



Bank of Israel
The Banking Supervision Department
The Economics Unit



Israel's Banking System

Annual Survey 2023



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Introduction – The Supervisor of Banks



The past year has proven to be one of the most complex and challenging periods that the State of Israel has faced in recent decades, including in the economic-financial domain. The year began with significant changes in the economic environment, which was marked by rising inflation and the resulting rise in interest rates. Combined with a tense public and political atmosphere, they had a major impact on the banking system and the implementation of the Banking Supervision Department's strategy. The year continued with the events of October 7 and the subsequent Swords of Iron War, which heightened the geopolitical uncertainty. The resilience and stability of the Israeli economy, which in the past had shown a high capacity for recovery, enabled the economy to adapt to changing conditions and show signs of recovery once again, with the banking

system playing a central role. As demonstrated at the onset of the war, the banking system successfully maintained operational continuity and supported the public considerably by extending assistance to customers affected by the war and by continuing to meet the credit demands of the economy. These roles are crucial during the ongoing war and will be equally important in the expected recovery phase to follow.

The Banking Supervision Department also responded immediately with the outbreak of the war by implementing a series of measures aimed at addressing the various challenges faced by the banking system. The initial focus was on ensuring the continuity of business operations and the providing of services by the system to the public. Banking corporations were instructed to act with sensitivity toward customers and to intensify the monitoring and management of operational and financial risks. Among the measures taken by the Banking Supervision Department, some of which are still having an impact, are: the issuing of guidelines for the operation of bank branches, establishing an emergency help desk in the Banking Supervision Department, presenting plans and assistance measures to deal with various consumer issues, implementing loan payment deferral arrangements, issuing stability-related guidelines to the banking system, and others.

Geopolitical tensions, combined with macroeconomic changes and global developments, have led to an increase in financial risk in the economy, as reflected in the recent decisions of international rating agencies. Examples are the enormous impact of technological advancements and social networks, which was illustrated when the customers of several US banks sought to simultaneously withdraw their money, leading to the collapse of those banks in a surprisingly short time. These factors, combined with changes in the operating environment and evolving public preferences, prompted the Banking Supervision Department to reassess its strategy and goals for coming years. The vision of the Banking Supervision Department has also been redefined, and in coming years it will focus on **"promoting the public good by maintaining the stability and fairness of the banking system through professional, cutting-edge, and transparent supervision."**

Based on these considerations, strategic focuses were decided on, and the Banking Supervision Department's work plan for coming years was updated accordingly. This plan seeks to address both current and future challenges, ensuring that the banking system remains stable, equitable, and competitive in a rapidly changing world.

The stability of the banking system is primarily reflected in the protection of depositors' funds and the assurance of continuous service provision. This stability is essential for the system's role as an efficient mechanism for credit allocation in the economy and as an essential tool for the transmission of the Bank of Israel's monetary policy in both normal and emergency situations. To maintain this stability, we will focus on closely monitoring emerging risks, such as those in the construction and real estate sectors. We will also examine scenarios and conduct stress tests, develop tools to address potential failure events among the banks, assess the capital structure and capital adequacy ratios, and review the implications of technological advancements, including in the field of artificial intelligence, which require risk-adjusted regulatory approaches, among other measures.

The stability of the banking system is deeply intertwined with the public's trust in it. To maintain and enhance this trust, **it is essential for the banking system to operate fairly toward its customers,** alongside ensuring stability and financial strength. We at the Banking Supervision Department believe that fostering a fair and impactful organizational culture is the foundation for providing high-quality and fair services. Based on this belief, we are committed to continuing to improve the level of service that banks provide to their customers by increasing service accessibility to the general public, adapting services to customer needs, and pricing them fairly. This ongoing effort is crucial for maintaining public trust, which has a direct impact on the stability of the system.

The Banking Supervision Department is also promoting several measures in the realm of competition, such as increasing data transparency for the public through the "Equator" tool on the Bank of Israel's website, publishing comparative data on deposits, etc. **One of the steps currently being formulated by the Banking Supervision Department, which touches on the competitive infrastructure of the banking market, involves the possibility for nonbanking entities that wish to do so to engage in activities currently permitted only to banks, namely accepting deposits to be used for providing credit.** To this end, the Banking Supervision Department has issued a call for public input on the planned framework currently being formulated. **As a prerequisite, these entities will be required to operate under a banking license,** even if in a different format from the existing one, and under the stability supervision of the Banking Supervision Department. In this way, the public can benefit from increased competition while depositors' funds continue to be protected and the stability of the banking system is maintained, in accordance with the standards set by the Banking Supervision Department over the years.

Taking a comprehensive look at 2023, the year began with the continuation of the trend of increasing interest rates, aimed at curbing inflation that had surged following the exit from the COVID-19 crisis. The increase in the Bank of Israel's interest rate to 4.75 percent in a relatively short period, and particularly its maintenance at this relatively high level, impacted both the profitability of the banking system and the repayment capacity of the public, thereby affecting the risk profile of the banking portfolio. Additionally, the banking system has in recent years experienced changes in the business and technological environment, along with shifts in public preferences and regulations, some of which have significantly influenced the system's structure, the entities involved, and the nature and range of products and services offered to the public.

During the past year, the Israeli banking system continued its transition to digital services. Traditional activities that used to take place within the walls of a bank branch are now mostly conducted through direct means—via mobile apps and websites. The unbundling of banking products and services allows them to

be offered to customers across a wide range of online platforms and channels, using advanced, innovative, and value-adding technologies. Banking services that were once the exclusive domain of banks are now also provided to the public by technology companies and nonbank service providers, thanks in part to the launch of the Open Banking project. Although the scope of these services is still limited compared to the total services provided by banks, we expect that with the maturing of the various steps taken by the Banking Supervision Department to promote competition, some of them will be expanded, and the range of products offered by data companies will grow. **These changes and developments pose a significant challenge to the existing banking business model but also offer an opportunity to integrate partnerships, diversify income sources, and update and upgrade the current operating model.**

At the same time, these changes expose the system to new risks and the intensification of existing ones. For example, collaborations with third parties, as well as technological developments that use extensive data or advanced technologies, including artificial intelligence, intensify challenges in the realms of data usability and leveraging of data to create value while protecting data privacy and security. Providing services through advanced technologies also exposes the system to nontechnological risks, such as compliance risk in the realm of digital currencies or fairness to the customer risk. The Banking Supervision Department monitors these developments and changes, while examining their potential impact on the banking system, the risks they entail, and the need for appropriate regulation.

This survey seeks to inform the general public about the current supervisory policy and the main steps and activities being promoted by the Banking Supervision Department, including those initiated in 2023, with the goal of implementing its long-term strategy. The survey also presents an analysis of the activities, developments, risks, and opportunities facing the banking system in Israel. Looking ahead, the banking system is expected to continue dealing with uncertainty in 2024 due to the ongoing war and its effects, as well as with additional challenges and risks that may arise. The Banking Supervision Department will continue, as always, to ensure a robust and stable banking system that is equitable, advanced, and innovative for its customers, capable of adapting to changes and developments in the financial and technological world, and will continue to support the growth of the Israeli economy.

On this occasion, I would like to express my deep appreciation for the employees of the Banking Supervision Department for their diligent work in normal periods and their extraordinary contribution during the challenging emergency we are experiencing. You are demonstrating that the flame of public service burns within you, and for that, you have my gratitude.

I will conclude my remarks by expressing my condolences to the families of the fallen in this conflict, my wishes for the recovery of the wounded, and my prayers for the safe return of the hostages and our soldiers fighting bravely on all fronts.

Sincerely,



Daniel Hahiashvili
Supervisor of Banks

CHAPTER 1

CHAPTER 1 DEVELOPMENTS IN THE ACTIVITY OF THE ISRAELI BANKING SYSTEM

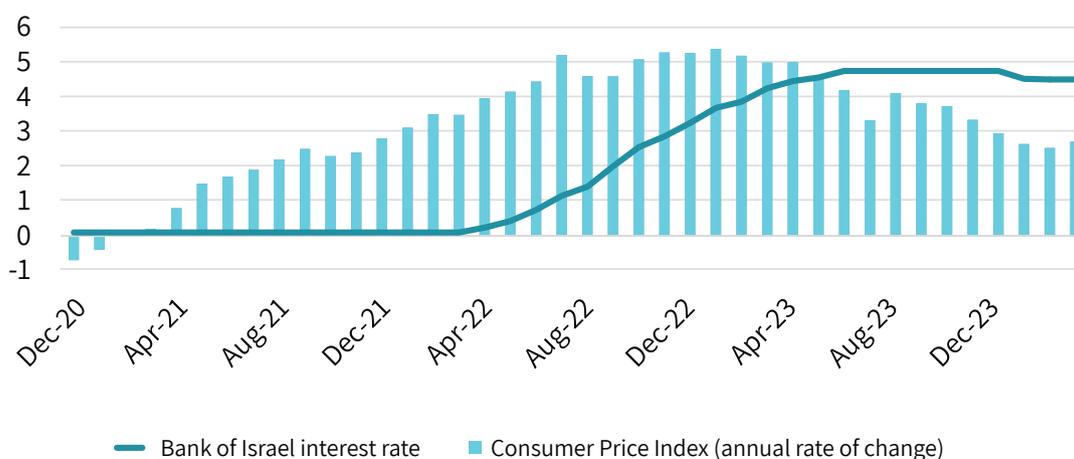
1. INTRODUCTION

The Israeli banking system continued to maintain its resilience and stability throughout 2023 despite the challenges it faced. Economic developments in 2023 were impacted by several key factors: high interest rates, legislative initiatives to change the judicial system, and the Swords of Iron War that erupted on October 7. At the beginning of 2023, the Israeli economy was in a strong position: high output levels, a government budget surplus, a tight labor market, and a stable financial system. Although inflation was above target, it was low relative to international levels. Throughout 2023, inflation moderated both in Israel and globally, alongside a slowdown in growth. The Bank of Israel continued its monetary policy, with interest rate hikes starting in April 2022, reaching a level of 4.75 percent in May 2023 (Figure 1.1). The high-interest environment increased the debt burden on households and businesses, as is expected.

Accordingly, the housing market slowdown continued in 2023, with a decrease in the number of transactions, an increase in housing supply, a slight decrease in home prices, and in line with these a marked reduction in new housing credit volume. A major development in 2023 was the government's proposed legislative changes to the judicial system, which sparked widespread public protest. The uncertainty surrounding the implications of this process and the public atmosphere were reflected in the financial markets: the shekel depreciated significantly, and the Israeli capital market underperformed compared to global markets. Major credit rating agencies were not indifferent to these developments. Early in 2023, they expressed concerns about the potential harm to the economy due to these processes (the legislative changes and related developments). Moody's even downgraded Israel's credit rating outlook from "positive" to "stable." Nevertheless, it is important to note that the rating agencies, as well as various international organizations, emphasized the resilience of the Israeli economy and its financial system.

An increase in the Bank of Israel interest rate in April 2022 led to a moderation of inflation during the year.

Figure 1.1 Bank of Israel Interest Rate and Consumer Price Index (annual rate of change), Monthly Average, December 2020–April 2024 (percent)



SOURCE: Bank of Israel and Central Bureau of Statistics.

The Swords of Iron War, which erupted on October 7, 2023, marked a significant escalation in regional tensions, involving extensive military operations in the Gaza Strip, increased combat activities along the Lebanon border, and a high state of alert across Israel. The war has profound implications for various sectors of society and the economy. Immediate consequences included the evacuation of residents from areas close to the combat zones, extensive mobilization of reserve forces, and a reduction in the supply of non-Israeli workers. These factors disrupted the labor market and significantly impacted the supply and demand for workers.

Additionally, the onset of the war led to sharp declines in financial markets, rapid depreciation of the shekel, an increase in the country's risk premium, and a sharp increase in public expenditure. Policy actions taken by the Bank of Israel mitigated the depreciation in the foreign exchange market and contributed to the stabilization of other financial markets (see Figures 1.2 and 1.3). The construction and real estate industry, tourism (primarily incoming tourism), and agriculture were significantly affected by the war and continued to suffer long-term consequences even as other industries of the economy recovered and returned to relatively normal operations. In the early months of 2024, amid growing uncertainty about the war's duration, credit rating agencies downgraded Israel's credit rating and its outlook: Moody's in February 2024 and S&P in April 2024.

With the outbreak of the war, there was a rapid depreciation of the shekel and a rise in the economy's risk premium. Actions taken by the Bank of Israel moderated the depreciation.

Figure 1.2

Shekel/Dollar Representative Exchange Rate, January 2023–April 2024



SOURCE: Bank of Israel.

Figure 1.3

Israel's 5-Year and 10-Year US Dollar CDS, January 2023–April 2024 (basis points)



SOURCE: Bloomberg.

In 2023, the banking system recorded high profitability, although the return on equity during the year was slightly lower than the peak observed in 2022. The system's profitability was driven by continued credit growth (albeit at a more moderate pace than previously) and the rise in monetary interest rates in Israel and worldwide from their near-zero level at the

beginning of 2022. The capital and liquidity ratios of the banking system remained high and above the minimum regulatory requirements, indicating the system's resilience and its ability to continue supporting the economy even during wartime.

The slight moderation in profitability was influenced by the public's shifting of funds from current accounts to interest-bearing deposits, which increased interest expenses, as well as leading to a significant increase in credit loss provisions due to worsening macroeconomic conditions and the effects of the war (for further details, see Chapter 3.1 of this survey). In contrast, conservative profit distribution rates at the onset of the war and the slowdown in credit contributed to capital strengthening (for further details, see Chapter 4 of this survey). Note that in view of the high budgetary needs in light of the war, a special payment law was passed in the Knesset in April 2024, requiring banks to pay up to NIS 2.5 billion in 2024–25. Despite the expected reduction in bank profitability during these years, mainly due to macroeconomic conditions and the effects of the war, the law's impact is not expected to adversely impact the banks' business operations. During the first half of 2023, three US banks collapsed after experiencing an unprecedented withdrawal of deposits within a brief period of time.

The collapse of these banks was the most significant failure event in the global system since the global financial crisis in 2008 (for more details, see Box 5.2 in this survey). The Banking Supervision Department studied the details of the events, the regulatory responses worldwide, and the lessons that might be relevant to the Israeli banking system and then began to apply those lessons.

During 2023, the growth rate of business credit and household credit moderated as a result of the high level of interest rates, with this trend intensifying after the outbreak of the Swords of Iron War in the fourth quarter of the year. Consumer credit (excluding housing) and credit to small and micro businesses contracted while credit to large businesses and for housing continued to grow, albeit at a moderate pace relative to recent years. The construction and real estate industry continued to lead the growth in the credit portfolio, particularly against the backdrop of a slowdown in sales that led to an increase in the financing needs of the companies in order to continue construction. It should be noted that the construction and real estate industry was experiencing a prolonged slowdown even before the war, which the war exacerbated due to a shortage of workers that led to delays at construction sites. Accordingly, the risk in the industry increased (for more details, see Box 5.1 in this survey). Immediately upon the outbreak of the war, the Bank of Israel and the Banking Supervision Department adopted several measures to support economic activity and assist customers (for more details on some of these measures, see Boxes 6.2 and 6.7, and Chapter 6 in this survey). **Credit risk increased during 2023, as reflected in various credit quality indices (for more details, see Chapter 5.2 in this survey). Looking ahead, this risk, and other risks faced by the banking system, may increase, especially given the high level of interest rates, which is expected to continue, the marked decline in growth, and the still high level of geopolitical uncertainty.**

The banking system is inherently exposed to a wide range of risks, the intensity and impact of which vary over time and as an outcome of various developments. **As mentioned, the risk level in the banking system's operations increased during 2023 and remains high, and it is expected**

to remain so throughout 2024. A risk survey conducted among senior banking officials at the beginning of 2024 reveals that cyber risk continues to be the most concerning risk faced by the banking system, with domestic political risk and geopolitical risk ranked second—an increase in rank compared to 2023, against the backdrop of the Swords of Iron War, its effects on the economy, and the fear of the war spreading to other arenas. This is in addition to concerns about significant legislative changes in the absence of a broad consensus (for more details, see Chapter 5.1 in this survey). It should be noted that again this year, the Banking Supervision Department is conducting a macroeconomic stress test for the banking system, based on a uniform scenario—as is customary in other countries—in order to continue ensuring that even in the event of an extreme macroeconomic event, the banks will be able to absorb the resulting losses without endangering public deposits and their stability. This year, in light of the war and its implications, the uniform scenario was modified and conveyed to the banking system; after completing the analysis, these results will be published, as they are every year.

Alongside these efforts, **the Banking Supervision Department continued this year to promote and enhance the level of fairness between the banking system and its customers. Fairness is a central goal of Banking Supervision Department, based on the perception that fairness in dealings with customers is a prerequisite for public trust in the financial system, which is closely tied to the system's stability.** In recent years, there has been a shift in the international supervisory approach to customer protection, and the Banking Supervision Department is also part of this trend (for more details, see Box 6.5 in this survey). **Additionally, the Banking Supervision Department continues to promote competition within the banking system. The banking system has been undergoing a revolution in recent years that has increased the level of competition.** Financial products and services are becoming unbundled and are being offered by additional players through various technological platforms. Financial information about the customer, which was previously the exclusive domain of the banks, is now openly accessible, allowing for the provision of services and value propositions tailored to the customer's type and activity (for more details, see Box 6.6 in this survey). The Banking Supervision Department has worked extensively to remove barriers, increase transparency, and promote competition in order to transfer power to the customer and strengthen the intensity of competition (for more details, see Box 6.4 in this survey). **In recent years, the Bank of Israel has worked to increase competition in the banking system and to encourage the entry of new entities. As a complementary step, the Banking Supervision Department has begun formulating a tiered licensing framework with three types of banking corporation licenses. This framework is expected to further reduce other barriers that have been identified and that constitute a challenge to new players in their efforts to enter the banking system** (for more details, see Box 1.1 in this survey). It should be noted that in 2023, the Competition Authority announced that it is considering the declaration of the five banking groups as a concentration group and accordingly to require them to take certain measures within this framework. The consultation process has not yet been concluded, and the Competition Authority has recently initiated hearings with the five banking groups.

During the rest of 2024, the banking system is expected to continue dealing with the uncertainty arising from the war and its effects, as well as with additional challenges and risks

that may arise. As mentioned, apart from increased financial risk, cyber risk and geopolitical risk have increased as well. The conflict has not yet come to an end and could even expand. **Despite these developments, the Israeli banking system remains robust and will continue to support its customers and the economy as a whole.** The Banking Supervision Department will continue, as always, to monitor the risks inherent in the activities of the banking system, oversee them, and act as needed, using the various supervisory tools at its disposal.

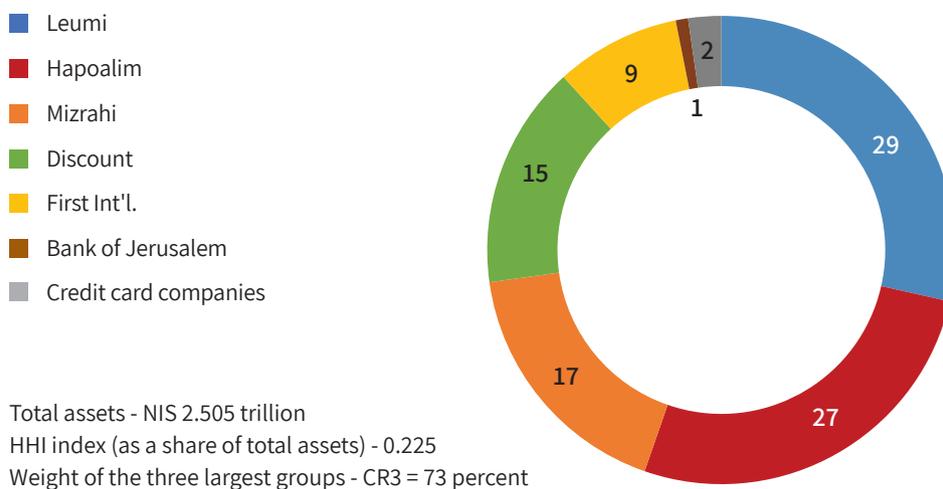
2. THE STRUCTURE OF THE BANKING SYSTEM

a. The structure of the banking system and the holdings of the banks

The Israeli banking system is primarily controlled by five large banking groups: Leumi, Hapoalim, Mizrahi-Tefahot, Discount, and First International, which include commercial banks in Israel and branches abroad.¹ As described in Figure 1.4, these groups together hold about 99 percent of the system's total assets, highlighting their significant impact on the financial landscape. The banking system also includes two independent banks, Jerusalem Bank and the new digital bank One Zero, which was launched in 2022, and four branches of foreign banks: Citibank, HSBC, Barclays, and State Bank of India, whose main activity is located in the credit market though their role in that market is minimal. At the end of 2022, a license was granted to the Esh Israel Bank,² another digital bank expected to start operations in the near future. The banking landscape is also complemented by three credit card companies: Isracard, which operates as an independent company; MAX, which operates under the ownership of Clal Insurance; and Cal (Israel Credit Cards), which is part of a banking group.^{3, 4}

The two largest banking groups account for about 55 percent of the banking system's assets, according to the CR2 index.

Figure 1.4 Structure of the Israeli Banking System, December 2022
(groups on a consolidated basis, total assets, percent)



SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

¹ The proportion of these branches is very limited.

² Click [here](#) for the press release on the Bank of Israel site (in Hebrew).

³ For further details on the requirement that the Discount group sell Cal company, see the [press release on the Ministry of Finance site](#).

⁴ The Concentration Ratio (CR2) measures the weight (in percent) of the two largest players in the market. It is the convention to similarly measure the weight of the three—or five—largest banks in the market (CR3 and CR5, respectively).

Commercial banks in Israel offer a wide range of financial products and services, often specializing in different sectors or areas of activity. This specialization is typically managed through various divisions within each banking group, allowing these institutions to tailor their offerings to specific market needs. This strategic focus is a critical factor in determining the bank's market share and the distribution of its services across different sectors of the economy, as shown in Table 1.1. The shares of the banks in specific products or sectors significantly impacts the distribution of their market shares, as illustrated in Figure 1.4.

A closer look at the household credit market, which includes both housing and other types of consumer credit, reveals that Mizrahi-Tefahot Group is a prime example of how specialization can lead to a dominant market position. This group holds approximately 33 percent of the credit position in this sector, significantly higher than its share of total banking assets—about 17 percent (Figure 1.4, Table 1.1). This discrepancy highlights Mizrahi-Tefahot's strategic emphasis on household credit and its effectiveness in capturing a significant portion of this market. Similarly, the two largest banking groups, Leumi and Hapoalim, hold a combined market share of about 46 percent in the household credit sector. However, this figure is not proportional to their combined total assets, which account for about 55 percent of the banking system's assets. This indicates that while these groups are central players in the overall banking landscape, their influence in the household credit sector, though significant, does not match their overall asset dominance. This situation underscores the competitive dynamics in the Israeli banking sector, where strategic specialization by certain groups can lead to significant market influence in specific sectors, despite a smaller overall asset base.

Table 1 | In most of the retail activity sectors, the two largest banks control about half of the market.

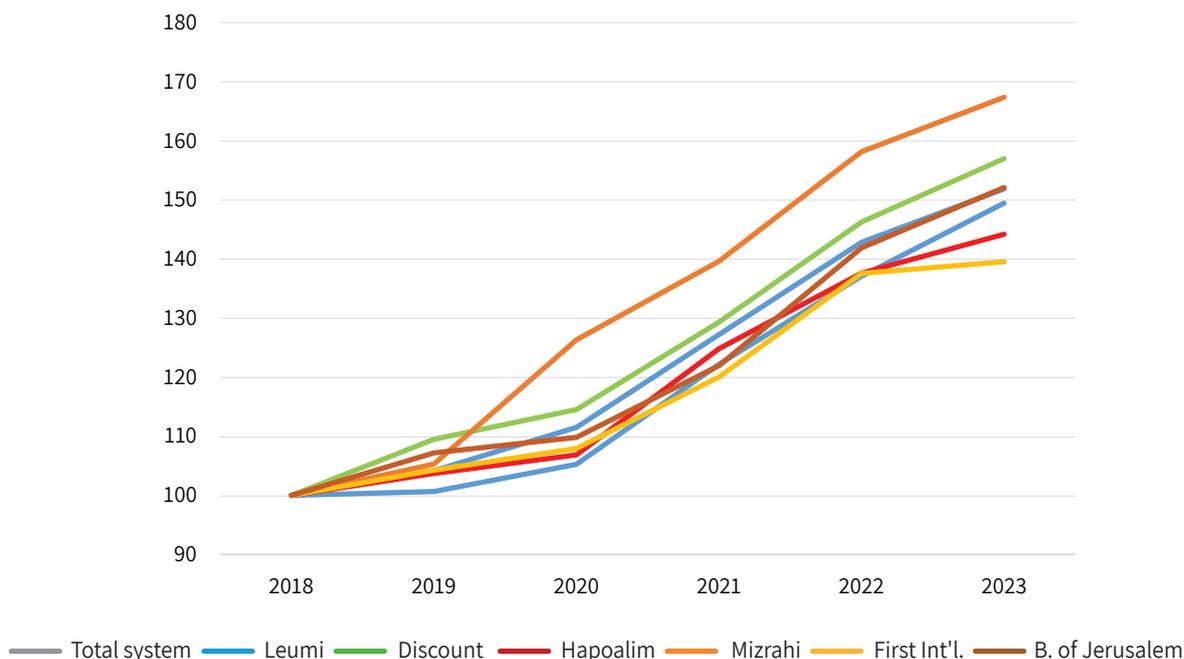
		Banks' Market Shares by supervisory activity segment, December 2023 Percentages					
		Leumi	Discount	Hapoalim	Mizrahi-Tefahot	First Int'l	Bank of Jerusalem
Households	Deposits	22.1%	15.4%	27.8%	21.4%	11.6%	1.7%
	Housing credit	22.4%	11.9%	22.6%	35.4%	6.1%	1.7%
	Nonhousing credit	22.6%	12.7%	26.5%	20.4%	16.3%	1.4%
Small and micro businesses	Deposits	30.8%	14.1%	29.3%	16.9%	7.9%	0.3%
	Credit	30.1%	19.1%	25.5%	15.8%	8.2%	1.3%

SOURCE: Based on reports to the Banking Supervision Department.

In recent years, most medium-sized banks have increased their net public credit position at a faster rate than the large banks (average annual growth rates of approximately 10 percent and 9 percent respectively between 2019 and 2023; Figure 1.5). Nonetheless, the credit extended by the two largest banking groups constitutes more than half of the banking credit to the public.

The rate of growth in credit to the public among most of the medium-sized banking groups has been faster than among the large banking groups.

Figure 1.5 Index of Development of Credit to the Public, 2018–2023
(groups on a consolidated basis, total banking system, index: 2018=100)



SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

In recent years, the Bank of Israel has been at the forefront of initiatives to enhance the competitive landscape of the banking system. By removing regulatory barriers, it has paved the way for new players to enter the market. This successful removal of barriers has contributed to the creation of market conditions that led to the issuance of banking licenses to two new banks ⁵ for the first time in 40 years, marking a significant milestone in the development of the banking sector.

One Zero Bank, ⁶ a prominent new entrant, completed its first full year of operation, focusing on the local market. This bank has a clear focus on households and small and micro businesses, offering a range of services such as credit provision, deposit management, and advanced payment services. Its services are tailored to the unique needs of these sectors, reflecting a shift towards more specialized and accessible banking solutions. In late 2022, a license was granted to another digital bank, Esh Israel, which is also expected to begin operations in the local market in the near future. ⁷ It is too early to predict the long-term impact of these digital banks on the overall banking

⁵ During 2020, a license was granted to the first digital bank: One Zero.

⁶ Since it began operations during 2023, the bank's aggregate data have not yet been included.

⁷ Click [here](#) for the press release.

system. However, their focus on leveraging innovative technologies may lead to changes in the interactions between market players.

In addition to these developments, the Bank of Israel has also created a tiered licensing framework that has the potential to be a game changer in the banking sector. This new framework includes three separate types of licenses for banking corporations and is designed to streamline the process of new banks entering the market and to reduce the barriers that previously hindered the entry of new players.

Further details about this new licensing framework can be found in Box 1.1 of this survey, where the specifics of each type of license are described. This step is a crucial part of the broader strategy to ensure a vibrant, competitive, and flexible banking system that can adapt to the evolving needs of the Israeli economy.⁸

b. The banks as part of the financial system

Alongside the commercial banks, which form a central pillar of the financial system, other significant players contribute to the financing of the economy. These include institutional entities such as pension funds, provident funds, insurance companies, nonbank entities⁹, and credit card companies. They provide various services, some similar to those offered by the banks, such as providing credit to the public, managing investment portfolios, and offering insurance products. Their involvement shapes the structure of the business sector and its sources of debt.

In 2023, there was continued growth in the debt of the business sector (which accounts for most of the economy's debt) to the financial system, although at a slower rate than in previous years, and in particular, relative to 2022 which was a peak year.

This moderation in debt expansion can be attributed to several factors. By the end of 2023, the total debt of the business sector to the financial system stood at approximately NIS 1315 billion, reflecting a growth rate of about 4.4 percent since the end of 2022, or an increase of about NIS 55 billion. The majority of this increase is attributed to the business sector's debt to the banks, which accounts for about 55 percent of the business sector's total debt.¹⁰ It should be noted that in response to the rise in interest rates in the economy, the growth in the debt moderated during the year, especially among small to medium-sized businesses. **This trend of moderation was also observed among large businesses starting from the last quarter of the year** (for more details, see Chapter 5.2 of this survey and Chapter 4 of the Bank of Israel Annual Report for 2023).

The increase in business sector debt this year was primarily funded by the banking system, with institutional entities contributing to a lesser extent (Figure 1.6). Conversely, the overall increase in the debt position was offset by a decrease in the business sector debt held by nonresidents, even after adjusting for exchange rate effects.

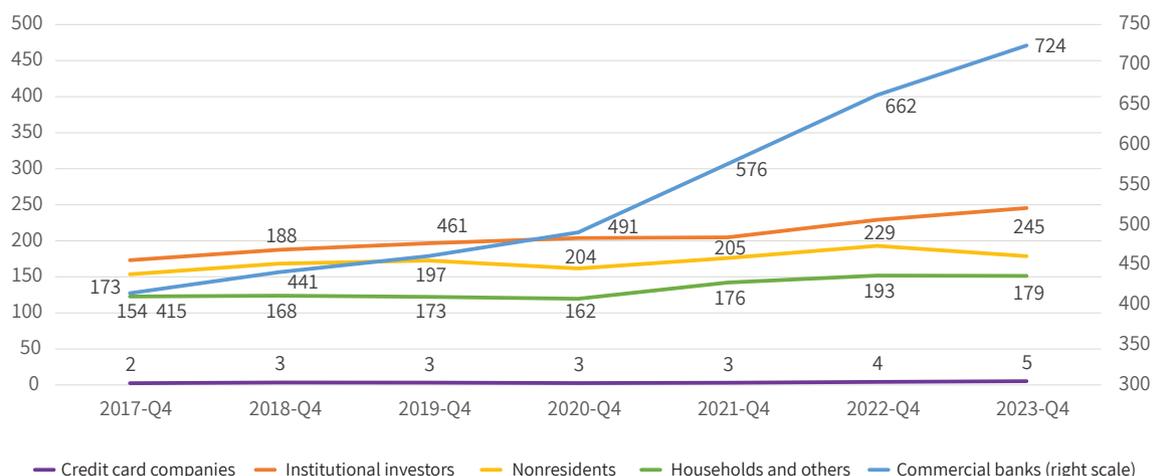
⁸ For further details, see the [press release on February 14, 2024 on the Bank of Israel site](#).

⁹ Such as Mimun Yashir, Peninsula, Albar, etc.

¹⁰ For further details on the trend in the private nonfinancial sector's debt, see the Statistical Bulletin published by the Information and Statistics Department at the Bank of Israel, March 2024.

The banking system and the institutional entities are the business sector's main sources of financing.

Figure 1.6 Development of Business Debt by Financing Source, 2017–2023 (NIS billion)



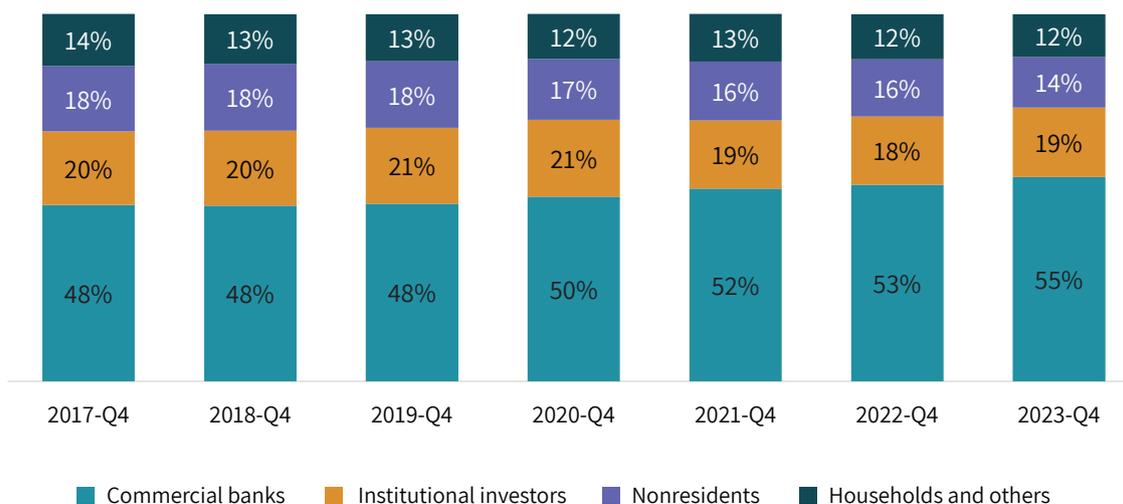
- 1) The nonbank companies included in the calculation starting from 2019 are: Opal Balance Investments Ltd., Or Shay G.S. Ltd., S.R. Accord Ltd., Bull Trading and Investments Ltd., Barkat Capital Ltd., Gibui Holdings Ltd., Gama Management and Clearing Ltd., Gamla - Harel Residential Real Estate Ltd., Unit Credit Financial Services Ltd., Michman B.S.D. Ltd., Mikhlol Financing Ltd., M.L.R.N. Projects and Trade Ltd., Manif - Financial Services Ltd., Nawi Brothers Group Ltd., Erech Financing Cahalacha Ltd., Psagot Group, Peninsula Group Ltd., E.N. Shoham Business Ltd., Jacob Finance and Investments Ltd.
- 2) A nonresident: Anyone who is not defined as a resident of Israel. The debt to nonresidents includes bonds held by nonresidents (in Israel and abroad) and loans provided by them. The loan mix includes financial loans (foreign banks, institutional entities, etc.), supplier credit, and shareholder loans.

SOURCE: Based on reports to the Bank of Israel and the Tel Aviv Stock Exchange.

In light of these developments, the proportion of debt originating from the banking system increased to approximately 62 percent by the end of 2023, compared to around 60 percent at the end of 2022. This shift occurred at the expense of the debt held by institutional entities and nonresidents, indicating a change in the dynamics of debt distribution in the economy (as can be seen in Figure 1.7).

During 2023, the banking system expanded its share of total financing of the business sector at the expense of nonresidents.

FIGURE 1.7 Distribution of Business Sector Debt by Financial System Lender, 2017–2023 (percent)



- 1) The nonbank companies included in the calculation starting from 2019 are: Opal Balance Investments Ltd., Or Shay G.S. Ltd., S.R. Accord Ltd., Bull Trading and Investments Ltd., Barkat Capital Ltd., Gibui Holdings Ltd., Gama Management and Clearing Ltd., Gamla - Harel Residential Real Estate Ltd., Unit Credit Financial Services Ltd., Michman B.S.D. Ltd., Mikhlol Financing Ltd., M.L.R.N. Projects and Trade Ltd., Manif - Financial Services Ltd., Nawi Brothers Group Ltd., Erech Financing Cahalacha Ltd., Psagot Group, Peninsula Group Ltd., E.N. Shoham Business Ltd., Jacob Finance and Investments Ltd.
- 2) The business credit provided by credit card companies is negligible (less than 0.5 percent of total business credit) and therefore they were not included in the graph.

SOURCE: Based on reports to the Bank of Israel and the Tel Aviv Stock Exchange.

c. Credit Card Companies

In recent years, the operating environment of the credit card companies and nonbank credit providers has undergone a number of changes, with notable developments occurring in 2023. In January 2023, the Knesset Finance Committee approved the separation of the credit card company Cal from its parent company, Discount Bank, following the recommendations of the committee for the implementation of the Strum Law.¹¹ This separation requires that Cal be sold within three years from the date the regulations are published in the official record, or up to four years, under certain circumstances, should a public offering route be decided on. In March 2023, the sale of the MAX credit card company by Warburg Pincus to Clal Insurance Group was completed for approximately NIS 2.5 billion. Another transaction in 2023 involved the Isracard credit card company, which entered into a merger agreement with Harel Insurance Investments and Financial Services Ltd. (hereinafter: Harel). Harel sought to purchase all the shares of Isracard. The transaction received approval from the Supervisor of Banks, partly based on the understanding that such a deal

¹¹ Recently, Discount Bank was granted an extension in light of the Swords of Iron War. For more details about the Finance Committee's approval, click [here](#).

is expected to strengthen competition in retail and small business credit. The transaction also received approval from the Capital Market Authority. However, in January 2024, the Competition Authority announced its opposition to the merger, citing significant concerns about potential harm to competition, particularly in the health insurance sector, where Harel is a leading player.¹²

Additionally, and as part of the Bank of Israel's ongoing efforts to increase competition in the banking sector and facilitate the entry of new players by removing regulatory barriers, the Banking Supervision Department announced its intention in February 2024 to promote a tiered framework for granting banking corporation licenses to nonbank entities, including credit card companies.

¹³ This initiative aims not only to enhance competition in the banking system, in terms of both credit and deposits, thereby reducing the costs of banking products, but also to provide strategic planning opportunities for companies (for further details, see Box 1.1 in this survey). This regulatory progress is expected to eliminate some of the uncertainty in the business environment and assist companies in their long-term strategic planning.

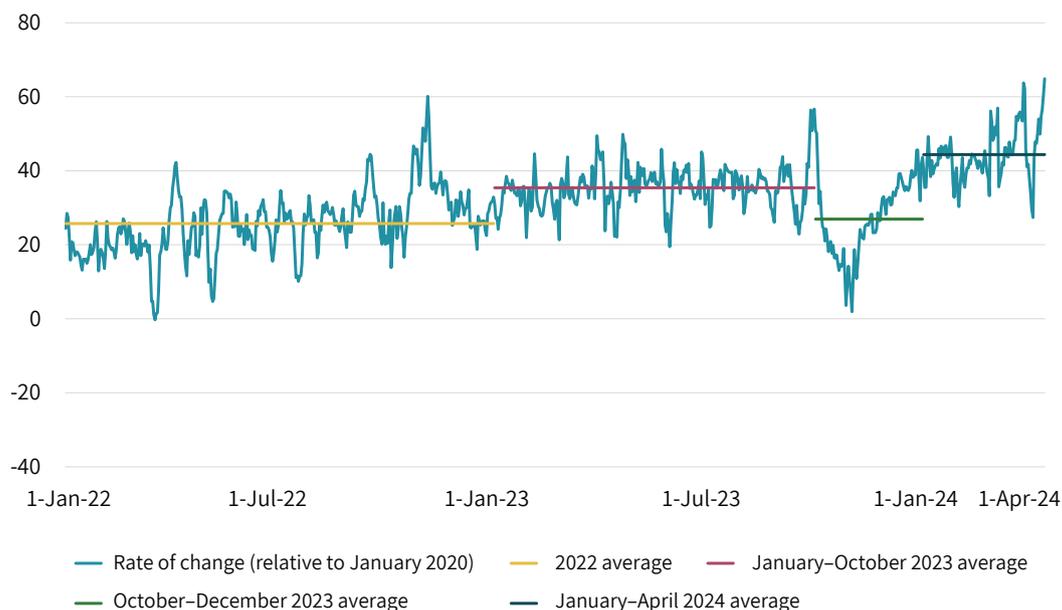
The outbreak of the Swords of Iron War significantly impacted the economy, especially the activity of credit card companies, which recorded a notable slowdown. However, there was a rapid recovery starting in mid-November 2023, with credit card usage surpassing pre-war levels in February 2024. Despite this recovery, it is important to recognize the challenges faced by credit card companies. Due to their increased exposure to the rise in credit card usage in the economy (Figure 1.8), these companies are more susceptible to the consequences of such shocks. Accordingly, the profitability of credit card companies declined in the last quarter of the year. This was in addition to the slowdown, mainly during the first half of the year, in private credit extended by the companies, which was affected by the high interest rates prevailing in the economy.

¹² The main concern was that Harel might misuse the information about its customers and the financial data held by Isracard to create a pricing model that estimates customers' sensitivity to paying for insurance products, thereby implementing price discrimination. This step would reduce the consumer surplus and harm the competitive environment in the insurance sector. For more details, click [here](#).

¹³ [The Bank of Israel publishes a public consultation document for promotion of a gradual framework for granting banking corporation licenses to nonbank entities.](#)

Following the increase in credit card usage in recent years, the Iron Sword war led to a significant decline. This was followed at the beginning of 2024 by an increase in credit card usage that exceeded pre-war levels.

Figure 1.8 Change in Credit Card Expenditures, Equavalized to Business Days, January 2022–April 2024 (percent)



SOURCE: Based on SHVA.

3. THE BANKING SYSTEM'S CHANNELS OF ACTIVITY

Banking services are increasingly being provided through a mix of physical and digital channels, reflecting significant changes in the distribution of these services. These shifts include a reduction in the number of physical branches, driven by changes in consumer preferences and banking service consumption patterns. This development highlights the adaptability of the banking system and it is accompanied by improvements in the quality and variety of services offered through digital communication channels, even as the number of service branches has decreased in recent years.¹⁴

In 2023, the total number of transactions carried out across various channels grew by approximately 7.5 percent, reaching around 154 million transactions (Figure 1.9). This

¹⁴ The closing of bank branch requires the approval of the Supervisor of Banks, who carries out a comprehensive examination based on a variety of considerations, and in particular the welfare of the consumer. In most of the cases that the Banking Supervision Department approves the closure of a branch, it is conditional on the creation of an alternative infrastructure nearby. For further details on the examination of a request to close a branch, see [Proper Banking Conduct Directive 400](#) and Chapter 6 of Israel's Banking System 2022.

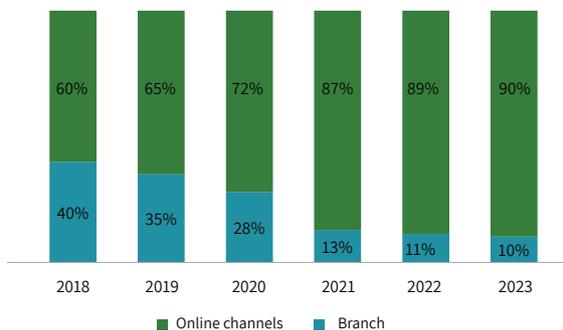
growth was mainly driven by an increase in transactions conducted through digital channels, while transactions through physical branches declined slightly.¹⁵ By December 2023, about 90 percent of banking activities were conducted through digital channels, underscoring the effectiveness and widespread acceptance of the banking sector's digital transformation.

During the course of the year, there was variability in the level of activity across different channels. In the first half of the year, there was an increase in the number of transactions in all channels, including both physical and direct (digital) channels. However, in the second half of the year, in parallel to the outbreak of the war, a notable shift occurred, whereby activity through digital channels increased, while the number of teller-executed transactions conducted in person at branches declined.¹⁶ This change further illustrates how external factors, such as geopolitical events, can accelerate trends towards greater use of digital banking and can influence how and where consumers choose to conduct their banking business.

The number of transactions carried out by households during 2023 was double the number in 2019, the year prior to the outbreak of the COVID-19 pandemic.

Figure 1.9

Rate of Transactions Using Various Channels Relative to Branch Activity, The Five Large Banking Groups, December 2018–December 2023 (percent)



SOURCE: Reports to the Banking Supervision Department.

Figure 1.10

Total Transactions Made, The Five Large Banking Groups, December 2018–December 2023 (million)



SOURCE: Reports to the Banking Supervision Department.

¹⁵ In addition, there was a change in the definition of a transaction carried out in direct channels, which led to an increase in the number of transactions carried out in that year; however, the change in classification had a negligible effect and does not explain the entire increase.

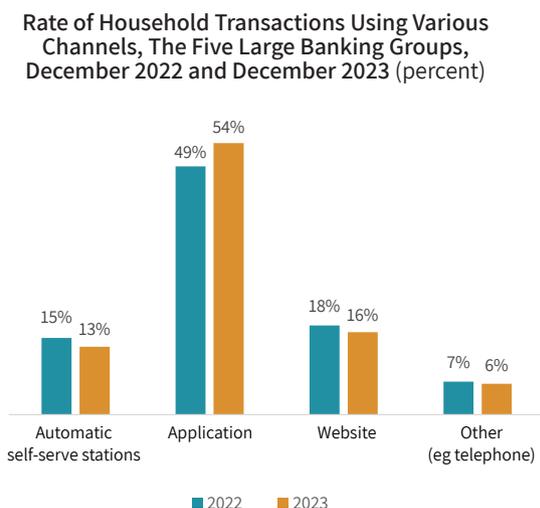
¹⁶ Click [here](#) for the announcement of the Banking Supervision Department on the reduction in activity of branches in certain areas at the beginning of the war.

Transactions conducted through direct channels are primarily carried out via mobile apps, accounting for 54 percent of all transactions, as shown in Figure 1.11. Over the past year, there has been a significant increase in the use of this channel, with a 17 percent rise relative to the previous year. This increase reflects a broad shift in customer behavior toward more frequent use of digital banking tools.

However, this shift varies with the age of the customer. Data shows that reliance on transactions via mobile apps declines with a customer’s age, with a corresponding increase in the use of alternative channels. Older customers prefer to use websites or conduct transactions directly with a teller at the bank branch, as illustrated in Figure 1.12. This difference underscores the need for banks to understand and adapt their operations to the varying needs and behaviors of different age groups, ensuring that appropriate and accessible banking solutions are provided to every customer segment.

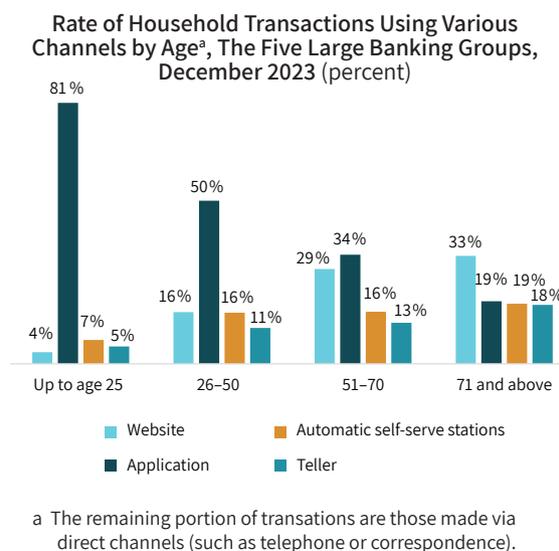
A large proportion of the transactions are carried out on mobile apps. For all age groups combined, most of the consumption of banking services is carried out on the bank’s website or app.

Figure 1.11



SOURCE: Reports to the Banking Supervision Department.

Figure 1.12



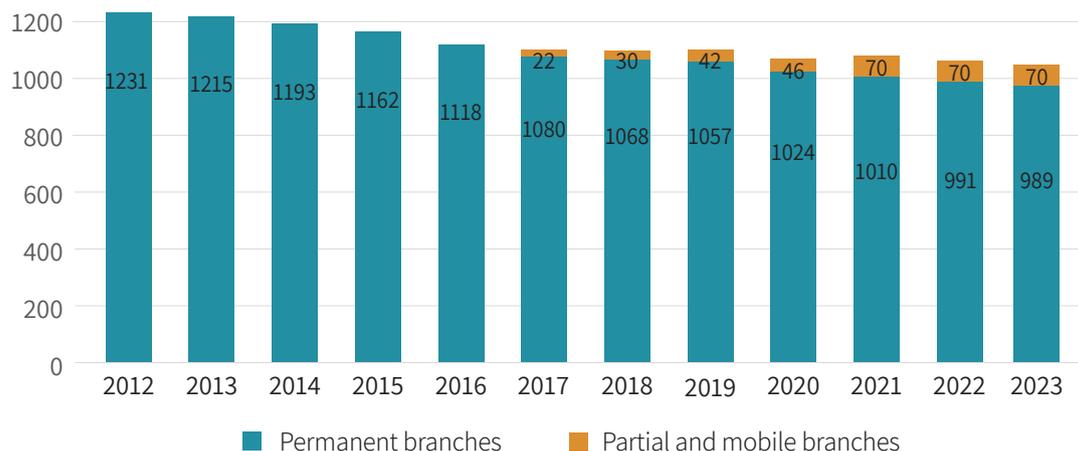
SOURCE: Reports to the Banking Supervision Department.

The infrastructure through which banking services are provided to the public is a hybrid system that includes both physical and digital components. As indicated by the data presented above, the change in the distribution of banking services aligns with changes in the way these services are consumed. The changes are particularly evident in the increased reliance on direct channels, which include digital databases and services offered directly by banks. This shift is supported by improvements in the quality and variety of services available through digital channels.

Despite the growing preference for digital banking, the number of physical branches remained almost unchanged in 2023. This stabilization follows a decade during which banks consistently reduced the number of their branches, as illustrated in Figure 1.13. This recent stability indicates a balancing act where banks maintain a physical presence to complement their expanding digital offerings, paying attention to the preferences of all customers, including those who still value face-to-face interactions.

During 2023, there was almost no change in the number of total branches (fixed and partial and mobile).

Figure 1.13 Number of Bank Branches^a, Total Banking System, 2012–2023



a Permanent branches operating in Israel, excluding performance divisions and units.

SOURCE: Based on reports to the Banking Supervision Department.

BOX 1.1: A tiered framework for granting banking corporation licenses to nonbank entities

- The Bank of Israel's standing is that entities seeking to accept deposits from the public and to provide credit from these deposits must have a banking corporation license and be subject to prudential supervision. Accepting deposits from the public and providing credit from these deposits without a banking corporation license and appropriate supervisory framework could create significant risks to the financial system and endanger public funds during a crisis. This standing is consistent with existing legislation in OECD countries and international banking supervision standards.
- In recent years, the Bank of Israel has worked to increase competition in the banking system and to encourage the entry of new participants by removing regulatory barriers, resulting in the issuance of licenses to two new banks.
- Granting a banking corporation license to nonbank entities could increase competition in the banking system, benefiting customers in terms of both credit supply and pricing, and deposit interest rates.
- As a complementary step to the actions taken so far to increase competition, the Bank of Israel is formulating a tiered framework with three types of banking corporation licenses. This framework is expected to reduce additional barriers that have been identified and that are challenging new participants in their efforts to enter the banking system.

Background

In recent years, the Bank of Israel has worked to increase competition in the banking system and to encourage the entry of new participants, including the establishment of a technological service bureau, the establishment of a credit data register for retail customers, adapting banking regulation for new banks, simplifying the process of establishing a new bank, and providing support to entrepreneurs. Removing barriers has led, among other things, to the establishment of two new banks for the first time in over 40 years: One Zero Digital Bank Ltd. and Bank Esh Israel (in formation) Ltd.

Granting a banking corporation license to nonbank entities will allow them to accept deposits and reduce the costs of their funding sources, thereby benefiting customers and increasing competition in terms of credit supply and pricing, as well as deposit interest rates, particularly for households and SMEs.

The Bank of Israel's standing is that nonbank entities seeking to accept deposits from the public and to provide credit from these deposits must have a banking corporation license and be subject to prudential supervision, similar to international standards. Accepting deposits from the public and providing credit from these deposits without

a banking corporation license and appropriate supervisory framework could create significant risks and expose the corporation to stability, interconnectedness, and contagion risks, endangering public funds during a crisis. Therefore, the corporation must manage liquidity, interest rate, and capital adequacy risks.

International Review

International organizations that set banking supervision standards, particularly the BIS and FSB¹, state that an entity accepting deposits from the public and providing credit from these deposits must be subject to banking prudential supervision to protect depositors' interests and reduce risks to the financial system's stability.

In line with the approach of international organizations, legislation in all OECD countries requires an entity accepting public deposits and providing credit from these deposits to obtain a license anchored in banking legislation and be subject to banking regulation and supervision. It should be noted that legislation in the European Union and the United Kingdom excludes payment account management activities by payment companies (e-money) from the definition of deposit acceptance requiring a banking license, but prohibits such license holders from providing credit from customer funds received in the managed payment account.

In most OECD countries, all banking corporations are required to have an extended banking license, and there is no basic banking license allowing narrow activities compared to an extended banking license. However, within the banking license, some countries define a list of permitted activities, which may be limited for certain entities compared to all banking activities permitted in the legislation.

In countries with several types of banking licenses, these licenses allow more limited activities than those permitted under an extended banking license, but do not impose quantitative restrictions on the volume of deposits or assets. Additionally, in countries with explicit references to digital banks, their licensing requirements are similar to those for traditional banks, with certain adjustments.

In all OECD countries, the banking supervisory authority oversees entities with a license allowing both deposit acceptance and credit provision. In most OECD countries, the banking supervisory authority also oversees quasibanking institutions (credit unions, etc.) and nonbank financing and payment entities that do not engage in both deposit acceptance and credit provision.

As part of implementing the Basel Committee's proportionality principle, some supervisory authorities impose regulatory requirements tailored to the size and complexity of small deposit-taking entities' activities, without compromising stability requirements.

¹ Bank for International Settlements and Financial Stability Board (respectively).

Main points of the proposed framework and challenges

According to the proposed framework, a hierarchy of banking corporation licenses will be established, in line with the Governor of the Bank of Israel's existing authority to grant licenses.

The main points of the proposed framework are as follows:

- a) **Banking corporation accepting deposits and providing credit from these deposits without current account management**² – A banking corporation that accepts deposits, provides credit from these deposits, and does not manage current accounts will be exempt from banking legislation and regulation that is relevant for managing such accounts.
- b) **Banking corporation with a basic banking license** – This tier will include a banking corporation limited in its scope and complexity of activities. In addition to accepting deposits and providing credit from these deposits, such a banking corporation will be allowed to manage current accounts and provide credit from them.
- c) **Banking corporation with an extended banking license** – This tier will include a banking corporation with a banking license that does not meet the definitions specified in Sections (a) or (b).

The Bank of Israel published a call for public comments on the proposed framework, receiving feedback from nonbank entities, including credit card companies, the banking system, and various social organizations. The framework is currently being reviewed in light of the received comments.

Challenges

The experience gained in establishing new banks and discussions with various stakeholders have led to the identification of the following challenges that may pose barriers to the entry of additional participants into the banking system, and which the framework is expected to address:

Adapting legislation and regulation – Legislation imposes identical costs on all banking corporations, regardless of the scope and complexity of their activities. These costs, along with the technological complexity and resource investment required for several projects simultaneously, extend the preparation time for new banking corporations.

² This tier already exists in the Banking (Licensing) Law, 5741-1981, as a financial institution permitted to accept monetary deposits and provide credit from them, but that is not permitted to accept monetary deposits in current accounts in order to pay by check on demand from those deposits.

According to the Basel Committee's proportionality principle, the burden of banking legislation and regulation should be aligned with the scope and complexity of activities, without compromising stability requirements. The framework will examine the implementation of this principle.

It should be noted that regarding banking regulation, the Banking Supervision Department adapted the Proper Conduct of Banking Business directives for new banking corporations as part of this principle. This included easing requirements in the areas of: capital ratios, liquidity calculation model, board size and composition, possibility of consolidating functions, and outsourcing certain central functions. All this, while maintaining the banking corporation's stability and protecting its customers. The framework will examine additional leniencies according to the type of license.

Managing a current account imposes various obligations on the banking corporation, such as fee rules, opening a current account, and issuing bank checks in NIS and foreign currency. The framework will examine these obligations concerning the types of banking corporations.

Permitted activities – The Banking (Licensing) Law, 1981, provides a closed list of activities permitted for banking corporations. The list aims to prevent exposure to risks related to nonbanking activities and avoid potential conflicts of interest between banking and other activities. In line with global practices, it is proposed to allow the regulatory body flexibility in determining permitted activities based on the nature of the banking corporation's activities and potential conflicts of interest with other activities, instead of a blanket prohibition. Such flexibility is also required due to the differences between the list of permitted activities for banking corporations and those allowed for nonbank entities, including credit card companies, so that their current activities are not adversely impacted.

Parallel control of an institutional investor and a banking corporation – Legislation prohibits parallel control of an institutional investor and a banking corporation, but does not prohibit parallel control of an institutional investor and a nonbank entity, including a credit card company.

The framework will also examine this prohibition, considering the size and scope of the banking corporation's activities. On the one hand, allowing parallel control of nonbank entities that receive a banking corporation license will enable those entities to benefit from business support, strategic promotion, and to some extent, capital support, which are expected to contribute to competition. On the other hand, parallel control of nonbank entities with a banking corporation license is expected to increase interconnectedness and interrelationships among institutional investors themselves and between institutional investors and the banking system. The interconnectedness and interrelationships are influenced by the same market parameters, linked to the same companies, and may therefore increase systemic risk in the financial system.

CHAPTER 2

CHAPTER 2

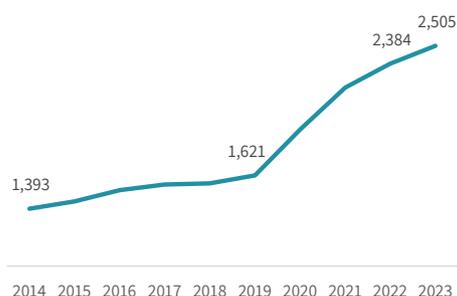
SUMMARY OF THE MAIN DEVELOPMENTS IN BALANCE-SHEET AND OFF-BALANCE-SHEET ACTIVITY

1. Background

The aggregate balance sheet of the banking system increased by 5 percent during 2023, reaching approximately NIS 2,505 billion, compared to approximately NIS 2,384 billion in 2022 (Figure 2.1). The growth rate this year was relatively low compared to the annual growth rates since the COVID-19 crisis (a peak of 19 percent in 2020), but was still higher than in the years prior to 2020 (Figure 2.2).

Moderation in growth rates of the banking system's total balance sheet, particularly since the COVID-19 crisis.

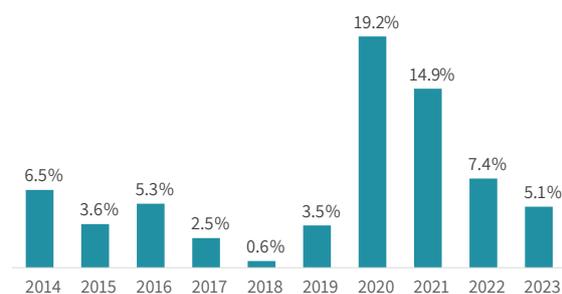
Figure 2.1 The Banking System's Balance Sheet, 2014–2023 (NIS billion)



SOURCE: Based on published financial statements.

Continued growth in the banking system's total balance sheet

Figure 2.2 Increase in the Banking System's Balance Sheet, 2014–2023 (percent)



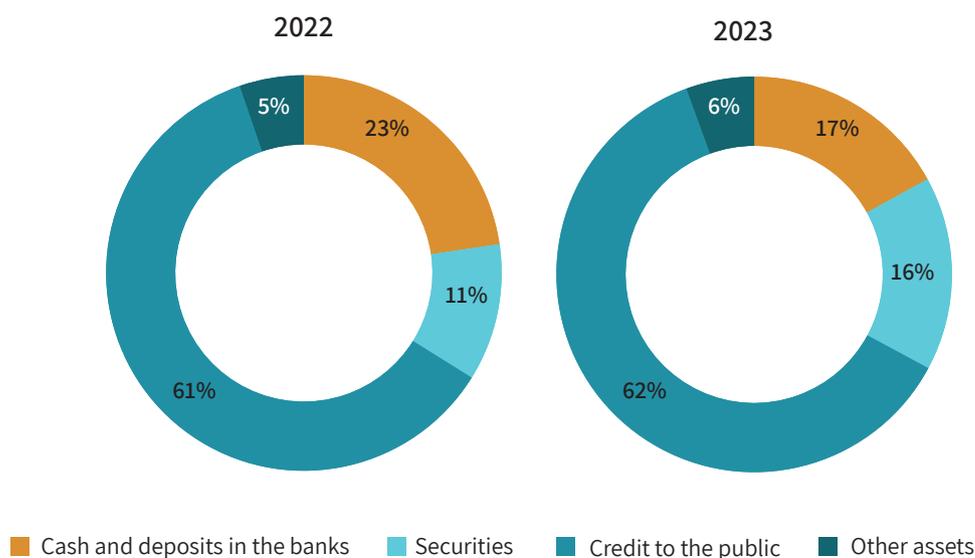
SOURCE: Based on published financial statements.

2. MAIN DEVELOPMENTS ON THE ASSETS SIDE OF THE BANKING SYSTEM

Net credit to the public, which constitutes the main component of the assets side of the banks' balance sheet (62 percent; Figure 2.3), increased by 6.3 percent during the year, which is less than in the previous year (12.3 percent). Total credit was NIS 1,567 billion as of December 2023, with most of the growth occurring in the first half of 2023, while it slowed significantly during the second half of the year (for further details, see Section 5.2 in this survey).

The share of credit to the public and of the securities portfolio increased this year alongside a decline in the share of cash and bank deposits.

Figure 2.3 Distribution of Total Assets in the Banking System, 2022 and 2023 (percent)

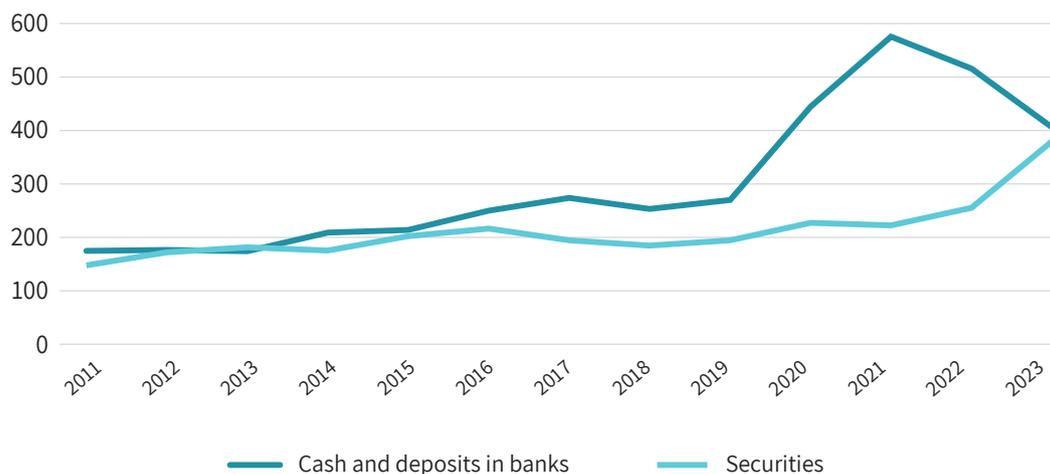


SOURCE: Based on published financial statements.

For 2023 overall, there was a decline in the banks' total cash and deposits of 21 percent (NIS 425 billion as of December 2023), **alongside a significant increase in the banks' securities portfolio**, which was NIS 398 billion as of December 2023 (an increase of 48.7 percent compared to 2022; Figure 2.4). This increase was due to a rise in bank holdings of Makam (central bank bills) along with an increase in the issuance of Makam by the Bank of Israel, and a significant decrease in the volume of monetary deposit auctions conducted by the Bank of Israel in the first nine months of the year. However, the situation reversed in the last quarter of 2023, thus moderating the annual trend, where the volume of monetary deposit auctions increased at the expense of Makam auctions, leading to an increase in the banks' cash and deposits. Furthermore, there was an increase in cash and bank deposits in the last quarter of the year, partly due to increased government flows to the public's deposits as part of an expansionary fiscal policy in response to the war.

During 2023, there was a sharp increase in the securities portfolio alongside a decline in the banks' cash and deposits.

Figure 2.4 Securities and Cash, Total Banking System, 2011–2023 (NIS billion)



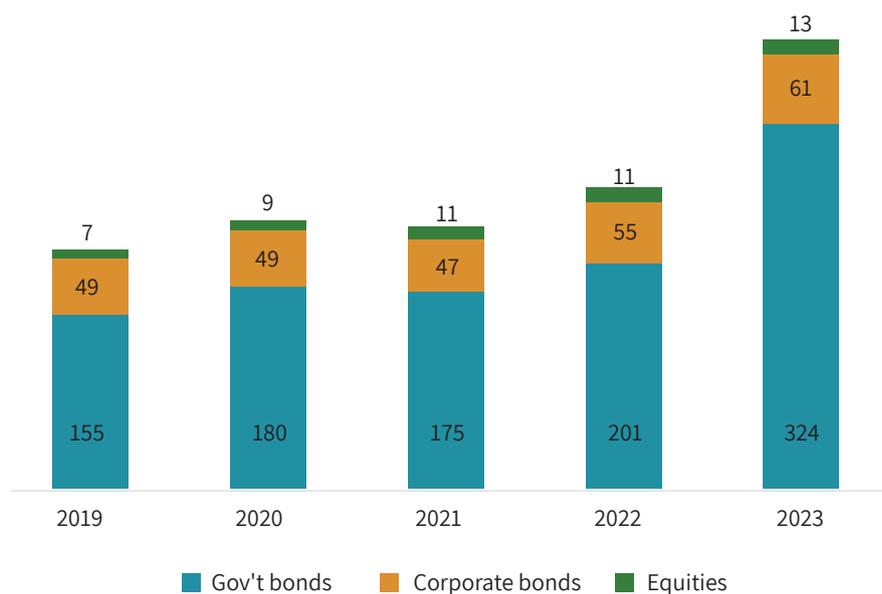
SOURCE: Based on published financial statements.

The increase in the banking system's securities portfolio during the year was due mainly to a rise in the holdings of government bonds (NIS 324 billion as of December 2023, an increase of approximately 61 percent compared to 2022; Figure 2.5). The increase in government expenditures, alongside a contraction in revenues, led to a rise in public debt issuance. Accordingly, there was an increase in the pace of government bond purchases by banking corporations in the last quarter of 2023. This development, along with continued purchases of Makam¹, led to a significant increase in the securities portfolio's share within the banking system's balance sheet, which grew to 16 percent (compared to 11 percent in 2022; Figure 2.3).

¹ The growth in the purchase of Makam in the fourth quarter occurred primarily in the month of October, prior to the outbreak of the war. Subsequently, there was a decline in holdings of Makam by the banking corporations.

During 2023, there was an increase of 61 percent in government bonds held in the banks' shares portfolio.

Figure 2.5 Composition of the Securities Portfolio of the Total Banking System, 2019–2023 (NIS billion)



SOURCE: Based on published financial statements.

Banks classify their investments in securities into three main portfolios: the hold-to-maturity portfolio, the trading portfolio, and the available-for-sale portfolio. The available-for-sale portfolio constitutes the main part (approximately 72 percent). It is worth noting that the trading portfolio nearly tripled in size during 2023, to an estimated value of NIS 48 billion, compared to NIS 16 billion in the previous year. The share of the trading portfolio, along with stocks not held for trading (which remained essentially unchanged this year), within the total portfolio increased from 11 percent in 2022 to 15 percent at the end of 2023 (Figure 2.6).

During the past year, there was an increase in the share of the trading portfolio within the banks' total securities portfolio.

Figure 2.6 Composition of the Securities Portfolio of the Total Banking System, 2021–2023 (percent)



SOURCE: Based on published financial statements.

3. MAIN DEVELOPMENTS ON THE LIABILITIES AND EQUITY SIDE OF THE BANKING SYSTEM

On the liabilities side, **there was an increase in the public's deposits** (which constitute the majority of the liabilities side of the balance sheet) of approximately 4 percent (compared to a 7 percent increase in 2022), to a total of NIS 1,986 billion as of December 2023 (Figure 2.7). The rapid growth in credit to the public during the first half of 2023, compared to more moderate growth in the public's deposits (partly due to the transfer of funds from deposits to Makam holdings), led to a continued upward trend in the credit to deposit ratio. In the second half of 2023, and especially in the fourth quarter, the growth rate of credit to the public slowed (for further details, see Section 5.2 in this survey), and there was a larger increase in the public's deposits. This was due to expansionary fiscal measures in light of the Swords of Iron War and a reduction in the volume of Makam issues by the Bank of Israel. In the fourth quarter of 2023, there was an increase in public deposits without a corresponding increase in total credit (due to the economic slowdown), resulting in surplus resources among the banking corporations. These were deposited as monetary deposits at the Bank of Israel (due to the increase in monetary auctions against the backdrop of expansionary fiscal measures). These changes moderated the annual growth rate of the credit to deposit ratio, which increased by 2 percent on a year over year basis (Figure 2.8).

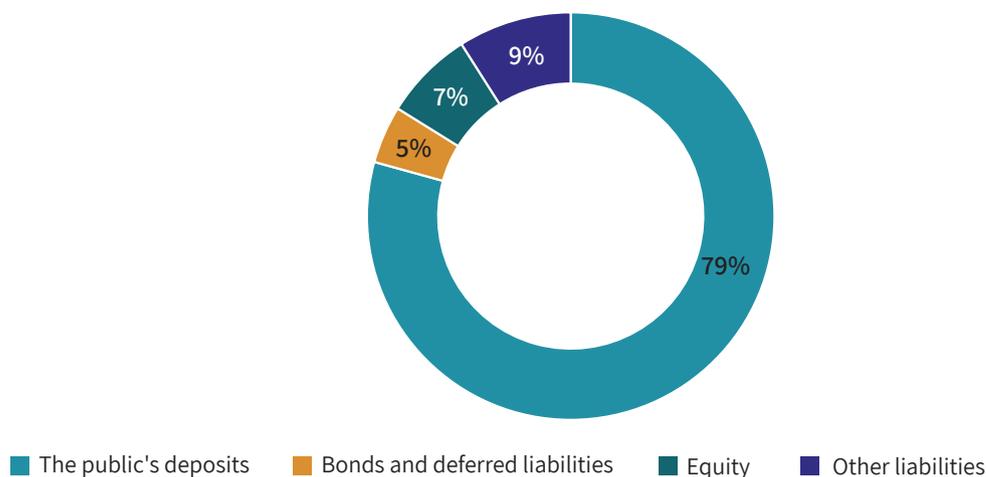
The total equity of the banking system also grew in 2023 (by 12.8 percent), reaching NIS 179 billion as of December 2023. This growth rate is the result of the high profitability of the banking system, alongside conservative dividend distributions due to the Swords of Iron War (for further details, see Chapters 3.1 and 4 in this survey).

During the course of the year, there was a significant increase of about 5 percent in total bonds and subordinated debt notes, reaching a total of approximately NIS 115 billion as of December 2023. This increase was due to several banks in the system, and included the issuance of new bond series, tradable securities, and contingent convertible (CoCo) notes (which have a loss absorption mechanism), alongside the redemption of bonds and early redemption of subordinated debt notes.

The assets and liabilities due to derivatives activity also grew significantly in 2023 as a result of increased activity in these instruments, including interest rate contracts against the backdrop of developments in the interest rate environments in various markets. However, the increase in liabilities related to derivatives in 2023 was higher than the increase in assets related to derivatives, resulting in a net decrease in balance sheet exposure due to derivatives this year.

There was an increase in the public's deposits and equity this year; however, their share within the total balance sheet remained unchanged.

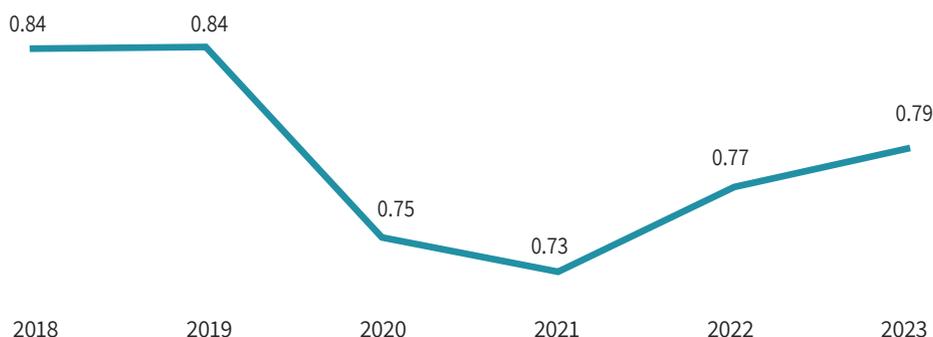
Figure 2.7 Distribution of the Main Liability and Equity Items, Total Banking System, 2023 (percent)



SOURCE: Based on published financial statements.

There was an increase in the credit to deposits ratio relative to the previous year, following the more rapid rise in credit relative to the rise in the public's deposits.

Figure 2.8 Ratio of Credit to the Public's Deposits, Total Banking System, 2018–2023 (percent)

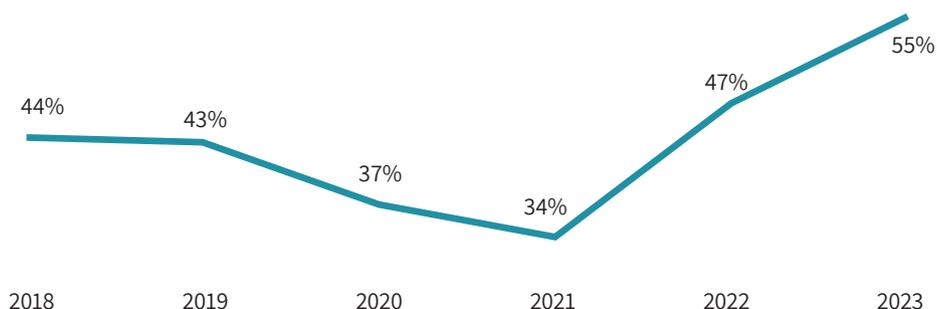


SOURCE: Based on published financial statements.

The proportion of the public's funds held in interest-bearing deposits, which began to rise in the second half of 2022 (during which the Bank of Israel's interest rate was raised), continued to increase during 2023, reaching approximately 55 percent. This is explained by the high interest rates this year compared to previous years and measures taken by the Bank of Israel to encourage the transfer of funds to interest-bearing balances (Figure 2.9). Similarly, households' money market fund holdings also increased, as a result of the high interest rates. In 2023, there was continued growth in (interest bearing) time deposits (22.3 percent; Figure 2.10), at the expense of a decrease in the growth rate of demand deposits (noninterest bearing and interest bearing, with a decrease of 20.7 percent and an increase of 1.4 percent, respectively). However, in 2023, the growth rate of interest-bearing deposits moderated relative to 2022. This was mainly due to the fact that since the outbreak of the Swords of Iron War, the trend has reversed, resulting in a slight decrease in the share of interest-bearing deposits within the public's total deposits. The decrease was due to a sharp decline in the total volume of deposits, driven by fiscal expansion in light of the war as well as by the public's tendency to hold liquid funds during emergencies due to increased uncertainty.

The share of interest bearing deposits within the public's total deposits continued to rise during the course of the year.

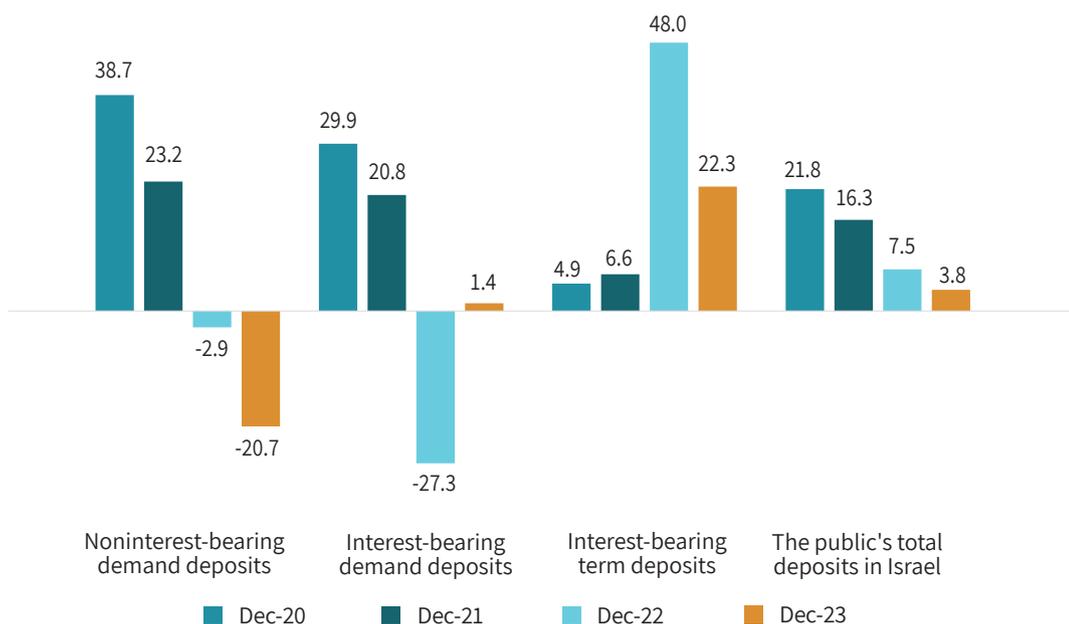
Figure 2.9 The Public's Interest-Bearing Deposits as a Share of Total Public Deposits, Total Banking System, 2018–2023 (percent)



SOURCE: Based on published financial statements.

The increase in the public's deposits during the course of the year was the result of an increase in interest bearing deposits, part of which was due to the shift from noninterest bearing demand deposits.

Figure 2.10 Rate of Change in the Public's Deposits by Deposit Type, Total Banking System, 2020–2023 (annual terms, percent)



SOURCE: Based on published financial statements.

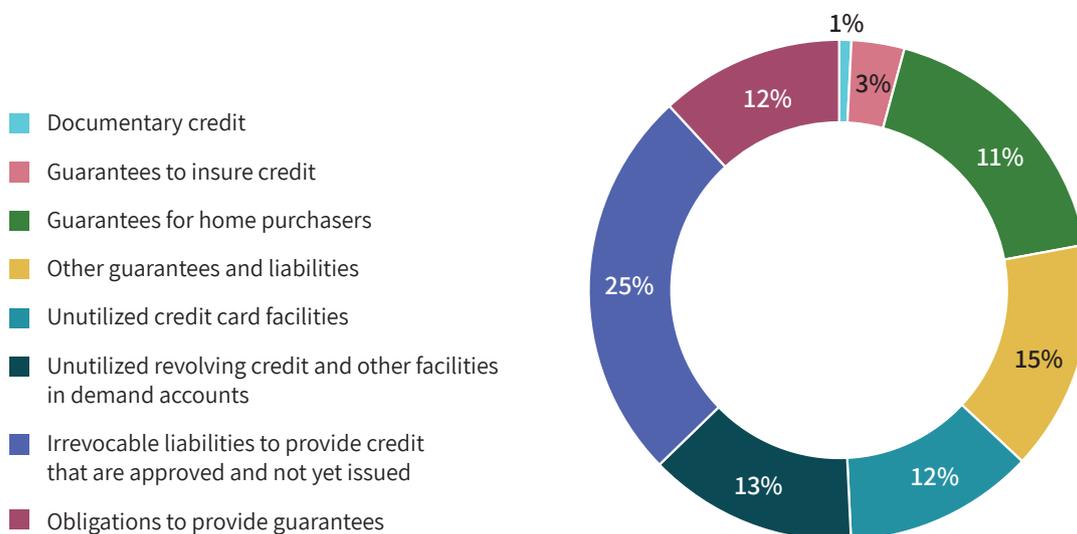
4. MAIN DEVELOPMENTS IN OFF-BALANCE SHEET ACTIVITY

In the off-balance sheet items, total off-balance sheet exposure grew due to transactions in off-balance sheet financial instruments, whose nominal amount represents credit risk, grew by 9.2 percent (a higher growth rate than in the previous year, when it was only 2.5 percent). The increase in off-balance sheet liabilities was due to four main factors: growth of approximately 30 percent in obligations to issue guarantees; growth of approximately 21 percent in unused credit card credit lines; growth of approximately 14 percent in irrevocable commitments to provide approved credit that has not yet been disbursed (also including approvals in principle for housing credit); and growth of approximately 12 percent in unused overdrafts and other credit lines in demand accounts (the majority of which occurred in the fourth quarter of the year due to the war; Figure 2.11, Table 5). The increase in off-balance sheet liabilities was tempered by a decrease of approximately 11 percent in guarantees for home buyers, against the background of a slowdown in residential home transactions during the year (following growth of approximately 22.2 percent during 2022; for further details, see Section 5.2 in this survey).

During the year, there was an increase of about 9.2 percent in exposure due to transactions in off-balance sheet financial instruments.

Figure 2.11

Exposure in Respect of Off-Balance-Sheet Financial Instrument Transactions Where the Denominated Amount Represents Credit Risk, Total Banking System, December 2023 (percent)



SOURCE: Based on published financial statements.

CHAPTER 3

CHAPTER 3 THE BANKING SYSTEM'S BUSINESS RESULTS

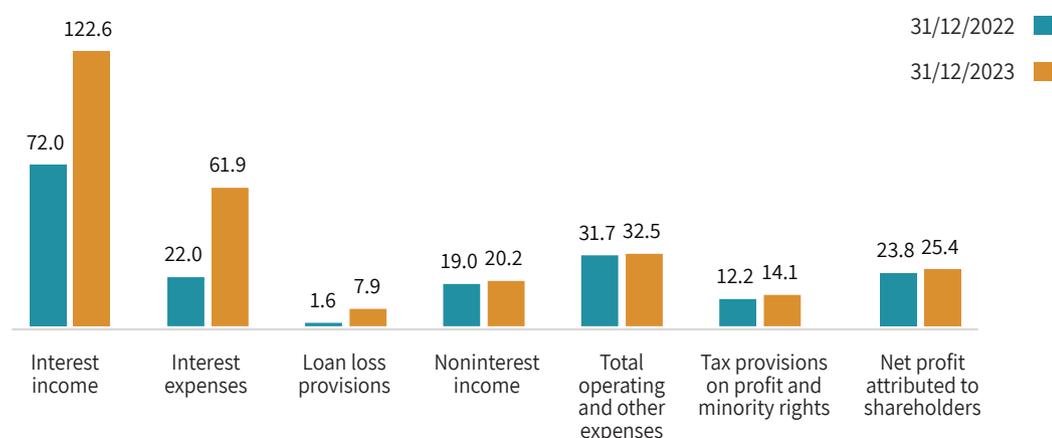
1. THE PROFITABILITY OF THE BANKING SYSTEM

The net profit of the banking system amounted to approximately NIS 25.4 billion in 2023, representing a 7 percent increase relative to 2022 (Figure 3.1). This is primarily explained by a marked increase in interest income, partly due to the hikes in the Bank of Israel's interest rate in the first half of the year and a high average interest rate throughout the year, combined with the increase in credit volume, which occurred mainly in the first two quarters of the year (for more details, see Section 5.2 in this survey). The increase in interest income was offset by a significant increase in interest expenses due to the rise in the Bank of Israel's interest rate and the public's shift of funds from non-interest-bearing (or low interest bearing) current accounts to interest-bearing deposits (for more details, see Chapter 2 in this survey). In light of the deterioration in macroeconomic conditions and the effects of the Swords of Iron War that broke out in October 2023, there was also a significant increase in credit loss provisions, which moderated profitability.

As in the rest of the world, the trend of increased interest income alongside a more moderate increase in interest expenses is the result of a relatively rapid rise in interest rates after a long period of low to near zero interest rates. In this environment, the margins of the banking system were under downward pressure, and customers preferred to keep their money in liquid channels. With the rise in interest rates, the margins began to grow as there was a rapid passthrough to interest rates on credit (since most of it is at variable interest rates; for more details, see Chapter 2 in this survey), while the shift of the public's deposits from non-interest-bearing or low-interest-bearing channels to interest-bearing deposits occurred at a slower pace. However, it should be noted that the rate of transmission increased significantly starting in mid-2022 (for more details, see Box 3.1 in this survey) and that from the third quarter of 2023, there was a significant increase in interest expenses, such that the interest margin began to decline.

The high level of profitability was primarily due to interest income given the high rate of interest during the year and the accelerated growth in credit during the first half of the year.

Figure 3.1 Profit and Loss Statement Components, Total Banking System, 2022 and 2023 (NIS billion)



SOURCE: Based on published financial statements.

Despite the increase in net profit, there was a slight decrease in return on equity against the backdrop of the continued growth in equity, partly due to conservative dividend distribution due to the war. As of 2023, the return on equity stood at 15.6 percent (for more details, see Chapter 4 in this survey; Figure 3.2). As in the rest of the world, we estimate this high profitability will not be sustainable over time, and expect it to decline to levels more in line with the average in past years.

There was a small decline in return on equity in 2023; however it was still high in historical terms.

Figure 3.2 Return on Equity (ROE) After Tax, Total Banking System, 2011–2023 (percent)



SOURCE: Based on published financial statements.

At the start of the Swords of Iron War, which broke out on October 7, 2023, the Banking Supervision Department published a relief plan for bank and credit card company customers to help them cope with the war's effects. The banking system broadly adopted the plan and even implemented additional relief measures for its customers. The total estimated benefits to the public, subject to full utilization by customers, were assessed by the banking system to be approximately NIS 2.1 billion. The actual utilization of these benefits, as of the publication date of the banks' and credit card companies' financial reports, stands at approximately NIS 772 million, representing about 37 percent of the estimated full utilization of the relief measures granted by the banks and credit card companies to the public. These relief measures do not include the expansion of the relief plan, as published by the Banking Supervision Department at the beginning of March 2024 and effective from the beginning of April 2024 (for more details, see Box 6.2 in this survey). Calculations of the impact of these relief measures on return on equity indicate that it would have been higher by approximately 0.5 percentage points.¹

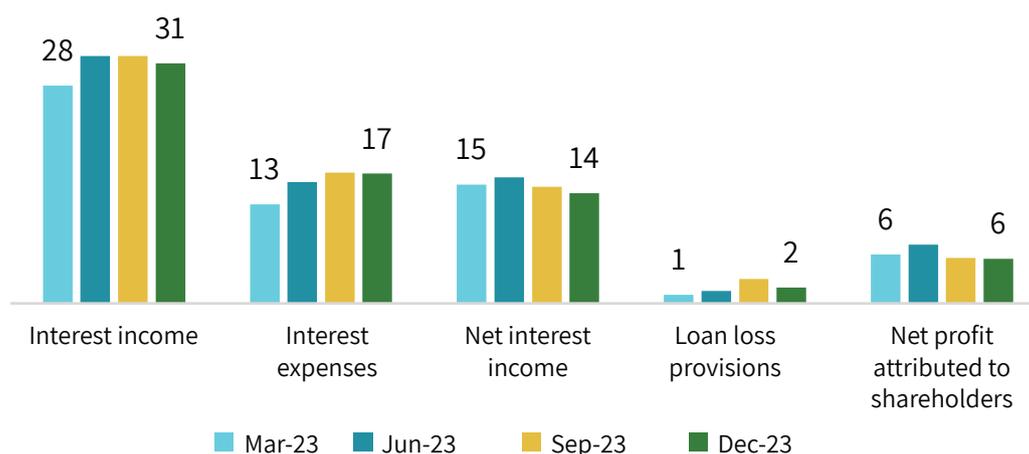
¹ The cost of the benefits is calculated as an economic estimate of the benefits granted by the banks as a result of the Swords of Iron War.

2. INCOME AND EXPENSE ITEMS IN THE PROFIT AND LOSS STATEMENT

Net interest income increased by approximately 21 percent in 2023 compared to 2022, totaling NIS 60.7 billion (Table 6). The rise in net interest income is due to a significant increase in interest income, which amounted to NIS 122.6 billion (an increase of about 70 percent compared to the previous year). This was partly due to the hikes in the Bank of Israel's interest rate during the year, the high interest rates that prevailed throughout the year, and the continued growth in the volume of credit (primarily during the first half of 2023). The increase in interest income was somewhat offset by interest expenses, which nearly tripled compared to 2022 and stood at NIS 62 billion as of December 2023 (although the increase in interest expenses was still less than the increase in interest income). The significant growth in interest expenses resulted from both the hikes in the Bank of Israel interest rate and the increase in the quantity of interest-bearing liabilities. In the second half of 2023, the decline in interest income from granting credit (due to a significant slowdown in the growth rate of the credit portfolio during this period) and the slight increase in interest expenses on the public's deposits (due to the slowdown in the growth rate of interest-bearing deposits) led to a decrease in net interest income (Figure 3.3).

During the second half of the year, and alongside an increase in interest expenses, there was a decline in interest income, and these two items together led to a decline in net interest income.

Figure 3.3 Profit and Loss Statement Main Components (Quarterly), Total Banking System, March–December 2023 (NIS billion)



SOURCE: Based on published financial statements.

The banking system is characterized by an excess of interest-bearing assets over interest-bearing liabilities (for more details, see Chapter 2 in this survey). In particular, there is an excess of interest-accruing assets at the prime interest rate relative to interest-paying liabilities, whether at a fixed rate or linked to the prime rate. When the Bank of Israel's interest rate rises, the immediate increase in interest income from assets is significantly larger than the corresponding increase in interest expenses due to liabilities, leading to a larger increase in income than in expenses. This dynamic leads to an increase in the banks' net interest income. However, for the first time in over a decade, there was a major change in the situation this year, with a decrease in the surplus of interest-bearing assets over interest-bearing liabilities. This occurred as the public's funds continued to shift from non-interest-bearing balances in current accounts to interest-bearing deposits (Figure 3.4).

The gap between interest-bearing assets and interest-bearing liabilities narrowed this year, which was the result of a faster increase in the latter than in the former.

Figure 3.4 Difference between Interest-Bearing Assets and Interest-Bearing Liabilities, Total Banking System, 2011–2023 (NIS billion)



SOURCE: Based on published financial statements.

The high interest rate environment that prevailed throughout the year increased the positive price effect on net interest income relative to the previous year, while the quantity effect on net interest income was negative, due to the slowdown in the growth rate of credit during the year (Table 7). The increase in the positive price effect on net interest income was due to the growth in other interest-bearing assets only, while the price effect on net interest income from credit and deposits was negative (there was an increase in the margin of deposits, alongside a decline in the margin on the granting of credit, leading to a decrease in the credit-deposit margin).

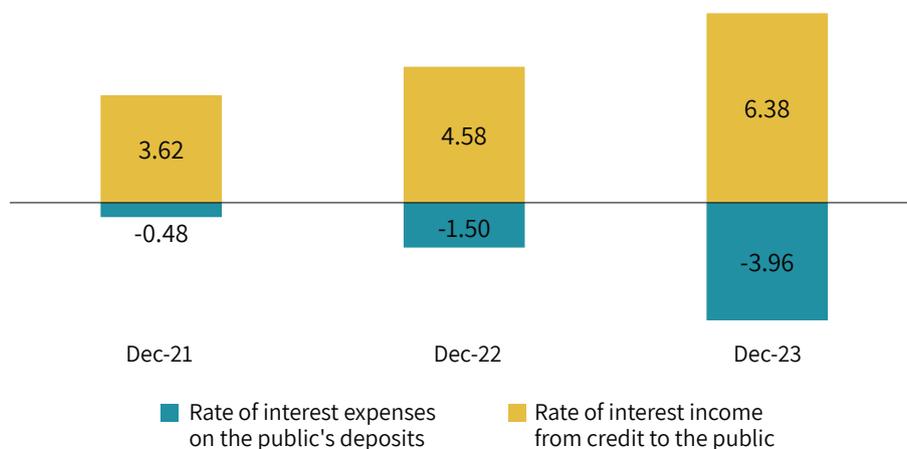
As a result of the high level of the Bank of Israel interest rate throughout 2023, there was an increase in both the interest income on credit to the public and the interest expenses on the public's deposits (Figure 3.5). Nonetheless, the latter effect was larger than the former. The level of the Bank of Israel interest rate, the decrease in the inflation rate, and the benefits and relief in financing conditions for customers as a result of the Swords of Iron War led to a significant decline in the interest rate

spread in the second half of 2023², from 3.07 percent to 2.4 percent as of December 2023. The interest rate spread, including non-interest-bearing current account balances, is slightly higher but it nonetheless also decreased from 3.63 percent to 3.48 percent (Figure 3.6).

Despite the decrease in the interest rate spread, the financial spread³ increased during the year to 2.75 percent due to a sharper rise in net financing income than in interest-bearing financial assets (Figure 3.7). The increase in the financial spread originated from other bank activities that do not involve credit provision and deposit receipt from the public (such as the securities portfolio). The main increase in the financial spread occurred in the first quarter of the year and slightly moderated in the second half, when financing income declined.

As a result of the high level of the Bank of Israel interest rate this year, there was an increase in both the rate of interest income from credit to the public and the rate of interest expense on the public's deposits.

Figure 3.5 Rate of Interest Income from Credit to the Public, and Rate of Interest Expenses on Deposits, Total Banking System, 2021–2023 (percent)



SOURCE: Based on published financial statements.

² According to the spread between the average interest rate on total credit and the average interest rate on total deposits.

³ An index that reflects the banking system's ability to produce profits from assets that produce financing income. This is calculated by dividing total net financing income (from interest and otherwise) by total interest-producing assets.

During the course of the year, there was a decline in the interest rate spread, alongside an increase in the financial spread against the background of an increase in financing income.

Figure 3.6

Interest Rate Gap (Credit to the Public and the Public's Deposits), Total Banking System, 2021–2023 (percent)

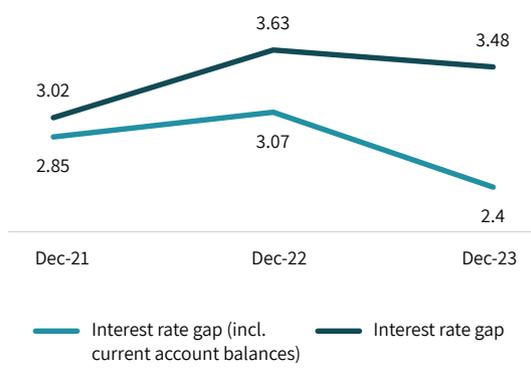
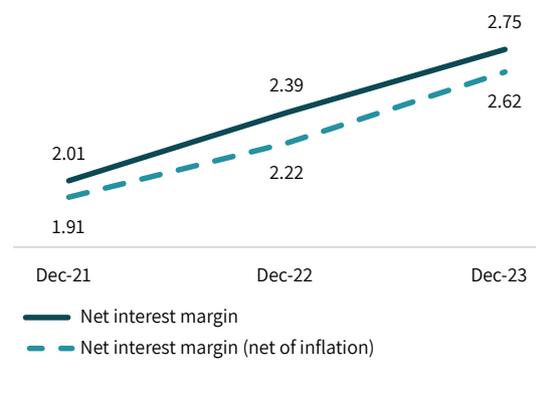


Figure 3.7

Net Interest Margin, Total Banking System, December 2021–December 2023 (percent)



SOURCE: Based on published financial statements.

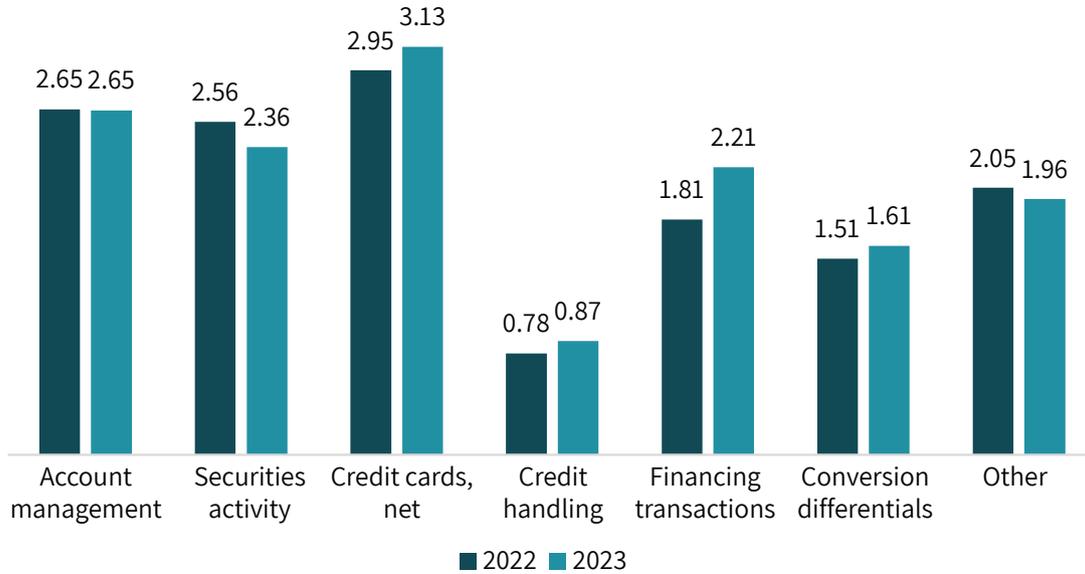
Credit loss provisions totaled NIS 7.9 billion in 2023 compared to approximately NIS 1.6 billion during 2022. The increase in provisions began already in the second quarter of the year but grew significantly in the third quarter, mainly due to the increase in group provisions for credit losses, given the uncertainty as a result of the war and the deterioration in the macroeconomic environment (Figure 3.3; for more details, see Chapter 5.2).

Noninterest income in 2023 amounted to NIS 20.2 billion, a 6.6 percent increase compared to 2022. The increase is mainly due to a rise in noninterest financing income, driven by adjustments to the fair value of derivative instruments and a slight increase in fees income (as discussed below).

Fees income in 2023 totaled NIS 14.8 billion, an increase of approximately 3.4 percent compared to 2022. The main increase was due to higher fees from credit cards, financing transactions, and exchange rate differences, reflecting the growth in customers' financial activities. There was also a decrease in fees from securities activities due to reduced trading volumes and a shift of customer funds to money market funds. Account management fees remained at the same level, primarily due to the impact of benefits granted to customers as a result of the Swords of Iron War (Figure 3.8).

The increase in fees income in 2023 reflects an increase in customers' financial activity.

Figure 3.8 Breakdown of Main Fee Income Items, Total Banking System, 2022 and 2023 (NIS billion)



SOURCE: Based on published financial statements.

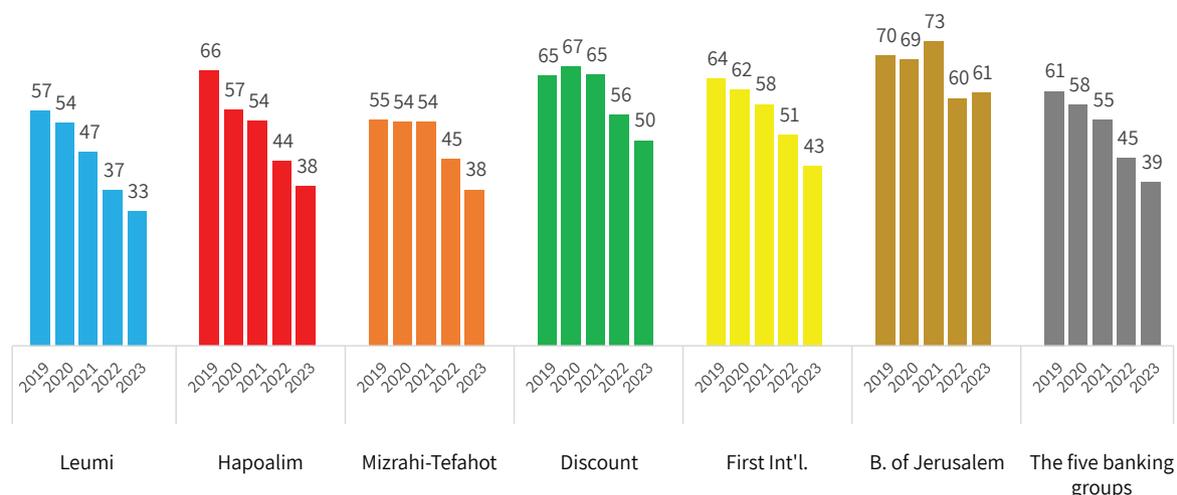
3. OPERATING EFFICIENCY

Main efficiency ratios

During 2023, the improvement in the banking system's efficiency ratios continued. However, the improvement did not result from substantive efficiency processes but rather as a result of the growth in income (mainly net interest income) this year. The cost to income ratio (operating efficiency ratio)⁴ dropped significantly, reaching 39 percent in 2023, compared to 45 percent in 2022 (Figure 3.9). The substantial improvement in the operating efficiency ratio is due to the increase in net interest income, driven by the relatively high interest rate (for more details, see Chapter 3.1 in this survey). The average cost ratio also decreased during 2023, reaching approximately 1.30 percent, as compared to 1.37 percent at the end of 2022, a trend observed in almost all of the banking groups (Figure 3.10). The improvement in the average cost ratio⁵ is mainly due to the increase in the volume of credit to the public (by approximately 6.3 percent in 2023), especially during the first half of 2023 (for more details, see Chapter 5.2 in this survey), while total other operating expenses grew at a slower rate (about 3.3 percent; Figure 3.11, Table 6).

The growth in net interest income during the year was the main factor explaining the continued improvement in the banking system's efficiency ratio.

Figure 3.9 Operational Efficiency Ratio^a, Total Banking System, 2019–2023 (percent)



^a The ratio between total operating and other expenses and total net interest and noninterest income (cost to income).

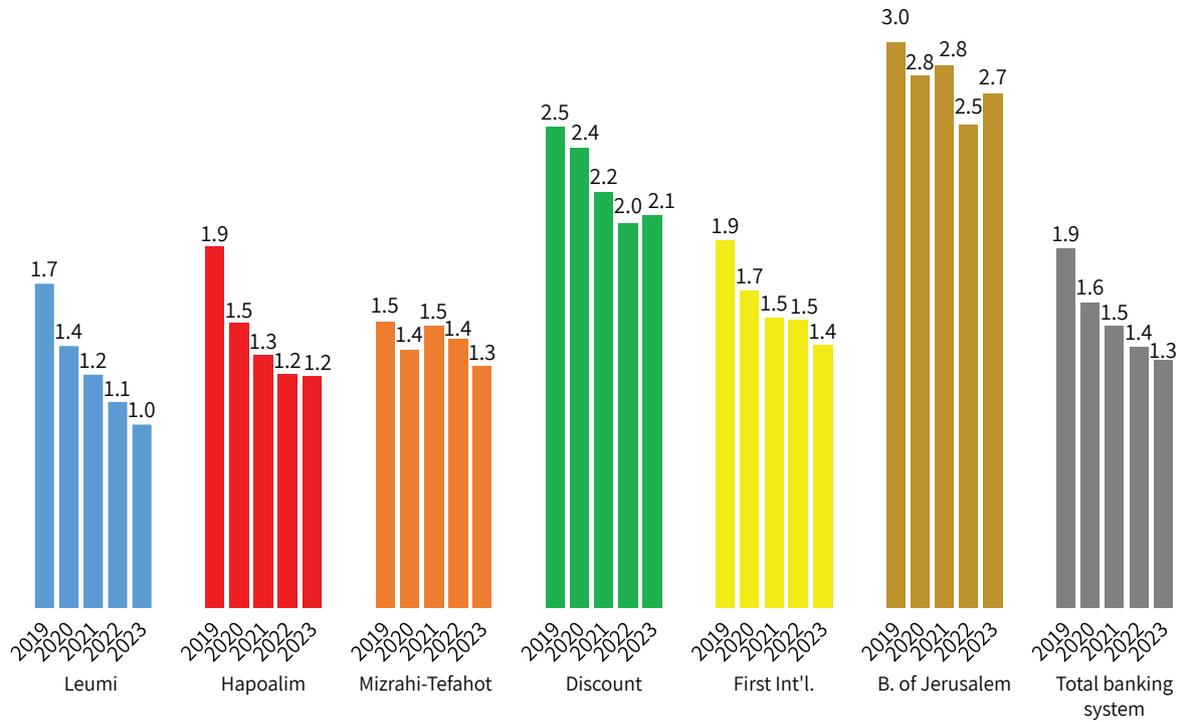
SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

⁴ The ratio of operating and other expenses to net interest income and noninterest income.

⁵ The ratio of total operating and other expenses to total average assets.

As a result of the increase in the average quantity of assets, there was an improvement in the banking system's average cost ratio.

Figure 3.10 Cost per Output Unit^a, Total Banking System, 2019–December 2023

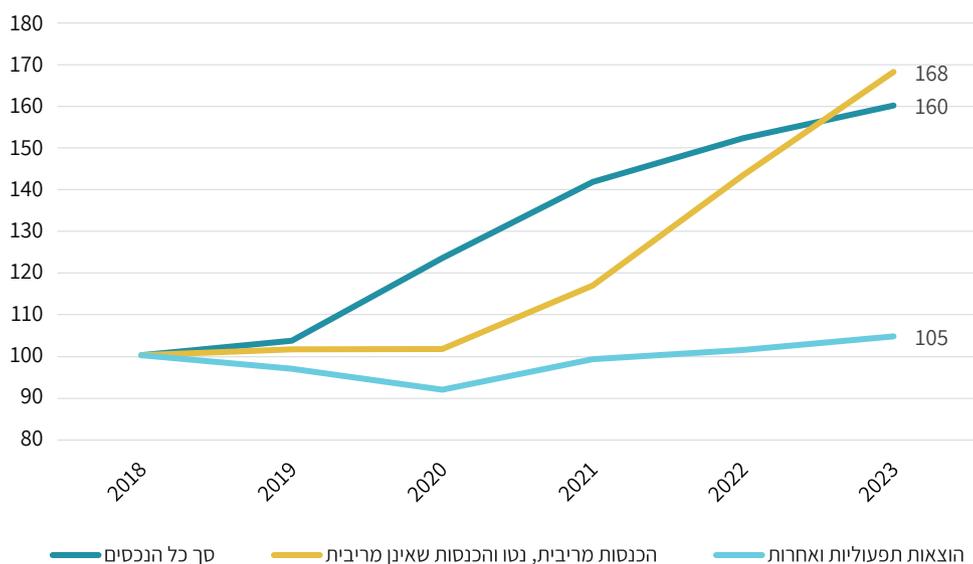


^a The ratio between total operating and other expenses and the average balance of assets (average cost).

SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

After a rapid increase, the growth in total assets slowed during the past two years while income continued to grow at a rapid pace.

Figure 3.11 Development of The Efficiency Ratioa Components, Total Banking System, 2018–2023 (index: 2018=100)



a The ratio between total operating and other expenses and the average balance of assets (average cost).

SOURCE: Based on published financial statements .

The trend in operating and other expenses

Operating and other expenses increased by approximately 3.3 percent in 2023 compared to the same period last year, reaching approximately NIS 32.5 billion. This increase occurred despite already high operating expenses in 2022 compared to previous years (an average growth rate of about 5 percent in 2021–22), particularly due to the rise in salaries and related expenses as a result of the payment of compensation and bonuses to employees (in part for reaching the earnings targets set by the banks). The increase in operating and other expenses in 2023 compared to the same period last year resulted from opposing trends in the components of operating expenses and from the variation in results across the banks (described below), which led to more moderate system-level results.

Salaries and related expenses decreased by about 2.3 percent in 2023 compared to an increase of about 2.5 percent in the same period last year, reaching approximately NIS 17.5 billion (Figure 3.12). There were mixed trends in this item across the banks, with some banks experiencing a decrease in salary expenses—mainly due to a reduction in expenses for performance-based bonuses.⁶ In contrast, the increase in salary expenses at some banks was primarily due to growth in the workforce and salary increases. Examining the salary distribution across banking system

⁶ As well as retirement and termination of employment of workers who arrived from a bank that was merged within another bank.

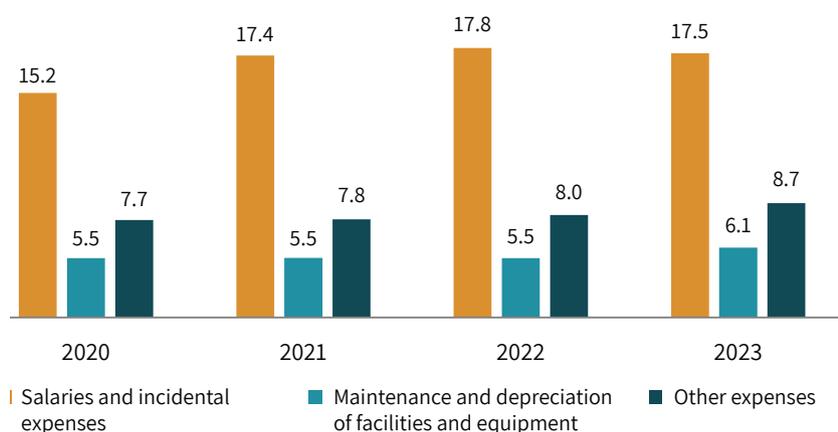
employees by salary level, the proportion of employees with medium-to-high and high incomes continued to grow in 2023, at the expense of a moderate decrease in the proportion of employees at medium and lower income levels (Table 11).

In other expenses and maintenance and depreciation expenses for buildings and equipment, there was an increase of about 11.2 percent in 2023 relative to 2022, during which these expenses remained relatively unchanged. The reason for the increase the year being surveyed includes maintenance work related to the relocation of some bank headquarters to new premises.

Other expenses increased by about 8.7 percent in 2023 compared to the same period last year, during which there was an increase of about 3.3 percent. This increase in expenses was partly due to higher marketing and advertising expenses.

The increase in operating and other expenses relative to the same period last year occurred due to opposing forces from the various components of operating expenses, which led to a relatively moderate increase in expenses.

Figure 3.12 Breakdown of Main Operating and Other Expense Items^a, Total Banking System, 2020–2023 (NIS billion)

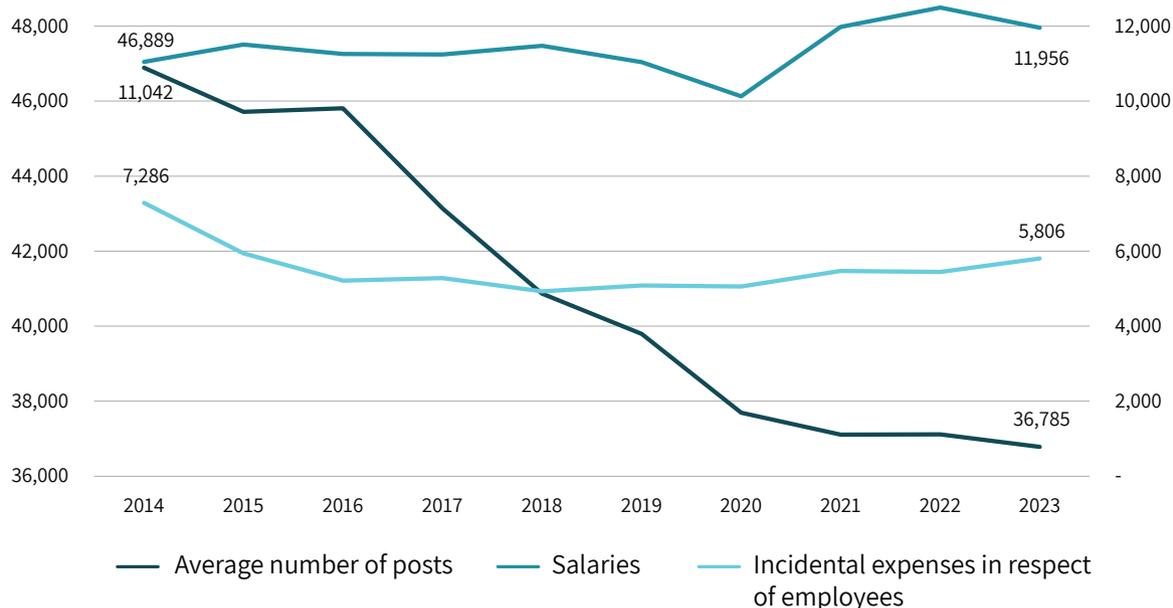


^a Excluding items that account for less than 0.5 percent of total operating and other expenses (such as amortization, reputation, etc.).

SOURCE: Based on published financial statements.

During the course of the year, there was a moderate decline in salary expenses after they reached a peak in the same period in the previous year, in parallel to the consistent downward trend in average number of employees.

Figure 3.13 Average Number of Job Posts, and Salary and Incidental Expenses^a, Total Banking System, 2014–2023^b (right scale, NIS billion; left scale, number of posts)



a Incidental expenses include severance, advanced training funds, pension, vacation, National Insurance payments and payroll tax, other incidentals, voluntary retirement payments, and benefits due to options allocations.

b Beginning in 2017, the data are presented excluding Isracard. Beginning in 2018, the data are presented excluding Leumi Card.

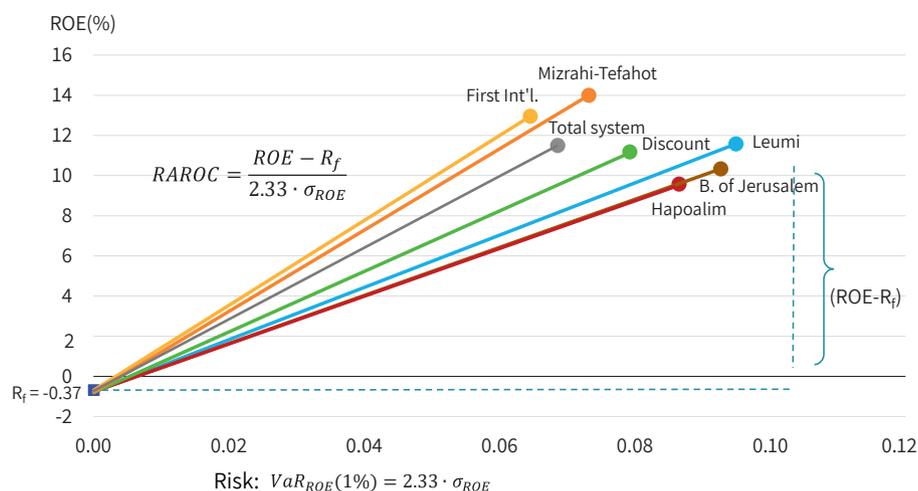
SOURCE: Based on published financial statements.

4. THE RISK-ADJUSTED RETURN

The Risk Adjusted Return on Capital (RAROC) is calculated as the ratio of the excess return on equity (beyond the risk-free rate of return) to the standard deviation of the return on equity over the same period (which represents the value-at-risk of the banks, i.e., the unit of risk).⁷ This metric is based on the “Value at Risk” approach, defined as the maximum expected loss from the bank’s activities over a particular period and at a particular probability level.⁸ Generally, the higher the value obtained from this calculation, the higher is the excess return achieved by the bank relative to its risk level. **An analysis of the Israeli banking system indicates that relative to the previous year, there was a further decrease in the RAROC this year (1.3 compared to 1.8 in 2022; Table 3.1), meaning that the excess return is low relative to the risk level.** The decrease in the RAROC is explained by a slight decline in the system’s return on equity, alongside an increase in the risk-free interest rate and an increase in “risk” (denominator). An analysis of the RAROC for each bank over the past six years shows variation—sometimes significant—across banks in terms of risk-adjusted performance (Figure 3.14). The RAROC for each bank is the slope of the ray extending from the risk-free return (denoted as R_f , which was -0.37 percent on average over the past five years) to a point that represents the return and risk achieved by each bank. The steeper the slope, the higher the return for each unit of risk, indicating better performance, and vice versa.

In recent years, there has been variation across the banks in terms of risk-adjusted return (RAROC).

Figure 3.14 Risk-Adjusted Return on Equity, Bank Groups and Entire System, 2018–2023 Average (percent)



R_f Average annual risk-free interest rate, 2018–2023, based on return to maturity of 5-year CPI-indexed bond (“Galil”),

ROE Average annual return on equity, 2018–2023.

σ_{ROE} Standard deviation based on ROE of each quarter in a seven-year period (28 observations).

SOURCE: Based on published financial statements.

⁷ The development of the RAROC indices began in the late 1970s at the Bankers Trust Bank and became a widely accepted measure of risk-adjusted performance in banking systems.

⁸ The assumption in this calculation is that banking risks are expressed in the return on equity, which distributes normally over an appropriate period. The standard deviation of the annual return on equity (average ROE for the previous four quarters) is calculated for each quarter over a period of 7 years, i.e., 28 observations.

Table 3.1 | The RAROC according to the variance-covariance approach, 2018 to December 2023

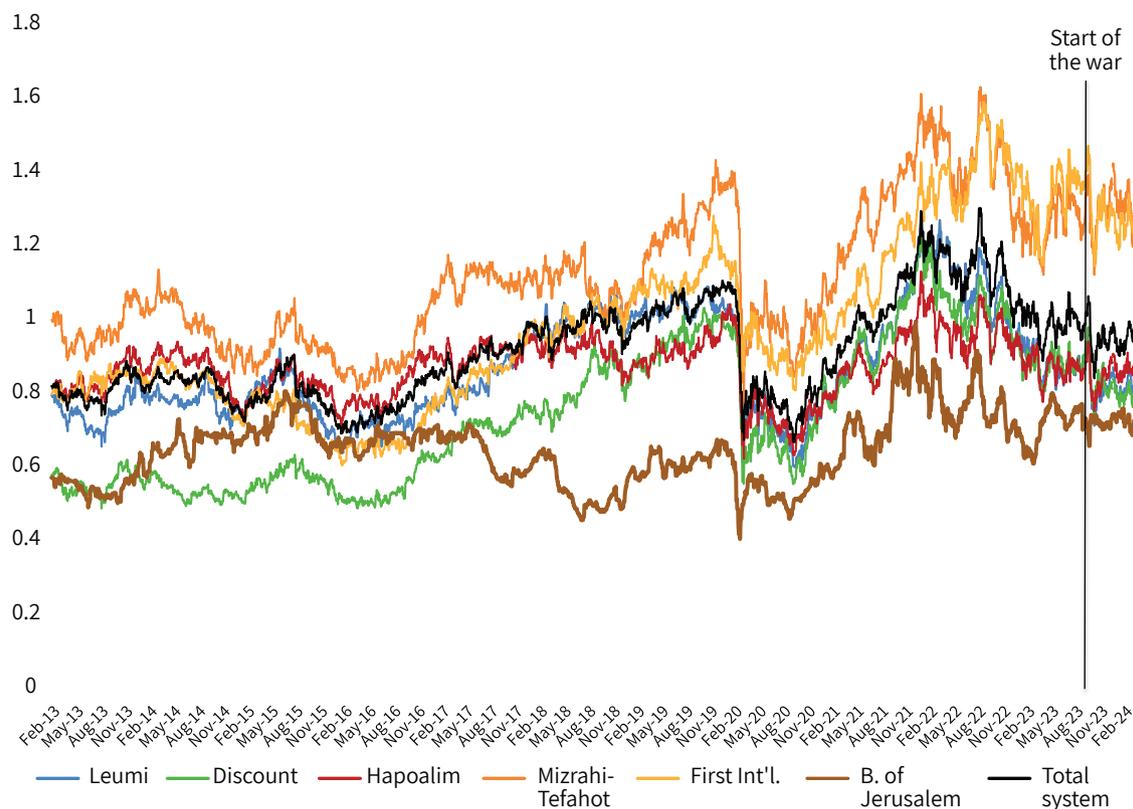
	Risk-free interest rate	Leumi	Discount	Hapoalim	Mizrahi-Tefahot	First Int'l	Bank of Jerusalem	Total banking system
31/12/2018	-0.25	0.97	1.33	1.17	1.53	1.57	1.17	1.61
31/12/2019	-0.65	1.08	1.39	0.88	2.23	2.40	1.20	1.77
31/12/2020	-0.64	0.69	0.78	0.62	1.88	2.00	0.60	1.15
31/12/2021	-1.50	1.57	1.66	1.30	2.32	2.31	1.51	1.96
31/12/2022	-0.37	1.62	1.57	1.31	1.88	2.02	1.20	1.80
31/12/2023	1.19	1.06	1.29	1.05	1.38	1.51	0.77	1.30

5. ANALYSIS OF THE BANKS' PERFORMANCE ACCORDING TO THE MARKET-TO-BOOK RATIO

With the publication of the banks' financial reports for 2023, the market value to book value ratio (MV/BV) of the entire banking system in Israel was **0.93** (as of March 2024; Figure 3.15). The ratio's trend during the year was characterized by high volatility in bank stock prices, reflecting geopolitical risk alongside the continued increase in the banks' book value (the ratio's denominator). Notably, the ratio was at its lowest level in April (0.89), during which Moody's announced for the first time since the COVID-19 crisis that it would be changing Israel's credit rating outlook from positive to stable, due to the extensive legislative changes proposed at that time. In addition, following the outbreak of the Swords of Iron War in October, the ratio reached 0.84, its lowest point in 2023, as compared to 1.04 before the outbreak of the war. It is worth noting that during the COVID-19 crisis in 2020, there was a sharper decline in the ratio, dropping by about 40 percentage points in February 2020.

This year was characterized by a decline in the MV/BV ratio.

Figure 3.15 Market Value to Book Value Ratio (MV/BV), Total Banking System, February 2013–April 2024 (percent)



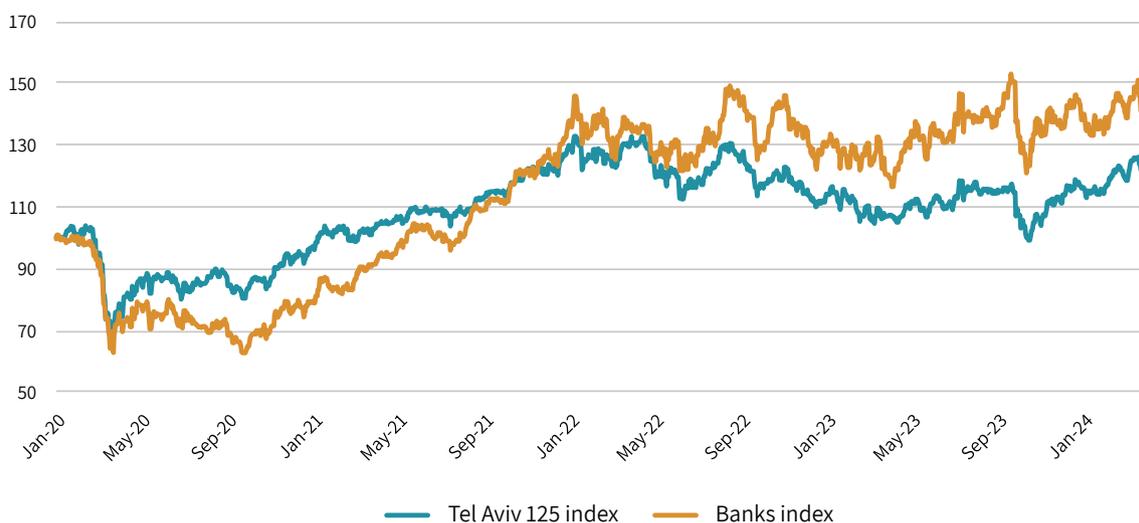
SOURCE: Based on Tel Aviv Stock Exchange .

Mizrahi-Tefahot and First International Bank of Israel continue to have the highest MV/BV ratio (Figure 3.15). This can be explained by their high profitability, which is reflected in their higher return on equity: 19.1 percent for Mizrahi-Tefahot and 19.7 percent for First International, compared to 15.6 percent for the banking system as a whole.

The trends in the bank shares reflect those of the broader economy, except having greater volatility. In April and October, when the bank index dropped sharply, the TA-125 index declined at a more moderate pace (Figure 3.16). This is likely because investors believe that banks are more exposed to macroeconomic trends than the rest of the economy. In recent months, in the midst of the Swords of Iron War, various trends in the MV/BV ratio have been observed in selected countries worldwide (Figure 3.17). In the US, the ratio began to rise in December, and a similar trend was observed in early March 2024 in Europe. In Israel, the ratio remained stable, indicating underperformance of Israeli banks relative to banks in other countries, despite their high profitability this year.

The Bank Shares Index fell faster than the General Tel Aviv Share Index.

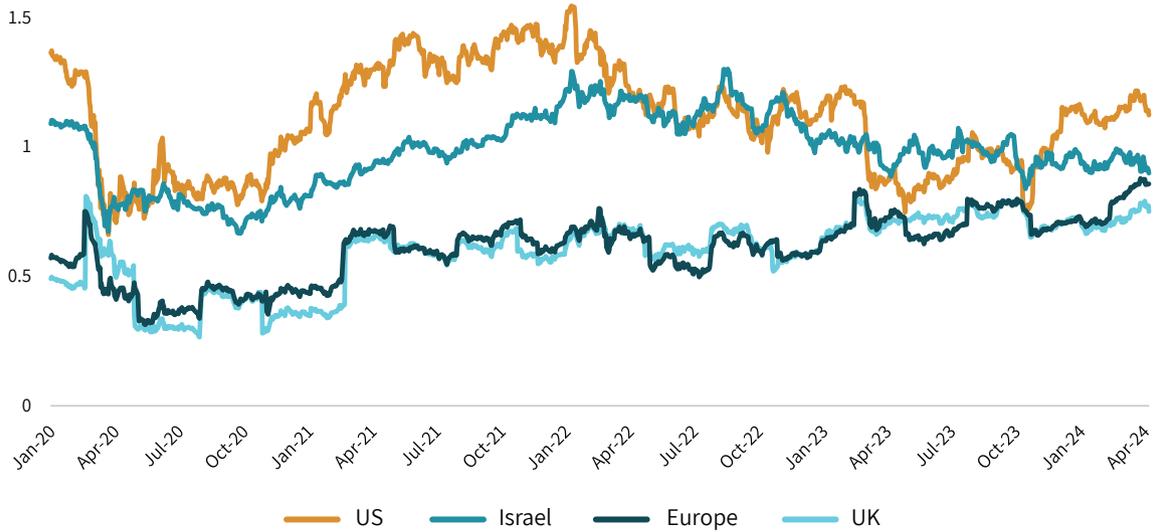
Figure 3.16 Banks Index and Tel Aviv 125 Index, 2020–April 2024 (index: January 2020=100)



SOURCE: Tel Aviv Stock Exchange data.

In recent months, the performance of Israeli bank shares has reflected their underperformance relative to banks in other countries.

Figure 3.17 MV/BV Ratio in the Banking Industry, Israel and Selected Countries, 2020–March 2024 (percent)



a Israel - Bank of Israel Banks Index; UK - FTSE 350 Banks Index; Europe - MSCI Europe Banks Index; US - KBW Bank Index.

SOURCE: Based on Bloomberg and Tel Aviv Stock Exchange.

Box 3.1

Analysis of deposit performance in the household sector

- In the course of 2023, the Bank of Israel raised its interest rate to 4.75 percent as the banking system amassed historically large liquidity surpluses.
- Against the background of the interest rate increase, deposit performance rose in all activity segments, particularly the household segment. Furthermore, out of total deposits of private customers, the share of private customers' interest-bearing deposits¹ surpassed the share of such funds held in current accounts, reaching nearly 60 percent in February 2024.
- In 2023, the average pass-through rate in the household sector was 68 percent.² The business activity sectors exhibited higher pass-through and deposit-interest rates (83 percent and 93 percent on average for the small- and large-business sectors, respectively).
- In 2023, on average, about a third of household deposit performance was for a term of up to one month. From the last quarter of 2023 onward, such deposits accounted for nearly half of performance; the pass-through rate for deposits to longer maturities was 20 percentage points higher and verged on that of the business sector. In the course of the year, however, the pass-through rate on deposits for terms longer than one year declined to below that on medium-term deposits (between one month and one year), in accordance with the development of interest rate expectations.
- The banking system offers its customers deposits at variable rates and fixed rates in view of the market's expectations of the interest rate environment. Since the end of 2023, the distribution of deposit performance between variable and fixed interest rates stabilized at similar levels, as did the pass-through rate on each of these tracks. This trend reflects the increase in uncertainty about the interest rate environment, possibly in view of the war.
- Although the cumulative pass-through rate of the Bank of Israel interest rate to the household deposit interest rate declined, it remains higher than the corresponding rates in the United States and Europe and fell slightly short of those in the UK and Australia.

1. General remarks

The central bank interest rate is the main instrument through which monetary policy is applied. Accordingly, it is the benchmark from which interest rates on credit to the public and the rates paid to the public for its deposits are derived.³ The central bank interest rate

¹ "Private customers" are the household and private-banking segment.

² The pass-through rate is, in effect, the rate at which the banks pass on the change in the Bank of Israel rate to the deposit interest rate. The pass-through rate reflects the elasticity of retail and wholesale deposit interest rates to the Bank of Israel rate. In this box, we calculated the pass-through rate as the cumulative change in the deposit rate in a given month as against the deposit rate in March 2022 (the month preceding the onset of rate increases), divided by the cumulative change in the Bank of Israel rate during that time.

³ Commercial banks deposit their liquidity surpluses with the central bank and are credited at the central-bank rate, which is supposed to serve as a benchmark for pricing credit and deposit products.

has a direct effect on the preferences in the economy and of its individual participants as to whether to consume or to save. When the interest rate is low, economic entities are more motivated to consume than to save, and the opposite occurs when the rate is high. In the decade preceding the COVID-19 crisis, the Bank of Israel interest rate, like that of major central banks abroad, was at a historical low.⁴ From April 2022 onward, given the upturn in inflation in Israel and abroad and to keep inflation within its target⁵, the Bank of Israel, much like central banks abroad, began to raise its interest rate, bringing it to 4.75 percent in May 2023.⁶ This steep increase triggered a parallel upturn in the interest rate on credit to the public and allowed banks to pay a higher rate on the public's deposits.

A bank is a financial institution that intermediates between depositors' money and borrowers' money as its main line of business. To do its job, it needs to have a system in place through which it can continue to lend to its customers while remaining able to meet its obligations to its customers. The system is administered by the banks' assets and liabilities management divisions, the function of which involves ongoing adjustment of the mix of bank assets against liabilities (or managing the spread between them) in terms of both their liquidity and their suitability to unexpected changes in interest, exchange, and inflation rates. The banks' assets and liabilities management divisions manage this activity by pricing deposits and pricing credit. Notably, in Israel the public's deposits are the banking system's main source of funding.

In its decisions on how to manage these sources, the banking system keeps several considerations in mind, foremost a bank's liquidity risk. A bank's level of liquidity reflects its ability to fund an increase in its assets while repaying its obligations in a timely manner without amassing anomalous losses. The global financial crisis in 2008 enhanced awareness of the importance of managing liquidity risk and has attracted much attention around the world (particularly in a high interest rate environment, in view of bank failures abroad in early 2023; for elaboration, see Box 5.2 in this Survey). To manage their liquidity risks, banks must, inter alia, maintain an LCR⁷ of more than 100 percent in order to bolster the adequacy of their liquidity in the short term. (For elaboration, see Section 5.3 in this Survey.) The more a bank has liabilities that are considered less stable, the more its LCR erodes. In reference to the nature of a bank's deposits, we should note that long-term deposits are considered more stable than short-term ones and that, generally speaking, retail and small-business deposits are considered more stable than wholesale and larger deposits. From 2008 onward, Israel's banking system and its counterparts abroad have been running large liquidity surpluses due to the global financial crisis and the implementation of the

⁴ At that time, the Bank of Israel rate fell to a low of 0.1 percent (March 2015), the European Central Bank rate was negative for nine years (between June 2013 and July 2022), and the Federal Reserve rate was around 0 percent (between December 2008 and December 2016).

⁵ The Bank of Israel's inflation target is 1–3 percent.

⁶ The Bank of Israel held its rate at this level until January 2024, when the Monetary Committee decided to lower it by 0.25 percent, to 4.5 percent.

⁷ Liquidity coverage ratio.

Basel Committee's recommendations on LCR maintenance. This trend gained additional strength pursuant to the fiscal and quantitative easing that governments and central banks around the world adopted in their attempts to cope with the COVID-19 crisis. This loosening led to an increase in the public's deposits, causing banks' demand for sources (deposits in particular) to decline and weakening the pass-through of the central bank rate to the deposit rate.

The banking system offers its customers deposits to various maturities from daily to very long (more than two years) and prices them differently. The banks have a structural surplus of assets over liabilities, in which their assets (loans, in large part) mature to longer terms than do their liabilities (deposits, in large part). Accordingly, banks can rely on longer term deposits as stable sources for lending. Notwithstanding this, however, it is important to note that the banks' pricing of deposits does not track deposit maturity linearly; it depends on each individual bank's business model and assets and liabilities management (as described below).

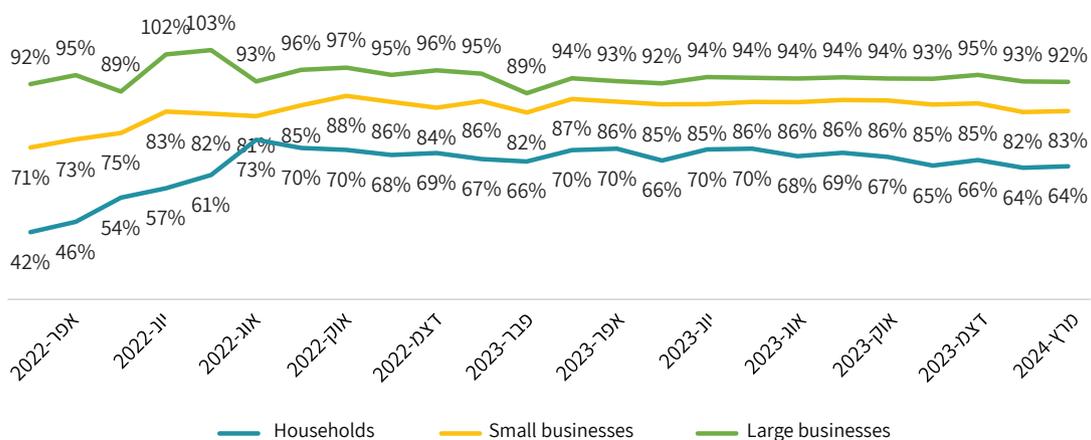
Apart from a deposit being a source for lending, customers with greater bargaining power can apparently secure more attractive terms for their deposits than can others. Customers' bargaining power vis-à-vis their bank may be reflected in their total "basket" of activity with the bank (for example, activity in credit or securities), the size of their deposit, their ability to shop among banks for the best deposit rate, and their familiarity with alternative savings vehicles in the market (buying Makams or investing in a money market fund). Business customers generally have a broad basket of activity including deposits of various sizes, and as a sector composed of relatively sophisticated customers they are better able than others to shop around. This is demonstrated in differences in the pass-through rate among different activity sectors in unindexed domestic currency since the rate increase in April 2022. In most cases, the larger customers' deposit activity is, the more they benefit from a more complete transmission of the Bank of Israel interest rate onto the deposit rate (i.e., a higher pass-through rate—Figure 3.18).

Figure 3.18 also shows that the pass-through rate of household deposits rose steadily from April 2022 on and leveled off in the last quarter of 2022. The slower increase in deposit interest rates than in the central bank interest rate at the beginning of the cycle of rate increases (a phenomenon not unique to Israel) is explained, among other things, by the return of the spread between the deposit rate and the central bank rate to the levels that prevailed before the era of near-zero interest rates and the banks' large liquidity surpluses.⁸

⁸ For elaboration, see Box 4.2 in the Bank of Israel *Annual Report for 2022*, "The Pass-Through from Monetary Policy to Interest on Deposits in Israel."

Business customers have features that provide them with more negotiating power, which is apparently expressed in a higher Bank of Israel interest pass-through rate to deposits.

Figure 3.18 Pass-through of Bank of Israel rate to deposit rate by activity segments in unindexed domestic currency, April 2022–March 2024, (percent)



Source: Based on reports to the Banking Supervision Department.

Another consideration that a bank bears in mind in managing its assets and liabilities is interest rate risk—the risk created by possible future changes in interest rates that would affect the bank’s earnings and, as a consequence, its capital.⁹ Generally speaking, banks price deposits at variable or fixed rates in accordance with their expectations of the interest environment. Consequently, when they price the deposits that they offer their customers, they examine their assets and liabilities, their expected liquidity needs, and their forecasts/expectations of relevant market indicators.

In view of the increases in the Bank of Israel interest rates since April 2022, and as a consequence, of the deposit interest rate, customers have a stronger incentive than before to lock up funds in deposits to various terms. Deposit performance in the course of 2023 surpassed that in recent years and the upturn already began in the course of the second half of 2022 (Figure 2). Performance¹⁰ in the five years from 2016 to 2021, the period preceding the rate increases, was around NIS 1.7 trillion on annual average with little variance. Performance in 2023 was NIS 3.2 trillion (including self-renewing deposits), up 24 percent in total performance from 2022, in which performance was NIS 2.6 trillion (up 36 percent relative to 2021). A similar

⁹ The main forms of interest rate risk to which banking corporations are exposed include repricing risk, yield-curve risk, basis risk (also known as spread risk), and options risk.

¹⁰ Total deposit performance in all activity sectors excludes institutional investors and includes self-renewing deposits.

trend was manifested in the household sector. Between 2016 and 2021, total annual deposit performance ranged around NIS 370 billion on annual average with almost no change from year to year, whereas in 2022 and 2023 performance rose steeply (to NIS 488 billion and NIS 595 billion, for annual rates of change of 36 percent and 22 percent, respectively—Figure 2).

In the past 2 years, in view of the interest rate level, there has been an increase in deposit performance in all activity segments, particularly in the household segment.

Figure 3.19 Total annual deposit performance by activity sector, all indexation segments, 2016–2023, (NIS billion)



Source: Based on reports to the Banking Supervision Department.

A large majority of the public's deposits are made by households.¹¹ In monetary terms, however, household deposits are secondary to those of other activity segments such as the business sector and institutional investors. In terms of number of deposits, the share of households is the highest at some 8.6 million deposits in 2023,¹² 79 percent of all deposits from the public that were made during the year. In money terms, however, total performance of households' deposits accounts for only 16 percent of total performance of the public. Thus, most deposits are made by the public but are smaller on average than those made by the other (business) segments.

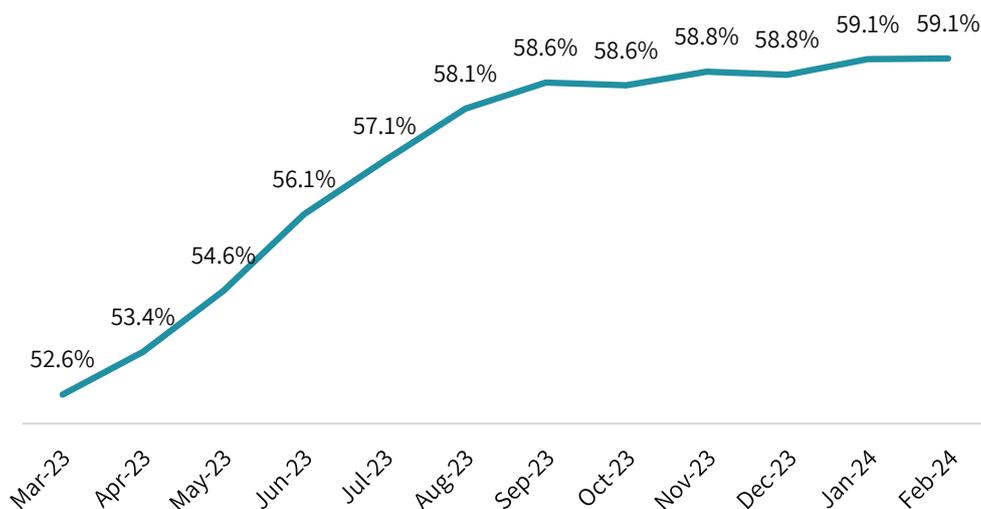
¹¹ Households' deposits in unindexed domestic currency only because this accounts for more than 90 percent of household deposit performance.

¹² Including self-renewing deposits.

In view of the increase in the deposit interest rate, the share of interest-bearing deposits¹³ in total private deposits increased (Figure 3). Between March and September 2023, this indicator advanced steadily, from 52.6 percent to 58.6 percent, as the public redirected some of its current account balances to interest-bearing deposits. From September 2023 to February 2024, interest-bearing deposits increased mildly, to 59.1 percent, the growth rate evidently slowing due to the effects of the war. They include an upturn in total deposits of the public due to fiscal easing (an increase in government spending due to the war), possibly abetted by an increase in uncertainty and the public's preference for keeping liquid funds on hand during an extreme event of this kind.

During 2023, in view of the interest rate level, there was a continued shift of households' funds from current accounts to interest-bearing deposits. In the last quarter of the year, apparently in view of the uncertainty due to the war, the pace of the shift moderated.

Figure 3.20 Share of private customers' interest-bearing deposits in unindexed domestic currency March 2023–February 2024, (percent)



Source: Based on financial statements to the public and reports to the Banking Supervision Department.

¹³ This rate is calculated out of total current account balances that do not bear interest, interest-bearing demand account balances and demand and short-term deposits, and interest bearing time deposits. Current account balances, demand deposits, and short-term deposits that do not bear interest were categorized as noninterest-bearing balances because their characteristics make them closer to noninterest-bearing current account balances.

Notably, the increase in the Bank of Israel rate in April 2022 touched off a lively public discourse about the rate that should be paid on households' deposits. Concurrently, the Supervisor of Banks, mindful of the changes in the interest rate environment, sent a letter to the banking system that expressed, among other things, the expectation that the banks would adjust their products and services to the changing environment and would treat their customers fairly. The Supervisor also urged the public to compare the prices of the various deposit products and compare deposits with parallel alternatives in the market. To facilitate this comparison, the Bank of Israel began to publish comparative information at the individual bank level about households' deposits to various terms. (For elaboration, see Box 6.4 in this Survey.) Also, the Governor and the Supervisor of Banks met with the banks' executives in the second quarter of 2023 and apprised them of what they expected them to do in regard to paying interest on current account balances, fair pricing of household deposit products, and measures to alleviate households' debt burden.

2. Analysis of household pass-through, comparison of activity sectors, deposit maturities, the interest rate mechanism, and comparison of Israel with other countries

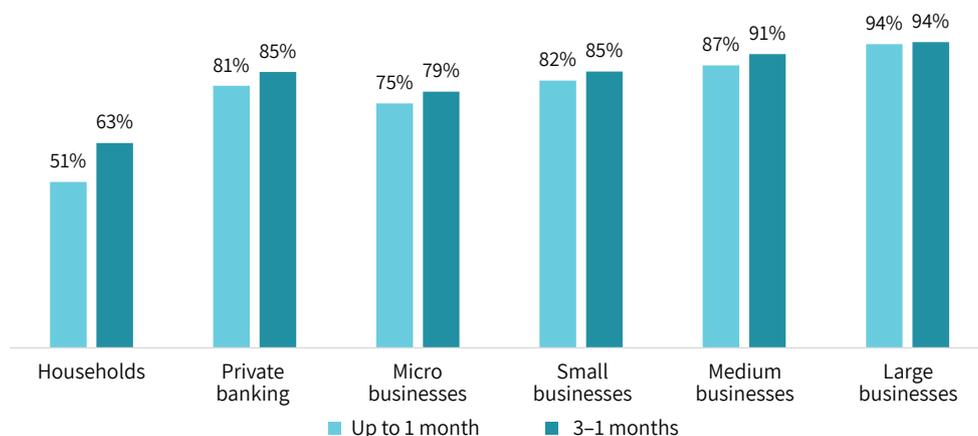
Apart from their size, households' deposits are differentiated from those of business customers in terms of maturity. On average in 2023, at least half of business-sector deposit performance occurred to terms of up to one month (the larger the activity turnover of the business in question, the shorter the term of the deposit), whereas about two-thirds of household-sector deposit performance was to more than one month to maturity. (On average in 2023, most household deposits were made for longer terms, unlike performance in the other activity segments.)

In a comparison of rates of the interest rate pass-through to deposits of 1–3 months among the various activity segments (Figure 3.21), the sector that had the largest change in pass-through in maturity was found to be the household sector. Pass-through rates gathered strength in deposits of 1–3 months to maturity (from 51 percent to 63 percent). In the other activity sectors, the rate of pass-through was relatively high and not significantly different in short-term deposits to maturity of up to one month. Much household deposit performance in the past two years has been for terms of up to 1 year.

The interest rate pass-through to households' deposits is low relative to other activity segments, but it increases more for deposits longer than a month.

Average pass-through of Bank of Israel rate to deposits, by activity segment and term to maturity, unindexed domestic currency, total banking system, 2023, (percent)

Figure 3.21



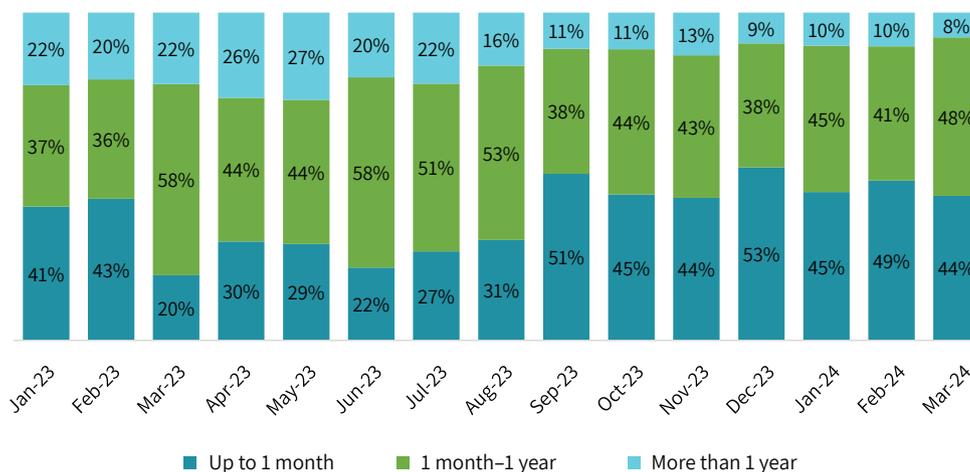
Source: Based on reports to the Banking Supervision Department.

In 2023, on monthly average, about half of performance occurred in deposits of up to three months maturity and 36 percent occurred in deposits of up to one month. This distribution recurred in similar rates in the first quarter of 2024. Households' reluctance to lock up their money for longer terms may trace to the habit that they had developed over the many years in which the interest environment was essentially zero and most of their money was liquid and kept in demand deposits (current accounts, daily deposits, or deposits to up to one week), in which the interest rate was not high enough to compensate them for the loss of liquidity. Developments in the capital market and in technology that enabled them to make payments and carry out transactions easily and rapidly even directly from their current accounts (in comparison, for example, with payment by credit card) made it necessary to keep a larger share of liquid funds on hand. As for the war, despite the high interest rate, it can be seen that households preferred to keep their money in deposits to shorter terms (Figure 3.22) and that the pace of increase in the share of private customers' interest-bearing deposits in total deposits slowed (Figure 3.20).

During 2023, there was a reduction in the share of deposits for periods greater than a month, out of total performance. From the end of 2023 and in early 2024, there was an increase in the share of deposit performance up to a month, at the expense of deposits longer than a year.

Figure 3.22

Distribution of household deposit performance by term to maturity, January 2023-March 2024, (percent)



Source: Based on reports to the Banking Supervision Department.

In general, customers who are interested in depositing for a longer term will expect their bank to pay a higher interest rate for their loss of liquidity (in accordance with the market's expectations and the term of the deposit). Thus, in addition to the change in households' taste, the interest rate they were offered to compensate for foregoing liquidity and locking up their money in a time deposit was not high enough for them. In the course of 2023, the pass-through rate for deposits with more than one month to maturity was indeed higher. From the beginning of 2023 to March 2024, the pass-through rate for deposits to every term declined, particularly to terms exceeding 1 year (Figure 6). However, both customers' and banks' expectations of the interest environment are important. Thus, it can be seen, for example, that consistent with expectations of the path of the Bank of Israel rate¹⁴, the pass-through to the interest rate on deposits for more than one year to maturity is lower than that on deposits for terms of one month to one year. Accordingly, performance of deposits to terms of more than one year declined considerably from August 2023 onward. In March 2024, the share of deposits to terms of more than one year in total performance of deposits slumped and stands at 8 percent at the present writing (Figure 5).

¹⁴ According to the April 2024 macroeconomic forecast of the Bank of Israel Research Department, the Bank of Israel rate will rest at 3.75 percent in the first quarter of 2025, lower than where it is today.

In view of the decline in interest rate expectations by banking corporations, the pass-through rate to deposits for a period greater than a year is relatively lower than deposits for shorter terms.

Figure 3.23

Pass-through of Bank of Israel rate to household deposit rate, by terms to maturity, January 2023–March 2024



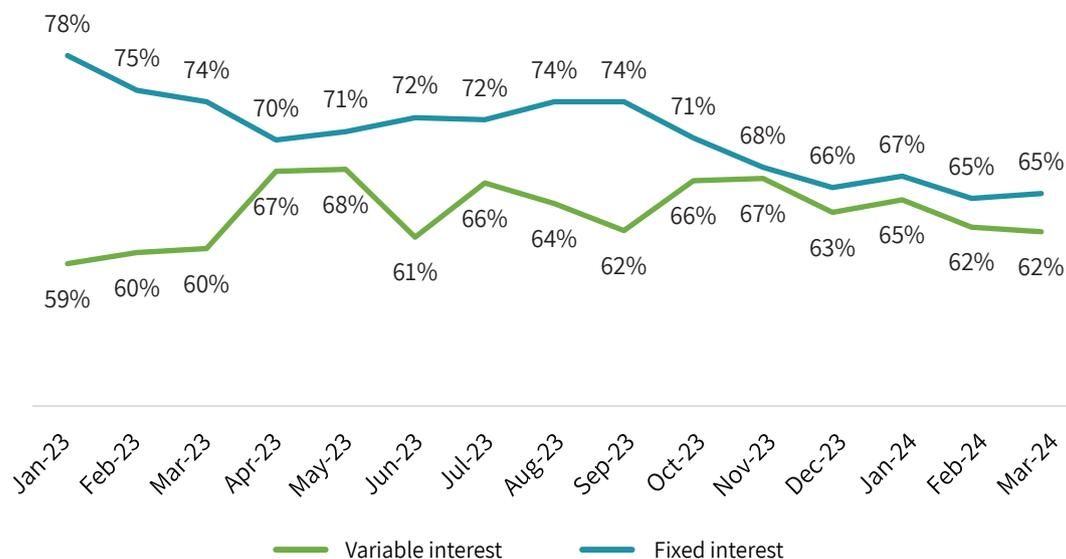
Source: Based on reports to the Banking Supervision Department

In respect of their interest rate mechanism, the deposits offered to the public are divided into fixed and variable rates. Fixed rate deposits are those in which the rate paid to the customer is known in advance and consistent throughout the deposit term. Variable rate deposits are those in which the rate varies during the term of the deposit. The rate on these deposits is composed of a benchmark rate (usually the prime rate) and a spread (a rate subtracted from the benchmark rate). The spread remains constant throughout the term of the deposit, whereas the benchmark rate (which is external and objective from the bank's standpoint) varies in accordance with the mechanism of change of the deposit. As for performance, the types of deposit interest rates are divided almost equally in accordance with the market's interest expectations; the differences among the banks that offer these or similar products are contingent on the banks' business model and funding needs.

At the beginning of 2023, the pass-through rate was much higher in fixed interest rate deposits than in variable rate deposits. The spread between them apparently traces to expectations of continued rate increases by the Bank of Israel and narrowed in the course of the year in reflection of the end of the Bank of Israel's rate hiking process. Convergence toward a similar rate of pass-through between variable rate and fixed rate deposits took place toward the end of 2023 due to the uncertainty that arose in the wake of the Swords of Iron War; it persisted in the first few months of 2024 (Figure 7).

In view of the decline in interest rate expectations, there was a decline in the interest rate pass-through for fixed-rate deposits. In recent months the pass-through rate among various tracks is similar.

Figure 3.24 Pass-through of Bank of Israel interest rate to household deposit rate by type of interest rate, unindexed domestic currency sector, January 2023–March 2024, (percent)



Source: Based on reports to the Banking Supervision Department.

Since the Bank of Israel began its series of rate increases in April 2022 and given the full rollover of the increases to the lending rate, a public discourse emerged that found the pass-through to deposit interest rates too slow and too small. Note that despite the less than complete pass-through of the central bank interest rate to the household-deposit rate (in comparison with other activity segments and in view of the relatively long maturity and the expected interest rate path), this is a relatively widespread phenomenon around the world. This was found in a comparison of advanced economies¹⁵ that have banking systems typified by large liquidity surpluses. Israel's rate of pass-through, however, is high by the standards of the world's advanced economies.

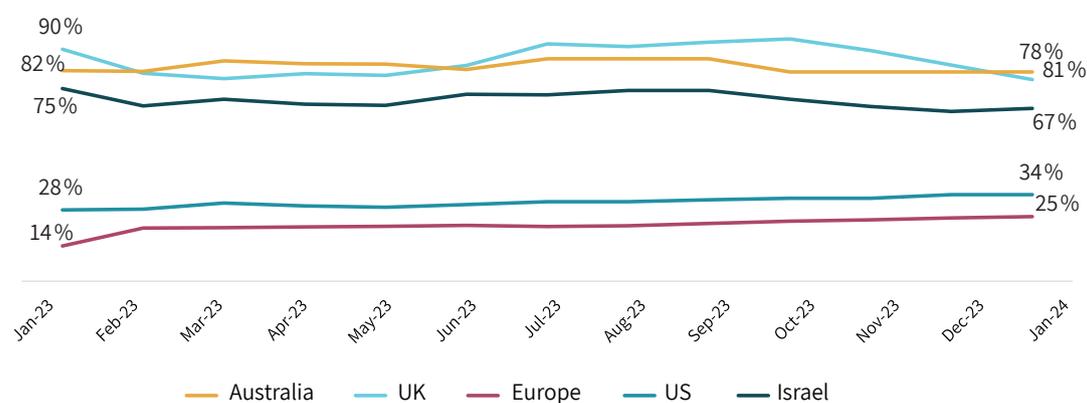
In the course of 2023, most central banks in developed countries either stopped or slowed the pace of rate increases and left the pass-through rate to household deposits relatively constant (Figure 8). The pass-through of the interest rate was weaker in some advanced

¹⁵ Household deposits in different countries may differ in their characteristics. We compared interest rates abroad in terms of unindexed fixed-rate interest for households, resembling the characteristics of deposits abroad.

economies—for example, in Europe¹⁶ (25 percent as of January 2024) and the US¹⁷ (where the pass-through rate ranged from 0 to 34 percent). In contrast, Israel's pass-through rate was lower in the past year than that of the UK¹⁸ and Australia¹⁹ (78 percent and 81 percent, respectively, as of January 2024).

The pass-through rate for fixed-rate deposits in Israel is high relative to the pass-through rate in advanced economies.

Figure 3.25 Comparison of central bank interest rate pass-through to the household deposit rate (fixed-rate deposits), January 2023–January 2024, (percent)



Sources:

US: Federal Reserve Economic Data; interest: IORB (Interest on Reserve Balances)

ECB: European Central Bank—Statistical Data Warehouse. Deposit Facility Rate

UK: BOE data, BOE Base Rate

Australia: RBA, RBA Official Cash Rate.

¹⁶ The rate calculated in this comparison weights the performance of a household's deposits to long terms to maturity (deposits with an agreed maturity—liquid deposits of up to one year to maturity and redeemable-at-notice deposits to more than one year), in contrast to the comparison presented in the past, which included only interest on long-term deposits (deposits to agreed terms to maturity), which is higher. The share of deposits of this kind, however, has ranged from 1 percent to 6 percent in the past two years.

¹⁷ Three main deposit products are offered in the US: interest bearing current account balances, savings accounts that allow withdrawal under certain limitations during the deposit term, and CDs (certificates of deposit), which are not liquid until maturity. Each of these products has a different pass-through rate: interest bearing current account balances zero, savings accounts 8 percent; and one-year CDs 34 percent (the highest among all CDs).

¹⁸ Household time deposits that offer no option of early withdrawal, including deposits with mortgage-lending financial institutions that do not rely on current account products and, therefore, have liquidity needs that are slightly different from those of most banks in Israel.

¹⁹ Retail time deposits up to AUD 10,000 at the five largest banks in Australia.

CHAPTER 4

CHAPTER 4 CAPITAL ADEQUACY AND LEVERAGE

Capital adequacy and leverage

The banking system's Tier 1 capital ratio increased during 2023, to approximately 11.3 percent (Figure 4.1), compared to 10.9 percent in 2022. The capital ratios in all the banks remained high and above the minimum requirements, indicating the robustness of the banking system and its ability to continue supporting the economy even in times of crisis. The high profitability during the year, the moderation in the growth rate of credit risk assets due to the slowdown in the growth rate of the credit portfolio (for more details, see Chapter 5.2 in this survey), and the reduction in the dividend payout rate in the second half of 2023, contributed to strengthening the capital ratios. The slowdown in the growth rate of the credit portfolio, as reflected in the moderation of the growth rate of exposures, along with the increase in capital, contributed to the improvement of the leverage ratio to 6.5 percent, compared to 6.1 percent at the end of 2022.

There was an improvement in the capital ratios this year.

Figure 4.1 Tier 1 Capital Ratio, Total Banking System, 2021–2023 (percent)



SOURCE: Based on published financial statements.

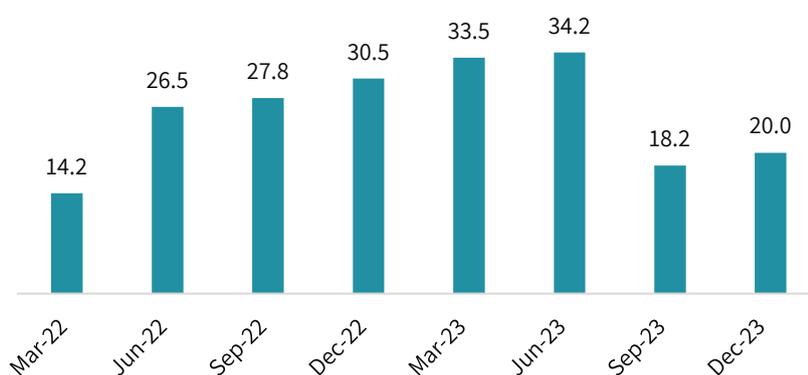
Tier 1 capital in the banking system increased by approximately 12.3 percent during 2023, reaching about NIS 177 billion (Table 12). The growth rate (in annual terms) during 2023 was similar to that in 2022 (12.1 percent) and is higher than the average during 2020–21 (7.7 percent). This increase in capital was due to the high profitability of the banking system during the year (net profit of NIS 25.8 billion in 2023 and NIS 24.3 billion in 2022; for more details, see Chapter 3.1 in this survey), as well as the increase in the value of the available-for-sale bond portfolio (an increase of about NIS 1.7 billion, compared to a decline of about NIS 7.2 billion during 2022;¹ for more details, see Chapter 2

¹ During 2022, the erosion in the value of the available-for-sale portfolio was offset by a decrease of about NIS 3.4 billion in liabilities for worker benefits.

in this survey). However, at the same time, the distribution of dividends totaling NIS 7.8 billion since the beginning of the year moderated the increase in capital. Additionally, there was a reduction in the dividend payout ratio during the second half of 2023 (Figure 4.2), which contributed to the accelerated rate of capital accumulation, partly due to a letter from the Supervisor of Banks to the banking system, urging a reconsideration of dividend policy in light of the consequences of the Swords of Iron War and the uncertainty regarding potential developments.²

The dividend payout rate declined during the second half of the year.

Figure 4.2 Dividend Distribution as a Share of Net Profit, Total Banking System, 2022–2023 (percent)



SOURCE: Based on published financial statements.

Risk-weighted assets grew by 7.6 percent during 2023 (Table 12), which was lower than the average growth rate of 11.8 percent over the past two years. The moderation in the growth rate of risk-weighted assets is mainly due to a slowdown in the growth rate of credit risk assets, (which account for about 92 percent of total risk-weighted assets), especially in the second half of the year and despite the increase in the growth rate of operational risk assets and market risk assets during the year. The growth rate of credit risk assets in 2023 was 6.7 percent, which was lower than the average annual growth rate of 12.2 percent recorded in 2021–22, due to the slowdown in the growth rate of the credit portfolio during the year (for more details, see Chapter 5.2 in this survey). In contrast, the growth rate of risk-weighted operational assets continued to rise in 2023: to 19.7 percent in 2023 and to 14.4 percent in 2022, as compared to an average annual growth rate of 4.5 percent in 2020–21. The increase in operational risk assets is due to the rise in bank profitability over the past two years, as banks apply the standardized approach for calculating operational risk assets, which is based on the banks' profitability over a three-year period.³ Market risk assets grew by about 4.7 percent in 2023 (compared to a decrease of 0.6 percent in 2022), partly due

² See letter number 202339 dated November 12, 2023 and letter number 202405 dated March 5, 2024 on capital planning and dividend policy.

³ For further details, see Proper Conduct of Banking Business Directive 206 – Operational Risk.

to market uncertainty and volatility. **It is worth mentioning that Israel's credit rating affects capital requirements for banks' exposures to the Israeli government,⁴ public sector entities, institutional entities, and banks. According to the banks' assessments in their financial reports for the end of 2023, the impact of the downgrade of Israel's credit rating by S&P in April 2024 is expected to result in a reduction of about 0.2 percentage points in the Tier 1 capital ratio.⁵**

As in the case of the Tier 1 capital ratio, the total capital ratio also improved during 2023, to approximately 14.4 percent (compared to 13.9 percent at the end of 2022; Table 12). The improvement is partly due to an increase of about NIS 1.9 billion in the collective allowance for credit losses recognized as Tier 2 capital.⁶

The trend of improvement in the leverage ratio continued, and as of the end of 2023, it was 6.5 percent for the entire banking system, compared to 6.1 percent at the end of 2022 (Table 13). The improvement in the banking system's leverage ratio during 2023 is due to a higher growth rate in Tier 1 capital (12.3 percent) compared to the increase in total exposures (5.4 percent). **The slowdown in the growth rate of total exposures is due to the moderation in the growth of balance-sheet exposures** over the past two years, which constitute about 87 percent of the system's total exposures (growth rates of 5.3 percent and 4.9 percent in 2023 and 2022, respectively, compared to an average growth rate of 16.8 percent in 2020–21). The slowdown in the growth rate of balance-sheet exposures is partly due to the deceleration in the growth rate of bank balance sheets (for more details, see Chapter 2 in this survey), mainly against the backdrop of the slowdown in the growth rate of the credit portfolio in the second half of 2023.

⁴ Exposures of banking corporations to the government of Israel and the Bank of Israel that are denominated in foreign currency or paid in foreign currency.

⁵ On Friday, February 9, 2024, Moody's announced the downgrade of Israel's credit rating from A1 to A2 with a negative outlook. However, the downgrade did not affect the allocation of credit risk assets, since all banks except Bank Leumi, which uses credit ratings from three agencies (S&P, Fitch, and Moody's), rely solely on S&P ratings.

The downgrade of Israel's credit rating by S&P on April 18, 2024 will lead to an increase in the credit risk assets of the banks and a deterioration of capital ratios across all banks in the system, except for Bank Leumi, which already allocates capital based on the stricter rating. The impact on the Tier 1 capital ratio, as disclosed in the financial reports, ranges from a decrease of 0.1 percentage points to 0.24 percentage points.

⁶ The collective provisions before the effect of tax for inclusion in Tier 2 capital should not exceed 1.25 percent of the total risk-weighted assets for credit risk calculated using the standard approach. For further details, see Proper Conduct of Banking Business Directive 202 – Regulatory Capital.

CHAPTER 5

CHAPTER 5 RISKS

1. INTRODUCTION

The banking system is exposed to a wide range of risks that are typical of such systems, given the nature of a bank's operations. These include credit risk, market risk, liquidity risk, and operational risk. Other risks have intensified due to developments in the business, technological, and regulatory environments in Israel and worldwide. These include technological risk, cyber risk, conduct risk, climate risk, compliance risk, business model risk, and others. Beyond the microprudential risks that affect individual banks and arise from their specific activities and exposures, the banking system is also exposed to macroeconomic risks stemming from adverse events in the real economy and the capital markets. When macroeconomic risks materialize, the correlation between different types of risk increases, potentially increasing the vulnerability of the banking system.

The favorable macroeconomic environment and regulatory measures implemented over the past decade by the Banking Supervision Department have helped improve the resilience of the banking system and its ability to withstand shocks. These positive developments are reflected in improved capital quality and higher capital ratios relative to the past, a higher-quality credit portfolio with reduced concentration, and high liquidity. These factors have positioned the banks to handle the challenges posed by the Swords of Iron War, allowing them to absorb the expected losses and continue to provide credit. However, the war presents significant challenges to the banking system, including the intensification of geopolitical, financial, operational, technological and other risks.

Credit risk arises from the probability that a borrower or group of borrowers will fail to meet their obligations to the bank, resulting in nonpayment of the principal and/or interest, thereby eroding the bank's expected profits.

Market risk stems from unexpected changes in market prices—such as interest rates, price indices, exchange rates, share prices, etc.—that negatively impact the bank's income or equity value.¹ This is due to on- and off-balance sheet positions affected by changes in the fair value of financial instruments as a result of market conditions.²

Liquidity risk arises from uncertainty regarding unexpected withdrawals of deposits and unexpected demand for credit that the bank must provide immediately, which may prevent the bank from meeting its obligations to depositors.³

Operational risk⁴ involves the loss or disruption of the bank's business continuity due to inadequacies or failures in internal processes, human resources, and various systems, or as a result of external events.

¹ From David Ruthenberg, *Bank Management in Israel – Management of Assets, Liabilities and Risk*, Keter, Jerusalem, 2002. [Hebrew]

² Section 2a of the Proper Conduct of Banking Business Directive no. 339 – Management of Market Risk.

³ Ibid

⁴ Section 5 of the Proper Conduct of Banking Business Directive no. 350 – Management of Operational Risk.

The risk level of the banking system's activities increased during 2023, as discussed below, due to high interest rates, market volatility in Israel and worldwide, legislative initiatives to reform the judicial system, and the outbreak of the Swords of Iron War in the last quarter of the year. The risk level remained high in the early months of 2024 due to the high uncertainty regarding the war's development and its effects on the economy.

As in previous years, the Banking Supervision Department conducted a survey among senior executives in Israel's banking system in 2023.⁵ This survey is intended to help formulate a risk assessment of the economy by examining risk developments from the perspective of senior executives in the banks and credit card companies. Respondents were asked to indicate which of the risks that threaten their organization concern them the most, including the effect of the Swords of Iron War.

The survey results indicate an increase in the overall risk level, with cyber risk continuing to be the most concerning one in 2024 (Figure 5.1). Domestic political risk⁶ and geopolitical risk were ranked as the most significant risks following cyber risk, which represents an increase in ranking relative to 2023. This increase is attributed to the Swords of Iron War, its economic impacts, and fears of the conflict spreading to other regions. Additionally, there are concerns about significant legislative changes that are being made without broad consensus, especially regarding legislation that will impose a special levy on the banking system.⁷

A sharp increase was noted in the perception of credit risk (for both business and consumer credit), since many households and businesses have been adversely affected by the war, and in particular their ability to meet loan repayment obligations. Assistance and relief measures, and especially deferral programs, have in fact increased the risk of the credit portfolio except for housing loans, where the banks' assistance measures provided sufficient support to meet customers' current needs. Most respondents indicated that the measures taken by the Bank of Israel during the war⁸ contributed to stabilizing the markets and reducing uncertainty at the war's outset.

However, despite the significant impact of the war on the economy and on the banking system in particular, more than half of the respondents believe that the war is not expected to have a substantial long-term impact on the banking system. Respondents reported that the overall risk level is expected to moderate in the long term.

The survey analysis also indicates a decrease in the perception of reputational risk, likely due to the improvement in ways of managing this risk during the year. This follows an increase in this risk

⁵ Including the credit card companies.

⁶ Domestic political risk and business continuity risks did not appear in the 2023 survey.

⁷ In March 2024, the Knesset passed a proposed law to impose a special levy on the banking system. According to the legislation, the banks would pay the government an amount of up to NIS 2.5 billion in 2024 and again in 2025. For further details about this mechanism, see the Special Payment Law to Achieve the Budget Targets (Temporary Order – Swords of Iron) – 2024.

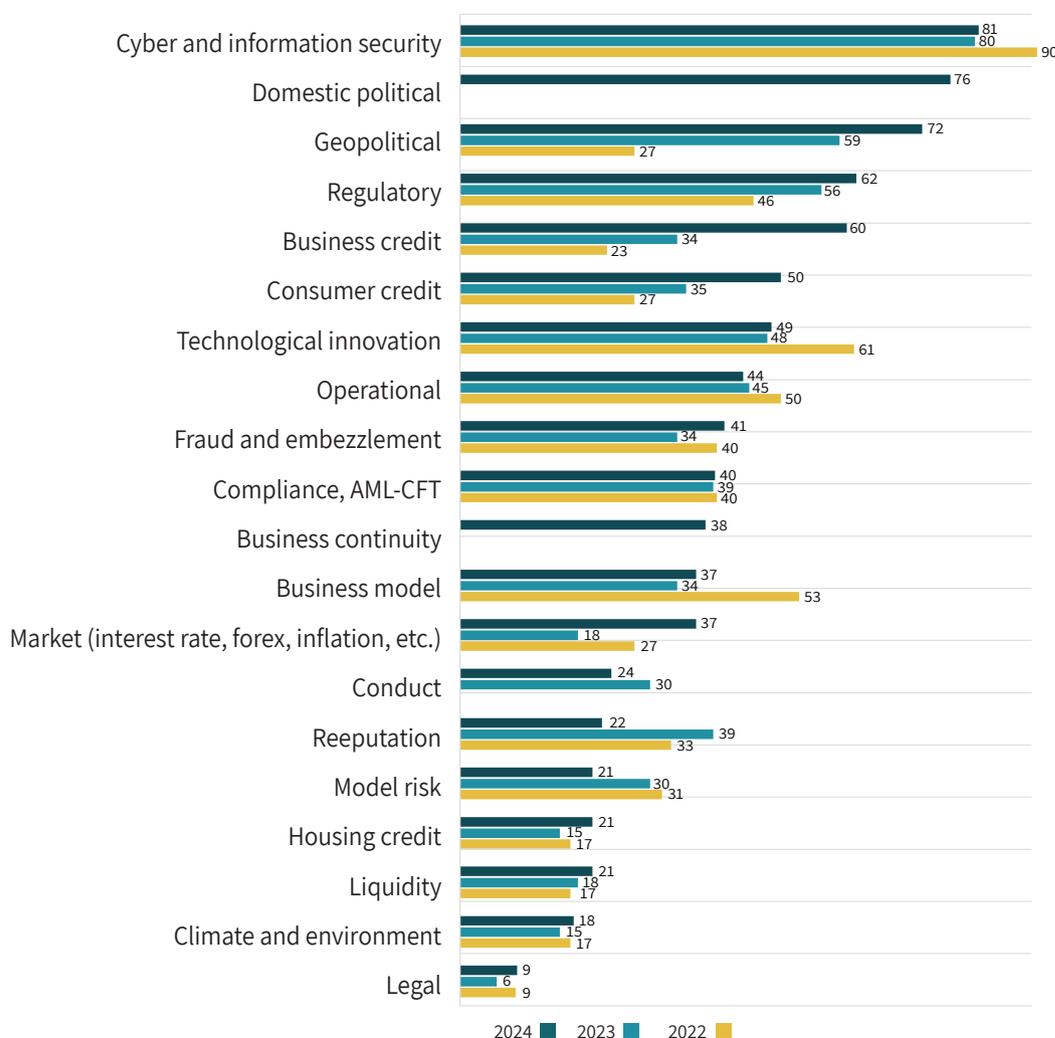
⁸ The activity of the Bank of Israel in the foreign exchange market – a program to sell foreign currency in the amount of \$30 billion and a swap program in the amount of \$15 billion. <https://www.boi.org.il/en/communication-and-publications/press-releases/a09-10-23/>, and a focused monetary program to ease credit terms for small and micro businesses that were adversely affected by the war <https://www.boi.org.il/en/communication-and-publications/press-releases/a06-11-23/>.

in recent years, which was partly due to the banks' increased profitability. Other risks that saw a perceived decline include model risk and conduct risk.

The Banking Supervision Department continues to monitor the full range of risks facing the banking system. It utilizes all available tools to ensure that these risks are managed properly, with the goal of maintaining a robust and stable banking system capable of facing any scenario in the present and future, in order to safeguard the public's deposits.

Cyber risk continued to be the most concerning risk, and local political risk and geopolitical risk were ranked right below it this year.

Figure 5.1 The Risks Faced by the Banking System - Comparison of the Past Three Years*



* In 2024, domestic political risk was separated from geopolitical risk for the first time, and technological innovation and business continuity were split into separate items.

SOURCE: Analysis of results of the Banking Supervision Department's 2024 risk survey of senior officials in the banking system and at the credit card companies.

2. CREDIT RISK

The credit portfolio – general

The banking system's credit portfolio grew by 6.6 percent during 2023, a lower growth rate than in previous years (12.3 percent in 2022), primarily due to the high interest rate environment and the Swords of Iron War that began in the last quarter of the year (Figure 5.2). The main source of the credit portfolio's growth was business credit, particularly in the large business segment. However, there was a slowdown in business credit in the second half of 2023, and a slight reduction in business credit excluding the construction and real estate industry in the last quarter of 2023 as a result of the war (Figure 5.3). In addition, 2023 saw a 1.4 percent reduction in consumer credit compared to 6.1 percent growth in 2022. The credit slowdown across all sectors began with the interest rate increases starting in April 2022, reflecting the increased cost of credit and the higher debt burden on borrowers.⁹ This slowdown continued in the last quarter of the year due to the Swords of Iron War.

During 2023, there was an increase in the average interest rate in the unindexed shekel segment across all supervised activity segments, which constitutes the majority of nonhousing bank credit (Figure 5.4).¹⁰ In the last quarter of 2023 and the beginning of 2024, there was a slight improvement in interest rates in some activity segments due to various assistance programs (for more details, see Box 6.2 and Chapter 3.1 in this survey) and a 0.25 percentage point reduction in the Bank of Israel's interest rate in January 2024. **Regarding the quality of the credit portfolio, credit risk increased during 2023, although the various assistance programs in the context of the Swords of Iron War may have somewhat mitigated the increase. In the early months of 2024, there was still high uncertainty, raising concerns about a continued rise in credit risk.** This increase is evident in the increased rate of problematic credit, especially credit in arrears for over 90 days, bringing the estimated proportion of NPL¹¹ (non-performing loans) within the public's total credit to a level similar to that observed in 2020 (the year of the COVID-19 crisis; Figure 5.5, Table 15). As macroeconomic conditions worsened and the quality of the credit portfolio deteriorated, there was an increase in the write-off rate and in provisions for credit losses (particularly in light of the Swords of Iron War), in order to ensure that these provisions would be sufficient to cover the estimated credit losses anticipated by the banking system (Figure 5.6). Consequently, there was an increase in the credit loss provisions rate, mainly due to a significant increase in collective provisions (as will be discussed below; Figure 5.7).

⁹ The increase in the debt burden brought about a slowdown in the growth of credit, due in part to the desire of households to reduce their liabilities by means of redemption (partial or full) of credit. For further details see Chapter 4 of the Bank of Israel Annual Report for 2023.

¹⁰ <https://www.boi.org.il/publications/regularpublications/banking-system/27-12-23/> [Hebrew]

¹¹ Non-Performing Loans – Up until the adoption of the CECL rules in 2022, impaired debts and debts in arrears of over 90 days were used in the calculation of NPL. With the adoption of the CECL rules, the estimate is made on the basis of debt that is not accruing interest or debts that are accruing interest but are in arrears of more than 90 days.

Growth rates were low this year, particularly in comparison to the last two years. The slowdown in the growth of credit was significantly more pronounced in the second half of the year.

Figure 5.2

Rate of Change in Outstanding Credit to Main Segments, Total Banking System, 2020–2023 (percent)

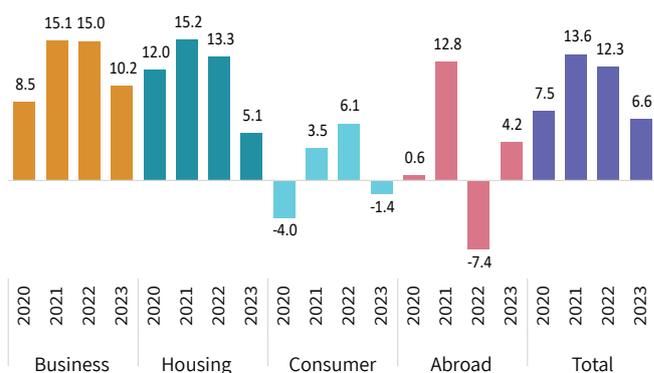
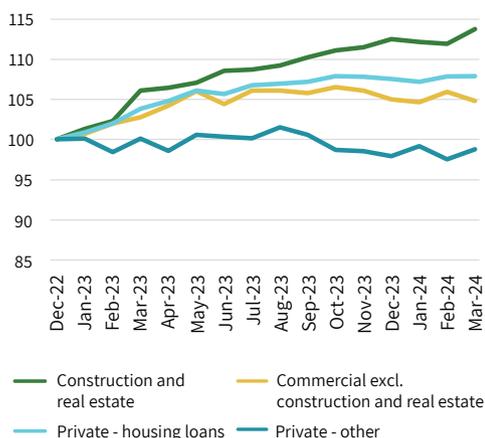


Figure 5.3

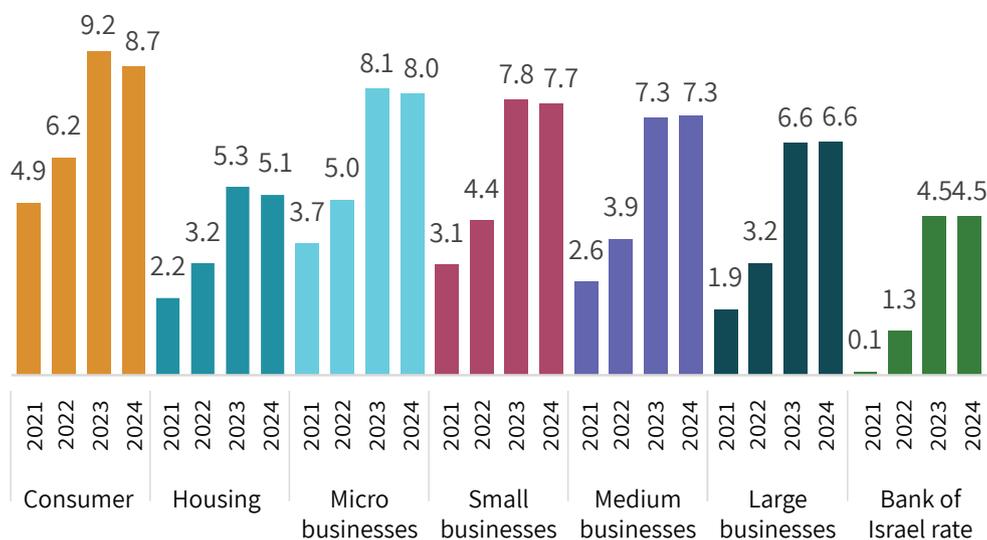
Development of Credit by Main Industries, Total Banking System, December 2022–March 2024 (index: December 2022=100)



SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

There was an increase in the average interest rate in all activity segments this year.

Figure 5.4 Average Interest Rate on Unindexed Credit by Activity Segment vs. Bank of Israel Rate, Total Banking System, 2021–2024* (percent)



* 2024 data are based on January–March data.

SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

The estimated rate of NPL rose as a result of the deterioration in the quality of the credit portfolio together with the rate of the credit loss provision.

Figure 5.5

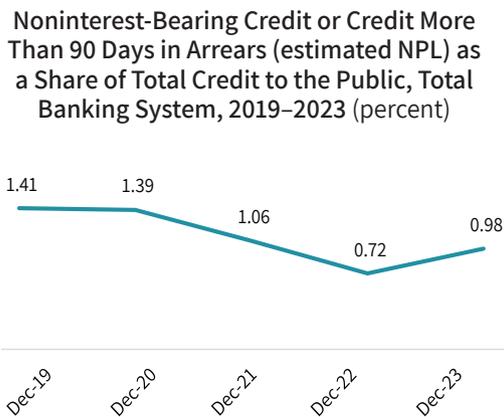
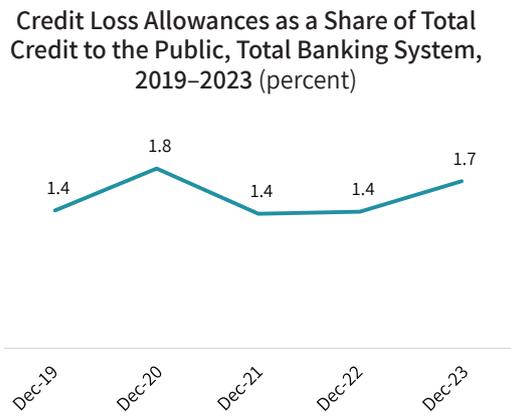


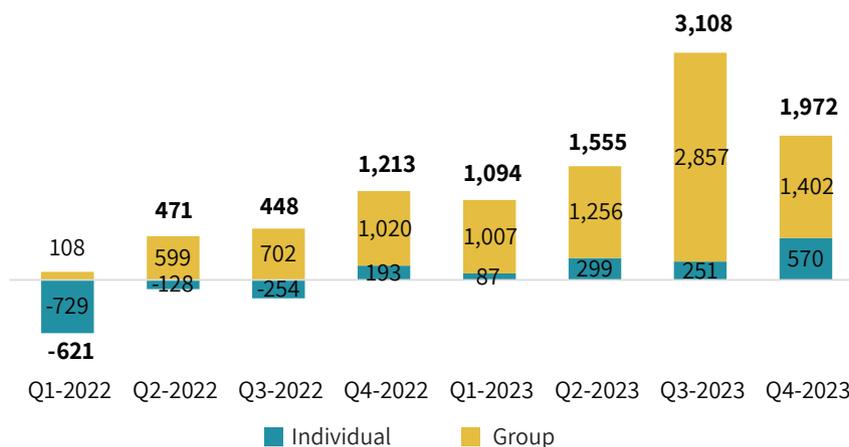
Figure 5.6



SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

The banks increased the collective expense this year in view of the deterioration in the macroeconomic environment and the effects of the Swords of Iron War.

Figure 5.7 Group and Individual Loan Loss Provisions, the Five Banking Groups, 2022–2023 (NIS million)



SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

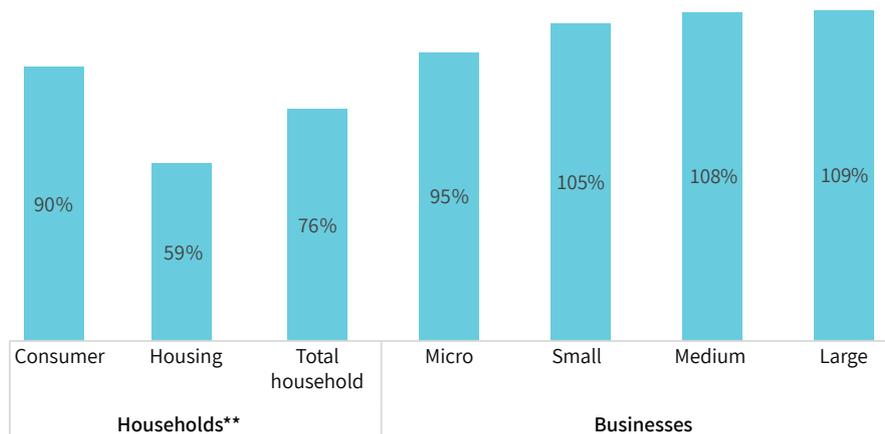
Credit Performance

Credit performance during 2023 increased by 22 percent relative to 2022.¹² However, there was variation in credit performance across different activity segments. In the business sector, performance increased by 23 percent (led by the large business sector), which is also evident in the continued growth in total business credit. However, household credit performance (excluding housing credit) saw a 12 percent decrease, accompanied by a 10 percent increase in redemptions (full or partial loan redemption), resulting in a reduction in total consumer credit (as described below).

The increase in the Bank of Israel interest rate during 2022–23 was transmitted to the business sector in a somewhat different manner. Thus, Figure 5.8 shows that the transmission rate to the interest rate in the business sector was higher than the transmission rate to the interest rate in the household sector. This is due to the difference in indexing: most consumer credit is in the unindexed shekel segment with a variable interest rate, as in the case of the business sector. However, in the case of housing credit, which constitutes the majority of household credit, only about 39 percent is in the unindexed shekel sector with a variable interest rate, resulting in a lower transmission rate to this sector.

The rate of transmission to the interest rate on household credit was lower than that in the case of business credit.

Figure 5.8 Pass-Through Rate from the Bank of Israel Interest Rate to the (weighted) Interest Rate on Credit, by Supervisory Activity Segments, Total Banking System, Observed to 2023* (percent)



* The change observed in a comparison between the weighted interest rate on loans from January 2022 (prior to the rate increases) and the weighted interest rate on loans from December 2023.

SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

¹² Credit performance includes loans (credit for a fixed period), credit lines, and on-call credit.

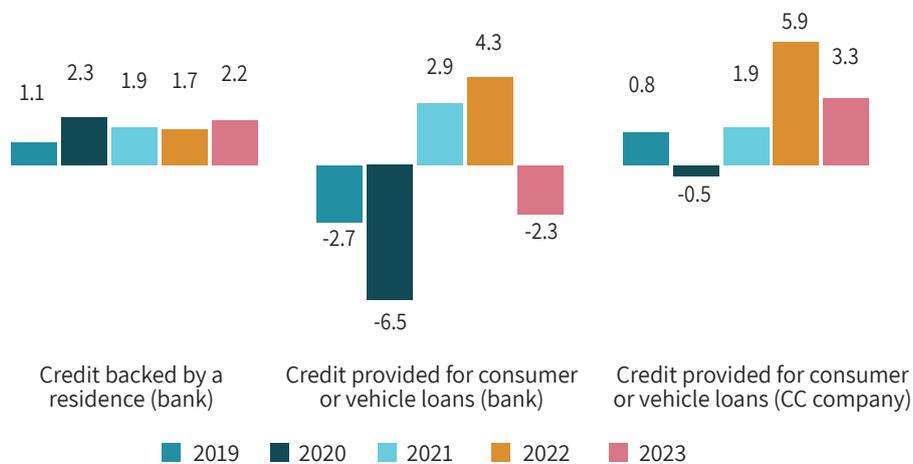
Household nonhousing credit

In 2023, household credit decreased by 1.4 percent (Figure 5.2), with the reduction primarily observed in non-credit-card activities (Table 18). This decline is attributed to the high interest rates described above, while the reduction in the last quarter of 2023 can be partly attributed to the Swords of Iron War. Notably, while fixed-term credit¹³ decreased by NIS 2.3 billion during 2023, that type of credit from credit card companies increased by NIS 3.3 billion (Figure 5.9; for more details, see Chapter 5.5 in this survey).

Part of housing credit is for general purposes, though secured by residential property (hence classified as housing credit), so in practice it serves as consumer credit (termed “all-purpose loans” as well). In 2023, general-purpose credit increased by NIS 2.2 billion, a higher growth rate than in the past two years. Notably, all-purpose loans secured by residential property act as a cheaper alternative to consumer loans, which might explain why there wasn’t a significant slowdown in this type of credit (Figure 5.9), while consumer credit did experience a reduction. As part of the update to Proper Conduct of Banking Business Directive 251 (Temporary Order) in December 2023, the Banking Supervision Department eased the loan-to-value (LTV) limit on all-purpose loans secured by residential property, by increasing the maximum LTV from 50 percent to 70 percent of the property’s value.¹⁴ From that point until April 2024, approximately 3,600 loans were granted under this scheme, totaling about NIS 714 million. These loans constitute about 28 percent of total all -purpose loans secured by residential property.

There were mixed trends this year in consumer credit (including that backed by a residential property) across the various credit sources.

Figure 5.9 Total Change in Outstanding Consumer Credit of Different Types, Total Banking System, 2019–2023 (NIS billion)



SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

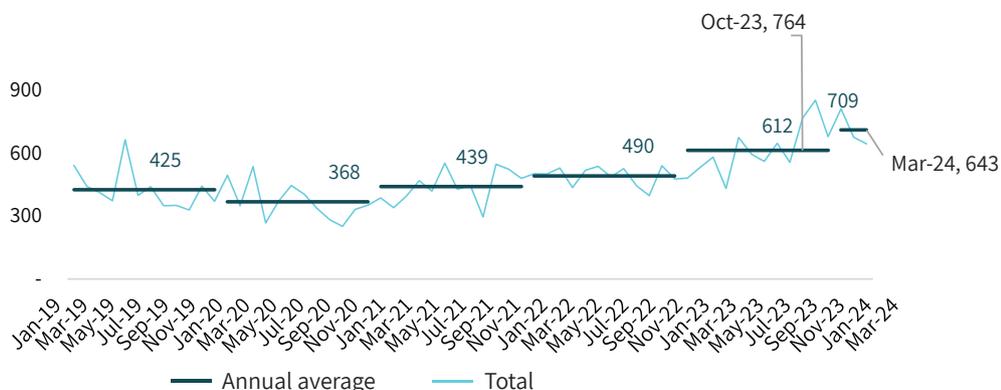
¹³ The banks’ consumer credit consists of checking account overdraft facilities, activity in the banks’ credit cards, security-backed loans (where a vehicle serves as collateral) and uncollateralized loans, where the two latter types are sometimes known as “fixed-term credit”.

¹⁴ On the condition that the amount of the loan above the LTV of 50 percent does not exceed NIS 200 thousand. In addition, an exemption from regulatory restrictions (such as finance rate and PTI rate) was granted for the provision of credit up to the amount of NIS 200 thousand that is intended for the construction of a security room (according to the conditions published as part of the directive). These exemptions were provided for three months and were extended in March 2024 by another three months, such that they will remain valid until June 30, 2024.

With the increase in the Bank of Israel interest rate, the debt burden on households has risen.¹⁵ The difficulty in repayment of debt, coupled with the outbreak of the Swords of Iron War, contributed, among other factors, to an increase in the refinancing of household private credit, as shown in Figure 5.10. This trend can be partly explained by households' tendency to reduce their debt burden in such situations.¹⁶ It is noteworthy that the delinquency rate for household credit remained low at 0.7 percent. However, the credit loss provisions rate for this sector increased, alongside a rise in the proportion of nonaccruing credit and credit arrears for over 90 days (Table 16).

Total refinancing by households rose this year and in particular with the outbreak of the war.

Figure 5.10 Refinancing of Consumer Credit, Total Banking System, January 2019–March 2024* (NIS million)



* 2024 data are based on January–March data.

SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

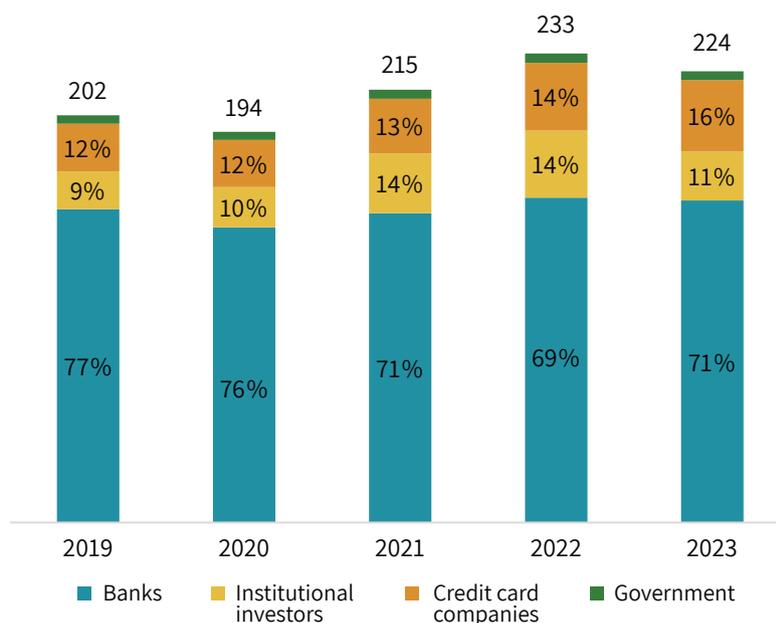
¹⁵ For further details, see Box 5.2 - The Increase in Monthly Payments on Housing Loans and its Causes in [Israel's Banking System 2022](#).

¹⁶ For further details, see Box 4.2 in the Bank of Israel Annual Report for 2023.

As mentioned earlier, bank credit to the household sector decreased (“Consumer Credit”; Figure 5.2), and a similar trend was observed in total household debt (excluding housing; Figure 5.11), with nonhousing household debt falling by NIS 9 billion.¹⁷ However, the change in 2023 varied across financial entities: while bank debt remained almost unchanged (a reduction of NIS 1 billion) and credit card company debt increased by NIS 2 billion, institutional debt decreased by approximately NIS 10 billion. This means that the overall reduction in household debt is primarily explained by the decline in institutional debt (with the decrease concentrated in loans from provident funds and study funds). This reduction was mainly due to decreased demand for new credit and redemptions of existing loans, against the backdrop of the Bank of Israel’s interest rate hikes.¹⁸

Total nonhousing household debt contracted, primarily due to the institutions while there was somewhat of an increase in credit card company credit.

Figure 5.11 Distribution of Households’ Outstanding Nonhousing Debt^a, by Source, December 2019–December 2023 (NIS billion)



a Outstanding debt to the banks includes credit issued as an all-purpose loan backed by a residence, and credit that is the responsibility of or backed by banks. It does not include credit from nonresidents, due to a lack of data. It also does not include credit issued by nonbank sources that are not institutional investors or credit card companies.

SOURCE: Based on Tel Aviv Stock Exchange and reports to the Bank of Israel and.

¹⁷ Total debt is calculated before credit loss provisions while total credit is presented after credit loss provisions.

¹⁸ For further details see the [Statistical Bulletin for 2023 published by the Information and Statistics Division of the Bank of Israel](#). In parallel, there was an increase in total nonhousing debt to nonbank companies, as reflected in the Statistical Bulletin and Chapter of the Bank of Israel Annual Report.

Household housing credit

In 2023, the slowdown in new housing credit that began in mid-2022 continued. This trend worsened with the outbreak of the war, such that the annual average in 2023 was lower than in 2020, the year of the COVID-19 pandemic (Figure 5.12). Throughout 2023, new housing credit amounted to NIS 71 billion, a 40 percent decline compared to 2022. From January to March 2024, new credit amounted to about NIS 17 billion, indicating a continuation of the slowdown in housing credit in 2024. The slowdown is also evident in the number of loans, which declined by 41 percent (about 74 thousand loans in 2023 as compared to about 125 thousand in 2022). This trend correlates with the slowdown in the real estate market, which also began in mid-2022. However, there was a partial recovery in January and February 2024, particularly in the purchase of new homes, as indicated by data from the Tax Authority and the Central Bureau of Statistics. Alongside the slowdown in housing credit, a slower increase began in total credit provided through bullet/balloon loans starting in mid-2023, which intensified to some extent in December 2023, although their volumes remained low (Figure 5.13). These loans mainly serve as bridge loans, although the observed increase is primarily attributable to growth in capitalization loans (or contractor subsidy loans) amid increased marketing campaigns by contractors. The marketing campaigns are conducted by contractors, who are interested in bringing buyers back to the market and in reducing the current gap between the high supply and the slowdown in demand. In these loans, buyers are required to pay a portion of the apartment price upon purchase and take out a housing loan for a period of one to three years as a bullet loan, with the interest expenses paid by the contractor. Although this financing benefit is economically valuable to buyers in the current interest rate environment¹⁹, it also carries potential risks. Therefore, the Banking Supervision Department continues to monitor developments in this area. Despite the observed decline in the Housing Price Index (from March to October), the average loan amount remained stable throughout 2023, with an annual average of NIS 960,000 (Figure 5.14).

Total credit provided this year was 40 percent lower by than in 2022.

Figure 5.12 Monthly New Housing Credit, Total Banking System, January 2019–March 2024 (NIS billion)



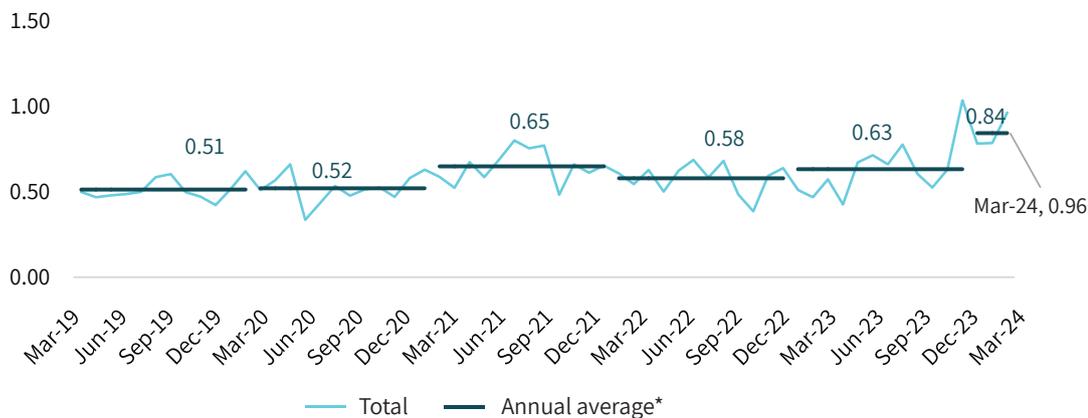
* The annual average for 2024 is based on January–March data.

SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

¹⁹ In addition to the contractor paying the interest on these loans, buyers receive a discount equivalent to the interest expenses and avoid the need for indexation of the loan amount to the Construction Inputs Index. This arrangement also frees buyers from the need to quickly sell an existing property in order to finance the purchase of a new one, allowing them to defer taking a long-term housing loan by approximately two to three years.

Total credit provided in the form of bullet/balloon loans grew, particularly in December.

Figure 5.13 Bullet/Balloon Loans in Housing Credit, Total Banking System, January 2019–March 2024 (NIS billion)

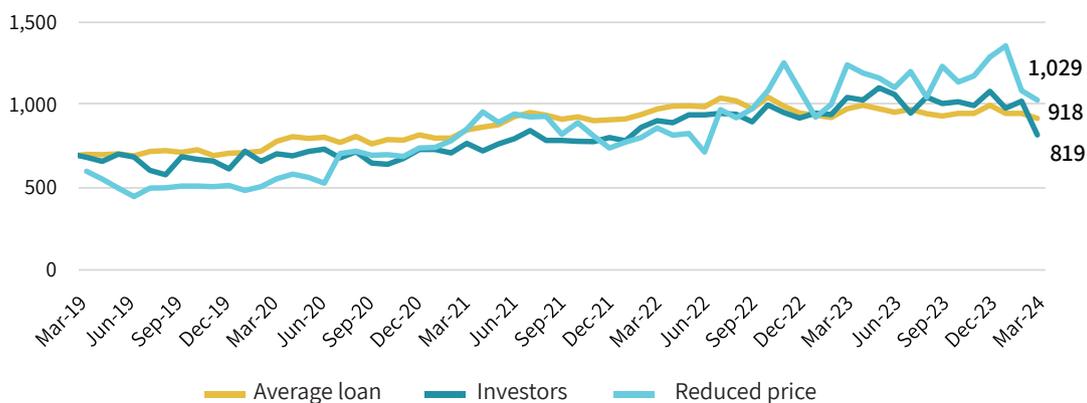


* The annual average for 2024 is based on January–March data.

SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

The average loan size remained stable despite the drop in the Housing Price Index during the year.

Figure 5.14 Average Loan Level, Total Banking System, January 2019–March 2024 (NIS thousand)

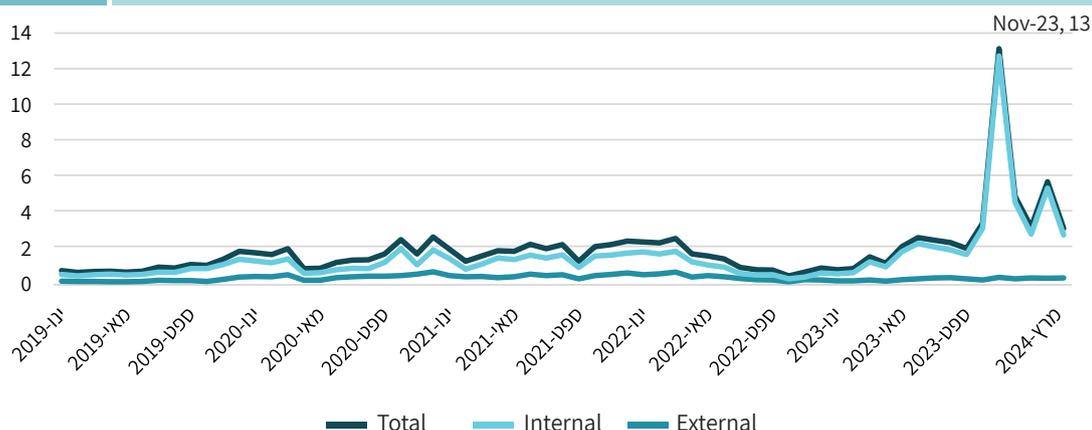


SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

In late 2022, there was an increase in loan refinancing, partly due to rising interest rates and borrowers' need to ease their credit conditions and cash flow. With the outbreak of the Swords of Iron War, the Bank of Israel introduced an assistance plan allowing borrowers to defer loan repayments (for more details, see Box 6.2 in this survey). Some banks extended the duration of the permitted deferral period. With the extension of the assistance plan, and the extension of the deferral period beyond 3 months, there was an increase in refinancing data, in accordance with Banking Supervision Department reporting requirements.²⁰ In parallel, the slowdown in the granting of credit during this period resulted in a historically high refinancing rate of 53 percent (Figure 5.15).²¹

Total refinancing grew significantly toward the end of the year as a result of the lengthening of the period of deferral, as part of the assistance program adopted as a result of the war.

Figure 5.15 Refinancing of Housing Credit, Total Banking System, January 2019–March 2024 (NIS billion)



SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

Apart from the prime interest rate, other interest rates across the various tracks remained relatively stable in 2023. There was a slight decline in the variable unindexed interest rate, following the decrease in yields on short-term (up to 5 years) unindexed government bonds (Figure 5.16). The gap between the prime interest rate and the fixed unindexed interest rate indicates market expectations for a further decrease in the Bank of Israel's interest rate in the future. During 2023, the downward trend in the proportion of housing credit provided at the prime interest rate continued, eventually reaching 10 percent, while the proportion of credit provided at a variable

²⁰ According to Banking Supervision Reporting Directive 877 paragraph 12c, a loan that is not in arrears and whose monthly repayments have been temporarily deferred for up to three months is not included in "refinanced credit" for the purposes of the directive.

²¹ During the COVID-19 period, the banks were instructed not to report on deferrals of up to six months as refinancing. During the period of the Iron Swords war, the instruction to the banks was to report such deferrals and therefore any deferral for a period of up to three months was reported as refinancing.

unindexed interest rate (not prime) increased, peaking at 33 percent in February 2024. There was also some volatility in the proportion of credit provided at the fixed unindexed interest rate (Figure 5.17). While the date for updating the prime interest rate changes near the time that the Bank of Israel interest rate updates, the timing for updating the interest rate on credit provided at a variable unindexed interest rate (not prime) is updated at the end of each defined period (usually two to five years), based on changes in the “anchor” (nominal government bonds). This indexing segment is less exposed to interest rate changes, thus providing some certainty for borrowers, especially in a rising interest rate environment. The shift in the mortgage loan mix (from prime interest rate credit to variable unindexed interest rate credit that is not prime) has mitigated the increase in the weighted interest rate on a loan at the time it is provided.²²

The rates of interest on the various tracks were stable during the year, but there was a change in the mix, such that a shift occurred from credit on the prime track to credit on the variable unindexed nonprime track.

Figure 5.16

Interest Rate on Residential Loans by Interest and Indexation Track, Total Banking System, January 2022–March 2024 (percent)

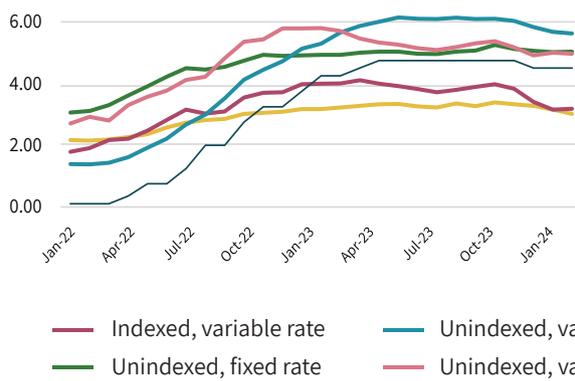
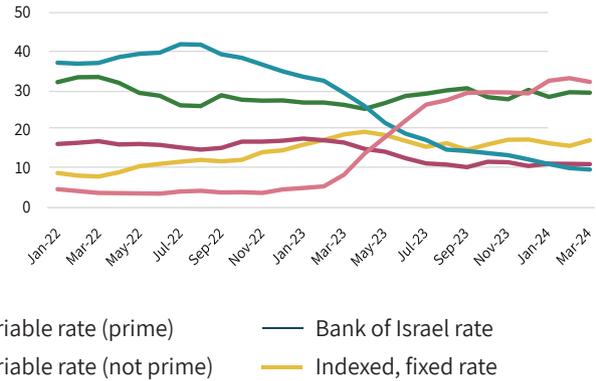


Figure 5.17

Distribution of Interest Rate Tracks as a Share of All New Residential Borrowing, Total Banking System, January 2022–March 2024 (percent)



SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

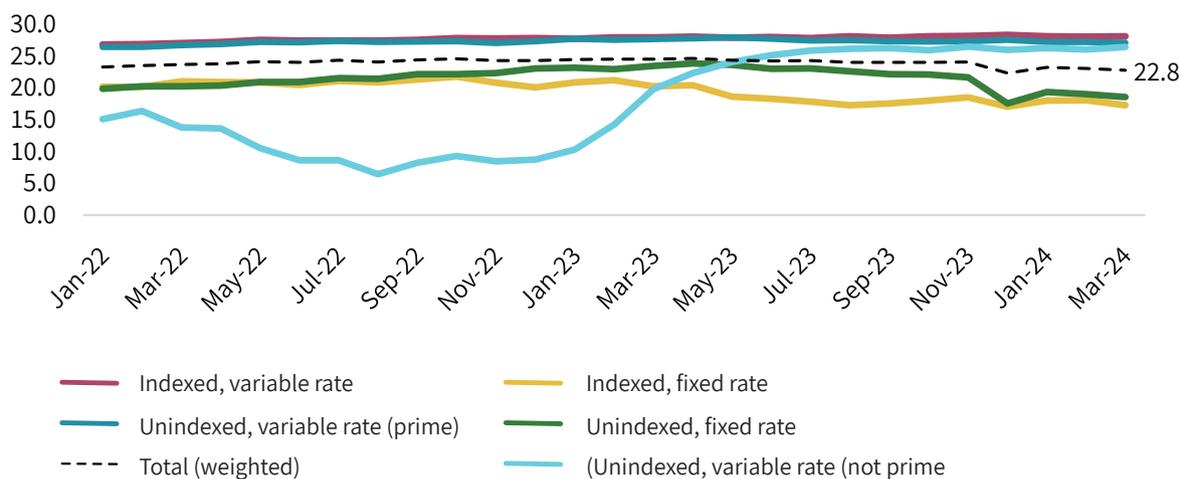
²² For additional information on the various tracks, see the webpage designated to the subject [Mortgage Transparency Reform](#).

The quality of the housing credit portfolio

Despite the increased risk environment during 2023, the risk indicators in the housing credit portfolio remained relatively stable. Key indicators such as the average repayment period, the payment-to-income (PTI) ratio, and the proportion of loans with high loan-to-value (LTV) and high repayment rates showed no significant changes. The average LTV decreased slightly, while there was a slight increase in the delinquency rate, which is still low from a historical perspective. At the end of 2023, the average repayment period in the housing credit portfolio was about 22.3 years (22.8 years as of March 2024), which was lower than at the end of 2022, when it stood at approximately 24.3 years. The main decline occurred in the last quarter of 2023 (Figure 5.18), which can be attributed to a reduction in the repayment period for fixed-rate unindexed credit. The average LTV in the housing credit portfolio remained nearly unchanged, standing at about 53 percent in March 2024 (Figure 5.19). The average PTI ratio in the housing credit portfolio also remained stable in 2023 at around 29 percent (Figure 5.20).

There was a slight drop in the average period to maturity in the housing credit portfolio.

Figure 5.18 Term to Repayment by Track, Total Banking System, January 2022–March 2024 (years)



SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

The average financing rate and PTI rate remained stable during the year.

Figure 5.19

Distribution of New Housing Loans by LTV Rate, Total Banking System, January 2019–March 2024 (percent)

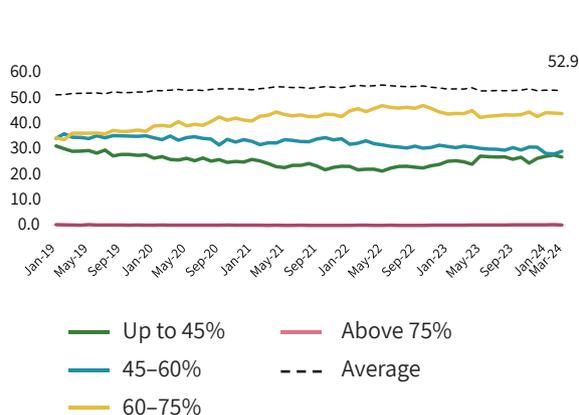
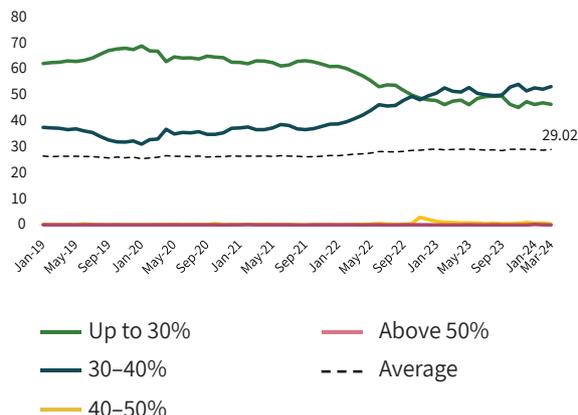


Figure 5.20

Distribution of New Housing Loans by PTI Rate, Total Banking System, January 2019–March 2024 (percent)



SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

In line with the stability observed in 2023 in the financing ratio and the average PTI ratio, the proportion of loans given with high LTV ratios (60 percent to 75 percent) and high PTI ratios (30 percent to 40 percent) also remained stable throughout the year. However, these ratios are relatively high historically, reflecting a trend that began in the second half of 2019, and which is an indication of “riskier” loans (Figure 5.21). In addition, the rate of housing credit in arrears over 90 days has been on an upward trend since the end of the first quarter of 2023 and stood at approximately 0.58 percent as of March 2024. This rate is similar to that observed at the start of the COVID-19 crisis but remains low from a historical perspective (Figure 5.22). The increase in refinancing volumes before the war may have been effective for borrowers, helping them manage their debt burden despite the rise in the Bank of Israel interest rate. Moreover, with the outbreak of the Swords of Iron War, the Banking Supervision Department implemented an assistance plan that was adopted by the banking system. This plan allowed borrowers affected by the war to defer loan payments without interest, among other measures. These steps, combined with additional assistance measures implemented by individual banks, likely helped borrowers avoid default, thus maintaining the delinquency rate at a relatively low level compared to the past.

There was stability in the proportion of loans provided at high financing and PTI rates while the rate of delinquencies rose, although its level remained low in historic terms.

Figure 5.21

Weight of Loans with High LTV and PTI Rates, Total Banking System, January 2019–March 2024 (percent)

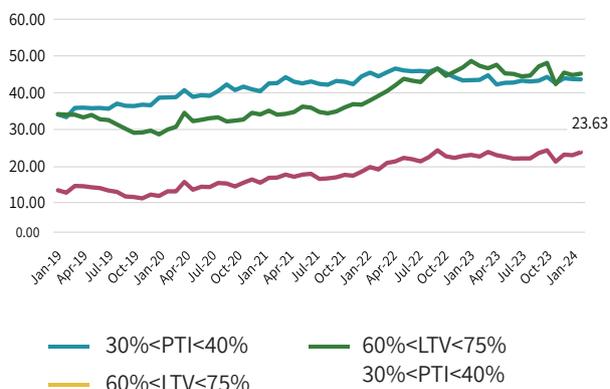
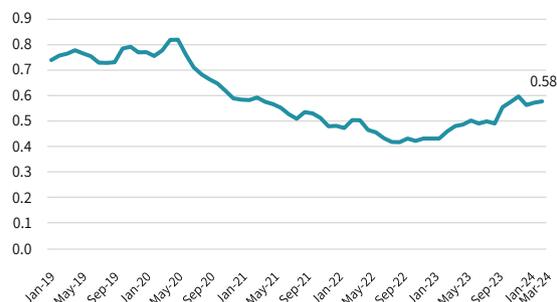


Figure 5.22

Rate of Loans in Arrears (more than 90 days), Total Banking System, January 2019–March 2024 (percent)



SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

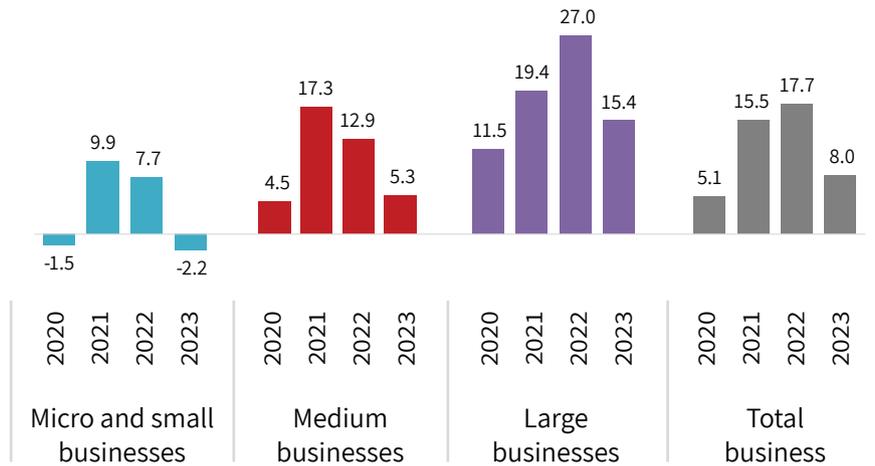
Business credit

The supervised activity segments

The growth in business credit slowed significantly in 2023, standing at approximately 8 percent, compared to around 18 percent in 2022. This slowdown was observed across all activity segments, particularly in the micro and small business segment, where there was even a reduction in total credit (Figure 5.23, Table 19). This segment is more sensitive to interest rate changes and macroeconomic shocks, as is household credit. Business credit provided in 2023 accounts for about one-third of total business credit. Another third is defined as “revolving loans”, with the remainder issued in previous years (in contrast to housing credit, most of which was issued more than five years ago; Table 14).

There was a slowdown in the growth of total business credit, and there was even a decline in the micro and small business segment.

Figure 5.23 Rate of Change in Outstanding Credit by Activity Segment, Total Banking System, 2020–2023 (percent)

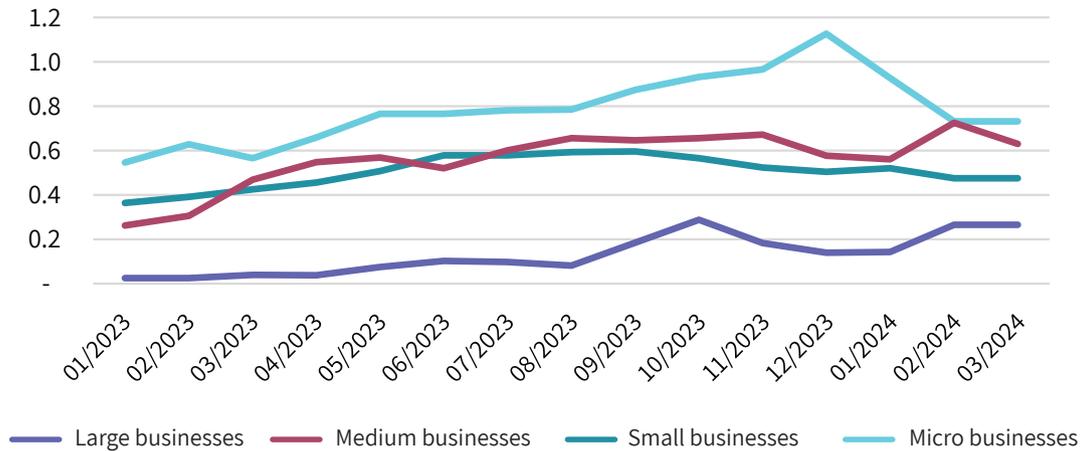


SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

The deterioration in the macroeconomic environment in 2023, combined with the effects of the Swords of Iron War, led to an increase in the delinquency rate (over 90 days), particularly in the micro and large business segments. In the first quarter of 2024, a similar trend (increase) was observed in the medium-sized business segment, while there was a decrease in the micro business segment, possibly due to various assistance programs targeted at micro businesses. Despite this, the delinquency rate remains low (Figure 5.24). This increase indicates a rise in credit risk within the business portfolio, primarily due to the effects of the war.

There was an increase during the year in the rate of credit in arrears of over 90 days in all activity segments.

Figure 5.24 Rate of Credit More than 90 Days in Arrears by Activity Segment, Total Banking System, January 2023–March 2024 (in Israel, percent)



SOURCE: Based on reports to the Banking Supervision Department.

In 2023, there was an increase in the credit loss provisions across all activity sectors (Figure 5.25), which correspondingly led to a rise in the provision rate for total credit in all segments (Figure 5.26). The main component of this expense throughout 2023 was the collective provision, which was driven by various factors over the course of the year. In the first half, the increase was due to the deteriorating macroeconomic environment and the rising debt burden on borrowers. In the second half, the main factor was the heightened uncertainty due to the effects of the Swords of Iron War.

There was an increase in credit loss provisions across all activity segments. Most of the increase occurred during the second half of the year as a result of the war and was due to the increase in the rate of the collective provision.

Figure 5.25

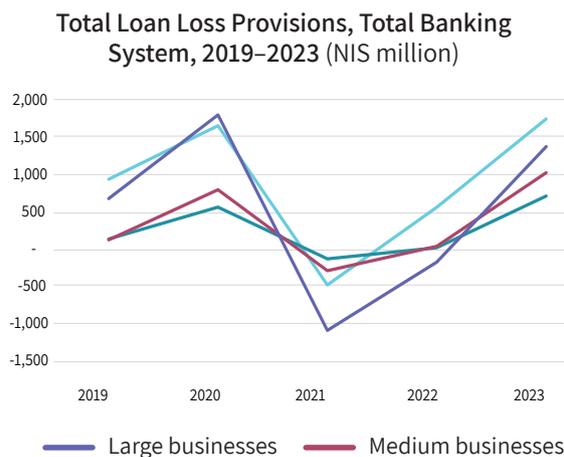
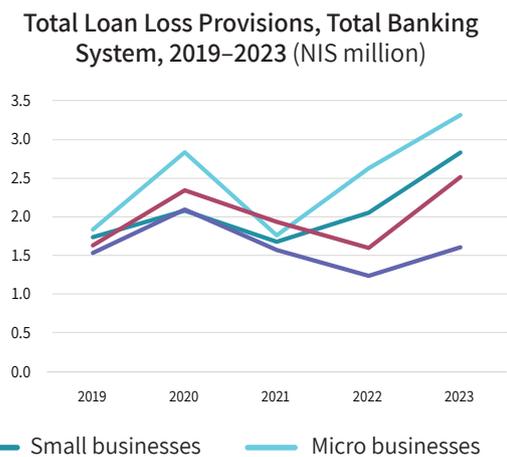


Figure 5.26



SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

The proportion of troubled credit (nonaccruing, impaired or under special supervision) within total credit increased across all activity segments. Troubled credit increased by 37 percent, while nonaccruing credit and credit in arrears of over 90 days (which is used to estimate NPLs) increased by 50 percent. Despite this, the proportion of troubled credit in most segments relative to total credit remains lower than during the COVID-19 crisis (Figure 5.27). The coverage ratio (calculated as the provision for credit losses within total nonaccruing credit and credit in arrears of over 90 days) increased relative to 2022 in almost all activity segments (Figure 5.28). This indicates that the banking system has strengthened its buffer for credit losses, and that it has not been eroded. One of the main factors explaining the different trend observed in the large business segment is that a significant portion of the credit in that segment is to the construction and real estate industry, where the ratio has declined but remains high (for more details, see the following section and Figure 5.31).

There was an increase in the rate of troubled credit this year but it is still low relative to the COVID-19 period in most of the activity segments. In addition, the coverage ratio rose in most of the activity segments.

Figure 5.27

Problematic Credit as a Share of Total Credit, by Activity Segment, Total Banking System, 2019–2023 (percent)

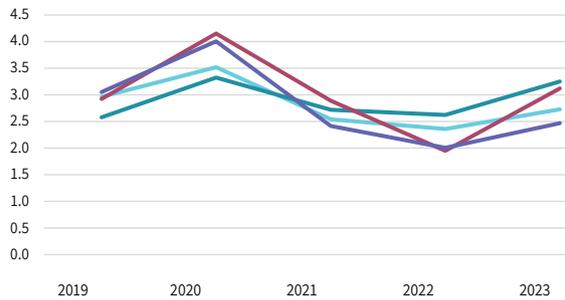
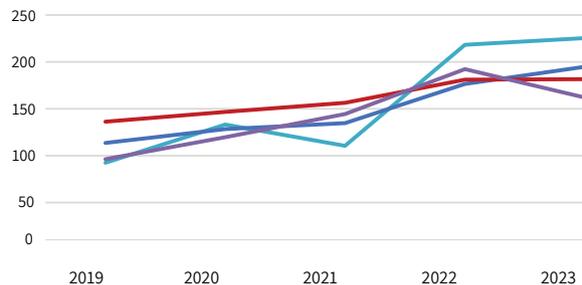


Figure 5.28

Coverage Ratio* by Activity Segment, Total Banking System, 2019–2023 (percent)



* Total credit loss allowance as a share of total noninterest-bearing credit and interest-bearing credit more than 90 days in arrears.

— Large businesses — Medium businesses — Small businesses — Micro businesses

SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

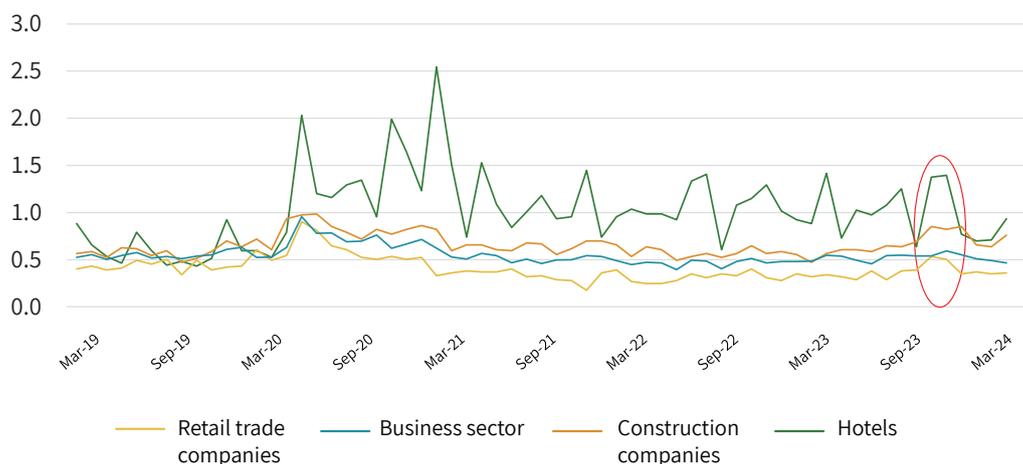
The various industries of the economy

The Swords of Iron War had an immediate impact on the entire economy, but most sectors eventually experienced almost full recovery. Nonetheless, certain industries are still facing significant difficulties, particularly financing difficulties, and specifically the hotel industry, as highlighted by the Central Bureau of Statistics Business Tendency Survey (Figure 5.29).²³

²³ For further details see Chapter 2 of the Bank of Israel Annual Report for 2023.

The outbreak of the war led to problems in securing sources of financing.

Figure 5.29 Distribution of Financing Difficulties in the Business Tendency Survey, by Bank Credit Segmenta, Total Banking System, January 2019–March 2024 (percent)



a The data are measured on a scale of 0–3, by the extent of severity of the constraint (slight to serious).

SOURCE: Central Bureau of Statistics.

Regarding the quality of the business credit portfolio, there was a deterioration in all credit quality indexes: credit loss provisions increased across all industries, particularly construction and real estate and commerce (Figure 5.30). The main expense was due to provisions for credit losses, bringing the provision rate relative to total credit to a level similar to that during the COVID-19 crisis in 2020 (Figure 5.31). The increase in credit loss provisions in 2023 was mainly driven by an increase in the collective provision for credit losses, due to macroeconomic adjustments (increased likelihood of an economic slowdown due to prolonged high interest rates and the war's impact). This increase was partly due to the rise in the quantity of troubled credit (Figure 5.32). The coverage ratio (the total provision for credit losses relative to nonaccruing and troubled credit in arrears of over 90 days)²⁴ decreased slightly compared to 2022 (excluding construction and real estate, the ratio increased; Figure 5.33). The explanation for the decrease in the coverage ratio in construction and real estate is that, despite the increase in provisions for credit losses (meaning banks continue to maintain a substantial buffer for the industry), nonaccruing credit and credit in arrears of over 90 days increased to a greater extent, leading to a decrease in the ratio (indicating erosion of the buffer in this industry, though it remains adequate).

²⁴ Troubled credit is divided into accruing and nonaccruing credit. Nonaccruing credit and credit in arrears of over 90 days represent an estimate of NPLs, which is an "objective" measure of troubled credit across the various banks. Therefore, it is appropriate to include it in the denominator (arrears of up to 90 days are sometimes merely technical delays). It is worth noting that most problematic credit is actually accruing credit that is not in arrears of over 90 days.

There was an increase in credit loss provisions in all industries and in particular construction and real estate and commerce. The main part of the increase was a result of the increase in the rate of provisions, which reached a level similar to that during the COVID-19 period.

Figure 5.30

Loan Loss Provisions by Main Industry, Total Banking System, 2019–2023 (NIS billion)

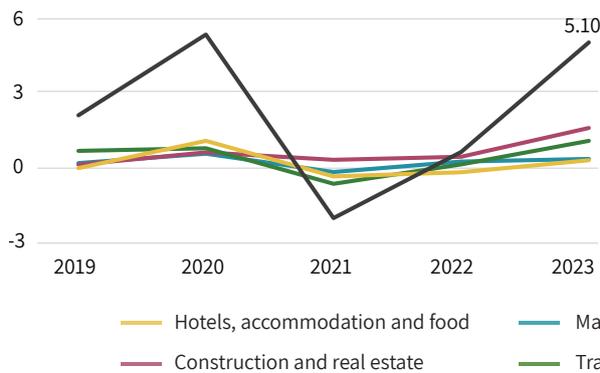
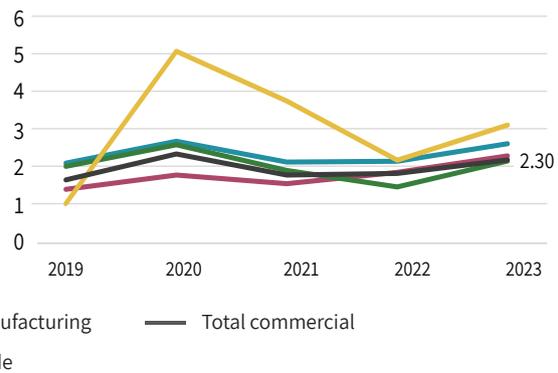


Figure 5.31

Credit Loss Allowance as a Share of Total Credit by Main Industry, Total Banking System, 2019–2023 (percent)



SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

There was an increase in the rate of troubled credit, although it is still low relative to the COVID-19 period. In addition, the coverage ratio fell slightly in light of the drop in the ratio in the construction and real estate industry.

Figure 5.32

Problematic Credit as a Share of Credit by Main Industry, Total Banking System, 2019–2023 (percent)

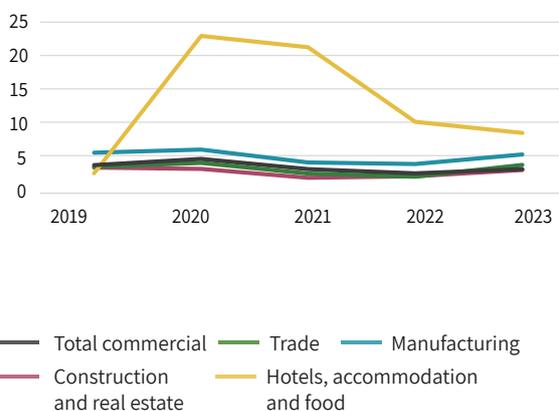
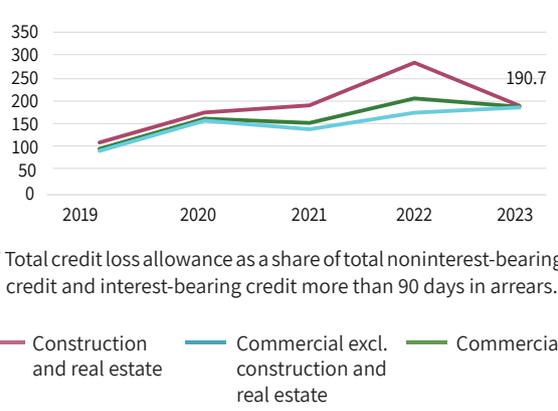


Figure 5.33

Coverage Ratio*, Total Banking System, 2019–2023 (percent)



* Total credit loss allowance as a share of total noninterest-bearing credit and interest-bearing credit more than 90 days in arrears.

SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

During the first quarter of 2024, the S&P and Moody's credit rating agencies published assessments of the resilience of the banks in Israel. They identified the construction and real estate sector, which constitutes about 40 percent of business credit and 19 percent of total public credit (Table 17), as one of the highest-risk industries due to the war, along with tourism, services, and the micro and small business sectors. However, the high inherent demand for housing credit, which makes up about 37 percent of total credit, and the low LTV ratios of housing credit (due to conservative underwriting standards and close supervision by the Banking Supervision Department) help mitigate the banks' risk. The rating agencies noted the weaknesses in the construction and real estate industry, including the impact of labor shortages and exposure to land and commercial real estate (for more details, see Box 5.1 in this survey and further details in the following section).

The construction and real estate industry

As of the end of 2023, the construction and real estate industry accounted for about 40 percent of business credit (Figure 5.34) and about 20 percent of total credit to the public in Israel. It has driven the growth of the credit portfolio in Israel (Figure 5.35). **The growth rate of credit to the construction and real estate industry remained high in 2023, at approximately 14 percent (with particularly high growth in the first quarter of the year, which slowed thereafter), a high rate compared to other industries, although lower than the 18.6 percent growth rate in 2022.** This moderation in the growth rate of construction and real estate credit is mainly explained by a slowdown in activity in the housing market and a decrease in home sales, alongside increased financing costs and a slowdown in the hi-tech sector, which led to a slowdown in the office market and a slowdown in the last quarter of 2023 as a result of the Swords of Iron War.²⁵

²⁵ For further details on the effects of the war on activity in the construction industry, see Chapter 5 in the Bank of Israel Annual Report for 2023.

The leading industry in terms of business credit is construction and it led the growth of the credit portfolio (together with real estate).

Figure 5.34

Distribution of Balance-Sheet Credit by Main Industry, Total Banking System, December 2023 (percent)

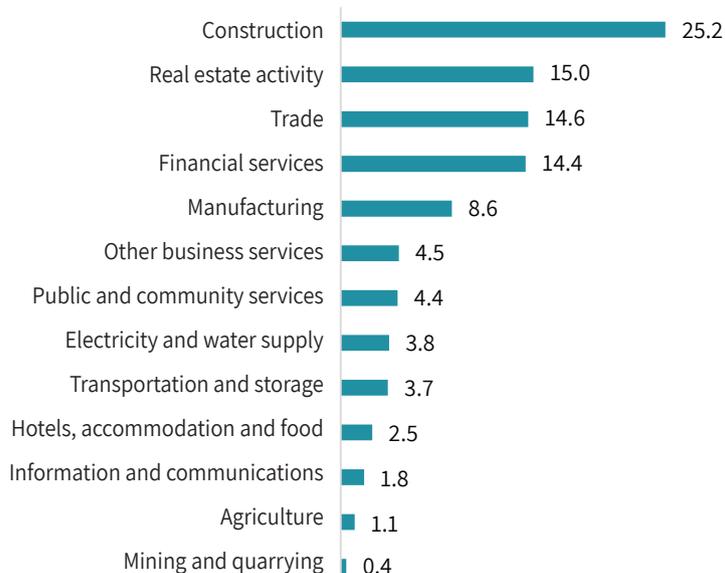
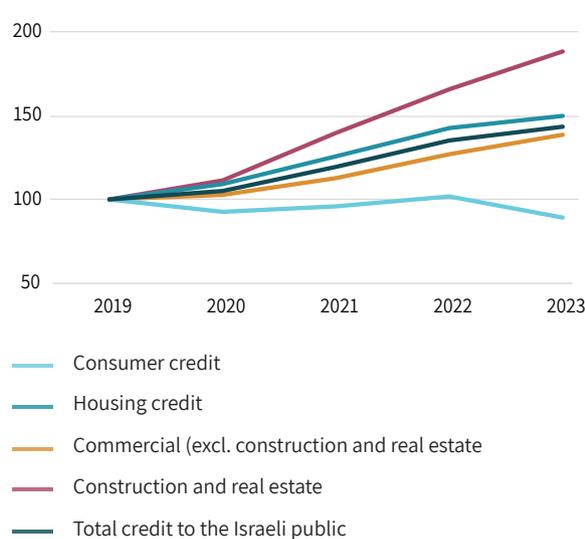


Figure 5.35

Development of Outstanding Balance-Sheet Credit in the Main Industries, Total Banking System, 2019–2023 (index: December 2019=100)



SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

At the end of 2023, credit to the construction and real estate industry stood at approximately NIS 296 billion (Figure 5.3), with about 34 percent of that allocated to land financing (Figure 5.36). The accelerated growth in credit in the construction and real estate industry indicates an increase in credit risk within the banking system for this industry, especially given the high interest rate environment and the impact of the Swords of Iron War (for more details, see Box 5.1 in this survey). Credit for construction mainly consists of land financing and project financing during construction (primarily residential projects). The latter includes debt provided by the banks to contractors and Sale Law guarantees issued by banks to homebuyers. Amid the sales slowdown, there is also a slowdown in the growth rate of Sale Law guarantees provided by the banks. However, debt to the construction sector continues to grow rapidly, particularly in comparison to the overall business portfolio and the housing portfolio which is due to the increasing credit needs in order to promote projects, especially against the backdrop of sales slowdowns and the consequently slower inflow of sales proceeds (Figure 5.37).

The balance-sheet credit in the construction industry grew more rapidly than off-balance-sheet credit (and in particular Sales Law guarantees).

Figure 5.37

Development of Bank Credit in the Construction Industry (Debts and Guarantees), Total Banking System, 2019–2023 (index: December 2019=100)

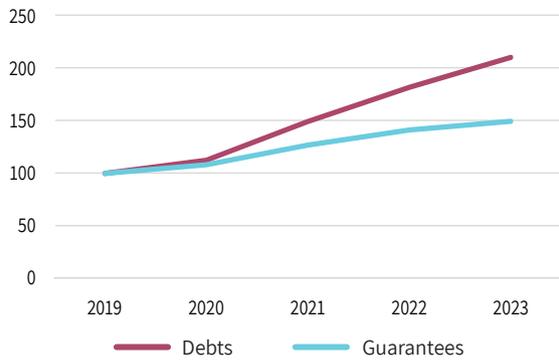
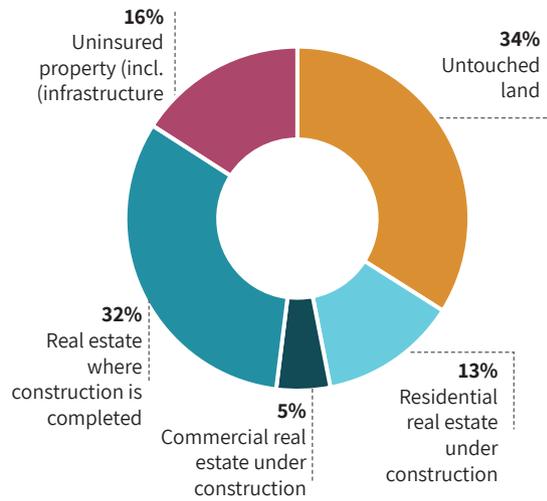


Figure 5.36

Distribution of Balance-Sheet Credit Risk in the Construction and Real Estate Industry, Total Banking System, December 2023 (percent)



SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

3. LIQUIDITY RISK

During 2023, there was an improvement in various liquidity metrics, which are now well above the minimum requirements set by the Banking Supervision Department. In the first half of the year, the Bank of Israel significantly increased the volume of *Makam* issuances²⁶ in response to high demand²⁷, leading to a decrease in the monetary deposits of banking corporations. Additionally, there was a continued shift of public funds into longer-term deposits due to the high interest rate environment. Meanwhile, the Bank of Israel monitored liquidity risk developments abroad, especially following the banking crises in the US and Europe (for further details, see Box 5.2 in this survey). In the last quarter of the year, the Swords of Iron War broke out. The significant increase in government spending as a result of the war led to a rise in public deposits and government bond issuances. This increase in public deposits was not matched by a similar increase in total credit, resulting in a rise in monetary deposits at the Bank of Israel at the expense of *Makam* issuances. Additionally, the public appeared to prefer holding shorter-term deposits in the last quarter, likely due to the increased uncertainty.

As part of liquidity risk management, Basel III established two standard liquidity ratios that banks are required to meet. The first is the Liquidity Coverage Ratio (LCR)²⁸, which assesses whether banks have sufficient liquidity buffers to withstand a significant stress scenario lasting 30 calendar days. The second is the Net Stable Funding Ratio (NSFR)²⁹, which is used to determine whether banks are maintaining a stable funding profile that is in line with the composition of their on-balance sheet assets and off-balance sheet activities. Compliance with this ratio indicates that sufficient stable funding sources are available to meet the required funding (with a forward-looking one-year horizon). Meeting both ratios simultaneously mitigates liquidity risk that may result from unexpected changes in cash flows.

During 2023, there was an improvement in the Liquidity Coverage Ratio (LCR), especially in the last quarter of the year. In the first quarter, this ratio decreased relative to December of the previous

²⁶ *Makam* are securities sold by the Bank of Israel for short periods (up to about a year). These securities enable the Bank of Israel to inject or absorb liquidity. *Makam* are issued to the general public and can be traded on the stock exchange. *Makam* are issued every month, such that at any given time, there are 12 tradable series of *Makam* with maturities of up to a year. The yields on *Makam* can be used to estimate the public's inflation expectations, thereby aiding in the management of monetary policy for periods of up to a year.

²⁷ For further details on the rise in demand for *Makam* and the expansion of the *Makam* tenders, see the Bank of Israel's press release from November 24, 2022. [Hebrew]

²⁸ The LCR, developed by the Basel Committee to enhance the short-term resilience of banking corporations' liquidity profiles, is a measure of the quantity of High-Quality Liquid Assets (HQLA) that banking corporations should hold in order to withstand a significant stress scenario that lasts for 30 calendar days. The LCR is composed of two elements. The first, on the numerator side, is the inventory of HQLA, comprised of two levels of assets: Level 1, formed of high-quality assets that may be held in unlimited amounts, and Level 2, composed of assets that are limited to a maximum aggregate holding of 40 percent of the HQLA inventory. (This level is divided into two sublevels: 2A and 2B. At the latter level, the share of assets that may be held is limited to 15 percent.) The second element, on the denominator side, is the total net cash outflow, i.e., the expected total cash outflow less the expected total cash inflow in the stress scenario. The expected total cash outflow is calculated by multiplying the balances of different categories or types of balance-sheet and off-balance-sheet liabilities by their expected runoff or drawdown rates. The total expected cash inflow is calculated by multiplying outstanding contractual receivables by the rates at which they are expected to be received in the scenario, up to a cumulative 75 percent of the predicted total cash outflow.

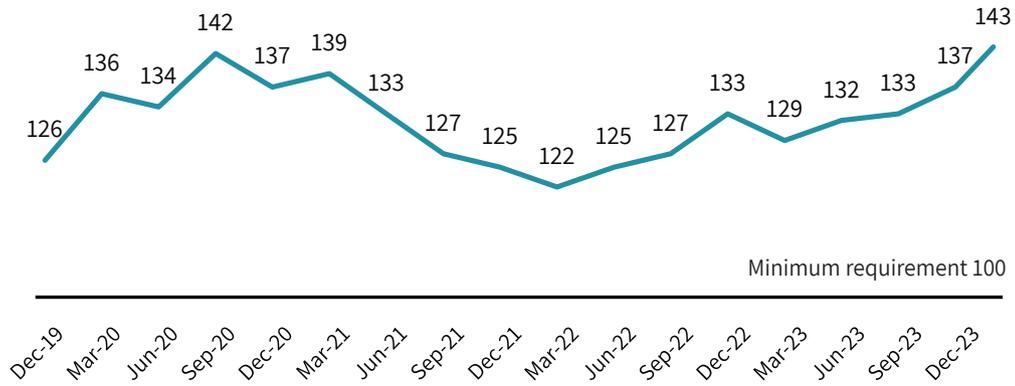
²⁹ The goal of the NSFR is to improve the stability of the banking system's financing profile in the long term based on a requirement that the financing of the bank's activity be primarily based on financing sources that are relatively stable and long term (one year or more). The NSFR is composed of two components: the numerator – the available amount of stable funding (ASF), which is the part of capital and of liabilities that can be relied on as a source of financing over a period of one year or more; and the denominator – the required amount of stable funding (RSF), which is the total assets (including non-balance-sheet exposures) that the bank expects to have to finance over a period of one year or more and therefore stable and available financing should be maintained against it.

year, but improved in the subsequent quarters. The LCR was estimated at about 137 percent at the end of 2023, as compared to 133 percent at the end of 2022, which is significantly above the minimum requirement set by the Banking Supervision Department (Figure 5.38). At the beginning of 2023, the LCR decreased due to a reduction in both the stock of high-quality liquid assets (HQLA) and net cash outflows, though the reduction in HQLA was more significant. The decrease in HQLA was mainly due to a decline in monetary deposits at the Bank of Israel, partially offset by an increase in banks' holdings of *Makam*, which coincided with increased *Makam* issuances by the Bank of Israel. The decrease in net cash outflows was due to the banks' foreign exchange activities, which led to an increase in cash inflows, combined with a shift of public deposits (mainly retail and small businesses) to periods of longer than 30 days and increased *Makam* purchases by institutional investors, resulting in a more moderate reduction in cash outflows.

After the first quarter and until the end of the third quarter of 2023, the Bank of Israel continued to increase *Makam* balances at the expense of monetary deposits, albeit on a smaller scale, which slowed the decrease in the stock of HQLA (in parallel to the shift in the mix between monetary deposits and *Makam* holdings). Additionally, there was a slightly faster reduction in the 30-day net cash outflow due to a decrease in nonfinancial institutional and wholesale deposits, leading to a slight improvement in the LCR. In the fourth quarter, there was an increase in the stock of HQLA, mainly due to an increase in cash and deposits at the Bank of Israel, as government deposits grew in response to increased government spending due to the war, which increased the public's deposits without a similar increase in credit. There was also an increase in eligible tradable securities (mainly due to the banks' purchase of government bonds; for more details, see Chapter 2 of this survey). The increase in the public's deposits, mainly in current accounts, led to a rise in cash outflows, but at a more moderate pace (Figure 5.39). This shift in the trend of the HQLA inventory, alongside the slowdown in credit balances, led to an improvement in the LCR at the end of 2023 and the beginning of 2024. Notably, in the early months of 2024, there was a continued reduction in *Makam* issuances by the Bank of Israel, alongside an increase in monetary deposits. In addition, increased purchases of government bonds by banking corporations further supported the growth in HQLA. At the same time, there was a moderate reduction in net cash outflows, mainly due to a slight decrease in nonfinancial wholesale and institutional deposits, resulting in a further increase in the LCR to 143 percent at the beginning of 2024.

There was an improvement in the LCR starting in the second quarter with the main increase in the last quarter.

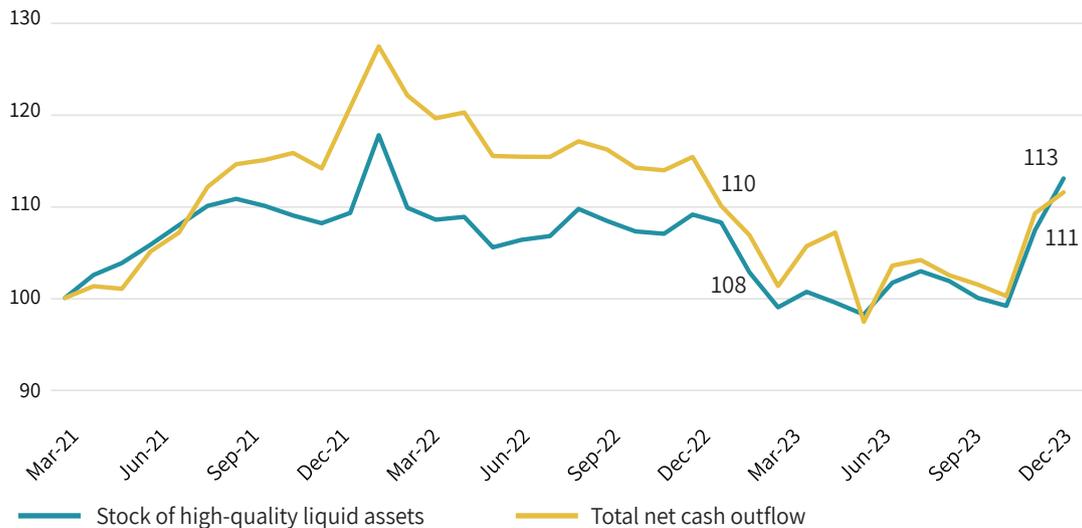
Figure 5.38 Liquidity Coverage Ratio (LCR), Total Banking System, September 2019–February 2024 (percent)



SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

There was a change in the fourth quarter of the year where the increase in the inventory of HQLA was more rapid than the increase in net 30-day outflows.

Figure 5.39 High-Quality Liquid Assets (HQLA) and Net Cash Outflow, Total Banking System, January 2021–December 2023 (index: January 2021=100)

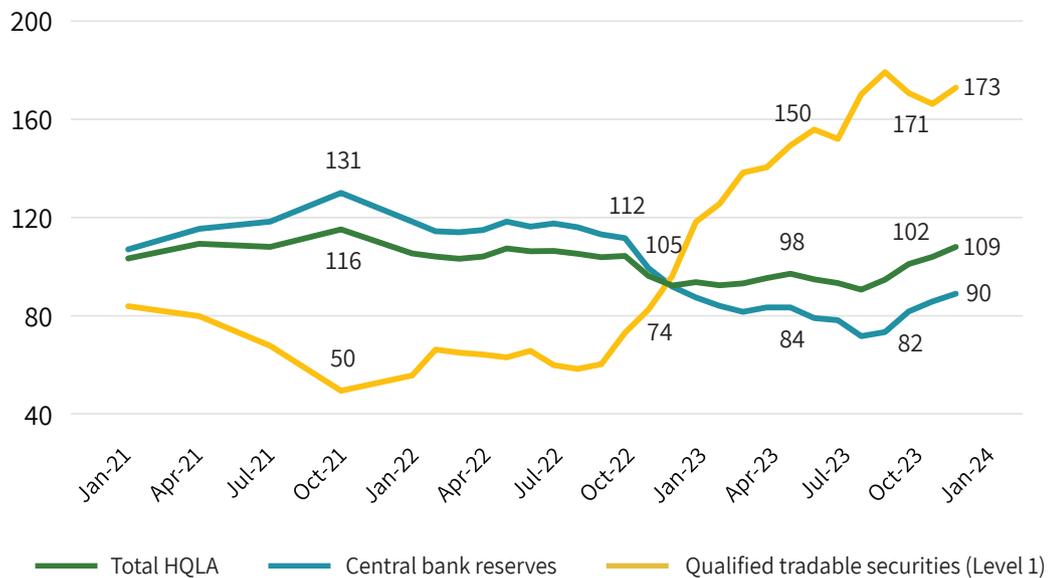


SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

As noted above, the inventory of HQLA³⁰ decreased slightly during 2023 (Figures 5.40 and 5.41). The overall decrease for the year amounted to approximately NIS 15 billion. The primary driver of this decline was a reduction of NIS 122 billion in cash and deposits at the Bank of Israel, which was partially offset by an increase of NIS 84 billion in eligible tradable securities. In the fourth quarter, the trend reversed, and there was an increase in cash and deposits at the Bank of Israel of NIS 15 billion, mainly due to the growth in the public’s deposits. The eligible tradable securities segment grew throughout 2023, with the increase in the first three quarters mainly attributable to the rise in Makam holdings by banking corporations. In the last quarter, the growth in this segment was due to increased government spending in the context of the war, leading to significant government bond issuances and increased holdings by banking corporations, partially offset by a decrease in Makam holdings. In the first two months of 2024, the trend during the fourth quarter of 2023 continued, with an increase of NIS 32 billion in total HQLA, almost entirely due to a rise in cash and deposits at the Bank of Israel (approximately NIS 30 billion). This increase led to a further rise in the LCR to 143 percent in February 2024.

Starting in the fourth quarter of the year, there was an increase in the inventory of HQLA which was primarily due to the growth in deposits held at the Bank of Israel.

Figure 5.40 Volume of High-Quality Liquid Assets (HQLA)^a and Its Main Components, Total Banking System, January 2021–February 2024 (index: January 2021=100)

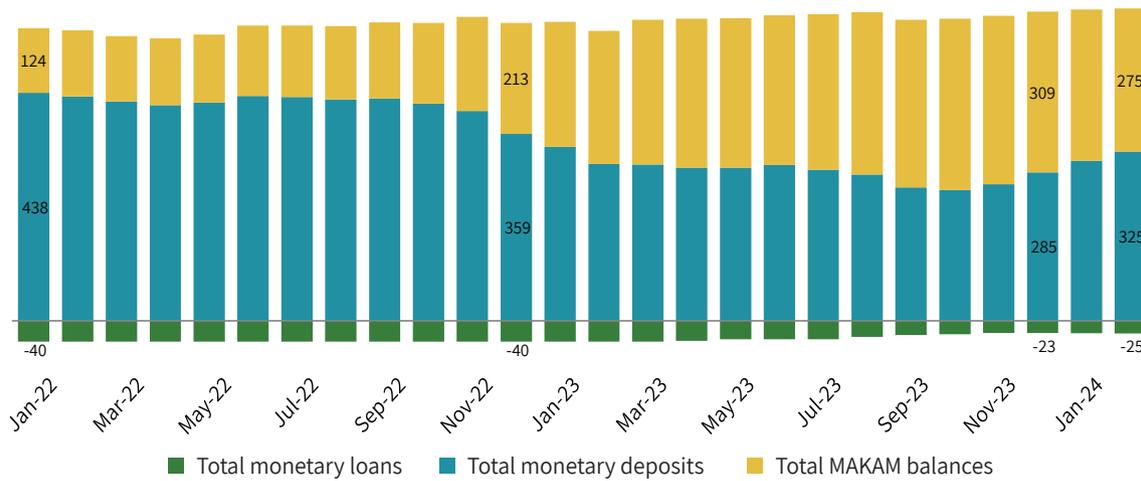


a As defined in Proper Conduct of Banking Business Directive 221.
 SOURCE: Based on published financial statements.

³⁰ The reduction relates to the inventory of HQLA in Israeli currency.

Starting from the fourth quarter of the year, there was an increase in monetary deposits at the expense of *Makam* issuances.

Figure 5.41 Total Monetary Deposits and Loans, and Total MAKAM Balances, January 2022–February 2024 (NIS billion)



SOURCE: Bank of Israel Information and Statistics Department.

The NSFR declined during the first three quarters of 2023, with a slight recovery in the fourth quarter that partially offset the decline. By the end of 2023, the NSFR stood at approximately 123 percent, compared to 126 percent in December 2022 (Figure 5.42). The decrease in this ratio relative to December 2022 was due to a 5.6 percent annual increase in RSF items, primarily driven by the increase in loans, while the ASF items grew by only about 2.9 percent annually (Figure 5.43). In the last quarter, the ratio improved due to an increase in retail and small business deposits and a slight increase in equity, alongside a slowdown in the growth rate of loans. Despite the decline in this ratio in 2023, the NSFR remains well above the minimum requirement set by the Banking Supervision Department, namely 100 percent.

The NSFR eroded somewhat during the first three quarters of the year. In the fourth quarter, with the slowdown in the growth of total loans and faster growth in ASF, the erosion of the ratio was halted.

Figure 5.42

Net Stable Funding Ratio (NSFR), Total Banking System, December 2022–December 2023 (percent)

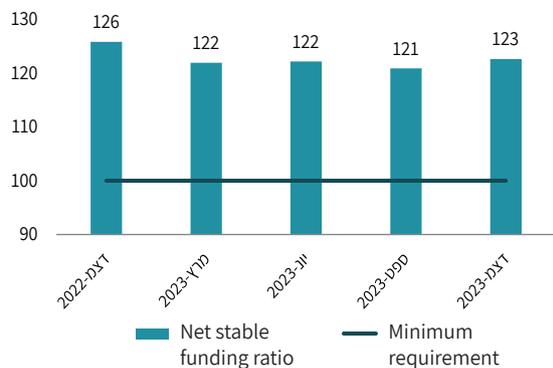
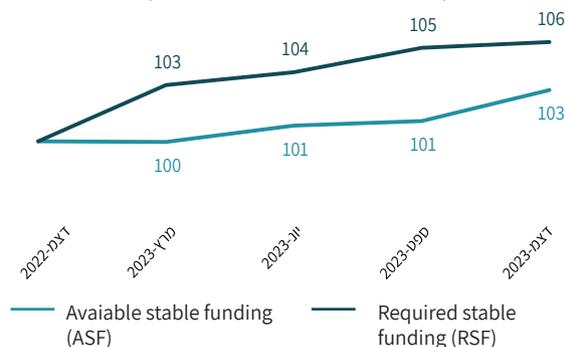


Figure 5.43

Total Available Stable Funding (ASF) and Total Required Stable Funding (RSF)^a, Total Banking System, December 2022–December 2023 (index: December 2022=100)



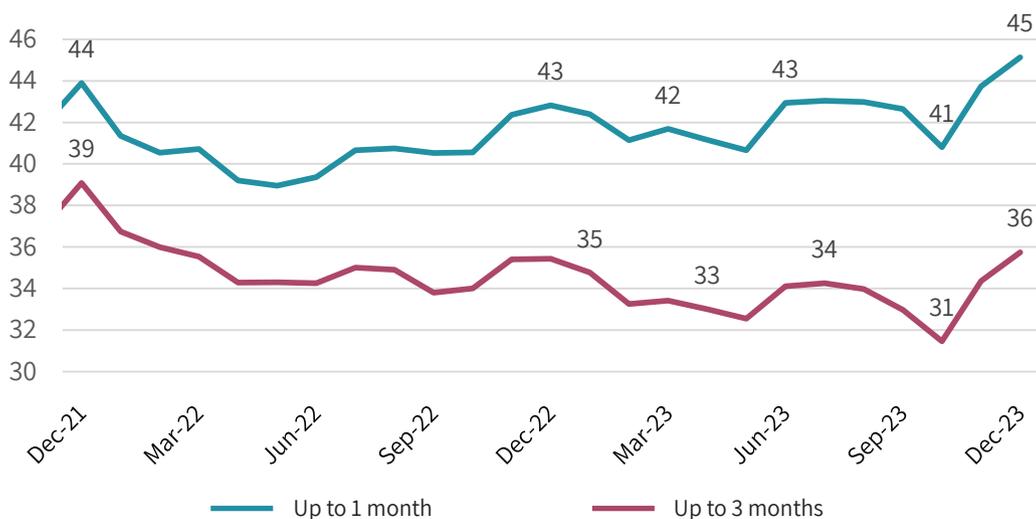
^a As defined in Proper Conduct of Banking Business Directive 222

SOURCE: Based on published financial statements.

In 2023, there was an increase in the ratio of liquid assets to short-term liabilities (whether for a period of up to one month or up to three months). In the first nine months of the year, the ratio of liquid assets to liabilities up to one month remained at a similar level due to similar decreases in the stock of liquid assets (a 10 percent annual decrease, mainly due to the shift of monetary deposits to Makam by institutional investors) and in liabilities up to one month (a 9.5 percent annual decrease, reflecting the shift of cash balances from current accounts to fixed-term deposits). At the same time, the ratio between the stock of liquid assets and liabilities up to three months remained almost unchanged (a 0.8 percent annual decrease). At the beginning of the last quarter of the year, there was a decrease in this ratio due to a sharp increase in October in short-term liabilities both up to one month and up to three months, driven by the increase in public deposits. Subsequently, with the increase in the stock of liquid assets, there was an improvement in the ratio to liabilities up to one month (which continued to grow at a slower pace) and also in the ratio to liabilities up to three months (Figure 5.44).

As a result of the war, there was an increase in the ratio of liquid assets to short-term liabilities during the fourth quarter of the year.

Figure 5.44 Ratio of Liquid Assets to Short-Term Liabilities, Total Banking System, December 2020–December 2023 (percent)



SOURCE: Based on published financial statements.

Starting from the second quarter of 2022, when the Bank of Israel began raising the interest rate, there was a trend among the public to deposit funds in relatively long-term deposits. This trend continued at a slower pace across all sectors during the first nine months of 2023, particularly in retail and small business deposits (during the first nine months of 2023, deposits locked in for up to one month decreased by 12 percent, while deposits for more than one month increased by 31 percent, in annual terms). In the last quarter of 2023, there was a shift in this trend, with an increase in deposits up to one month and a decrease in deposits of more than one month (a 27 percent increase in deposits for up to one month and a 7 percent decrease in deposits for over one month, in annual terms; for more details, see Chapter 2 of this survey). The trends in deposits for up to one month encompassed all activity sectors, especially nonfinancial wholesale sectors (about 56 percent of the change in the last quarter was due to an increase in their deposits). At the beginning of 2024, this trend slightly moderated for total public deposits, but there was still a slight increase in retail and small business deposits up to one month, as compared to a slight decrease in deposits for more than one month (Figures 5.45 and 5.46).

There was an increase in short-term deposits of up to one month due to the government injections and the increase in uncertainty.

Figure 5.45

The Public's Deposits by Depositor Type, Up to 1 Month, Total Banking System, March 2022–December 2023 (index: March 2022=100)

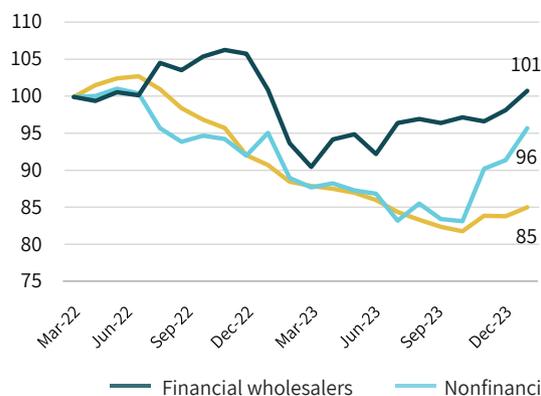
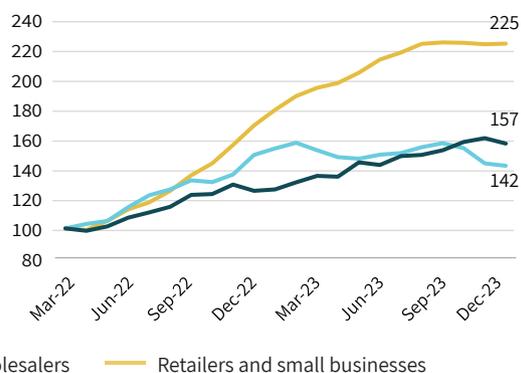


Figure 5.46

The Public's Deposits by Depositor Type, More than 1 Month, Total Banking System, March 2022–December 2023 (index: March 2022=100)



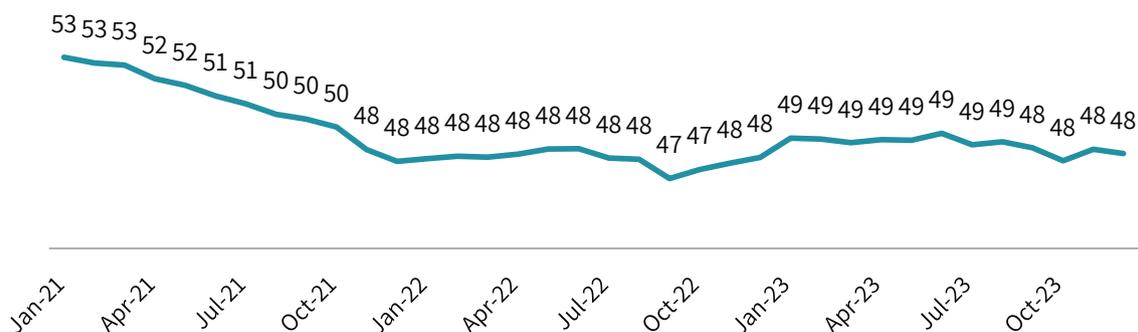
SOURCE: Based on published financial statements.

The Core Funding Ratio (CFR)³¹, which measures the quality of a bank’s funding sources, i.e., the proportion of stable liabilities within total liabilities, increased slightly in the first half of 2023 to 48.9 percent, due to a decrease in total liabilities alongside an increase in retail deposits. Starting in June, there was a consistent increase in total liabilities, which slowly eroded the ratio until the significant drop in October 2023 to 47.7 percent, following a sharp rise in liabilities due to government inflows into the public’s deposits as a result of the war (Figure 5.47). The increase in the fourth quarter of 2023 was mainly due to the growth in retail and small business deposits, alongside relative stability in total liabilities. This trend continued in February 2024, resulting in a slight increase in the CFR to 48.5 percent.

³¹ According to the definition of the European Banking Authority (EBA), the CFR is composed of two components: in the numerator – total stable liabilities, which is composed of total retail deposits, total wholesale deposits for a period of over one year and bonds and deferred promissory notes; while in the denominator – total liabilities.

The CFR fell during the second half of the year until October, when there began an increase due to the growth in retail and small business deposits.

Figure 5.47 Core Financing Ratio (CFR)^a, Total Banking System, January 2021–December 2023 (percent)



^a According to the EBA definition, the core financing ratio is comprised of the following two components. The numerator is the total stable liabilities, comprised of the balance of retail deposits, the balance of wholesale deposits of more than one year, and bonds and deferred liabilities. The denominator is total liabilities.

SOURCE: Based on reports to the Banking Supervision Department.

4. MARKET RISK

The level of uncertainty in the markets remained high throughout 2023 (Figure 5.48), due to ongoing interest rate hikes and the slowdown in the expected rate cuts, driven by persistent inflation in many countries, and particularly in Israel. In Israel, political uncertainty surrounding legislative processes related to the judicial system and uncertainty regarding the duration and resolution of the Swords of Iron War, which broke out in the last quarter of the year and the potential for the conflict to expand to the northern front, affected both real economic activity and financial markets. These effects were reflected in, among other things, an increase in Israel's risk premium in financial markets and the downgrading of Israel's credit rating and that of the banks by Moody's and S&P³², alongside the announcement of a negative rating outlook. The importance of market risk management for the stability of the banking system was highlighted during 2023 following the collapse of banks in the US (for further details, see Box 5.2 in this survey), which were the result of, among other reasons, missteps in market risk management.

During the course of the year, there was significant volatility in the exchange rate of the shekel, especially with the outbreak of the war. To mitigate exchange rate fluctuations and provide the necessary liquidity for the continued orderly functioning of the markets, the Bank of Israel took several measures³³, including selling up to \$30 billion in foreign currency

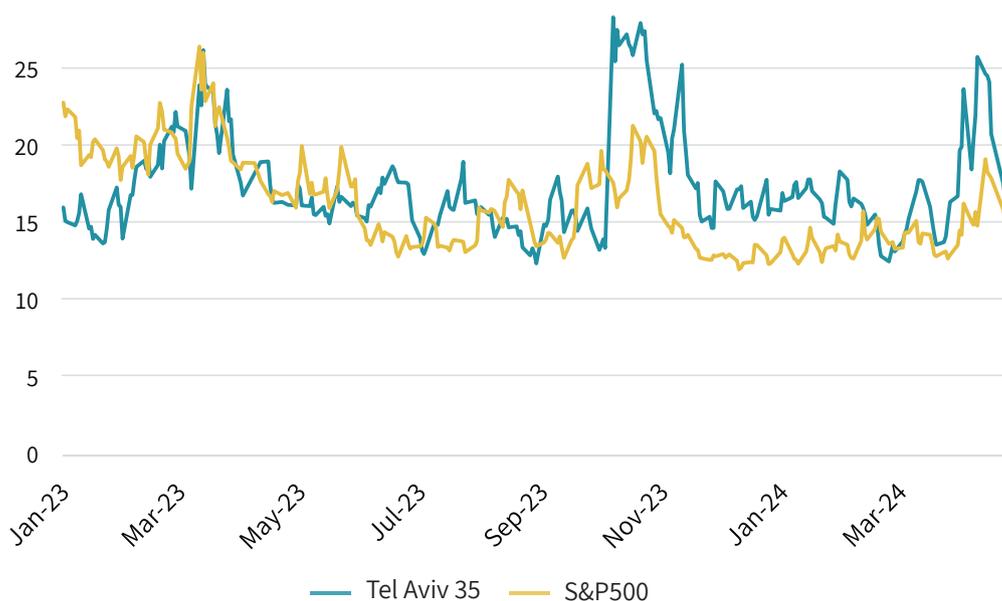
³² Moody's rating agency announced on Friday, February 9th, 2024 that it is lowering the credit rating on Israel's debt from A1 to A2 as well as a negative rating outlook. S&P announced on Thursday, April 18th, 2024 that it is lowering Israel's credit rating from AA- to A+.

³³ For the activity of the Bank of Israel in the foreign currency market see <https://www.boi.org.il/en/communication-and-publications/press-releases/a09-10-23/>

and implementing swap transaction mechanisms of up to \$15 billion. In addition, the Bank of Israel implemented a targeted monetary program to ease credit conditions for small and micro businesses affected by the war, in the amount of up to NIS 10 billion.³⁴

The CFR fell during the second half of the year until October, when it began to rise as a result of the increase in retail and small business deposits.

Figure 5.48 Volatility Index* (VIX), January 2023–April 2024



* Determined by calculating the implied volatility of options traded on the S&P 500 and those traded on the Tel Aviv 35.
SOURCE: Bank of Israel data.

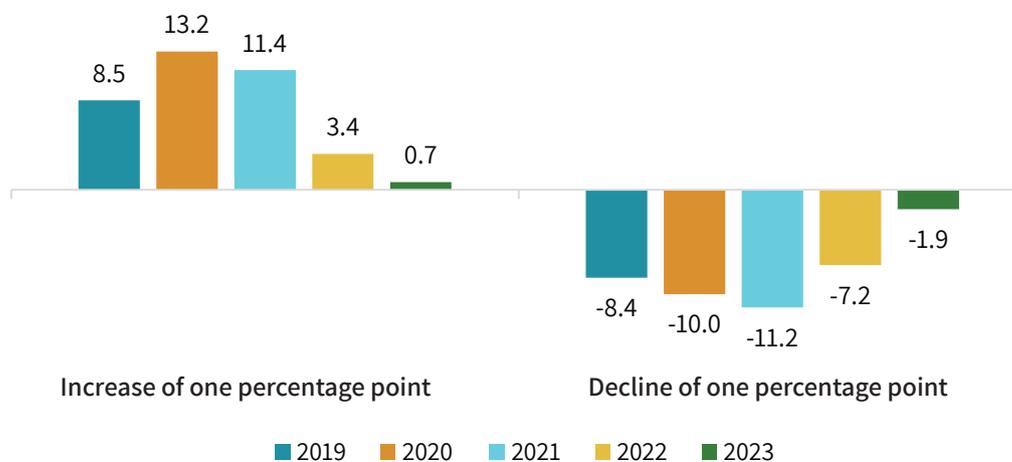
³⁴ The Bank of Israel announced a focused monetary program to ease credit conditions for small and miniature businesses who were affected by the war.
<https://www.boi.org.il/en/communication-and-publications/press-releases/a06-11-23/>

a. Exposure to interest rate risk³⁵

According to the earnings approach, which examines the impact of interest rate changes on expected earnings over a twelve-month period, the banking system is exposed to a decline in interest rates. However, the impact of a parallel decrease in interest rates diminished during 2023 as compared to the end of 2022. The rate of potential losses within total income³⁶ under this scenario decreased by approximately 5.3 percentage points compared to 2022 (Figure 5.49). This reduction is due to both the continued growth in bank revenues (net profit of NIS 25.8 billion in 2023, and NIS 24.3 billion in 2022; for further details, see Chapter 3.1 in this survey) and a decrease in the total potential loss from a scenario of falling interest rates as compared to the end of 2022 (the total potential loss in 2023 was approximately NIS 4.7 billion as compared to NIS 5.4 billion in 2022). The reduction in the total loss is partly due to the update of the banks' internal models for calculating sensitivity to interest rate changes. This update was prompted by changes in the interest rate environment and the shift of funds from non-interest-bearing current accounts to interest-bearing deposits (for more details, see Chapter 2 of this survey).

There was a decline in sensitivity to changes in income that are the result of potential changes in the interest rates.

Figure 5.49 Effect of Changes in the Interest Rate on Interest and Noninterest Income, as a Share of Total Interest and Noninterest Income, Total Banking System, 2019–2023 (percent)



SOURCE: Based on published financial statements.

³⁵ Interest rate risk (without a credit risk spread) is the risk to the banks' equity and profit as a result of the effect of interest rate volatility on the positions of each bank. When interest rates change, the current value and timing of their future cash flows change as well. This, in turn, causes the underlying value of assets, liabilities, and off-balance-sheet items to change, thereby impacting the bank's economic value. Changes in interest rates also have an effect on a banking corporation's profit by affecting its income and expenses that are sensitive to interest rates, which in turn affects the bank's net interest income (NII). Excessive interest-rate risk can pose a significant threat to a banking corporation's current capital base and/or future earnings if not managed appropriately.

³⁶ Interest income and noninterest financing income.

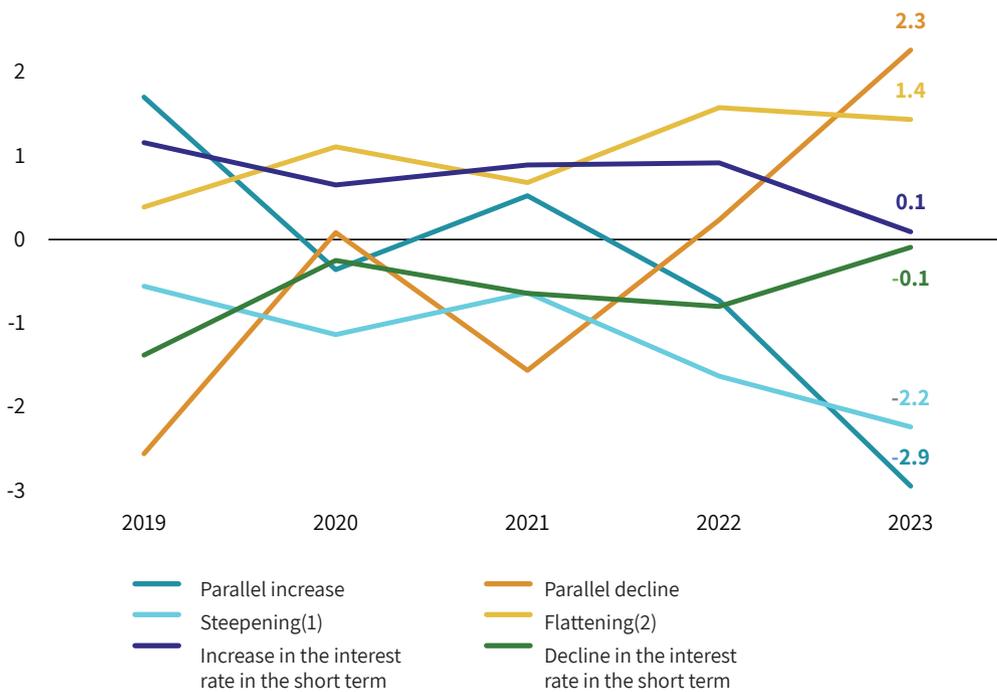
The **fair value approach**, which is used to estimate interest rate risk over a period of longer than a year, focuses on the impact of various scenarios of changes in the risk-free market interest rate on the fair value of a bank's assets, liabilities, and off-balance sheet positions. **The most significant risk for the banking system is a parallel increase of one percentage point (Figure 5.50), which is in contrast to 2022, when the highest sensitivity was to the steepening-of-the-curve scenario.**³⁷ The change in net adjusted fair value³⁸ relative to Tier 1 capital due to a parallel increase scenario was -2.9 percent at the end of 2023, compared to -0.7 percent at the end of 2022, and -1.6 percent under the steepening scenario at the end of 2022. Unlike the sensitivity analysis according to the earnings approach, the total absolute losses increased, standing at approximately NIS 5.2 billion under the steepening scenario at the end of 2023, compared to NIS 2.6 billion at the end of 2022. The change in sensitivity to the steepening scenario and the extent of the potential impact compared to 2022 is due to several factors, the main one being the shift of funds from non-interest-bearing current accounts to interest-bearing deposits. This shift resulted in an increase in the surplus of assets over liabilities for periods of longer than one year at the expense of the surplus of assets over on-demand up-to-one-year liabilities (Figure 5.51) and a shortening of the liability duration in the banks' balance sheets (0.9 years at the end of 2023 compared to 1.04 years at the end of 2022). This was partly due to the update of internal models by some banks with regard to the distribution of current accounts during the course of the year, which led to increased sensitivity to a scenario of a parallel interest rate increase.

³⁷ The steepening scenario is characterized by a drop in the short-term interest rate alongside an increase in the medium-term and long-term interest rates.

³⁸ Net fair value of financial instruments, apart from nonfinancial items and after the effect of liabilities for workers' compensation and smooth out over the periods of on-demand deposits.

The largest risk to the banking system is the scenario of a parallel increase.

Figure 5.50 Change in the Net Adjusted Fair Value Resulting from Various Interest Rate Change Scenarios Relative to the Tier 1 Capital Ratio, Total Banking System, 2019–2023 (percent)



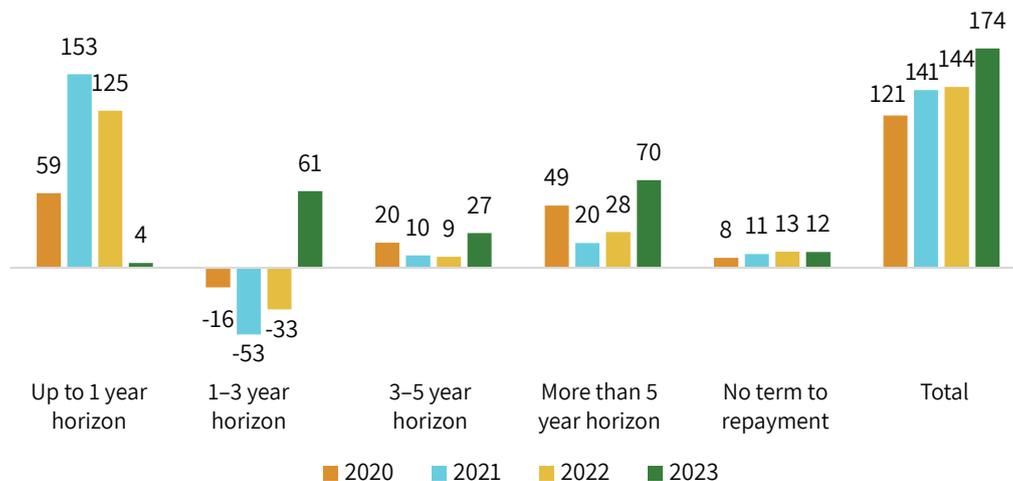
a Steepening - a short-term decline in the interest rate and a long-term increase in the interest rate.

b Flattening - a short-term increase in the interest rate and a long-term decline in the interest rate.

SOURCE: Based on reports to the Banking Supervision Department.

There is a surplus of asset at all maturities.

Figure 5.51 Surplus of Financial Assets Over Financial Liabilities, Total Banking System, 2020–2023 (NIS billion)



SOURCE: Based on published financial statements.

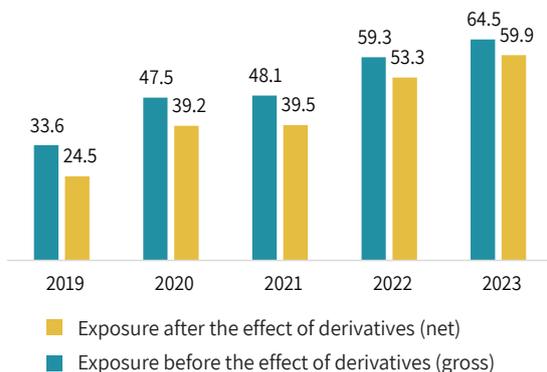
b. Indexation risk

The banking system's exposure to the CPI continued to increase during 2023. The exposure ratio to the index relative to Tier 1 capital³⁹ stood at approximately 65 percent at the end of 2023, as compared to around 60 percent at the end of 2022 (Figure 5.52). In addition, the net exposure rate to the index (after the impact of derivative instruments) grew from 53.3 percent at the end of 2022 to 60 percent at the end of 2023. However, the effect of a decrease in the inflation rate relative to Tier 1 capital decreased by 3.3 percentage points during 2023 (Figure 5.53), despite the increase in the total potential loss (NIS 3.2 billion, an increase of about NIS 670 million compared to 2022). This reduction can be attributed to the high profitability of the system during the year, which resulted in a 12.3 percent increase in the banking system's Tier 1 equity capital (for further details, see Chapter 4 of this survey).

There was an increase in the exposure to the CPI in parallel to a decline in the potential effect of the CPI on Tier 1 capital, as a result of the strengthening of equity during the year.

Figure 5.52

Exposure to the CPI Relative to Tier 1 Capital, Total Banking System, 2019–2023 (percent)

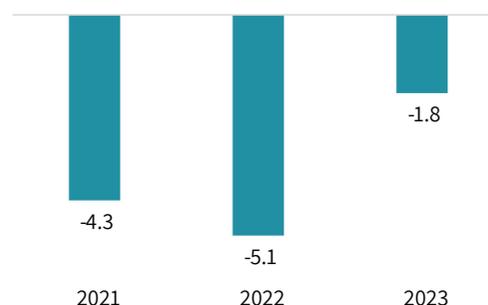


a Difference between assets and liabilities.

SOURCE: Based on published financial statements.

Figure 5.53

Effect of a 3 Percentage Point Decline in the Consumer Price Index on the Tier 1 Capital Ratio, Total Banking System, 2021–2023 (percent)



c. Foreign currency

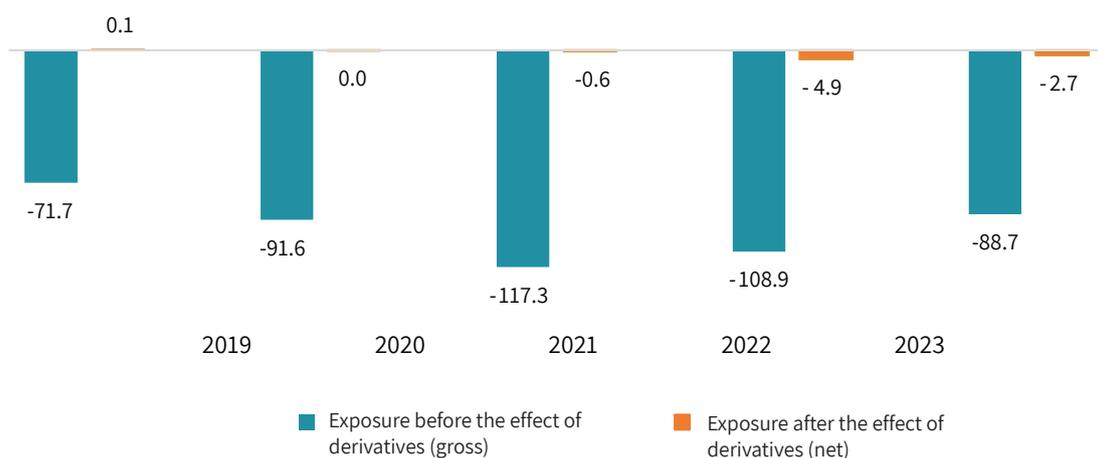
In the foreign currency sector, the banking system has an excess of liabilities over assets, with largest exposure in US dollars. This gap narrowed by approximately NIS 5 billion during 2023 and now stands at about NIS -158 billion, which is equivalent to approximately -89 percent relative to Tier 1 capital, as compared to -109 percent in 2022 (Figure 5.54). This could lead to significant losses for the banks in a scenario where the shekel weakens against foreign currencies, which

³⁹ The rate of exposure is calculated as the difference between CPI-indexed assets and liabilities.

would increase the banks' liabilities and decrease their capital. However, banks hedge their foreign currency exposure through derivative activities, resulting in a very low net exposure. This is evident in the net exposure to the exchange rate relative to Tier 1 capital (-2.7 percent at the end of 2023 as compared to -4.9 percent at the end of 2022).

There was a decrease in exposure to the exchange rate during the year.

Figure 5.54 Exposure to the Exchange Rate Relative to Tier 1 Capital, Total Banking System, 2019–2023 (percent)



a Difference between assets and liabilities.

SOURCE: Based on published financial statements.

5. THE CREDIT CARD COMPANIES

a. Capital adequacy

The Tier 1 capital ratio of the credit card companies remains high (12.5 percent at the end of 2023, as compared to 12.1 percent at the same time last year) and exceeds the required regulatory threshold of 8 percent (Figure 5.55). In the case of CAL and MAX, the ratio increased due to faster growth in Tier 1 equity relative to the growth in risk-weighted assets. In the case of Isracard, the ratio remained unchanged due to similar growth rates in the ratio components.

The Tier 1 capital ratio remains stable.

Figure 5.55 Tier 1 Capital Ratio, Credit Card Companies, 2018–2023 (percent)



SOURCE: Based on published financial statements of the credit card companies.

b. Credit card activity

Credit card activity (both bank and nonbank credit cards) constitutes the core activity of credit card companies and also their main revenue source. The activity is divided into two main sectors: acquiring and issuing. The acquiring segment includes the company's operations as an acquirer, in which it credits businesses for credit card transactions in exchange for a fee. As part of the companies' activities in this segment, they offer additional services to the businesses, such as providing credit, financial solutions such as voucher discounting, advance payments, guarantees, and other complementary products. In the issuing segment, which includes the operation of bank credit cards and the issue of nonbank credit cards, the companies manage and issue charge cards to individuals, business customers, and merchants, which are used as a means of payment both domestically and internationally. The main revenues in this sector come from fees charged to cardholders, fees from credit card companies that acquire them (cross fees), and fees from international organizations for overseas transactions. In this sector as well, credit card companies offer their customers various credit products such as credit transactions, revolving credit, and consumer and business loans.

In 2023, the number of active credit cards in Israel reached approximately 11 million, continuing the upward trend in the number of both bank and nonbank cards (Figure 5.56). The faster growth in the number of nonbank cards relative to bank cards is accompanied by a more rapid increase in the volume of transactions conducted with these cards (Figure 5.57). The rapid growth rates in nonbank cards, both in the number of cards and in transaction volumes, can be attributed to several developments, including credit card companies' efforts to expand their customer base

and increase revenues from issuing nonbank cards, customer preferences, and from a broader perspective of trends in recent years, the influence of the implementation of the Strum Reform regarding the reduction of credit lines on credit cards issued by Bank Hapoalim and Bank Leumi. However, the majority of cards (approximately 63 percent) are still bank cards, and most transactions (around 72 percent) are conducted with them (Figure 5.58).

Bank credit cards constitute the majority of active credit cards in Israel; however, the volume of transactions in nonbank cards is growing at a faster rate.

Figure 5.56

Number of Active Cards at the Credit Card Companies, 2020–2023 (million)

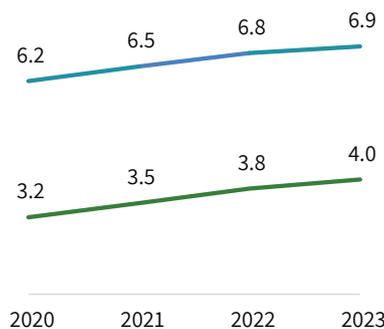
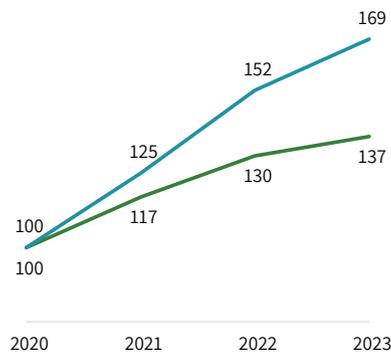


Figure 5.57

Annual Bank and Nonbank Credit Card Transaction Volume, 2020–2023 (index: December 2020=100)



— Nonbank cards
— Bank cards

Figure 5.58

Distribution of Credit Card Transaction Turnover, by Card Type, 2020–2023 (percent)



■ Bank cards ■ Nonbank cards

SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

c. Profitability

The aggregate net profit of the credit card companies grew by approximately 30 percent relative to 2022, reaching NIS 920 million by the end of 2023 (Figure 5.59). About half of that can be attributed to activities in the acquiring segment, one quarter to activities in the issuing sector, and the remaining quarter to “others”, which is due to a one-time windfall recorded by one of the companies.⁴⁰ It is worth noting that despite the continuing decrease in the acquiring fee, the profit from this segment continues to rise, partly due to the ongoing increase in credit card transaction volumes. Various factors moderated the increase in profitability, with the main ones being the rise in credit loss provisions and the reduction in income. The reduction in income was due to several factors: a decrease in income from service fees⁴¹ as a result of the assistance programs; a decrease in fees from overseas credit card transactions; a reduction in income from cross-fees due to a slowdown in activity in the affected sectors; and a decline in acquiring income. The return on equity of the credit card companies stood at 13.2 percent in 2023, as compared to 11 percent in the same period last year (Figure 5.60). The main part of the increase is due to a significant increase in net profit, which was mainly driven by the high interest rate environment throughout 2023, as compared to a more moderate increase in equity.

Profitability continued to improve this year, despite the macroeconomic environment and the Swords of Iron War.

Figure 5.60

Return on Equity (ROE) of the Credit Card Companies, 2018–2023 (percent)

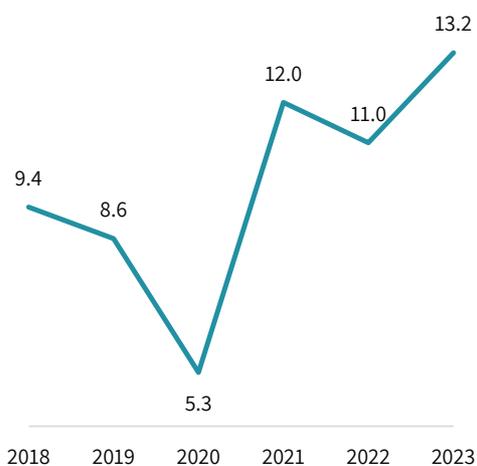
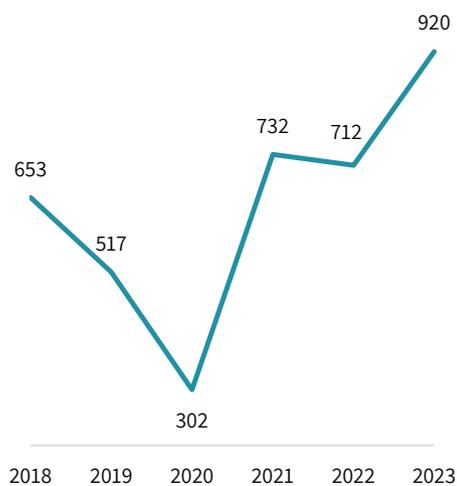


Figure 5.59

Credit Card Companies' Net Profit Attributed to Shareholders, 2018–2023 (NIS million)



SOURCE: Based on published financial statements of the credit card companies.

⁴⁰ Cal recorded a one-time profit that was the result of, among other things, the sale of a building which brought in NIS 227 million in revenues.

⁴¹ Service fees are collected from cardholders and businesses.

d. Credit

The credit portfolio of the credit card companies grew in 2023, with consumer credit increasing by approximately 12.5 percent and commercial credit by about 23 percent. There was a deterioration in the quality metrics of both consumer and commercial credit, partly due to the implementation of the CECL rules at the beginning of 2023, leading to a one-time increase in provisions, and partly due to increased risk in the portfolio given the macroeconomic environment and the impact of the war. Furthermore, there was an increase in the coverage ratio⁴², indicating that the provision rate grew more than the rate of problematic credit, suggesting a higher coverage capacity against potential future defaults.

Consumer Credit

Consumer credit provided by the credit card companies includes a variety of interest-bearing credit products and in particular other consumer credit, revolving credit⁴³, and vehicle-secured loans. As of the end of 2023, other consumer credit constituted the largest share, accounting for about 65 percent of the consumer credit portfolio. Revolving credit accounted for about 22 percent, and vehicle-secured loans made up approximately 13 percent.

The consumer credit portfolio of the credit card companies grew by approximately 12.5 percent (about NIS 2.7 billion) during 2023, reaching around NIS 24 billion at the end of the year (Figure 5.61). This compares to an increase of about 32 percent (around NIS 5 billion) during 2022. Among the various credit products, other consumer credit grew by about 12 percent, revolving credit by 8 percent, and vehicle-secured loans by about 25 percent (a high rate relative to its share). It is noteworthy that the growth rate of the consumer credit portfolio of the credit card companies was higher than in the case of the banks, which actually experienced a negative growth rate in 2023 (for more details, see Chapter 5.2 of this survey). Consequently, by the end of 2023, the share of credit card companies in total consumer credit provided by the banking system increased to 23 percent, as compared to 21 percent at the end of 2022 and 17 percent at the end of 2021.

Credit quality

During 2023, there was a deterioration in the credit quality metrics of the credit card companies for individuals. The share of troubled credit within total credit increased by about 30 percent, standing at approximately 5.8 percent at the end of 2023, as compared to around 4.5 percent at the end of 2022. The rate of provision for credit losses within total credit rose significantly, reaching 3.1 percent in 2023 as compared to 1.3 percent in 2022. It is noteworthy that the credit loss provisions rate at the end of 2023 was similar to its level at the end of 2020, due to the COVID-19 crisis. Accordingly, the rate of the allowance for credit losses within total credit to individuals also increased, reaching approximately 4.9 percent at the end of 2023, compared to around 3 percent at the end of 2022 (Figure 5.62).

⁴² The ratio of the credit loss provision to total problematic debt.

⁴³ When a credit card is used, the credit arrangement for the cardholder's usage is predetermined. On the monthly date of redemption, the cardholder can choose to redeem only part of the debit amount and the rest can be deferred to the following month. The customer will pay interest for this revolving credit.

The increase in the allowance for credit losses in 2023 stems from several factors whose effect varied over the course of the year, as explained below. Starting in January 2023⁴⁴, credit card companies began implementing the CECL rules, which accelerate the recognition of credit losses expected over the life of a loan. According to disclosures included in the financial reports of the credit card companies, the initial implementation of these rules resulted in a one-time increase in the allowance for credit losses of NIS 61 million, accounting for approximately 0.3 percentage points of the increase in the rate of credit loss allowance within total credit to the public. In addition, the macroeconomic environment, particularly the interest rate hikes in the first half of the year, and the uncertainty in the economy, especially regarding the stability of borrowers and their ability to meet credit repayments due to the Swords of Iron War, contributed to the increase in the expense rate. Furthermore, the volume of write-offs doubled, explained by the increased risk in the portfolio and the refraining from collection from customers due to the war.

Commercial credit

The main commercial credit products offered by credit card companies include loans to businesses and commercial customers for various durations, which constitute the primary component of their portfolio, in addition to voucher discounting. The commercial credit portfolio of the credit card companies grew by approximately 23 percent during 2023, reaching NIS 4.2 billion, as compared to growth of around 44 percent in 2022, when it stood at NIS 3.4 billion (Figure 5.61). It is noteworthy that the commercial credit portfolio of the credit card companies represents less than 1 percent of the total commercial credit in the banking system.

Credit quality

During 2023, there was a deterioration in the quality of commercial credit. The rate of troubled credit increased, alongside a rise in the net write-off rate, although these amounts were negligible. Additionally, there was a significant increase in credit loss provisions for commercial credit, with the expense rate for this type of credit reaching approximately 2 percent of the commercial credit portfolio, as compared to 0.1 percent in 2022.

⁴⁴ Starting in January 2022, the banking corporations have implemented new rules regarding provisions called Current Expected Credit Losses (CECL). This arrangement went into effect among the credit card companies starting from January 2023.

Alongside the growth in the credit portfolio, there was an increase in the portfolio's risk, as can be seen in the lower credit quality indices.

Figure 5.62

Problematic Credit, Loan Loss Provisions, and Outstanding Credit Loss Allowances, as a Share of Total Credit to Private Individuals, 2019–2023 (percent)

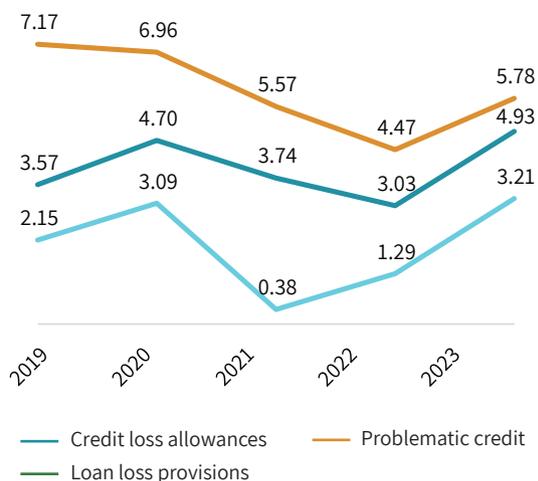
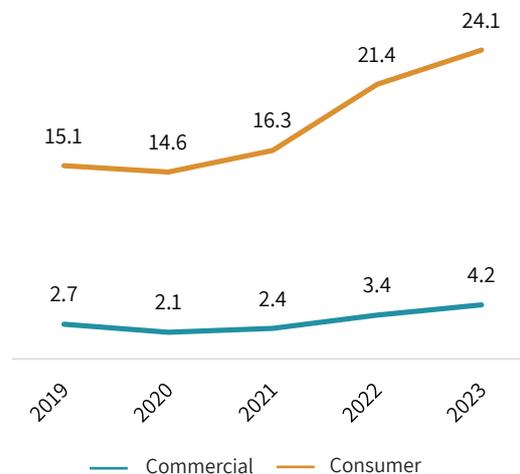


Figure 5.61

Consumer and Commercial Credit, Credit Card Companies, 2019–2023 (NIS billion)



SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

6. INFORMATION TECHNOLOGY RISK

Information technology constitutes the central infrastructure of a banking corporation's business activities. Banking corporations increasingly rely on technology to meet the various challenges they face in a competitive market. The banking corporation's systems provide services to its various business lines and to the general public, and they are connected to third parties. Among other things, the role of technology is to create the appropriate linkage between infrastructures, systems, and other relevant components, in a way that best supports the provision of existing products and services and the offering of new ones. Accurate information, provided in a timely and secure manner, is critical to meeting the business requirements of a banking corporation.

Alongside its advantages, technology exposes the banking corporation to a wide range of risks due to breaches of confidentiality, failures in the integrity of information assets, inappropriateness or unavailability of an information asset⁴⁵ or the inability to modify the information technology setup within a reasonable time and cost when the environment or business requirements change. These risks are grouped together under the name information technology risk.

⁴⁵ Information and technological infrastructure, including data.

Information technology risk can pose a significant threat to the stability of a banking corporation and its very existence. Therefore, the Banking Supervision Department believes that proper management of information technology risks is fundamental to achieving the strategic, corporate, and operational goals of a banking corporation. Accordingly, it is expected that a banking corporation will adequately protect its information assets and assimilate an organizational culture that promotes the management of the information technology risks to which it is exposed.

Information technology risks are part of the family of operational risks and include information security risks, which include cyber risks. Therefore, information technology risk management is necessary in order to comply with the Proper Conduct of Banking Business Directives issued by the Banking Supervision Department that deal with risk management in general and operational risk management in particular. On the other hand, its unique characteristics require dedicated and specific risk management that, among other things, emphasizes management of information security risks, including cyber risks.

It should be noted that the taxonomy considers cyber risk management to be an integral part of managing all the information security risks faced by a banking corporation. However, it should be noted that cyber attacks have specific characteristics that a banking corporation should take into account in ensuring that they are handled correctly.

At the outbreak of the Swords of Iron War, all of the banking corporations switched to emergency mode, which included, among other things, the activation of a situation room, emergency reporting to the Bank of Israel as necessary, transitioning to remote work, checking backup facilities, and preparing for escalation scenarios. The technology divisions in the banking corporations were required to quickly assimilate loan and mortgage schemes into the banking systems in order to provide a solution to affected customers.

The technological human resource risk, which was a significant risk to the banking system in 2021 and early 2022, has significantly declined in most technology areas as a result of transformation in the market. It should be noted that banking corporations still struggle to recruit employees in highly demanded fields, but these are unique niches that do not have a significant impact on the overall human resource risk.

A large part of the banking system is currently in various stages of upgrading core systems. Banking corporations that have in recent years initiated projects to upgrade their core systems are continuing to progress, while making adjustments along the way. At the same time, and following the amendment made to Proper Conduct of Banking Management Directive 362 in June 2022, which allows the transfer of all types of systems to the cloud, subject to certain principles and professional requirements, some banking corporations have begun exploring the possibility of transferring part of their core systems to the cloud.

Banking corporations continue to expand the assimilation of agile methodology in managing and developing projects, in light of the improvement in **Time To Market (TTM)**. The main risk in this methodology arises from the need to adapt controls to the new process.

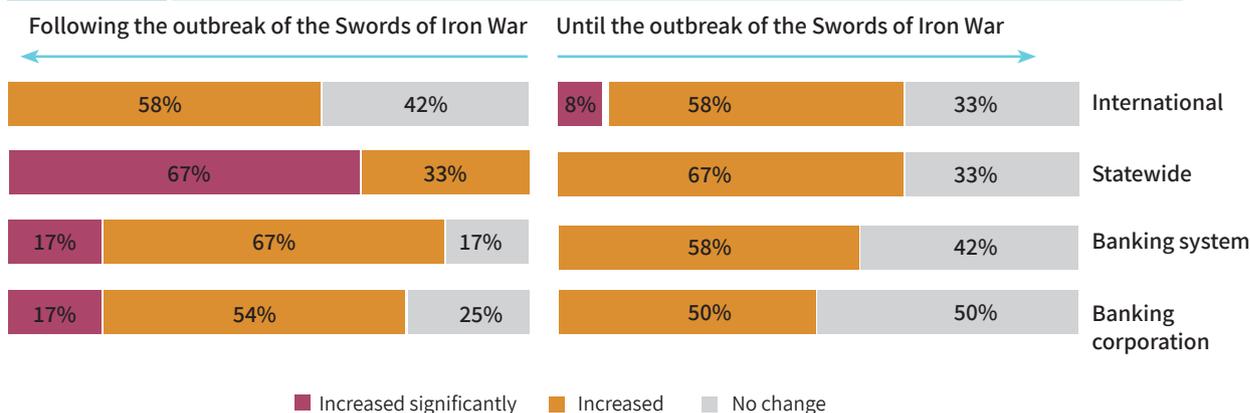
7. CYBER RISK

In 2023, the level of the cyber threat remained high both in Israel and other countries. Organizations worldwide, including those in the financial sector, experienced an increase in the frequency and sophistication of cyber attacks, along with supply chain attacks, ransomware and extortion incidents, data leaks, and high-intensity Distributed Denial of Service (DDoS) attacks. For example, the FBI reported that in 2023⁴⁶, the reports it received indicated that total damage from cyber attacks in the US amounted to \$12.5 billion, which represents an increase of approximately 20 percent over 2022.⁴⁷ Nonetheless, global developments were not exceptional compared to trends observed in recent years.

In Israel, against the backdrop of the Swords of Iron War and its implications for the Israeli cyber domain, there was a significant increase in cyberattacks, which included some major incidents. Notable events included attacks on healthcare and academic institutions, the Israel Post systems, and a web hosting company for major Israeli companies. A survey conducted by the Banking Supervision Department among CISOs (Chief Information Security Officers) in the banking system⁴⁸ revealed that most had already identified some increase in cyber risk in 2023 compared to 2022, and after the outbreak of the war, there was a significant worsening in the level of risk, particularly at the national level, but also within the banking system and within banking corporations.

Following the outbreak of the Swords of Iron War there was an increase in the level of cyber risk.

Figure 5.63 Results of the Banking Supervision Department survey among Chief Information Security Officers in the banking system—“Have there been developments in the various cyber spheres?” (Share of respondents who chose the options as noted)



⁴⁶ Internet Crime Report 2023.

⁴⁷ The report notes that despite the "impressive" data, they estimate that the extent of cybercrime in 2023 is higher than reported, given that the FBI's infiltration of the Hive ransomware group's infrastructure revealed that only about 20 percent of its victims reported to law enforcement authorities.

⁴⁸ Since 2021, the Banking Supervision Department Cyber Unit has been distributing a comprehensive questionnaire at the beginning of each year among cybersecurity managers in the banking system. The goal of the questionnaire is to analyze the development of cyber threats during the past year and to anticipate future trends. The questionnaire, which is usually filled out in collaboration with risk management representatives specializing in cyber, helps to form an up-to-date picture of the development of cyber risks.

This is also reflected in the National Cyber Directorate's 2023 report, which indicates a 43 percent increase in cyber incident reports as compared to 2022. Of these reports, about 68 percent of incidents were reported during the war. According to the National Cyber Directorate, cyberattacks intensified gradually during the Swords of Iron War, shifting from information theft to causing disruption and damage. Initially, the attacks were simple and unsophisticated, mainly aimed at creating public noise, but over time they became more focused and aimed at causing real disruption to organizations. The attacks targeted critical organizations and were designed to create a wide-ranging effect by targeting companies considered to be part of the supply chain for many organizations in the economy. As the war continued, more attack groups, operating on behalf of Iran and Hezbollah, were identified and they are carrying out cyberattacks in parallel to the fighting.

In 2023, there were no significant cyber and information security incidents in the banking system. Throughout 2023, the Banking Supervision Department monitored the handling of 21 cyber incidents (including suspected incidents) in the banking system, compared to 15 in 2022. A survey conducted by the Banking Supervision Department among cybersecurity managers in the banking system revealed that after the outbreak of the Swords of Iron War there was an increase in attempted attacks compared to 2022, mainly in the form of DDoS attacks, though there was no significant change in the overall number of cyber incidents or the actual level of damage.

With the outbreak of Iron Swords and the fear of the conflict expanding into the cyber arena, the Banking Supervision Department intensified its activities within the banking system, including continuous monitoring of attack attempts and cyber incidents, issuing a daily situation report, and sharing information with relevant parties. Additionally, the Department instructed the banking system to reinforce its defenses against cyber incidents and eased regulatory requirements wherever possible in order to allow the banking system to focus on addressing the threat.

In 2023, there was an upward trend in social engineering-based cyber fraud and the damage caused by such fraud as compared to 2022. The risk survey conducted by the Banking Supervision Department among senior executives in the banking system and credit card companies revealed that respondents believe that the most relevant risks to the banking system in the cyber domain are social engineering-based cyber incidents targeted at customers and denial-of-service incidents. The Banking Supervision Department attributes major importance to combating financial fraud and is actively working on the issue (see Chapter 6 of this survey for further details).

It is believed that the level of cyber risk will remain high in 2024 and that the trends that have characterized recent years will continue. Based on attack patterns in recent years, we anticipate an increase in attacks, in terms of both their scope and the sophistication of the attackers. Attackers are expected to exploit both known and unknown vulnerabilities, quickly turning them into attacks. We also expect a continued increase in supply chain attacks, denial-of-service attacks, and attempts at cybercrime, including an increase in fraud attempts. Looking forward, we anticipate that the significant technological developments in artificial intelligence, machine learning, and eventually quantum computing will also be exploited by attackers. According to the National Cyber

Directorate⁴⁹, 2024 is expected to be marked by continued conflict and readiness for its expansion into additional arenas, alongside improvements in cyber capabilities and attackers' willingness to carry out attacks that cause harm to the home front.

Findings from the Banking Supervision Department's survey of CISOs in the banking system also indicate that the threat level will remain high, with the continuation of trends that have characterized recent years. CISOs expect that the main incidents will focus on supply chain attacks, DDoS attacks, and social engineering-based financial fraud (Figure 5.64).

The expected events will primarily focus on attack of the supply chain, DDoS attacks and financial fraud based on social engineering.

Figure 5.64 Results of the Banking Supervision Department survey among Chief Information Security Officers in the banking system—"In your view, what will be the main trend of cyber events in 2024 on the banking system?" (Share of CISOs who chose the options as noted)



In addition, changes in the banking system's work plans will lead to further expansion of attack surfaces and increased digital connectivity, partly due to the acceleration of innovative business processes and technological and digital initiatives. These processes are expected to include the adoption of new technologies, expanded use of data, and a significant increase in the use of cloud technologies. There will also be increased use of API interfaces and growth in third-party and artificial intelligence interfaces.

Globally, findings from the survey conducted by the World Economic Forum (WEF) in order to create a global cybersecurity outlook for 2024⁵⁰ highlight concerns about the impact of emerging technologies on cybersecurity in various sectors, especially generative AI. The survey found that about 56 percent of respondents from the banking industry believe that generative AI will significantly impact cybersecurity in the next two years.

⁴⁹ According to the Director of the National Cyber Directorate in its annual report for 2023.

⁵⁰ Global Cybersecurity Outlook 2024.

These findings align with the results of the risk survey conducted by the Banking Supervision Department among senior executives in banks and credit card companies, which identified cyber risk as the most concerning risk from the system's perspective for the sixth consecutive year. Accordingly, banking corporations and credit card companies continue to proactively prepare for cyber incidents and their fallout. This preparation focuses on protecting against advanced and persistent attackers, while continuously adapting defense mechanisms to new and evolving threats, both in prevention and early detection of incidents, alongside developing rapid response and recovery capabilities. These actions are intended to enable banking corporations to recover quickly and efficiently from cyber incidents while minimizing potential damage.

In addition, the Banking Supervision Department encourages banking corporations to continue cybersecurity efforts by continuously reducing their cyber risk profile and exposure to attacks, maintaining flexibility and constant adaptation, ongoing monitoring and continuous assessment of threats and opportunities, and adjusting defense efforts accordingly, as well as continually searching for possible weaknesses and vulnerabilities. Recognizing that complete prevention of cyber threats is impossible, banking corporations are expected to continue developing detection, response, and event management capabilities alongside their emphasis on prevention measures. This approach will enable the banking corporations to successfully handle challenges and threats in the cyber domain while maintaining organizational resilience.

Box. 5.1

Development of Credit in the Construction and Real-Estate Industry

- Balance-sheet credit from the five large banking groups to the construction and real-estate industry continued to grow vigorously (14 percent) in 2023, as before. This outcome was attained despite the increase in industry risk, particularly in view of the slowdown of housing-market activity, rising funding costs, and the effects of the Swords of Iron War.¹
- The increase in industry risk was reflected in an upturn in the coverage rate of the credit-loss allowance relative to credit taken by the industry. This rate increased throughout the banking system by 0.5 percent in the course of 2023, ending the year at to 2.4 percent, mostly due to the effects of the war.

This box describes the developments in bank credit to the construction and real-estate industry parsed by the following activities:

- Credit for funding of land—the decrease in housing demand induced, inter alia, a decline in the success rate of land auctions and in winning prices in auctions successfully closed. Concurrently, the Banking Supervision Department demanded an additional capital allocation for high-leverage lending for land. These measures slowed the growth rate of credit for land financing relative to previous years.
- Residential construction loans—2023 saw a hefty 66 percent increase in financial credit for residential construction. The increase traced to the slowdown in sale of dwellings and occurred despite impediments to progress in construction when the war broke out.²
- Income-producing real estate—the share of high-LTV credit for income-producing office and commercial real estate increased in 2023, for reasons including oversupply in the market for office space in certain parts of the country. As for income-producing residential real estate, the increase in the interest environment and changes in taxation made activity in this field less worthwhile and some companies chose to put up for sale dwellings that had been rented out or that were intended for rental from the outset.
- Credit not secured by real estate—much of this credit is extended for the activities of performance contractors. The risk in financing performance contractors was high even before the war broke out; since then, performance contractors have been exposed to additional risks, particularly labor shortages and increases in costs of labor and raw materials.

¹ For elaboration on economic developments in the housing market, see the Bank of Israel Annual Report for 2023, Chapter 8, and “The Housing Market.”

² Financial credit for housing construction loans purposes increased and the gap between construction costs related to progress in project performance and cash flow obtained from the sale of dwellings widened.

- Pursuant to the upturn in risk, the Banking Supervision Department is closely monitoring developments in credit to this industry and is acting to ensure that the industry’s credit risks are monitored and managed in accordance with accepted and appropriate risk management practices.

General remarks—main developments in the real-estate market

Demand for housing began to slacken in the second half of 2022 and did so more strongly in 2023, manifested in a decrease in the number of home purchase transactions in the course of 2023 (35 percent relative to 2022³), an increase in unsold new housing stock to 67,000,⁴ a downturn in home prices (1.4 percent⁵) and a slump in mortgage performance (40 percent relative to 2022).

In the construction industry, activity slowed moderately relative to 2021–2022, both in housing starts and in issuance of building permits. Concurrently, housing completions increased (Figure 5.65).

Central Bureau of Statistics construction data indicate that the scope of permits, building starts, and building completions are relatively high, despite moderation of activity in the industry in the past year

Figure 5.65 Building Starts, Completions, and Permits, Annual, 2000–2023



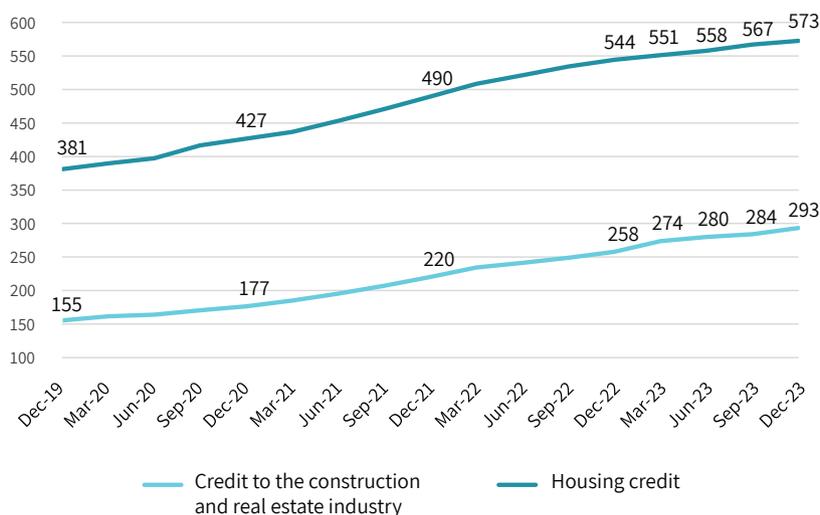
SOURCE: Based on Central Bureau of Statistics data.

³ Central Bureau of Statistics, “Real Estate Transactions—Dwellings in 2023,” https://www.cbs.gov.il/he/mediarelease/DocLib/2024/047/04_24_047b.pdf
⁴ Central Bureau of Statistics, “Real Estate Transactions— Dwellings in December 2023–February 2024,” https://www.cbs.gov.il/he/mediarelease/DocLib/2024/113/04_24_113b.pdf
⁵ Decrease in current prices, November–December 2023, monthly data against year-earlier.

The outbreak of the Swords of Iron War on October 7, 2023, occasioned a further decline in real-estate market activity. The moratorium on allowing Palestinian workers to enter Israel, placing much of the industry’s labor force off-limits, brought activity in many construction sites to a halt. The labor shortage is a major problem in the industry at the present writing⁶, having an upward effect both on construction costs and on progress in performance. Due to the effects of the war, the Banking Supervision Department instructed the banking corporations to be lenient with borrowers, including those in the construction and real-estate industries, as part of the policy of leniency toward borrowers that the Bank of Israel and the government adopted.⁷ The five large banking groups’ balance-sheet credit (liabilities) to the construction and real-estate industry increased by a solid 14 percent in 2023 and came to NIS 293 billion (Figure 2). The annual growth rate is representative of the trend of rapid growth in credit to this industry in recent years. The upturn in lending to the industry occurred against the background of slowdowns in housing-market activity and home sales along with rising funding costs.

The growth rate of credit to the construction and real estate industry and credit of for housing

Figure 5.66 Balance-Sheet Credit (Debts) to the Construction and Real Estate Industry, and Housing Credit, Israeli Borrowers, the Five Large Banking Groups, 2019–2023 (NIS billion)



SOURCE: Based on reports to the Banking Supervision Department.

⁶ For elaboration, see box in the Bank of Israel Annual Report for 2023, “Employment of Israeli Workers in View of the Swords of Iron War.”

⁷ For elaboration, see Box 2 in Chapter 6 of Israel’s Banking System, Survey for 2023.

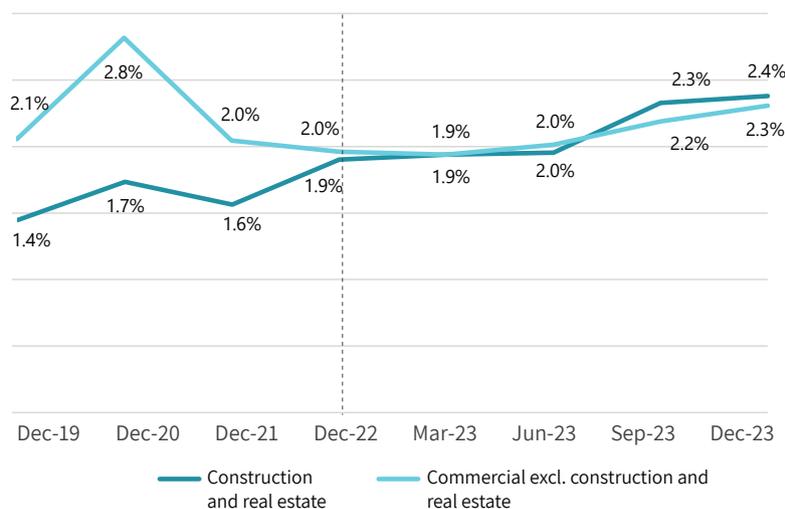
The credit risk of the construction and real-estate industry increased during the year and particularly after the war began, as is also reflected in the credit-quality indices. After several years of boom in the Israeli housing market, manifested in record numbers of home-purchase transactions, home prices increased as did prices of land marketed at this time, particularly in 2021–22. The surge was accompanied by rapid growth in outstanding credit and the risk characteristics of loans taken at this time, particularly in terms of loan-to-value (LTV) ratios.

Pursuant to the upturn in risk, the Banking Supervision Department has been closely following developments in credit to this industry and is acting to ensure that the industry’s credit risks are monitored and managed in accordance with accepted and appropriate risk management practices.

The increase in industry risk is reflected in upward movement of the coverage rate⁸ of the credit-loss allowance relative to industry credit. Thus, the share of credit-loss allowances in total credit (liabilities) of the five large banking groups to this industry came to 2.4 percent at the end of 2023 as against 1.9 percent year-earlier (Figure 5.67).

The share of credit loss allowance in the construction and real estate industry is on an upward trend

Figure 5.67 Credit Loss Allowance as a Share of Balance-Sheet Credit (Debts) in Construction and Real Estate, and as a Share of Commercial Credit Excluding Construction and Real Estate, Activity in Israel, the Five Large Banking Groups, 2019–2023 (percent)



SOURCE: Based on published financial statements.

⁸ The coverage rate reflects the ratio of the credit-loss provision to outstanding balance-sheet credit (liabilities).

Below, credit to the construction and real-estate industry is reviewed by main areas of activity that represent, among other things, main activities and various stages of the building process: buying land, residential real estate under construction; income-producing real estate, and other credit (credit unsecured by specific property).

Table 5.1 | Development of outstanding balance-sheet credit to the construction and real-estate industry in Israel (NIS billion)

Component	Balance-sheet credit risk			
	12/2023		12/2022	
	NIS billion	Pct.	NIS billion	Pct.
Land	101	34%	94	36%
Real estate for construction—housing	38	13%	23	9%
Real estate for construction— income-producing	15	5%	13	5%
Income-producing real estate	94	32%	82	32%
Infrastructure	12	4%	9	3%
Credit not earmarked for funding of specific property	35	12%	38	15%
Total borrower activity in Israel (total exposure, including off-balance-sheet)	295 (485)	100%	259 (435)	100%

Source: Banks' reports to the Banking Supervision Department.

Land

Total balance-sheet credit for land among the five large banking groups was NIS 101 billion as of the end of 2023, up 7 percent from December 31, 2022. The share of balance-sheet credit for land in funding that exceeds 75 percent, reflecting heightened risk, was NIS 58 billion at the end of 2023, 57 percent of balance-sheet credit for land extended by the five large banking groups. Furthermore, additional impediments in transitioning from the stage of land funding to construction loans, occasioned by the effects of the war and the industry's labor shortage, are expected.

The slowdown in performance of credit for land in 2023 traces, inter alia, to measures taken by the Banking Supervision Department in recent years, particularly the requirement of an

additional capital allocation on account of high-leverage land funding,⁹ as well as a decrease in the success rates on land auctions, particularly in 2023, and a decline in winning prices in auctions successfully closed.

These and other developments gave indication of a decrease in land value in some parts of the country, particularly land acquired in past years at high prices. For this reason, **the banks were required to comply with the aforementioned guidelines concerning an additional capital allocation on account of high-leverage funding of land for performance in the course of 2023 and adjustments in funding given.**¹⁰ It should be noted, however, that in view of the sizable profits that the developers have amassed in the past few years, many of them are able to absorb the effects of the changes in the economic environment and the implications of the war.

Residential construction loans

Dwelling sales slowed by 35 percent in 2023 relative to 2022, and, thereof, sales of new dwellings in residential construction projects dropped by 31 percent.¹¹ Although the trend gathered strength due to the war, the end of the year saw some recovery in dwelling sales. Unsold housing stock in builders' possession grew to some 67,000 units by the end of February 2024.

Development of credit risk for residential construction loans

The year saw a notable 66 percent increase in financial credit for residential construction loans, from NIS 22.7 billion at the end of 2022 to NIS 37.6 billion a year later.¹² This is explained, inter alia, by the slowdown in new-dwelling sales. After the war began, however, there were also major delays in construction project progress, although the pace of housing completions remained relatively high.¹³

Discrepancy between the pace of engineering performance and pace of sales—in the course of 2023, the share of the five large banking groups' total exposure to projects in which performance outpaced sales¹⁴ increased from 27 percent to 36 percent.¹⁵ The share of exposure on account of projects for which the discrepancy between performance pace and sales pace is high (20 percent or more), however, increased more gently—from 10 percent

⁹ Banking Supervision Department Circular 2709-06, concerning an update of Directive 203: Capital Measurement and Adequacy, the Standard Approach—Credit Risk as of May 22, 2022.

¹⁰ Ibid.

¹¹ Central Bureau of Statistics, "Real Estate Transactions—Dwellings in 2023," https://www.cbs.gov.il/he/mediarelease/DocLib/2024/047/04_24_047b.pdf

¹² Data: reports to the Banking Supervision Department, five large banking groups—Directive 831.

¹³ For elaboration, see Chapter 5 in the Bank of Israel Annual Report for 2023.

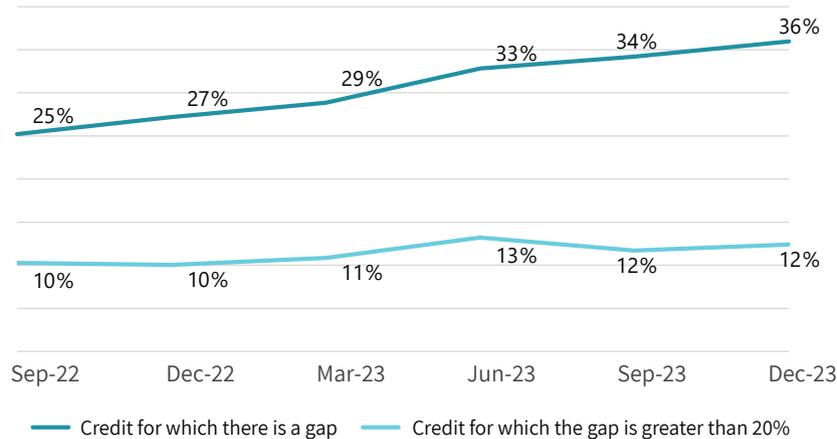
¹⁴ The discrepancy between the pace of engineering performance and the pace of sales is used as an index for the level of risk in construction projects.

¹⁵ Ibid.

at the end of 2022 to 12.4 percent a year later (Figure 5.68). It is also noteworthy that sales outpaced engineering performance in some two-thirds of projects.

There was an increase in the share of credit that has a gap between the pace of performance and the pace of sales, but not where the gap exceeds 20 percent

Figure 5.68 Credit to Underwrite Construction Projects in Respect of Which There is a Gap Between Engineering Work and the Pace of Sales, and Credit Where This Gap is Greater than 20%, Activity in Israel, the Five Large Banking Groups, September 2022–December 2023 (percent)



SOURCE: Based on reports to the Banking Supervision Department.

Absorption capacity¹⁶ in residential construction projects—the rate of absorption capacity in residential construction projects decreased slightly in 2023 but remained relatively high at 70 percent at year's end. Notably, however, even though construction sites have been operating at less than full capacity since the beginning of the war, builders are continuing to absorb all fixed expenses, thus increasing construction costs. If these developments continue, they may impair absorption capacity in projects.

To contend with these difficulties and power the market despite the war and, particularly, to meet prior-sales targets—a prerequisite for the issues of construction loans—some developers offered special deals for homebuyers while refraining from lowering actual prices.

¹⁶ Absorption capacity reflects the highest possible rate of decrease in dwelling sale prices without the bank absorbing a loss on the project.

Income-producing real estate

Outstanding balance-sheet credit from the five large banking groups for real-estate activity was NIS 109 billion at the end of 2023, up 11 percent from year-earlier.

As of the end of 2023, outstanding balance-sheet credit from the five large banking groups for real estate in which construction was completed stood at NIS 94 billion, thereof NIS 18.8 billion (20 percent) at LTV rates exceeding 75 percent, indicating heightened risk.¹⁷ Similarly, outstanding balance-sheet credit from the five large banking groups for income-producing real estate under construction ended the year at NIS 15 billion, of which NIS 3.9 billion (26 percent) at LTV rates in excess of 75 percent.

Credit risk for income-producing real estate exists both at the construction stage, in which credit needs are high because receipts from rental of the property accrue only after construction is completed, and after completion of construction, due to the many years of repayment that are conventional in this form of credit. The upturn in the interest rate environment has a major effect on the level of industry risk in view of its steep credit needs.

Income-producing real estate—office and commercial space

Outstanding balance-sheet credit for income-producing commercial and office space, in which construction was completed, was NIS 61 billion at the end of 2023, up 14 percent from year-earlier. Credit as a share of funding that exceeds 75 percent, reflecting heightened risk, was NIS 11 billion at the end of 2023, up 18 percent from total balance-sheet credit for income-producing office and commercial space. Credit risk at the end of 2023 on account of income-producing office space was affected, inter alia, by the high-interest environment and changes in renters' tastes and demand for rented offices, with distinctions made between new buildings and old ones and among different parts of the country.

Income-producing residential real estate (including sheltered housing)

Outstanding credit for income-producing residential properties (including sheltered housing), in which construction was completed, came to NIS 15.4 billion at the end of 2023, up 5 percent from year-earlier. Credit for this purpose in the share of funding that increased [exceeded 75 percent and that reflects heightened risk was NIS 3.5 billion at the end of 2023, 23 percent of outstanding balance-sheet credit for income-producing properties for residential use (including sheltered housing). Given the increase in the interest rate environment, it became less worthwhile activity in this field and there are companies active in the field that are putting up for sale dwellings initially earmarked for rental or that were used for rental over a period of several years.

¹⁷ Data from reports to the Banking Supervision Department, five large banking groups—Directive 831.

Credit not secured by real estate

Credit to construction and real-estate companies that is not secured by a specific property in Israel is given for several purposes, mainly to finance performance contractors' activity and for short-term credit to borrowers in the industry, including borrowers in which sizable activity is concentrated. Since this credit is not secured by an encumbrance on property, it carries a considerable structural risk. Outstanding balance-sheet credit to borrowers in the construction and real-estate industry not secured by real estate was NIS 35 billion at the end of 2023, down 8 percent from year-earlier.

Performance contractors

Financing for performance contractors was a high-risk activity even before the war began, for reasons including the industry slowdown and the increase in the interest environment. Since the war erupted, performance contractors have been exposed to additional risks, particularly labor shortages and rising costs of labor and raw materials. Notably, as a rule, most credit to performance contractors is used for guarantees (off-balance sheet credit), particularly performance guarantees linked to specific projects.

Box 5.2 | Lessons of Bank Failures in the US in March–May 2023¹

- In March–May 2023, three US banks failed after experiencing withdrawals on an unprecedented scale within a short time.
- The failure of these banks was the most significant stress that the global system experienced since the Global Financial Crisis in 2008, putting the banking regulation that was anchored in that crisis to the test.
- These events prove once again the importance of conservative and effective macroprudential supervision of entities that accept deposits and use them to extend credit.
- The Banking Supervision Department studied the events and the regulatory responses to them around the world in detail, and examined which lessons might be relevant for the Israeli system. The Department intends to apply the lessons that were learned.

The sequence of events

Until the beginning of 2022, the three US banks in question—Silicon Valley Bank (SVB), Signature Bank of New York (SBNY), and First Republic Bank (FRB)—enjoyed a good reputation, financial success, and rapid and exceptional growth in deposits and equity prices. Their success was abetted, inter alia, by flourishing high-tech and crypto markets in the aftermath of the COVID-19 pandemic. The trend began to turn around in the second quarter of 2022 with the onset of steep interest rate increases in the US, a significant downturn in the technology sector, and steep declines in the crypto market. Customers in both of these sectors began to withdraw their deposits, and the banks responded by raising their deposit interest rates in an attempt to retain their customers, causing their profitability to erode.

SVB was the first to be hit. The rating agencies threatened to downgrade its rating due to concerns of impairment to its profitability. In response, on March 8, 2023, the bank's board of directors released a plan to bolster liquidity and capital. This move was meant to calm the market, but in practice it was perceived as evidence that the bank was in distress. This immediately toppled the markets' confidence in the condition of the bank, drove the bank's equity prices down, and triggered an unprecedented run on deposits. On March 10, 2023, SVB failed and the regulator closed it.

The failure of SVB made the entire financial system much more sensitive and had a particularly dire impact on SBNY and FRB, which the market also singled out as vulnerable. Both banks experienced massive withdrawals of deposits, and on March 12, 2023, the regulator had to close SBNY's doors.

¹ The Box includes some reference to the Credit Swiss failure, which happened at the same time period.

At this stage, the regulators announced that they would also cover uninsured deposits at both failed banks. They also unveiled a far-reaching program of liquidity injection to the banking system and arranged \$30 billion in deposits by several large banks with FRB, thereby signaling trust in its condition. Withdrawals from FRB did slow for some time, until the financial statements for the first quarter of 2023, released in late April, revealed the massive extent of deposit withdrawals in that quarter—again undermining confidence in the bank and unleashing a new wave of massive withdrawals.

On May 1, 2023, FRB was acquired by JPMorgan Chase with the regulator's intervention and the US President affirmed that this bank's depositors would also remain safe.

Until the eve of the failure, all three banks had enjoyed a good reputation, adequate capital adequacy, reasonable margins, and low exposure to credit risk. Those banks were defined as medium-sized banks and, as such, were not subject to full regulatory requirements, though in retrospective, even full application of these requirements was unlikely to have sufficed to change the developments. Even though each bank had idiosyncratic characteristics, one may generalize and state that their main sensitivity is due to basing profitability mainly on interest rate spreads rooted in contract duration differentials² and in confidence in the stability of their customer relations. This confidence was especially relevant because at least two of the three failed banks used a niche business model, specializing in delivery of high-quality services to a specific customer segment (business and private customers in the fields of high tech and crypto).

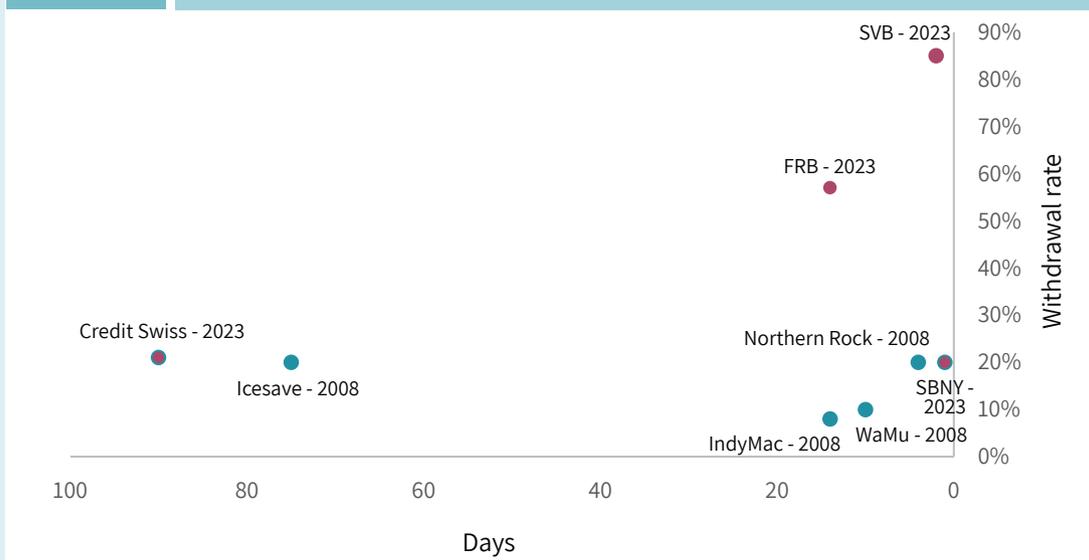
The speed and intensity of the run on deposits in these three cases were unprecedented relative to previous financial crises, including the Great Financial Crisis (GFC) in 2008. This is demonstrated in the withdrawal of \$40 billion in deposits in one day at SVB and \$100 billion in two weeks at FRB (Figure 5.69)

It is important to understand that even though the three banks held liquidity cushions of sizes that were considered reasonable to good in regulatory terms, they were unable to withstand withdrawals of such magnitude.

² Contract duration differentials reflect a bank's exposure to the risk of a loss as a result of change in interest rates when measured by contractual dates of maturity of assets as against those of liabilities, with no reflection of the effect of assumptions on customer behavior.

The run on the bank—increased speed and volume of withdrawals in 2023 compared with the past

Figure 5.69 Speed and Intensity of Deposit Withdrawals Compared with Previous Financial Crises



SOURCE: Basel Committee, "Report on the 2023 Banking Turmoil", October 2023.

Interest risk

In general the banks based their business model on providing their customers with quality service and, as a corollary, accepting relatively large deposits with short maturities and at low interest rates. The banks used these deposits to issue loans or invest in long-term bonds at fixed rates, in a manner that provided them with interest rate spreads due to the differences between short-term yield and the long-term yield. As a result, the contractual maturity dates created acute exposure but the banks assumed that their good customer relations would allow deposits to remain stable and at low interest, making their effective level of exposure to the interest rate reasonable. At first glance, the historical data conventionally used in risk-management models seemed to support this assumption to some extent.

In actuality, the steep upturn in interest rates in 2022 led to the onset of pressure from customers to raise deposit interest rates. Thus, the banks' spreads began to narrow parallel to decline in the fair value of assets and of the economic capital.³ Eventually this assumption, which underpinned the banks' business model and risk management, totally collapsed, eliciting feverish efforts by the banks' boards of directors to reduce the expected damage to profitability in order to avert a severe reputational damage and decline in market indicators,

³ Economic capital denotes the difference between assets and liabilities in terms of economic value, which is customarily measured on the basis of fair value.

even if this entailed a further increase in their exposure to interest rate risk and a “gamble” on the reversal of the interest rate trend. The boards of directors apparently assumed that their liquidity cushions would allow them to ride out the hard times. In retrospect, they failed on account of this assumption, too.

Table 5.2 presents selected indicators of interest rate risk several months before the failure, including a comparison with data from the Israeli system. It shows the high level of interest rate risk among the banks that failed. Furthermore, the banks’ sensitivity to economic capital, calculated after the effect of behavioral assumptions, yields a picture of risk exposure that is much milder than that generated by the risk indicators in the absence of these assumptions.

Table 5.2 | Selected indicators of interest risk as of December 31, 2022

	United States			Israel
	FRB	SBNY	SVB	Banks in Israel (range)
Net assets ⁽¹⁾ > 3 years to total assets	70%	41%	55%	5% - 10%
Net fair value ⁽²⁾ to equity	-241%	-54%	-94%	(-17%) - 6%
Economic-capital sensitivity in a 1% rate increase scenario	N.A.	3.3%	-15.0%	(-2.3%) - 0.8%

Source: Banks’ financial statements as of December 31, 2022.

(1) Net assets—assets less liabilities.

(2) Net fair value—assets in fair-value terms less liabilities in fair-value terms.

Liquidity risk

In the years leading up to the failure, the three banks had seen a vigorous increase in deposits. In accordance with their business model, a very high share of these deposits was relatively large, hence not covered by deposit insurance and had short contractual maturity. As stated, the banks based their liquidity risk management largely on the assumption that their customer relations would allow deposits to remain stable and that they could quickly liquidate long-term and nontradable assets by encumbering them in order to obtain immediately available lines of credit from the central bank and the FHLB.⁴

The series of interest rate increases that began in March 2022, coupled with a slowdown in technology industries and a crisis in crypto, unleashed an initial wave of deposit withdrawals

⁴ FHLB—Federal Home Loan Bank, a government sponsored enterprise established by law that engages in issuing credit to financial institutions in the US. See <https://fhlbanks.com>

by late 2022. The three banks withstood this major stress by drawing down their liquidity cushions and utilizing some of the credit lines that the central bank and the FHLB had made available.

At the beginning of 2023, as noted above, deposit withdrawals from these banks escalated to an unprecedented scope, which evolved into a run on the bank. The intensity and rapidity of the withdrawals were strongly affected by rapid transmission of messages on social media and use of technological means. SVB and SBNY failed almost immediately whereas FRB, which had exceptionally large credit lines from the central bank and the FHLB—more than \$60 billion—held on for more than a month. Given their size and category under US banking regulation, the three banks were not required to maintain an LCR ratio.⁵ However, it must be noticed that even this ratio could not have enabled the banks to withstand deposit withdrawals of such magnitudes. Furthermore, analysis performed after the fact showed that even if the banks had had to comply with the ratio, they would have been in compliance until the very onset of the failure.

Table 2 presents selected indicators of liquidity risk, including a comparison with data from the Israeli system. Conspicuous differences are found in the share of demand deposits and the practice among US banks to secure immediately available credit lines also against nontradable loans and assets that they encumber to the central bank and the FHLB, thus providing themselves with a sizable additional tier of sources of immediate liquidity in the event of an emergency.

Table 5.3 | Selected indicators of liquidity risk as of December 31, 2022

	United States			Israel
	FRB	SBNY	SVB	Banks in Israel (range)
Deposits > NIS 1 million / total deposits (in US banks- >USD 250,000) ⁽¹⁾	68%	90%	94%	64%-79%
Demand deposits / total assets	61%	74%	79%	31%-50%
Liquid assets / total assets ⁽²⁾	43%	42%	67%	25%-36%

Source: banks' financial statements as of December 31, 2022.

(1) U.S.—deposits up to \$250,000 are covered by Federal deposit insurance.

(2) Liquid assets include cash, bank deposits, and investments in bonds. In the U.S., they also include immediately available lines of credit from the central bank and the FHLB, secured by loan portfolios.

⁵ Liquidity Coverage Ratio, an indicator for short-term liquidity.

Switzerland⁶

On March 19, 2023, as these events were unfolding in the United States, UBS Bank announced that it had acquired Credit Suisse (CS). The acquisition came in the aftermath of a series of events involving CS over several years that led to penalties, losses, and a damage to the bank's reputation. The bank's problems mounted in March 2023, when it announced a delay in issuing its 2022 financial statements. This, alongside the banks failures in the US and negative market sentiment, triggered a wave of withdrawals of funds and concerns regarding the bank's stability. In response, the Swiss authorities acted swiftly and arranged the acquisition of the bank by UBS, while providing some state guarantees in so doing. This demarche, among its other effects, involved a large haircut for holders of "Additional Tier 1 capital" bonds—a measure that was widely criticized.

Regulatory responses around the world

The failures of the US banks and of Credit Suisse were the most significant stresses that the banking system had suffered since the GFC in 2008. They were examined shortly after the failures and continue to be studied by international and local supervisory authorities in order to determine whether the existing regulatory and supervisory frameworks and the arrangements to deal with banks' failure are adequate and respond appropriately even in a world of changes in the banking universe.

In the course of 2023, a lengthy series of US and Swiss authorities, international authorities, and leading research and academic institutes published reports and insights about the events, their significance, and their implications.⁷ Among the many topics raised in these documents, the following points are noteworthy:

- Considering the possibility of narrowing the difference in regulatory requirements between large banks of systemic importance and banks not defined as such.
- Reemphasizing the importance of effective risk management, adequate corporate governance, and stringent supervisory approach for correction of weaknesses identified at the banks.
- Reviewing various aspects of existing directives concerning liquidity risk management, including examining LCR withdrawal coefficients from the standpoint of the rapidity of withdrawal of deposits at the current technology era, the effect of concentration

⁶ Sources of information: FINMA Report, *Lessons Learned from the CS Crisis*, December 19, 2023; Basel Committee, *Report on the 2023 Banking Turmoil*, October 5, 2023.

⁷ Noteworthy among these authorities are the Fed and the FDIC in the United States and the BIS and the FSB on the international scene. Below are links to several leading reports in this context:

- <https://www.federalreserve.gov/publications/review-of-the-federal-reserves-supervision-and-regulation-of-silicon-valley-bank.htm>.
- <https://www.bis.org/bcbs/publ/d555.htm>
- <https://www.fsb.org/wp-content/uploads/P101023.pdf>

of deposits, fine-tuning the requirements that relate to emergency liquidity programs, and the need to be prepared to use immediately available credit lines from the central bank.

- Examining whether the existing treatment of interest rate risk under the current Basel standards for capital allocation is appropriate and adequate.
- Examining the utility of using “Additional Tier 1 instruments” in view of the events at CS.

In coming years, some of the insights are expected to find expression in regulatory updates in the US and among the international agencies. Obviously, once these are formulated, the Banking Supervision Department will examine the need to adopt them.

Learning lessons by the Banking Supervision Department

The Banking Supervision Department subjected the events and the global regulatory responses to detailed study and considered which of the lessons may be relevant for the Israeli banking system. The Department intends to apply these lessons and to continue tracking concurrent processes abroad.

We should emphasize that even in ordinary times the Banking Supervision Department closely follows developments in the various risks faced by banks and tracks their risk management and corporate governance, including those relating to interest-rate and liquidity risks. As international bodies note regularly in their examination reports, the conduct of the Banking Supervision Department in these fields, as in the other prudential aspects, is typified by conservatism and stringency.

The measures that the Banking Supervision Department is planning to take include the following:

- Improving the supervisory monitoring tools of the development of liquidity and interest rate risks.
- Stepping up supervisory involvement in the banks' risk management models and considering ways to limit overreliance on behavioral assumptions.
- Reviewing the banking system's emergency plans for extreme liquidity situations, with emphasis on coping with massive withdrawals within a very short time.
- Reexamining the arrangements that pertain to a bank in failure and their supportive statutory infrastructure.

CHAPTER 6

CHAPTER 6 BANKING SUPERVISION DEPARTMENT ACTIVITY

In 2023, the Banking Supervision Department focused on strengthening the resilience of the banking system. With the outbreak of the war on October 7, 2023, the banking system demonstrated its preparedness and stability. The year 2023 was also characterized by continued promotion of measures to enhance customers' bargaining power and to increase competition and innovation in the banking industry.

1. THE BANKING SUPERVISION DEPARTMENT'S VISION AND STRATEGIC GOALS

The vision of the Banking Supervision Department is “to promote the public good by ensuring the stability and fairness of the banking system by means of professional, innovative, and transparent supervision.” The objectives of the Banking Supervision Department are derived from the Bank of Israel Law, 5770-2010, and from the strategic goals that were adopted to support and assist in achieving that vision. The law stipulates that the Banking Supervision Department must act for the benefit of the public and the economy via three main objectives: preventing harm to the ability of banking corporations to meet their obligations; ensuring the proper functioning of banking corporations and protecting their customers' interests; and supporting the stability of the financial system. At the beginning of 2024, a process was initiated to formulate the Banking Supervision Department's strategy in coming years. This process involved analyzing developments in the economic, technological, and regulatory environment.

The strategic supervisory goals are aligned with the objectives of the Bank of Israel and include:

- **Stability:** Maintaining the stability of supervised entities, their continuous operation, and the security of depositors' funds, both in normal times and in emergencies.
- **Fairness:** Instilling a culture of fairness toward customers and providing optimal and inclusive service levels.

Supporting goals were also defined:

- Encouraging competition in the financial system.
- Enhancing the effectiveness of the Banking Supervision Department's work.

These objectives are collectively intended to maintain a robust, fair, and competitive banking environment that can adapt and thrive amidst current challenges and future uncertainties.

2. THE SWORDS OF IRON WAR: BANKING SUPERVISION AND CONDUCT DURING A CRISIS

On October 7, 2023, following a deadly terrorist attack, the State of Israel declared a state of emergency and launched military operations against terrorist organizations in the Gaza Strip while simultaneously managing tensions with Hezbollah in Lebanon. This national crisis highlighted the

necessity of maintaining a stable and functioning banking system in light of the challenges that have emerged. Following is an in-depth look at the main actions taken by the Banking Supervision Department during the war:

Business continuity in the banking industry during the Swords of Iron War

The banking system plays a central role in financial intermediation and promoting economic activity in the country, including the proper functioning of payment and clearing systems, providing banking services to the public, and maintaining public trust and the banks' reputation. At the same time, the banking system is exposed to a wide range of threats that can disrupt business operations, such as war, earthquakes, cyber attacks, strikes, etc. Given its importance, the banking system must ensure that it remains resilient to threats and operational disruptions. This principle is established in Proper Conduct of Banking Business Directive no. 355, which defines the management of business continuity that is expected of the banking corporations. Additional supervisory principles can be found in circulars and letters that are distributed to the banking system from time to time.

With the outbreak of the Swords of Iron War and following the Banking Supervision Department's participation in national crisis assessments, guidelines were formulated for the banking system, with the goal of maintaining banking services even in the emergency situation. These included:

- Operation of branches near the areas of conflict according to the policies set by the Home Front Command.
- Activation of the Supervisor of Bank's power to relocate branches and operate mobile branches to serve evacuees, while expanding the range of services provided by mobile branches.
- Publication of a comprehensive relief plan designed to assist various populations in coping with the financial impacts of the war.
- Establishment of an emergency center within the Banking Supervision Department to facilitate interaction with the banking system.
- Conducting proactive visits to evacuee centers to identify their needs.
- Increasing the stock of cash held by the banking corporations to meet branch needs for seven business days, instead of the usual three.
- Preparedness of core branches¹, while ensuring a broad geographical distribution, in order to provide essential banking services in the event of further escalation of the conflict and in light of security tensions on the northern border.

The Swords of Iron War underscored the importance of the functional and business continuity of the banking corporations. At the end of the war, the Banking Supervision Department will conduct an evaluation process both internally and together with the banking corporations, and will participate in the national evaluation process.

¹ A "core" branch is prepared ahead of time for an emergency and all that that implies and has been designated to remain open in an emergency.

Guidelines issued by the Banking Supervision Department to the banking system as a result of the Swords of Iron War

Against the backdrop of Swords of Iron War, the Supervisor of Banks issued a letter to the banking corporations and credit card companies, emphasizing the crucial role of the banking system in emergency situations, with emphasis on the following points:

- The need to provide solid support for customers, while proactively finding solutions and providing relief to customers in distress wherever possible.
- Ensuring the continuity of services in an appropriate and professional manner, including the operation of branches and ATMs.
- Managing the operational and financial risks unique to this period.

Monitoring and evaluation of developing risks related to the Swords of Iron War

With the outbreak of the Swords of Iron War, the Banking Supervision Department began monitoring the war's impacts and the risks facing the banking system. As part of this effort, the Emergency Reporting Directive was activated, and routine monitoring of risk developments in the system was intensified. The Banking Supervision Department evaluated the capital frameworks of the banking corporations, in order to ensure that the banking system has adequate liquidity buffers and that the banking corporations have sufficient reserves to absorb credit losses. The Banking Supervision Department worked to ensure that banking corporations were strengthening their monitoring, reporting, control, and risk management processes and examining the implications of further deterioration in the security and economic situation. All these measures were undertaken in order to identify emerging risk foci and to ensure preparedness for their realization.

Emergency Reporting

The Banking Supervision Department continued this year to strengthen its work processes for analyzing information received regularly from the banking system, while promoting steps to maximize the value of the information and to increase the efficiency of its management and processing. With the outbreak of the Swords of Iron War in October 2023, the Supervisor of Banks decided that, given the scale and severity of the event, it was necessary to activate the Special Situation Reporting Directive (emergency directive) and to request broader and more frequent reporting from banks. This included data on the functioning of the banking system and the economic status of customers, particularly those affected by the war, with the goal of supporting the formulation of measures to assist the public and monitor their implementation (for more details, see Box 5.3 in this survey).

Monitoring Credit Risk

With the outbreak of the Swords of Iron War, the Banking Supervision Department began to monitor more closely the status of borrowers in industries identified as sensitive due to the war and the effectiveness of the banking relief provided to them.

The Banking Supervision Department ensured that the banking corporations updated their credit loss allowances to fully reflect the war's implications. It also acted to ensure comprehensive disclosure in its public reports of the war's impact on the risk levels faced by banking corporations and the measures taken by the banks to support and assist their customers. The Banking Supervision Department also clarified the required accounting treatment and disclosure of measures taken, such as payment deferrals as part of the assistance provided to customers and the economy in order to cope with the war's effects.

Monitoring Cyber Risks

With the outbreak of the Swords of Iron War and the concern that cyber attacks might become part of the battlefield, the Banking Supervision Department intensified its interaction with the banking system on several fronts. This included continuous monitoring and updating of attempted attacks and incidents, including daily cyber protection status reports shared with relevant parties; issuing of guidelines to strengthen defenses and ensure preparedness for events; and providing regulatory relief wherever possible.

Emergency Q&A during the Swords of Iron War

The Banking Supervision Department developed a comprehensive FAQ document to help the public manage their banking needs during the challenging times brought about by the Swords of Iron War and it keeps the document updated. The FAQ document attempts to provide clear and accessible answers to the most common issues faced by banking customers during the war.

Adjustments to Proper Conduct of Banking Business Directives in order to cope with the Swords of Iron War (temporary order)

To assist the banking system and its customers in dealing with the challenges of the situation, during the last quarter of 2023 and early 2024 the Banking Supervision Department formulated a series of exemptions and adjustments to the Banking Supervision Department's directives as part of a temporary order. The adjustments to the directives were intended to provide banks and credit card companies with the business flexibility to alleviate the difficulties faced by customers as a result of the war. These exemptions and adjustments were made in various areas, such as bank-customer relations, credit provision, operational procedures, and identification requirements when providing certain services.

Examples of prudential exemptions

Housing Credit

An increase in the maximum financing rate for a housing loan secured by a residential property not intended for purchasing an asset (an "all-purpose loan"). In addition, exemptions were provided from various restrictions on the addition of a secure room (*mamad*) in cases where the Home Front Command had eased planning requirements.

Credit Provision

Because it is difficult for borrowers to present updated financial reports, banks were allowed to continue extending credit based on the most recent reports available.

Employee rotation and continuous leave in the banking system

An extension was granted for using vacation time in the case of employees in sensitive jobs and for the maximum duration that a sensitive position can be filled by a manager or worker.

The operations of boards of directors

Due to problems of availability of office holders and employees, several exemptions were decided on for boards of directors, including a loosening of requirements for online meetings and of the minimum requirements for approving minutes, as well as the distribution of the draft document of decisions made at a meeting.

Operational risk management

An extension was granted for conducting the multiyear gap survey of operational risks that banking corporations are required to perform periodically.

Examples of exemptions in compliance

Exemption in identification when issuing a nonbank debit card

The framework for activity with nonbank debit cards that allows for exemptions in identification was expanded from NIS 50,000 to NIS 100,000.

Exemption in identification when opening a clearing account for a business

The framework for activity levels in a clearing account that allows for exemptions in identification was expanded from NIS 50,000 to NIS 200,000, provided the increase in clearing volume is for the purpose of assistance due to the war.

Exemption in identification for payment accounts

The framework for activity levels in a payment account that allows for exemptions in identification was expanded, provided that the increase in volume of activity is for the purpose of assistance due to the war.

Prepaid Cards

The charging limit was expanded on anonymous prepaid cards issued by companies for use in a closed loop of businesses.

Examples of consumer related exemptions

Exemption in credit management of current accounts

A banking corporation was permitted to extend the overdraft credit line for longer than one business day, during which the limit would be formalized with the customer. Nonetheless, the banking corporation was required to formalize the framework as soon as possible, despite the challenges faced by both the bank and the customer due to the war.

Exemptions in Banking (Customer Service)(Disclosure and Submitting of Documents) Rules—1992

To avoid delays in the implementation of special programs for deferral of loan payments put in place during this period, with the goal of assisting banking system customers, it was decided that customer consent could be obtained in various ways, at the discretion of the banking corporation, including a telephone conversation, provided it is documented.

It was also decided that the consent of a borrower who is unable to sign housing loan documents as a result of the war could be obtained in various ways, at the discretion of the banking corporation, after identifying borrowers and documenting their consent, provided that the other borrowers sign the loan documents as required by the regulations. This exemption was intended to assist borrowers in advanced stages of the housing loan process who need to sign the loan documents but find it difficult to get to the bank branch because of the war.

In addition to exemptions provided as a temporary order, the Banking Supervision Department provided exemptions for checks without cover

With the outbreak of Swords of Iron War and the declaration of a state of emergency in the economy, data on NSF checks reported by the banks pointed to significant distress both at the national level and in high-risk regions.² The return rate of checks in the third week of the war peaked at 5.22 percent compared to 3.60 percent in routine times, and the proportion of checks returned for lack of cover rose to 1.39 percent, compared to 0.83 percent in routine times.

Based on the presented data and cooperation between the Ministry of Justice and the Bank of Israel, and with the approval of the Constitution, Law and Justice Committee, Minister of Justice Yariv Levin decided, based on his authority according to the Checks Without Cover Law, that checks refused due to lack of funds during October in all current accounts in Israel would not be included

² High-risk regions were defined according to the Home Front Command's population defense policy. Upon the publication of the Checks without Cover regulations, the list of high-risk regions was updated in accordance with the list of localities included in the addendum to the Postponement of Deadlines Law (Temporary Order – Operation Swords of Iron War) (Contract, Judgment, or Payment to an Authority), 2023.

in the list of checks leading to account restrictions. Accordingly, these checks were also removed from the list of checks that triggers the sending of a warning after five NSF checks. Furthermore, these exemptions were applied to eligible population groups, such as residents of war-affected communities, reservists and their spouses, missing persons, kidnapped or captured individuals and their families, terrorists' victims and their families, etc., as set out in the regulations, for an additional period through January 21, 2024.

To increase the utilization of rights among eligible populations, the Banking Supervision Department took several steps to raise awareness of the exemptions, including instructions to add relevant information to bank notifications related to check without cover events and by means of publication on commercial bank websites and the Bank of Israel's website.

According to data received by the Banking Supervision Department, 6,123 NSF checks were removed as a result of the regulations. It is estimated that the utilization rate of rights among reservists is currently about 50 percent, representing 1,525 checks that were removed. As a result, the regulations also led to a decrease in the number of customers subject to banking restrictions and the number of restricted accounts in the economy. On April 2, 2024, a letter was sent from the Supervisor of Banks to the banking system with clarifications regarding the implementation of the Checks Without Cover Regulations (for more details, see Box 6.7 in this survey).

3. MAIN ACTIVITIES TO MAINTAIN THE STABILITY OF THE SUPERVISED ENTITIES AND THEIR CONTINUOUS FUNCTIONING AND TO PROTECT THE FUNDS OF DEPOSITORS IN ROUTINE TIMES AND IN AN EMERGENCY

The Banking Supervision Department sought to strengthen the stability and proper functioning of the banking system by means of the following measures:

Supervisory Review and Evaluation Process (SREP)

In 2023, the Banking Supervision Department conducted the Supervisory Review and Evaluation Process (SREP), which included a risk profile assessment of the six banking corporations. For the first time, this process was also expanded to include the three credit card companies. The objectives of this process included identifying and assessing focal points of risk in these entities, evaluating the quality of their management processes, and examining the effectiveness of their corporate governance. This also ensured that the capital ratios of these entities were appropriate to their risk profiles. The results of the process were presented to the management and boards of the banking corporations and credit card companies, and were reflected in summary letters distributed to them. Following this important process, the Banking Supervision Department began updating its risk assessment methodology with the goal of improving its ability to evaluate risk profiles. This updating process is expected to continue into 2024.

The Banking Supervision Department's promotion of the banking system's preparedness for emergencies

Over the past year, the Banking Supervision Department has worked to enhance the preparedness of the banking system for emergencies. This involved integrating supervisory processes within national emergency events and managing the implications of disruptions related to the war. Key activities included:

- Developing a special war scenario for the banking system, which is aligned with the national reference scenario, with the goal of facilitating optimal preparation and response strategies.
- Participating in the comprehensive emergency exercise of the Bank of Israel in June 2023, which focused on a multifront war scenario.
- Collaborating with the Electricity Authority to prioritize the power supply to the banking sector's computing systems in demand management scenarios.
- Involvement of the Banking Supervision Department and the banking system in Home Front Command exercises in the local authorities.

These initiatives are part of a broader supervisory effort to ensure that the banking system remains robust during national emergencies..

Intensifying the monitoring of capital outflows from Israel

During 2023, amid public concerns over the government's legislative processes regarding the judicial system and the potential downgrade of Israel's credit rating, there was an increased fear of significant foreign currency outflows from the country. In response, the Banking Supervision Department intensified its continuous monitoring and tracking of capital outflows from Israel. As part of this effort, banks were required to report capital movements and changes in the level of deposits in the banking system to the Banking Supervision Department more frequently (weekly), and communication with the banking system was intensified so as to ensure close monitoring of capital movements and that the system has adequate liquidity surpluses.

Monitoring and tracking the banking system's exposures to difficulties and failures being experienced by foreign banks

The change in interest rates and the realization of market and liquidity risks have led to significant problems and have impacted the stability of banking corporations worldwide, particularly in the US, resulting in the failure of several banks. Subsequently, difficulties were experienced by several banks in Europe. As a result, the Banking Supervision Department increased its monitoring of Israeli banking corporations' exposure to foreign financial institutions, particularly those in distress. As part of this effort, banks were required to report their exposure to foreign financial institutions to the Banking Supervision Department on a weekly basis, according to an emergency reporting directive that was invoked. The Banking Supervision Department also verified that Israeli bank branches abroad did not have significant direct and indirect exposure to the failure events among US banks. Following these failure events, the Banking Supervision Department also carried out a process to learn the lessons from those events (for more details, see Box 5.2 in this survey).

Assessing the impact of interest rate increases on interest rate risk in the banking portfolio

Against the backdrop of a changing interest rate environment, increased uncertainty, and challenges in predicting the behavior of depositors and borrowers, which provides the basis for exposure assessment models, there was an increase in the banking system's exposure to high interest rate volatility. Consequently, the Banking Supervision Department examined these impacts on the exposure of certain banks to changes in interest rates in key scenarios, including extreme scenarios and close proximity to limits. Risk management aspects were also examined, including board of directors' oversight, risk appetite, and the conservatism of key model assumptions.

Examining the work plans of banking corporations and credit card companies

At the beginning of 2023, and as part of its annual routine, the Banking Supervision Department reviewed the work plans of the banking corporations and credit card companies. The process is intended to understand the initiatives and objectives defined in the work plans and the risks derived from them. This also ensures that the objectives align with the banking corporations' strategies and that the risks derived from the plans do not exceed supervisory risk appetite. Following this process, the Banking Supervision Department considered the need to update the supervisory work plans' tasks in order to align them with the banking system's work plans.

Cross-sectional survey of the effectiveness of the risk management officer in the banking corporations and credit card companies

From January to March 2023, the Banking Supervision Department conducted a survey of the risk management systems in the banking corporations, based on the recognition of their critical role in maintaining stability. This survey assessed several key characteristics of the risk management officer: his status within the organization, his independence, his involvement in processes, his influence on major decision making and his involvement in approving significant credit exposures and the updating of credit policy. Following the survey, the Banking Supervision Department distributed letters to the banking corporations that reported on the effectiveness of their risk management officers and included recommendations for improvements if needed. This process emphasizes the importance of strong risk management in maintaining the stability and integrity of the banking system.

Assessing the effectiveness of the boards of directors of the banking corporations

During 2023, reviews were conducted in various banking corporations in order to assess the effectiveness of their boards of directors. The reviews focused on fulfilling the obligations according to Proper Conduct of Banking Business Directive no. 301. Also examined were the work routines supporting the board in performing those duties. Following the surveys, letters were distributed to the reviewed banking corporations, which called on them to carry out improvements, if needed, based on the findings.

Examinations and reviews of the banking system

The Banking Supervision Department conducts a continuous program of examination tasks³ by means of its teams of auditors who specialize in the various types of risks. This program is designed to identify and assess the range of risks inherent in the banks' various activities and their compliance with laws and regulations, as well as to examine the functioning of management, control, and corporate governance systems. This audit program is meant not only to detect violations and correct deficiencies but also to refine the supervisory and enforcement strategies of the Banking Supervision Department based on the findings. The annual examination plan is determined after a process that integrates all of the information available to the Banking Supervision Department and is aligned with the principles of risk-focused supervision.⁴

Following are the main areas of focus of the examinations conducted in 2023:

1. **Credit Risk:** In light of the challenges faced by the construction and real estate industry over the past year as a result of rising interest rates and worker shortages due to the war, the Banking Supervision Department continued to focus on credit risk in this industry based on audits of financing provided to the industry's borrowers and continuous monitoring of the banking exposure to this industry according to its risk characteristics.
2. **Public Reporting:** The Banking Supervision Department made adjustments to the reporting regulations related to troubled debt restructuring and the implementation of new rules developed as part of the lessons learned from the COVID-19 crisis in the US. Emphasis was also placed on improving the quality of disclosure regarding interest rate risk and developments in response to the dynamic interest rate environment and global interest rate risk. An additional review was conducted during the year of the implementation of new rules for current expected credit losses (CECL) in the various banks, focusing on parameters used for credit risk management, investment assessment processes and determining the decline in value of investments in nontradable shares, as well as aspects related to interest rate risk and ESG (environmental, social, and governance) disclosures.
3. **Market Risk:** This year saw the voluntary adoption of the FX Global Code, an optimal standard for trading room operations, by Israel's five largest banks. In addition, and following the bank failures in the US at the beginning of the year, the Banking Supervision Department established an internal team to study the events and learn their lessons, resulting in a series of recommendations primarily aimed at strengthening the management of liquidity risk and interest rate risk.
4. **Anti-Money Laundering and Combatting the Financing of Terrorism (AML/CFT):** The Banking Supervision Department conducted inspections focused on the compliance of banking corporations with anti-terrorism financing regulations and the adequacy of reports

³ The Banking Supervision Department conducts examinations of various types, with respect to their scope and quality, according to the subject of the examination and its circumstances. These methods are designed to achieve the optimal combination of assessment, coverage, and depth of the investigations.

⁴ The work plan can change as a result of developments or changing needs, in accordance with the principle of dynamic supervision.

to the Israel Money Laundering and Terror Financing Prohibition Authority. A review was also carried out of the quality of indicators used by credit card companies to manage and assess money laundering and terrorism financing risks in order to help the banks improve their ability to identify and assess existing and emerging focal points of risk as part of their risk profile assessment in the area of AML/CFT.

In 2023, fines totaling NIS 1.18 million were levied on several banks for violations of the Anti-Money Laundering Law.

5. **Corporate Governance:** As part of efforts to enhance the quality of corporate governance in banking corporations, examinations were conducted in 2023 to evaluate the performance of boards of directors, senior management, risk management, and internal auditing in the large banks' major business processes. These examinations surveyed the decision-making stages, implementation, reporting, and follow-up, focusing on the board's contribution and impact on business policy and the interactions between the different entities.
6. **Model Risks:** The Banking Supervision Department carried out an examination of the adequacy of model risk management in terms of the assimilation of artificial intelligence, which, despite its advantages, may expose banking corporations to new risks or exacerbate existing ones, including bias, explainability, and accountability, among others. Emphasis was placed on planning, designing, and implementing controls in decision-making mechanisms based on these models.

Developing a methodology to assess the risk profile of the credit card companies

Following the transformation of the MAX and Isracard credit card companies into independent entities, and in preparation for the separation of Cal from the Discount Group, the Banking Supervision Department began developing a new methodology for supervising and assessing the risk profile of a credit card company. This methodology is tailored to the business activities and risk characteristics of credit card companies. As part of the development of the methodology, a review was carried out of practices in the supervision of similar independent companies by regulators in other countries. The development of the methodology is expected to be completed during 2024.

Enhancing cybersecurity in the banking system

This year, the Banking Supervision Department continued its efforts to improve and strengthen the cybersecurity of the banking system. This included the implementation of a multiyear plan to upgrade the financial CERT⁵, which was approved in 2022 by the Governor of the Bank of Israel, the Supervisor of Banks, and other financial regulatory bodies, as well as senior officials in the National Cyber Directorate and the Ministry of Finance. The financial CERT is designed to address unique cyber threats to the financial system and to provide an additional layer of protection (without reducing the existing obligations and responsibilities of banking corporations), including the promotion of defense capabilities that cannot be independently implemented at the level of an individual banking corporation or that should be implemented at the national level as part

⁵ Computer Emergency Response Team.

of a national protection umbrella for the entire economy. The Banking Supervision Department ensures that the banking system's needs with respect to state-level cyber protection are part of the upgrade plan and that the various tasks are progressing as planned.

As part of the Banking Supervision Department's activities to promote cyber resilience, regular meetings of the Interbank Cyber Protection Forum are held, including meetings during the initial months of the Swords of Iron War.

In addition, routine monitoring and assessment activities were conducted together with the banking corporations in the area of cybersecurity, particularly in domains with elevated cyber risk. This includes the periodic operation of an external scanning tool provided by the National Cyber Directorate for use by the Banking Supervision Department. This tool provides a status overview of the level of cybersecurity and information security in the supervised entities in terms of their external visibility.

A systemic review of cybersecurity strategy and policy in the banking system was also conducted, and cybersecurity aspects were included as part of the establishment of a new banking corporation. Steps were also taken to update cybersecurity regulation, including the drafting of a directive on information technology, information security, and cybersecurity. These steps are part of a broader strategy to ensure the resilience of the banking system against cyber threats.

Updating the regulatory framework for IT risk management

The banking industry is experiencing rapid change in its technological landscape, with increasing interdependency and complexity in information technology systems. Many banking corporations are undergoing a digital transformation that will enhance their efficiency and provide better and more diverse services to their customers. However, while digital transformation brings numerous benefits to the financial ecosystem, it also exposes banking corporations to various information technology risks, and primarily cybersecurity risks.

Recognizing the need to keep pace with these changes and adapt the current regulatory framework for managing technological risks to the evolving technological environment, changing threats, and globally accepted regulations, the Banking Supervision Department is preparing to update the regulatory framework governing technological risk management. This new directive aims to provide a unified and updated regulatory stance to better mitigate and manage the risks associated with advanced digital operations in the banking system.

The “Distressed Bank” and “Bank in Failure” Project

In 2023, the Banking Supervision Department established a dedicated working team to examine the barriers preventing the advancement of legislation related to the management of failing banks and deployment of tools for a solution. This initiative stemmed from recommendations by a team of economists at the International Monetary Fund (IMF), which emphasize the need for a structured approach in Israel to the handling of failing banks. The team is examining existing arrangements worldwide for managing failing banking corporations and recent legislative amendments in the areas of insolvency and economic rehabilitation, as well as changes and developments in the

financial sector, including lessons from the global banking crisis in 2023. The team will formulate recommendations for a comprehensive framework to deal with a distressed bank and a bank in a state of failure.

Handling and monitoring of compliance issues in Israel and bank branches abroad

Compliance issues, AML/CFT, and cross-border risks continue to pose significant challenges to the banking system. This is particularly relevant in the context of tightened global regulations, including the sanctions imposed on Russia following the outbreak of the war in Ukraine. In 2023, the Banking Supervision Department engaged in enforcement efforts to ensure that banks comply with the standards. These included, among other things, reviewing reports from an independent committee appointed at the Banking Supervision Department's request in connection with proceedings against certain banks; monitoring the implementation of various compliance programs and adjustments made to relevant policy documents and procedures; and taking steps to ensure improvements in automated systems used in risk management, in the controls environment, and in manpower.

Monitoring the reduction of the international footprint of banking corporations through their branches and subsidiaries

During 2023, the banking system continued to reduce its international footprint by selling operations, closing branches, and returning banking licenses. In May 2023, a structural transition was completed by Bank Leumi's UK subsidiary (BLUK), which included returning BLUK's banking license to the UK regulator. This move, approved by the Banking Supervision Department in 2022, transformed BLUK into a credit company and reduced its exposure to compliance and regulatory risks.

In July 2023, Bank Hapoalim Switzerland's banking license was returned with the approval of the Swiss regulatory authority (FINMA), thus ending Swiss regulatory supervision over it. In September 2023, Bank Hapoalim completed the sale of Bank Pozitif, resulting in the cancellation of the bank's permit to hold the controlling shares in the corporation. The Banking Supervision Department monitored the completion of the aforementioned steps.

Financial Penalty for Violation of the Anti-Money Laundering Law

Under the Prohibition on Money Laundering (The Banking Corporations' Requirements regarding Identification, Reporting, and Record-Keeping for the Prevention of Money Laundering and the Financing of Terrorism) Order, 5761–2001, there is an obligation to retain copies of identification documents when opening bank accounts. This requirement is a critical component of the anti-money laundering and anti-terrorist financing regime. According to the international standards set by the FATF, documenting and retaining identification documents is meant not only to satisfy the needs of the bank or of the Banking Supervision Department but also and primarily to meet the needs of the country's enforcement authorities.

Two separate technological malfunctions that occurred within Bank Leumi's digital platform

("Pepper") led to a significant breach of the obligation to retain documents in the case of numerous online account openings during 2021.

In accordance with the law, a financial penalty of NIS 2.26 million can be imposed for each violation. The Banking Corporation⁶ Sanctions Committee decided to reduce the penalty amount relative to the maximum amount specified by law because the bank independently discovered the violations, reported them to the Banking Supervision Department, and acted to correct the deficiencies. Therefore, it was determined that the penalty for the first violation would be approximately NIS 0.75 million, and that for the second would be NIS 1.13 million. Thus, the total financial penalty after the reduction was set at NIS 1.88 million. The decision was published on February 1, 2023.

Implementation of the Principles of Regulation Law

The Principles of Regulation Law, 5782-2021, which came into effect on January 1, 2023, defines the Bank of Israel as a public corporation for the exercise of powers to regulate banking activity, clearing houses, and credit data sharing. The purpose of this law is to promote optimal regulation of government bodies and public corporations in order to achieve a clear objective that is anchored in the regulator's powers and to provide high-quality regulation without imposing excessive regulatory burdens. Following its activities last year, the Banking Supervision Department continued its preparations to implement all the obligations imposed on it by the law. In February 2024 (after a postponement due to the Swords of Iron War), the Banking Supervision Department published an annual regulatory plan. In 2024, the Banking Supervision Department is expected to begin publishing regulatory impact assessments (RIA), and its directives will relate to periodic reviews of regulation, as required by the law.

Prudential regulation

One of the key measures intended to strengthen the stability of the banking system and ensure its proper functioning is the issuing of directives on financial risk management and the limitation of financial risk (hereinafter: stability). The Banking Supervision Department adopts internationally accepted standards for prudential regulation, particularly those established by the Basel Committee and the FATF (in the AML/CFT area). Following are the main areas in which the Banking Supervision Department has acted in the area of prudential regulation:

Update of the directive on interest rate risk management in the banking portfolio

In response to evolving market conditions, the Banking Supervision Department issued a new directive on interest rate risk in the banking portfolio in December 2023, thus adopting the Basel directive on the subject. The directive includes qualitative guidelines for risk management and instructions on how the Supervisor of Banks is to assess an outlier bank in terms of interest rate risk exposure in the banking portfolio. The identification of the outlier bank is based on estimating the impact of six standard interest rate shock scenarios on the economic value of the bank's equity,

⁶ The Banking Corporations Sanctions Committee (hereinafter: the Committee) is a committee established under the Prohibition on Money Laundering Law – 2000 (hereinafter: the Law). It has the authority, as part of enforcement of the prohibition of money laundering, to impose financial penalties on banking corporations (of up to NIS 2.26 million per violation) for violations of the Law, and of directives and regulations issued on the basis of its authority.

with the worst outcome measured against Tier 1 capital. The effects of two standard interest rate shock scenarios on net interest income are also measured. Estimating the impact of standard interest rate shock scenarios makes it possible to compare risk levels across banking corporations and clearing houses. The directive will go into effect on July 1, 2025, and corresponding changes will be made to public reporting requirements in order to ensure consistency in the terms and scenarios used.

The activity of banking corporations as broker-dealers

In July 2023, following public consultations, a new Proper Conduct of Banking Business Directive was issued regarding the activity of banking corporations as broker-dealers. This directive regulates the activities of banking corporations in financial intermediation—receiving and transmitting orders to execute securities transactions for customers—both in their role as intermediaries and through proprietary trading. The directive seeks to protect investors, maintain market efficiency and fairness, and reduce risks to banking corporations and in particular operational risks in trading rooms. The directive goes into effect on August 1, 2025.

Management of financial risks related to climate and the environment

The Bank Supervision Department continues to promote the preparedness of the banking system and the Banking Supervision Department for financial risks stemming from climate and environmental change. This issue is addressed on several levels, including the adoption of international standards for effective management of financial risks related to climate by means of a Proper Conduct of Banking Business directive, issued in June 2023 following public consultations and that will go into effect in June 2025.⁷ The directive includes: the adoption of best practices in public and regulatory reporting; the buildup of supervisory and systemic capabilities to conduct stress tests; participation in inter-ministerial and cross-divisional forums that are intended to address data and information barriers; accumulation of knowledge by monitoring publications and professional literature, working papers, and policy documents published by leading financial regulatory authorities and international bodies; and membership in the NGFS (Network for Greening the Financial System) working groups and plenum.⁸

Adoption of Basel guidelines on large exposures

The Basel guideline on large exposures was translated and discussed in the Banking Advisory Committee. In parallel, a survey was conducted to examine its quantitative impact, with focus on its implications for the level of concentration in the banking system. A public comment phase is planned for 2024.

Credit risk management

To improve risk management among the banks and enhance the work of the risk manager, an amendment was added to Proper Conduct of Banking Business Directive no. 311—“Credit Risk

⁷ There are internal discussions in the Banking Supervision Department with regard to the deferral of implementation.

⁸ Network for Greening the Financial System—An international organization of 138 banks and supervisory authorities from various countries (and another 21 observers) that cooperate in making the financial system greener.

Management”, such that the definition of "significant credit exposure" will be reduced in scope so as to require the involvement of the risk manager in credit exposures starting from a higher threshold.

Leverage ratio

The updated Basel guideline on the leverage ratio was translated in preparation for initial discussions with the banking system. As part of the adoption of the guideline, the rates of the leverage ratios and their mix are also being examined. In light of this, the relief granted during the COVID-19 period was extended and anchored as a temporary order within Proper Conduct of Banking Business Directive 218.

Measurement of capital and capital adequacy—operational risk

The Banking Supervision Department is in the advanced stages of adopting the updated Basel Committee guideline on the calculation of capital requirements against operational risk, which is part of what has become known as Basel IV. This directive, expected to be finalized in 2024, is planned for implementation starting in 2026.

Management of anti-money laundering and countering financing of terrorism risks

Directive 411 on “Management of anti-money laundering and countering financing of terrorism risks” was updated in June 2023 to address the following issues:

1. Adding new guidelines aimed at correcting a number of gaps identified by an audit conducted by the FATF (Financial Action Task Force).
2. Expansion of the arrangement appearing in Appendix 2.2 of the directive, which will permit the use of means of payment issued by entities licensed under the Control of Financial Services (Regulated Financial Services) Law, 5776-2016, and that are subject to the Anti-Money Laundering Order as part of the arrangement. This follows requests received and an assessment of the anti-money laundering risks involved in providing payment services.
3. Addition of Appendix 2.5 to the directive, which allows customers to open an account with a banking corporation using an immigration certificate up to 90 days from its issuance, instead of verification using an ID card. This is a temporary provision that will expire on December 31, 2023. The aim is to accommodate new immigrants from Russia as much as possible in their dealings with the banking system in Israel, given their situation as a result of the Russia-Ukraine war.
4. In January 2024, Appendix 2.5 was updated so as to extend the period during which a bank account can be opened using an immigration certificate up to 90 days from its issuance up until the end of June 2024. This is in order not to delay the account opening process for new immigrants who have not yet received their ID cards.

Crypto activities

In February 2023, an update to the directive on "Risk Management" was published. It requires banking corporations to report in advance to the Supervisor of Banks regarding their activities in cryptographic assets. At the same time, a supervisory letter was sent regarding banking

corporations' activities in financial-cryptographic assets (hereinafter: crypto). It outlines the main risks arising from crypto activities, requires the banking corporation to treat it as a product that necessitates a new product review process, and defines the requirements that are incumbent on the banking corporation in this matter (for further details, see Box 7.3 in Israel's Banking System 2022).⁹

Adjustments to the Proper Conduct of Banking Business directives that are applicable to a government corporation

On October 21, 2018, the government approved the establishment of Correspondent Services Ltd. as a government corporation, in accordance with a government decision.¹⁰ According to this decision, the objectives of the company and its areas of activity are the providing of representation services to the banks operating in the Palestinian Authority via the Palestine Monetary Authority or directly to these banks for the purpose of executing payment instructions or a payment transaction or clearing a payment transaction, all in new shekels only. It was also decided that the company's activities would be supervised by the Governor of the Bank of Israel and the Supervisor of Banks according to the powers granted to them by law. In view of the above, in September 2023, a draft of Proper Conduct of Banking Business Directive no. 482 on "Adjustments to the Proper Conduct of Banking Business directives applicable to government corporations" was published for public comment. This directive will go into effect subject to the granting of supervisory powers over the company by law and after the Supervisor of Banks announces the commencement of services by the company.

Reporting directives for new technology

The Supervisor of Banks places emphasis on the competent management of information technology in order to facilitate the development of banking corporations and their achievement of strategic goals while preventing operational failures and ensuring the stability of their services. To this end, a new Prudential Reporting Directive on technological metrics was established. The main topics in the reporting directive include: stability and availability; business continuity; cloud computing; resources, lines of defense, and controls; strategic projects; and artificial intelligence. This reporting will be used to assess the technological risk of banking corporations. Reporting began in April 2024.

⁹ See [here](#).

¹⁰ Decision 4207 made on October 21, 2018, as amended in Decision 1608 in June 2022.

4. THE MAIN ACTIVITIES TO INTEGRATE A CULTURE OF FAIRNESS TOWARD CUSTOMERS THAT IS INCLUSIVE AND IMPACTFUL

Consumer related Regulation

Management of a customer service and support system – publication of a new Proper Conduct of Banking Business directive (501)

The Banking Supervision Department encourages the promotion of fairness and equity in the banking system and outlines ways to address the new challenges faced by customers and banking corporations within a "customer-centric" approach. One of the primary goals of the Banking Supervision Department is to "embed a fair, inclusive, and impactful culture towards customers," and from the Banking Supervision Department's perspective, the provision of appropriate service to customers is a central component of fair conduct towards them.

Proper Conduct of Banking Business Directive no. 501 – "Managing the customer service and support system" is part of a planned comprehensive initiative aimed at establishing guidelines and standards for providing service and support to banking customers based on various service channels. The directive defines the obligations in the areas of corporate governance and operational processes that are designed to promote an organizational culture that emphasizes the quality and availability of customer service and support. Most parts of the directive were meant to go into effect one year after the publication date, but due to the war, they were postponed to June 2024.

In the context of publishing this directive, indirect amendments were made to other directives, including Directive 401, which deals with the business days of banking corporation offices. An additional section was added with an explicit instruction that customers cannot be denied service at a branch, including in cases where the banking corporation operates an appointment system for professional services provided at the branch and the customer did not schedule an appointment. This is intended to guarantee appropriate service, avoid service barriers, and prevent harm, deception, difficulty and excessive cost resulting from lack of service. This part of the directive took effect on the date of its publication.

Adoption of consumer related measures in a changing financial environment

On February 26, 2023, the Supervisor of Banks published a letter to the CEOs of the banking corporations and credit card companies that specifically addressed changes in the interest rate environment and rising inflation, which are contributing to increased household expenditure. Notably, the letter highlighted the burden on consumers with outstanding loans, especially mortgages, whose monthly repayments have risen.

In the letter, the Supervisor of Banks made it clear that banking corporations are expected to act with elevated sensitivity and to prioritize their customers' interests and needs. It emphasized that banks should continue to refine their products and services to meet consumer needs. Special attention is directed toward raising consumer awareness of banking investment products, which will allow them to deposit their funds according to their needs and in line with the full terms of the investment products.

The letter also emphasized the importance of banking corporations providing appropriate and

professional service in light of the aforementioned changes, helping customers derive maximal benefits from banking products and services, ensuring transparency regarding the impacts and consequences of changes in the interest rate and inflation on their financial liabilities and assets, and ensuring informed utilization by customers that is aligned with their needs.

Opening a current account with no credit facility and managing an account

The Banking Supervision Department views the providing of service to all customers, especially the most vulnerable ones, as a key component of a fair and equitable culture within the banking corporations. This perspective is embodied in Directive no. 422, which describes the circumstances under which banks cannot reasonably refuse to open or manage such an account by means of basic payment services.

In the update to this directive, the scope of the obligation to facilitate account management with basic payment services was expanded to include remote transactions. This obligation will now apply not only to managing a checking account with a positive balance but also to managing one with a negative balance that does not exceed the approved credit limit.

Furthermore, the updated directive emphasizes the egalitarian provision of banking services to all customers. It is designed to avoid creating blanket rules that block basic payment methods or a customer's account activity based solely on their membership in a specific population group. The directive requires evaluating each customer's request individually, compelling banks to use their judgement.

Finally, the scope of basic payment services defined in the directive was broadened, reflecting a greater commitment to banking accessibility. While the directive was meant to come into effect one year after its publication, its implementation was postponed until June 2024 due to disruptions caused by the war.

Opening and managing a checking account with a positive balance for financial entities

In recent years, licensing and supervision obligations have been defined for entities providing nonbank financial services in Israel. To carry out their operations, these entities need to manage a checking account in a banking corporation. Moreover, an amendment to the Banking (Service to the Customer) Law stipulates that if a banking corporation refuses to provide a financial entity with the service described in Section 2(a)(2), namely opening and managing a checking account for itself or its customers, or fails to provide such service within three months from the financial entity's initial request to open and manage an account, the banking corporation must notify the Supervisor of Banks and explain the reasons for the refusal or delay.

In view of the above, Proper Conduct of Banking Business directive no. 424 – “Opening and Managing a Checking Account with a Positive Balance for Financial Entities” was issued. It describes the requirements that apply to banking corporations when opening and managing accounts for nonbank entities providing financial services. Among other things, and in addition to the obligation to report any refusal or delay in providing the service listed in Section 2(a)(2) of the law to the Supervisor of Banks, the directive also establishes requirements for providing a written explanation to the financial entity in cases of refusal to open an account or delays exceeding three months.

Monthly statements of fees and interest rates

As part of an amendment to the Banking (Service to the Customer) Law, which is to be implemented in stages (on January 1, 2024, and June 2, 2024), banks are required to send monthly statements to their customers detailing the total amounts charged in the previous month for fees and interest. These statements will also inform customers of their options to obtain further details regarding the fees and interest charged to them.

This legislative amendment is meant to improve the transparency and accessibility of financial information for bank customers by providing regular and clear updates on the costs associated with their bank accounts and to motivate them toward making informed decisions that can improve their financial situation. The law was initiated by the Ministry of Finance, with the Banking Supervision Department participating in its formulation during Knesset discussions.

Providing of services to customers of the banking system in Israel against the backdrop of the Russia-Ukraine war

On February 2, 2023, in the midst of the ongoing war between Russia and Ukraine, the Supervisor of Banks issued a letter to the CEOs of the banking corporations in Israel that addresses the challenges faced by the banking system in providing services to its customers during this period. The war between Russia and Ukraine has led to a significant influx of new immigrants to Israel, many of whom are seeking to relocate to Israel. The sanction regimes put in place by foreign countries and international organizations as a result of the war, and consequently the policies and procedures established by the banking corporations with respect to the use of the sanction lists, have impacted on the providing of banking services to customers, including the opening of accounts and the execution of fund transfers. In his letter, the Supervisor reiterated that banking corporations must continue to operate with heightened sensitivity to the situation of the new immigrants, in order to ease the immigration and absorption process for this population to whatever extent possible.

Joint accounts – the survivorship clause

Joint accounts often include a survivorship clause, which is important for account holders to understand in view of the sensitive and complex nature of managing these accounts after the death of one of the account holders. This clause essentially allows the surviving spouse to continue accessing and using the account without interruption, which is especially important during a period of mourning and adjustment.

Before this amendment, Proper Conduct of Banking Management Directive no. 434 did not adequately address the importance of raising account holders' awareness of the implications of the survivorship clause and the decision required of the account holders as to whether they want to allow the surviving partner to continue operating the account after their death.

The update of the directive is intended to strengthen the understanding among joint account holders of the survivorship clause in their account opening agreements. This is intended to ensure that the application or non-application of this clause aligns with their wishes concerning the rights of the surviving partner to operate the account after their death. Additionally, the update is intended to make it easier for the surviving partner to handle the existing obligations associated with payment methods previously approved for use by the deceased partner. Although the

provisions of this updated directive were initially set to take effect one year after publication, their implementation has been deferred until September 2024 due to disruptions caused by the war.

Procedures for the providing of housing loans

The latest update focuses primarily on streamlining the early repayment process for housing loans, including by way of another banking corporation or an institutional lender that is not a banking corporation (loan refinancing). According to the update, borrowers can now notify the bank online or by phone of their intention to make an early loan repayment and will be able to receive all the necessary information and documents related to the loan, as dictated by the relevant directive clauses, in ways that suit the borrowers' preferences, including online. These documents are provided in a format that allows easy saving and printing, thus increasing convenience for borrowers.

To further facilitate the loan refinancing process, borrowers can directly notify the original banking corporation of their intention to make an early repayment or this can be done through the new banking corporation. This flexibility simplifies the process and reduces the logistical burden on borrowers. Importantly, borrowers are no longer required to visit the original bank branch to collect the necessary documents for loan refinancing; instead, these documents can be transferred directly from the original banking corporation to the new lender, thereby streamlining the entire process.

These updates establish clear guidelines intended to make it easier for borrowers to make early repayment of housing loans, including those involving loan refinancing. Although the directive was supposed to take effect one year after its publication, its implementation has been postponed to October 2024 due to disruptions caused by the war.

Examinations of fairness

The Supervisor of Banks uses special examination teams that are responsible for the ongoing program to identify and assess risks inherent in various banking activities and for ensuring compliance with laws and regulations having to do with fairness. Examinations have been conducted on credit card companies' handling of businesses suspected of defrauding credit card customers. Among other things, consideration was given to a directive requiring the companies to take steps that would prevent them from working with businesses suspected of such fraud or even to terminate the relationship with them under certain conditions. These measures are part of a broader initiative by the Banking Supervision Department and other entities to combat fraud committed by criminal elements by means of credit cards.

In addition to focusing on fraud prevention, the Banking Supervision Department rigorously examines the marketing practices of credit card companies, particularly those related to "revolving credit" products. Revolving credit refers to a credit line that accrues interest and is repaid monthly according to an amount determined by the customer, with the remaining balance carrying over and accruing interest. The examinations assess the service's characteristics, the company's marketing policies, and how these services are marketed with the goal of ensuring that standards of integrity and fairness toward customers are maintained.

Consumer related monitoring and handling of significant systemic deficiencies

- Handling public enquiries provides an opportunity to correct defects and deficiencies, to address existing issues on a systemic basis, and to learn lessons that can generate significant improvements in the services provided by banking corporations to their customers. The Banking Supervision Department also conducts proactive inspections and investigations aimed at increasing consumer related compliance. In cases where significant deficiencies are identified based on public enquiries and their investigation, the Banking Supervision Department orders the correction of these deficiencies, including monetary restitution to groups of customers. Within this framework, approximately NIS 30 million was refunded to customers from 2022 until the publication of this survey. Issues addressed include failure to provide promised benefits to customers affiliated with a club, or contradictory offers published by the bank and improper fee collection.
- In 2023, three processes were initiated to impose financial sanctions as a result of consumer related examinations that identified deficiencies: Bank Leumi was fined NIS 1 million for two violations in the reporting of revenues received from the Enforcement and Collection Authority and delays in reporting debt restructuring to the Enforcement and Collection Authority, contrary to Directive no. 450 on “Debt Collection Proceedings”. Bank Hapoalim was fined NIS 1 million for not admitting customers without an appointment to a branch. Finally, Isracard was fined NIS 250,000 for exceeding mandated response times at its call center. Details of these sanctions, including the justification for their imposition and the arguments presented by the penalized companies, are available to the public on the Bank of Israel's website.

Periodic publications aimed at increasing fairness toward banking system customers

Telephone response: periodic report to the Knesset Finance Committee on the compliance of banking corporations with the directives on wait times for a professional human response

In July 2023, the Banking Supervision Department published a periodic report that is submitted to the Knesset Finance Committee on the compliance of banking corporations with the guidelines for wait times to obtain a professional human response. The report provides comparative data on response times across the banking corporations and presents an overview for the reporting period.

Periodic report on the prices of the most common banking services used by households, 2022

The Banking Supervision Department submitted a periodic report to the Knesset Finance Committee that details the prices of the most common banking services used by households. The report is based on the actual revenue reports for fees collected during the reporting year by the banking corporations and credit card companies.

Handling of public enquiries by the Banking Supervision Department in 2023¹¹

The Consumer Enquiries and Inspections Unit of the Banking Supervision Department handles enquiries regarding the activities of the banks and credit card companies. The unit operates on the

¹¹ A review of public enquiries submitted to the Banking Supervision Department and of consumer protection measures, which includes actions taken by the Banking Supervision Department in response to the enquiries, as well as enforcement activity and the correction of systemic problems in the banking system, is published annually on the Bank of Israel's website.

level of the individual consumer and on a broader systemic level, with the goal of identifying and rectifying any deficiencies in the banking system's operations.

In 2023, the Consumer Enquiries and Inspections Unit handled approximately 9,900 requests for information and complaints from the public. In addition, the unit's call center responded to more than 15,000 phone enquiries.

Following is a breakdown of how the enquiries and complaints were handled:

1. **Direct handling:** The unit directly handled approximately 6,300 enquiries, which included around 1,300 complaints and about 5,000 requests for information.
2. **Handling through the complaint resolution process:** About 3,600 complaints received by the Banking Supervision Department were forwarded to the public complaints officers in the banking corporations and credit card companies for a direct response, in accordance with the guidelines established in Proper Conduct of Banking Business Directive 308A – “Handling of public complaints”.

The handling of public complaints includes checking them in accordance with the relevant legislation and deciding on remedies for customers when called for. As part of this process, approximately NIS 1.4 million was refunded to customers in 2023 as part of the direct handling of individual enquiries.

Restricted accounts

At the end of 2023, the number of restricted accounts in the economy stood at 503,946, a decrease from 528,416 at the beginning of the year. In addition, the number of restricted customers due to the writing of checks without cover ("banking restriction") decreased from 19,927 before the outbreak of the war to 18,873 by the end of 2023.

Overall, by the end of 2023, the total number of customers with restrictions imposed on them stood at 252,825. Of these, 233,952 were subject to "special restrictions" imposed by various enforcement bodies, such as the Enforcement and Collection Authority, the Official Receiver, the Collection and Fines Center, and the Rabbinical Court. At the beginning of the year, the number of restricted customers was 264,906, of which 18,761 were subject to banking restrictions and 246,145 were subject to special restrictions.

Financial Accessibility Charter

The Financial Accessibility Charter was launched in January 2016 with the goal of addressing the consequences of financial violence against battered women residing in shelters and halfway houses. The framework was later expanded to include clients of domestic violence treatment centers across the country. The charter provides tailored financial solutions to meet the needs of these women, with the goal of enabling them to start anew. Since its launch, the charter has assisted 2,465 women in dealing with financial violence, including opening new bank accounts, debt restructuring and investigation of liens, mortgage freezes, requests to exit a joint account, removal of owners from an account, cancellation of credit cards, etc. In March 2023, the charter was further expanded to assist the population of former prostitutes.

In March 2024, the annual conference of the Financial Accessibility Charter was held under the theme Crisis within Crisis. The conference was intended to raise awareness of the problems faced by battered women during the war, while emphasizing the complex challenges these women currently face and explaining the support provided by the banking system. It also addressed the broader impacts of post-traumatic stress disorder on the family unit and raised awareness of the complex needs of families affected by these situations and the vital role financial institutions play in addressing them.

Surveys of satisfaction among households and small and micro business owners

In March 2024, the Banking Supervision Department published the findings of the 2023 surveys of customer satisfaction with the service provided by the banking system. The goal of conducting these surveys and publishing their findings is to enhance fairness and competition in customer service by providing an overview from the perspective of banking system customers. The findings make it possible to highlight areas that need improvement, thereby incentivizing banks to enhance the service they provide to their customers.

Following are the main findings from the 2023 household satisfaction survey, as compared to the 2022 survey:

- Willingness to recommend the bank to a friend or family member remains low.
- Perception of the bank's fairness remains low.
- Satisfaction with the use of bank websites remains high.
- Satisfaction with the use of bank apps remains high.

With regard to the willingness to recommend the bank and satisfaction with the call center, the results were similar to those of the previous survey. However, on questions about satisfaction with services provided on the website and app, satisfaction was low relative to the nondigital banking system. In the survey of satisfaction among the self-employed, small businesses, and micro businesses, there was a decline in satisfaction on most questions, except for the service provided on the website and the app.

The survey findings were communicated to the bank managements and subsequently published.

Raising awareness of digital fraud

In order to raise public awareness of financial fraud, the Banking Supervision Department initiated the Digital Fraud Awareness Week. This was the second consecutive year of the project and it was carried out in cooperation with the Association of Banks in Israel, the banking system, the credit card companies, and the Israel Police. It consisted of about 100 lectures in dozens of cities and towns across the country, as well as two online webinars in Hebrew and Russian, attended by thousands of participants. The awareness campaign was accompanied by a promotional campaign inviting the public to participate in the lectures, and a dedicated website with relevant materials was created.

5. THE MAIN ACTIVITIES TO CREATE A MORE COMPETITIVE AND ADVANCED FINANCIAL SYSTEM FOR THE BENEFIT OF CUSTOMERS

The Bank of Israel is committed to fostering a competitive and advanced financial environment that benefits the customer. In recent years, several key initiatives have been promoted with the goal of creating an environment conducive to the establishment of new banks. These initiatives include the creation of a credit database, a technological service bureau, a "click-to-switch" bank account transition system, open banking, regulatory relief, and the development of processes and an organizational framework to support the establishment of new banks.

Completion of the establishment process of One Zero Digital Bank Ltd.

After more than 41 years during which no banking licenses were issued in Israel, a banking license was granted to One Zero Digital Bank Ltd. on December 13, 2019. The license was originally subject to restrictions, which were removed on January 9, 2022, after the bank achieved the required milestones. In August 2022, One Zero Digital Bank officially opened its doors to the public. Ongoing supervision of this new bank includes making supervisory adjustments to its operations, with the aim of promoting competition and allowing the bank to establish its business model. The Banking Supervision Department closely monitors the new bank's activities, within a framework adapted to a small new bank. This includes monitoring the risks to which the bank is exposed and overseeing the implementation of its work plans.

Continuation of the process to establish Bank Esh Israel (in formation) Ltd.

Another significant development was the granting of a conditional banking license to Bank Esh Israel (in formation) Ltd. on December 25, 2022. The bank is diligently working to complete the installation of the necessary technological, administrative, regulatory, and operational infrastructures. With the approval of the Banking Supervision Department, the bank has commenced a limited internal pilot. The Bank of Israel is closely monitoring the bank's progress through these stages.

Enhanced transparency through the publication of comparative data

The Banking Supervision Department works to enhance transparency by expanding the data available to the public. In 2023, new dashboards were published on the Bank of Israel website, containing comparative data on interest rates for mortgage loans, financial report data, and data related to the interest rates in current accounts and credit cards (for further discussion see Box 6.4 in this Survey).

Increasing transparency through comparative data that is made available to the public

The Banking Supervision Department works to enhance transparency by expanding the information available to the public. In 2023, new dashboards were installed on the Bank of Israel's website, including comparative data on mortgage interest rates, financial report data, and information regarding interest rates for checking accounts and credit cards (for further details, see Box 6.4 in this survey).

Promoting a phased framework for granting banking corporation licenses to nonbank entities and credit card companies

As part of the Bank of Israel's efforts to promote competition in the banking system, the Bank of Israel is calling for the adoption of a phased framework for granting banking corporation licenses to nonbank entities, including credit card companies. This initiative involves a policy according to which bank licensing and supervision are modified according to the activities and risk levels of the entity seeking the license. The policy proposes three levels of banking licenses, in accordance with the existing authority of the Governor of the Bank of Israel under current licensing legislation. In addition, legislation and regulation will be proposed that is tailored to the scope and complexity of the activities of the banking license applicant so that it can attract depositors and provide credit (for further details, see Box 1.1 in this survey).

Updating the policy for granting holding permits to entities managing customer funds

In recent months, the Bank of Israel has updated its policy for granting holding permits for banking corporations and clearing houses and their holding companies to entities managing customer funds. The updated policy allows controlling shareholders in entities managing customer funds to apply to the Governor of the Bank of Israel for a permit to hold up to 7.5 percent of a bank or clearing house and their holding companies. This is designed to increase investment by the public, via the entities under their control, in the shares of those corporations. The changes, which are based on accumulated experience and recent legislative revisions, do not alter the fundamental essence of the policy but rather enhance its implementation. The key amendments to the policy include extending the validity of permits until December 2029, adding a requirement for reporting in a standardized format, requiring permit holders to continuously monitor and track their holdings, and establishing a condition whereby any deviation from the permit terms constitutes grounds for its revocation.

Granting a control permit in Isracard to the controlling shareholders of Harel Investments

On February 16, 2023, the controlling shareholders of Harel Insurance Investments and Financial Services Ltd. (hereinafter: Harel Investments) requested a control permit for the Isracard Ltd. credit card company (hereinafter: Isracard), which is a public company without controlling shareholders that is traded on the Tel Aviv Stock Exchange. Harel Investments sought to merge Isracard with a private subsidiary. After reviewing the request, the Banking Supervision Department granted a control permit, similar to the one granted to Clal Holdings in the case of MAX. However, due to the opposition of the Competition Authority to the transaction, Harel Investments decided to withdraw from the transaction.

Removal of a restriction on Bank Yahav's providing of credit to businesses

In 2023, a major change was made to Bank Yahav's operating license which removed a previously existing restriction on its activities related to the volume of credit provided to businesses. This change followed an in-depth review by the Banking Supervision Department, confirming that Bank Yahav has the appropriate infrastructure to manage the activity and has adequately prepared

for the expansion and the accompanying changes that are part of the license modification. This removal of restrictions on credit provision is seen as creating a potential growth engine for Bank Yahav, especially in retail credit and business banking services, and is expected to increase competition in the small business credit sector.

The Bank of Israel joins the Basel Consultative Group (BCG) as a member of the advisory committee

In May 2023, the Bank of Israel (through the Banking Supervision Department) became a full member of the Basel Consultative Group (BCG), one of the four working groups of the Basel Committee on Banking Supervision (BCBS). The BCG serves as a forum for cooperation among bank supervisors worldwide on banking issues and promotes dialogue between the Basel Committee and nonmember countries on various new initiatives that are on the committee's agenda. As of the time of writing, the advisory committee comprises central banks and supervisory authorities from about 30 countries, alongside 13 supervisory groups and international bodies represented by senior officials in each organization. Joining the BCG is another step in the Banking Supervision Department's efforts to strengthen the Bank of Israel's international connections with leading financial institutions and advanced financial supervisory authorities worldwide.

Promoting a free trade agreement in financial services between Israel and the UK

Negotiations are currently underway between Israel and the UK to upgrade the existing free trade agreement between the two countries, in order to update the agreement and make it more relevant to the current economic reality. The upgrade is aimed at increasing and facilitating trade between the two entities by eliminating trade barriers, establishing investor protection, creating regulatory certainty, etc. Notably, this updated agreement is expected to be groundbreaking for Israel since it will include, for the first time, a unique section dedicated to financial services.

The financial team is led and coordinated by the Director of Foreign Trade at the Ministry of the Economy and includes the Ministry of Finance, the Israel Securities Authority, the Capital Market Authority, the Bank of Israel, and the Banking Supervision Department. In addition to interministerial cooperation, a special internal team at the Bank of Israel is promoting this agreement. The team includes members from the Banking Supervision Department, the Legal Department, the Payment Systems Department, and the Credit Data Database. The negotiation teams are working under ambitious timelines and are driven by a strong commitment from the political leadership on both sides to expedite the process and quickly finalize the agreement.

Box 6.1

Consumer measures taken by banks and regulatory entities worldwide following extreme events

- The Banking Supervision Department protects the interests of the Israeli banking system's consumers both in times of routine and in times of emergencies. As part of its role and in accordance with its mandate, the Banking Supervision Department ensures that banking services are provided fairly and with appropriate sensitivity. The fairness of banking corporations is important both from a prudential perspective and a consumer protection perspective, as the financial players' conduct toward their customers is critical in maintaining public trust in the financial system and ensuring the proper functioning of the market.
- Following the events of October 7th and the outbreak of the Swords of Iron War, the Banking Supervision Department implemented a series of policy measures aimed at encouraging banks to act with the appropriate sensitivity and to assist customers and the public in coping with the crisis. The Banking Supervision Department also maintained continuous communication with the banks, conveying the supervisory expectation to use various tools to ensure that customers receive appropriate service during the crisis (for further details, see Chapter 6 in this survey).
- In order to learn from international experience, the Banking Supervision Department examined consumer measures taken by banks and regulatory entities around the world following extreme events, such as natural disasters.
- Despite the differences between the two, the survey of measures adopted in other countries following natural disasters was conducted due to the similarities between those events and the events that occurred on October 7th and the following period in Israel. Similarities include the scale of the disaster, the severity of the damage to life, body and property, and the significant variation in impact on the public.
- The best consumer protection practices adopted by banks worldwide following extreme events primarily include loan deferrals and the waiving of certain fees. In addition, banks publish consumer guides for smart consumer behavior during a crisis ("checklists"), provide comprehensive and tailored financial advice services to each customer, and deploy "mobile bank branches" in areas to which disaster victims have been evacuated. It is evident that banks worldwide take a proactive approach in times of crises, demonstrating social responsibility and offering strong community support.
- During the war, the Banking Supervision Department has conveyed its supervisory expectation to the banking corporations that they should continue to learn from international experience, while adapting consumer measures to the best practices mentioned above and to the changing environment.

- Banks and credit card companies in Israel have assisted customers and the public by adopting the frameworks proposed by the Banking Supervision Department regarding loan deferrals and fee reductions, as well as adopting various consumer-oriented measures.
- The Banking Supervision Department encourages the banks and credit card companies to continue taking actions tailored to customer needs and to assist the public according to the evolving situation and the changing circumstances.

Background

The Banking Supervision Department uses a variety of means to ensure that customers of the Israeli banking system and credit card companies are treated fairly and with the appropriate sensitivity, both in normal times and in times of emergencies. Through various policy measures, the Banking Supervision Department protects consumers' interests and ensures that consumers receive response to their emerging needs, thus strengthening public trust in the system and supporting the continued proper functioning of the market.

Following the events of October 7th and the outbreak of the Swords of Iron War, the Banking Supervision Department defined three supervisory objectives for the Israeli banking system: first, to maintain the operational and business continuity of the banking system; second, to provide assistance and relief to customers affected by the war, whether directly or indirectly, and with heightened sensitivity; and third, to manage the range of financial and nonfinancial risks, with an emphasis on unique risks emerging during wartime. In order to achieve the second objective, namely sensitivity and flexibility in customer service, the Banking Supervision Department implemented a series of policy measures designed to encourage the banks to act with high sensitivity and to protect consumers' interests. For example, the Banking Supervision Department announced large-scale assistance programs for loan deferrals, the handling of checks returned due to lack of cover, and the waiving of fees. Additionally, an emergency center was established to handle public enquiries, and visits were made to hotels that are housing evacuees.¹ The Banking Supervision Department conveyed its supervisory expectation to the banking corporations that they should consider using various tools to ensure that customers receive appropriate service. Given the crisis and the public's changing needs, the service provided by banks and credit card companies should involve and be continuously updated in a sensitive and responsive manner. In order to learn from international experience, the Banking Supervision Department examined how banks, regulatory authorities, and government entities in various countries responded to wars as well as to natural disasters, such as hurricanes and forest fires.

¹ For further details on the activities of the Banking Supervision Department during the war, see Chapter 6 in this survey).

Despite the distinct differences between these events, the survey of the consumer measures implemented by banks and regulatory authorities worldwide in response to extreme events, such as natural disasters, was conducted in view of the similarities between them and the events of October 7th and the following period. First, in both cases most of the victims are residents of a specific geographical area. Second, the damages themselves are extremely severe—loss of life, physical harm, and property damage. Third, victims of natural disasters are evacuated from their homes to another less-affected geographical area within the country, as in the case of the Swords of Iron War. Additionally, there is wide variation in the impact of these events on the public—while some parts of the population are seriously affected, others remain largely untouched. Finally, both types of disasters are localized regional events. Therefore, even though the war in Israel is unique in terms of its scope and impact on the general population, the accumulated global experience in responding to natural disasters provides a valuable source of knowledge for improving the assistance provided to customers.² The Banking Supervision Department's survey focused on the United States, Canada, and Australia—countries that have had to deal with extreme climate events and natural disasters in recent years.

Findings of the International Survey

The international survey examined the measures taken by banks and regulatory authorities worldwide following extreme events such as natural disasters, with an emphasis on best consumer practices that have not yet been fully implemented in Israel. It was found that some countries have a structured protocol for dealing with natural disasters—either by virtue of specific legislation or because the regulator or government have a consistent response approach.³ In addition, it appears that the most common consumer measures used in other countries in response to natural disasters include loan payment deferrals or reductions, as well as exemptions related to fees and checks, which are similar to those adopted in Israel (for further details, see Chapter 6 of this survey). The international survey focused on best consumer protection practices adopted by banks in other countries in addition to loan deferral programs and waiving of fees. For example, some banks publish consumer guides for prudent behavior during a crisis (a "checklist"); others provide comprehensive, tailored financial services to individual customers; and some deploy mobile bank branches, thus providing assistance to victims in the areas where they have been relocated. It is evident that when an extreme event occurs, banks in other countries take a proactive approach, demonstrating high social involvement and community support. The assistance they

² It should be noted that the accumulated experience and lessons learned from the COVID-19 pandemic also influenced the assistance provided to customers during the war. Nonetheless, and in contrast to the Swords of Iron War, the COVID-19 pandemic was a global event and its impact on the public was relatively uniform.

³ See, for example, the following publication issued jointly by US regulatory entities following Hurricane Ian, which includes a letter addressed to the banking system describing regulatory relief measures, similar to the information sheets prepared for other natural disasters. <https://www.fdic.gov/news/disaster/ian.html>

provide to consumers is not just financial and goes beyond the regulator's frameworks, thus providing broader solutions that are tailored to the needs that arise in the field.

Following are the best consumer protection practices adopted by banks in other countries following natural disasters, excluding loan deferrals and waiving of fees (which, as mentioned, are the main consumer measures adopted both in Israel and other countries; for further details, see Chapter 6 of this survey).

1. Publication of consumer guides for smart consumer behavior during a crisis (a checklist)

Many banking and financial institutions around the world publish a series of recommendations for informed consumer conduct, with the goal of providing disaster victims with basic tips and tools on how to financially recover from disasters.⁴ The publications vary in content and target audience: some are intended for households, while others are intended for small businesses.⁵ Some offer guidance on how to cope following a particular extreme event (such as a hurricane) or focus on specific issues (such as fraud prevention); others provide general guidelines for prudent behavior. Although the publications vary, they often address one or more of the following issues:

- A consolidated list of all financial institutions that individuals should contact during a crisis in order to receive financial assistance (such as insurance claim payments, grants, and loan deferrals) and to inform them of difficulties in meeting existing obligations.⁶
- Recommendations for responsible financial conduct during a crisis, such as adopting a proactive approach (including notifying financial institutions and others about their situation), assessing financial capabilities after the crisis, adjusting outgoing cash flow to match expected income, keeping receipts, and documenting conversations with financial institutions.⁷
- Increasing consumer awareness of fraud, as various types of scammers exploit the disruption of normal routines and distress caused by disasters in order to carry out fraudulent activities. In addition to raising public awareness about the heightened risk, corporations publish lists of warning signs, common examples of fraud, and recommendations for cautious behavior (such as verifying the legitimacy of the entities with which individuals are dealing with and closely monitoring billing statements).⁸

⁴ In addition to the publications from regulatory bodies on the subject, see Footnote 7 for an example.

⁵ For instance, CPA Australia published a "do's and don'ts" list for small businesses (see <https://www.cpaaustralia.com.au/-/media/project/cpa/corporate/documents/tools-and-resources/disaster-recovery/disaster-recovery-toolkit>) and JPMorgan Chase published a "do's and don'ts" list for property owners (see <https://www.jpmorgan.com/insights/real-estate/commercial-term-lending/emergency-preparedness-guide-for-property-managers>).

⁶ For example, US Bank's "do's and don'ts" list advises disaster victims to first contact their insurance company and also lists several organizations that provide financial assistance: <https://www.usbank.com/financialiq/manage-your-household-life-events/natural-disasters-recovery-financial-checklist-after-natural-disaster.html>

⁷ For further details on recommendations for responsible financial behavior after a crisis, see the guidelines published by the FDIC for households and business owners: <https://www.fdic.gov/news/disaster/consumers.html>

⁸ Following is a link to the "do's and don'ts" list published by Commerce Bank (in the US), in which it warns

- Listing links to websites providing information and assistance and directing the public to government authorities, banks, regulatory authorities, and even charities that are offering aid to victims of natural disasters.⁹

2. Provision of inclusive and tailored financial services to bank customers

Another tool through which banks in other countries assist customers affected by natural disasters is the provision of free tailored financial advice. As part of this service, the advisor assesses the client's new situation, including an examination of estimated income and expenses, expected grants on the one hand and the expected obligations on the other, and provides comprehensive financial advice (that is, advice that also includes reference to nonbanking products such as insurance and investment instruments). The goal is to enable those affected by extreme events to make informed financial decisions in a complex and uncertain reality and to avoid hasty decisions that cause harm in the long term. The duration of the service varies: it can be one-time assistance or ongoing (i.e., lasting for longer than a year). In some cases, the bank creates a new advisory service tailored to the economic needs of the disaster victims.¹⁰ The advisory services are provided to a variety of populations: households, small businesses, and sometimes even the bank's employees.¹¹ Clearly, banks in other countries encourage customers to consult with them on financial management issues following natural disasters, to discuss the difficulties they are facing and to receive a personalized response tailored to their needs.

3. Deploying mobile bank branches in areas to which disaster victims have been evacuated

Consumers affected by natural disasters may not receive the relief for which they are eligible, whether it is due to information gaps (often the victims are not even aware of their eligibility for assistance and benefits) or due to a lack of access to a banker. This occurs because victims are often relocated to other parts of the country following a disaster which are far from their bank branch, and are therefore unable to carry out certain banking operations. The consumer initiative of "bringing the bank to the customer" addresses these needs specifically. A bank representative visits areas with a concentration of evacuees in order to provide them with an immediate and comprehensive response to their needs and to inform them about their rights and the potential banking services available to them.

customers about fraud, provides basic knowledge about common post-crisis fraud, and refers to a detailed "do's and don'ts" list published by the CFPB (Consumer Financial Protection Bureau): <https://www.commercebank.com/personal/ideas-and-tips/2022/how-to-prepare-your-finances-for-a-natural-disaster>

⁹ See the "do's and don'ts" list of Citibank Australia which refers customers to government authorities and assistance organizations, such as the Red Cross: <http://www1.citibank.com.au/help-and-support/disaster-and-crisis-support>

¹⁰ For example, Regions Bank (a US bank) established three dedicated advisory teams in the areas of mortgages, consumer credit, and other services, to which customers are directed based on the type of enquiry. <https://ir.regions.com/news-events/press-releases/news-events/2020/Regions-Bank-Announces-Disaster-Recovery-Financial-Services-Following-Hurricane-Delta-10-13-2020/default.aspx>

¹¹ See also the publication by TD Bank (a Canadian bank), which provided this service to customers and bank employees following a fire that broke out in 2017: <https://stories.td.com/ca/en/news/2017-07-25-td-provides-increased-advice-and-assistance-for-employees-an>

An example is the operation of mobile branches. To assist the public as much as possible, banks monitor the activity of the mobile branch and operate it for an extended period—it essentially becomes a "permanent branch" for the disaster victims until they return to their homes.¹² Another example is the establishment of financial assistance centers by banks and insurance companies in the areas where the evacuees are located.¹³

Measures taken by Israeli banks

During the Swords of Iron War, the Banking Supervision Department conveyed its supervisory expectations to the banking corporations that they should continue to learn from international experience, while adapting consumer measures to the best practices and to the changing environment. It also conducted examinations to ensure that banks were acting fairly and with high sensitivity. Israeli banks and credit card companies assisted their customers and the public throughout the war by immediately adopting the Banking Supervision Department's deferral programs and by taking various voluntary consumer relief measures. For example, most banks granted evacuees an exemption from one or more mortgage payment and established dedicated relief funds that amounted to tens or even hundreds of millions of shekels, and that were earmarked for populations affected by the war (such as a fund for the rehabilitation of communities near the Gaza Strip or a fund for children and youth affected by the war). Other consumer measures taken by Israeli banks included the granting of scholarships to students who volunteered in agriculture and the operation of trucks that function as "mobile stores" for business owners from the North and South of Israel. In line with the aforementioned best practices, Israeli banks operated mobile branches in the hotels that are housing evacuees, and some provided their customers with financial management advice during the crisis.¹⁴

The Banking Supervision Department encourages banks and credit card companies to continue taking steps that are tailored to the changing needs of customers and to assist the public, both in normal periods and in times of emergencies, with heightened sensitivity to the circumstances. The assistance of banking corporations and others is essential at this time, given the scale and magnitude of the events of October 7th and the Swords of Iron War. Customer needs are evolving rapidly in response to the developments of the war, which calls for continuous adaptation and updates of consumer measures. The Banking Supervision Department expects banks and credit card companies to continue learning from international experience with regard to the scope and type of assistance provided to the public and to align their activity with best global consumer protection practices.

¹² Following is a link to Wells Fargo's announcement regarding the operation of mobile branches in areas to which victims of Hurricane Michael were evacuated: <https://newsroom.wf.com/English/news-releases/news-release-details/2018/Wells-Fargo-Deploys-Mobile-Response-Unit-to-Panhandle-to-Help-Customers-Impacted-by-Hurricane-Michael/default.aspx>

¹³ For example, such a center was established in Hawaii following the wildfires that occurred there this past summer. See:

¹⁴ The operation of mobile branches by Israeli banks was subject to the permit granted by the Banking Supervision Department.

Box 6.2

Programs for Easing the Burden of Credit and Banking Fees

- Shortly after the outbreak of the Swords of Iron War, the Banking Supervision Department developed several programs to ease the burden of credit costs and banking fees in order to assist households and businesses that were coping with the repercussions of the war. The programs were adopted by the banks and the credit card companies.
- The first program, which was developed one week after the outbreak of the war, helps customers deal with cash flow problems resulting from the war and its implications, and relieves them of some of the financial stress in the current complex situation.
- In order to help households and businesses cope with the effects of the war, the programs were extended and expanded during the war, in response to needs that were expressed by the affected households and businesses.
- From the outbreak of the war until the end of April 2024, the banks and credit card companies deferred approximately NIS 8 billion in payments for 406,000 loans. Currently, approximately NIS 3.5 billion in loan payments remain deferred (in approximately 139,000 loans).

The following information summarizes the details of these program in chronological order:

October 15, 2023 – The Banking Supervision Department develops a comprehensive program for loan repayment deferral and concessions on credit terms and bank fees, which was adopted by the banking system.

October 23, 2023 – The Banking Supervision Department develops a comprehensive program for loan repayment deferral and concessions on credit terms and bank fees, which was adopted by the credit card companies.

November 8, 2023 – The programs adopted by the banking system and the credit card companies were expanded and extended to include evacuees from northern Israel.

December 17, 2023 – Extension and expansion of the program for loan repayment deferral and concessions on credit terms and bank fees that was adopted by the banking system.

December 26, 2023 – Extension and expansion of the program for loan repayment deferral and concessions on credit terms and bank fees that was adopted by the credit card companies.

March 4, 2024 – Extension and expansion of the program for loan repayment deferral and concessions on credit terms and bank fees that was adopted by the banking system.

Comprehensive program for loan repayment deferral and concessions on credit terms and bank fees, which was adopted by the banking system – October 2023¹

Within a week after the outbreak of the Swords of Iron War, the Banking Supervision Department developed a comprehensive program to ease the burden of credit and banking fees for households and businesses. The program was adopted by all the banks, with the intention of helping customers cope with cash flow issues and the effects of the war.

To focus the assistance, the program defined two population groups: The first group, **“first-degree customers,”** were defined as:

- Anyone who was directly harmed by the war, including residents of towns and cities within 30 km from the Gaza Strip border and business owners in this area;
- People who were evacuated from their homes by an official government agency;
- Citizens who were called up for reserve duty on an Order 8 call-up;
- First-degree relatives of a person killed in the war, an abductee, or missing person.

This group was entitled to a deferral of loan payments,² without interest or additional fees in three types of consumer activities (mortgages, consumer credit, and business credit), an exemption from interest on overdrawn current accounts (excluding reservists), and an exemption from most bank fees.

Regarding the loan deferral method, banks could choose from three deferral methods with

¹ For the conditions of the program, see <https://www.boi.org.il/publications/pressreleases/b15-10-23> (Hebrew).

² Mortgages in unlimited amounts; total consumer credit of up to NIS 100,000; business credit up to NIS 2 million.

respect to mortgages: (a) the deferred payments are added to the end of the mortgage period; (b) the deferred payments are distributed over the balance of the remaining mortgage period; (c) a new interest-free loan is granted in the amount of the deferred payments for a period of four years, with payments due beginning from one year after the loan grant date. With respect to consumer and business loans, deferred payments were added to the end of the original loan period.

The loan deferment program was also offered to the second group, which included all remaining bank customers (“Second-circle customers”), who could elect to receive a 3-month deferral of their loan repayments³ in three areas (mortgages, consumer credit, and bank credit). The deferred payments bore interest (that could not exceed the interest rate in the original loan agreement). Three deferral methods (described above) were available for mortgages, while deferrals of consumer and business loans were added to the end of the original loan periods. Customers were not charged any fee for these deferrals. Since the deferred payments accrued interest in the deferral period, in its communications with the banks the Banking Supervision Department emphasized that before making a decision, it was important that customers consider the implications of the deferral, including its financial cost (the cost of the interest, the monthly repayment amount after the deferral, and other considerations) so that they might make an informed decision about the deferral.

The Banking Supervision Department stressed that the program contains the minimum conditions for loan repayment deferrals and other measures to assist customers, and the Department encouraged the banks to offer their customers assistance that extends beyond the program. Indeed, most of the banks did so.

³ Mortgages in unlimited amounts; total consumer credit of up to NIS 100,000; business credit up to NIS 2 million.

Comprehensive program for loan repayment deferral and fee relief, adopted by credit card companies – October 2023⁴

Following the Banking Supervision Department's program to ease the burden of credit costs and bank for customers who were dealing with the effects of the war, which was adopted by the banks, the Banking Supervision Department announced a second assistance program for customers of the credit card companies, whose measures were adjusted to the profile of these customers.

The program adopted by the credit card companies was essentially similar to the program adopted by the banks, and included the necessary adjustments pertaining the definition of the relevant target populations,⁵ and the scope and nature of their activities.⁶ This group was also given an exemption from some fees.

Also in this program, the Banking Supervision Department stressed that the program contains the minimum concessions that credit card companies can offer, and that the credit card companies were permitted to extend the program in the interests of the customers and at the their customers' request.

Expansion of assistance measures adopted by the banking system and the credit card companies – November 2023⁷

In view of the evacuation of the residents of Israel's northern towns and settlements, the assistance programs adopted by the banking system and the credit card companies were extended to include residents who live or whose business is located in a northern settlement that appears in the lists posted on the Bank of Israel website and who were evacuated by an official government agency before or on November 7, 2023.

The assistance programs were further extended in coordination with the Accountant General of the Ministry of Finance, by including loans that had been granted through the Small and Medium Business Fund and guaranteed by the government. These loans were added to the loan repayment deferral programs adopted by the banks and credit card companies.

⁴ For the conditions of the program, see <https://www.boi.org.il/publications/pressreleases/23-10-23> (Hebrew)

⁵ Individuals and small businesses whose total annual amount settled by the credit card company does not exceed NIS 2 million.

⁶ Total balance of consumer credit of up to NIS 100,000; Balance of business credit of up to NIS 300,000.

⁷ For the complete terms of the program, see: <https://www.boi.org.il/publications/pressreleases/08-11-23>

Extension and Expansion of assistance program adopted by the banking system and the credit card companies – December 2023^{8,9}

Following status assessments performed by the Banking Supervision Department, and in view of the continuation of the war and its financial impact on many customers, the assistance programs adopted by the banks and the credit card companies were extended for an additional three months for both groups of customers — first-circle customers and second-circle customers — beginning on January 1, 2024. The definition of first-degree customers was also extended to include the following groups:

- Accounts of abductees and missing persons (who were included in the original program)
- Accounts of siblings of abductees and missing persons
- Accounts of attendees of the Nova Festival in Kibbutz Reim.

The program was also extended to include the following additional concessions for people in the first-degree group:

- Businesses with a turnover of up to NIS 5 million and whose account was overdrawn on the day before the extension was announced were eligible for a 3-month exemption on interest on the debit balance of up to NIS 30,000 in their business account
- The Banking Supervision further clarified the options of repayment deferral options for mortgages: In addition to the option of distributing the deferred payments over the remaining mortgage term or extending the mortgage term, customers also had the option of receiving a new interest-free 4-year loan in the amount of the deferred payments, and the first payment on the loan would be due after one year. The Banking Supervision Department clarified that a bank may grant non-interest-bearing loans for a longer period than the period indicated in the original program, or choose one of the other options, whichever best benefited the customer and subject to the customer's consent.

Extension and Expansion of assistance program to ease the burden of credit costs and bank fees adopted by the banking system – March 2024¹⁰

In view of the continuation of the war and its effects on customers' financial conduct, and to grant unique concessions to reservists, the assistance program that was adopted by the banks was extended for an additional three-month period. Therefore, on April 1, 2024, the program was extended for three additional months for first-circle and second-circle customers, on

⁸ For the complete terms of the program for bank customers, see: <https://www.boi.org.il/publications/pressreleases/17-12-23> (Hebrew)

⁹ For the complete terms of the program for credit card company customers, see <https://www.boi.org.il/publications/pressreleases/b26-12-23/> (Hebrew)

¹⁰ For the complete terms of the program, see: <https://www.boi.org.il/publications/pressreleases/04-03-2024> (Hebrew).

the same terms as the original program. The definition of first-circle customers was also further extended to include the following groups:

- Accounts of the residents of right settlement in northern Israel that the government decided to evacuate although they were not effectively evacuated¹¹
- Reservists hospitalized for a period of at least seven days due to an injury they sustained during the war
- Injured attendees of the “Psyduck” party and the preparation session for the Midburn Festival.

The terms of the program were also extended for an additional three-month period for first-circle customers, entitling reservists for an exemption from interest on overdrawn accounts, if the account was overdrawn on March 3, 2024, on the day before publication of the current extension, up to an overdrawn balance of NIS 10,000, based on the actual overdrawn amount in the account. The extension also determined that an account would be identified as a reservist’s account if the reserve service grant was paid into that account in January 2024.

The program also determined that the banks would proactively grant the concessions to which reservists were entitled — the exemption from bank fees and interest on overdrawn account in consumer and business accounts, similarly to the banks’ practice with respect to other target groups whose members were identifiable without a need for additional documentation. Also in the case of reservists, accounts were identified according to the reserve service grant that was paid into the account in January 2024.

Referring to the additional extension to the program, the Banking Supervision Department emphasized that as the total deferral period may be relatively long, customers should carefully review their need for a deferral of their loan repayments, even if the deferral does not entail interest or fees, and should take steps to return to a regular payment schedule.

General

Information to the general public

The information concerning the terms of the assistance programs was published in press releases and on a special page on the Bank of Israel’s website, where FAQs about the programs were posted. Informative digital and radio campaigns were conducted to inform the public about the availability of the assistance programs, information sheets using friendly language that included the terms of the programs were designed and distributed (see Appendix). In conjunction with other government ministries, the Banking Supervision Department held

¹¹ Abirim, Avadon, Alma, Kerem Ben Zimra, Alkosh, Pasuta, Horfeish, Rihaniya, based on the list that appears on the Bank of Israel website.

an online conference on the financial concessions and possible compensation for small businesses that were harmed by the effects of the Swords of Iron War.¹²

Accounting clarifications

The Banking Supervision Department took steps to verify that the banking corporations are revising their provisions for expected credit losses in order to give full disclosure to the effects of the war. The Department is taking steps to ensure that their reports to the public contain a comprehensive disclosure on the effects of the war, the degree of risk to which the banking corporations are subject, and a disclosure of the measures they took to support and assist their customers and ease their financial burden. The Banking Supervision Department also clarified the required accounting treatment and disclosures required with respect to the loan repayments that deferred as part of their assistance to their customers and to the economy, to contribute to their ability to better cope with the implications of the war.

The Supervisor of Credit Data Sharing at the Bank of Israel also issued instructions on deferring reports of arrears in customers' loan payments to the Credit Data Register, in order to isolate the war's effects on credit data.¹³

Loan Repayment Deferral Data

In addition to developing and publishing the assistance programs, the Banking Supervision Department requested that the banks and credit card companies report various data concerning the deferred loans. From the beginning of the war to the end of April 2024, the banks and credit card companies deferred approximately 406,500 loans (approximately 139,000 are still in deferral), and the deferred payments totaled approximately NIS 8 billion. The payments for the loans that remain in deferral totaled approximately NIS 3.5 billion. The majority of the deferred loans were to households (credit for housing and consumer credit, see Figure 6.1),¹⁴ and deferred amounts were most significant in housing credit and business credit (especially in the small business sector, see Figure 6.2). The deferred loan amounts were more significant in these sectors due to the different features of the loans and the number of months of deferral in the different sectors (Figure 6.3). Approximately 33 percent of the deferrals were made by first-circle customers,¹⁵ that is, customers who were charged no interest nor bank fees on the deferral. Because the majority of the deferrals involved loans granted by banks (approximately 93 percent of the loans and 98 percent of the amount deferred), the following analysis will concentrate on the deferral data reported by the banks (and does not include the deferrals reports by the credit card companies).

¹² See the press release on this topic: <https://www.boi.org.il/publications/pressreleases/10-12-23>

¹³ See the press release on this topic: <https://www.boi.org.il/publications/pressreleases/13-11-23>

¹⁴ Note that approximately 1.5 percent of the deferred loans were in arrears for more than 30 days before a deferral was approved (mainly housing credit).

¹⁵ Estimated, calculated on the basis of deferral figures of each month since the outbreak of the war. The first-circle group comprises individuals who were directly affected by the war. Additional information appears above.

Most of the deferrals were made by households, and included housing credit and consumer credit, yet the deferred amounts were larger deferrals of housing credit and business credit.

Figure 6.1

Number of Deferred Loans (Cumulative), Banking System and Credit Card Companies, April 30, 2024 (thousand)

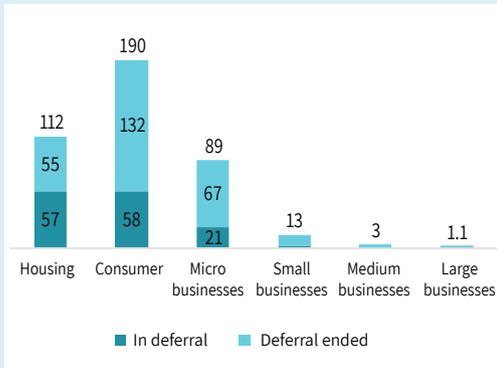
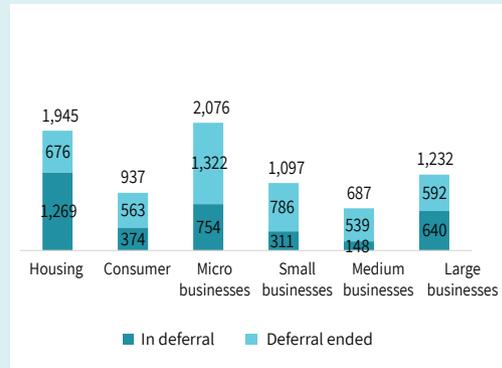


Figure 6.2

Payment Amounts Deferred (Cumulative), Banking System and Credit Card Companies, April 30, 2024 (NIS million)



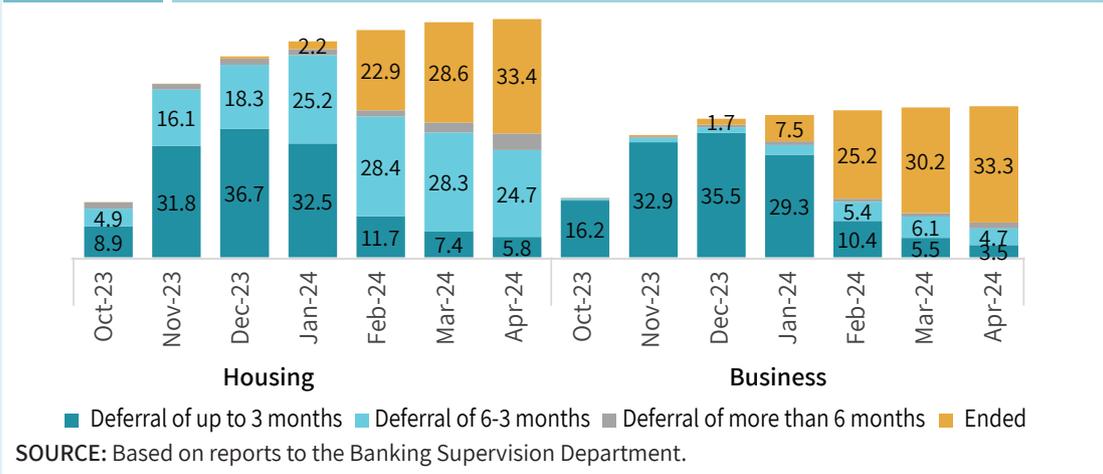
SOURCE: Based on reports to the Banking Supervision Department.

As the programs were repeatedly increased and in view of the fact that some of the banks permitted deferrals of longer periods compared to the original program terms, the deferral period also lengthened (Figure 3) and a portion of the deferrals ended. For example, most of the housing credit loans that were deferred at the beginning of the war were deferred for three months, and the deferral period increased as the war continued and the programs were extended. In contrast, the deferrals on most of the business loans ended and were not extended.

Program extensions mainly affected the deferral duration of housing credit loans

Figure 6.3

Balance of loans by deferral duration, banking system, October 2023–April 2024 (NIS billions)



SOURCE: Based on reports to the Banking Supervision Department.

With respect to deferred loans whose deferral period ended, the vast majority of customers returned to a regular repayment schedule. However, in a small proportion of the deferred loans whose deferral period ended, customers were unable to keep up their payments and the loans entered arrears. The majority of loans that entered arrears belonged to households (housing credit and consumer credit), and only a minority of these loans were business loans, which is consistent with each sector's share in the deferrals.

In conclusion, the balance of loans that are currently deferred is approximately NIS 48.4 billion. Most of this amount refers to housing credit (Figure 4). As a result, and in view of the average loan amount in housing credit, deferred housing credit loans account for a relatively higher proportion of all deferred loans than other sectors (Figure 5).

The main part of the balance of loans that remain deferred involve housing credit and accordingly, the balance of deferred housing credit loans account for a relatively higher proportion of the total housing credit balance compared to other sectors.

Figures 6.4

Balance of Loans in Deferral, Total Banking System, April 30, 2024 (NIS billion)

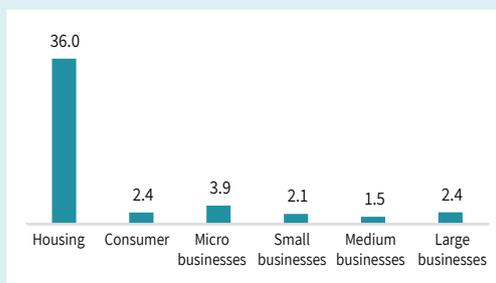
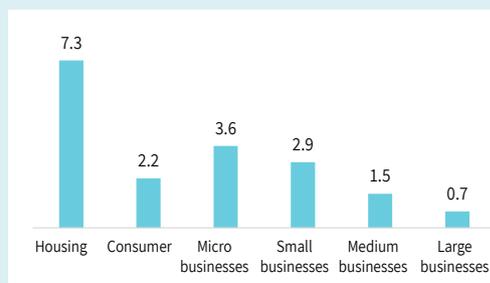


Figure 6.5

Balance of Loans in Deferral as a Share of Total Balance-Sheet Gross Balance, Total Banking System, April 30, 2024 (percent)



SOURCE: Based on reports to the Banking Supervision Department.

See Table 1 for additional data on loans deferred by the banking system.

In addition to the Bank of Israel's assistance programs, additional assistance was extended to borrowers in various sectors. The Bank of Israel and the Ministry of Finance took focused measures targeting the small and micro business sector. The banks and credit card companies also developed programs and offered additional concessions to borrowers. These measures helped borrowers, and prevented a significant decline in the quality of the credit portfolios. For example, deferred loans were not classified as loans in arrears, and the banks did not initiate collection proceedings for those loans. As a result, although the amounts were written off, problematic credit increased only slightly (For additional information see Chapters 3 and 5.2 of the Israel's Banking System 2023 Survey).

Table 1: Additional Data on Loan Deferrals in the Banking System

	Deferred loans				Loans whose deferral ended				Total (Deferred loans and loans whose deferral ended)		
	No. of loans	Loan amount NIS thousands	Loan balance NIS thousands	No. of loans	Loan amount NIS thousands	Loan balance NIS thousands	No. of loans	Loan amount NIS thousands	No. of loans	Loan amount NIS thousands	Loan balance NIS thousands
Housing	57,359	1,269,104	36,035,863	54,537	676,138	35	33,384,392	111,896	1,945,242	69,420,255	
Consumer	50,029	356,288	2,410,070	114,456	520,890	59	5,990,839	164,485	877,177	8,400,909	
Micro businesses	21,112	753,534	3,929,170	66,953	1,316,503	64	11,258,490	88,065	2,070,037	15,187,660	
Small businesses	2,486	307,533	2,096,546	9,532	757,890	71	7,286,608	12,018	1,065,423	9,383,154	
Medium-sized businesses	307	145,636	1,496,874	2,220	523,369	78	6,831,408	2,527	669,005	8,328,282	
Large businesses	138	640,277	2,438,387	938	583,808	48	7,905,093	1,076	1,224,084	10,343,480	
Total	131,431	3,472,372	48,406,910	248,636	4,378,597	56	72,656,830	380,067	7,850,969	121,063,740	

Source: Reports to the Banking Supervision Department. Data processed by the Banking Supervision Department.

Appendix Information Sheet including Program Terms



מעגל ראשון				
קבוצת הלקוחות הבאה				
④ משרתי המילואים ומגויסי צו 8**	③ בעלת קרבה ראשונה (בני זוג, הורים וילדים) לחללי המלחמה או לחטופים או לנעדרים**	② פונו על ידי גורם רשמי מבתים בהתאם לרשימה שתתעדכן מעת לעת*	① המתגוררים או פועלים בבתוך של עד 30 ק"מ מרצועת עזה*	
אופן קבלת מידע לגבי שיקי לקבוצה: * בהתאם לרשימה מגורם מוסמך שתועבר לבנקים. ** לפי פנייה מלקוח.				
אופן פריסת התשלומים	שיעור ריבית מקסימאלי	תקופת דחיית התשלומים	סוג האשראי	הקלות בתחום האשראי
משכנתאות שלוש חלופות לבחירת הבנק: <ul style="list-style-type: none"> הוספת התשלומים בסוף תקופת המשכנתא. פריסת התשלומים לאורך ימרת תקופת המשכנתא. העמדת הלוואה, בסכום הדחייה, ללא ריבית, לתקופה של 4 שנים, שמועד פירעונה יתל בחלוף שנה. אשראי צרכני ואשראי עסקי: הוספת התשלומים בסוף תקופת ההלוואה.	לא תהיה כל עלות ריבית בגין סכום הדחייה	3 חודשים* (לאחר תקופה זאת תבחן הארכה נוספת)	משכנתאות ³ אשראי צרכני מצטבר בסכום של עד 100,000 ₪ אשראי עסקי ⁵ עד סכום של 2 מיליון ₪	הקלות בתחום העמלות:
הבהרה: ההטבה תינתן לקבוצת לקוחות 1-3 המוגדרת לעיל בלבד. ההטבה תחול על לקוחות שערב פרוסום המתווה חשבונו הע"ש שלהם היה בירת חובה. ⁴	0% ריבית		ימרת חובה (אנברדרפט), בחשבון ע"ש של משקי בית, עד סכום של 10,000 ₪	
פטור לתקופה של 3 חודשים מנביית עמלות בגין פעולות שביצעו לקוחות המשתכחים למעגל הראשון, למעט פעילות מט"ח, נ"ע, סחר חוץ, יהלומים (כמפורט בהערות השוליים).				

מעגל שני				
כל יתר לקוחות הבנקים				
אופן פריסת התשלומים	שיעור ריבית מקסימאלי	תקופת דחיית התשלומים	סוג האשראי	הקלות בתחום האשראי
הוספת התשלומים בסוף תקופת ההלוואה. ¹⁰	הריבית ההסכמית ⁹	3 חודשים* (לאחר תקופה זאת תבחן הארכה נוספת)	משכנתאות ⁸ אשראי צרכני מצטבר בסכום של עד 100,000 ₪ אשראי עסקי עד סכום של 2 מיליון ₪	הקלות בתחום העמלות:
דחיית התשלומים תבוצע ללא חיוב בעמלות.				

הבהרות:

- מועד הכניסה לתוקף של המתווה הוא לכל המאוחר עד לתאריך 31.10.23 לטובת היערכות נדרשת של כל בנק, ולמשך התקופה הקצובה במתווה החל ממועד כניסה לתוקף בפועל.
- דחיית תשלומים מצריכה פניה מצד לקוח לבנק והגשת בקשת באופן שנקבע על ידי הבנק.
- האמור לא חל על לווה שנמצא בהליך משפטי, לגבי לווה שהיה בפניו במועד פרוסום המתווה תמאפשר דחייה עד לתקופה שלא עולה על 180 יום מיום תחילת הפינוי.
- ככל שניתן ליימיר פניה זוהמה של לקוח ליישום המתווה, לרבות בתחום העמלות, יש לתת לכך עדיפות.
- אוכלוסיית משרתי המילואים ומגויסי צו 8 תהא זכאית להטבות עם המצאת אסמכתא או הצהרת לקוח.
- המתווה שגובש מציג את תנאי המינימום וכל בנק רשאי להרחיב לטובת לקוחותיו ולבקשתם.

¹ בהתייחס לדריה ראשונה ומשפטי דרי בלבד.
² יבורר כי המתווה הוא בנוסף לקבוצת לקוחות בנקאות (שירות ללקוח) והשמי"א 1981- אינו מחליף אתו.
³ אשראי עסקי עם מחרוזת פריסת עד 25 סדרים, לא כולל הלוואות בשו"ס מסווגים עם דרי שלישי. לגבי אשראי עסקי שירות לקוחות ליימיר עולה על 3 שנים, ניתן לבצע פריסת תשלומים באופן הבקע ביחס לשמכנתאות.
⁴ שירות חובי שנועד לתקן ממשפיות המאפשרת על ידי הבנק.
⁵ ימנעו הפעילות בפריסת האמית, בהתייחס לבנקים, בבלי הבנקאות (שירות ללקוח/עמלות), החש"ת, 2008.
⁶ חלק 1- חשבון עובר עוב (כולל)
⁷ חלק 2- מימיר, העמדת הריבית (כולל)
⁸ חלק 3- אשראי (כולל)
⁹ חלק 4- אשראי (כולל)
¹⁰ חלק 5- עמלות טיסול בירשות ונכונות, עמלות משכית מנמון (ממכספי מרחק וגו') בריסית נמון.
¹¹ בהתייחס לדריה ראשונה לגבי משפטי דרי.
¹² דחיית התשלומים כריכה ביחיד על תקופת הדריה, לט. טרם קבלת החלטה על דחיית תשלומים, חשבו לבחון את השלכות הדחייה, לרבות ההסדר החלוצי של הדחייה (מבחינת עלות הריבית, סכום חיוב חדש לחיוב לאודי הדחייה/כ"ב), לאורך קבלת החלטה שוטפת.
¹³ אופן פריסת ההלוואה היא בכפוף למגבלות כפיית הבנקות סטנדרט המחוייב של הבנק.



בנק ישראל מאריך ומרחיב בפעם השלישית את מתווה הסיוע המקיף שאומץ על ידי הבנקים בהתמודדות עם השלכות מלחמת "חרבות ברזל"

המתווה ייכנס לתוקף החל מתאריך 1.4.24. ניתן להגיש בקשה להיכלל במתווה זה בתאריכים 1.4.24-30.6.24 לפי החלוקה הבאה:



אוכלוסייה שהיא בעלת קרבה ראשונה (בני זוג, הורים, אחים וילדים) להרוגי המלחמה או לחטופים או לנעדרים



חשבונות חטופים או של נעדרים*



אוכלוסייה שפונתה על ידי גורם רשמי, או שמתגוררת ביישובים שטרם פונו רשמית בפועל**



אוכלוסייה המתגוררת או בעל עסק במרחק של עד 30 ק"מ מרצועת עזה.



אוכלוסיית נפגעי המסיבות - נפגעי מסיבת "נובה" ברעים; נפגעי מסיבת "פסיידאק"; נפגעי מפגש ההיערכות לפסטיבל "מידברן"*



חיילי מילואים שאושפזו לתקופה של 7 ימים לפחות בשל פציעה שנגרמה להם מהמלחמה



אוכלוסיית משרתי המילואים ומגויסי צו 8**

ההקלות שניתנות לקבוצות אלו לתקופה נוספת של 3 חודשים:

- אפשרות לדחיית תשלומי משכנתאות, ללא מגבלת סכום, ללא חיוב בריבית ובעמלות;
- אפשרות לדחיית הלואות צרכניות בסכום מצטבר של עד 100,000 ש"ח, ללא חיוב בריבית ובעמלות;
- אפשרות לדחיית הלואות עסקיות, בסכום מצטבר של עד 2 מיליון ש"ח, ללא חיוב בריבית ובעמלות;
- פטור מתשלום ריבית על יתרת החובה בחשבונות העו"ש של משקי הבית עד לסכומים קצובים;
- פטור מתשלום ריבית על יתרת החובה בחשבונות העו"ש של עסקים קטנים עד לסכומים קצובים;
- פטור מתשלום מרבית העמלות;
- ההטבות לחיילי המילואים יינתנו באופן יזום על ידי הבנק וללא צורך בהמצאת אסמכתה.

הקלות ליתר הלקוחות, לתקופה נוספת של 3 חודשים:

- אפשרות לדחיית תשלומי משכנתאות, הלואות צרכניות והלואות עסקיות, ללא חיוב בעמלות, ובשיעור הריבית המקורי של ההלוואה,

לתנאים המלאים, ניתן להיכנס [לאתר בנק ישראל](#)

* בהתאם להחלטות הממשלה והרישומות המופיעות באתר בנק ישראל.

Box 6.3

Data during a Crisis

- To carry out its functions, the Banking Supervision Department analyzes and monitors developments in banking system data with respect to stability, fairness, and competition. For this purpose, it manages three types of reports:
 - **Periodic reports**—received at various frequencies based on the directives for reporting to the Banking Supervision Department and to the public;
 - **Temporary reports**—a request for data on a specific phenomenon for a one-time review;
 - **Reports in special (emergency) situations**—a specific reporting directive for special situations that allows the Supervisor of Banks to define, according to the circumstances, the specific data that the corporations must report with greater frequency or for the first time.
- With the outbreak of the Swords of Iron War on October 7, 2023, the Supervisor of Banks decided to partially implement the emergency reporting directives. As the extent and severity of the event became clear, the emergency reporting directive was expanded, and the banks were required to report a greater amount of data more frequently with respect to their stability and functioning.

The activation of the special situation reporting directive in the early stages of the Swords of Iron War allowed the Bank of Israel and the Banking Supervision Department to obtain a large amount of information, which was reported through regular reporting channels. This workflow facilitates the processing, analysis, and graphical presentation of the information to users in a flexible, efficient, and timely manner.

- The periodically reported information, and in particular the rapidly reported information received as a result of the activation of the special situation reporting directive, was used by the Banking Supervision Department to monitor the stability and functioning of the banking system, as well as to make information accessible to the general public. The emergency data served as the basis for internal discussions of measures to be implemented by the Banking Supervision Department and enabled the Supervisor of Banks and the Governor of the Bank of Israel to make real-time decisions regarding assistance programs and to identify the target populations. Later on, the emergency data served as a tool for monitoring the implementation of these measures and measuring their efficiency and effectiveness.

Background

The Banking Supervision Department carries out its functions by monitoring and analyzing the developments in banking system data with regard to stability, fairness, and competition.

This process is based on ongoing analysis of up to date data received from corporations in the banking system (banks and acquirers) and the data reported to the Banking Supervision Department at the Bank of Israel under the Banking Ordinance (1941).¹

The Banking Supervision Department manages three types of reports:

Periodic reports²—received monthly, quarterly, semiannually, or annually. The reporting directive specifies the scope of the report, the level of detail (customer/transaction/reporting corporation), reporting deadlines, and the precise structure in which the banks and acquirers are required to submit the data.

Temporary reports/one-time reporting requirements—A request to submit data on a specific phenomenon for the purpose of in-depth examination of a particular issue or a one-time review. If after a certain amount of time, it becomes clear that the one-time requirement includes data that are needed on a regular basis, it may be considered for inclusion as an ongoing reporting instruction. For example, state-backed loan programs were instituted for small businesses during the COVID-19 crisis and the Swords of Iron War, and banks were asked to submit temporary reports to the Banking Supervision Department regarding the loans granted under this program.

During the past year, the Banking Supervision Department issued a reporting requirement in the form of a temporary directive. This reporting requirement includes data that are uniquely relevant to the special situation currently faced by the Israeli economy. After a certain amount of time, the data reported under this temporary directive are reviewed, and data that remain relevant become part of a periodic report or emergency report, while data that are no longer relevant cease to be reported.

Special situation (emergency) reporting—This involves a specific reporting instruction for special situations, in which the Supervisor of Banks can define the specific data each corporation must report with increased frequency relative to periodic reporting. The emergency reporting instruction also includes new reporting requirements that go beyond the routine reports and are specific to the particular emergency. For example, during the COVID-19 crisis and the Swords of Iron War, banking institutions were asked to report data on loan payment deferrals to the Banking Supervision Department. These data helped to shape and validate the frameworks for deferring bank loan payments.

The Banking Supervision Department also conducts annual emergency exercises in which the reporting corporations are required to simulate emergency reporting according to the scenario decided upon that year.

¹ Paragraph 5a.

² For details on the Directive for Reporting to the Banking Supervision Department: https://www.boi.org.il/media/1akczevu/801_1-4.pdf [Hebrew]

Reporting directives for special (emergency) situations—a historical perspective

In order to monitor the activities of the banking system during emergencies and following Operation Pillar of Defense, the Bank of Israel and the Banking Supervision Department decided that data are required more frequently, more rapidly and on a larger scale in an emergency. The Banking Supervision Department therefore issued the Special Situation (Emergency) Reporting Directive.³ The directive specifies the required reporting frequency and the type of data included in the emergency reports: balance sheet data, future cash flows, reports on checks without cover, a daily snapshot of the banking services provided by the bank, reporting on outlying events, and details regarding branch status, ATM status, and mobile branches.

With the occurrence of further emergency events, such as Operation Protective Edge, Operation Guardian of the Walls, and the COVID-19 pandemic, the Supervisor of Banks decided to activate the Emergency Reporting Directive in order to receive more extensive information at a higher frequency, with the goal of obtaining a clearer picture of the banking system's stability and operations during these special situations.

In 2020, and in light of the extended duration of the COVID-19 pandemic and its impact on Israel's financial system—and as the result of lessons learned regarding the emergency data collected during the pandemic—the need arose to upgrade the data received by the Banking Supervision Department from regulated institutions during special situations, based on a long-term perspective. A team was created to examine and expand the reporting requirements for banks in emergency situations. At the same time, a balance was sought between the Banking Supervision Department's need for data from the various domains affected by the emergency and the resources required in the banking institutions and the Banking Supervision Department to generate and process the data during an emergency.

The team's conclusions included the following:

- To add new areas for reporting, including: credit, markets, capital, regulatory relations, and cyber risk.
- To expand the reporting requirements related to liquidity and checks without cover.

In addition, and based on the understanding that while we are well-prepared for previous crises, it is impossible to predict the nature of future crises, the directive's framework was changed so that data could be included in the reporting requirement in a modular fashion, depending on the scenario that is unfolding, rather than activating the entire directive as one unified package. In May 2022, the team's recommendations were implemented, and the updated Special Situation (Emergency) Reporting Directive was issued.

³ <https://www.boi.org.il/media/ki2hdrlr/889.pdf> [Hebrew]

With the outbreak of the Swords of Iron War on October 7, 2023, the Supervisor of Banks decided that, given the scope and severity of the event, the Special Situation (Emergency) Reporting Directive is to be activated.

Emergency reporting during the Swords of Iron War

The activation of the Special Situation Reporting Directive during the early stages of the Swords of Iron War allowed the Bank of Israel and the Banking Supervision Department to receive detailed and extensive information at a high frequency, which was reported through the regular channels. Thus, the rapidly reported information followed the same path as routinely reported data, while using automation as much as possible: intake into the Banking Supervision Department's systems, validation checks, logical data testing by the reporting entity, transfer to the Bank of Israel's data series database⁴, and the implementation of calculations and indices based on the raw data.

This workflow makes it possible to process, analyze, and present information graphically in a flexible, efficient, and rapid manner. It also allows the efficient flow of information to internal users—such as the economists of the Banking Supervision Department, the Supervisor of Banks, and other entities within the Bank of Israel—as well as external users, and including the general public.

In the initial phase, and in the immediate term, the Banking Supervision Department activated the Special Situation Reporting Directive with respect to branch operations, in order to monitor their availability and to make the information accessible to the public on the Bank of Israel's website. Upon the activation of the directive, the banks were also asked to provide data on check transactions, including the number of checks presented and returned (sorted by reason) and broken down by locality. These data helped the Banking Supervision Department monitor liquidity challenges faced by customers in different regions of the country (for further details, see Box 6.7 in this review).

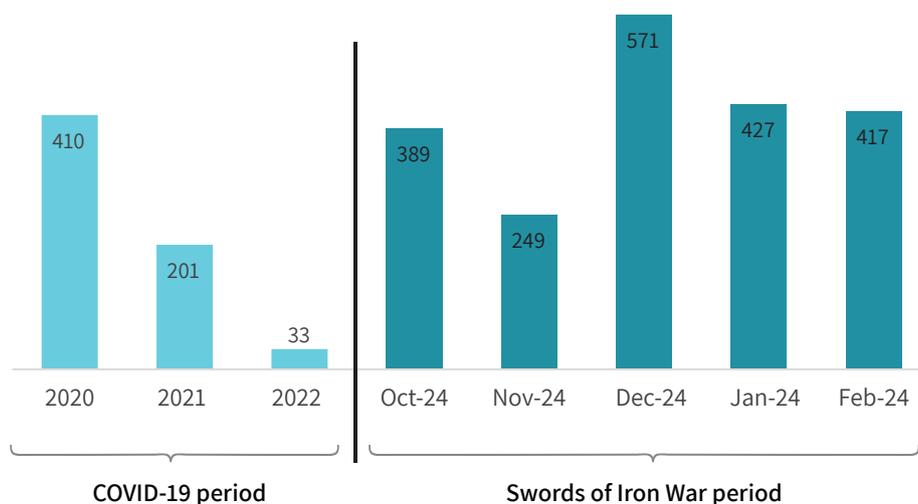
About a week after the war began, as the severity of the event became clearer, the banks were asked to report additional data as outlined in the directive. This data included information on credit, liquidity, capital adequacy, and payment deferrals. At a later stage, the banks were requested to report additional data specific to the Swords of Iron War, such as the costs of implementing the various assistance measures announced by the Bank of Israel during the war, data on loans granted to businesses and funded by the Bank of Israel, and loans backed by government guarantees.

⁴ For further information on the data series repository, see the box entitled "Managing Supervisory Information and Maximizing its Value" in Survey of Israel's Banking System 2021. Link to the data series repository on the Bank of Israel site: <https://edge.boi.gov.il/?locale=en> [Hebrew]

Between the outbreak of the war and the end of February 2024, approximately 2,200 regular reports were submitted under the emergency reporting framework, with daily, weekly, or monthly frequency. These reports included around 2 million data points.⁵ For comparison, during the three years between 2020 and 2022, and in the context of the COVID-19 crisis, over 2,600 reports were submitted by about 13 entities as part of the emergency reporting framework. These reports involved five different reporting requirements with varying frequencies and included approximately 600,000 data points (see Figure 6.6).

Between the outbreak of the Swords of Iron War and February 2024, about 2 million data points were reported under the emergency reporting framework. This is markedly larger than the number reported during the previous emergency period (the COVID-19 pandemic).

Figure 6.6 Number of Emergency Data Points Reported to the Banking Supervision Department, 2020–2024 (thousand)



SOURCE: Banking Supervision Department calculations.

The use of information for supervisory purposes and publication

The routine information, particularly the rapidly received data under the Special Situation Reporting Directive, was used by the Banking Supervision Department to monitor the functioning and stability of the banking system, to assess risks, and to make information available to the public. Analyses of credit data, deposits, bank liquidity, and more were made accessible through the internal supervisory information systems. These systems

⁵ Validated data that are free from errors which would require the reporting bodies to submit corrected reports.

present the data and allow for analysis at both the individual bank level and across the entire banking system. Data on the availability and operation of branches was received daily and published on the Bank of Israel's website for public consumption.

The emergency data also served as the basis for internal discussions on measures to be instituted by the Banking Supervision Department and enabled the Supervisor of Banks and the Governor of the Bank of Israel to make real-time decisions on the implementation of assistance programs. The emergency data further serve as an important tool for monitoring the implementation of those measures and evaluating their efficiency and effectiveness. For example, weekly credit deferral data helped assess the impact of the war on the financial situation of customers and assisted in tracking the implementation of the comprehensive assistance plan adopted by the banks, which allowed for the deferral of loan repayments (for more details, see Box 6.2 in this review).

These analyses are automatically updated as new data are received, providing users with advanced, flexible display capabilities that can be used to analyze the current situation and to generate insights.

Conclusion

The Banking Supervision Department views the information reported regularly during normal periods, and more intensively during emergencies, as a primary tool for monitoring and tracking the developments in the banking system.

The generation of a precise and comprehensive picture to support the decision making process is made possible by the regulation of how information is received during emergencies, along with its changing content based on the emergency situation. This is combined with the implementation of processes and solutions that allow for efficient and rapid data collection and management, and the preparedness of the banks for the increased reporting requirements during emergencies.

We are continuing to learn the lessons of past experience, which may result in changes to the emergency reporting framework, and perhaps also periodic reporting, including the expansion of data reporting requirements during normal periods based on the data received during emergencies. Furthermore, the emergency data, which was made accessible to internal users through display solutions developed during the war, will remain available as long as needed.

Box 6.4

Transparency and Accessibility of Interest Rate Information

- To carry out its functions, the Banking Supervision Department analyzes and monitors developments in banking system data with regard to stability, competition, and innovation.
- By making price data accessible on the Bank of Israel's website and by increasing transparency, the Banking Supervision Department works to empower customers and assist them in financial conduct.
- The Banking Supervision Department has published a dashboard on the Bank of Israel website that displays the interest rate data for banking corporations, with the goal of enhancing consumer transparency and improving access to price-related data in the evolving financial environment.
- The Banking Supervision Department uses Google Analytics as a tool to monitor dashboard usage and analyze social media discussions. This tool helps to identify user behavior patterns and to improve user experience by tailoring content and providing more useful and accessible financial information to users.

Background

To fulfill its functions, the Banking Supervision Department carefully analyzes and monitors developments in the banking system, focusing on stability, competition, and innovation. This process relies on the ongoing analysis of up-to-date data received from corporations within the banking system (banking corporations, clearing houses, and foreign banks). Technological advancements and the growth in available information sources have led to a significant expansion in the volume, variety, and quality of the data. As a result, there is an increasing need and interest in sharing this information with the general public in a way that can generate insights and contribute to informed financial decision making. The Banking Supervision Department makes extensive information available to the public on the Bank of Israel's website, offering a comprehensive view of the banking system's activities and providing tools to assist in financial management. This information is presented through dashboards, spreadsheets, graphs, and the data series interface¹ on the website.

¹ [Data Series Interface on the Bank of Israel website](#) [Hebrew]

Part I Consumer transparency in a changing financial environment—publication of banking corporations' interest rates, accessible by means of a dedicated dashboard on the Bank of Israel website

As a result of changes in the interest rate and inflation environment, which began in 2022 after many years of relative stability, the Supervisor of Banks sent a letter to the banks, emphasizing the expectation that they will adjust their investment products to the evolving interest rate environment and the changing needs of customers.² He also highlighted in the letter that "in continuation of the various reforms led by the Bank of Israel in recent years to increase transparency and strengthen the customer's bargaining power, the Banking Supervision Department intends to publish the interest rates on household credit and deposits."

For the first time, specific bank interest rates are now available to the public, providing a simple tool for the general public to compare prices and choose suitable financial products. The interest rate comparison dashboard for deposits and credit, launched in October 2022, increases transparency for bank customers and enhances competition in the deposit and credit markets.

The dashboard allows users to compare the interest rates offered by banks on deposit products for households (both fixed and variable interest rates). It is based on data that are regularly reported to the Banking Supervision Department on the average interest rates actually paid on deposits and credit in Israeli currency that is not indexed to the CPI. These data are updated monthly.

This initiative not only provides a better understanding of deposit characteristics but also empowers customers by enabling them to make informed decisions through easy, accessible, and convenient comparisons of interest rates across different banks. Plans are in place to enhance the dashboard with additional information and improve its usability and efficiency this year.

Below is a breakdown of the information available on the dashboard as of April 2024:

Interest rates on deposits:

- Fixed-rate and variable-rate deposits – a breakdown of the interest rates actually paid on deposits, by time period of the deposit. The dashboard provides data on both the average and median interest rates.³

² [Fairness to Consumers in a Changing Financial Environment](#) [Hebrew]

³ The median interest rate is the rate at which half of the loans (or deposits) were provided (or received) at an interest rate equal to or higher than that rate, and half at an interest rate equal to or lower than it. The information on the median interest rate neutralizes the impact of the loan or deposit amount on pricing, providing a clearer picture of the typical interest rate without being skewed by larger or smaller amounts.

- The interest rate data is available in a summarized table display as well as in charts.

The interest rates on consumer credit (loans to households):

- A comparison of the average and median interest rates actually charged on loans provided during the month.
- Interest rate ranges – information on interest rates based on percentiles:⁴
 1. Average interest rate in the upper quartile – representing the top 25% of loans according to interest rate.
 2. Average interest rate in the lower quartile – representing the bottom 25% of loans according to interest rate.

Due to the variation in interest rates on consumer loans across customers, the information was expanded to show not only the average or median interest rate but also the range of interest rates. Interest rates offered to customers are influenced by several factors, including the borrower's risk level, the loan amount, and the loan term.

The median interest rate allows each consumer to better understand their position relative to other consumers who have received loans or made deposits. The difference between the median interest rate and the average interest rate is that the average is influenced by amounts of the deposits or loans (weighted by the actual amounts), while the median is not.

Interest rates on current account balances:

- A comparison of the average interest rate charged by banks on current account balances that are in overdraft, though within the authorized credit limit.

Interest rates on credit card transactions:

- Comparison of the average interest rate charged on credit transactions (transactions where the customer requests to spread the payment over multiple installments).
- Comparison of the average interest rate charged for revolving credit when the monthly charge on the credit card is limited.

⁴ Interest rates by percentiles: When analyzing a group of 100 loans, if 30 of them share the lowest interest rate, then they are classified based on their position within this subset for reporting purposes. Specifically, the 25 leading loans among these 30 (which represent the highest interest rates in this lowest type) fall into the 75th percentile. Meanwhile, the five remaining loans with the lowest interest rates in this group fall between the 25th and 50th percentiles. This approach provides a detailed breakdown of how loans are distributed across different interest rates.

Publication of a draft Proper Conduct of Banking Business Directive – Publishing of Interest Rates on Deposits and Positive Account Balances"

The Bank of Israel and the Banking Supervision Department are actively working to encourage competition in the banking system, to enhance transparency for the public and to empower customers. As part of these efforts, the Banking Supervision Department continues to expand the variety of information available to the public, providing customers with tools to help them make informed decisions about their financial assets and liabilities.

In this context, on February 28, 2024, a draft Proper Conduct of Banking Business Directive was published, marking a significant step toward increasing the transparency and competitiveness of the banking system. The directive, entitled "Publication of Interest Rates on Deposits and Positive Account Balances," complements the existing Banking (Service to Customer) (Disclosure and Document Delivery) Rules from 1992. It establishes guidelines for publishing interest rates on deposits and credit balances in current accounts.

This directive simplifies and significantly expands the disclosure of interest rates on deposits and positive balances, thereby fostering competition in the banking system, enhancing transparency regarding deposit interest rates, and improving the usefulness of the information made available to the public. It also strengthens a customer's ability to compare the various offerings from different banking corporations in the deposit market.

The directive establishes uniform rules and a consistent framework for publishing the minimum interest rates on deposits and positive account balances that banks are required to pay, while also defining the characteristics to be displayed for each type of deposit. It also includes provisions for the consolidated presentation of interest rates for standard deposit types, in a uniform format and along with information on additional deposit products the bank might offer.

The standard deposit types and their characteristics were determined based on an outlining conducted by the Banking Supervision Department of the existing deposit products in the market. As part of the publication, a link must be provided to the interest rate dashboard that displays the rates based on actual deposits, as published by the Banking Supervision Department (as described above).

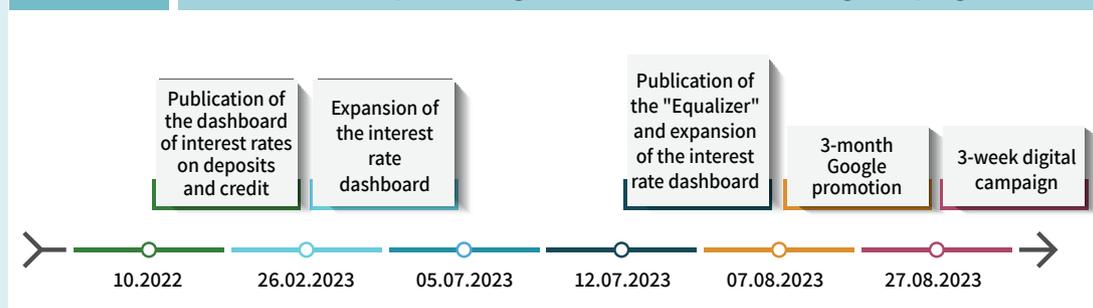
To further enhance the usability of the information, the directive also requires banking corporations to offer customers a search mechanism that enables them to find information on the types of deposits available and the corresponding interest rates.

Part II Analysis of dashboard use and the discourse on social media

In July 2023, the Equator page⁵ was launched on the Bank of Israel's website. This page serves as a homepage that provides access to the dashboard of interest rates on deposits and credit, along with other comparative tools and guides that can assist in financial decision making. Following its launch, the Equator page was promoted through marketing campaigns aimed at increasing public awareness (see Figure 6.7).

The Bank of Israel monitors website usage statistics, including information made available by the Banking Supervision Department. Using tools like Google Analytics, the Banking Supervision Department tracks and analyzes indicators of dashboard usage in order to assess how effectively the information is reaching the public and in order to identify opportunities for improving its visibility.

Figure 6.7 Timeline for the publishing of data and the marketing campaigns



Since April 2023, the total number of visits to the interest rate dashboard has reached 197,031. The analysis indicates that the daily views of the dashboard increased following the publication of the Equator page and the launch of the digital campaign (Table 6.2, Figure 6.8).

The impact of these campaigns can also be measured by analyzing the bounce rate, which refers to the percentage of users who left the website after viewing only one page, without taking any further action. This reflects the ratio of visitors who exited the site to the total number of visitors. Over time, there has been a noticeable decrease in the bounce rate, particularly after the launch of the Equator page and the digital campaign (Figure 6.9).

Table 6.2 – Usage indices over time – Dashboard of interest rates on deposits and credit

Total users	Total views ⁶	Total return users
120,097	197,031	35,058

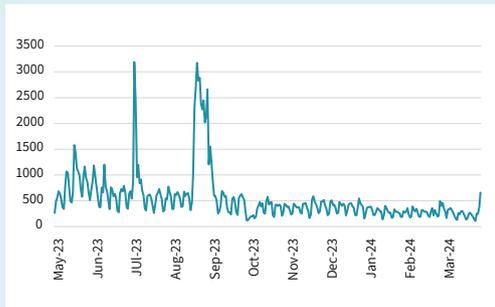
The data presented in the table relate to the 12 months from 4/2023 to 4/2024.

⁵ [The Bank of Israel's Equator](#) presents the tools currently available on the Bank of Israel site and expands the data that can be used for comparison by consumers.

⁶ Views – the number of presentations of pages or particular content on the site.

Figure 6.8

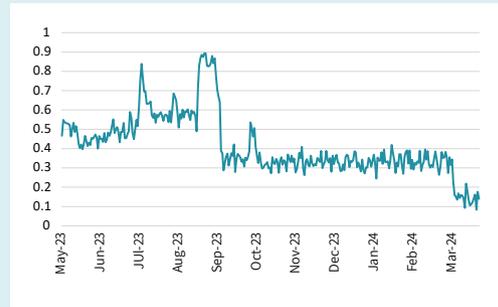
Number of daily views,
May 2023 to March 2024



SOURCE: Google Analytics.

Figure 6.9

Average bounce rate,
May 2023 to March 2024



SOURCE: Google Analytics.

The marketing campaigns conducted alongside the launch of the Equator website led to an increase in dashboard views and heightened media discussion. Following the launch and the advertising campaign, a study was conducted to examine the discourse on social media regarding the Equator website and its ongoing use during the period from July 2023 to February 2024.

The research method involved both quantitative and qualitative analysis, with a sample of 145 mentions related to Equator. The study analyzed discussions across seven different social media platforms.

The analysis concluded that the discourse surrounding Equator was mostly positive, with the majority of the discussions occurring near the time of the platform's launch. Many users expressed satisfaction with the platform and recommended it to others. Criticism of Equator focused on a few main points, primarily its usability for negotiation purposes with banks, and claims that too much information was presented without adequate filtering options, making it difficult to find specific data. These insights will be valuable in improving the website. Suggestions for enhancing Equator include adding comparison data for fees, overdraft interest rates, and money market fund interest rates.

Conclusion

The Banking Supervision Department attributes great importance to providing accessible and high-quality information to the public and is committed to increasing transparency. We continuously monitor various dashboards' usage metrics to determine how to improve the visibility of the comparison tools, enrich them, and make them clearer and more accessible to customers.

The publication of interest rates that banks pay on deposits and the rates charged for credit is an important step toward enhancing transparency. The changes in the interest rate and inflation environment starting in the second half of 2022 have underscored the importance of enabling customers to understand and compare the terms offered by different banks across a range of credit and deposit products. The Banking Supervision Department will continue to work toward making efficient information more accessible to the public.

Box 6.5

International Developments in Customer Protection and their Adoption in Israeli Regulation

- Financial consumer protection has undergone significant development among leading financial regulators around the world. This box presents the international trends in this area, as reflected in the updated guidelines of the G20 Forum and the OECD, and in the new FCA guidelines.¹
- The Banking Supervision Department has defined fairness as a strategic goal and in this context works to assimilate this principle within the work processes of the banking corporations, by embedding it within their organizational culture.
- The box presents the developments in Israel in the area of customer support and service systems, inspired by the latest international regulatory developments and as reflected in Proper Conduct of Banking Business Directive 501. It constitutes an additional layer in the efforts of the Banking Supervision Department to promote fairness in bank-customer relations, based on the view that fairness in dealings with customers is a prerequisite for public trust in the financial system.
- The box examines the challenges of assimilating the latest developments in products and services, as well as those of providing accessible information and effective disclosure

Introduction

In recent years, the Bank of Israel's Banking Supervision Department has made significant efforts to promote fairness in bank-customer relations. These efforts are in line with the definition of fairness as one of the two strategic supervisory goals that are intended to meet the Bank of Israel's objectives: one to achieve stability² and the other to achieve fairness. The first is defined as the integration of an all-encompassing and impactful culture of fairness toward customers. The underlying assumption of this approach is that a stable and sustainable banking system is necessarily based on public trust, with fairness in dealings with customers serving as a prerequisite for public trust in the financial system. The supervisory approach, which places customer protection at its core, has evolved over time and its development has been the result of, among other things, parallel processes in Israel's economic and social spheres; technological developments; trends in the business and competitive world; etc. In this context, account must also be taken of developments in

¹ Financial Conduct Authority – <https://www.fca.org.uk>

² The other strategic goal is stability, namely the protection of depositors' funds, resilience to crises, and ensuring the continuity of service to the public during both normal times and emergencies.

the approach of leading international financial regulatory bodies with respect to fairness, the importance of organizational culture in financial institutions, and the internalization of a commitment and responsibility that will be embedded within their interactions with customers.

In recent years, a shift has occurred in the international supervisory approach to customer protection, placing the customer at the center by changing the organizational culture within financial institutions. The Banking Supervision Department is part of this shift in thinking and, therefore we will examine these changes and the extent to which they are compatible with the business and legal environment in Israel.

This box will describe the changing global trends in consumer protection and will outline the relevant Banking Supervision Department activities.

The G20 and OECD Consumer Protection Principles

More than a decade ago, the Organization for Economic Cooperation and Development (hereinafter: the OECD), together with the G20 Forum,³ formulated ten principles for financial consumer protection and consumer policy, based on the recognition that regulation and supervision in financial consumer protection address the power imbalances between a consumer and a financial institution and can be used to narrow the information gaps between them. This will increase the consumer's financial well-being and resilience; will strengthen the functioning of the financial system; will increase customer trust and reliance on the financial system; and will reinforce financial stability and promote more inclusive economic growth. The principles address diverse aspects of the problem: establishing a legal, regulatory, and supervisory framework for consumer protection; defining the status and roles of supervisory entities; encouraging responsible behavior towards consumers; promoting competitive and efficient markets; ensuring equal and fair treatment of consumers; facilitating disclosure and transparency of information; protecting the privacy of consumer data; protection against fraud; and handling of public complaints by providing remedies and compensation (Figure 6.10). Adoption of these guidelines is voluntary, but there is an expectation that OECD member countries will actively work to adopt and implement them within their consumer protection frameworks.⁴

The guidelines recently underwent a significant revision that was completed about a year ago. It reflected developments over time in the supervisory approach to financial consumer protection among major financial regulatory bodies worldwide. In updating the principles,

³ A forum for cooperation and consultation on issues related to the international financial system. Its members are the ministers of finance and central bank governors of the 20 leading economies.

⁴ The Banking Supervision Department operates according to these principles and adopts them as a leading international standard.

emphasis was placed on setting a higher threshold of consumer protection by changing the organizational culture within financial institutions, while also imposing requirements for financial inclusion and promoting financial literacy. The revision included, among other things, the addition of two new guidelines to expand the scope of consumer protection:

The first is Accessibility and Inclusion — According to this guideline, governments, supervisory entities, and financial institutions should strive to facilitate the accessibility of financial products and services for all types of consumers, while taking into consideration their limitations and barriers. They are also expected to work toward promoting an inclusive financial system.

The second is High-Quality Financial Products — According to this guideline, high-quality financial products are those aligned with the interests and objectives of the target consumer audience throughout their lifecycle and will contribute to a consumer's financial well-being. The guideline calls for appropriate supervision and governance of financial products and services, and where relevant, also of intermediaries, in order to ensure that high-quality financial products and services are planned and distributed. It is also stated that in order to promote high-quality financial products that offer value to consumers, a target market for the financial product should be defined, preliminary research and testing should be conducted before the product's launch, and the customers' behavioral biases should be taken into account, with the goal of understanding the target market and appropriately determining the product's level of complexity and risk.

The OECD encourages member countries to disseminate the updated high-level principles and their innovations among relevant stakeholders within each country, to integrate them into the supervisory approach and, accordingly, into their own work processes.

Figure 6.10 The G20 and OECD guidelines for protection of the financial consumer

The FCA

The FCA (Financial Conduct Authority) is the financial regulator in the United Kingdom, established in 2013 under the Financial Services and Markets Act passed by the British Parliament.⁵ The organization supervises financial services companies (banks, securities firms, insurance companies, various financial advisors, etc.) in various aspects of business conduct and consumer protection. Its purpose is to protect financial customers, promote fairness in the financial system, strengthen competitiveness in the markets, and promote efficient competition from a consumer perspective.

The FCA has the authority to impose binding rules and procedures for the entities it supervises. It is also authorized to carry out enforcement and investigations in the area of financial crime, including: restricting the sale of financial products, setting rules and guidelines for the conduct of financial service providers, and taking steps to punish violations of antitrust regulations. The organization states that it operates according to a

⁵ Financial Services and Markets Act – <https://www.legislation.gov.uk/ukpga/2000/8/contents>

proportionate, risk-based supervisory approach, while taking into account size, complexity, and potential impact on different types of consumers. The organization regularly publishes multiyear metrics to allow assessment of its performance and its achievement of its defined objectives.

The Consumer Duty directive issued by the FCA

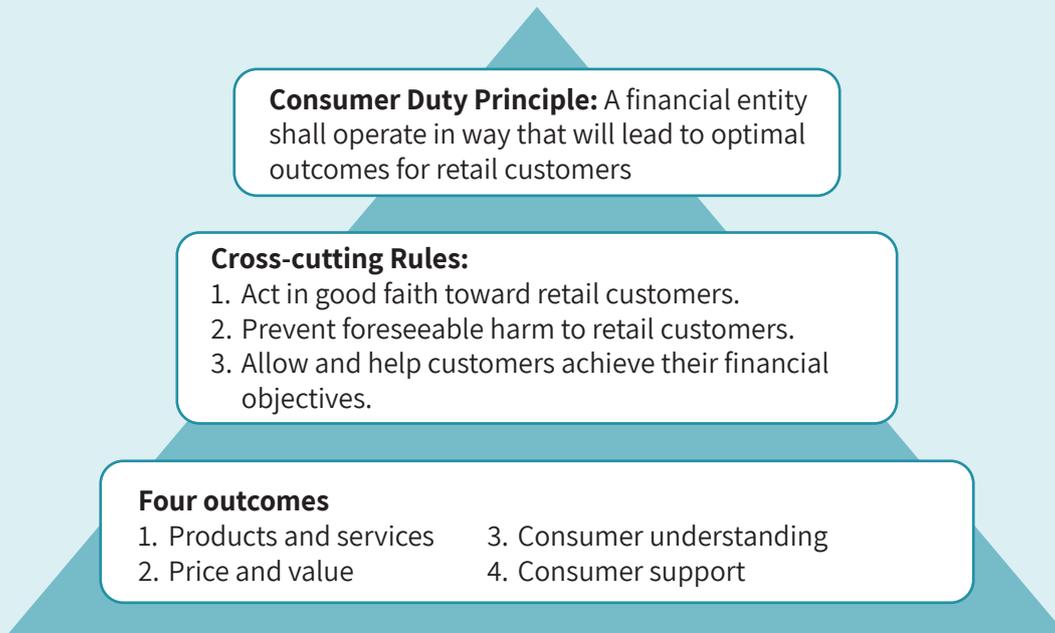
In July 2022, the FCA published its finalized document on Consumer Duty. It was published following a consultation process conducted by the FCA together with entities in the financial system in the UK, consumers, consumer organizations, and others. The document defines the regulatory expectation for a reasonable standard of conduct of regulated entities toward retail customers in the financial markets, with the aim of enhancing customer protection. The document outlines new expectations for financial entities, which can be implemented flexibly and dynamically with respect to products, services, and business models, while also addressing the changing digital environment. It thus provides protection for customers, while providing regulated entities with certainty in financial innovation and with tools to support customer service.

The FCA has stated that under the new rules companies are required to place the customer at the center of their business; to offer products and services that are suited to customer needs; to provide fair value; and to help customers achieve their financial goals without causing them harm.

The Consumer Duty directive reflects a fundamental shift in the FCA's regulatory approach, representing an advanced approach in international regulation that focuses on outcome-based supervision, in contrast to supervision aimed at managing behavioral risk. Under the previous approach, the financial entity was required to act in a way that minimized behavioral risk with the goal of preventing harm to itself. Under the new guidance, there is an expectation that regulated entities will act in a way that does not cause harm to the customer, even if it does not pose a risk to the financial entity. Within the framework of the new policy, the FCA is seeking to change the organizational culture and the manner in which financial entities operate. It targets the core of the business model and strategy of financial entities and seeks to bring about a deep-rooted change in their policies and business processes.

The Consumer Duty directive went into effect in July 2023 for products and services sold to the public from that date onward, and it will come into effect for existing products and services starting in July 2024. Currently, the FCA is addressing issues related to the optimal implementation of the directive and the proper way to enforce it effectively. The FCA is aware of the broad scope of the changes introduced by the new directive and therefore it periodically publishes statements, assessments, and reviews in order to help firms focus on the various issues in implementation and assist them in shaping their decision-making processes.

The structure of the new directive is composed of three levels:



1. A new **Consumer Duty Principle** that sets a threshold of expectations for the proper conduct of the financial entity;
2. A set of **Cross-cutting Rules** that clarify the standards for appropriate conduct expected by the FCA from the supervised bodies toward their customers;
3. **Four Outcomes** that reflect the core issues and the desired interfaces between the financial body and its customers.

The Consumer Duty Principle

The new **Consumer Duty Principle**⁶ establishes that a financial body must act in a way that leads to good outcomes for retail customers. The principle reflects the positivity and proactivity that the FCA expects from financial entities, and the desire that financial institutions will think more deeply about customer outcomes and place customer interests at the center of their operations. The idea is that regulated entities should challenge themselves and ensure that their actions align with customer interests and objectives, while meeting consumer expectations in the relevant target market. This will depend on the nature and quality of the product or service offered to the customer.

⁶ This principle is added to the other ten specified by the FCA: <https://www.handbook.fca.org.uk/handbook/PRIN/2/?view=chapter>

The FCA has stated that this overarching principle enforces a higher standard of conduct than in the past, thus expanding the commitments of entities toward customers to beyond the obligations derived from existing consumer principles. It is emphasized that the intention is not for customers to always receive optimal outcomes, nor is there an expectation to assess the needs, characteristics, and goals of each individual customer. Furthermore, it is clarified that this is a general obligation, and that there is no intention to impose specific customer-level solutions on financial institutions. Rather, the expectation is that processes will be established that will impact consumer outcomes and protect consumers from potential harm.

The FCA directive has clarified that the new set of rules does not diminish the responsibility of customers for the choices and decisions they make. However, it is emphasized that customer responsibility only applies where the products or services offered to them are designed to meet their needs and provide value to them, and where entities act in a manner that helps them make decisions aligned with their financial needs and goals. This is based on the assumption that such actions enhance customer confidence and trust in the service provider.

The directive also includes specific references to customers in special populations and makes clear that vulnerable customers have additional needs or are at a higher potential risk of harm. Accordingly, the new rules are designed to provide them with broader protection.

Cross-cutting obligations described in the directive:

1. **Acting in good faith** – A key principle for business conduct and the creation of an environment in which customers can achieve their financial goals. This rule reflects a standard of behavior characterized by honesty and fairness.
2. **Preventing harm to customers** – Financial entities are expected to take proactive steps to prevent harm to customers, to the extent that it is within their control.
3. **Enabling and supporting customers in the achievement of their financial goals** – Regulated entities must foster a supportive environment that allows customers to make decisions aligned with their needs, including identifying a customer's behavioral biases and operating a customer support center that ensures accessible communication. Entities must ensure that the product or service provides fair value, as declared.

Four Outcomes

1. The Products and Services outcome

Financial products and services are the core of a financial entity's operations. Accordingly, the directive defines essential requirements for the design, development, and planning of

products and services that will enable customers to work toward achieving their financial goals. **The Consumer Duty Principle places a requirement on financial entities to conduct a structured process for approving financial products and services offered to customers, ensuring that they meet the defined criteria, including a design that addresses the needs, characteristics, and objectives of the target market.**

The financial entity is also expected to develop a distribution strategy that suits the target market. A structured process is also required whenever significant changes are made to the products or services offered to customers and for any new product or service. As part of this process, the target market must be defined as a group of customers with shared characteristics, whose needs, characteristics, and goals will be met by the product or service.

The FCA directive also states that a financial entity is required to consider the needs of vulnerable customers within its target market and to assess whether the product or service might adversely impact them. The directive specifies that the intention is not that the specific circumstances of each individual customer be ascertained, but rather that entities will help their employees recognize signs of vulnerability.

It is also expected that the financial entity will monitor the outcomes of customers and factor them into the ongoing evaluation process, as mentioned above. All of these requirements apply throughout the entire lifecycle of a product or service.

2. The Price and Value outcome

A standard is defined whereby products and services must offer fair value, not just that reflected in a fair price. The purpose of the rules is to ensure that the price paid by a customer for a product or service is reasonable in relation to the overall benefit derived from it. The financial entity is required to consider price when evaluating fair value, as part of a broader set of considerations. The FCA emphasizes that these rules are not intended to set prices for products and services.

The rules specify factors that a financial entity must take into account when assessing value:

- The nature of the product or service, including the benefits it will provide to the customer;
- The costs incurred by the financial entity in producing and/or distributing the product or service;
- The price of products or services offered by competing financial entities;
- Other products or services offered by the financial entity that are priced significantly lower while offering similar or greater benefits;
- Limitations that are part of the product or service;

- The total expected cost to be paid by the customer, including fees and charges throughout the duration of the relationship between the customer and the financial entity.

The assessment of value must be conducted during the design phase of a product or service, and before being offered to customers. This is necessary to ensure that prices reflect fair value for a reasonable period of time. The definition of this period depends on the nature of the product or service. The value must be monitored throughout the lifecycle of the product or service by conducting regular reviews.

3. The Consumer Understanding outcome

The baseline assumption is that the financial entity has an obligation to provide customers with information that is clear, understandable and fair, and does not mislead. The innovation of the Consumer Duty directive is that entities must assist consumers in understanding a product or service and accordingly equip them with the necessary knowledge to make effective, timely and informed decisions. Accordingly, an effective decision is one that maximizes the likelihood of the customer to achieve good outcomes. The directive states that the financial entity must act in good faith and avoid communication that exploits information asymmetry or a customer's behavioral biases.

Given the understanding that the characteristics of products and services may change over time, the financial entity is expected to communicate with consumers at appropriate times, including when relevant changes have been made, and to advise customers as to whether the products or services still meet their needs and objectives. At the same time, it is stated that the financial entity should consider the impact of overly frequent communication, which may reduce the effectiveness of important communication that requires customer action.

The directive states that the financial entity must be aware of how information is presented, ensuring that key information is clear, visible, and accessible, rather than buried within too much information or is difficult to find on the website. The FCA requires regulated entities to adopt practices that enhance communication clarity.

Moreover, in situations where the financial entity is required to convey complex information to customers, it must consider what steps can be taken to support customer understanding. The directive suggests using information layering to help customers first receive key information in a simple form, with references to more detailed information that they may want to consider later.

The requirement for effective communication is independent of the communication channel, and the financial entity is expected to adapt the communication channel to the information

needs of its customers. Special caution should be exercised when communicating with vulnerable customers.

Additionally, it is expected that the financial entity will develop and implement checks and controls to ensure ongoing compliance with the rules over time.

4. Consumer Support outcome

The directive states that firms are expected to provide support that meets their customers' needs in order that they can realize the benefits of the products and services they purchase, achieve their financial goals, and act in their own best interests. The rules within the directive stipulate that a financial entity must design and deliver support that meets customer needs, including those of customers in vulnerable circumstances. The entity must ensure that the communication channels offered to customers in order to receive support indeed meet their needs, including in the case of vulnerable customers.

It is emphasized in the directive that the financial entity must ensure that its products and services are directed at the right customers, that information about channels of support is communicated clearly to customers, and that the support functions effectively. The entity should establish processes for handling exceptions in order to efficiently address outlying cases that may arise in relation to its operations.

Regarding customer interactions with the financial entity, it is expected that the entity will exercise judgment in distinguishing between positive interactions that support good outcomes and those that create unreasonable barriers, which may prevent customers from acting in their own best interest.

The directive also stipulates that the financial entity must ensure that customer support is adequate and does not impose additional costs, delays, or inconveniences. Post-sale support is expected to be as good as the support provided pre-sale.

As with other aspects of the directive, firms are required to implement controls, procedures, and processes to monitor compliance with these rules.

Implementation in Israel

The Banking Supervision Department has already adopted a number of measures in this area over the years and is carefully examining the nature of the innovations described above and their alignment with its regulatory approach toward protection of banking customers. These innovations must of course be integrated within the existing customer protection

framework in Israel, which consists of various legal provisions, regulations, rules, Proper Conduct of Banking Business Directives, and court rulings over the years.

As noted in the introduction, the regulatory approach to financial consumer protection in Israel has evolved over the years and been revised a number of times. In this context, the Banking Supervision Department is examining the fundamental changes that have occurred in the international regulatory framework for customer protection, as described above. These changes represent a significant milestone with important implications for the status of banking customers, their rights, and their ability to exercise them. In this context, the Banking Supervision Department is focused on optimally establishing and formalizing its expectations of regulated entities, defining governance obligations, and outlining principles for customer protection.

Below, we will describe how the new approach is being implemented in Israel:

1. Implementation of “Management of Customer Service and Support Array” – Proper Conduct of Banking Business Directive 501⁷

The quality of service and support provided to customers, according to the policy of the Banking Supervision Department (which is similar to the FCA's approach outlined above), are key components that impact customer satisfaction and public trust in the banking system. Providing appropriate, accessible, effective, and high-quality professional service to customers is a central element in this policy, playing a crucial role in creating a positive customer experience when carrying out financial activities and enabling the customer to derive maximum benefit from the services and products offered.

Given the critical importance of service quality and availability, and based on the evolving international regulatory approach to financial consumer protection, as reviewed above, and recognizing the need to expand the normative framework for customer protection, the Banking Supervision Department has decided to formalize its policy and regulatory expectations in the area of customer service and support. This has been done through the issuance of a new and dedicated Proper Conduct of Banking Business Directive, which is focused on managing the customer service and support framework and establishing the obligations of banking corporations in this area.

The publication of Proper Conduct of Banking Business Directive no. 501, "Managing the Customer Service and Support Array," on March 26, 2023 marked a significant step toward strengthening the quality of service in the banking system. The directive's implementation will be gradual, with its main provisions taking effect on June 26, 2024. The purpose of the directive is to ensure that the service and support provided to customers are of high quality, professional, available, and efficient, and that they meet high professional standards. This,

⁷ https://boi.org.il/media/d5slmber/501_et.pdf

in turn, is intended to enhance customer satisfaction and public trust in the banking system, which is essential for maintaining the strength of the financial system.

Due to the importance of the directive and its impact on the service and support systems of banking corporations, the Banking Supervision Department is conducting an oversight process to accompany the implementation of the directive. Banking corporations are required to submit periodic reports on their progress in implementing it.

Following are the main points of the directive:

Corporate governance duties

To improve the quality of service and the customer experience, banking corporations are required to establish a comprehensive organizational infrastructure that emphasizes the importance of customer service and support as a core area of their ongoing operations. The directive sets forth obligations for the board of directors and senior management of a banking corporation, with the aim of ensuring that the area of customer service and support is managed, monitored, and continuously and proactively overseen. This involves establishing management, business, and operational infrastructures and processes at all levels of operation, while allocating the necessary resources to improve service quality and meet the principles for providing service and support to customers.

Principles for providing customer support services

The directive outlines six principles for providing customer service and support, which provide guidance to banking corporations in how to deliver service and support to customers. These principles form the foundation of the directive and reflect the Banking Supervision Department's policy on customer service and support. They establish the standards expected of banking corporations for proper, fair, and honest conduct towards customers.

The banking corporations are required to promote and improve adherence to these principles systematically, consistently, and continuously over time, applying judgment and setting priorities according to their importance for customers, with a focus on households and small businesses. The implementation of the directive is an ongoing process aimed at enhancing and improving the compliance of banking corporations with these principles.

Below is a brief overview of the principles set forth in the directive:

1. Optimal service and support framework – Maintaining appropriate service and support systems that meet customer needs through a variety of service channels; ensuring that services and support are provided to customers in a respectful, clear, professional, accessible, prompt, and efficient manner for all customers.

2. Effective communication – Communication with customers must present clear information and explanations in a timely manner in order to help them make informed decisions and encourage their engagement. This should be in line with the complexity of the products and services offered. Essential information must be presented clearly and prominently, with the option to access additional layers of details, thus enabling consumers to further explore and understand the offer. Steps should be taken to ensure customer comprehension, presenting options clearly and fairly, and ensuring easy and effective navigation through service channels.
3. Prevention of service barriers, harm, or deception – Preventing barriers in service access and avoiding harm, deception, difficulties, or excessive costs. Behavioral biases should be identified and addressed within the service and support framework.
4. Availability and quality throughout the entire relationship – Providing accessible and effective support to customers from the onboarding stage until the end of the relationship (and even after, if necessary). Additionally, ensuring the service and support framework facilitates ongoing, complete, efficient, and transparent handling of customer inquiries throughout the entire process.
5. Tailored service and support for consumers – Providing services based on the characteristics of the products and services; addressing the diverse and changing needs of customers. This includes meeting the needs of elderly customers, people with disabilities, customers dealing with urgent or exceptional situations, and extreme cases.
6. Proper and high-quality service across multiple channels – Ensuring uniform service standards across all service channels, offering a variety of service and support channels for the benefit of customers, promoting the digitization of banking services, and providing customers with tools and information about how to access services through different channels.

Creating a service covenant and publication of information about customer service and support

To further enhance transparency for customers, strengthen their trust in the banking corporation, and deepen the corporation's commitment to providing high-quality service, banking corporations are required to establish and publish a service covenant. This covenant will describe the services offered to customers, the existing service and support channels, the conditions for receiving services through various channels, and the service levels that the banking corporation commits to in each service channel. In order to increase transparency for the public and ensure that banking corporations continuously meet the service levels to which they have committed, while encouraging competition in the service domain, banking corporations are required to publish actual waiting and response times.

2. Products and services with value and benefit to the consumer

Financial products and services are central to the relationship between the bank and its customers, making it a key area of focus for the Banking Supervision Department. There are already mandatory rules and guidelines based on various legislative sources and court rulings concerning the nature of products and services, and which define the obligations that banking corporations must fulfill. In line with the international perspective outlined above, the Banking Supervision Department is currently evaluating whether a unified framework of work processes and minimum conditions is needed in order to strengthen the value and fairness underlying the services and products offered to customers.

One of the main and more complex questions being considered by the Banking Supervision Department is the appropriate level of regulatory involvement with regard to the parameters of value and benefit in products and services. According to the Banking Supervision Department's perspective, the banking corporation, as the entity with which the customer interacts, bears full responsibility for all its actions and decisions, including the pricing of products and services, as well as the value and benefit they provide. Similarly, the Consumer Duty directive does not intervene in pricing per se but outlines new boundaries that anchor stricter supervisory expectations for structured management, planning, and decision-making processes in setting product and service pricing, and the obligation of banking corporations to provide value and benefit to their customers from these products and services.

To provide banking corporations with a clear operational framework for implementing the directives in a way that supports consumers in achieving their financial goals, the Banking Supervision Department is examining whether a new directive is needed. This directive would define obligations in corporate governance and outline principles for product and service suitability. The principles under consideration would formalize the corporation's commitment, ensuring that products and services are designed and developed to suit different target audiences, that they provide value and benefit to customers, are distributed in ways that meet customers' needs, and are assessed for suitability for vulnerable customer groups.

Additionally, this evaluation addresses the definition of corporate governance obligations, similar to the methodology used in the service directive described above. An example would be the imposition of obligations on various organizational units within the banking corporation that would participate in the process, support the implementation of the directive, and be responsible for execution at the customer level. The idea is that these units can contribute to the process by representing different perspectives, including customer experience, fairness, the implications of pricing decisions on customers, and the need to adjust pricing to frequent changes in the current environment.

3. Accessibility of information and effective disclosure

As described above, one of the FCA's key areas of focus is effective disclosure to customers, which is intended to help achieve better outcomes. Effective disclosure provides customers with clear and understandable information, in order to enhance their comprehension and their ability to make well-informed and timely decisions. Various guidelines already exist within Israeli regulation regarding effective disclosure, specifically in the case of the banking system. Generally, the disclosure rules in Israel are characterized by specific, dedicated instructions based on the nature of the banking service. For example, the Banking (Customer Service) (Proper Disclosure and Document Retention) Rules, 1981⁸ outline disclosure obligations during different events, such as depositing into a savings account or receiving credit; Directive no. 425 on "Annual Reports to Customers of the Banking Corporations"⁹ mandates the delivery of consolidated information regarding the customer's assets and liabilities with the banking corporation in a uniform format; and the mortgage reform, as regulated in Proper Conduct of Banking Business Directive no. 451 (Procedures for Extending Housing Loans),¹⁰ which establishes the obligation to provide a standard, clear, and comprehensive preliminary approval form containing essential information about the loan.

In recent years, various revisions have been made in the area of information accessibility and disclosure obligations, reflecting the shift in regulatory approach toward adopting overarching principles. For example, Proper Conduct of Banking Business Directive no. 420 on Sending Notices via Means of Communication¹¹ establishes principles for sending notifications in an efficient manner, which has been reinforced by a supervisory letter on "Improving the Effectiveness of Disclosure in Customer Communications."¹²

Given the numerous and extensive disclosure obligations that already exist—based on both legislation and court rulings—and that Proper Conduct of Banking Business Directive no. 501 (Management of Customer Service and Support Array) includes disclosure obligations within its service principles and corporate governance responsibilities, the Banking Supervision Department is currently evaluating the best way to refine forward-looking disclosure obligations for the benefit of customers. This evaluation takes into account international regulatory developments, as described above, with the aim of strengthening effective disclosure norms that will be implemented across all levels of banking corporations.

⁸ <https://boi.org.il/roles/supervisionregulation/legislation/leg151/> [Hebrew]

⁹ https://www.boi.org.il/media/jvyet0q3/425_et.pdf

¹⁰ https://www.boi.org.il/media/ey2hkpwu/451_et.pdf

¹¹ https://www.boi.org.il/media/5y2nhgzj/420_en.pdf

¹² <https://boi.org.il/media/c1xfnyw/202120.pdf> [Hebrew]

Box 6.6

Open Banking – Data Analysis

- Open banking allows customers to provide third parties with access to their bank accounts, both to obtain information and to conduct transactions, as well as to obtain information about their payment card transactions. This makes it possible for third parties to offer customers advanced services, such as financial information aggregation, financial insights based on customer data, payment execution, etc.
- The regulation of open banking continues to evolve in Israel. The initial emphasis was on information sharing, which is now expanding to payment initiation. The Regulation of the Engagement in Payment Services and Payment Initiation Law (hereinafter: the Regulation of Payments Law), approved in June 2023, includes regulation on payment initiation.
- The year 2023 was characterized by the stabilization of the open banking system in Israel, especially in terms of technological infrastructure. The year also saw the most significant growth to date, in terms of both the number of active players in the open banking ecosystem and the number of consents¹ and enquiries² registered with the ecosystem.
- We expect the continued development of the ecosystem in 2024, including both the entry of new financial entities and an increase in the scope of activity among existing players. The growth in open banking activity is due to the expansion of services, with regard to both information and payments. On the information side, the activity in the securities portfolio, which was only launched recently, is expanding. Besides that, there are now more types of customers who can grant access to their information, including corporate accounts. On the payments side, the access of payment initiators will be expanded to include additional types of payment instructions.

Open banking in Israel – Applications and a strategic perspective

Open banking allows customers to grant third parties access to their bank accounts, both for obtaining information and for conducting transactions, as well as for obtaining information about payment card transactions. This makes it possible to offer customers advanced services, including aggregation of customer information regarding their bank accounts and payment cards; financial insights based on customer data; payment initiation, etc.

From a broader strategic perspective, information sharing through the open banking environment is only the first step toward additional uses that can be built on top of this

¹ Consent provided by customers to information sources to provide financial information to providers of financial information services.

² Enquiries made by financial information providers to information sources in the open banking online interface.

system. Even in information sharing processes, open banking is just the first step toward an open financial system (including various types of financial entities that will be part of the ecosystem), and eventually, the move toward an open data system (including nonfinancial data, such as medical information).

More information can be found in the box on open banking published in Israel's Banking System Annual Review of year 2022.

Regulation of open banking in Israel

The regulation of open banking in Israel, which began in 2017 by the Bank of Israel, continues to evolve. In June 2023, the Regulation of Payments Law was approved, and went into effect in June 2024. The law regulates payment initiation, among other things, and expands the services provided in open banking beyond what is currently available.

Open banking in Israel – Data analysis

There are several types of entities operating in the open banking ecosystem:

Information sources, which are financial entities that provide information about the customer. Currently, these include only banks and credit card companies operating in Israel;

Financial information service providers that collect information about the customer. These include five banks and two credit card companies supervised by the Banking Supervision Department, three entities supervised by the Capital Market, Insurance and Savings Authority, and another 17 financial technology (Fintech) companies supervised by the Israel Securities Authority;

Payment account managers, which are financial entities that manage payment accounts for their customers and provide access to payment initiators. Currently, these only include banks;

Payment initiators, which are entities that issue payment instructions on behalf of the customer. So far, two banks have received approval to operate in payment initiation, along with three Fintech companies supervised by the Israel Securities Authority.³ Details on the identity of these entities are available on the open banking page of the Bank of Israel's website, including a link to the websites of additional regulators.⁴

The year 2023 was characterized by the stabilization of the open banking system in Israel, especially in terms of technological infrastructure. That year also saw the most significant growth to date, in terms of both the number of active players in the open banking ecosystem and the number of consents and enquiries recorded in the Application Programming

³ The data on the number of service providers and initiators are as of January 2024.

⁴ <https://www.boi.org.il/roles/supervisionregulation/bank-sup/open-banking/> [Hebrew]

Interface (API) systems of the information sources (for more details, see Box 7.1 on open banking in Israel's Banking System 2022). Since the beginning of 2023, financial information service providers have had access to customer data for the following baskets: "Current account – transactions and balances," "Payment cards," "Loans", and "Deposits." Starting from September 2023, data for the "Securities" information basket also became available. This information relates to both individual customers and small businesses.⁵

We anticipate the continued development of the ecosystem in 2024, due to both the entry of new financial entities and the increase in activity within open banking among existing players. The expansion in activity is partly driven by the additional types of customer information that can now be accessed and the increase in the number of customers they serve. Starting in April 2024, financial information service providers will be able to access corporate data for all the aforementioned information baskets. Additionally, and in line with the Regulation of Payments Law, payment services that can be executed via open banking will expand to beyond the current offerings by the end of 2024. Payment initiators will be able to issue requests to pay (RTP), which will include future payments, recurring payments, and other payment types.

Number of recurring consents⁶ and number of API enquiries carried out in 2023

The number of recurring consents⁷ created with information sources has been on an upward trend since the beginning of open banking operations, and especially in 2023 (see Figure 6.11). The number of consents reached about 12,000 by the end of 2022 and saw a sharp increase to approximately 180,000 by the end of the third quarter of 2023. However, during the fourth quarter of 2023, there was a decline in the number of consents, likely explained by the impact of the Swords of Iron War that broke out in October, which led a slowdown in the rate of new consents by credit card company customers, or by the nonrenewal of consents that expired during the third quarter of 2023.

We expect to see a return to an upward trend in the number of recurring consents during 2024.

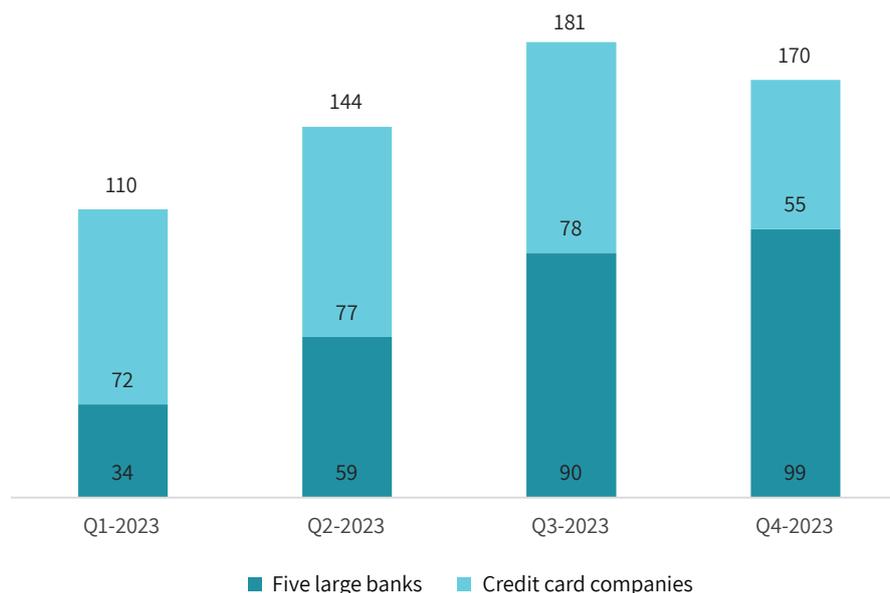
⁵ Small businesses – Businesses with a turnover in 2022 of not more than NIS 5 million and that have only one account signatory.

⁶ Recurring consent is given for a fixed time period of up to three years, in contrast to a one-time consent.

⁷ According to the law, recurring consent is for a period of up to three years.

Total customer consents has been on an upward trend since the beginning of 2023.

Figure 6.11 Continuing Consents, 2023 (End-of-quarter balance, thousand)



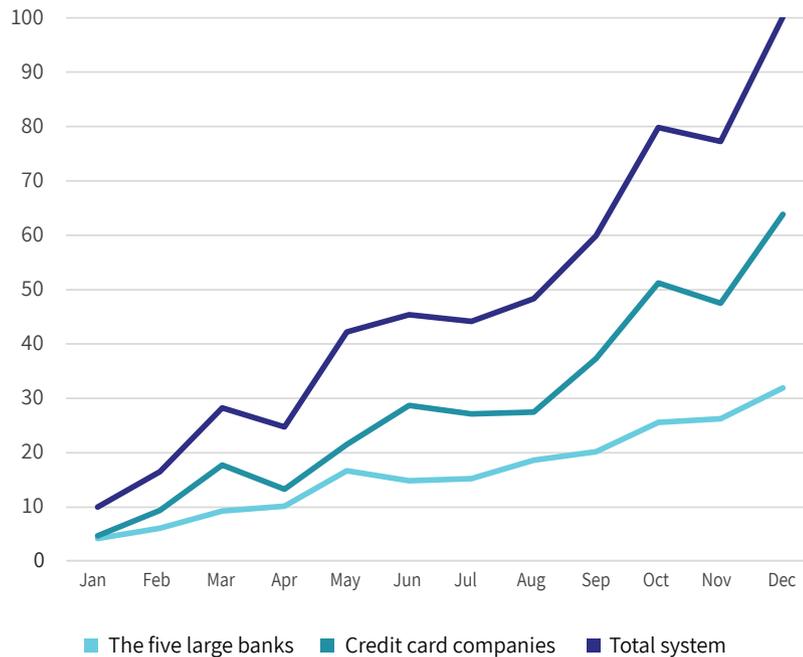
SOURCE: Based on reports to the Banking Supervision Department.

A similar upward trend can be seen in the number of API enquiries for information during 2023. The number of enquiries received by information sources surpassed 100 million in December 2023, compared to approximately 10 million enquiries in January 2023 and 400,000 in July 2022, when the Financial Information Services Law – 2021 came into effect (prior to that, only banking information service providers were active in this ecosystem, under Proper Conduct of Banking Business Directive no. 368; see Figure 6.12). This trend demonstrates the stabilization of the technological interface (in terms of both system availability and stability) and **the increasing customer awareness of the services they can access through open banking, including financial information aggregation services and financial insights based on their own data.**

The accelerated growth in the number of API enquiries started primarily from July 2023, which can be partly attributed to the "How Much-How Much" advertising campaign aimed at the general public on radio and television. The campaign was launched by the Bank of Israel, the Israel Securities Authority, the Capital Market, Insurance and Savings Authority, and the Ministry of Finance in order to raise public awareness of the services made available through open banking.

The number of API enquiries grew significantly during 2023.

Figure 6.12 Number of API Enquiries Received in 2023 (million)



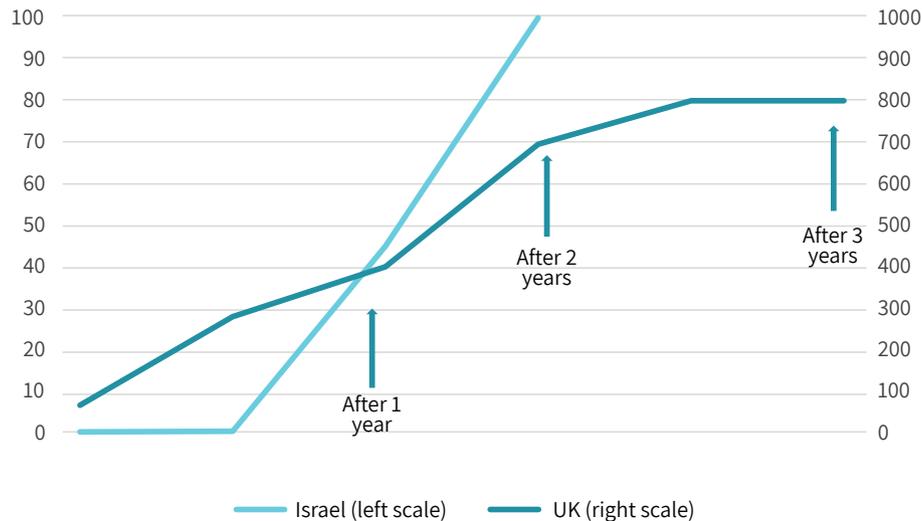
SOURCE: Based on reports to the Banking Supervision Department.

A similar trend occurred in the UK, where open banking was first launched in January 2019. After one year, the number of enquiries in the UK reached 280 million per month, growing to approximately 700 million by the end of the second year. In the third year, the monthly number of enquiries stabilized at around 800 million per month (see Figure 6.13). By January 2024, the number of monthly enquiries had reached approximately 1.4 billion.

Given the growth rate of usage in the UK, a similar increase in the use of open banking in Israel is expected during 2024.

In the UK, the number of enquiries grew sharply during the first two years and stabilized in the third.

Figure 6.13 Increase in the Number of Enquiries in the Initial Years, UK and Israel (million)



SOURCE: Based on reports to the Banking Supervision Department.

Breakdown of API enquiries made during 2023 according to information groups

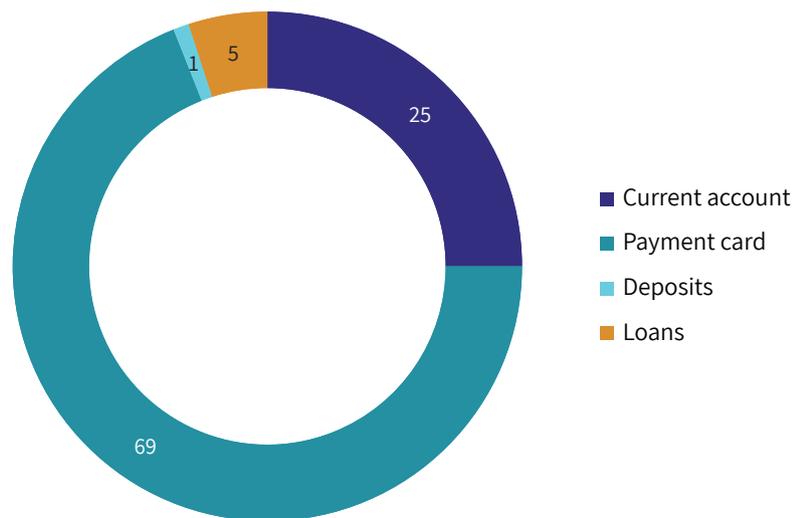
As mentioned above, financial information service providers have had access to customer data in the information baskets for "Current Accounts," "Payment Cards," "Loans", and "Deposits" since the beginning of 2023. Starting in September 2023, data for the "Securities" information basket also became available. Analyzing the distribution of API enquiries received by information sources shows that approximately 70 percent of the enquiries pertain to the "Payment Cards" information basket and about 25 percent to the "Current Accounts" basket, with the remaining enquiries pertaining to the "Loans" and "Deposits" baskets (see Figure 6.14).

One of the reasons for such high demand for information about payment card activity is that this data can provide insights into customers' consumption habits, allowing financial service providers to offer customers value-added services based on their spending patterns. For example, if there are exceptional expenses due to specific circumstances, appropriate credit options can be offered to the customer. Another reason is that Israeli customers typically hold multiple cards in their wallets (physical or virtual), including both bank-issued and non-bank-issued cards, unlike the relatively fewer number of current accounts.

It is also evident that, as of the end of 2023, there is almost no demand among financial information service providers for data related to deposits. Discussions with various industry players suggest that most financial information service providers are not yet ready to analyze deposit data, and therefore they do not request it.

Most API enquiries are concentrated in the payment cards basket.

Figure 6.14 Distribution of API Requests by Information Basket, 2023 (percent)



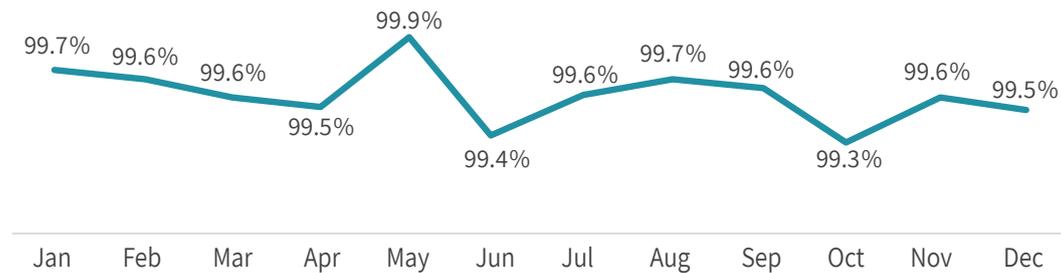
SOURCE: Based on reports to the Banking Supervision Department.

Average availability of the open banking system in Israel

The average monthly availability of the open banking system in Israel is based on reports from each of the information sources. According to the definition of availability in Proper Conduct of Banking Business Directive no. 368, which specifies the open banking standard in Israel, both planned outages and those due to malfunctions are considered to be system unavailability. Despite the growing demand and the expansion of available information baskets in open banking, the average monthly availability remains high, ranging between 99.3 and 99.9 percent (see Figure 6.15).

Despite the growth in use in 2023, the availability of the open banking system remains high.

Figure 6.15 Average Monthly Availability of the Open Banking System in Israel, 2023 (percent)



SOURCE: Based on reports to the Banking Supervision Department.

Average response time of the open banking system in Israel

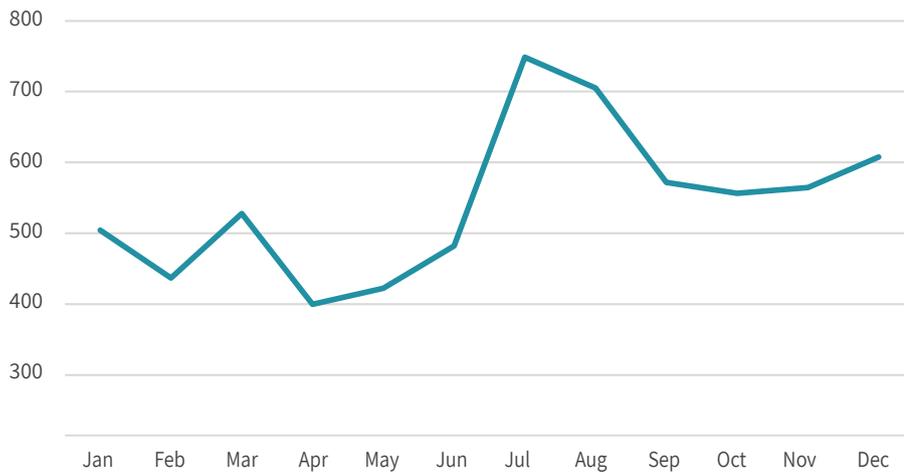
Response time refers to the time it takes for an information source to respond to an API enquiry from a financial information service provider or payment initiator. This metric is recognized in the technology world as the association between website loading speed and the time to the first byte (TTFB - Time to First Byte), measured in milliseconds. Due to the increased activity in the system during 2023, there has also been a rise in response time, reaching a peak in July 2023 (see Figure 6.16). Since then, the system has stabilized, and response time has been on a downward trend, with the average reaching approximately 600 milliseconds in December 2023.

In comparison, the response times of the open banking system in the UK averaged around 375 milliseconds in December 2023.⁸ The UK's open banking data also show that in the early years, response times were longer, and as the system stabilized, improvements were made. Accordingly, we expect further improvement in the response time of the system in Israel in coming years.

⁸ See the UK's open banking website <https://www.openbanking.org.uk/api-performance>

As a result of the growing usage in 2023, average response time rose and is now starting to stabilize.

Figure 6.16 Average Response Time for API Requests in 2023 (Ms)



SOURCE: Based on reports to the Banking Supervision Department.

Stabilization of the open banking system

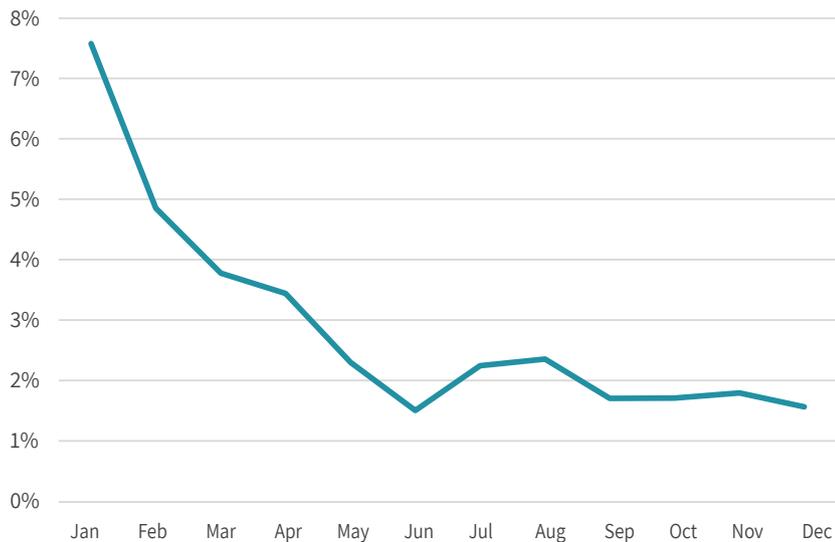
The open banking system in Israel is a new system that is in the process of growth and expansion, in terms of the information baskets, the number of customers, the range of new services, and the number of participants in the ecosystem. As seen in various countries around the world, the establishment of such a system is followed by processes of development, learning, and maturation, involving both information sources on the one hand and financial information service providers and payment initiators on the other.

For example, at the beginning of 2023, the error rate⁹ stood at 8 percent, but decreased throughout the year, reaching only 2 percent by the end of the year (see Figure 6.17). This indicates a deeper familiarity with the open banking standard on the part of financial information service providers and an improvement in the systems by the information sources.

⁹ The error rate is the number of API enquiries received with errors (such as an incorrect account number) within the total number of API enquiries received.

The system is beginning to stabilize—the percentage of enquiries rejected each month is declining sharply.

Figure 6.17 API Enquiries as a Share of All Rejected Enquiries, 2023 (percent)



SOURCE: Based on reports to the Banking Supervision Department.

In conclusion, we anticipate the continued development of the open banking ecosystem in 2024, with both the entry of new financial entities and the growth of open banking activity among existing players. The increase in activity levels is driven by the expansion of available services, both on the information side and on the payments side.

On the information side, the expansion includes the securities information basket, which was only recently launched, as well as an expansion in the types of customers who can grant access to their data, such that corporate account information will also be included within open banking. On the payments side, the access for payment initiators will be expanded to include additional types of payment instructions.

Box 6.7

Checks without Cover in Normal Periods and in Emergencies

- Checks constitute an important means of payment in the Israeli economy (52 percent of total payment clearing). The Checks without Cover Law, 5741-1981, protects this important payment method from the increasing issue of checks without cover.
- In periods of crisis, decision makers must balance the need to maintain the reliability of checks and protect check receivers versus the need to shield check drawers from economic deterioration due to liquidity challenges in the economy.
- Following the outbreak of the Swords of Iron War, a spike was observed in new restrictions imposed on customers and in the total number of returned checks in the economy, especially checks without cover. The average percentage of returned checks, which stood at 0.83 percent in normal times, rose to 1.39 percent in the first weeks of the war. These figures indicate a decline in the quality of checks and clear signs of distress across the population. The Banking Supervision Department is working alongside the Ministry of Justice to establish regulations providing relief in this area, with the goal of preventing further deterioration among vulnerable populations and in the economy at large.

Part I

Checks without Cover:¹

The Checks Without Cover Law, 57471-1981, (hereinafter – the Law) was designed to protect third parties who are receiving payment by check. The Law stipulates that if ten or more checks from any account are returned² within 12 months, a "regular" restriction will be imposed on that account (restricted account), and its owner will be considered a "restricted customer" for one year. The law also defines conditions for a "severe" restriction lasting two years, indicating a "chronic" tendency to issue checks without cover, requiring tighter protection against the account owner. A third type of restriction, namely a "special restriction," can be imposed by specific authorities set forth in the law (the Collection Agency and the Center for the Collection of Fines, Fees, and Expenses under the Enforcement and Collection Authority; the Insolvency and Economic Rehabilitation Commissioner in the Ministry of Justice, and rabbinical courts) rather than as a direct result of a returned check, as in the previous two cases.

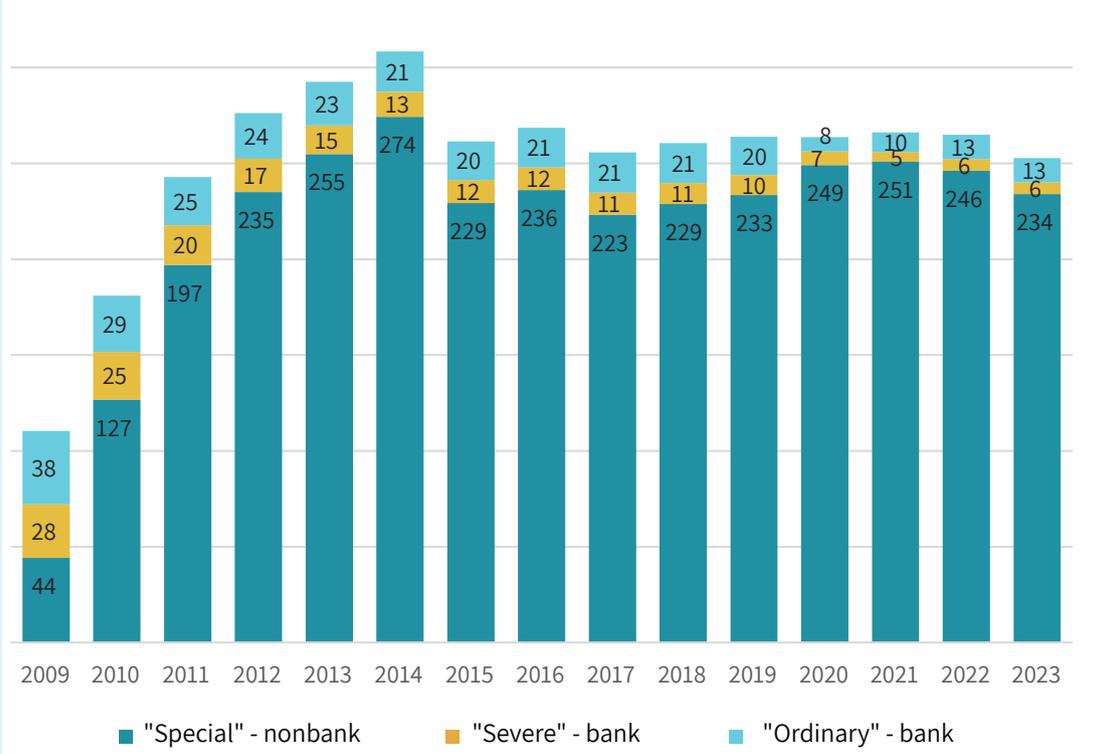
¹ For further details on types of restrictions and their implications, see [Guide to Restricted Accounts](#).

² A returned check was presented on the check's date or subsequently and the bank refused to cash it because of insufficient cover. This is the only reason for returning a check that leads to the imposing of a restriction. However, along with the reason of "insufficient cover", there are of course additional reasons for returning a check (such as: cancellation by the drawer of the check, an unidentified signature, the date on the check has not yet arrived, a mistake, technical reasons, etc.).

The Banking Supervision Department is responsible for managing a database of restricted accounts and customers; it receives reports on restrictions from authorized entities (banks and enforcement authorities); and it tracks the status of relevant customer restrictions and conveys that information as needed to the entities involved in the process. As part of managing this database, the Banking Supervision Department is also responsible for monitoring and ensuring the accuracy of the information; responding to enquiries from the involved entities and providing them with assistance; and handling issues related to the reliability of checks, proposed legislation, regulatory changes, queries from civil society organizations, etc.

The restrictions on bank accounts currently involve hundreds of thousands of customers. This is due to the amendment to the Law in 10/2009,³ following which the nonbank special restrictions imposed by the Collection Agency increased significantly and the restrictions imposed by the banks due to NSF checks declined in number.

Figure 6.18 Restricted Customers by Restriction Type, 2009–2023 (thousand)



SOURCE: Based on reports to the Banking Supervision Department.

³ In 2008, an amendment was made to the Collection Enforcement Law which added a paragraph that make it possible for the Collection Enforcement Registrar to impose a special restriction on a debtor (together with or as a substitute for other restriction types).

Part II

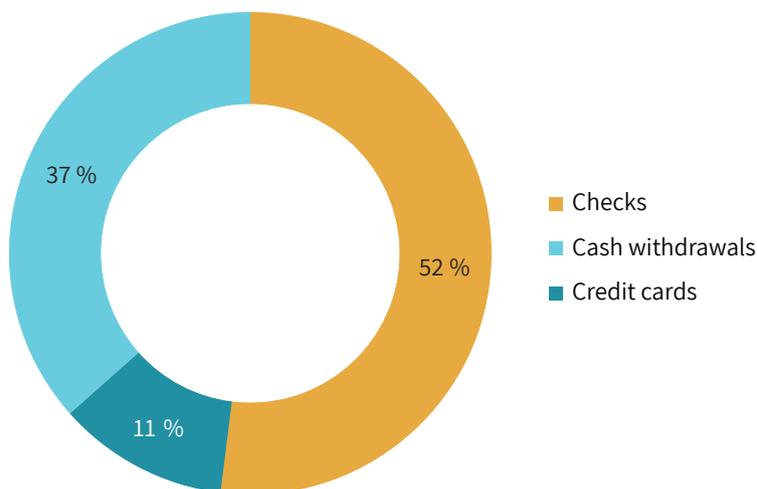
Check activity in the economy

During the past decade, there has been a significant downward trend in the number of checks cleared through the check clearing system. The data⁴ shows that in 2013, about 117 million checks were cleared, while in 2023, that number had dropped to about 53 million, a decrease of approximately 50 percent. The most significant decline on an annual basis was observed in 2020 as a result of the COVID-19 pandemic, with a 22 percent decrease relative to 2019. A similar decline was observed in the total value of checks cleared, from approximately NIS 850 billion in 2013 to approximately NIS 641 billion in 2023, a decrease of about 25 percent, while the total value of checks without cover actually recorded an increase of 9 percent. This phenomenon may be due to the fact that checks serve as the exclusive payment method and as a substitute for the credit underwriting process in cases where the drawer lacks the liquidity for immediate payment.

As can be seen in Figure 6.19, checks serve as an important means of payment in the Israeli economy, both in normal periods and in an emergency.

The total value of checks cleared in 2023 was significantly higher than for the other means of payment: cash and credit cards.

Figure 6.19 Distribution of Settlement Amounts by Means of Payment, 2023 (percent)



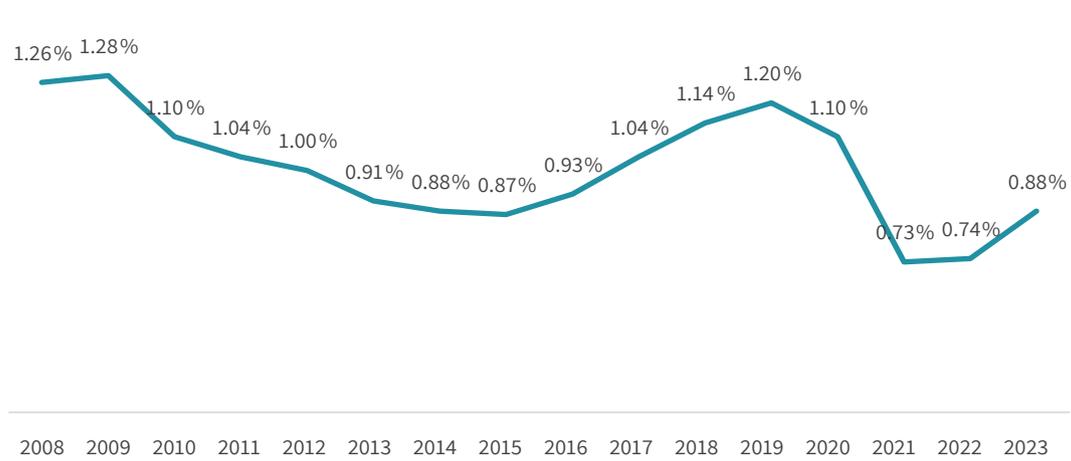
SOURCE: Based on reports to the Banking Supervision Department.

⁴ Check clearing data in the data series database. It should be noted that the data include only checks that went through the clearing house between the banks (include the Postal Bank), and exclude internal checks that were cleared within the same bank (drawer and receiver from the same bank).

During 2023, 64,967,555 checks⁵ were presented to commercial banks, with a return rate of 3.69 percent. Of these, approximately 0.88 percent were due to insufficient funds, 0.43 percent were due to cancellation, and 2.38 percent were due to other reasons (such as invalid signature, a restricted account, a mismatch between the amount in words and the amount in numbers, etc.). In addition, 2,103,422 (3.23 percent) requests for check cancellations were received by the various banks during the year.

The proportion of checks without cover reached a peak in 2019 prior to the COVID-19 pandemic but maintained low rates in subsequent years.

Figure 6.20 Insufficient Funds (NSF) Rate, 2008–2023 (percent)



SOURCE: Based on reports to the Banking Supervision Department.

A sectoral breakdown of the check data shows that the majority of checks without cover and canceled checks originate from households and small businesses, likely due to the lack of "buffers" and reserves in cases of deviations from regular spending patterns. In contrast, medium and large businesses rarely face issues with coverage or check cancellations.

⁵ The data according to Reporting Directive No. 884 include all checks presented to banks (excluding the Postal Bank), including checks presented within the same bank and not processed through the clearing system. As can be seen, the gap between the metric of the check clearing system and the metric of Reporting Directive 884, i.e., approximately 11 million checks, is due to differences in the population and in measurement (footnotes 4 and 5).

Part III

The Checks Without Cover Law during emergencies

The Checks Without Cover Law is intended to ensure that the public can rely on checks as a payment method during normal periods, partly by imposing restrictions on customers who tend to issue checks without sufficient funds to cover. However, during a crisis, customers or businesses that normally operate responsibly and do not issue checks without cover may find themselves in extreme situations that could not have been foreseen. As a result, these entities are at increased risk of financial deterioration and cash flow difficulties during an emergency, which may eventually lead to restrictions on their accounts. This, in turn, can result in a credit crunch, damage to their reputation, and significant challenges due to a long and complex recovery process, even after the emergency has ended. As more restrictions accumulate, this could have a broader economic impact, leading to bankruptcies, a significant increase in cases of debt collection, and an expansion of the population dependent on National Insurance benefits.

This risk was recognized by the legislature, which empowered the Minister of Justice (with the consent of the Minister of Finance and the approval of the Knesset Constitution, Law, and Justice Committee) to enact regulations for the implementation of the Checks without Cover Law and to set limitations on its applicability. In 2008, as part of the lessons learned from the distress experienced by many citizens and businesses during the Second Lebanon War, banks were required, during the declaration of a state of emergency—whether in a specific area or throughout the country—to suspend the imposition of restrictions due to checks returned because of “nonsufficient funds” for a maximum period of 90 days from the declaration of the state of emergency. In parallel, the amendment to the law states that the Minister of Justice can determine exceptions to the application of the Law that will apply during an emergency. To complete this process, the legislature added a section to the law’s definitions which determined that the “declaration of a state of emergency” would include three situations: a declaration of a special situation on the home front, a declaration of a civil emergency, and a call-up of reserves under emergency circumstances or a call-up of reserves under a special situation.

In March 2020, the outbreak of the COVID-19 pandemic had a sudden and major impact on households and many businesses in the economy. New restrictions on accounts began to increase, alongside numerous urgent requests to the Bank of Israel to prevent the imposition of restrictions in order to stop widespread economic deterioration. Bank of Israel management made a strategic decision to provide the population with “first aid” based on the authority of the Supervisor of Banks to suspend the imposition of restrictions, without waiting for the completion of the regulatory process by the Minister of Justice, which also requires the consent of the Minister of Finance and the approval of the Constitution, Law,

and Justice Committee. However, the definition of an emergency in the law referred only to security situations, while the crisis in question involved the outbreak of a contagious disease unrelated to any security event. In this complex situation, the Bank of Israel promoted an urgent temporary addition to the definition of “declaration of a state of emergency” in the law, as part of the government's emergency regulations enacted with the outbreak of the pandemic, namely “a declaration under the Public Health Ordinance of a dangerous contagious disease”. This paved the way for the then Supervisor of Banks to declare the suspension of restrictions and prevent significant harm to individuals and numerous businesses in the economy.

In general, crises require decision makers to find a balance between the need to assist normative customers who are affected by the emergency and exposed to the risk of significant financial deterioration, and the protection of beneficiaries who rely on check payments and might also face economic hardship due to the nonpayment of these checks. Additionally, the legislature was aware of the broad economic need to maintain the credibility of checks as a unique payment method in the Israeli economy, particularly given their importance during extreme emergencies when the use of advanced payment methods may be limited or even disrupted. Throughout the emergency period, the Supervisor of Banks monitors key parameters that indicate trends and risks in the use of checks, including data on the rate of returned checks and the restrictions imposed on customers during the relevant period. Together with the Ministry of Justice, steps are being taken to maintain the necessary balances in the economy during these unique times.

A survey of the emergency regulations concerning checks without cover over the years:

As mentioned, the Supervisor of Banks has over the years been required to address the risks faced by various players regarding check payments, based on the tools provided by the legislature to the Supervisor of Banks and the Minister of Justice. Below is a brief historical review of emergency periods in which the Supervisor of Banks was actively involved, in collaboration with the Legal Department and the Ministry of Justice, in the mitigation of damages from a broad economic perspective:⁶

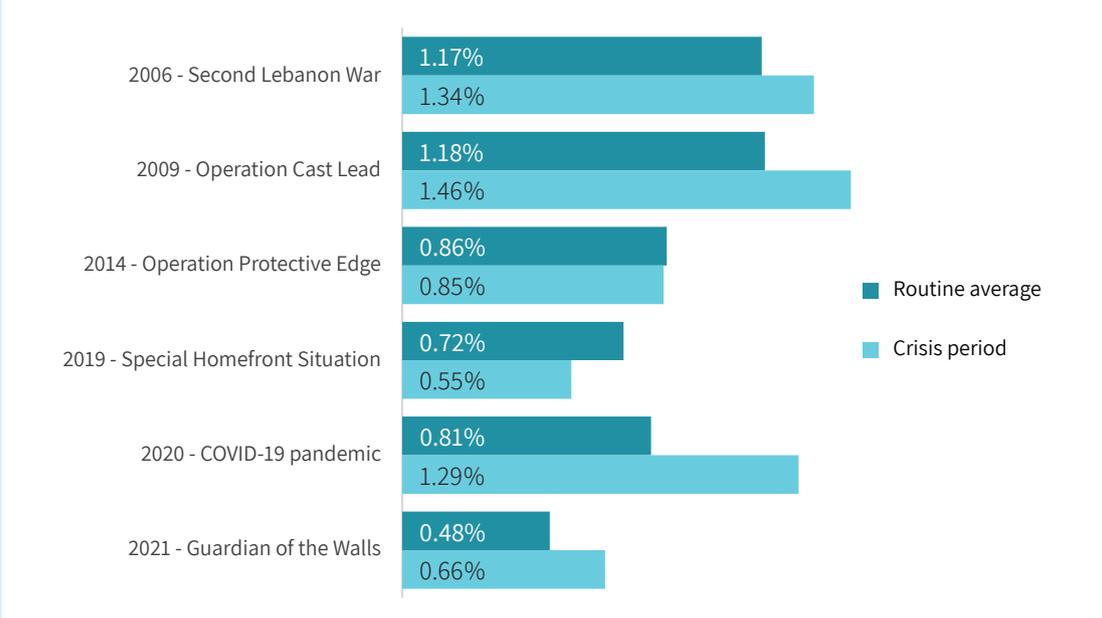
1. **The Second Lebanon War (July 12 to August 14, 2006):** The Minister of Justice, with the consent of the Minister of Finance and the approval of the Knesset's Constitution, Law, and Justice Committee, decided retroactively (about three months after the war's end) that checks returned by the bank during the war would not be counted in the total number of returned checks. The restrictions imposed on customers during the war were lifted.

⁶ This survey does not include the Swords of Iron War, which will be dealt with at length later in the box.

2. **Operation Cast Lead (January 8 to February 25, 2009):** For the first time, the Supervisor of Banks utilized the authority granted to him based on the lessons learned from the Second Lebanon War and instructed that bank branches within a 10-kilometer radius of the Gaza Strip should not restrict accounts or account holders in those branches due to returned checks during the conflict.
3. **Operation Protective Edge (July 8 to September 21, 2014):** The Supervisor of Banks instructed that bank branches within a 40-kilometer radius of the Gaza Strip should not restrict accounts or account holders due to returned checks during this period.
4. **Special situation on the home front (November 12 to 14, 2019):** The Supervisor of Banks instructed that checks returned by the bank during the missile attack on Israel be temporarily removed from the count of returned checks for customers whose accounts are managed in areas declared by the Minister of Defense to be part of the special situation on the home front, or for customers whose address was in one of those areas. Due to political instability and the prolonged inability to form a government, regulations that would permanently and completely exclude these checks from the count of returned checks that would lead to restrictions could not be enacted within the 90 days set by law (from the date of the Supervisor's declaration).
5. **Outbreak of the COVID-19 pandemic (March 2020):** As mentioned, the COVID-19 pandemic rapidly initiated an economic crisis, prompting the then Supervisor of Banks to exercise her authority to suspend the imposition of restrictions due to checks without cover for a maximum period of 108 days (according to the 2020 emergency regulations). At a later stage, the Minister of Justice signed regulations under the Checks without Cover Law, according to which returned checks during this period would be excluded from the count of days leading to a restriction. In August 2019, as the crisis continued, the Minister of Justice extended these regulations until August 10, 2020.
6. **Operation Guardian of the Walls (May 10 to 23, 2021):** Following the declaration of a state of emergency, the Minister of Justice signed regulations under the Checks without Cover Law, stating that returned checks in accounts managed in areas declared as a "special situation on the home front" between May 10 and May 23, 2021 would be permanently excluded from the count of returned checks.

During crises, there has been an increase in the rate of returned checks due to insufficient funds.

Figure 6.21 Rate of Checks Returned for Insufficient Funds During Recent Crises (routine vs crisis)



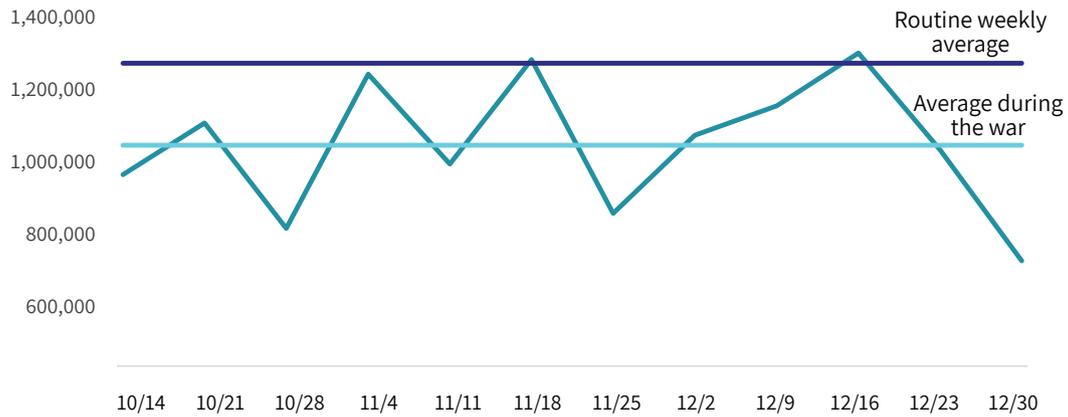
SOURCE: Based on reports to the Banking Supervision Department.

The Swords of Iron War (starting on October 7th, 2023)

Following the outbreak of the Swords of Iron War and the declaration of a “special situation on the home front” by the Minister of Defense, the state authorities and financial systems—including the banking system—were required to immediately adapt to the economic emergency. The daily data received from the banks already showed clear signs of distress from the outset, both in the volume of check clearing, which decreased by an average of 18 percent in the first weeks of the war compared to regular times, and in the rate of returned checks, particularly those returned because of insufficient funds (Figure 6.22 and 6.23). These graphs indicate a deterioration in the overall quality of checks in the economy, as reflected in a reduced ability to rely on their payment. Figure 6.23 shows a sharp increase in the rate of returned checks and checks without cover in the first weeks of the war relative to routine periods. During the crisis, these rates gradually moderated and began to approach the averages typically observed in normal periods, although there was significant volatility from one week to the next.

The number of cleared checks in the economy during the Swords of Iron War was lower than the average during routine periods.

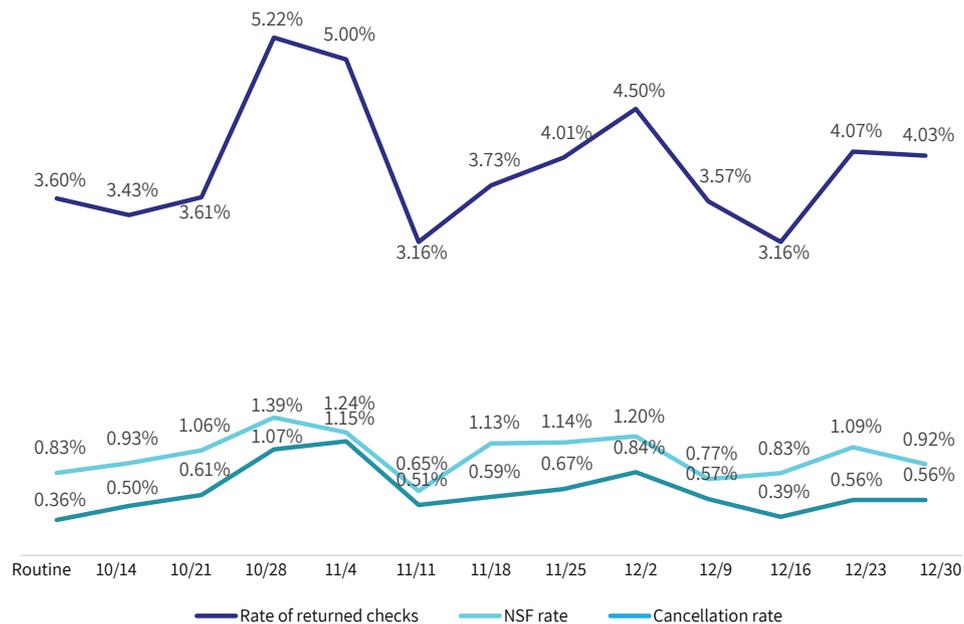
Figure 6.22 Checks Cleared During the War vs Routine Average, October–December 2023 (weekly data)



SOURCE: Based on reports to the Banking Supervision Department.

The data on returned checks during the Swords of Iron War were higher than during normal periods.

Figure 6.23 Returned Checks During the War and Routine, October–December 2023 (weekly data)



SOURCE: Based on reports to the Banking Supervision Department.

The check data reported to the Supervisor of Banks for high-risk areas reflected a higher level of distress relative to the rest of the country.⁷ In the first week of the war, approximately 5 percent of the checks presented for payment in high-risk areas were returned, compared to a rate of 3.40 percent in the rest of the country. In addition, 1.34 percent of the checks presented in high-risk areas were returned due to "insufficient funds," compared to 0.93 percent in the rest of the country. A similar pattern was observed with respect to check cancellations in high-risk areas compared to the rest of the country, as well as in comparison to routine periods in those high-risk areas (Figures 6.24 and 6.25).

The data for returned checks indicates a higher level of distress in high-risk areas relative to the rest of the country.

Figure 6.24

Rate of Cancelled Checks in Eligibility Localities and the Rest of the Country, Routine vs Emergency, October–December 2023 (weekly data)

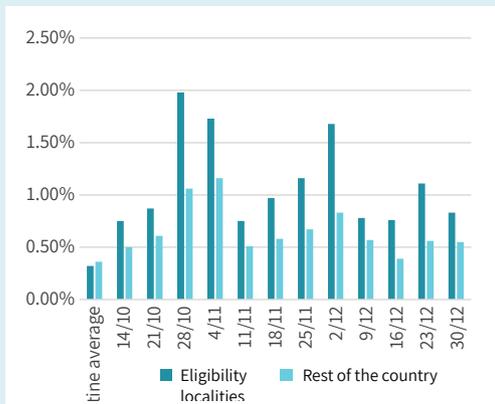


Figure 6.25

Rate of NSF Checks in Eligibility Localities and the Rest of the Country, Routine vs Emergency, October–December 2023 (weekly data)



SOURCE: Based on reports to the Banking Supervision Department.

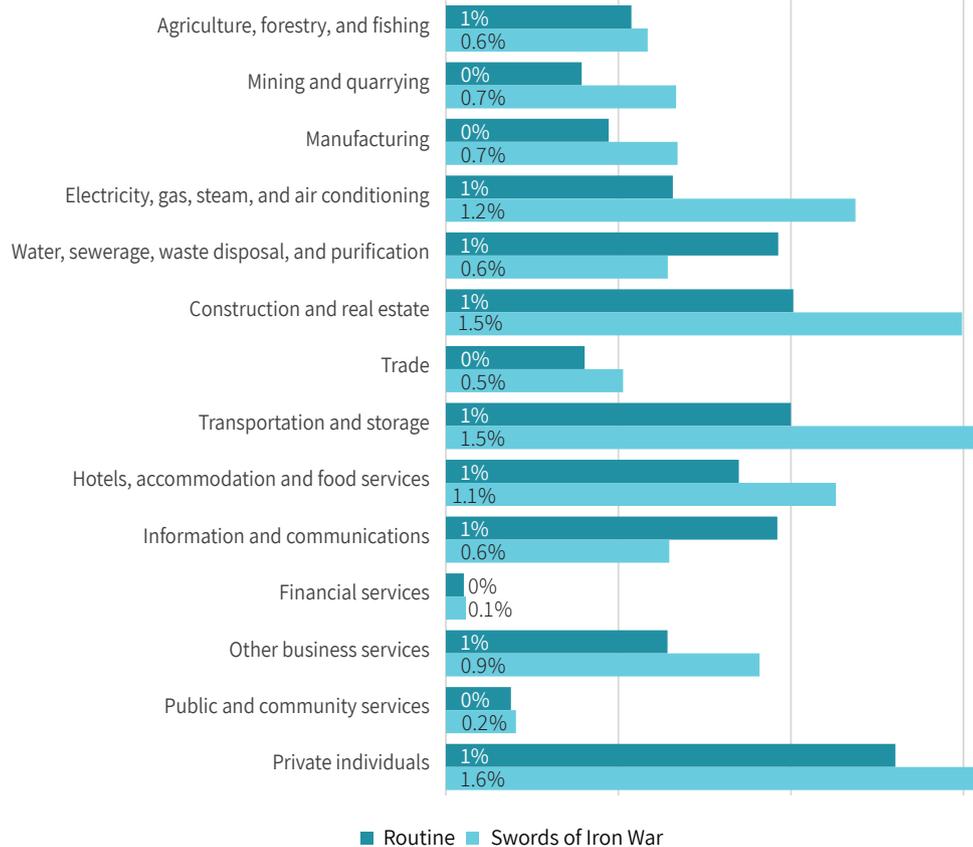
⁷ The high-risk areas are defined according to the population protection policy of the Home Front Command: the Gaza envelope, the Lachish region, the Negev area, and the northern Golan Heights. With the publication of the checks without cover regulations, the high-risk areas were revised according to the list of localities evacuated by the State, as included in the appendix to the Law on Postponement of Deadlines (Temporary Order – "Swords of Iron") (Contract, Court Ruling, or Payment to Authorities), 2023.

A sectoral breakdown of Banking Supervision Department data shows that micro and small businesses were the first to be affected by the crisis, indicating distress relative to normal periods, both in terms of NSF checks and check cancellations. This is likely due to the lack of financial buffers and a limited ability to raise credit to obtain the liquidity needed during the crisis. The distress of micro and small businesses persisted for several months; however, the data show that by January 2024, there was a significant improvement in their condition. During this period, their share of NSF checks fell by approximately 30 percent below regular levels (25 percent as compared to 35 percent in normal periods). This trend likely indicates that these businesses effectively utilized the aid programs for business owners in response to the Swords of Iron War, which included a compensation fund from the Israel Tax Authority for all businesses in the economy (the Business Continuity Grant), as well as compensation for specific geographic areas (special zones and border towns).

An analysis of checks returned because of insufficient funds according to a breakdown by industry shows that the most significant distress was recorded in construction and real estate, transportation and storage, and electricity and gas supply. Many businesses in these sectors were forced to halt or cut back their operations, not only due to normal structural problems but also because of a shortage of workers who were not allowed to enter the country and because of a decline in demand (Figure 6.26).

The largest increase in the rate of checks returned because of insufficient funds during the war was in construction and real estate, transportation and storage, and electricity and gas supply.

Figure 6.26 Rate of NSF Checks by Industry, Routine vs Swords of Iron War

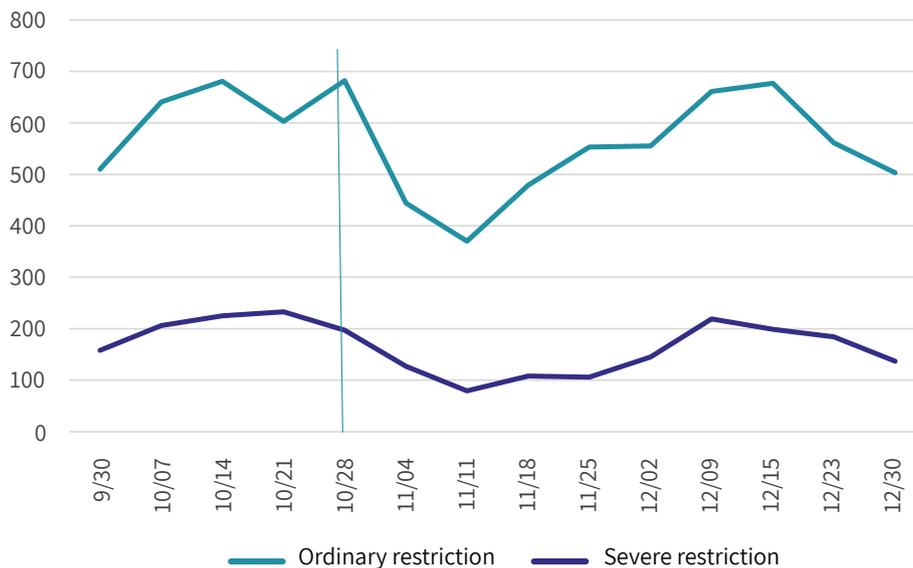


SOURCE: Based on reports to the Banking Supervision Department.

The crisis created by the war was also reflected in the scope of restrictions imposed due to returned checks, which serves as a sign of deteriorating repayment ability among various sectors of the economy. Based on the distribution of customers who had new restrictions imposed on them, there appears to be an upward trend during the initial weeks of the war, with a 34 percent increase compared to the week before the war (Figure 6.27). We assume that this principally involves customers who had an accumulated number of returned checks, and therefore the impact of the emergency worsened their situation more quickly than in the case of customers who had some level of financial stability before the war. Following the aforementioned publication of emergency regulations for relief concerning checks without cover by the Minister of Justice, the number of restrictions returned to regular levels and even below that.

The number of customers who had a new restriction imposed on them rose following the outbreak of the war, up until the publishing of the Checks without Cover regulations. This led to a reduction to average levels during routine periods.

Figure 6.27 Customers For Whom New Restrictions Were Imposed, by Restriction Type, September–December 2023 (weekly data)



SOURCE: Based on reports to the Banking Supervision Department.

As mentioned, the Bank of Israel, based on the data it had received, recommended already at the beginning of the crisis that the emergency regulations to provide relief for bad checks for eligible populations be amended. This led to the relatively early enactment of emergency regulations regarding NSF checks by the Minister of Justice. These regulations stipulated that, for all customers in the economy, checks returned because of insufficient funds between October 7 and October 31, 2024, would not be included in the list of checks that would lead to a restriction on the account from which they were drawn. These checks were also removed from the list of checks that would trigger a warning following five checks returned due to insufficient funds. In addition, the regulations extended these relief measures from November 1, 2023 to January 21, 2024 for eligible groups, including residents of affected communities in the North and South, reservists and their spouses, missing persons, hostages, prisoners of war and their families, victims of terror attacks and their families, and others, as detailed in the regulations.

To improve the utilization of rights among eligible populations, the Supervisor of Banks took several steps to raise awareness, including a directive to add special information to notices regarding checks returned because of insufficient funds, and by publishing information on the websites of the commercial banks and the Bank of Israel.

According to data received by the Supervisor of Banks, the aforementioned regulations led to the removal of 6,123 checks returned because of insufficient funds in the eligible population. We estimate that the rights utilization rate among reservists currently stands at approximately 50 percent, representing 1,525 checks that have been removed; efforts are ongoing to improve the utilization of rights among this population.

The Check Protection Law – A substitute for the Checks Without Cover Law

Looking ahead, we are utilizing this opportunity to update the public on a legislative initiative currently being formulated to repeal the Checks without Cover Law and the accompanying mechanism for imposing restrictions. This initiative is intended to improve the protection of checks while significantly reducing the negative byproducts under the current system. Under the existing framework, a customer can issue up to ten checks that are returned due to insufficient funds before the restriction is imposed. Once the restriction is imposed, it is reported across the banking system and affects the customer's credit standing across the financial sector. In this situation, the drawer accumulates a relatively long list of debtors and debts that he will have trouble repaying according to the data. Meanwhile, the beneficiary becomes aware of the problem with the checks only once a restriction has been imposed (namely after ten or more checks without cover). In contrast, the proposed model eliminates the imposing of restrictions. Instead, receivers will be able to check (online and in real-time) the drawer's check during a transaction, including details on returned or late-paid checks from the account. Based on this information, the beneficiary can decide whether to accept the check as payment or request an alternative payment method.

In this new model, the drawer will have control over whether to reveal this information to the receiver for a particular transaction. Unlike the current system, alerts about insufficient funds will not be shared with third parties. This approach will provide stronger protection for checks, enable financial recovery, and support smooth financial conduct in both routine periods and in emergencies. We expect that the new model will provide economic benefits on the level of the economy as a whole and in particular a reduction in the volume of checks without cover. This will increase the reliability of checks as a payment method, and will lower overall collection-related costs in the economy.

APPENDICES

APPENDICES

Appendix 1:

Tables

Table 1 | Principal banking system indices, 2015-23

	Common Equity Tier 1 capital ratio ^a (percent)	Leverage ratio ^b (percent)	"ROE (percent)" ratio ^c	Liquidity coverage ratio ^{d,h} (percent)	Rate of change in balance-sheet credit to the public (percent)	Ratio of bank credit to the public to GDP (percent)	Ratio of credit to deposits (percent)	Annual loan loss provision to total credit to the public (percent)	Herfindahl-Hirschman Index (HHI) ^{e,h}	Average yield spread between bonds of the banks and government bonds ^{f,h} (percentage points)	Ratio of market value to book value ^{g,h} (MV/BV)
2015	9.65	6.34	9.0	113	4.37	79.26	0.83	0.11	0.20	0.9	0.69
2016	10.69	6.53	8.1	138	2.61	77.63	0.81	0.10	0.20	0.8	0.83
2017	10.90	6.67	8.7	126	3.54	77.06	0.81	0.14	0.20	0.7	0.91
2018	10.77	6.76	8.5	129	3.81	76.36	0.84	0.22	0.20	0.9	0.97
2019	11.16	6.91	8.4	126	4.26	75.28	0.84	0.29	0.20	0.6	0.69
2020	11.11	6.22	6.2	137	7.46	81.30	0.75	0.68	0.20	0.6	0.90
2021	10.86	5.83	13.9	125	13.62	82.77	0.73	-0.25	0.21	0.7	1.16
2022	10.86	6.07	16.5	133	12.28	83.35	0.77	0.10	0.21	0.9	1.02
2023	11.33	6.46	15.6	137	6.63	83.82	0.79	0.50	0.21	0.9	0.96

a Calculated in accordance with Proper Conduct of Banking Business Directive 221.

b Calculated in accordance with Proper Conduct of Banking Business Directive 218.

c The ratio between total operating and other expenses and total net interest and noninterest income (cost-to-income).

d The LCR, developed by the Basel Committee to enhance the short-term resilience of banking corporations' liquidity profiles, indicates the quantity of HQLA (High Quality Liquid Assets) that corporations should hold in order to withstand a significant stress scenario that lasts thirty calendar days. The LCR is composed of two elements. The first, in the numerator, is the inventory of HQLA (High Quality Liquid Assets), which is comprised of two levels of assets. Level 1 includes high quality assets that may be held in unlimited amounts, and Level 2 is composed of assets that are limited to a maximum aggregate holding of 40 percent of the HQLA inventory. (This level is divided into two sublevels: 2A and 2B. At the latter level, the share of assets that may be held is limited to 15 percent.) The second element, in the denominator, is the total net cash outflow, i.e., the expected total cash outflow less the expected total cash inflow in the stress scenario. The expected total cash outflow is calculated by multiplying the balances of different categories or types of balance-sheet and off-balance-sheet liabilities by their expected runoff or drawdown rates. The total expected cash inflow is calculated by multiplying outstanding contractual receivables by the rates at which they are expected to be received in the scenario, up to a cumulative 75 percent of the predicted total cash outflow.

e The Herfindahl-Hirschman index of industry concentration is based on a standalone calculation of total credit at each bank, and not on a consolidated basis: $y = \sum_{i=1}^n y_i^2$, where y_i = the output of bank i (credit to the public, net) and y = the industry's output.

f Average for December of that year.

g In calculating the MV/BV ratio, the book value (BV) of the five major banks is calculated with a delay of one quarter after the market value (MV). As of December 2014, the book value includes the effect of employee rights and software expenses.

h Calculated for the entire banking system.

i As of January 2022, Israeli banks implement the Current Expected Credit Losses (CECL) methodology, a forward-looking methodology for estimating allowances for credit losses. The change in the ratios is partly due to the transition to this method.

SOURCE: Based on Central Bureau of Statistics, Tel Aviv Stock Exchange, Bank of Israel, published financial statements, and reports to the Banking Supervision Department.

Table 2 | Structure of the Israeli banking system, 2023^a

Bank	Balance sheet data					Direct holdings ^b			Dividends			
	Share of total bank- ing system assets	Share of total bank credit	Num- ber of branches ^c	Total assets	Credit to the public deposits by the public	Equity	Hold- ings by parties at interest ^d	Holdings by insti- tutional investors ^e	Holdings by the public	Dividends distributed net of holdings by parties at interest	Dividends as a share of net profit	
	(Percent)	(Percent)		(NIS million)	(NIS million)	(Percent)	(Percent)	(Percent)	(NIS million)	(NIS million)	(Percent)	
Leumi	29.2	27.2	199	731,497	426,203	567,824	1.0	25.5	74.51	2,081	2,060	30
Hapoalim	27.4	26.4	232	686,530	414,375	554,595	4.0	21.1	78.84	2,431	2,334	33
Mizrahi-Tefahot	17.9	21.0	209	448,204	329,415	358,553	41.4	5.0	53.65	1,390	815	28
Discount	15.8	16.8	193	395,724	262,941	297,597	-	27.7	72.33	1,047	1,047	25
First Int'l	8.8	7.6	132	221,593	119,240	191,125	48.4	5.5	46.17	798	412	37
Jerusalem	0.9	1.0	24	21,826	15,282	16,479	86.7	-	13.34	36	5	26
Total system	100	100	989	2,505,374	1,567,456	1,986,173	178,887			7,783	6,672	31

a Data on the entire banking system are shown on a consolidated basis.

b As of May 2024.

c Regular and fixed branches (excluding partial and mobile ones), at which customer activity takes place, as opposed to performance units and headquarters of the bank itself, which are also defined by the banks as branches.

d "Party at interest" is defined as someone who holds at least 5 percent of the banking corporation's issued share capital or voting power. In addition, reporting on the holdings of parties at interest includes the holdings of the CEO and of directors.

e Holdings of institutional investors above 5 percent of the banking corporation's issued share capital or voting power. Institutional investors are as defined in Regulation 33(f) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

SOURCE: Based on published financial statements, reports to the Banking Supervision Department, and reports to the Tel Aviv Stock Exchange.

Table 3 | Total balance sheet of the Israeli banking system^a, 2021-2023

	In current prices			Rate of change during 2022 (Percent)	Rate of change during 2023 (Percent)	Distribution		
	2021	2022	2023			2021	2022	2023
	(NIS million)					(Percent)		
Assets								
Cash and deposits at banks	602,506	539,869	424,894	-10	-21	27	23	17
<i>Of which:</i>								
Cash ^b	577,796	505,304	388,355	-13	-23	26	21	16
Deposits at commercial banks	24,711	35,532	38,179	44	7	1	1	2
Securities	232,798	267,341	397,593	15	49	10	11	16
<i>Of which:</i>								
Securities provided as collateral to lenders	51,622	64,063	60,786	24	-5	2	3	2
At fair value	202,759	213,954	338,035	6	58	9	9	13
Securities borrowed or bought under reverse repurchase agreements	7,084	5,116	8,790	-28	72	0	0	0
Credit to the public	1,309,284	1,470,048	1,567,456	12	7	59	62	63
Allowance for credit losses	15,950	17,970	23,824	13	33	1	1	1
Net credit to the public	1,293,334	1,452,079	1,543,632	12	6	58	61	62
<i>Of which:</i>								
Unindexed local currency	951,048	1,085,711	1,131,950	14	4	43	46	45
Local currency indexed to the CPI	208,993	229,319	252,897	10	10	9	10	10
Indexed to or denominated in foreign currency	128,479	127,066	149,424	-1	18	6	5	6
<i>Of which:</i>								
In dollars	104,385	95,206	112,619	-9	18	5	4	4
Nonmonetary items	4,814	10,059	9,606	109	-5	0	0	0
Credit to governments	6,861	7,049	9,589	3	36	0	0	0
Investments in subsidiary and affiliated companies	3,210	7,445	7,040	132	-5	0	0	0
Premises and equipment	12,523	12,756	13,722	2	8	1	1	1
Intangible assets	685	657	637	-4	-3	0	0	0
Assets in respect of derivative instruments	37,899	68,510	73,679	81	8	2	3	3
Other assets	23,002	23,606	25,798	3	9	1	1	1
Total assets	2,219,901	2,384,427	2,505,374	7	5	100	100	100
Liabilities and equity (and delete the same words from the cell below – basically just move the location)								
Liabilities and equity	1,797,073	1,909,015	1,986,173	6	4	81	80	79
Deposits of the public								
<i>Of which:</i>								
Deposits of the public	1,289,478	1,379,953	1,433,601	7	4	58	58	57

Table 3 (cont.) | Total balance sheet of the Israeli banking system^a, 2021-2023

	In current prices			Rate of change during 2022 (Percent)	Rate of change during 2023 (Percent)	Distribution		
	2021	2022	2023			2021	2022	2023
	(NIS million)					(Percent)		
Local currency indexed to the CPI	55,583	54,905	60,527	-1	10	3	2	2
Indexed to or denominated in foreign currency	445,975	461,621	481,863	4	4	20	19	19
<i>Of which:</i>								
Deposits from banks	61,948	58,536	50,271	-6	-14	3	2	2
Deposits from governments	2,439	3,910	3,493	60	-11	0	0	0
Securities lent or sold under repurchase agreements	5,708	21,568	32,697	278	52	0	1	1
Bonds and subordinated notes	100,093	107,693	114,705	8	7	5	5	5
Liabilities in respect of derivative instruments	42,019	59,248	72,503	41	22	2	2	3
Other liabilities	70,382	65,875	66,644	-6	1	3	3	3
<i>Of which:</i>								
Allowance for credit losses in respect of off-balance-sheet credit instruments	1,729	2,167	2,440	25	13	0	0	0
Total liabilities	2,079,661	2,225,844	2,326,487	7	5	94	93	93
Minority interest	2,512	2,203	2,625	-12	19	0	0	0
Shareholders equity	137,817	156,380	176,262	13	13	6	7	7
Total equity	140,329	158,583	178,887	13	13	6	7	7
Total liabilities and equity	2,219,901	2,384,427	2,505,374	7	5	100	100	100

a On a consolidated basis.

b Including deposits at the Bank of Israel.

SOURCE: Based on published financial statements.

Table 4 | Total securities portfolio of the banking system, December 2022 and December 2023

Securities	Bank Leumi			Bank Hapoalim			Mizrahi-Tefahot					
	31/12/2022		31/12/2023	31/12/2022		31/12/2023	31/12/2022		31/12/2023			
	Book value (NIS million)	Distribution (Percent)	Book value (NIS million)									
Of the Israeli government	32,736	39	95,886	60	67,473	63	84,303	66	10,732	71	19,452	84
Of foreign governments	16,995	20	26,916	17	24,218	23	25,641	20	1,457	10	583	3
Of Israeli financial institutions	626	1	481	0	299	0	458	0	774	5	776	3
Of foreign financial institutions	11,001	13	10,297	6	7,954	7	9,023	7	262	2	251	1
Asset-backed or mortgage-backed securities ^a	10,999	13	15,567	10	0	0	0	0	55	0	56	0
Other - Israeli	927	1	982	1	0	0	0	0	953	6	1,100	5
Other - foreign	5,310	6	5,002	3	3,408	3	3,264	3	259	2	235	1
Stocks	4,356	5	4,917	3	4,048	4	4,433	3	652	4	618	3
Total securities, all types	82,950	100	160,048	100	107,400	100	127,122	100	15,144	100	23,071	100

^a Mortgage-backed securities (MBS) issued by US government agencies (FNMA, FHLMC and GNMA) are included in the "Asset-backed or mortgage-backed" item whether there is a government SOURCE: Based on published financial statements.

Table 4 (cont.) | Total securities portfolio of the banking system, December 2022 and December 2023

Securities	Discount Bank			First International			Bank of Jerusalem					
	31/12/2022	31/12/2023	31/12/2022	31/12/2022	31/12/2023	31/12/2022	31/12/2022	31/12/2023				
	Book value (NIS million)	Distribution (Percent)										
Of the Israeli government	26,328	59	39,369	66	11,008	13	14,897	9	718	1	698	1
Of foreign governments	5,451	12	5,423	9	3,683	4	10,407	7	71	0	75	0
Of Israeli financial institutions	89	0	99	0	317	0	484	0	39	0	75	0
Of foreign financial institutions	549	1	630	1	360	0	509	0	0	0	0	0
Asset-backed or mortgage-backed securities ^a	8,412	19	9,297	16	108	0	0	0	0	0	0	0
Other - Israeli	398	1	287	0	169	0	104	0	5	0	0	0
Other - foreign	1,774	4	2,160	4	28	0	41	0	92	0	89	0
Stocks	1,793	4	2,003	3	445	1	543	0	1,043	1	1,099	1
Total securities, all types	44,794	100	59,268	100	16,010	19	26,985	17				

^a Mortgage-backed securities (MBS) issued by US government agencies (FNMA, FHLMC and GNMA) are included in the "Asset-backed or mortgage-backed" item whether there is a government SOURCE: Based on published financial statements.

Table 4 (cont.) | Total securities portfolio of the banking system, December 2022 and December 2023

		Total Banking System			
		31/12/2022		31/12/2023	
Securities		Book value	Distribution	Book value	Distribution
		(NIS million)	(Percent)	(NIS million)	(Percent)
Of the Israeli government		148,995	984	254,605	1,104
Of foreign governments		51,875	343	69,045	299
Of Israeli financial institutions		2,144	14	2,373	10
Of foreign financial institutions		20,126	133	20,710	90
Asset-backed or mortgage-backed securities ^a		19,466	129	24,920	108
Other - Israeli		2,566	17	2,636	11
Other - foreign		10,784	71	10,702	46
Stocks		11,386	75	12,603	55
Total securities, all types		267,341	1,765	397,593	1,723

^a Mortgage-backed securities (MBS) issued by US government agencies (FNMA, FHLMC and GNMA) are included in the "Asset-backed or mortgage-backed" item whether there is a government **SOURCE:** Based on published financial statements.

SOURCE: Based on published financial statements.

Table 5 | Transactions in off-balance-sheet financial instruments where the par value reflects credit risk, total banking system, 2021–23

	End of year balance			Rate of change during 2022	Rate of change during 2023	Distribution		
	2021	2022	2023			2021	2022	2023
	(NIS million)					Percent		
Documentary credit	5,590	5,216	2,979	-6.7	-42.9	0.9	0.8	0.4
Credit guarantees	19,485	22,671	24,080	16.4	6.2	3.0	3.4	3.3
Guarantees for home purchases	96,993	118,536	105,046	22.2	-11.4	15.0	17.9	14.5
Other guarantees and liabilities	78,937	98,651	99,467	25.0	0.8	12.2	14.9	13.7
Unutilized credit card facilities	73,949	81,419	99,162	10.1	21.8	11.4	12.3	13.7
Unutilized CLA and other credit facilities in demand accounts	104,494	89,669	103,749	-14.2	15.7	16.2	13.5	14.3
Irrevocable commitments to provide credit that has not yet been extended	190,181	168,493	189,000	-11.4	12.2	29.4	25.4	26.1
Commitments to issue guarantees	77,121	78,582	101,758	1.9	29.5	11.9	11.8	14.0
Total	646,749	663,237	725,241	2.5	9.3	100.0	100.0	100.0

SOURCE: Based on published financial statements.

Table 6 | Main items in consolidated profit and loss statements, total banking system, December 2021 to December 2023

	Bank Leumi			Bank Hapoalim			Mizrahi-Tefahot Bank					
	2021	2022	2023	Percentage change, December 2023 compared with December 2022	2021	2022	2023	Percentage change, December 2023 compared with December 2022	2021	2022	2023	Percentage change, December 2023 compared with December 2022
Interest income	11,672	18,795	33,655	79.06	11,684	19,220	32,971	71.55	10,557	16,195	24,005	48.22
Interest expenses	1,326	5,584	17,658	216.22	1,917	5,753	16,886	193.52	2,872	5,955	12,030	102.02
Net interest income	10,346	13,211	15,997	21.09	9,767	13,467	16,085	19.44	7,685	10,240	11,975	16.94
Loan loss provisions	-812	498	2,383	378.51	-1,220	-34	1,879	-5,626.47	-278	532	1,463	175.00
Net interest income after loan loss provisions	11,158	12,713	13,614	7.09	10,987	13,501	14,206	5.22	7,963	9,708	10,512	8.28
Noninterest income	5,511	5,018	5,181	3.25	4,625	4,453	5,297	18.95	2,635	3,428	2,805	-18.17
of which: Noninterest financing income	1,714	1,408	1,279	-9.16	1,081	581	1,267	118.07	401	754	511	-32.23
of which: Stocks ^a	842	1,203	335	-72.15	612	-106	369	-448.11	139	-49	28	-157.14
Bonds ^b	213	-344	-246	-28.49	202	-137	-569	315.33	34	38	-138	-463.16
Activity in derivative instruments ^c	-1,303	7,641	2,926	-61.71	-1,430	6,586	4,025	-38.89	-896	3,815	1,583	-58.51
Exchange rate differentials	1,962	-7,151	-1,741	-75.65	1,697	-5,659	-2,369	-58.14	1,124	-3,063	-964	-68.53
of which: Fees	3,506	3,535	3,737	5.71	3,355	3,705	3,892	5.05	1,947	2,052	2,028	-1.17
Total operating and other expenses	7,428	6,835	6,894	0.86	7,803	7,972	8,231	3.25	5,568	6,173	5,569	-9.78
of which: salaries and related expenses	4,242	3,935	3,484	-11.46	4,333	4,387	4,492	2.39	3,536	4,029	3,544	-12.04
Pre-tax profit	9,241	10,896	11,901	9.22	7,809	9,982	11,272	12.92	5,030	6,963	7,748	11.27
Provision for tax on profits	3,275	3,564	3,988	11.90	2,958	3,548	3,930	10.77	1,730	2,356	2,669	13.29
After-tax profit	5,966	7,332	7,913	7.92	4,851	6,434	7,342	14.11	3,300	4,607	5,079	10.25
Net profit attributed to shareholders	6,028	7,709	7,027	-8.85	4,914	6,532	7,360	12.68	3,188	4,472	4,910	9.79
Total pre-tax ROE (percent)	23.00	24.03	23.20		18.76	22.55	23.01		24.93	31.30	30.06	
Total after-tax ROE (percent)	15.00	17.00	13.70		11.80	14.75	15.02		15.80	20.10	19.05	
Total ROA (percent)	0.99	1.14	0.98		0.83	1.00	1.09		0.85	1.09	1.12	

Table 6 (cont.) | Main items in consolidated profit and loss statements, total banking system, December 2021 to December 2023

	Discount Bank			First International			Bank of Jerusalem					
	2021	2022	2023	2021	2022	2023	2021	2022	2023	Percentage change, December 2023 compared with December 2022		
Interest income	7,491	11,700	20,712	77.03	3,150	5,161	9,850	90.85	629	907	1,371	51.20
Interest expenses	962	3,007	9,776	225.11	356	1,358	4,884	259.65	175	312	639	105.20
Net interest income	6,529	8,693	10,936	25.80	2,794	3,803	4,966	30.58	454	595	732	22.93
Loan loss provisions	-693	407	1,502	269.04	-216	123	502	308.13	-59	79	133	69.16
Net interest income after loan loss provisions	7,222	8,286	9,434	13.85	3,010	3,680	4,464	21.30	513	516	598	15.88
Noninterest income	3,962	4,251	5,138	20.87	1,756	1,611	1,652	2.55	161	225	161	-28.44
of which: Noninterest financing income	765	417	1,218	192.09	303	113	142	25.66	45	77	37	-52.07
of which: Stocks ^a	395	65	151	132.31	231	-62	60	-196.77	0	5	2	-63.83
Bonds ^b	109	-8	-255	3,087.50	21	-31	-101	225.81	0	-4	-1	-75.00
Activity in derivative instruments ^c	-807	3,116	2,343	-24.81	-440	1,616	459	-71.60	-2	4	7	86.11
Exchange rate differentials	1,065	-2,780	-1,021	-63.27	489	-1,408	-274	-80.54	3	8	-12	-251.22
of which: Fees	3,125	3,404	3,495	2.67	1,444	1,489	1,502	0.87	103	117	124	5.90
Total operating and other expenses	6,858	7,217	7,966	10.38	2,652	2,755	2,877	4.43	452	490	546	11.47
of which: salaries and related expenses	3,468	3,568	3,850	7.90	1,601	1,680	1,746	3.93	207	222	254	14.60
Pre-tax profit	4,326	5,320	6,606	24.17	2,114	2,536	3,239	27.72	222	251	213	-15.17
Provision for tax on profits	1,516	1,806	2,316	28.24	728	884	1,090	23.30	78	87	76	-12.50
After-tax profit	2,810	3,514	4,290	22.08	1,386	1,652	2,149	30.08	144	164	137	-16.60
Net profit attributed to shareholders	2,773	3,495	4,192	19.94	1,405	1,667	2,172	30.29	144	163	135	-17.63
Total pre-tax ROE (percent)	21.22	22.98	24.74		22.12	25.25	29.38		20.67	21.21	16.62	
Total after-tax ROE (percent)	13.60	15.10	15.70		14.70	16.60	19.70		13.40	13.80	10.50	
Total ROA (percent)	0.88	0.85	0.96		0.81	0.89	1.04		0.91	0.91	0.66	

Table 6 (cont.) | Main items in consolidated profit and loss statements, total banking system, December 2021 to December 2023

	Total banking system			Percentage change, December 2023 compared with December 2022
	2021	2022	2023	
Interest income	45,183	71,985	122,634	70.36
Interest expenses	7,608	21,973	61,916	181.78
Net interest income	37,575	50,012	60,718	21.41
Loan loss provisions	-3,278	1,608	7,881	390.05
Net interest income after loan loss provisions	40,853	48,404	52,838	9.16
Noninterest income	18,649	18,987	20,248	6.64
of which: Noninterest financing income	4,308	3,350	4,453	32.91
of which: Stocks ^a	2,219	1,056	945	-10.51
Bonds ^b	579	-486	-1,310	169.75
Activity in derivative instruments ^c	-4,878	22,777	11,341	-50.21
Exchange rate differentials	6,340	-20,053	-6,381	-68.18
of which: Fees	13,480	14,302	14,778	3.33
Total operating and other expenses	30,886	31,706	32,464	2.39
of which: salaries and related expenses	17,449	17,936	17,521	-2.32
Pre-tax profit	28,616	35,685	40,622	13.83
Provision for tax on profits	10,285	12,245	14,069	14.90
After-tax profit	18,331	23,440	26,552	13.28
Net profit attributed to shareholders	18,326	23,775	25,438	7.00
Total pre-tax ROE (percent)	21.70	24.62	24.91	
Total after-tax ROE (percent)	13.90	16.40	15.60	
Total ROA (percent)	0.88	1.03	1.04	

a Includes the profits/losses from investments in shares available for sale, profits from the sales of shares of affiliated companies, dividends and profits/losses from adjustments to fair value of tradable shares.

b Includes the profits/losses from investments in bonds held to maturity and available for sale and income/expenses realized and not yet realized from adjustments to fair value of tradable bonds.

c Includes derivative instruments not intended for hedging purposes (ALM instruments) and other derivative instruments.

SOURCE: Based on published financial statements.

Table 7 | The effect of quantity and price on interest income and expenses, total banking system, 2022-23, NIS million

	2023								
	Quantity effect			Price effect			Net change		
	Assets side	Liabilities side	Net quantity effect	Assets side	Liabilities side	Net quantity effect	Assets side	Liabilities side	Contribution to net interest income
Credit to the public (assets) / deposits of the public (liabilities) in Israel	7,693	11,332	-3,639	22,594	24,729	-2,135	30,287	36,062	-5,774
Credit to the public (assets) / deposits of the public (liabilities) abroad	413	659	-246	1,764	1,627	137	2,177	2,286	-109
Total credit to the public / deposits of the public	8,106	11,991	-3,885	24,358	26,356	-1,998	32,464	38,348	-5,883
Other interest-bearing assets / liabilities in Israel	-492	1,208	-1,700	17,297	330	16,966	16,805	1,538	15,267
Other interest-bearing assets / liabilities abroad	397	1	396	920	18	902	1,317	19	1,298
Total other interest-bearing assets / liabilities	-95	1,209	-1,304	18,217	348	17,868	18,122	1,557	16,565
Total interest income / expenses	8,011	13,200	-5,189	42,575	26,705	15,870	50,586	39,905	10,682
	2022								
	Quantity effect			Price effect			Net change		
	Assets side	Liabilities side	Net quantity effect	Assets side	Liabilities side	Net quantity effect	Assets side	Liabilities side	Contribution to net interest income
Credit to the public (assets) / deposits of the public (liabilities) in Israel	8,362	2,402	5,961	10,454	8,827	1,627	18,816	11,229	7,587
Credit to the public (assets) / deposits of the public (liabilities) abroad	-178	51	-229	738	492	246	560	543	17
Total credit to the public / deposits of the public	8,184	2,453	5,732	11,192	9,319	1,873	19,376	11,772	7,604
Other interest-bearing assets / liabilities in Israel	629	1,198	-569	6,441	1,380	5,060	7,070	2,578	4,492
Other interest-bearing assets / liabilities abroad	-70	4	-74	419	7	412	349	11	338
Total other interest-bearing assets / liabilities	559	1,202	-643	6,860	1,387	5,472	7,419	2,589	4,830
Total interest income / expenses	8,744	3,655	5,089	18,052	10,707	7,345	26,795	14,361	12,434

a The quantity effect is calculated as the change in the balance-sheet balance (current year versus previous year) multiplied by the price during the current period, divided by 1000.

b The price effect is calculated as the change in price (current year versus previous year) multiplied by the balance-sheet balance for the same period in the previous year, divided by 1,000.

SOURCE: Banking Supervision Department based on published financial statements.

Table 8 | Average balances, interest income and expense rates, and interest rate gap in respect of assets and liabilities, total banking system, December 2022 to December 2023 (NIS million, percent in annual terms)

2023									
	Assets				Liabilities				Interest rate gap
	Average yearly balance (NIS million)	Interest income (NIS million)	Income rate (%)		Average yearly balance (NIS million)	Interest expenses (NIS million)	Expense rate (%)		
Credit to the public	1,474,459,100	94,167,918	6.38	Deposits of the public	1,369,049,400	-54,564,775	-3.99	2.39	2.40
Deposits at banks	35,554,100	3,885,200	10.93	Deposits from banks	26,419,200	-733,706	-2.78	8.15	0.39
Deposits at central banks	329,051,200	11,913,205	3.62	Deposits from central banks	29,771,000	-18,000	-0.06	3.56	3.69
Bonds	347,288,500	11,951,100	3.44	Bonds	112,459,100	-4,443,800	-3.95	-0.51	-1.00
Other assets ^a	16,002,000	717,000	4.48	Other liabilities ^a	47,117,000	-2,156,000	-4.58	-0.10	-1.67
Total interest-bearing assets	2,202,354,900	122,634,423	5.57	Total interest-bearing liabilities	1,584,815,700	-61,916,281	-3.91	1.66	0.72
Net yield on interest-bearing assets (net interest margin)^b	2,202,354,900	60,718,142	2.76						
2022									
	Assets				Liabilities				Interest rate gap
	Average yearly balance (NIS million)	Interest income (NIS million)	Income rate (%)		Average yearly balance (NIS million)	Interest expenses (NIS million)	Expense rate (%)		
Credit to the public	1,347,517,000	61,693,700	4.58	Deposits of the public	1,074,923,100	-16,174,400	-1.50	3.08	3.08
Deposits at banks	34,489,700	418,000	1.21	Deposits from banks	26,450,200	-161,900	-0.61	0.60	0.60
Deposits at central banks	447,411,000	5,429,300	1.21	Deposits from central banks	35,046,000	-21,000	-0.06	1.15	1.15
Bonds	238,770,700	4,076,700	1.71	Bonds	103,459,900	-5,220,200	-5.05	-3.34	-3.34
Other assets ^a	14,907,000	360,000	2.41	Other liabilities ^a	17,385,000	-391,000	-2.25	0.17	0.17
Total interest-bearing assets	2,083,095,400	71,977,700	3.46	Total interest-bearing liabilities	1,257,264,200	-21,968,500	-1.75	1.71	1.71
Net yield on interest-bearing assets (net interest margin)^b	2,083,095,400	50,009,200	2.40						

a Other liabilities and assets also include credit to the government and government deposits, and securities loaned or borrowed in repurchase agreements, among other things.

b The net interest margin is the ratio between net interest income and total interest-bearing assets. The margin is shown in percent and calculated using annual data.

SOURCE: Banking Supervision Department based on published financial statements.

Table 9 | Unit output cost^a and efficiency ratio^b of the total banking system^c, 2019–23
(percent)

	Year	Leumi	Hapoalim	Mizrahi-Tefahot ^{d,e}	Discount	First International	Bank of Jerusalem	Total banking system
Unit output cost	2019	1.70	1.90	1.50	2.52	1.93	2.97	1.88
	2020	1.38	1.50	1.35	2.41	1.66	2.79	1.60
	2021	1.23	1.32	1.48	2.18	1.52	2.85	1.49
	2022	1.01	1.22	1.50	2.03	1.46	2.74	1.38
	2023	0.96	1.22	1.27	2.06	1.38	2.68	1.33
Efficiency ratio	2019	56.8	66.4	54.6	65.2	64.4	70.0	61.5
	2020	53.8	56.9	53.9	67.5	61.8	69.1	58.3
	2021	46.8	54.2	54.0	65.4	58.3	73.5	54.9
	2022	37.5	44.5	45.2	55.8	50.9	59.8	46.0
	2023	32.6	38.5	37.7	49.6	43.5	61.2	40.1

a The ratio between total operating and other expenses and the average balance of assets (average cost).

b The ratio between total operating and other expenses and total net interest and noninterest income (cost-to-income).

c Data for the Hapoalim group do not include the Isracard group. From 2019, data for the Leumi group do not include the Leumi Card group.

d The merger with Union Bank in the fourth quarter of 2020 biased the unit output cost for 2020 downward.

e Starting with the annual report for 2020, data on the Mizrahi-Tefahot group include Union Bank.

SOURCE: Based on published financial statements.

Table 10 | Expenses in Respect of Employees^a, Total Banking System, 2004–23,
(reported amounts^b, current prices)

Year	Average number of employee posts ^c	Salaries		Related expenses in respect of employees ^d		Salaries and related expenses	
		Total	Per employee post	Total	Per employee post	Total	Per employee post
		(NIS million)		(NIS million)		(NIS million)	
2004	38,170	7,898	207	3,681	96	11,579	303
2005	40,029	8,595	215	4,283	107	12,878	322
2006	42,200	9,561	227	5,354	127	14,915	353
2007	44,286	9,798	221	4,718	107	14,516	328
2008	46,628	9,015	193	5,705	122	14,720	316
2009	47,097	9,640	205	4,378	93	14,018	298
2010	47,818	10,336	216	5,280	110	15,616	327
2011	48,344	10,717	222	5,814	120	16,531	342
2012	48,010	10,872	226	6,389	133	17,261	360
2013	47,577	11,336	238	6,363	134	17,699	372
2014	46,889	11,042	235	7,286	155	18,328	391
2015	45,714	11,506	252	5,941	130	17,447	382
2016	45,810	11,255	246	5,211	114	16,466	359
2017	43,138	11,244	261	5,283	122	16,526	383
2018	40,866	11,474	281	4,928	121	16,402	401
2019	39,793	11,037	277	5,081	128	16,118	405
2020	37,696	10,124	269	5,056	134	15,181	403
2021	37,107	11,974	323	5,475	148	17,449	470
2022	37,115	12,492	337	5,445	147	17,936	483
2023	36,785	11,956	325	5,806	158	17,762	483
Change from previous year, (percent)							
2005	4.9	8.8	3.8	16.4	11.0	11.2	6.1
2006	5.4	11.2	5.5	25.0	18.6	15.8	9.9
2007	4.9	2.5	-2.3	-11.9	-16.0	-2.7	-7.3
2008	5.3	-8.0	-12.6	20.9	14.8	1.4	-3.7
2009	1.0	6.9	5.9	-23.3	-24.0	-4.8	-5.7
2010	1.5	7.2	5.6	20.6	18.8	11.4	9.7
2011	1.1	3.7	2.6	10.1	8.9	5.9	4.7
2012	-0.7	1.4	2.2	9.9	10.7	4.4	5.1
2013	-0.9	4.3	5.2	-0.4	0.5	2.5	3.5
2014	-1.4	-2.6	-1.2	14.5	16.2	3.6	5.1
2015	-2.5	4.2	6.9	-18.5	-16.4	-4.8	-2.4
2016	0.2	-2.2	-2.4	-12.3	-12.5	-5.6	-5.8
2017	-5.8	-0.1	6.1	1.4	7.7	0.4	6.6
2018	-5.3	2.0	7.7	-6.7	-1.5	-0.8	4.8
2019	-2.6	-3.8	-1.2	3.1	5.9	-1.7	0.9
2020	-5.3	-8.3	-3.2	-0.5	5.0	-5.8	-0.6
2021	-1.6	18.3	20.1	8.3	10.0	14.9	16.8
2022	0.0	4.3	4.3	-0.5	-0.6	2.8	2.8
2023	-0.9	-4.3	-3.4	6.6	7.6	-1.0	-0.1

a Beginning in 2017, the data do not include the Isracard group, and include a reclassification of expenses in respect of pension and benefits after the end of employment in accordance with the circular published by the Banking Supervision Department in January 2018 on "Improvement of the presentation of expenses in respect of pension and other benefits upon completion of employment." Beginning in 2018, the data do not include Leumi Card.

b Until 2002, the amounts are adjusted for the effect of inflation based on the CPI reading for December 2003.

c The number of employee posts includes employee posts at subsidiary companies abroad and at consolidated companies, as well as a translation of the cost of overtime and budgets for outside manpower required for adjustment of current manpower and implementation of projects.

d This item mainly includes severance pay, benefits, advanced training funds, pension, vacation, National Insurance payments and payroll tax, other related expenses, voluntary retirement expenses, and benefits due to the allocation of options to employees.

SOURCE: Based on published financial statements.

Table 11 | Number of employee posts and expenses by annual wage level^a, total banking system^b, 2022 and 2023

	2022		2023		Annual rate of change in number of employee posts	Annual rate of change in salary expenses
	Number of employee posts	Salaries and related expenses (NIS million)	Number of employee posts	Salaries and related expenses (NIS million)		
Annual wage level of active employees at offices in Israel (NIS thousand)						
Up to 60	11,330	620	28,700	580	153.3	(6.4)
60–120	1,376	146,875	956	101,891	(30.5)	(30.6)
120–240	9,092	1,766,006	8,990	1,682,168	(1.1)	(4.7)
240–360	10,569	3,224,423	10,014	3,106,967	(5.3)	(3.6)
360–600	12,288	5,532,064	12,846	6,176,490	4.5	11.6
600–1,000	3,843	2,817,365	4,301	3,209,183	11.9	13.9
Above 1,000	655	1,005,084	743	1,152,871	13.4	14.7
Wage and associated payment components attributed to active employees at offices in Israel	37,835	14,492,435	37,879	15,430,150	0.1	6.5
<i>of which: Expenses for manpower workers, annual wage levels (NIS thousand)</i>	188	886,127	123	926,484	(34.4)	4.6
Up to 120	1,839	20,392	1,969	13,613	7.0	(33.2)
Above 120	2,027	865,735	2,092	912,871	3.2	5.4
Wage and associated payment components not attributed to active employees at offices in Israel		3,333,218		2,500,089		
Bank employees at offices abroad	1,201	1,172,815	1,141	972,422	(5.0)	(17.1)
Wage expenses capitalized to assets	(2,001)	(981,905)	(1,983)	(1,140,514)	(0.9)	16.2
Total	37,035	17,936,477	37,037	17,762,147	0.0	(1.0)

a The number of employee posts is reported on the basis of the monthly average, as reported in the published annual financial statements.

SOURCE: Based on published financial reports and reports to the Banking Supervision Department..

Table 12 | Distribution of capital and capital ratios in the banking system, 2022 to 2023

	Leumi		Hapoalim		Discount		Mizrahi-Tefahot		First Int'l		Bank of Jerusalem		Total banking system	
	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023
	NIS million													
Tier 1 capital ^{a,b}	48,797	53,892	46,745	52,641	25,353	28,890	25,072	28,434	10,802	12,292	1,256	1,366	158,191	177,630
Tier 2 capital ^b	12,020	14,141	14,349	13,338	6,878	7,469	8,015	8,366	3,448	3,569	347	366	45,059	47,254
Capital base	60,817	68,033	61,094	65,979	32,231	36,359	33,087	36,800	14,250	15,861	1,603	1,732	203,250	224,884
Credit risk	392,658	426,399	386,550	403,897	227,129	245,154	234,383	252,842	94,786	97,053	10,833	11,742	1,346,483	1,437,496
Total exposures after conversion to credit	690,528	711,900	690,312	689,175	380,342	395,711	436,295	458,835	192,793	215,193	19,572	22,467	2,411,003	2,495,461
Risk weighted average (RWA) ^c	52	55	53	55	56	58	52	53	47	42	55	0	52	0
Market risks	6,610	5,834	4,007	4,245	3,633	4,209	1,301	1,957	789	886	32	15	16,375	17,149
Operational risk	26,375	29,943	25,020	29,710	16,685	20,406	16,567	20,641	8,061	10,360	1,128	1,277	93,838	112,373
Total weighted items	425,643	462,176	415,577	437,852	247,447	269,769	252,251	275,440	103,636	108,299	11,994	13,035	1,456,696	1,567,018
	Percent													
Tier 1 capital ratio	11.5	11.7	11.3	12.0	10.3	10.7	9.9	10.3	10.4	11.4	10.5	10.5	10.9	11.3
Total capital adequacy ratio	14.3	14.7	14.7	15.1	13.0	13.5	13.1	13.4	13.8	14.6	13.4	13.3	14.0	14.4
Minimum required Tier 1 capital ratio	10.2	10.2	10.2	10.2	9.2	9.2	9.6	9.6	9.2	9.2	9.5	9.5	9.5	9.5
Minimum required total capital ratio ^c	13.5	13.5	13.5	13.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5

a Including minority shareholders' rights, according to the groups' balance sheets.

b After deductions.

c Percent.

SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

Table 13 | Distribution of exposures and the leverage ratio in the total banking system, 2022-2023 (NIS million)

	Leumi		Hapoalim		Discount		Mizrachi Tefahot		First Int'l		Bank of Jerusalem		Total banking system	
	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023
Tier 1 capital	48,797	53,892	46,745	52,641	25,353	28,890	25,072	28,434	10,802	12,292	1,256	1,366	158,025	177,515
Balance sheet exposures	648,773	682,277	628,533	648,724	362,683	381,827	423,013	442,835	192,716	217,965	19,046	21,980	2,274,764	2,395,608
Derivative Exposure	38,849	42,010	22,633	27,683	8,823	9,448	8,366	8,615	3,454	3,460	19	8	82,144	91,224
Securities Financing Exposure	16,221	15,177	15,809	11,986	5,067	5,008	2,273	2,524	12	57	0	0	39,382	34,752
Off-balance sheet exposures	63,052	70,550	70,140	72,003	35,607	37,910	29,358	33,509	11,761	12,187	716	644	210,634	226,803
Total exposures	766,895	810,014	737,115	760,396	412,180	434,193	463,010	487,483	207,943	233,669	19,781	22,633	2,606,924	2,748,388
	Percent													
Leverage ratio	6.4	6.7	6.3	6.9	6.2	6.7	5.4	5.8	5.2	5.3	6.3	6.0	6.1	6.5
Required leverage ratio	5.5	5.5	5.5	5.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5

SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

Table 14 | Balance of credit by major industries^a, segmented by year they were provided, during 2023, (NIS million)

		2023-Q1	2023-Q2	2023-Q3	2023-Q4
Construction and real estate	2023	42,034	64,994	78,601	97,930
	2022	74,726	62,743	51,893	45,154
	2021	45,458	41,218	35,836	28,886
	2020	14,812	13,454	11,715	10,844
	2019	9,068	8,439	7,732	8,001
	More than 5 years prior to the report date	16,546	15,219	13,669	12,708
	Renewing loans	71,482	73,958	84,577	90,487
	Renewed loans converted to fixed term loans	2,229	2,614	2,731	2,120
	Total	276,355	282,639	286,754	296,130
Other commercial	2023	62,873	98,323	122,017	134,834
	2022	97,519	82,711	70,650	62,267
	2021	58,850	52,155	46,686	43,287
	2020	34,914	31,357	27,589	25,150
	2019	17,764	15,515	13,752	11,908
	More than 5 years prior to the report date	36,863	32,005	31,251	27,523
	Renewing loans	123,125	126,234	129,744	141,486
	Renewed loans converted to fixed term loans	1,861	1,459	2,793	1,954
	Total	433,768	439,758	444,481	448,408
Housing	2023	17,603	35,172	54,394	70,680
	2022	113,396	112,593	110,611	108,895
	2021	111,119	109,166	106,696	104,718
	2020	69,201	67,948	66,681	65,519
	2019	51,125	50,104	49,431	48,513
	More than 5 years prior to the report date	198,390	192,935	189,391	184,069
	Renewing loans	-	-	-	-
	Renewed loans converted to fixed term loans	-	-	-	1,000
	Total	560,834	567,918	577,204	582,394

^a Borrower activity in Israel

Table 14 (cont.) | Balance of credit by major industriesa, segmented by year they were provided, during 2023, (NIS million)

		2023-Q1	2023-Q2	2023-Q3	2023-Q4
Private - other	2023	27,533	40,832	51,988	56,184
	2022	43,868	37,293	32,086	27,973
	2021	22,942	19,823	17,204	14,943
	2020	11,044	9,493	8,215	7,157
	2019	6,824	5,655	4,782	4,048
	More than 5 years prior to the report date	10,341	9,155	8,378	7,319
	Renewing loans	24,746	28,398	28,685	29,702
	Renewed loans converted to fixed term loans	3,029	275	305	486
	Total	150,327	150,923	151,643	147,812
Total credit to the public	2023	159,407	259,548	335,190	392,542
	2022	355,649	316,096	286,095	263,205
	2021	252,028	233,549	217,725	202,354
	2020	134,903	126,984	117,530	111,819
	2019	88,764	83,238	78,726	75,237
	More than 5 years prior to the report date	268,845	255,432	247,863	236,527
	Renewing loans	244,373	253,501	270,265	280,814
	Renewed loans converted to fixed term loans	7,752	5,108	6,576	5,213
	Total	1,511,721	1,533,455	1,559,971	1,567,712

SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

Table 15 | Credit quality^{a,b} indices by principal segments, total banking system, 2019–23

Index/Bank	Year	Leumi	Hapoalim	Mizrahi Tefahot	Discount	First Int'l	Bank of Jerusalem	Total banking system
Share of annual loan loss provisions out of total balance sheet credit to the public	2019	0.21	0.43	0.18	0.38	0.16	0.34	0.29
	2020	0.85	0.63	0.42	0.89	0.50	0.92	0.68
	2021	-0.23	-0.34	-0.10	-0.32	-0.21	-0.48	-0.25
	2022	0.12	-0.02	0.17	0.17	0.10	0.55	0.10
	2023	0.57	0.45	0.44	0.57	0.42	0.87	0.50
Ratio of net writeoffs to total balance sheet credit to the public	2019	0.23	0.12	0.11	0.22	0.09	0.24	0.16
	2020	0.18	0.09	0.11	0.19	0.10	0.21	0.13
	2021	-0.03	-0.06	0.05	0.03	-0.01	0.15	-0.01
	2022	0.07	-0.02	0.09	0.10	0.02	0.17	0.05
	2023	0.12	0.09	0.09	0.17	0.03	0.53	0.11
Share of balance of credit loss allowances out of total balance sheet credit to the public	2019	1.16	1.58	0.82	1.38	1.05	1.04	1.23
	2020	1.76	2.00	0.98	1.95	1.38	1.73	1.66
	2021	1.30	1.43	0.77	1.41	1.05	0.93	1.22
	2022	1.28	1.40	0.93	1.31	1.02	1.13	1.22
	2023	1.58	1.69	1.24	1.60	1.36	1.39	1.52
Share of troubled credit out of total balance sheet credit to the public	2019	1.96	3.06	1.78	2.56	1.86	1.63	2.30
	2020	2.87	3.41	1.50	3.90	2.16	2.62	2.83
	2021	1.85	2.26	1.25	2.91	1.68	1.20	1.99
	2022	1.54	1.63	1.27	2.74	1.15	0.01	1.66
	2023	1.78	2.02	1.87	3.46	1.48	1.26	2.12
Share of nonaccruing credit ^b or accruing credit more than 90 days in arrears out of the balance of credit to the public	2019	1.11	1.61	1.34	0.90	1.01	1.50	1.24
	2020	1.43	1.28	1.13	0.96	0.80	1.29	1.19
	2021	1.02	1.00	0.92	0.76	0.67	1.14	0.92
	2022	0.51	0.89	0.87	0.67	0.48	1.02	0.72
	2023	0.88	1.06	1.16	0.95	0.60	1.11	0.98
Ratio of allowance for credit losses to non-accruing credit or credit accruing more than 90 days in arrears	2019	117.53	109.69	65.46	166.59	109.79	70.96	109.24
	2020	132.96	175.97	95.25	220.60	183.94	135.57	152.09
	2021	140.43	165.07	92.38	199.82	167.63	84.07	146.74
	2022	280.94	183.33	115.39	222.08	232.21	111.55	191.99
	2023	198.56	180.24	111.28	189.49	247.64	127.14	171.66
Share of nonexecution-rated credit out of total balance sheet credit to the public ^c	2020	6.38	7.81	3.43	8.04	4.75	4.28	6.25
	2021	3.56	5.81	2.58	5.23	4.17	2.46	4.28
	2022	2.42	4.16	3.07	6.10	3.09	0.03	3.67
	2023	3.24	5.31	3.99	7.25	3.14	3.17	4.61

a Credit to the public in Israel and abroad

b Beginning January 2022, banks in Israel are implementing a forward looking methodology - CECL (Current Expected Credit Losses) - in which the credit classification has been changed from impaired credit to nonaccruing credit. The indices appearing from before 2022 are based on an estimate of nonaccruing credit. Both components together serve as an estimate of Nonperforming Loans (NPL).

c Credit with a credit rating on the report date that is in line with the credit rating for issuing new credit is in line with the bank's policy. That is, credit that was granted in the past and that wouldn't have been granted in line with conditions existing today. There are data beginning from 2020.

SOURCE: Based on published financial statements.

Table 16 | Credit quality by major sectors, total banking system, 2019 to 2023 (percent)

Index/Bank	Year	Leumi	Hapoalim	Mizrahi Tefahot	Discount	First Int'l	Bank of Jerusalem	Total banking system
Commercial credit								
Share of commercial credit ^a	2019	60.65	56.86	24.34	61.23	46.81	17.07	51.13
	2020	61.22	56.71	27.10	61.38	46.16	17.91	51.08
	2021	62.09	58.09	26.66	60.46	46.31	15.54	51.66
	2022	62.36	58.60	28.02	59.30	49.63	20.80	52.14
	2023	62.62	60.23	29.12	60.63	51.76	25.60	53.40
Loan loss provisions as a share of total commercial credit	2019	0.26	0.62	0.44	0.31	0.16	0.13	0.39
	2020	1.14	0.68	0.94	1.00	0.81	0.29	0.93
	2021	-0.29	-0.27	-0.12	-0.41	-0.45	0.04	-0.30
	2022	0.10	-0.08	0.39	0.13	0.14	0.43	0.09
	2023	0.58	0.56	0.92	0.63	0.51	0.38	0.62
Nonaccruing credit ^b or credit accruing 90 days or more in arrears as a share of total commercial credit	2019	1.33	2.24	2.33	1.51	1.42	0.22	1.74
	2020	1.78	1.86	2.16	1.70	1.01	0.32	1.46
	2021	1.23	1.45	1.67	0.96	0.73	0.40	1.20
	2022	0.49	1.17	1.45	0.88	0.53	0.66	0.88
	2023	1.00	1.35	1.60	1.24	0.66	0.61	1.19
Loan loss allowance as a share of total housing credit 90 days or more past due	2019	112.02	105.48	73.99	108.06	100.17	252.50	104.91
	2020	130.93	158.12	95.31	140.08	204.88	222.22	168.57
	2021	141.97	157.61	103.04	180.50	192.53	156.00	155.90
	2022	380.05	186.44	133.91	197.27	262.70	101.03	215.40
	2023	221.79	185.56	157.18	170.60	277.89	115.97	191.46
Housing credit								
Share of housing credit ^a	2019	29.47	29.98	65.54	20.18	28.80	71.17	35.33
	2020	30.01	32.13	63.04	22.06	30.72	71.73	36.82
	2021	29.82	32.04	64.20	24.82	31.55	74.68	37.34
	2022	31.15	32.35	63.38	26.56	30.28	68.35	37.83
	2023	30.77	31.78	62.70	26.27	29.76	64.35	37.25

Table 16 (cont.) | Credit quality by major sectors, total banking system, 2019 to 2023 (percent)

Index/Bank	Year	Leumi	Hapoalim	Mizrahi Tefahot	Discount	First Int'l	Bank of Jerusalem	Total banking system
Loan loss provisions as a share of total housing credit	2019	0.03	0.03	0.03	0.07	0.01	-0.04	0.03
	2020	0.19	0.32	0.18	0.16	0.14	0.13	0.21
	2021	-0.14	-0.20	-0.08	0.01	-0.02	-0.01	-0.10
	2022	0.09	0.06	0.05	0.10	0.07	0.09	0.07
	2023	0.17	0.09	0.12	0.11	0.11	0.09	0.12
Nonaccruing ^b or accruing credit 90 days or more past due as a share of total housing credit	2019	0.99	0.78	1.13	0.96	0.77	1.88	0.99
	2020	0.83	0.63	0.75	0.74	0.55	1.64	0.74
	2021	0.61	0.50	0.74	0.51	0.52	1.35	0.63
	2022	0.47	0.45	0.68	0.35	0.41	1.19	0.53
	2023	0.53	0.57	1.04	0.37	0.58	1.35	0.72
Loan loss allowance as a share of total housing credit 90 days or more past due	2019	56.27	64.17	43.99	58.64	61.73	32.38	53.43
	2020	85.25	120.89	80.10	82.17	105.13	43.86	89.45
	2021	77.74	93.67	61.85	95.20	95.21	45.33	75.15
	2022	74.96	90.73	67.87	124.45	104.14	42.24	78.81
	2023	92.15	84.07	53.37	138.22	92.20	43.37	72.06
Other private credit								
Share of other private credit	2019	9.68	12.98	9.92	17.79	24.39	11.76	13.27
	2020	8.58	10.99	9.69	15.79	23.13	10.37	11.85
	2021	7.96	9.72	9.08	13.97	22.14	9.78	10.79
	2022	7.90	8.89	8.55	13.45	20.09	10.85	10.24
	2023	7.03	8.40	8.11	12.48	18.59	10.05	9.45
Loan loss provisions as a share of total other private credit	2019	0.48	0.49	0.49	0.96	0.32	2.99	0.63
	2020	1.05	1.32	0.57	1.49	0.36	7.51	1.08
	2021	-0.16	-1.22	-0.23	-0.57	0.01	-4.94	-0.53
	2022	0.37	0.11	0.37	0.49	0.07	3.68	0.33
	2023	2.18	1.10	1.21	1.24	0.67	7.11	1.38

Table 16 (cont.) | Credit quality by major sectors, total banking system, 2019 to 2023 (percent)

Index/Bank	Year	Leumi	Hapoalim	Mizrachi Tefahot	Discount	First Int'l	Bank of Jerusalem	Total banking system
Nonaccruing or accruing credit 90 days or more past due as a share of total other private credit to the public	2019	1.33	2.20	0.54	0.76	0.79	1.59	1.24
	2020	0.95	2.31	0.38	0.95	0.81	1.16	0.86
	2021	0.91	1.99	0.33	0.38	0.55	0.83	0.83
	2022	0.98	0.72	0.37	0.38	0.46	0.65	0.60
	2023	1.42	0.89	0.54	0.80	0.49	0.81	0.85
Ratio of loan loss allowance to total other private credit that is nonaccruing or that is accruing 90 days or more in arrears	2019	178.53	93.05	248.18	291.46	159.88	289.50	162.66
	2020	323.27	131.20	369.57	340.48	184.88	924.06	303.56
	2021	288.49	90.72	309.76	672.17	260.80	495.96	235.30
	2022	245.64	366.80	517.17	651.59	315.60	927.72	383.42
	2023	226.24	359.87	484.14	383.91	428.70	1038.40	347.06

a Including credit in respect of borrowers' activity in Israel and abroad. For housing and private-other, data is presented for credit to the public only in Israel (credit abroad is less than 1 percent of total households - housing and private-other combined).

b As of January 2022, Israeli banks implement the Current Expected Credit Losses (CECL) methodology for estimating allowances for credit losses, a forward-looking methodology in which the credit classification has been changed from impaired credit to nonaccumulating credit. The index readings prior to 2022 are based on an estimate of nonaccruing credit. The two components together make up an estimate of NPL (Nonperforming loans).

SOURCE: Based on published financial statements.

Table 17 | Outstanding credit to the public, by principal industry, total banking system, 2022 and 2023

	Total balance of credit risk ^a				Balance-sheet credit ^b (debts)			
	Balance		Distribution of credit to the public		Balance		Distribution of credit to the public	
	2022	2023	2022	2023	2022	2023	2022	2023
	(NIS million)	(NIS million)	(Percent)	(Percent)	(NIS million)	(NIS million)	(Percent)	(Percent)
Borrower activity in Israel	1,903,622	2,037,361	91.9	91.5	1,378,690	1,466,497	94.2	94.2
Business sector	1,064,939	1,159,138	51.4	52.1	674,786	736,507	46.1	47.3
Agriculture	9,687	9,434	0.5	0.4	8,128	7,999	0.6	0.5
Mining and quarrying	3,950	4,626	0.2	0.2	2,334	3,224	0.2	0.2
Manufacturing	110,492	114,361	5.3	5.1	64,226	63,631	4.4	4.1
Construction and real estate	422,303	488,243	20.4	21.9	260,379	296,131	17.8	19.0
<i>Of which: Construction</i>	322,634	357,122	15.6	16.0	160,620	185,776	11.0	11.9
Real estate	99,669	131,120	4.8	5.9	99,758	110,355	6.8	7.1
Electricity and water supply	41,406	46,331	2.0	2.1	23,019	27,715	1.6	1.8
Commerce	130,470	135,250	6.3	6.1	100,832	107,384	6.9	6.9
Hotels, hospitality and food services	20,990	21,766	1.0	1.0	17,838	18,045	1.2	1.2
Transport and storage	33,770	35,493	1.6	1.6	25,467	27,064	1.7	1.7
Communications and computer services	21,225	21,857	1.0	1.0	13,414	13,389	0.9	0.9
Financial services	165,299	191,288	8.0	8.6	93,095	105,887	6.4	6.8
Other business services	49,596	50,244	2.4	2.3	33,763	33,315	2.3	2.1
Public and community services	39,556	40,245	1.9	1.8	32,291	32,596	2.2	2.1
Private individuals	838,683	878,224	40.5	39.5	703,904	729,991	48.1	46.9
<i>Of which: Housing loans</i>	589,594	615,917	28.5	27.7	554,004	582,394	37.8	37.4
Private individuals - other	249,089	262,306	12.0	11.8	149,900	147,597	10.2	9.5
Borrowers' activity abroad	167,936	188,326	8.1	8.5	85,032	90,870	5.8	5.8
Total	2,071,558	2,225,687	100.0	100.0	1,463,722	1,557,367	100.0	100.0
			7.4	7.4			6.4	6.4

a Includes balance-sheet and non-balance-sheet credit risk.

b Includes credit to the public, excludes bonds and securities borrowed or purchased under reverse repurchase agreements.

SOURCE: Banking Supervision Department based on published financial statements.

Figure 18 | Credit and spreads by supervisory activity segment, household sectora, total banking system, December 2022 to December 2023

Balance of credit to the end of the reporting period																
	Housing				Credit cards				Other consumer				Total			
	Dec 2022	Dec 2023	Differ-ence	Rate of change	Dec 2022	Dec 2023	Differ-ence	Rate of change	Dec 2022	Dec 2023	Differ-ence	Rate of change	Dec 2022	Dec 2023	Differ-ence	Rate of change
	(NIS million)	(NIS million)	(Percent)	(Percent)	(NIS million)	(NIS million)	(Percent)	(Percent)	(NIS million)	(NIS million)	(Percent)	(Percent)	(NIS million)	(NIS million)	(Percent)	(Percent)
Leumi	119,495	130,410	10,915	9.13	4,185	4,468	283	6.76	26,498	25,478	-1,020	(3.85)	150,178	160,356	10,178	6.78
Hapoalim	127,632	131,134	3,502	2.74	4,700	4,671	-29	(0.62)	30,209	29,798	-411	(1.36)	162,541	165,603	3,062	1.88
Discount	196,717	206,562	9,845	5.00	4,622	4,506	-116	(2.51)	22,937	22,938	1	0.00	224,276	234,006	9,730	4.34
Mizrahi Tefahot	64,593	68,777	4,184	6.48	17,917	18,432	515	2.87	14,947	14,343	-604	(4.04)	97,457	101,552	4,095	4.20
First Int'l	35,474	35,450	-24	(0.07)	4,062	3,853	-209	(5.15)	19,509	18,328	-1,181	(6.05)	59,045	57,631	-1,414	(2.39)
Bank of Jerusalem	9,719	9,834	116	1.19	-	-	-	-	1,529	1,611	82	5.39	11,247	11,445	198	1.76
Total banking system	553,630	582,167	28,538	0.05	35,486	35,930	444	0.01	115,629	112,496	-3,133	(0.03)	704,744	730,593	25,849	3.67
Spread from credit activity (average)																
	Housing				Credit cards				Other consumer				Total			
	Dec 2022	Dec 2023	Differ-ence	Rate of change	Dec 2022	Dec 2023	Differ-ence	Rate of change	Dec 2022	Dec 2023	Differ-ence	Rate of change	Dec 2022	Dec 2023	Differ-ence	Rate of change
	(Percent)	(Percent)	(Percent)	(Percent)	(Percent)	(Percent)	(Percent)	(Percent)	(Percent)	(Percent)	(Percent)	(Percent)	(Percent)	(Percent)	(Percent)	(Percent)
Leumi	1.23	1.27	0.05	3.79	1.39	1.59	0.20	14.57	4.83	4.71	(0.12)	(2.45)	1.87	1.85	(0.02)	(0.01)
Hapoalim	1.12	1.09	(0.03)	(2.55)	0.31	-	(0.31)	(100.00)	4.93	4.71	(0.23)	(4.61)	1.84	1.70	(0.14)	(0.07)
Discount	1.25	1.15	(0.10)	(7.65)	1.05	0.94	(0.12)	(11.10)	4.39	4.58	0.19	4.23	1.57	1.49	(0.09)	(0.06)
Mizrahi Tefahot	1.19	1.08	(0.11)	(9.24)	4.87	5.65	0.77	15.87	4.32	4.22	(0.10)	(2.23)	2.39	2.30	(0.09)	(0.04)
First Int'l	1.35	1.26	(0.09)	(6.32)	0.39	0.41	0.02	5.96	3.49	3.35	(0.14)	(4.01)	2.02	1.90	(0.12)	(0.06)
Bank of Jerusalem	1.97	1.93	(0.04)	(2.18)	-	-	-	-	8.15	8.63	0.48	5.89	2.86	2.89	0.03	0.01
Total banking system	1.23	1.18	(0.05)	(0.04)	2.85	3.08	0.22	0.08	4.52	4.45	(0.07)	(0.02)	1.87	1.78	(0.08)	(0.05)

a Doesn't include private banking.

SOURCE: Banking Supervision Department based on published financial statements.

Table 19 | Credit and spreads by supervisory activity segment, business sector^{a,b}, total banking system, December 2022 and December 2023

	Balance of credit to the end of the reporting period																		
	Small and micro businesses				Medium businesses				Large businesses				Total business sector						
	Dec 2022	Dec 2023	Difference	Rate of change	Dec 2022	Dec 2023	Difference	Rate of change	Dec 2022	Dec 2023	Difference	Rate of change	Dec 2022	Dec 2023	Difference	Rate of change			
(NIS million)				(Percent)				(NIS million)				(NIS million)				(Percent)			
Leumi	65,803	66,554	751	1.14	39,473	40,038	565	1.43	126,628	142,404	15,776	12.46	231,904	248,996	17,092	7.37			
Hapoalim	61,649	56,356	-5,293	(8.59)	39,270	43,245	3,975	10.12	108,834	123,039	14,205	13.05	209,753	222,640	12,887	6.14			
Mizrahi-Tefahot	35,147	34,947	-200	(0.57)	12,902	12,171	-731	(5.67)	28,779	36,286	7,507	26.08	76,828	83,404	6,576	8.56			
Discount	41,185	42,203	1,018	2.47	17,224	20,053	2,829	16.42	58,407	67,479	9,072	15.53	116,816	129,735	12,919	11.06			
First Int'l.	20,019	18,093	-1,926	(9.62)	8,192	7,442	-750	(9.16)	27,784	35,245	7,461	26.85	55,995	60,780	4,785	8.55			
Bank of Jerusalem	2,254	2,904	651	28.88	435	746	311	71.52	-	-	-	-	2,688	3,650	962	35.77			
Total banking system	226,057	221,057	-4,999	(0.02)	117,496	123,695	6,199	0.05	350,432	404,453	54,021	0.15	693,984	749,205	55,221	7.96			

	Spread from credit activity (average)																		
	Small and micro businesses				Medium businesses				Large businesses				Total business sector						
	Dec 2022	Dec 2023	Difference	Rate of change	Dec 2022	Dec 2023	Difference	Rate of change	Dec 2022	Dec 2023	Difference	Rate of change	Dec 2022	Dec 2023	Difference	Rate of change			
(NIS million)				(Percent)				(NIS million)				(NIS million)				(Percent)			
Leumi	3.12	2.72	(0.40)	(12.88)	2.35	2.25	(0.10)	(4.38)	1.84	1.48	(0.36)	(19.60)	2.30	2.26	(0.04)	(1.89)			
Hapoalim	3.32	3.10	(0.23)	(6.85)	2.20	2.20	0.00	0.17	1.51	1.61	0.10	6.64	2.22	2.12	(0.10)	(4.72)			
Mizrahi-Tefahot	3.91	3.99	0.08	2.04	2.92	3.16	0.24	8.20	2.22	2.31	0.09	4.26	3.12	3.16	0.04	1.35			
Discount	3.55	3.60	0.05	1.49	2.33	2.46	0.13	5.70	1.73	0.16	(1.57)	(90.70)	2.62	2.40	(0.21)	(8.16)			
First Int'l.	2.80	2.82	0.03	0.99	2.43	2.44	0.01	0.43	1.42	1.34	(0.08)	(5.46)	2.13	1.97	(0.16)	(7.56)			
Bank of Jerusalem	2.82	2.96	0.14	4.86	2.32	2.06	(0.26)	(11.09)	-	-	-	-	2.74	2.77	0.04	1.36			
Total banking system	3.34	3.19	(0.15)	(0.04)	2.36	2.37	0.01	0.00	1.72	1.36	(0.36)	(0.21)	2.43	2.32	(0.11)	(4.39)			

^a Small and micro businesses - business turnover of less than NIS 50 million; Medium businesses - turnover of NIS 50-250 million; Large businesses - turnover of NIS 250 million or more.

^b The data relate to activity in Israel and do not include financial institutions, the financial management segment, "other", or adjustments.

SOURCE: Based on published financial statements.

Appendix 2: Directives published by the Banking Supervision Department in 2023¹

2023

January 23 Publication of an update to Proper Conduct of Banking Business Directive no. 366 on “Reporting of Technological Failures and Cyber Incidents”

The Bank of Israel updated Proper Conduct of Banking Business Directive no. 366, regarding “Reporting of Technological Failures and Cyber Incidents”. This amendment is in line with the “Financial Information Service” Law, which determines (Section 31.(a) of the Law) that if a “severe security incident” occurs, as understood in the provisions of Section 36 of the Privacy Protection Law, the service provider is to immediately notify the relevant regulator of the service provider and the information source that the security incident occurred regarding information received from it. It shall also notify the regulator of the service provider of the steps it took due to the event, the information source that received notice of this issue shall report as such, without delay, to the information source’s regulator. In the interest of making things easier for the banking corporations in reporting on the range of incidents or which they are required to report to the Banking Supervision Department and to consolidate them, the Banking Supervision Department established that the manner of reporting a “severe security incident” to the Banking Supervision Department as the regulator of the information source, within the framework of the banking corporation’s work as an information source or as a service provider as noted in the Law, shall be in accordance with the provisions of Proper Conduct of Banking Business Directive no. 366. This reporting requirement is defined within the framework of this amendment to Proper Conduct of Banking Business Directive no. 366. Together with this amendment is an amendment to Reporting Directive no. 880.

February 2 Providing service to Israeli banking system customers against the background of the Russia-Ukraine War—publication of a letter on the subject

In order to provide relief for new immigrants who arrived in Israel against the background of the Russia-Ukraine War, and pursuant to previous supervisory letters on the issue, the need to continue managing with high sensitivity the situation in which the new immigrants are in contact with banking service providers was emphasized.

February 15 Reporting to Banking Supervision Directive no. 882, “Reporting of Technological Indices”

The accelerated technological development in the financial world is a catalyst for increasing the supply of digital services at the banking corporations, while at the same time it increases the technological risk to the banking system complying with the challenges of the future banking, and is liable to impact on the banking system’s sustainable business model risk. These technological developments require the banking corporations to rethink and to implement a business model based on advanced and innovative technological platforms that are customer-focused. The Banking Supervision Department sees technology as a substantial pillar in the banking system

¹ The complete and obligating version of regulatory activities appears on the Bank of Israel website.

and its stability, including protecting depositors' funds, providing advanced and accessible digital services, and ensuring continuous services to the public in routine times and in emergencies. To follow the development of technological risk, Reporting to Banking Supervision Directive no. 882, "Reporting of Technological Indices" was added.

February 23 Board of directors—update to Proper Conduct of Banking Business Directive no. 301

In view of the going into effect on July 12, 2022, of the Criminal Information and Rehabilitation Law, 5779-2019, which replaces the Criminal Register and Rehabilitation Law, 5741-1981, Appendix A of Proper Conduct of Banking Business Directive no. 301 was updated.

February 26 Adopting consumer-related measures in a changing financial environment—publication of a letter on the issue

In light of changes in the interest rate and inflation environment, and following the supervision letter on the subject, the Supervisor of Banks clarified in a letter to the banking corporations his expectation for acting with enhanced sensitivity and with the customer's best interest and needs in mind, and to take steps that will assist customers in view of these changes.

Risk management

Update of Proper Conduct of Banking Business Directive no. 310

In recent years, we have seen increased activity in financial cryptographic assets in Israel and worldwide. The involvement of banking corporations and acquirers in activities related to financial cryptographic assets, directly and indirectly, incorporates risks that are liable to impact on the ability to ensure a stable and reliable financial environment. The amendment to the Directive regulates the banks' ability to offer new products to their customers in the financial cryptographic assets sphere, while establishing a requirement to notify the Supervisor of Banks in writing, in advance, of activity related to cryptographic assets.

Publication of letter by the Supervisor of Banks on "Dealing with financial cryptographic assets"

In view of the failure incidents over the past year of various entities worldwide in the field of cryptographic assets, which led to, among other things, a marked increase in volatility in that market and a sharp decline in the value of cryptographic assets, the Supervisor of Banks sent a letter to the CEOs of banking corporation and credit card companies, detailing the main risks that arise in that area.

March 29 Opening a current account without an overdraft facility—publication of update to Proper Conduct of Banking Business Directive no. 422

The directive required allowing the management of an account for basic payment services such as carrying out remote activities. It was expanded to include, besides managing a current account with a credit balance, the management of a current account with a debit balance that does not deviate from the approved credit facility. In addition, in view of the importance of the need to provide banking services to all customers, it was clarified that across the board rules to block a customer's activity should not be established just because the customer belongs to a certain

population group. In addition, the basic payment services noted in the directive were broadened. The Directive was to go into effect 1 year from its publication, but due to the war its entry into effect was delayed until June 2024.

Managing a customer support and service system: Publication of Proper Conduct of Banking Business Directive no. 501

This new directive anchors the principles for providing service and support to banking system customers via the various service channels, it determines the requirements in the corporate governance and work procedures of banking corporations, and it determines requirements in the area of establishing a service covenant and the publication of details regarding the service array and customer support. This is with the goal of promoting an organizational culture that emphasizes service quality and availability and the support given to the customer and to enhance the transparency vis-à-vis the customers. Most sections of the Directive were to go into effect 1 year from its publication, but due to the war they were deferred to June 2024.

Banking corporations' opening days—amendment to Proper Conduct of Banking Business Directive no. 401

As part of establishing Directive 501, it was determined that a banking corporation shall not prevent its customers from entering a branch and receiving professional service there during working hours, even if they hadn't set up an appointment in advance. This guideline went into effect on the day it was published.

Providing professional telephone response service—amendment to Proper Conduct of Banking Business Directive no. 426

As part of establishing Proper Conduct of Banking Business Directive no. 501, the publication requirements regarding the service and support array were revised.

June 6

Amendment to the Banking (Service to the Customer) Law, 5741-1981, Monthly notices of Fees and Interest

The Law was amended, establishing the requirement to send monthly notices to bank customers, including the total amount charged by the bank to the customer in the previous month for fees and interest. The effective dates of the law are staggered: January 1, 2024, and June 2, 2024.

Amendment to the Banking (Service to the Customer) Law, 5741-1981 – Opening and Managing Accounts for Financial Entities

The Law was amended, establishing that if a banking corporation refuses to provide a financial entity with the service listed in Section 2(a)(2), namely opening and managing a current account, either for the entity or its clients, or fails to provide such service within three months from the date of the financial entity's first application, the banking corporation must notify the Supervisor of Banks and explain the reasons for the refusal or delay.

June 11 **Management of Anti-Money Laundering and Countering the Financing of Terrorism Risks – Amendment to Proper Conduct of Banking Business Directive no. 411**

Key updates include:

1. New guidelines to align with international standards regarding cross-border transfers, as a result of the FATF audit report on Israel.
2. Expansion of Appendix B.2 to allow the use of means of payment issued by licensed financial service providers subject to anti-money laundering orders, following requests from these entities.
3. Addition of Appendix B.5, extending the period during which a bank account can be opened using a new-immigrant certificate up to 90 days from issuance, until the end of December 2023, to ease the integration of new immigrants from Russia amid the Russia-Ukraine war.

June 12 **Principles for Effective Management of Climate-Related Financial Risks – New Proper Conduct of Banking Business Directive no. 345**

The new directive establishes principles for banks to effectively manage their exposure to climate-related financial risks, based on the Basel Committee's document published in June 2022. This reflects the growing global and local awareness of the financial risks associated with climate change and the potential severe impacts of their realization on the stability of banking corporations, the banking system, or the real economy.

June 13 **Joint Accounts – "Survivorship Clause" – Update to Proper Conduct of Banking Business Directive no. 434**

The directive was updated to increase awareness among account partners of the existence and implications of the survivorship clause in account opening agreements, ensuring that its application or nonapplication aligns with their wishes regarding the rights of the surviving partner to manage the account in the event of the other's death. It also aims to facilitate the surviving partner's handling of existing liabilities via means of payment issued for the deceased partner's use. Most of the directive's provisions were supposed to come into effect a year from publication but were postponed to September 2024 due to the war.

June 29 **Banking Corporations' Transactions with Related Parties – Update to Proper Conduct of Banking Business Directive no. 312 and Accompanying FAQ Document**

Updates were made to the directive and the accompanying FAQ document as part of the supervisory policy to reduce the regulatory burden on banking corporations and in view of the experience gained in implementing the directive.

July 19 **Procedures for Granting Housing Loans—Update to Proper Conduct of Banking Business Directive no. 451**

The update aims to improve the process of early repayment of housing loans, including through loans from another banking corporation or nonbank institutional lender (loan refinancing). The directive was supposed to come into effect a year from publication but was postponed to October 2024 due to the war.

Banking Corporations' Activities as Broker-Dealers—New Proper Conduct of Banking Business Directive no. 461

This directive regulates the activities of banking corporations in financial brokerage, including the receipt and transmission of orders for securities transactions for customers, both as intermediaries and for proprietary trading. The directive aims to protect investor clients, maintain market efficiency and fairness, and reduce risks to banking corporations and operational risks in dealing rooms. This directive replaces Proper Conduct of Banking Business Directive 461 "Banking Corporation's Securities Activities on Behalf of Clients".

July 30 Restrictions on Indebtedness of a Borrower and Borrower Group—Update to Proper Conduct of Banking Business Directive no. 313

The exemption relating to the indebtedness of a banking borrower group to a credit card company from complying with the limitation in section 4(b)(2) of the directive ("Banking Borrower Group Limitation") and from complying with the aggregate large borrowers limitation in section 4(e) of the directive was extended from August 1, 2023, to December 31, 2024.

October 12 Emergency Q&A – "Operation Swords of Iron"

Publication of a Q&A document addressing common questions arising from the context of "Operation Swords of Iron" regarding dealings with the banking system.

Publication of a letter detailing the Banking Supervision Department's emphases for the banking system in light of "Operation Swords of Iron"**October 22 Adaptations to Proper Conduct of Banking Business Directives for Coping with "Operation Swords of Iron" (Temporary Directive)—Directive no. 251**

In light of "Operation Swords of Iron" that began on October 7, 2023, and its impact on the Israeli economy, a series of regulatory adjustments were adopted by the Banking Supervision Department in a temporary directive, updated from time to time, to assist the banking system and its customers in dealing with the challenges of the situation.

November 7 Credit Risk Management—Update to Proper Conduct of Banking Business Directive no. 311

The definition of "Significant Credit Exposure" in Section 44 of the directive was amended, raising the threshold criterion for risk manager involvement in credit exposure to NIS 50 million or 1 percent of bank equity (whichever is lower), up from NIS 25 million. This update was made based on accumulated experience and aims to improve risk management efficiency.

November 29 Verification of Customer Accounts—Cancellation of Proper Conduct of Banking Business Directive no. 354

As part of a periodic review of existing regulation by the Banking Supervision Department, it was decided to cancel Proper Conduct of Banking Business Directive 354 "Verifying Customers' Accounts", as the content of this directive is no longer relevant.

December 20 Interest Rate Risk Management—Update to Proper Conduct of Banking Business Directive no. 333 and Publication of an Accompanying Q&A Document

The directive was updated following the adoption of the Basel Committee's updated document from April 2016 on interest rate risk in the banking book. The directive sets principles for managing interest rate risk in the banking book and updates the "Anomalous Banking Corporation" test used by the Supervisor of Banks. The updated directive will go into effect on July 1, 2025.

December 20 Leverage Ratio—Update to Proper Conduct of Banking Business Directive no. 218

The relaxation of leverage ratio requirements provided under Proper Conduct of Banking Business Directive 250 "Adaptations to Proper Conduct of Banking Business Directives for Coping with the COVID-19 Crisis (Temporary Directive)" was incorporated into the directive and extended until December 31, 2025 (instead of June 30, 2024). This extension was granted as the Banking Supervision Department is in the process of reassessing leverage ratios.

December 24 Opening Current Accounts with a Credit Balance for Financial Entities—New Proper Conduct of Banking Business Directive no. 424

This directive establishes the requirements for banking corporations when opening and managing accounts for nonbank financial service providers. It includes a reporting requirement to the Banking Supervision Department for any refusal or delay in providing the service listed in Section 2(a)(2) of the Banking (Service to the Customer) Law, namely opening and managing a current account, and mandates written justification to the financial entity in cases of refusal or delay.

Directives effective from 2024

January 1 Management of Anti-Money Laundering and Countering the Financing of Terrorism Risks—Update to Proper Conduct of Banking Business Directive no. 411

Update to Appendix B.5 - To ease the integration process for immigrants and avoid delaying the account opening process for those who have not yet received their identity cards, the Banking Supervision Department extended the period during which a bank account can be opened using a new-immigrant certificate up to 90 days from issuance, until the end of June 2024.

March 7 Broker-Dealer Directive—Update to Proper Conduct of Banking Business Directive no. 461

The implementation date of the directive update, originally set for January 19, 2025, has been postponed to August 1, 2025, following a request from the banking system, which faced difficulties meeting the original implementation schedule due to the ongoing war.

The Banking Supervision Department

