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CASH AND TREASURY MANAGEMENT
COUNTRY REPORT

ISRAEL

Executive Summary

Banking

The Israeli central bank is the Bank of Israel. Bank supervision is performed by the Bank of Israel's Banking Supervision Department.

Israel applies central bank reporting requirements. All transactions between residents and non-residents are reported to the Bank of Israel.

Resident entities are permitted to hold fully convertible domestic and foreign currency bank accounts domestically and outside Israel. Non-resident entities are permitted to hold fully convertible domestic and foreign currency bank accounts within Israel.

The banking system is dominated by Bank Hapoalim and Bank Leumi le-Israel. There are also another 14 commercial banks in operation, one non-bank financial institution plus four branches of foreign banks.

Payments

Israel has three principal payment systems: the RTGS system (Zahav), the Banks' Automated Clearing House (Masav) and the Banks' Paper-based Clearing House (BCH).

The increased use of electronic and internet banking has led to growth in the use of electronic transfers and direct debits. Card payments are increasing rapidly, especially in the retail sector. Checks remain commonly used.

Liquidity Management

Israel-based companies have access to a variety of short-term funding options. There is also a range of short-term investment instruments available.

Both cash concentration and notional pooling are used by companies in Israel to manage company and group liquidity.

Trade Finance

Israel has established free trade arrangements with the European Union (EU), the European Free Trade Association (EFTA), Mercosur (a common market comprising Argentina, Brazil, Paraguay and Uruguay), the USA, Panama, Colombia, Canada, Mexico, Egypt, Russia, Jordan, Vietnam, Sri Lanka and Turkey.

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PNC's International Services

PNC can bring together treasury management, foreign exchange, trade finance and credit capabilities to support your international needs in a coordinated and collaborative way.

International Funds Transfers

International Funds Transfers to over 130 countries in USD and foreign currency can be accessed through PINACLE®, PNC's top-rated, online corporate banking portal.

Multicurrency Accounts

Set up demand deposit accounts that hold foreign currency instead of U.S. dollars. These accounts offer a simple and integrated way to manage and move money denominated in more than 30 currencies, including offshore Chinese Renminbi. You can easily view deposit and withdrawal details through PINACLE.

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PNC Bank, through its full service branch in Canada, can help you succeed in this important market. PNC Canada offers a full suite of products including payables, receivables, lending, and specialized financing to help streamline cross border operations.

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PNC's Multibank Services provide you with balances and activity for all your accounts held with PNC and other financial institutions around the world. PINACLE's Information Reporting module can give you a quick snapshot of your international cash position, including USD equivalent value, using indicative exchange rates for all your account balances. You can also initiate Multibank Transfer Requests (MT101s), and reduce the time and expense associated with subscribing to a number of balance reporting and transaction systems.

Establish accounts in foreign countries

Establishing good banking relationships in the countries where you do business can simplify your international transactions. PNC offers two service models to help you open and manage accounts at other banks in countries outside the United States.

- PNC Gateway Direct comprises an increasing number of banks located in many European countries and parts of Latin America. PNC's team will serve as a point of contact for setting up the account helping with any language and time barriers and will continue to serve as an intermediary between you and the bank you select. You can access reporting and make transfers via PINACLE.
- PNC's Gateway Referral service can connect you to a correspondent banking network that comprises more than 1,200 relationships in 115 countries.

Foreign Exchange Risk Management

PNC's senior foreign exchange consultants can help you develop a risk management strategy to mitigate the risk of exchange rate swings so you can more effectively secure pricing and costs, potentially increasing profits and reducing expenses.

Trade Services

PNC's Import, Export, and Standby Letters of Credit can deliver security and convenience, along with the backing of an institution with unique strengths in the international banking arena. PNC also provides Documentary Collections services to both importers and exporters, helping to reduce payment risk and control the exchange of shipping documents. We assign an experienced international trade expert to each account, so you always know your contact at PNC and receive best-in-class service. And PNC delivers it all to your computer through advanced technology, resulting in fast and efficient transaction initiation and tracking.

Trade Finance

For more than 30 years, PNC has worked with the Export-Import Bank of the United States (Ex-Im Bank) and consistently ranks as a top originator of loans backed by the Ex-Im Bank both by dollar volume and number of transactions.[1]

Economic Updates

Receive regular Economic Updates from our senior economist by going to pnc.com/economicreports.

(1) Information compiled from Freedom of Information Act resources.

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Financial Environment

Country Information

Geographical Information

Capital	Jerusalem Although Jerusalem has been proclaimed by Israel as its official capital since 1950, most countries maintain their embassies at Tel Aviv.
Area	20,770 km^2
Population	8.17 million
Official languages	Hebrew, Arabic (officially used by Arab minority)
Political leaders	Head of state — President Reuven Rivlin (since July 24, 2014) Head of government — Prime Minister Binyamin Netanyahu (since March 31, 2009).

Business Information

Currency (+ SWIFT code)	New Israeli shekel (ILS)
Business/Banking hours	08:30–18:30 (Sun–Thu), 08:30–14:00 (Fri)
Bank holidays	2017 — March 13, April 11, 17, May 2, 31, August 1, September 21, 22, 29, 30, October 5, 12 2018 — March 2, 31, April 6, 19, May 20, July 22, September 10, 11, 18, 19, 24, October 1 Source: www.goodbusinessday.com
International dialing code	+ 972

Country Credit Rating

FitchRatings last rated Israel on July 22, 2016 for issuer default as:

Term	Issuer Default Rating
Short	F1
Long	A
Long-term rating outlook	Positive

Source: www.fitchratings.com, October 2016.

Economic Statistics

Economics Table

		2010	2011	2012	2013	2014
GDP per capita	(USD)	31,389	34,717	33,760	37,392	38,498
GDP	(ILS billion)	871	937	1,001	1,056	1,094
GDP	(USD billion)	233	262	260	292	306
GDP volume growth*	(%)	+ 5.8	+ 5.0	+ 2.9	+ 3.3	+ 2.6
BoP (goods, services & income) as % GDP		– 0.2	– 0.7	– 2.5	+ 0.3	+ 0.8
Consumer inflation*	(%)	+ 2.7	+ 3.5	+ 1.7	+ 1.5	+ 0.5
Population	(million)	7.42	7.54	7.69	7.82	7.94
Unemployment	(%)	6.7	5.6	6.8	6.2	5.9
Interest rate (lending rate)†	(%)	5.0	6.0	5.5	4.6	3.9
Exchange rate‡	(ILS per USD)†	3.7390	3.5781	3.8559	3.6108	3.5779

		2015			2016	
		Q3	Q4	Year	Q1	Q2
GDP per capita	(USD)	–	–	36,724	–	–
GDP	(ILS billion)	–	–	1,150	–	–
GDP	(USD billion)	–	–	296	–	–
GDP volume growth*	(%)	+ 2.2	+ 2.7	Ø	+ 2.1	NA
BoP (goods, services & income) as % GDP		–	–	+ 1.8	–	–
Consumer inflation*	(%)	– 0.4	– 0.9	– 0.6	– 0.5	– 0.8
Population	(million)	–	–	8.06	–	–
Unemployment	(%)	5.5	5.3	5.3	5.0	NA
Interest rate (lending rate)†	(%)	3.411	3.449	NA	NA	NA
Exchange rate‡	(ILS per USD)†	3.8489	3.8779	3.8868	3.9088	3.8162

*Year on year. †Period average. ‡Market rate. Source: International Financial Statistics, IMF, September 2016 and 2015 Yearbook.

Sectoral Contribution as a % of GDP

Agriculture – 2.1%

Industry – 27.2%

Services – 69.1% (2015 estimate)

Major Export Markets

USA (27.5%), Hong Kong (8.0%), UK (6.1%), China (4.9%)

Major Import Sources

USA (13.0%), China (9.3%), Switzerland (7.1%), Germany (6.1%), Belgium (5.3%), Italy (4.0%)

Political and Economic Background

Economics

Interest Rate Management Policy

Israel's independent central bank, the Bank of Israel, is responsible for monetary policy and, through its monetary committee, sets interest rates to achieve the goal of price stability. It has set a policy targeting a long-term inflation rate of between 1% and 3%. When setting the interest rate, the Bank of Israel seeks to manage expected inflation over the next year.

Foreign Exchange Rate Management Policy

The new Israeli shekel (ILS) is a floating currency determined by market forces. The Bank of Israel has a policy of non-intervention in the currency market, although it retains the power to intervene if it deems intervention to be necessary. The conditions have been widened to include when changes in the exchange rate of the shekel are inconsistent with underlying economic conditions or when Bank of Israel feels the foreign exchange markets are not functioning properly.

Major Economic Issues

Israel has had a largely healthy economy in recent years, despite the military conflict involving Lebanon in 2006 and ongoing difficulties in the Palestinian territories. Although the economy briefly entered into recession in the first quarter of 2009, largely as a result of falling demand for Israel's exports, growth quickly returned. GDP grew from an annualized rate of 1.2% during 2009 to 5.8% during 2010, 4.2% in 2011, 3.0% in 2012, 3.2% in 2014. GDP growth in 2015 was 2.5%.

The defense sector has performed well in the last five years and Israel's technology sector is particularly thriving with a well educated workforce. Public expenditure, corporate investment and the robust performance of exports (primarily of pharmaceuticals, technological products, manufactured products and consultancy services) have helped drive economic growth in recent years.

However, economic growth is threatened by the falling productivity of Israel's traditional industries and an increasing gap between the rich and the poor in Israeli society. Approximately 1.8 million Israelis lived below the poverty line as of 2015, with inflation, rising property prices and cuts in social benefits all having an impact. There was a series of large demonstrations in 2012, with calls for lower food and housing costs and changes to Israel's tax system. There are also high rates of unemployment amongst both Israel's Arabs and ultra-orthodox Jews, who together account for almost a third of the country's population. The Israeli government has announced an agenda aimed at reducing unemployment (which stood at 5.2 % at the end of 2015).

Politics

Government Structure

Israel is a parliamentary democracy.

The president is head of state but plays a largely ceremonial role.

The prime minister is the head of government.

The government is based in Jerusalem.

Executive

Executive power belongs to the government, which is headed by the prime minister. The prime minister forms a government with the approval of the Knesset.

The current government is headed by Prime Minister Binyamin Netanyahu. Mr. Netanyahu became Prime Minister in March following the February 2009 elections.

Legislature

Israel has a unicameral legislature, the 120-member Knesset.

Members are directly elected to represent single-member constituencies via simple majority voting. Elections to the Knesset must be held at least every four years. The next legislative election must be held by 2019.

International memberships

Israel is a member of the Bank for International Settlements (BIS), the World Trade Organization (WTO) and the Organisation for Economic Co-operation and Development (OECD), which Israel joined in May 2010.

Major Political Issues

Since its creation in 1948 in the wake of the Second World War, Israel has perpetually been the center of conflict within the Middle East. Israel's politics continue to be dominated by the Israeli-Palestinian peace process. Relations with neighboring countries are also difficult to manage. Iran's nuclear weapons program and its president's anti-Israel rhetoric has also raised increasing concerns in recent years.

Israel's previous prime minister, Ehud Olmert, had discussed permanently fixing Israel's borders. Under Olmert Israel had evacuated its Jewish settlers and armed forces from the Gaza Strip and parts of the West Bank as part of a peace process. However, the government, headed by prime minister Binyamin Netanyahu since 2009, has once again started to construct homes in Jewish settlements in the occupied West Bank.

American pressure on Israel prompted Mr. Netanyahu to recognize the possibility of a future Palestinian state in a speech in June 2009. However, the strict conditions he placed upon this prevented any resumption of negotiations with the Palestinian Authority. The relationship between the two bodies was already difficult, partly as a result of the tensions at the border with

the Hamas-controlled Gaza strip. There continues to be ongoing tensions between Israelis and Palestinians. Violence escalated in July 2014 into open conflict with the two sides directing rocket fire at each other. A ceasefire was agreed between Israel and Palestinian groups in August 2014.

The current president of Israel is Reuven Rivlin. He was elected by the Knesset in the presidential election run-off against Meir Sheetrit on June 10, 2014. Rivlin was sworn in as president on July 24, 2014. Rivlin was preceded by Shimon Peres who served as the president from 2007 to 2014. The next election is scheduled for 2021.

The right-wing Likud party, headed by Binyamin Netanyahu, formed a coalition government in March 2009, despite narrowly losing an election in February 2009 to Tzipi Livni's Kadima party. The Likud party was able to gain approval from the Knesset to form a government, receiving the backing of Israel's center-left Labor party. Members of Israel's Labor party left the coalition in January 2011 following a spilt in the party. In May 2012 Netanyahu's Likud party briefly formed a new coalition government with the opposition Kadima party, avoiding an early general election. In a general election held on January 22, 2013, Mr. Netanyahu's Likud party lost further seats in the Knesset, although Mr. Netanyahu remained as Prime Minister. In the March 2015 election, Mr. Netanyahu's party secured 30 seats in the Knesset, meaning that Mr. Netanyahu was able to form a coalition government and remain as Prime Minister.

Taxation

Resident/Non-resident

A company is considered resident if it is either incorporated in, or controlled and managed from Israel.

A foreign corporation managed and controlled by a new Israeli resident or a senior returning resident (i.e. an individual who spent ten years abroad) generally will not be classified as an Israeli resident company for a period of ten years.

Tax Authorities

Ministry of Finance, Israel Tax Authority (ITA).

Tax Year/Filing

The tax year is the Gregorian calendar year.

Certain companies, including subsidiaries of foreign companies, may apply for a special tax year other than the calendar year.

Companies must file an annual tax return no later than five months following the end of the tax year (an extension to file may be obtained in certain circumstances). The tax authorities determine advance tax payments, with some taxpayers required to pay tax according to their monthly turnover.

The filing of a consolidated return generally is not permitted in Israel and each company in a group is required to file its own return. However, if certain conditions are satisfied, qualified 'industrial companies' may file a consolidated tax return.

Companies are required to make monthly advance payments of tax based on a fixed ratio of the company's turnover. Alternatively, a company may make ten monthly payments, based on its previous year's tax liability, starting in the second month of the tax year. The balance of any tax payable is due at the beginning of the following tax year, linked to the consumer price index, and bears interest at a rate of 4%.

Corporate Taxation

Resident companies are subject to tax on their worldwide income with a credit granted for overseas taxes paid. Non-resident companies are only liable to tax in Israel on Israeli-sourced income. Credit for foreign tax paid is available under a relevant tax treaty or unilaterally. Refer to the withholding tax section for the corporate income taxation of dividends.

The corporate income tax rate is 25%.

An Israeli company classified as a preferred enterprise is taxed depending on where its facilities are located (9% if located in "Area A" and 16% if located elsewhere).

An Israeli company classified as an approved or benefited enterprise is entitled to a reduced tax rate of between 0% and 25%, with the period of benefits depending on where the company's facilities are located and whether certain conditions are satisfied. The benefits will be revoked if profits deriving from the benefited income are distributed.

Qualified companies may be eligible for both reduced corporate tax rates and grants from the investment center.

There are no basic differences in the tax regime as applied to different forms of business organisations. However, partnerships are transparent for tax purposes.

There is no surtax or alternative minimum tax.

Trading or business losses may be offset against income from any source in the same year. Losses may be carried forward indefinitely to be offset against business income and business capital gains. Losses may not be carried back.

Various programs are available, e.g. foreign investment incentives (approved enterprise, various tracks), a holding company regime and R&D incentives.

Advance Ruling Availability

The Israeli Tax Authorities (ITA) are authorized by law to provide advanced tax rulings on all tax matters (income tax, VAT, land-betterment tax and encouragement laws).

Advanced tax rulings may be given in an agreement with the taxpayer or without such an agreement. Taxpayers can only make an appeal against tax rulings that were given without an agreement.

After filing a request for an advanced tax ruling, the taxpayer cannot withdraw the request without the approval of the Commissioner. Generally, the ITA will be committed to its tax rulings unless they were based on false or incomplete information.

Withholding Tax (Subject to Tax Treaties)

Payments to:	Interest	Dividends	Royalties	Other income	Branch Remittances
Resident companies	26.5%,unless a witholding tax approval is required	None/25%	20%, unless a witholding tax approval is required	25%	NA
Non-resident companies	0%/15%/25%	4%/15%/20%/ 25%/30%	25%	25%	15%

There is no withholding tax on dividends paid to resident companies so long as distribution is made out of corporate taxed income.

Corporate income tax (currently 25%, reduced from 26.5% as from January 1, 2016) will be imposed if the recipient of the interest is a "body of persons," although the rate may be reduced under a tax treaty. A 0% withholding tax applies to interest on certain bonds.

Dividends paid to a non-controlling foreign resident (i.e. one that holds less than 10% of the Israeli company) are subject to a 25% withholding tax; otherwise, the rate is 30%. These rates may be reduced under a tax treaty or incentives regime.

Dividends distributed by a preferred enterprise are taxed at a 20% rate. Dividends distributed by an approved/benefited enterprise generally are taxed at a 15% rate if the distribution is made from profits attributable to the approved enterprise, or at a reduced rate of 4% on the alternative incentive track (the 'Ireland Track').

Tax Treaties/Tax Information Exchange Agreements (TIEAs)

Israel has exchange of information relationships with 54 jurisdictions through 54 double tax treaties and no TIEAs (www.eoi-tax.org, January 2016).

Transfer Pricing

The transfer pricing rules, which are based on the OECD guidelines, apply to transactions between an Israeli resident and its related non-resident. A hierarchy of transfer pricing methodologies applies, with preference given to transaction-based methods over profit-based methods.

Documentation requirements mandate that the taxpayer attach a statement to the annual tax return and provide a detailed transfer pricing study at the request of the tax authorities. Advance pricing agreements may be obtained.

The taxpayer generally must disclose all facts relevant for taxation, especially with respect to transactions with related parties.

Anti-avoidance and Disclosure

The Israeli tax authorities can challenge artificial transactions.

The taxpayer generally must disclose all facts relevant for taxation, especially with respect to transactions with related parties.

Cash Pooling

There are no specific tax rules for cash pooling arrangements in Israel.

Financial Transactions/Banking Services Tax

Financial institutions are not liable to VAT; instead they pay a salary tax at 17% of the salaries paid.

Thin Capitalization

There are no thin capitalization rules.

Stamp Duty

Stamp duty was abolished altogether in 2006; however, it is still applicable to some documents signed before 2006.

Sales Taxes/VAT (incl. Financial Services)

VAT is levied on the supply of goods and performance of services taking place in Israel at a rate of 17%. Generally, all companies must register for VAT. A non-resident who has a business in Israel must nominate a local representative for VAT purposes within 30 days of initiating activities in Israel.

Certain items are subject to a 0% rate, including exported goods, intangible goods and the provision of certain services to non-residents (i.e. tourism services), the transport of cargo to and from Israel, the sale of goods and services to the Eilat free-trade zone, and the sale of fresh fruit and vegetables.

Financial institutions, including banks and insurance companies, pay an equivalent tax at the rate of 18% based on their payroll and profits.

Non-profit organizations pay an equivalent tax at the rate of 7.5% based on their payroll.

Capital Gains Tax

The capital gains tax rate depends on the purchase date and the nature of the asset. The general capital gains tax rate for a corporation is the standard corporate tax rate. The inflationary component of the gain (accrued as from January 1, 1994) is exempt from taxation.

An Israeli resident is subject to capital gains tax in Israel on the disposal of assets, regardless of whether the assets are located in Israel. Capital gains derived from the sale, exchange, transfer or other disposition of tangible and intangible capital assets located in Israel or constituting a direct or indirect ownership interest of assets in Israel, are treated as Israeli-source income and are subject to Israeli capital gains tax, regardless of whether the seller is a resident of Israel for Israeli tax purposes. Shares and other securities of Israeli companies, or shares and other securities of non-Israeli companies holding their main assets in Israel, also may be treated as Israeli assets.

Persons who are not residents of Israel for tax purposes are exempt from Israeli capital gains tax on gains from the sale of shares traded on the Tel Aviv stock exchange and on gains from the sales of shares of Israeli companies traded on stock exchanges overseas acquired after listing, unless the gain is attributable to a Permanent Establishment that the seller maintains in Israel.

A broad exemption from capital gains tax applies to gains derived from the sale of securities in Israeli or Israeli-related companies acquired on or after January 1, 2009 by all non-residents (both entities and individuals), regardless of whether the non-resident is eligible for tax treaty benefits.

This exemption is subject to several restrictions. The exemption does not apply:

(1) to shares of companies whose assets consist primarily (directly or indirectly) of real estate (i.e. land or buildings);

(2) if the shares sold were purchased from a related party or by way of certain tax-deferred reorganizations;

(3) if the shares were held through a PE; or

(4) when the non-resident selling entity is 25% or more controlled by Israeli residents.

Payroll and Social Security Taxes

Payroll tax is levied only on non-profit organizations (at a rate of 7.5% of wages) and financial institutions (at a rate of 17% of wages). It is in lieu of VAT on their services.

The maximum monthly salary liable to social security and health taxes is ILS 43,240.

Employers pay social security tax at the rate of 7.25% up to the maximum salary (3.45%, if the employee earns less than 60% of the national average wage).

Some employers pay part or all of employees' compulsory contributions to the national insurance scheme.

Contributions may be offset for corporate tax purposes.

Real Property Taxes

'Property betterment tax' is applicable to the sale of real property. The principles of property betterment tax are similar to those of capital gains tax. The betterment is calculated from the date of purchase until the date of sale, and the amount of betterment is subject to the corporate tax rate at the date of sale.

Furthermore, in certain circumstances (especially when real property is sold), the municipal authorities may levy a 'betterment levy' at the rate of 50% on the betterment that the real property has gained as a result of the local municipal authorities' actions. Any betterment levy paid may be deducted from the betterment subject to property betterment tax.

The purchaser of real property is subject to purchase tax (acquisition tax) of 6%. When the asset purchased is a residential apartment, the purchaser is subject to purchase tax at progressive rates ranging from 0–10%.

Other Taxes

A purchase tax (also applicable to individuals) is levied on certain imports or local industrial production and is collected from local manufacturers 15 days after the end of the month in which the goods are sold. Importers are required to submit the collected tax when the goods are released from customs.

All tax information supplied by Deloitte Touche Tohmatsu and Deloitte Highlight 2016 (www.deloitte.com).

Cash Management

Banking System

Banking Regulation

Banking Supervision

Central bank

The independent Israeli central bank is the Bank of Israel. It was established on December 1, 1954, and is based in Jerusalem. Its authority derives from the new Bank of Israel Law, which came into force from June 1, 2010. It also operates in accordance with the Banking Law and the Currency Control Law.

Within Israel, it is the banker to the government and to other banks. It issues currency, manages the country's monetary reserves, regulates Israel's payment and clearing systems, supervises and regulates the banking system in Israel and supports government economic policy.

Other banking supervision bodies

Bank supervision is performed by the Bank of Israel's Banking Supervision Department (headed by the Supervisor of Banks).

Central Bank Reporting

General

Israel applies central bank reporting requirements.

What transactions – listed

Foreign currency transactions are reported on a daily basis to the Bank of Israel for balance of payments statistics purposes.

Foreign exchange transactions relating to foreign currency derivatives are required to be reported on a quarterly basis by both Israeli residents and for non-residents. This requirement includes all conversion transactions between domestic and foreign currency.

Whom responsible

The financial intermediary (bank) usually transmits the required information to the Bank of Israel on behalf of its customers.

Additional reporting for liquidity management schemes

Transfers between resident and non-resident bank accounts participating in the same liquidity management scheme are not subject to additional reporting requirements.

Exchange Controls

Exchange structure

Israel's official currency is the new Israeli shekel (ILS). Its value is determined by market forces.

Classification

The currency is floating.

Exchange tax

There is no exchange tax.

Exchange subsidy

There is no exchange subsidy.

Forward foreign exchange market

Non-residents ILS and foreign currency swap transactions and foreign currency forwards are subject to a 10% reserve requirement.

ILS and foreign currency forwards are required to be reported to the BOI.

Capital flows

There are no restrictions on capital transactions.

Loans, interest and repayments

There are no controls on the provision of loans by commercial banks.

Royalties and other fees

There are no restrictions.

Profit remittance

There are no restrictions on the remittance of profits into or out of Israel.

Bank Account Rules

Resident entities are permitted to hold fully convertible domestic currency (ILS) and foreign currency bank accounts domestically and outside Israel.

Non-resident entities are permitted to hold fully convertible domestic currency bank accounts and foreign currency bank accounts within Israel.

Anti-money Laundering and Counter-terrorist Financing

- Israel has implemented anti-money laundering and counter-terrorist financing legislation (Prohibition on Money Laundering Law No. 5760 of 2000, most recently amended by Laws 5772 of 2012 and Law 5774 of 2014, along with various subsequent Regulations and Orders, most recently No. 411 of 2010; Combating Criminal Organisations Law No. 5763 of 2003 as amended 2006 and Prohibition on Terrorism Law No.5765 of 2004).
- Israel is a member of the Council of Europe's MONEYVAL Select Committee as an active observer.

- Israel has a financial intelligence unit (FIU), the Israeli Money Laundering and Terror Financing Prohibition Authority (IMPA), which is a member of the Egmont Group.
- Account opening procedures require formal identification of the customer as well as beneficial owners and beneficiaries and any third parties acting on their behalf.
- Authorized signatories are required to provide proof of their authorization to act on behalf of individuals or legal entities.
- Numbered accounts are allowed, but will be subject to normal account opening procedures and may not be used to hide a customer's identity from compliance or supervisory authorities.
- Banks must identify parties who perform transactions that are subject to reporting requirements in accounts for which they are neither the owner nor signatory.
- Relationships with shell banks are prohibited.
- Financial institutions are required to conduct risk-based ongoing due diligence.
- Financial institutions must identify parties making electronic cross-border transactions exceeding ILS 5,000.
- Financial institutions must record and report transactions deemed to be 'unusual' in view of the information in the financial institution's possession to the IMPA.
- Financial institutions must also record and report transactions if it is suspected that the transaction is related to terrorist property or the transaction may be related to an act of terrorism.
- Currency transactions above ILS 50,000, or the equivalent in foreign currency, in the form of cash, travellers' checks or bearer bills must be reported as soon as possible. All transactions with a high-risk country or territory exceeding ILS 5,000 must be reported.
- The issue of all cheques of ILS 200,000 and above must be reported.
- Individuals are required to report cross-border currency transportations above ILS 100,000 to the customs authorities. If the person entering the country is a new immigrant, the threshold is ILS 1,125,000.
- Transfers to or from Israel through an account and to or from a correspondent account of a financial institution, unless the institution is incorporated in an OECD member country, in an amount equivalent to at least ILS 1,000,000, must be reported.
- Records of particulars of identification must be kept for a minimum of seven years. Additionally, records must be kept for reported transactions as well as transactions in the amount of at least ILS 10,000 for a period of at least seven years from the date on which the transaction was recorded.

Data as at January 2016.

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Banking Sector Structure

Major Domestic Banks

Bank	Total assets (USD million) December 31, 2015
Bank Hapoalim	110,890
Bank Leumi le-Israel	107,000
Mizrahi Tefahot Bank	53,734
Israel Discount Bank	52,732
First International Bank of Israel	32,235

Source: www.accuity.com.

Overall Trend

The Israeli banking sector is relatively stable and consists of 15 commercial banks and one non-bank financial institution. In addition, five foreign banks (Barclays Bank, BNP Paribas, HSBC, Citibank and the State Bank of India) have a branch in Israel.

Bank Hapoalim and Bank Leumi le-Israel dominate the Israeli banking market (together they accounted for 57.7% of the banking sector's total assets at the end of 2015) and have sought to grow by establishing a presence abroad, notably in Switzerland, the UK and the USA, but also in over 20 other locations. Both banks offer private and corporate banking services from their foreign locations. In first quarter of 2016, the government announced banking reform plans as part of an initiative to cut the cost of banking for consumers in Israel, which includes forcing both Bank Hapoalim and Bank Leumi to sell their credit card operations within two years to open up the consumer credit card market. As a result, both banks have suffered large falls in their share prices.

Israel's other leading banks (Israel Discount Bank, Mizrahi Tefahot Bank and First International Bank of Israel) have also developed a presence abroad. Together, Israel's five largest banks control around 94% of the domestic banking sector's total assets.

Bank Leumi le-Israel and Israel Discount Bank were both privatized in 2005. The Postal Bank Company was privatized in 2006.

In October 2015, First International Bank of Israel merged with UBank, and, in January 2016, it merged with PAGI (Poalei Agudat Israel Bank). Bank Leumi merged with Arab Israel Bank in January 2016.

Payment Systems

Overview

Israel has three interbank payment systems: the RTGS system, the Banks' Automated Clearing House (Masav) and the Banks' Paper-based Clearing House (BCH).

The national interbank RTGS system is primarily used for large-value (over ILS 1 million) credit transfers. The RTGS system, also known as Zahav, opened in July 2007. The BCH is managed by the Banks' Clearing House board and operates as a paper-based multilateral net settlement system. The Banks' Automated Clearing House (ACH), also known as the Masav, is a multilateral net settlement system which processes salary payments and low-value retail payments. It is managed by the Banks' Clearing House board and operated by the Banking Clearing Center Ltd (BCC), a company which belongs to Israel's five leading banks.

In February 2016, Israel passed the Electronic Check Clearing Law, which sees all checks truncated and processed electronically.

The National Committee for Payments and Settlement was established in 2009 as an advisory body to assist in assuring the efficiency and stability of Israel's payment systems. Its members include representatives of the Bank of Israel, the banking corporations and the payment systems, as well as representatives of interested parties (such as the Securities Authority, provident funds, insurance companies, pension funds and credit card companies). The council is headed by the Assistant Governor of the Bank of Israel.

As well as the payments systems mentioned above, national ATM and POS communication networks, operated by Automatic Banking Services Ltd (a company belonging to Israel's five leading banks) can be used to process interbank card payments.

The new Israeli shekel (ILS) has been traded in the Continuous Linked Settlement (CLS) system since May 26, 2008. CLS settles both legs of a foreign exchange transaction simultaneously.

High-value

Name of system	RTGS system (Zahav)
Settlement type	Real-time gross settlement
Settlement cycle	Payments are settled in real time with immediate finality.
Links to other systems	NA
Payments processed	Large-value and urgent credit transfers, as well as interbank obligations from the ACH and BCH
Currency of payments processed	ILS
Value and other limits to processing	Generally any payment in excess of ILS 1 million has to be executed in the Zahav system.
Operating hours	07:45–18:30 IST (Israel Standard Time) Sunday to Thursday 07:45–14:00 IST Fridays and holidays
System holidays	2017 — March 12, 13, April 10, 11, 17, May 2, 31, August 1, September 20–22, 29, 30, October 5, 12 2018 — March 1, 2, 30, 31, April 6, 19, May 20, July 22, September 9–11, 18, 19, 24 October 1
Cut-off times	Customer payments = 18:30 CET (14.00 on Friday) Interbank payments = 19:30 CET (14:15 on Friday)
Participants	There are 21 participants in Zahav, 18 direct and 3 indirect
Access to system	Using SWIFT format
Future developments	NA

Name of system	Banks' paper-based Clearing House (BCH)
Settlement type	Multilateral net settlement
Settlement cycle	Payment instruments are transferred in two sessions: the first starts at 22:30, for the presentation and return of non-magnetic instruments (non-checks).; and the second session starts at 01:00 (23:00 on Mondays and public holidays) for the electronic presentation and return of magnetic instruments (checks). At 18:30, each bank sends the files to the other members of the clearing house and also sends a summary file to the clearing house to the BCH. At night, the clearing house performs a presettlement procedure and creates a multilateral entry of debits and credits of participants which are sent for final settlment in the Zahav system the next morning (T+1) during the Paper-based Clearing House settlement window from 09:30.
Links to other systems	NA
Payments processed	Checks, paper-based credit and debit transfers.
Currency of payments processed	ILS
Value and other limits to processing	There is a maximum value threshold of ILS 1 million.
Operating hours	09:00-18:30 each banking business day
System holidays	The system is closed on Fridays and the days preceding most public holidays.
Cut-off times	Payments must be submitted to banks by 18:30 IST (14:00 on Friday) for settlement on a next-day basis.
Participants	All commercial banks in Israel are participants, plus the Bank of Israel. The BCH currently has 30 members.
Access to system	Payment instructions are submitted to the BCH using the ABS Communication network.
Future developments	NA

Low-value

Name of system	Automated Clearing House (ACH) or Masav
Settlement type	Multilateral net settlement
Settlement cycle	Masav processes all electronic credit transfers and direct debits from 10:00 each day for settlement on a same-day basis. Payments received after 18:30 IST (14:00 on Friday) are processed on a next-day basis. Final settlement takes place across participants' accounts at the Bank of Israel via Zahav between 10:00–18:30 IST (14:00 on Friday) on an end-of-day basis.
Links to other systems	NA
Payments processed	Most low-value automated transactions in Israel, including salary payments, direct debits and credit transfers.
Currency of payments processed	ILS
Value and other limits to processing	There is a maximum value threshold of ILS 1 million.
Operating hours	The ACH is available to receive payment instructions 24 hours a day seven days a week.
System holidays	The system is closed on weekends and public holidays.
Cut-off times	10:00 IST for same-day settlement 18:30 IST (14:00 on Friday) for end-of-day (T+1) settlement
Participants	All organizations that can submit payment instructions to Masav can participate in the system. Masav currently has 38,574 participants.
Access to system	Payment instructions are submitted to the ACH using the ABS Communication network.
Future developments	All paper-based instruments, apart from checks, are expected to be processed by the ACH in the near future.

Payment and Collection Instruments

Overview and Trends

The most important cashless payment instruments in Israel are electronic transfers and checks. There has been a steady increase in the use of direct debits and payment cards over recent years, especially for retail transactions and electronic credit transfer have also rapidly gained in popularity.

Statistics of Instrument Usage and Value

	Transactions (million)		% change	Traffic (value) (ILS billion)		% change
	2013	2014	2014/2013	2013	2014	2014/2013
Checks	144	141	-2.1	996	997	0.1
Direct debits	187	191	2.1	422	474	12.3
Credit transfers*	126	131	4	3,596	3,816	6.1
Card payments	989	1,069	8.1	228	241	5.7
Total	**1,446**	**1,532**	**5.9**	**5,242**	**5,514**	**5.2**

*Direct credits processed by the Masav and BCH system

Source: Bank of Israel, Financial Statements for 2014.

Paper-based

Checks

The check is a widely used payment instrument in Israel, but has experienced a steady fall in popularity in recent years as a result of the increasing availability and usage of electronic alternatives.

Checks are cleared by the Banks' Clearing House (BCH).

Demand Drafts

Demand drafts are also processed by the BCH.

Electronic

Credit Transfer

Most credit transfers in Israel take the form of direct credits, the majority of which are used for salary and pension payments and are initiated electronically. They are also used to make tax and benefit payments. Paper-based credit transfers are usually used by consumers and small businesses.

Large-value and urgent credit transfers are settled through the RTGS system with immediate finality. Low-value electronic transfers are processed by the ACH. All paper-based credit transfers are processed by the BCH.

Cross-border transfers are processed by bilateral correspondent banking arrangements. The majority of these are processed via SWIFT.

Direct Debits

Direct debits are commonly used for recurring low-value payments such as utility bills, mortgage payments and insurance premiums.

Direct debits are processed by the ACH while paper-based debit transfers are processed by the BCH.

Payment Cards

The use of payment cards continues to increase in Israel, especially among retail consumers. There were approximately 7.5 million credit cards in circulation at the end of 2015 compared to 7.1 million in at the same point during 2014. Of these, 2.1 million were issued to businesses.

There were 6.4 million debit cards in circulation at the end of 2014, of which two-thirds are conventional debit cards, with the remainder being deferred debit cards. Deferred-debit card holders have their account is debited by an allocated monthly amount, as apposed to the immediate debiting of conventional debit cards.

The international card issuing companies Visa and MasterCard are the leading issuers of credit cards in Israel.

Each bank in Israel has its own clearing and settlement arrangements with card issuers.

ATM/POS

There is an increasing availability and use of ATMs and POS terminals. There were 7,242 ATMs as of 2014 and 123,928 POS terminals as of 2014 located across Israel.

Israel's national ATM and POS communication networks are operated by Automated Banking Services Ltd (a company belonging to Israel's four leading banks) which has also established over 110,000 POS terminals and 285 bank-independent ATMs.

Electronic Wallet

Electronic money schemes have only recently been introduced into Israel, in the form of reloadable pre-paid cards. There were 546,000 such cards in circulation at the end of 2014.

Liquidity Management

Short-term Borrowing

Overdrafts

Both resident and non-resident companies can access unlinked shekel (ILS) overdrafts (i.e. not linked to price increases).

Interest is charged at a margin over the prime rate. Penal interest is charged for exceeding agreed open-ended overdraft limits.

There is usually a fixed annual charge, which is collected quarterly in advance.

Bank Lines of Credit / Loans

Resident and non-resident entities can arrange short-term bank loans denominated in local currency (unlinked and consumer-price-index linked) and major foreign currencies from local and foreign banks.

A floating interest rate is usually charged on foreign currency loans at a margin over Libor (London interbank offered rate). Domestic currency loans usually have fixed rates of interest.

Collateral – receivables, pledged deposits, securities or even a floating charge – is usually required.

Trade Bills – Discounted

Discounting trade bills is not a recognized method of short-term financing in Israel.

Deferred checks are discounted by banks, as are credit card payments, for periods of up to 3 years.

Factoring

Factoring is available in Israel and used by small and medium-sized enterprises for domestic receivables and export proceeds. Large companies do not tend to use factoring.

Commercial Paper

Commercial paper is rarely used in Israel for legal and regulatory reasons.

Bankers' Acceptances

Bankers' acceptances are not used in Israel.

Supplier Credit

Supplier credit is commonly used, although buyer credit is increasingly being preferred in international trade.

Intercompany Borrowing, including Lagging Payments

Israeli groups are permitted to establish intercompany loans. However these intercompany loans only take place between parent and subsidiary companies. Subsidiaries belonging to the same parent group and unrelated companies do not tend borrow from each other.

Short-term Investments

Interest Payable on Bank Account Surplus Balances

Banks are permitted to pay interest on current account surpluses.

Demand Deposits

Interest-bearing demand deposit accounts are available to both resident and non-resident entities in ILS or major foreign currencies.

Time Deposits

Banks usually offer time deposits in ILS or a widely traded foreign currency with maturities ranging from one week to 12 months. Interest is usually paid upon the maturity date but can be paid periodically for one-year short-term deposits. Foreign banks offer higher rates of interest.

Certificates of Deposit

Certificates of deposit are issued in Israel.

Treasury (Government) Bills

Treasury bills (*Makam*) have experienced a significant increase in popularity among investors in the last few years. The principal investors in T-bills are commercial banks, money-market funds, insurance companies and provident funds. Treasury bills can be issued directly via auction by the Bank of Israel or traded via the Tel Aviv Stock Exchange. The minimum investment amount is ILS 1 million.

Commercial Paper

Commercial paper has been issued by companies on only a few occasions, most of which have involved the sale of non-tradable paper to investors via private placement. Bank financing is a cheaper method of investment.

Money Market Funds

Mutual funds are increasingly available.

Repurchase Agreements

Repurchase agreements on government bonds and Makams are auctioned by the Bank of Israel.

Bankers' Acceptances

Bankers' acceptances are not used in Israel.

Liquidity Management Techniques

Cash Concentration

Cash concentration is the more common technique used by companies to manage company and group liquidity in Israel and is offered on a selective basis by international cash management banks and, increasingly, leading domestic banks.

Both resident and non-resident bank accounts and separate legal entities can participate in a cash concentration structure provided by international cash management banks. Cross-border sweeping may however be subject to income tax deductions. The country's domestic banks are still developing their cross-border liquidity management facilities.

Notional Pooling

Notional pooling is available in Israel. However, it is less common than cash concentration.

Both resident and non-resident bank accounts and separate legal entities can participate in a notional cash pooling arrangement located in Israel. Domestic banks are still developing their cross-border liquidity management facilities, however cross-border notional pooling can be offered by international banks.

Trade Finance

General Rules for Importing/Exporting

Israel has established free trade arrangements with the EU, The European Free Trade Association (EFTA), Mercosur (a common market comprising Argentina, Brazil, Paraguay and Uruguay), the USA, Colombia, Canada, Mexico, Russia, Sri Lanka, Egypt, Jordan, Turkey, Panama and Vietnam. Israel is also in negotiations for trade agreements with Russia, South Korea and India.

Imports

Documentation Required

Imports will need to be accompanied by a bill of lading, a commercial invoice, a customs declaration and a packing list. A certificate of origin may also be required.

Import Licenses

Agricultural products are subject to quantitative restrictions and require import licenses.

Imports from countries prohibiting or restricting imports from Israel are subject to a special control regime.

Import Taxes/Tariffs

Customs duties apply to imports from countries with no free trade agreement with Israel. The majority of trade involving Israel is covered by the country's free trade agreements.

Financing Requirements

There are no particular financing requirements for imports.

Risk Mitigation

Israel does not operate a national risk mitigation program for importers.

Prohibited Imports

Imports are also prohibited for moral reasons, to preserve wildlife and to protect national security.

Exports

Documentation Required

Exports will need to be accompanied by a bill of lading, a commercial invoice, a customs declaration, a certificate of origin, a packing list and a certificate of origin.

Proceeds

There are no restrictions on the use of export proceeds.

Financing Requirements

There are no particular financing requirements for exports.

Export Licenses

Oil and defense equipment require export licenses.

Export Taxes/Tariffs

Israel does not levy taxes or tariffs on exports.

Risk Mitigation

The Israel Foreign Trade Risks Insurance Corporation (ASHRA) is a government-owned entity which provides medium and long-term export credit insurance for periods of between one and ten years. Export financing is usually provided by commercial banks. Private export credit insurance is available.

Prohibited Exports

Israel operates a list of prohibited exports.

Information Technology

Electronic Banking

An increasing number of companies have access to electronic banking services, as they are now widely available and offered by the majority of banks in Israel. There is no national bank-independent electronic banking standard in Israel. The services on offer usually include balance and transaction reporting as well as payment initiation. Browser-based banking services are offered by all the leading banks and are popular with individuals and small companies. Online banking is widespread and usually retail-orientated.

External Financing

Long-term Funding

Bank Lines of Credit / Loans

Commercial banks and now insurance companies provide medium-term loans. In addition to bilateral loan agreements, syndicated loans are also available for larger funding requirements.

Bank loans can be arranged by both domestic and foreign-based companies in domestic and foreign currency.

Bank loans in unlinked shekels (ILS) (not linked to the consumer price index – CPI) are becoming more commonplace and are offered at margins over three- or six-month Treasury bills or the prime rate. These bank loans generally have a higher margin over cost. CPI-linked loans in ILS generally have the lowest margin.

Foreign currency loans or loans linked to a foreign currency are increasingly used.

Except for large companies with higher credit standing, banks require security with charges over physical or financial assets.

Leasing

Leasing is a popular form of longer-term finance mostly in the form of operating leases for vehicle purchases.

As with bank loans, interest is based on CPI-linked or unlinked ILS or denominated in or linked to USD. Both domestic and foreign currency financing can be at fixed or floating interest rates.

Bonds

The popularity of bonds to fund companies has increased significantly since 2001, but they remain the preserve of larger companies.

This increase has resulted from falling interest and inflation rates, economic growth and a strengthening ILS combined with pension fund demand.

Straight and convertible bonds are issued at fixed or floating rates.

Private Placement

Both domestic and foreign companies are permitted to place bonds privately. Detailed prospectuses are not required for privately placed bonds.

Asset Securitization / Structured Finance

Structured finance in Israel has been slow to develop. Transactions involving securitization are not commonplace for legal and regulatory reasons.

Government (Agency) Investment Incentive Schemes / Special Programs or Structures

Insurance companies and pension and provident funds are prominent providers of long-term finance for Israel's infrastructural development via private finance initiatives for roads, tunnels and light rail projects.

Useful Contacts

National Investment Promotion Agency

Ministry of Economy and Industry — www.economy.gov.il

Central Bank

Bank of Israel — www.boi.org.il

Payment System Operator

Automated Banking Services Ltd — www.shva.co.il

Banks

Bank Leumi le-Israel — www.leumi.co.il

Bank Hapoalim — www.bankhapoalim.co.il

Israel Discount Bank — www.discountbank.co.il

Mizrahi Tefahot Bank — www.mizrahi-tefahot.co.il

First International Bank of Israel — www.fibi.co.il

Stock Exchange

Tel Aviv Stock Exchange — www.tase.co.il

Ministry of Finance

Ministry of Finance — www.mof.gov.il

Ministry of Commerce

Ministry of Economy and Industry — www.economy.gov.il

Chamber of Commerce

Tel Aviv & Central Israel Chamber of Commerce — www.chamber.org.il