 45 of the Securities Law, 5728-1968.

24A. Holding means of control in real holding corporations

- (a) A banking corporation may - to the extent permissible under this Chapter - hold means of control in only one real holding corporation; for this purpose, "real holding corporation" - a body corporate, the capital of which - within its meaning in section 23A - exceeds NIS 1,250 million, which is directly or indirectly active in more than three different branches of the economy enumerated in the Second Schedule, the value of all its investments in each exceeding NIS 12.5 million; the Governor may, with approval of the Minister of Finance and the Knesset Finance Committee, change the Second Schedule.
- (b) The amounts said in subsection (a) shall be adjusted on January 1 of each year according to the provisions of section 19(c)(2).

24B. Restrictions on appointments in real body corporate

- (a) A banking corporation shall not hold the right to appoint a director in a real body corporate, which is controlled by another real body corporate in which the banking corporation holds means of control, if the banking corporation does not hold other means of control in the real body corporate.
- (b) A banking corporation shall not appoint in a real body corporate alone or together with others - the Chairman of the Board of directors, director General or a person who holds a corresponding position, or the highest ranking officer in the financial sphere, and it shall be presumed that the banking corporation made an aforesaid appointment if the person appointed by it is an officer of the banking corporation.#

25. Expansion of activities of banking corporations

The Governor may, after consultation with the Advisory Committee, with the approval of the Minister of Finance and the approval of the Knesset by resolution, designate an activity additional to the activities permitted to banking corporations

See section 23 to Amendment No. 11, p. 57 below, as to commencement.

under this chapter, either generally or in respect of a particular category of banking corporations or a group within a particular category of banking corporations.

26. Charge on means of control

Notwithstanding anything provided in this Chapter, a banking corporation may hold means of control in a non-financial corporation, if the means of control are in good faith intended to be security for an obligation, but the banking corporation shall not vote at a meeting of the shareholders of a that corporation, except on decisions under section 233 of the Companies Ordinance (New Version) 5743-1983, on decisions that relate to a voluntary winding up of the corporation, or in decisions liable to have an adverse effect on its rights as creditor.

26A. Banking corporation as creditor

- (a) Notwithstanding the provisions of this Chapter, if a banking corporation extended credit to a body corporate, it may, in the loan contract, obtain the ability to prevent the adoption of business decisions by the body corporate to the extent necessary to assure its rights as creditor, provided that it was done in good faith, that it is reasonable under the circumstances, and that the body corporate does not hold more than 5% of a certain category of means of control in the body corporate.
- (b) Notwithstanding the provisions of subsection (a), a banking corporation may obtain the right to prevent the appointment of an officer in the body corporate only if that body corporate is in difficulties and agreed to an arrangement of most of its debts, all subject to the conditions under subsection (a) and for a period of not more than four years.

27. Selling means of control

- (a) If a banking corporation, in contradiction with the provisions of this Chapter, controls, is an interested party or holds means of control in another body

corporate, it shall sell - within a period to be set by the Supervisor - the means of control which it unlawfully holds in the other body corporate.

- (b) If, in consequence of the realization of means of control that served as security for a debt, as said in section 26, a banking corporation came to control, to be an interested party or to hold means of control in another body corporate in contradiction with the provisions of this Chapter, it shall sell, within a period to be set by the Supervisor after he has given the banking corporation an opportunity to state its case, the means of control which it holds in the other body corporate.
- (c) If the banking corporation did not sell the means of control according to the Supervisor's order under subsection (a) or (b), the District Court may, on application by the Supervisor, appoint a receiver for the sale of the means of control.

Chapter Three "A": Means of Control held by Institutional Investors

27A. Definitions

In this Chapter -

"Institutional Investor" - each of the following:

- (1) Management company – in regard to all provident funds under its management;
- (2) manager of a mutual joint investment fund, in respect of the funds under his management;
- (3) any other body corporate, which holds or manages the monies of others, in respect of whom the Minister of Finance determined, after consultation with the Governor, that the provisions of this Chapter apply to it;

"associated institutional

Unofficial Translation

investors" - institutional investors controlled by the same banking corporation or by the bank holding corporation of the same banking corporation, as well as institutional investors not controlled by an aforesaid banking corporation or bank holding corporation, but managed by a said corporation, and the investment committees of which include members who are employees or directors of a said corporation;

"shares" - shares and securities convertible into shares, which are traded on an exchange within its meaning in the Securities Law, 5728-1968.

27B. Restrictions on institutional investors

An institutional investor shall not hold means of control in a banking corporation that controls it, or in a banking corporation controlled by a bank holding corporation that also controls the institutional investor.

27C. Holdings of institutional investors in other banking corporations

- (a) Associated institutional investors together shall not hold means of control of another banking corporation in excess of five per cent of any category of means of control.
- (b) The part of each of the associated institutional investors in the permitted rate of the holding of means of control said in subsection (a) shall be determined once every quarter, according to the ratio between the value of his investment in shares and the total value of investments in shares by all the associated institutional investors.
- (c) Each associated institutional investor shall report to the banking corporation that controls it or to the bank holding corporation that controls it, as the case may be, not later than on the 14th of December, March, June and September of each year, the value of its share holdings on the last of the month that

preceded the report; the banking corporation or the bank holding corporation that controls it, as the case may be, shall calculate the proportion of means of control said in subsection (b) which the associated institutional investor is permitted to hold, and it shall communicate those proportions to the institutional investor and to the Supervisor by the 20th of the said months; the said proportions shall bind the institutional investor in respect of the quarter that begins on January 1, April 1, July 1 and October 1, as the case may be.

- (d) If an associated institutional investor's holding of means of control in a banking corporation was greater than that permitted under subsection (b), in consequence of a change in the proportion which it was permitted to hold, as determined by notice given to it as said in subsection (c), it shall reduce its said holding to the permitted proportion within one month after receipt of notification under subsection (c).

27D. Sale of means of control

If an institutional investor holds means of control in a banking corporation in violation of the provisions of this Chapter, and if it was given written warning 14 days in advance, the Supervisor shall apply to the District Court, that is issue orders for the sale of the excess means of control.

Chapter Three "B": Control and Holding of Means of Control in a Management Company, in a Manager of a Mutual Joint Investment Fund, and in a Corporation Devoted to the Management of Investment Portfolios

27E. Means of control held by a banking corporation

- (a) Notwithstanding the provisions of this Law:
- (1) A banking corporation shall not hold means of control in a management company or the manager of a mutual fund.
 - (2) A banking corporation shall not hold more than ten percent of any kind of means of control in a corporation that controls a management company or controls the manager of a mutual fund, or in a corporation than holds more than twenty-five percent of any kind of means of control in a company or fund manager as stated.
- (b) Notwithstanding the provisions of this law:
- (1) A banking corporation shall neither control nor hold more than five percent of any type of means of control in a corporation devoted to the management of investment portfolios that include the assets of a mutual joint investment fund, the assets of a provident fund, or the assets of an insurer that are imputed to its insured's;
 - (2) A banking corporation shall not hold more than twenty percent of any type of means of control in a corporation that controls a corporation devoted to the management of investment portfolios as set forth in Paragraph (1) or in a corporation that holds more than twenty-five percent of any type of means of control in said devoted corporation.

27F. Means of control held by the controlling principal of a banking corporation

- (a) An entity that controls a banking corporation shall not hold more than five percent of any type of means of control in a management company or the manager of a mutual joint investment fund, and shall not hold more than ten percent of any type of means of control in another corporation that controls one of the aforesaid or that holds more than twenty-five percent of any type of means of control.
- (b) An entity that controls a banking corporation shall not hold more than five percent of any type of means of control in a corporation that engages in investment portfolio management as set forth in Section 27E(b) and shall not hold more than twenty percent in a corporation controlling a corporation that engages in investment portfolio management as aforesaid or that holds in a corporation devoted as aforesaid more than twenty-five percent of any type of means of control.

27G. A lien as a holding

The provisions of Sections 27E and 27F shall also apply to the holding of means of control as a guarantee for debt, excluding means of control that are intended in good faith to serve as a guarantee for a debt to a banking corporation, provided that the provisions of Section 26 apply to the banking corporation. Nothing in the provisions of this Section shall derogate from the provisions of the Joint Mutual Investments Law, 5754-1994, and the provisions of the Supervision of Financial Services (Provident Fund) Law, 5765-2005.

27H. Sale of means of control

The provisions of Section 27, *mutatis mutandis*, shall apply to a banking corporation and to an entity that controls it, entities that control it, or entities that hold means of control in contravention of the provisions of this Section.

27I. Inapplicability to certain banks or foreign banks

The provisions of this Chapter shall not apply to a bank or a foreign bank and to an entity that controls either of them if its branches in Israel have no more than 1,000 customers and where one of the following circumstances obtains:

- (1) The total customer assets held by the bank or the foreign bank, as the case may be, does not exceed five million New Israel Shekel.
- (2) The total customer liabilities to the bank or foreign bank, as the case may be, do not exceed five million New Israel Shekel.

Chapter Four: Activities Requiring a Permit

28. Branches

- (a) A banking corporation shall not open, or conduct business at, a branch save under a permit issued by the Governor after consultation with the Licenses Committee.
- (b) A merchant bank shall not have more than four branches in Israel.
- (c) A foreign bank shall not be required to obtain a permit for a branch in a foreign state.

29. Considerations governing issue of branch permit

The following matters shall be taken into account in regard to the issue of a branch permit:

- (1) the contribution of the branch to the services given to the customers of the banking corporation and to the development of its business;
- (2) the extent of the business of the banking corporation, its capital and profitability and its ability to operate the branch;

- (3) in the case of a branch outside Israel, the ability of the Supervisor to supervise its activities;
- (4) the economic policy of the Government;
- (5) the public good.

30. Revocation of branch permit

- (a) The Governor may revoke a branch permit, after giving the banking corporation a reasonable opportunity to be heard and after consultation with the Licenses Committee, if one of the following is the case:
 - (1) the banking corporation has not begun, or has ceased, to conduct business at the branch;
 - (2) the banking corporation has infringed a material condition of the permit;
 - (3) the banking corporation has infringed a material provision of this Law, the Ordinance or the Bank of Israel Law, 5714-1954, in the management of the branch;
 - (4) in the case of a branch outside Israel - the Supervisor cannot supervise its activity and the Governor considers that this may interfere with safeguarding the stability of the corporation;
 - (5) considerations of the public good indicate the necessity of revoking the permit.
- (b) Where a branch permit has been revoked, the banking corporation shall cease conducting business at the branch within a period prescribed by the Governor.

31. Holding of means of control of foreign corporation

- (a) Save under a permit issued by the Governor after consultation with the Licenses Committee, a banking corporation or bank holding corporation shall not hold more than ten per cent of a particular category of means of control of a foreign corporation which, if it conducted business in Israel, would require a license under this Law.

- (b) The provisions of this section shall not apply to a foreign bank or to a bank holding corporation which controls a foreign bank and does not control other banking corporations.

32. Considerations governing issue of permit under section 31

The following matters shall be taken into account in regard to the issue of a permit under section 31:

- (1) the contribution of the foreign corporation to the services given to the customers of the applicant for the permit and of banking corporations controlled by the applicant or to the development of the applicant's business;
- (2) the extent of the business of the applicant for the permit, its capital and profitability and its ability to manage the foreign corporation;
- (3) the ability of the Supervisor to obtain information on the activity of the foreign corporation;
- (4) the economic policy of the Government;
- (5) the public good.

33. Revocation of permit under section 31

- (a) The Governor may revoke a permit under section 31, after giving the holder of the permit a reasonable opportunity to be heard and after consultation with the Licenses Committee, if one of the following is the case:
- (1) the holder of the permit has infringed a material condition thereof;
 - (2) the holder of the permit has infringed a material provision of this Law, of the Ordinance or of the Bank of Israel Law, 5714-1954, in relation to the foreign corporation;
 - (3) the Supervisor does not receive sufficient information on the foreign corporation, and the Governor considers that the safeguarding of the stability of the holder of the permit may be adversely affected thereby;
 - (4) considerations of the public good indicate the necessity of revoking the permit.

- (b) Where a permit is revoked as aforesaid, the holder of the permit shall, within a period prescribed by the Governor, sell the means of control of the foreign corporation until he no longer holds more than ten per cent of any category of such means of control; if he does not do so, the District Court may, on the application of the Examiner, appoint a receiver for the sale of the means of control.

34. Control and holding means of control in a banking corporation

- (a) A person shall not hold control of more than five per cent of a particular category of means of control of a banking corporation or bank holding corporation, save under a permit issued by the Governor after consultation with the Licenses Committee.
- (a1) A person shall not agree with another concerning their voting for the appointment of a director of a banking corporation or a banking holding corporation, unless this is in accordance with a permit that the Governor has given following consultation with the License Committee; this provision shall not apply to a holder of means of control who has agreed with another, that the other shall vote in his name and on his behalf for the person whom the holder of the means of control has instructed him to, and on condition that the other shall not vote in the name of and on behalf of more than one other holder.
- (b) A person shall control a banking corporation or bank holding corporation save under a permit issued by the Governor after consultation with the Licenses Committee.
- (b1) In the issue of a permit under this Section, the considerations itemized in Section 6 shall be considered in the changes required, including the suitability of the applicant to control, to hold a quantity of means of control as requested, or to agree to the matter of voting for the appointment of a director, including his business experience, businesses and activities, economic stability, and clean record; likewise, the possible implications of issuing a permit for

control in the existing or future banking corporation or banking holding corporation, shall be taken into account.

- (c) A person holding means of control of a banking corporation or bank holding corporation shall not transfer them to another knowing that the transferee requires but does not possess a permit under this section.
- (d) Repealed.
- (e) The provisions of subsections (a) and (b) shall not apply to a person who holds means of control of a banking corporation or bank holding corporation by force of transfer by law.
- (f) The provisions of this section shall not apply to means of control of a foreign bank or of a bank holding corporation controlling a foreign bank and not controlling any other banking corporation, unless the holder is a resident of Israel.
- (g) The provisions of this Section shall also apply to the holding of means of control in a banking corporation or a banking holding corporation in guarantee of a debt, excluding said means of control that were intended in good faith to serve as a guarantee for a debt owed to a banking corporation, where such means of control in any securities account of a particular client do not exceed 0.001 percent of the same type of means of control.

34A. Revocation or modification of permit under

- (a) The Governor may revoke or amend a permit under Section 34 after consulting the License Committee if he has reasonable grounds to assume that one of the following applies:
 - (1) The permit holder has breached a material condition of the terms of the permit;
 - (1a) The permit holder has violated one of the provisions of Section 27F;
 - (2) The permit holder or an officer of the permit holder has been convicted of a crime, the gravity, essence, or circumstances of which justify the revocation or modification of the permit;

- (3) Where a permit holder is a corporation—an order has been given to liquidate it or a receiver has been appointed for its assets or a considerable part thereof due to nonpayment of debt; and, where the permit holder is an individual—the permit holder has been served with a receivership order in bankruptcy proceedings or declared legally incompetent.
 - (4) There is palpable concern of harm to the stability of a banking corporation or fear of harm to the public good unless the permit is revoked or modified.
- (b) The Governor shall neither modify nor revoke a permit as set forth in Subsection (a) unless he has given the permit holder a chance to make his claims heard and to amend the violation within a period of 30 days.
 - (c)
 - (1) If an indictment has been returned against the permit holder or an officer thereof for an offense for which, in the Governor's view, a conviction would be grounds for the revocation or modification of the permit, because of its gravity, essence, or circumstances, the Governor is entitled, after giving the permit holder a chance to voice his claims and after consultation with the License Committee, to modify the permit and establish provisions and terms that shall apply for a period to be determined.
 - (2) The provisions of Paragraph (1) shall also apply when a criminal investigation is launched against a permit holder or officer of the permit holder for an offense as set forth in Paragraph (1) on condition that the Governor has consulted with the Attorney General concerning the criminal investigation.

35. Governor's instructions to anyone operating without a permit as stipulated in Section 34

- (a) Should the Governor consider that a person has operated without a permit as set forth in Section 34, the Governor may, after giving said person an

opportunity to voice his claims, and after consultation with the License Committee, to instruct:

- (1) To sell all or some means of control held by said person within a period to be determined, so that he does not hold any form of means of control beyond the proportion that one is permitted to hold without a permit as stipulated in Section 34;
 - (2) That the voting rights or rights to appoint directors by dint of the means of control held by the same person shall not be exercised without a permit as stipulated in Section 34;
 - (3) That the vote cast by dint of the means of control held by the person without a permit as stipulated in Section 34 shall not be counted among the votes in that ballot;
 - (4) For termination of the appointment of a director made by the same person.
- (b) Should a person hold means of control in a banking corporation or a banking holding corporation that were transferred by force of law, at a percentage that requires a permit under Section 34, the Governor may, after giving said person an opportunity to voice his claims, and after consultation with the License Committee, to instruct him to sell all or some of said means of control within a period to be determined, so that he does not hold any kind of means of control beyond the proportion that one is allowed to hold without a permit as stipulated in Section 34.
- (c) If the Governor has instructed per Subsection (b) to sell means of control he may give an instruction as stated in Subsection (a)(2) to (4), *mutatis mutandis*.
- (d) If the holder fails to sell the means of control in accordance with the Governor's instructions as set forth in Subsections (a) or (b), the District Court may, at the Supervisor's request, appoint a receiver to sell said means of control.

- (e) A banking corporation shall make its best efforts to enjoin a person against acting by force of means of control that are held in contravention of the provisions of Section 34.

35A. Appointment of a director in special cases

- (a) If a director has not been appointed to a banking corporation or his service has been terminated for whatever reason, including failure to obtain a permit per Section 34 (a1), termination of appointment per Section 35(a)(4), objection of the Supervisor to his appointment per Section 11a(a) of the Order, or the termination of his appointment per Section 11a(c) of the order, and for that reason the number of directors is smaller than the number determined by the Supervisor as the appropriate number of directors in the banking corporation at issue (in this Section, the appropriate number of directors), the Supervisor shall order the general assembly of the banking corporation to convene within three months from the date that his order is given, in order to appoint directors to make up the appropriate number of directors, unless he believes that the appointment of directors should not wait until the general assembly.
- (b) If the Supervisor believes that the appointment of directors should not wait until the general assembly per Subsection (a), or if he has ordered the general assembly to convene per the instructions in said subsection, and the assembly has not appointed directors as required to make up the appropriate number of directors, the Directors Appointments Committee, per Section 36A (in this Section, the Committee) shall appoint directors as required to make up the appropriate number of directors; the Supervisor will advise the banking corporation that the appointment shall be made by the Committee.
- (c) A director appointed by the Committee shall serve until the second regular general assembly after his appointment.

36. Report on holding of means of control

- (a) A holder of more than five percent of a certain type of means of control in a banking corporation or in a banking holding corporation that is controlled by an entity that has obtained a permit per Section 34(b) shall provide the banking corporation or the banking holding corporation, as the case may be, on April 1 of every year and at other times that the Supervisor shall determine, with a report on the holding of said means of control and other details determined by the Supervisor, including the following:
- (1) If the controlling principal is a corporation—those who control it and who hold five percent or more of a certain type of means of control therein;
 - (2) Anyone for which the holder acts as an agent or a trustee.
- (b) (1) The holder of more than 2.5 percent of a certain type of means of control in a banking corporation or a banking holding corporation in which no holder of means of control is required to have a permit as set forth in Section 34(b) shall provide the banking corporation or the banking holding corporation, as the case may be, with a report on the holding of said means of control and other details that the Supervisor shall determine, including the following:
- (a) The controlling principals or, if there are none, the holders of ten percent or more of a certain means of control therein and the directors thereof;
 - (b) Anyone for which the holder acts as an agent or a trustee.
- (2) With respect to a specific banking corporation, the Governor is entitled to establish a different holding share from that set forth at the beginning of Paragraph (1), provided that the share established is not less than one percent.

- (3) Reporting as set forth in Paragraph (1) shall be made on April 1 of every year, at other times that the Supervisor determines, at any time when the holding of a certain type of means of control reaches the share that entails reporting under said Paragraph, and at any time that the holdings falls below said share.
- (c) The Supervisor may determine that a holder of means of control who is subject to a reporting liability under this Section shall also forward the report to the Supervisor directly.
- (d) The provisions of this Section shall also apply to the anyone holding means of control in a banking corporation or a banking holding corporation as a guarantee for a debt, excluding a principal that is a banking corporation.

Chapter Four "A": Committee for the Appointment of Directors of Banking Corporations

36A. Appointment and composition of the committee

- (a) The Governor shall appoint a Committee for the Appointment of Directors of Banking Corporations (in this Section, the Committee).
- (b) The Committee shall have the following five members:
- (1) A judge, to be nominated by the Minister of Justice after consultation with the President of the Supreme Court, and who shall be the chair;
 - (2) Four members who are businesspeople, investors, or members of the faculty of higher education institutions in relevant disciplines.

36B. Terms of fitness and restrictions after completion of term of service

- (a) A person fit for appointment to the Committee is one who fulfills the provisions of Section 16A of the Government Companies Law 5735-1975, and the fitness conditions that the Supervisor has established for the

appointment of external directors of banking corporations, and the provisions of Sections 17 and 17A of said law shall apply to the appointment of members of the Committee.

- (b) Notwithstanding the provisions of Subsection (a), business relations flowing from relations between a banking corporation and a customer or an auxiliary corporation and a customer, which are regular and normal, shall not be considered for the purposes of this Section as a personal relationship with the business management of the banking corporation or a corporation associated therewith.
- (c) For a year after the completion of his term of service with the Committee, a member of the Committee shall not serve as director of a banking corporation that the Committee has discussed during his service as a member thereof, of a corporation that controls it, or of a corporation that is controlled by either of them, and shall not be engaged as an employee or other position therein or as advisor thereto.

36C. Term of service

A member of the Committee shall be appointed for a period of no more than three years and may be re-appointed for one additional term of service.

36D. Termination of service

A committee member shall cease to serve on the Committee before the end of his term of service under one of the following circumstances:

- (1) He resigns by presenting the Governor with a letter of resignation;
- (2) The Governor decides to terminate his service for one of the following reasons:
 - (a) He is unable to fulfill his role or is not fulfilling his role adequately;
 - (b) One of the grounds for disqualification from service applies.

36E. Working procedures

- (a) A majority of Committee members constitutes a legal quorum for meetings.
- (b) The Committee's decisions shall be made by a majority vote; in the case of a tie, the chair shall cast the deciding vote.

36F. Validity of actions

The Committee's powers and the validity of its actions shall not be impaired because a member's seat has become vacant, because his appointment was flawed, or because his continued membership is flawed.

36G. Remuneration

Committee members shall be entitled to remuneration for participating in Committee meetings at a rate that shall be determined by the Governor and shall not be entitled to other remuneration and reimbursement of expenses; Said remuneration shall be paid by the Bank of Israel.

36H. Method of choosing directors

The Committee shall establish for itself the way it selects the director whom it appoints and the provisions of Section 36B (a) and (b) shall apply.

Chapter Five: Adjustments and Amendments in Legislation

37. Amendment of Banking Ordinance

(Amendments incorporated in the Banking Ordinance)

38. Amendment of Bank of Israel Law

Unofficial Translation

(Amendments incorporated in Bank of Israel Law)

39. Amendment of Cooperative Societies Ordinance

Sections 56(3), 56(4) and 62 of the Cooperative Societies Ordinance are hereby repealed.

40. Repeal of Credit Banks Ordinance

The Credit Banks Ordinance is hereby repealed.

Chapter Six: Transitional Provisions

41. Existing institutions

- (a) A body corporate incorporated in Israel which, on the 25th Adar Bet, 5741 (31st March, 1981) (hereinafter referred to as "the determining date") lawfully carried on a banking business, within the meaning of the Ordinance, is entitled to a bank license.
- (b) A foreign corporation which, on the determining date, lawfully carried on a banking business in Israel is entitled to a foreign bank license.
- (c) A body corporate which, on the determining date, carried on the grant of long-term credits to finance the acquisition of immovable property and lawfully used the word "bank" in its name or was licensed as a credit bank under the Credit Banks Ordinance, is entitled to a mortgage bank license.
- (d) A body corporate which, on the determining date, carried on the grant of long-term credits for the financing of investments and lawfully used the word "bank" in its name is entitled to an investment finance bank license.
- (e) A body corporate which, on the determining date, held a license under section 3A of the Ordinance is entitled to a financial institution license permitting it to continue such activities permitted to a financial institution which it carried on the determining date.
- (f) A body corporate which, on the determining date, lawfully conducted a business the continued conduct of which is prohibited by section 21(a)(2) is entitled to a financial institution license permitting it to continue such

activities permitted to a financial institution as it carried on the determining day.

- (g) A body corporate in which more than fifty per cent of the means of control are held by several bodies corporate entitled to banking corporation licenses under this section and which, on the determining date, carried on the giving of services to its members or their customers is entitled to a joint services company license.
- (h) A body corporate shall receive only one license under this section, and if it is entitled to licenses in two or more categories it shall opt for one of them.

42. Branch permits

A body corporate entitled to a banking corporation license is entitled also to a branch permit for each place at which it lawfully and regularly transacted business with its customers on the determining date.

43. Holding of means of control of foreign corporation

A bank holding corporation, or a body corporate entitled to a banking corporation license, which, on the determining date, held more than ten per cent of a particular category of means of control of a foreign corporation to which section 31 applies is entitled to a permit under section 31 in respect of that foreign corporation.

44. Issue of licenses and permits to bodies entitled

- (a) A body entitled to a license under section 41 to 43 which has not submitted an application therefore to the Governor by the expiration of six months after the determining date shall be deemed to have waived such license.
- (b) The Governor may attach to a license or permit under sections 41 to 43 conditions similar to those which applied to the entitled body by virtue of the Ordinance.

45. Period for making up deficiency of capital

Where the capital of a banking corporation which has received a license under section 41 falls short of the amount specified in the Schedule in respect of a banking corporation of that category, such banking corporation shall increase its capital to the said amount by the expiration of three years from the determining date.

46. Prohibited activity

- (a) A banking corporation which, on the determining date, lawfully carried on an activity it is prohibited from carrying out under the provisions of Chapter Three may continue that activity until the expiration of three years from the determining date.
- (b) Where, on the determining date, a body corporate lawfully conducted business from the further conduct of which it is prohibited by section 21(a)(2), and it does not wish to obtain a financial institution license under section 41(f), it shall not be regarded as contravening the provisions of section 21(a)(2) if it meets the following two requirements:
 - (1) it notifies the Governor, within six months from the determining date, that it waives its right to receive a financial institution license;
 - (2) so long as any securities, as referred to in section 21 issued by it have not been retired, it does not grant new credit, within the meaning of section 21, except to replace credit repaid, in order to maintain cover for securities issued up to the determining date.

47. Permissible control of real body corporate

- (a) If a banking corporation, on the 24 Adar B 5749 (March 31, 1989), controlled or was an interested party in a real body corporate, it may continue to control it or to be an interested party in it until the following dates and subject to the following conditions:
 - (1) the banking corporation shall not an interested party in the real body corporate after 21 Tevet 5757 (December 1996);

- (2) the banking corporation shall not control the real body corporate after 12 Tevet 5759 (December 1998);
 - (3) the banking corporation shall not extend credit to the real body corporate, unless extended in the ordinary course of business and on terms similar to those of credit extended to customers of the same category; the Supervisor may set a maximum rate for aforesaid credit, either generally or for a specific body corporate;
 - (4) Directors or employees of the banking corporation or of banking corporations under its control shall not constitute a majority of all the directors of the real body corporate.
- (b) The provisions of Chapter Three shall not apply to a control of or interest in a body corporate (hereinafter: granddaughter corporation) that is a consequence of holding through a real body corporate controlled under the provisions of subsection (a), provided that the following conditions are met:
- (1) the banking corporation shall not assist the real body corporate, directly or indirectly, to finance the acquisition of means of control in the granddaughter corporation;
 - (2) the provisions of paragraph (3) in subsection (a) shall also apply to a granddaughter corporation;
 - (3) directors or employees of the banking corporation or of banking corporations under its control shall not be officers of the granddaughter corporation.
- (c) If the holdings of a banking corporation in controlled real bodies corporate were not reduced, as demanded under the provisions of subsection (a), the District Court may, on application by the Supervisor, appoint a receiver for the sale of the excess means of control.#

47A. Restriction of total means of control of bodies corporate

See section 23 to Amendment No. 11, p. 57 below, as to commencement.

A banking corporation which on the 24th Adar Bet, 5749 (31st March, 1989) held means of control of real bodies corporate to an amount exceeding the amount permitted under the provisions of section 23A, shall reduce them to the permitted amount at the following rates:

- (1) one fifth by the 14th Tevet, 5751 (31st December, 1990);
- (2) one fifth in each of the years 1991 to 1994.

47B. Definitions

In sections 47C, 47D, and 47E:

"**Amendment 13**" - Banking Law (Licensing) (Amendment No. 13) 5764–2004;

Amendment 13 shall go into effect on Elul 15, 5764 (September 1, 2004).

47C. Holdings of a banking corporation in another banking corporation

- (a) A banking corporation whose lawful holdings in means of control in another banking corporation before the implementation of Amendment 13 contravene the provisions of Section 20A may continue to hold them provided that it does not, after the implementation of Amendment 13, acquire any means of control whatsoever in the other banking corporation unless said acquisition is in accordance with the provisions of said section.
- (b) Notwithstanding the contents of Section 20A(a), a banking corporation shall be entitled to control, in conjunction with others, another banking corporation if all the following circumstances obtain:
 - (1) The banking corporation acquired control and the means of control from a banking corporation (in this Section—the selling banking corporation);

- (2) The selling banking organization controlled, shortly before the enactment of Amendment 13, in conjunction with others, another banking corporation;
- (3) The selling banking corporation made an undertaking to others, before the enactment of Amendment 13, to the effect that at such time as the control and the means of control in the other banking organization are sold, the purchaser will control [said banking corporation] in conjunction with said others.

47D. Holdings of associated institutional investors

- (a) Associated institutional investors as defined in Section 27A, who jointly and, before the implementation of Amendment 13, lawfully hold more than five percent of a certain type of means of control in another banking corporation, are entitled to continue to hold said means of control provided that they do not, after the implementation of Amendment 13, acquire any means of control whatsoever in the same banking corporation if said acquisition causes their holdings to exceed five percent.
- (b) Notwithstanding the provisions of Subsection 20A(a), an associated institutional investor shall not be considered to have obtained a permit under the provisions of Section 34(a) as worded after the implementation of Amendment 13 in the matter of the right to appoint a director to a banking corporation, as stated in Paragraph (2) of the definition of “means of control” in Section 1.

47E. Control and holding of means of control in a banking corporation

- (a) A controlling principal, before the implementation of Amendment 13, in a banking corporation or a banking holding corporation, or the holder at said time of more than five percent of a certain type of means of control in a

banking corporation or a banking holding corporation, according to a permit given to him under the provisions of Section 34 as worded before the implementation of Amendment 13, or who is not required to hold a permit as stated, shall not be considered for the purposes of this law as acting without a permit according to the provisions of Section 34 as it is worded since the implementation of Amendment 13, and the following provisions shall apply to him as the case may be:

- (1) The holder of a permit that was issued before the implementation of Amendment 13 - the provisions of the permit given to said holder shall remain in effect;
 - (2) Anyone not required to have a permit before the implementation of Amendment 13, shall not, after the implementation of Amendment 13, purchase, without a permit per Section 34, any means of control whatsoever in the same banking corporation or the same banking holding corporation if said acquisition causes the holding to exceed five percent.
- (b) Notwithstanding the provisions of Subsection (a), anyone that before the implementation of Amendment 13 held ten percent or less of any type of means of control in a banking corporation or a banking holding corporation, without being required to have a permit, shall not be considered to have received a permit per Section 34(a) as worded after the implementation of Amendment 13, to hold the same share of means of control, in the matter of the right to appoint a director in the corporation as set forth in Paragraph (2) of the definition of “means of control” in Section 1.
- (c) The provisions of this Section shall also apply, mutatis mutandis, to anyone that holds means of control in a banking corporation or a banking holding corporation that are intended in good faith to serve as a guarantee for a debt.

47F. Special provident funds

Unofficial Translation

Notwithstanding the contents of Sections 10, 11, and 27E -

- (1) A bank may control and be a principal in the managing company of a central severance-pay provident fund in which the only member is the bank, and may engage in the management thereof;
- (2) A bank may engage in the management of a provident fund in which all members are employees of the bank or of a company controlled by it, where the statutes of said fund ruled out enlistment of new members as of Sivan 27 5765 (July 1, 2005).”;

48. repealed

Chapter Seven: Miscellaneous

49. Penalties

- (a) A person who contravenes any of the provisions of sections 13, 21, 34 or 47E shall be liable to imprisonment for a term of six years or a fine of double the fine set in section 61(a)(4) of the Penal Law, 5737-1977 (hereinafter - Penal Law).
- (b) A person who contravenes any of the provisions of sections 10 to 12, 14 to 20A, 23, 23A, 24, 24A, 24B, 27B, 27C, 27E, 27F, 28, 31,35A, 47C and 47D, 36 or directions of the Governor under section 9(b) or section 35 shall be liable to imprisonment for a term of two years or a fine of four times the fine set in section 61(a)(3) of the Penal Law.
- (c) Where a person, not being a banking corporation but carrying on the acceptance of money deposits or the issue of securities, as referred to in section 21(a)(2), transfers moneys, by way of credit or otherwise, to another

not being a banking corporation or auxiliary corporation but carrying on the grant of credit, they shall both be guilty of an offence under section 21.

50. Responsibility of Director and General Manager for Offences of Banking Corporation

A person who is a director or general manager of a banking corporation and for purposes of an offense under section 49(b) - of an institutional investor, when such banking corporation or such institutional investor, as the case may be, commits an offence under this Law, shall be regarded as an accessory to such offence and may be convicted thereof unless he proves either of the following:

- (1) that the offence was committed without his knowledge and his position did not require him to know about it;
- (2) that after becoming aware that the corporation was about to commit the offence he took all possible steps to prevent it from doing so.

50A. Approval by Attorney General

If a banking corporation failed to comply with an obligation imposed on it under the provisions of the Banking (Licensing) (Amendment No. 11) Law, 5756-1996 for the reduction of its holdings in a real body corporate, which it lawfully held on 12 Iyyar 5756 (May 1, 1996), an indictment under section 49 or 50 shall be filed against it only with approval of the Attorney General.

50B. Civil fine

- (a) If the Supervisor has reasonable grounds to assume that an act of commission or omission has occurred that constitutes a violation of any of the provisions of Sections 10–12, 14–18, 19(a) or (b), 20A(a), 23, 23A(a) 24(a) or (b), 24A(a), 24B, 28(a) or (b), or 31(a), he may impose on the perpetrator of said commission or omission a civil fine at the rate of half of the fine established in Section 49(b).

- (b) The Supervisor may not impose a civil fine that is smaller than the civil fine established in this Chapter, except in accordance with the provisions of Subsection (c).
- (c) The Governor, in consultation with the Minister of Justice, may establish types of events, circumstances, and considerations for which the Supervisor may impose a civil fine that is smaller than the civil fine established in Subsection (a), at rates that he shall determine.
- (d) The civil fine shall be set at its adjusted sum on the day of the demand for payment thereof, and if an appeal is presented and the court that adjudicates the appeal issues a stay-of-payment order, then in accordance with the adjusted sum on the day of the decision in regard to the appeal.
- (e) The remittance of a civil fine shall not derogate from the criminal liability of a person for the violation.
- (f) If a person is served with indictment for an offense under this Law, he shall not be liable to a civil fine on its account, and if he has paid such a fine, it shall be refunded to him along with indexation differentials and interest under the Interest and Indexation Law, 5721-1961, from the date of payment to the date of the refund.
- (g) The provisions of Sections 14j-14o of the Banking Ordinance, 1941, shall apply, *mutatis mutandis*, to the civil fine as set forth in this Section, but with the following change: for the purposes of Section 14j, the definition of “recurrent violation” shall be read as follows:

“**Recurrent violation**”—a violation of any of the provisions in Subsection (a) within two years of a previous violation of said provisions, for which the violator received a civil fine or a conviction.

51. Cooperative society as a banking corporation

The provisions of this Law shall apply, *mutatis mutandis*, to a cooperative society as if it were a company.

52. Application of provisions to receiver

The provisions of Chapter Five of the Execution Law, 5727- 1967, shall apply *mutatis mutandis* to a receiver appointed under this Law.

53. Implementation

The Minister of Finance is charged with the implementation of this Law and may make regulations as to any matter relating to its implementation.

54. Commencement

This Law shall have effect from the 26th Adar, 5741 (1st April, 1981).

55. Publication

This Law shall be published within thirty days from the date of its adoption by the Knesset.

FIRST SCHEDULE

(Section 7)

Minimum Capital

Category of Body Corporate	Amount
Bank	10,000,000 shekalim
Foreign Bank	An amount of foreign currency equivalent to 10,000,000 shekalim
Mortgage Bank	6,000,000 shekalim
Investment Finance Bank	6,000,000 shekalim
Merchant Bank	6,000,000 shekalim
Financial Institution	3,000,000 shekalim
Joint Services Company	100,000 shekalim

SECOND SCHEDULE

Classification of Branches of the Economy
(According to the Uniform Classification of Branches of the
Economy 1993, as Published According to the Numbers of the
Branches Said in Parentheses by the Central Bureau of
Statistic in its Technical Publication No. 63)

1. Agriculture, forestation and fishing (01, 02, 03, 09)
2. Mining of coal, oil and metals and the extraction of non-metallic minerals (10 to 13 and 26)
3. Food (14-15)
4. Beverages and tobacco (16)
5. Textiles, clothing and footwear (17 to 19)
6. Wood and furniture, paper, publishing and printing (20 to 22, 36)
7. Chemical products, oil refining and plastics (23 to 25)
8. Basic metals and metal products, and machinery (27 to 31)
9. Electrical and electronic components (32 to 34)
10. Transport equipment (35)
11. Diamonds, jewellery and other products (37 to 39)
12. Electricity and its distribution (40)
13. Water and its distribution (41)
14. Construction (45, 46)
15. Wholesale trade (51)
16. Retail trade (50, 52, 53)
17. Hotels, hospitality services and restaurants (55, 56)
18. Land transport (60, 63)
19. Water transport (61)
20. Air transport (62)
21. Storage, mail and communications (64 to 66)
22. Banking and financial institutions, other than insurance (67, 68)

Unofficial Translation

23. Insurance (63)
24. Real estate (rental and services) (70 to 76)
25. Education, health, sanitation and personal services (80, 85-6, 90 to 97)

MENACHEM BEGIN
Prime Minister

YORAM ARIDOR
Minister of Finance

YITZCHAK NAVON
President of the State

Appendix

Transitional Provisions

Banking (Licensing) Law— Transitional Provisions

3. (a) In this Section—

“**Starting date**”—the date on which this Law is gazetted.

“**Market share**” of a banking corporation in respect of joint mutual funds—the total market share of the managers of funds that are controlled by the banking corporation, and in respect of a banking corporation that controls a fund manager in conjunction with others, the entire market share of the fund manager shall be attributed to the banking corporation. For this purpose, the expression “**market share of fund manager**” is defined as in Section 23a of the Mutual Joint Investments Law, 5754-1994, as worded in Section 10(6) of this Law;

“**Market share**” of a banking corporation in respect of provident funds—the total market share of managing companies that are controlled by the banking corporation, and in respect of a banking corporation that controls managing companies in conjunction with others, the entire market share of the managing company shall be attributed to the banking corporation. For this purpose, the expression “**provident fund**” excludes a pension-type provident fund and a provident fund that is an insurance fund, and the expression “**market share of managing company**” denotes the proportion of the net worth of assets of provident funds that are managed by all managing companies in Israel, as calculated under rules that the Commissioner shall set forth, as each is defined in the Supervision of Financial Services (Provident Funds) Law, 5765-2005.

- (b) A banking corporation that, on the eve of the starting date, lawfully held means of control in a managing company or manager of a joint investment

mutual fund, where said holdings violate the provisions of Section 27E(a)(1) of the Banking (Licensing) Law, as worded in Section 2(9) of this Law, shall be entitled to retains said holdings until the date by which its market share, in respect of mutual funds and provident funds, as the case may be, must be zero percent as established in Subsection (i), provided that its maximum market shares in respect of joint mutual funds and provident funds be as set forth in Subsection (i) and under the terms thereof.

- (c) A banking corporation that, on the eve of the starting date, lawfully controlled a managing company or manager of a joint investment mutual fund, where said control violates the provisions of Section 11(a) of the Banking (Licensing) Law, as worded in Section 2(3) of this Law, may retain said control until the date by which its market share in respect of joint mutual and provident funds, as the case may be, must be zero percent, as established in Subsection (i), provided that all provisions of Subsection (i) in respect to maximum market share are present.
- (d) A banking corporation that, on the eve of the starting date, lawfully controlled or lawfully held more than ten percent of any type of means of control in a company that controls or holds more than twenty-five percent of any type of means of control in a managing company or manager of a joint investment mutual fund, where said control and holdings violate the provisions of Sections 11(a) and 27E(a)(2) of the Banking (Licensing) Law, as worded in Section 2(3) and (9) of this Law, shall be allowed to retain said control or holding until the date by which the market share of the banking corporation in respect of mutual and provident funds, as the case may be, must be zero percent , as established in Subsection (i).
- (e) (1) The controlling principal of a banking corporation that, on the eve of the starting date, lawfully held more than five percent of any type of means of control in the managing company or manager of a joint investment mutual fund by means other than the controlled banking

corporation, or lawfully held more than ten percent of any type of means of control in another corporation that controls a management company or manager of a fund as aforesaid, or in a corporation that holds more than twenty-five percent of any type of means of control in one of these, where said holdings violate the provisions of Section 27F(a) of the Banking (Licensing) Law, as worded in Section 2(9) of this Law, may retain said holdings until the date by which the market share of the banking corporation in respect of joint mutual and provident funds, as the case may be, must be zero percent as established in Subsection (i).

- (2) The controlling principal of a banking corporation that, on the eve of the starting date, lawfully held more than five percent of any type of means of control in a managing company or manager of a joint investment mutual fund by means of the controlled banking corporation, and after the starting date received said means of control for holding purposes by means other than the controlled corporation, where said holdings violate the provisions of Section 27F(a) of the Banking (Licensing) Law, as worded in Section 2(9) of this law , may continue to hold them under the following conditions:
 - (a) On the date by which the market share of the banking corporation controlled by him, in respect of joint mutual and provident funds, as the case may be, must be zero percent as established in Subsection (i), the controlling party shall be in compliance with the provisions of said Section 27F(a);
 - (b) At the end of half of the period from the starting date to the date cited in Subsection (a), the controlling party shall hold no more than half of the means of control that it had received for holding purposes as aforesaid.

- (f) A banking corporation that, on the eve of the starting date, lawfully controlled or lawfully held more than five percent of any type of means of control in a corporation that engages in investment-portfolio management or, on the eve of the starting date, lawfully held more than twenty-five percent of any type of means of control in a company that controls or holds more than twenty-five percent of any type of means of control in a corporation that engages in investment-portfolio management, where said control or holding violates the provisions of Section 27E(b) of the Banking (Licensing) Law, as worded in Section 2(9) of this Law, may retain said control and holding until the date by which its market share in respect to provident funds must be zero percent as established in Subsection (i).
- (g) The controlling principal of a banking corporation that lawfully holds, on the eve of the starting date, more than five percent of any type of means of control in a corporation that engages in investment-portfolio management or that lawfully holds, on the eve of the starting date, more than twenty percent of any type of means of control in a corporation that controls or holds more than twenty-five percent of any type of means of control in a corporation that engages in investment-portfolio management, where said holdings of means of control violates the provisions of Section 27F(b) of the Banking (Licensing) Law, as worded in Section 2(9) of this Law, may retain them until the date cited in Subsection (f) for the purpose of the banking corporation that exerts control.
- (h) (1) If it is established in the statutes of provident funds that a banking corporation that controls a managing company has undertaken to pay certain sums to members of the fund that it manages or has guaranteed said payment (in this Section—the guarantee), members' consent shall not be required for the replacement or endorsement of the guarantee due to the transfer of control of the managing company or the transfer of fund management to another management company within the ambit of

the banking corporation's requirements under Section 2 and this Section, provided that the bank or the insurer put up similar security in wording approved by the Commissioner of the Capital Market, Insurance, and Savings at the Ministry of Finance or another party approved thereby for this purpose.

- (2) Members' consent shall not be required for the splitting or merger of a management company under the provisions of Section 350 of the Companies Law, 5759-1999, insofar as this is required under any law, where such actions take place within the ambit of the banking corporation's obligations under Section 2 and under this Section, and in this matter the provisions of Section 41 of the Regulation of Financial Services (Provident Funds) Law, 5765-2005, in respect to the transfer of provident-fund management to another management company shall apply, *mutatis mutandis*.

- (i) For the purposes of the provisions of this Section, the maximum market shares are the following:

Period from date of gazetting of this Law to the period stated below	Market shares for a banking corporation of which net capital, of itself and of other banking corporations that control it and that are controlled by it, exceeds ten million New Israel Shekel		Market shares for other banking corporation	
	Provident funds	Mutual funds	Provident funds	Mutual funds
End of two years	18%	25%	18%	25%
End of three years	0%	12.5%	10%	12.5%
End of four years		0%	6%	6%
End of six years			0%	6%
End of eight years				0%

Sefer Ha-Chukkim of 5741, pp. 232, 320 - LSI vol. XXXV p. 277; Sefer Ha-Chukkim of 5747, pp. 11, 20, 168 and 170; Sefer Ha-Chukkim of 5748, p. 26; Sefer Ha-Chukkim of 5749, pp. 61, 96; Sefer Ha-Chukkim of 5750, p. 118; Sefer Ha-Chukkim of 5754, p. 106; Sefer Ha-Chukkim of 5755, p. 428; Sefer Ha-Chukkim of 5756, p. 318, Sefer Ha-Chukkim of 5759, p. 24, Sefer Ha-Chukkim of 5764, p. 508, , Sefer Ha-Chukkim of 5765, p. 830, , Sefer Ha-Chukkim of 5766, p. 18.