SURVEY OF THE BANKING SYSTEM—FIRST HALF OF 2022

The global economy, including the financial systems, is dealing with a number of challenges that emerged following the COVID-19 crisis and that have intensified as a result of the Russia-Ukraine war. The disruptions in the supply chain, and in particular in the export of oil and wheat, have led to an increase in global commodity prices, and inflation has risen to levels not seen during the past decade. In response to the inflationary pressure, central banks worldwide, including the Bank of Israel, have initiated a process of raising the monetary interest rate and gradually tightening monetary policy. Thus, after a long period of near-zero interest rates, the global economy must now adjust to a rising interest-rate environment.

From the perspective of the banking systems, the increase in interest rates and inflation is beneficial in the short term, given the resulting increase in interest income, but it is liable to have a negative impact at a later stage. This is due to the possible decline in the quality of credit if borrowers' ability to service their debt is impaired. What is unique about Israel compared to many other countries is the existence of an indexation mechanism for some of the credit segments, which leads to a surplus of indexed assets, thus further contributing to the profitability of the Israeli banking system. The contribution of the interest rate and inflation can be seen in the high return on equity (15.8 percent) recorded by the banking system at the end of the first half of 2022, the highest level in more than a decade. The high rate of return was also due to one-off revenues, some of which are part of the efficiency processes that Israeli banks are undergoing (for further details, see the chapter on business results and efficiency).

The marked growth in the banking system's capital, which is the result of, among other things, high profitability and capital raising in the market (see the chapter on capital adequacy), has allowed the banks to continue providing credit at an accelerated pace in response to the high levels of demand following the exit from the pandemic (primarily housing credit and credit to the construction and real estate industry; see the chapter on credit). Nonetheless, as a result of the rapid growth in credit (alongside the distribution of dividends in respect of 2021 profits and the losses reported in the portfolio of available-for-sale assets), the banks' capital ratios eroded during this period. Note that in this period it is important, from a forward-looking perspective, to build up capital, since a period of high uncertainty is being experienced as a result of inflation and the interest rate increases worldwide, which are manifested in lower equity prices, a rise in yields, and even a decline in real estate prices in some countries. Furthermore, since the rise in interest rates and inflation increases the debt burden on households and the business sector—which may be a threat to GDP and consumption[1]—we may see an increase in credit defaults, which calls for an addition to capital buffers. Note in this context that during the period being surveyed the total credit loss allowance rose relative to December 2021. Although the increase is primarily due to the transition to the CECL rules (which went into effect at the beginning of the year[2]), there was also a deterioration in the macroeconomic environment during the second quarter of the year, which also partly explained the increase in credit losses.[3] Nonetheless, there is no visible increase in defaults in the credit portfolio at this stage.

Against this background, we note that all of the banks in the system have capital ratios that exceed the minimum levels set by the Banking Supervision Department; nonetheless, there are a number of banks that are working in other ways to further strengthen their capital, in view of recent developments, and first and foremost the accelerated pace of growth in credit to the public. Thus, two banks in the system have issued shares while others reduced or suspended the distribution of dividends in the first quarter of this year (for further details, see the chapter on capital adequacy).

The fears of the effect of an increase in households' debt burden is clear since the lion's share of household debt bears a variable interest rate and/or is indexed. During the period of a negligible interest rate and prior to the interest rate increases, taking a loan with a variable interest rate (in which the price is lower than that of a fixed-rate loan, but the borrower is taking on interest rate risk) provided borrowers with particularly inexpensive debt. However, the interest rate risk is currently being realized, which is raising monthly payments. In particular, there has been an accelerated increase in housing credit during the past two years, which was also characterized by an increase in loan to value ratios due to rising home prices. Furthermore, with the recent sharp rise in housing credit, we are seeing an increase in consumer credit, both inside and outside the banking system. This increase is in parallel to the provision of housing loans, an indicator that households are taking on additional leverage.

We note that based on the understanding that many borrowers are focused on minimizing their initial monthly mortgage payments, rather than taking into account the risk implicit in the possibility of interest rate increases and higher inflation, the Bank of Israel instituted a consumer-related reform at the end of August 2022 that will increase transparency of information for bank customers and improve the competitive environment in the mortgage market. As part of the reform, a number of measures related to mortgages went into effect that will help customers to, among other things, more easily understand the terms of the mortgages being offered and their implicit risk, given the expected developments in market conditions, including the rates of interest and inflation.

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[1] Both directly, due the variable interest rate mechanisms and CPI indexation, and indirectly, due to the decline in disposable income of borrowers as a result of the increase in other expenses which may not be fully compensated for in their income.

[2] The initial implementation of the CECL rules (in January 2022) required the adjustment of the total credit loss allowance (thus increasing it) which was not by way of the provision for credit losses. Following the initial implementation, changes in the macroeconomic environment are manifested in the credit loss allowance rates.

[3] As mentioned, under the CECL rules for credit loss allowance, changes in the macroeconomic environment are manifested in an increase in the total allowance already in the present.

On the saving side, the increase in the Bank of Israel interest rate led to some increase in the interest rate on the public's deposits (for further details, see Box 1) and therefore households are choosing to transfer a growing portion of their funds from demand deposits (which do not earn interest) to interest-earning deposits (for further details, see the chapter on the balance sheet). In this context, the Supervisor of Banks sent a letter to the banks' CEOs in September of this year in which he expressed the expectation of the Banking Supervision Department that the banks would adjust their investment products in order to keep pace with the changing interest rate environment with the goal of satisfying the needs of their customers.[4] We note that correct financial behavior on the part of households can increase their bargaining power and therefore improve the interest earned on their deposits. As such, and following the various reforms recently promoted by the Bank of Israel in order to increase transparency and strengthen the customer's power, the Bank of Israel has begun to publish the interest rate on NIS deposits actually paid by each of the banks. The goal is to provide customers with a simple tool that will help them evaluate the terms offered by the various banks. This comparison tool is available to the public on the Bank of Israel website.[5]

In sum, the banks' results for the first half of 2022 may be misleading. Their financial statements present a positive picture – high returns on equity, an improvement in efficiency ratios, capital ratios, and liquidity ratios, growth in activity and good credit quality. However, from a forward-looking perspective, there is uncertainty regarding future economic developments and their implications for the banking system. Initial indications that may point to changes in the trends are already visible. Thus, during this half of the year there was, as mentioned, an erosion in capital as the result of a drop in bond values in the available-for-sale portfolio. This was the result of a sharp increase in yields, which also led to a number of banks transferring part of their available-for-sale bonds to the bonds-held-to-maturity portfolio,[6] with the goal of moderating the effect of the increase in bonds yields on the volatility in capital. Furthermore, households have started to further exploit their credit lines (although as of today, the rate of usage is still similar to pre-pandemic levels). Meanwhile, we are starting to see a slowdown in housing credit, which is occurring after a slowdown also in the level of home purchases and a more moderate rate of growth in credit to the construction and real estate industry. The Banking Supervision Department is continuing to monitor the developments in the markets and the growing risks, from both a macroprudential viewpoint and a consumer viewpoint.

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[4] For further details, see the letter dated September 7, 2022 from the Supervisor of Banks to the banks' CEOs on "Fairness to consumers in a changing financial world".
https://www.Bank of Israel.org.il/he/NewsAndPublications/PressReleases/Pages/07-09-22.aspx [Hebrew]

[5] https://www.Bank of Israel.org.il/he/BankingSupervision/Data/Pages/compareint.aspx [Hebrew]

[6] A bank can change its intention to hold certain bonds until maturity because of isolated, one-time and outlying events that could not have reasonably been foreseen (for further details, see the directives for reporting to the public) and, in this case, the exceptionally large effects of the interest rate and inflation.

BUSINESS RESULTS

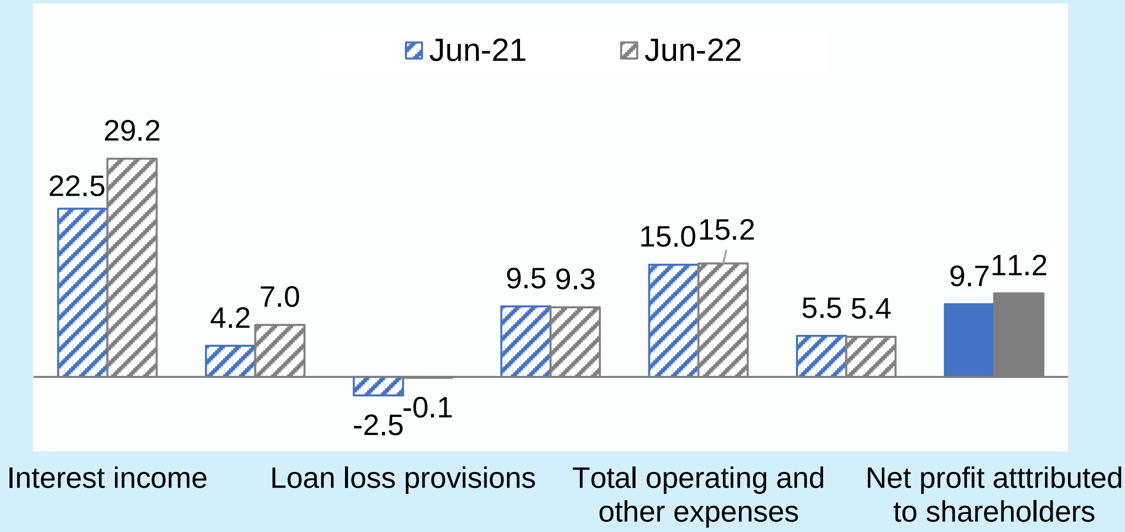
The net profit[7] of the banking system as a whole during the first half of 2022 totaled about NIS 11.2 billion, an increase of 14.9 percent relative to the corresponding period in 2021 when net profit totaled NIS 9.7 billion (Table 3). The increase is primarily the result of the growth in net interest income (Figure 1), which was affected both by the increase in the CPI and the Bank of Israel interest rate in the second quarter of 2022, and by the continuing rapid growth in the banking system's credit activity (see the section on credit). Furthermore, the banks' profit during the period being surveyed included a number of one-time events, which contributed about NIS 1.5 billion (pretax, including due to tax offsets[8]) to the banks' profitability relative to the parallel period in 2021:

Bank	**One-time event**	**Impact on income/profit during the first half of 2022**
Hapoalim	Sale of real estate assets	NIS 112 million (other income)
Leumi	Merger of Leumi US with Valley National	NIS 645 million (tax offset[8])
Mizrahi	Sale of assets (primarily buildings)	NIS 371 (other income)
Discount	Sale of buildings	NIS 413 million (other income)

As a result, the return on equity during the first half of 2022 stood at about 15.8 percent as compared to 15.2 percent during the corresponding period in 2021 and 13.9 percent for 2021 as a whole (Table 3). This is the highest level since 2006 (Figure 2). Net of the effect of inflation, then the return on equity in the first half of 2022 is estimated to be about 11.4 percent. Net of one-time events, the return on equity is estimated to be about 14.1 percent. If both effects are neutralized, then the return on equity is estimated to be 10.2 percent, which is only somewhat higher than the long-term rate.

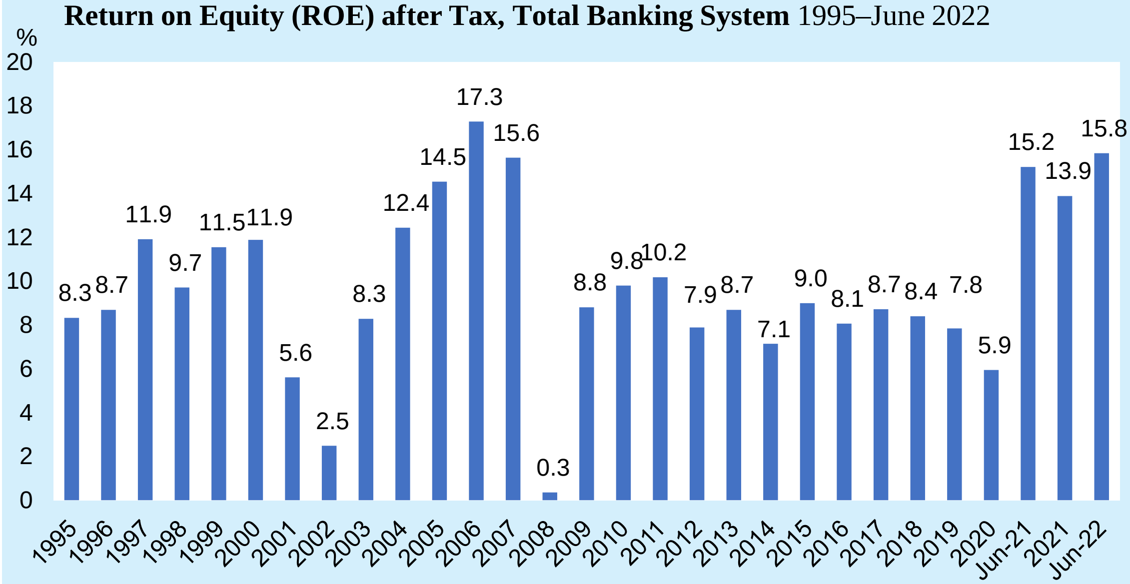
[7] The net profit attributed to the banks' shareholders.
[8] The amount is offset from the provision for taxes on pre-tax profit.

Figure 1.1
Profit & Loss Statement Components, Total Banking System
June 2022 vs. June 2021, NIS billion



SOURCE: Based on published financial statements.

Figure 1.2
Return on Equity (ROE) after Tax, Total Banking System 1995–June 2022



SOURCE: Based on published financial statements.

The main factors affecting the banking system's business results during the first half of 2022 as compared to the corresponding period in 2021:

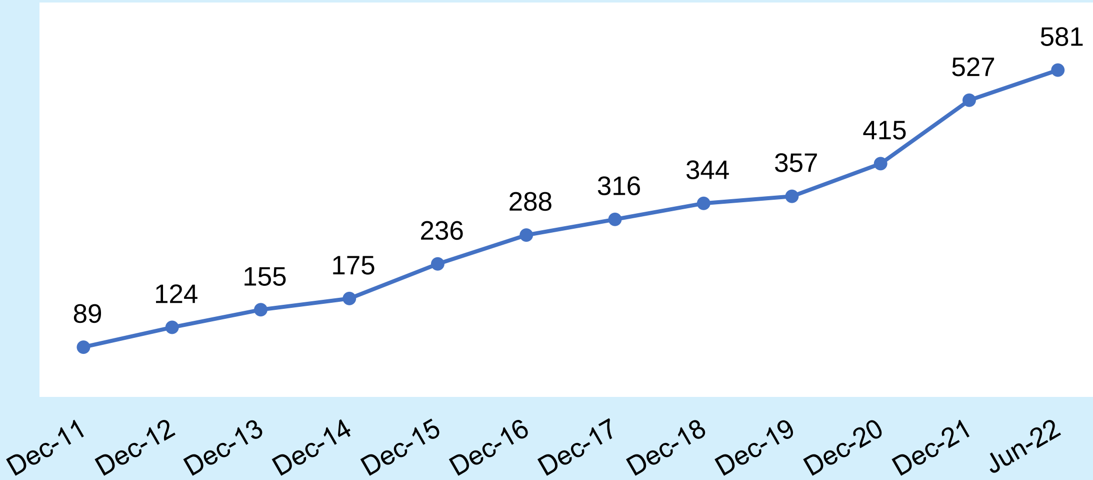
Net income rose during the first half of the year by about 21.2 percent relative to the corresponding period in 2021, and totaled about NIS 22.2 billion (Table 3). The increase in net interest income was affected both by the increase in the CPI (an increase of 3.1 percent during the first half of the year, according to the known index, the one that had been most recently published) and the increase in the Bank of Israel interest rate, which began in the second quarter of the year (in April 2022, the Bank of Israel raised the central bank interest rate by 0.25 percentage points and toward the end of May by another 0.4 percentage points), which was in addition to the continuing growth in total credit to the public. The high inflation had two effects on interest income: first, the total increase in assets as a result of inflation is attributed to interest income and second, total credit indexed to the CPI grew (due to inflation) and therefore the interest income it produces also increased. The increase in the Bank of Israel interest rate primarily affects the interest income from assets linked to the prime interest rate. Note in this context that it is too early to see the effect of changes in the pricing of credit and deposits as a result of the increase in the Bank of Israel interest rate, since their share in the changes in the balance sheet is still relatively small (for further details on the interest rate pricing of the public's deposits as a result of the increase in the Bank of Israel interest rate, see Box 1 on "Transmission of a central bank interest rate hike to the interest rate on the public's deposits").

The banking system is characterized by a surplus of CPI-indexed assets over CPI-indexed liabilities (which also grew during the period being surveyed; for further details, see the section on the balance sheet). Accordingly, the growth in interest income is significantly higher than the increase in interest expenses and therefore higher inflation increases the banks' net interest income to a significant extent.

The banks enjoy a surplus of interest-bearing assets over interest-bearing liabilities (Figure 3). Most of the credit provided by the banking system bears a variable interest rate (according to estimates, about 85 percent of the credit portfolio[9]). Furthermore, a significant portion of the banks' sources are current account balances (which do not bear interest), such that the banks have more assets than liabilities whose interest rate changes with the Bank of Israel interest rate (even in situations where short-terms deposits roll over at a higher interest rate). Therefore, a larger increase occurs in interest rate income since there are more assets whose interest rate has increased (credit with a variable interest rate) and therefore net interest income increases. To the extent that the public chooses to transfer funds from its current account (which do not bear interest) to interest-bearing deposits, the bank's interest expenses will grow and as a result the positive effect of the increase in the interest rate on the banks' net interest income will be offset to some extent.

[9] Most of the fixed-rate loans are provided as mortgages (about 37 percent of total mortgages bear a fixed interest rate), such that their proportion of the credit portfolio is estimated to be only about 14 percent. In addition, we would mention that the fixed interest rate is used to price the interest rate risk.

Figure 1.3
Development of the spread between interest bearing assets and interest carrying liabilities
December 2011–June 2022, NIS billion

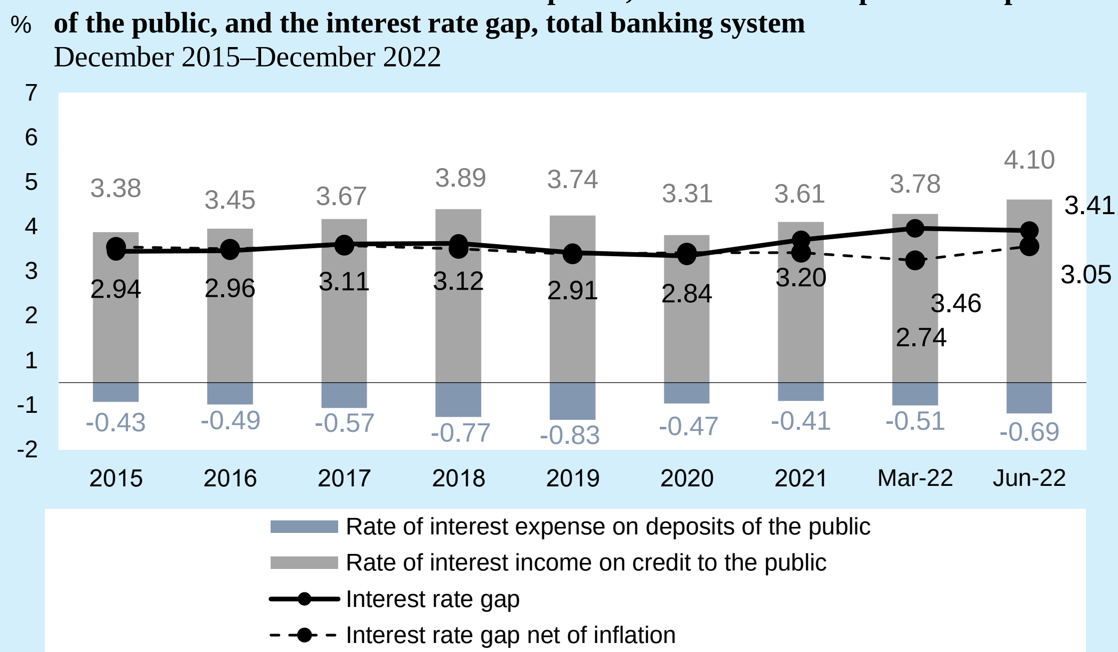


SOURCE: Based on published financial statements.

With respect to the price and quantity effects on interest income and interest expenses, it was found that both quantity and price had a positive effect on net interest income (Table 4) where the effect of quantity is greater than the effect of price (explaining about 73 percent of the total contribution to net interest income). This is primarily because the quantity effect also includes the increase, due to the effect of inflation on the total CPI-indexed portfolio, as well as providing of credit. Most of the effect on net income during the first half of 2022, due to both the quantity effect and the price effect, originated from the portfolio of credit to the public.

With respect to the interest rate margin, which reflects the profitability of the banks from their core activity—based on the difference between the average interest rate on total credit and that on total deposits—it appears that during the first half of 2022 there was a continuation of the upward trend in the interest rate spread, which was about 3.47 percent, compared to 3.2 percent at the end of 2021 (Table 5; Figure 4). This increase was the result of both inflation and the increase in the interest rate. Net of the effect of inflation, then the interest rate spread was 3.1 percent during the period being surveyed, compared to 2.9 percent at the end of 2021. This was the result of the increase in the Bank of Israel interest rate, which followed a narrowing of the interest rate gap to about 2.7 percent (if the effect of inflation is neutralized; Figure 4) at the end of the first quarter (prior to the raising of the Bank of Israel interest rate).

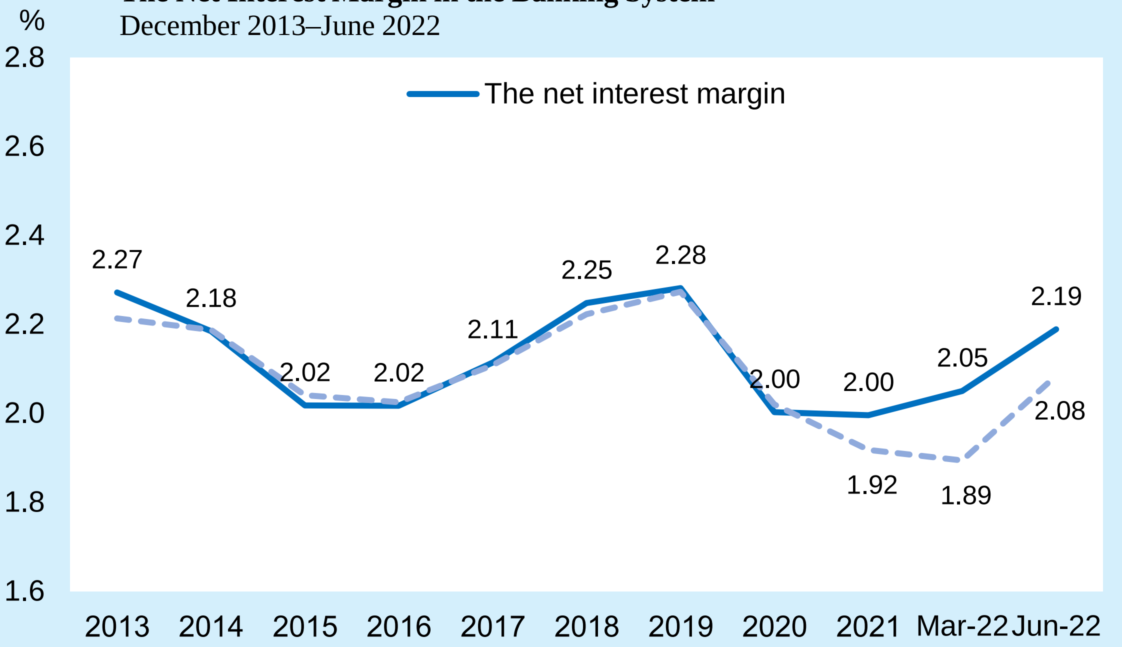
Figure 1.4
Rate of interest income on credit to the public, rate of interest expense on deposits of the public, and the interest rate gap, total banking system
December 2015–December 2022



SOURCE: Based on published financial statements.

A similar trend is observed in an analysis of the financial margin, which is total net financing income (both interest income and non-interest income) relative to total interest-bearing assets, which reflects the banking system's ability to generate profits on assets that produce financing income. Thus, net of the effect of inflation, this spread declined during the first quarter of 2022 and only following the increase in the Bank of Israel interest rate in the second quarter did it begin to climb to a higher rate at the end of the first half of 2022 (2.06 percent at the end of the first half of 2022 as compared to 1.93 percent at the end of 2021). Without neutralizing the effect of inflation, there was a continual rise in the spread during the first half of the year (which stood at 2.18 percent at the end of the first half of the year as compared to 2.01 percent at the end of 2021; Figure 5).

Figure 1.5
The Net Interest Margin in the Banking System
December 2013–June 2022



SOURCE: Based on published financial statements.

Credit loss provisions during the first half of 2022 totaled about NIS 0.1 billion in negative provisions (income) (Table 3), which reflects actual income (negative provisions) during the first quarter and an increase in the expense (provisions) during the second quarter, which did not fully offset the income recorded in the first quarter. Moreover, it appears that in the case of the banking system as a whole the share of credit loss provisions at the end of the first half of 2022 was manifested in a credit loss provision—i.e. an increase in the total provision, except in the case of Bank Hapoalim which continued to record negative provisions for credit losses, due to the significant allowance posted in the first quarter of 2022 which has not yet been fully offset.[10] Among the reasons for the increase in the credit loss allowances during the second quarter of the year was a deterioration in the macroeconomic environment, which under the CECL rules for credit loss allowances leads to an increase in the allowance already in the present (for further details, see the section on credit).

Noninterest income declined during the first half of 2022 by about 1.2 percent relative to the same period in 2021, to approximately NIS 9.3 billion (Table 3). The decline was a result of the drop in noninterest financing income by about 53 percent, primarily in the equities component (due to the price declines in the capital markets during the period being surveyed relative to the price rises during the parallel period in 2021) and the bonds component (which also recorded declines as a result of the rise in interest rates in the

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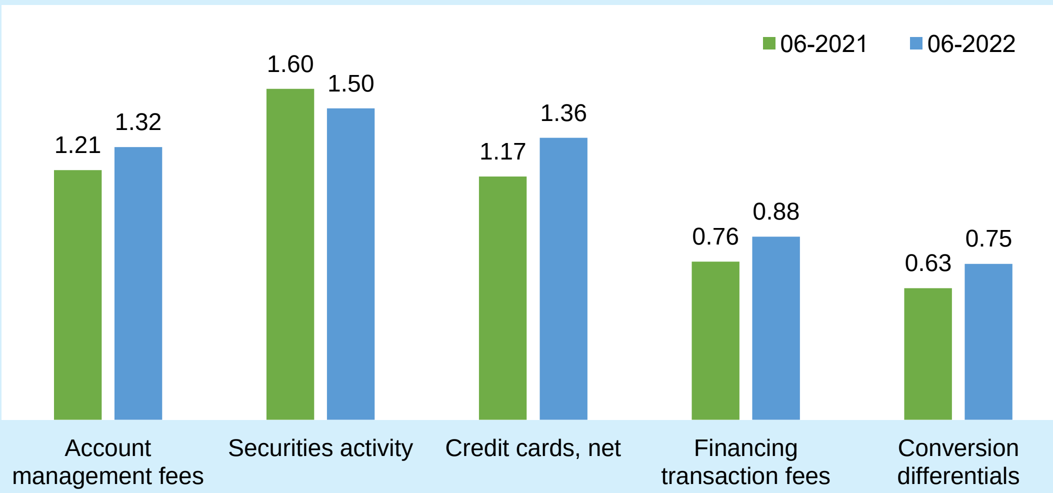
[10] In its financial statements, the bank reported that the increase in income was the result of a net reduction in the individual allowance during the period, which was primarily due to a small number of borrowers.

market). There was an increase in one-off income (as described above) and in income from fees. In addition, the significant depreciation of the shekel against the dollar during the period being surveyed led to particularly large losses from exchange-rate differentials. However, these were fully offset by activity in derivative instruments, the vast majority of which is intended to hedge exposure to foreign currency.

Income from fees during the first half of 2022 rose by about 7.6 percent relative to the parallel period in 2021, to about NIS 7.1 billion (Table 3). Most of the increase originated in credit card activity, current account fees, financing transactions and conversion differences (Figure 6), which reflect an increase in customers' consumption and economic activity. This increase was partly offset by a decline in fees from activity in securities, due to the fall in asset prices in the capital market and despite the increase in volume relative to the same period in 2021.

Figure 1.6
Segmentation of Main Fee Income Components, Total Banking System
2022:H1 compared to 2021:H1 (NIS billion)



SOURCE: Based on published financial statements.

Other income totaled somewhat more than NIS 1 billion during the first half of 2022 (Table 3), an unusually large amount (which is normally at much lower levels), about 86 percent of which was due to one-off income from the sale of buildings by some of the banks, as described in the table at the beginning of the section on business results.

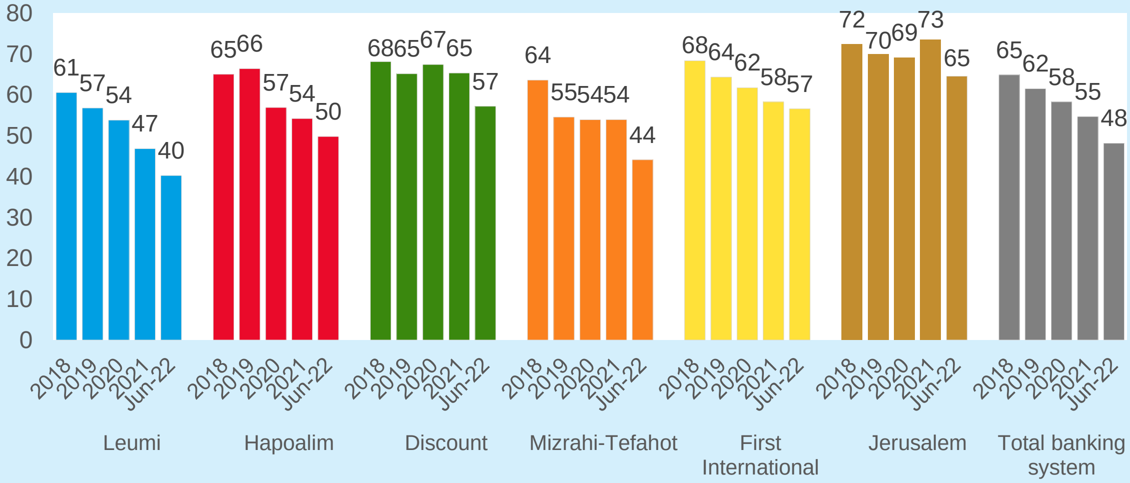
OPERATINIG EFFICIENCY

During the first half of 2022, the upward trend continued in the banking system's efficiency ratios. The efficiency (cost-to-income) ratio[11] declined significantly to about 48 percent as compared to about 55 percent at the end of 2021 (Figure 7). However, this was primarily due to the increase in net interest income, which was mainly the result of the increase in the CPI, and in noninterest income, due to, among other things, unusually

[11] The ratio of total operating and other expenses to total net interest income and non-interest income.

large income with a one-time nature during the first half of the year (for further details, see the section on business results). Thus, if these factors (the increase in the CPI and one-time income) are neutralized, then **the cost-to-income ratio at the end of the first half of 2022 was about 52 percent. The unit output cost (average cost) ratio[12] also declined and was about 1.33 percent as compared to 1.48 percent at the end of 2021** (Figure 8). The improvement in the average cost ratio characterized the entire banking system and was primarily the result of the accelerated growth in total assets (which in turn was affected by the increase in the CPI and changes in exchange rates; for further details see the section on the balance sheet), while other operating costs grew at a slower pace (Figure 9).

Figure 1.7
Operating Efficiency Ratio*, Total Banking System
2018–June 2022



*The ratio of total operating and other expenses to total net interest and noninterest income (cost to income).
SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

Total operating and other expenses grew by a moderate rate of about 1.2 percent as compared to the parallel period in 2021, although they shrank by about 1 percent relative to the total expenses for the whole year of 2021 (Figure 9). Note that the year 2021 was characterized by good business results for the banking system. This encouraged the banks to increase their salary expenses during the course of the year, in the form of grants and bonuses paid to workers (an increase of about 14.5 percent relative to 2020). In addition, the banks increased their marketing and advertising expenditure during the second half of 2021, such that 2021 showed an increase of about 8 percent in operating expenses, in contrast to a reduction in this expense line during the previous two years. Following this increase in operating expenses in 2021, the first half of 2022 was characterized by somewhat more moderate expenses in most of the expense lines as compared to 2021. However, as mentioned, they remained at a level similar to that recorded during the first half of 2021.

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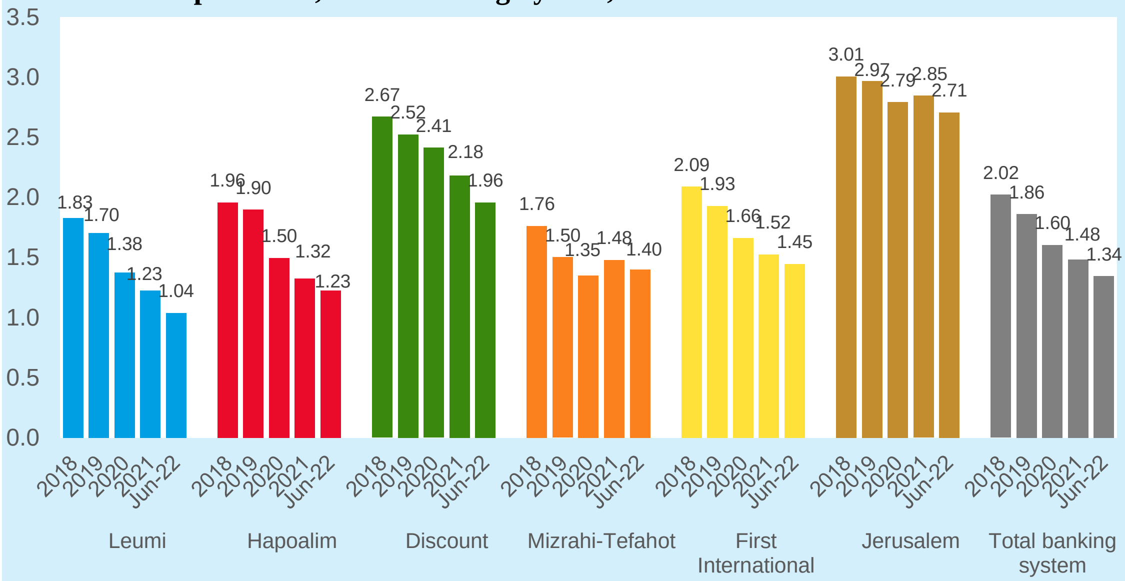
[12] The ratio of operational and other expenses to the average quantity of assets.

Figure 1.8
Unit Output Cost*, Total Banking System, 2019–June 2022



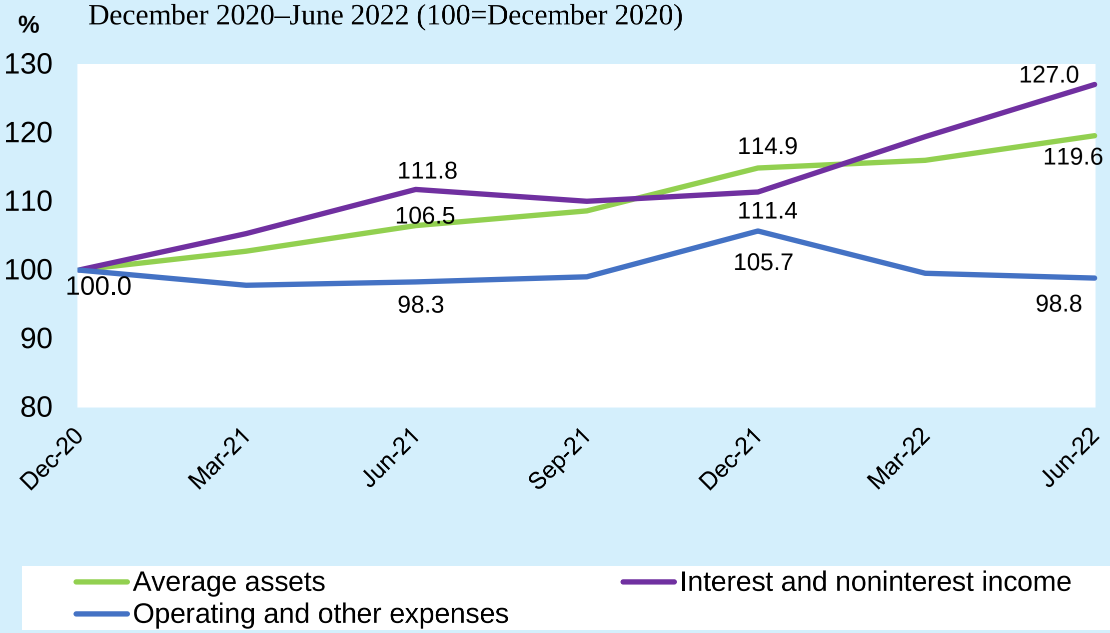
*The ratio of total operating and other expenses to average assets (average cost).
SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

Salaries and related expenses did not show any significant change during the first half of 2022 (an increase of 0.2 percent relative to the same period in 2021 and a decline of 0.5 percent relative to 2021 in annual terms). Although there was an increase in this item in some of the banks due to, among other things, an increase in the bonuses of workers based on good business results during this period (similar to the trend in 2021), this increase was almost entirely offset by the reduction in expenses of this type in the Leumi group, due to the effect of the interest rate increase on actuarial liabilities during the first half of 2022.

The expenses for maintenance and deprecation of buildings and equipment declined somewhat during the first half of 2022 (by 1.2 percent relative to the same period in 2021 and by 2.1 percent relative to 2021 as a whole in annual terms). Nonetheless, this trend varied among the banks, with declines in this item in some of the banks (due to, among other things, processes to improve efficiency which led to a reduction in the banks' total real estate) while in others there was somewhat of an increase, due to, among other things, an increase in depreciation of software.

Other expenses grew by 5.3 percent relative to the same period in 2021, but declined by 1.4 percent relative to 2021 as a whole. The reason is the increase in marketing and advertising expenses during the first half of the year relative to the same period in 2021; nonetheless, the expenses were less than during the second half of 2021, as mentioned.

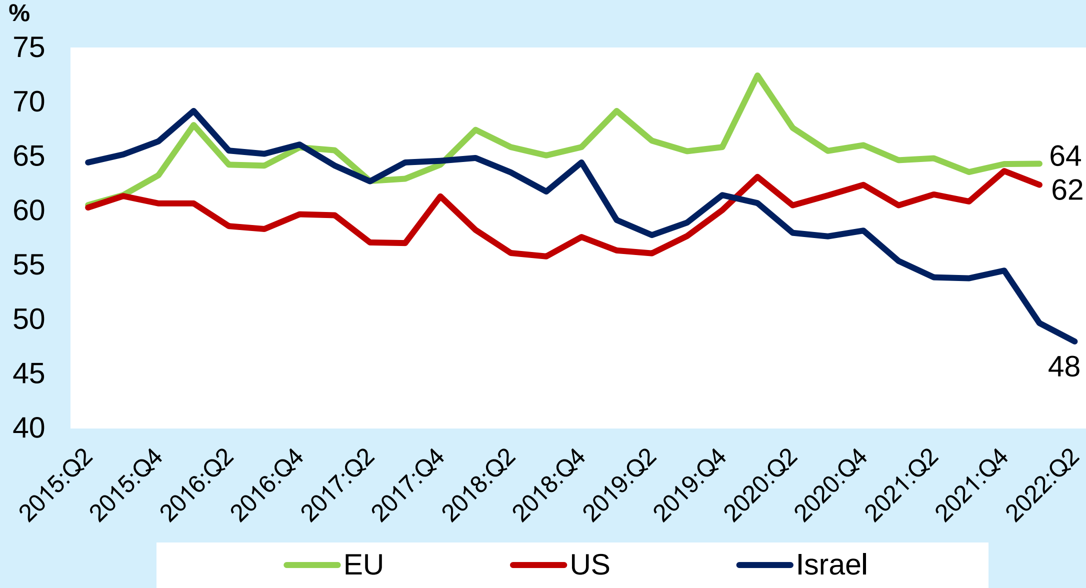
Figure 1.9
Development of Efficiency Ratio Components, Total Banking System
December 2020–June 2022 (100=December 2020)



SOURCE: Based on published financial statements.

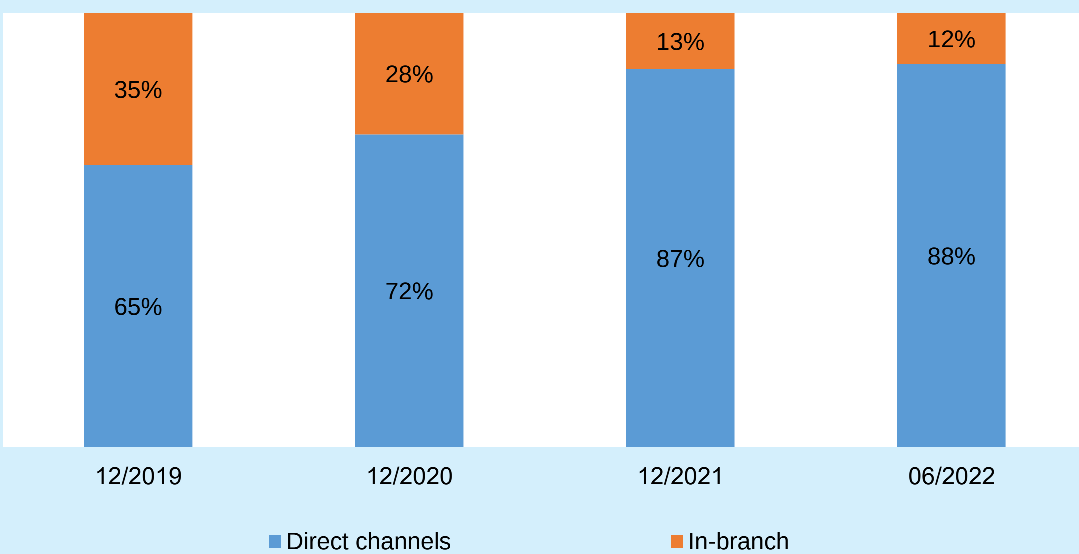
The efficiency indices for the Israeli banking system have improved relative to other countries. Thus, while the operating efficiency ratio has consistently improved in Israel in recent years, there has been some deterioration in the reference countries, and since 2020 the Israeli banking system has been characterized by an efficiency ratio that is lower than those in the US and EU (Figure 10). The rapid improvement in the efficiency ratio of the Israeli banks is the result of efficiency measures they adopted over the years, but it is also worth mentioning that the increase in the CPI during the period being surveyed had a significant effect on this trend, in view of the fact that the CPI-indexed structure of assets and liabilities is not characteristic of the reference countries and as a result an increase in the CPI contributes to net interest income, a phenomenon that is on a much larger scale in the case of Israeli banks.

Figure 1.10
Efficiency Ratio in Israel, US, and EU
June 2015–June 2022



SOURCE: EU—ECB; US—FDIC; Israel—Based on reports to the Banking Supervision Department.

Figure 1.11
Distribution of Activities Conducted via Direct Channels Relative to In-Branch Activities, the Five Large Banking Groups
December 2019–June 2022



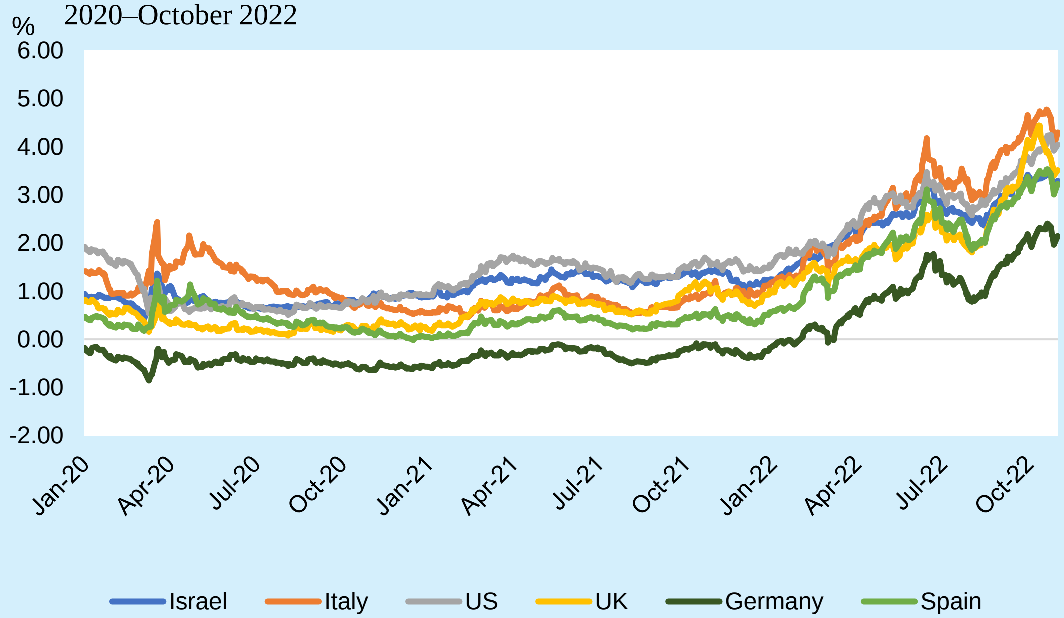
SOURCE: Based on reports to the Banking Supervision Department.

During the period being surveyed, the public continued to consume a growing proportion of the banks' services by way of direct channels, as reflected in the **continuing upward trend in the share of activity carried out by way of direct channels**[13] **during the first half of 2022** (Figure 11). This proportion rose by a percentage point during the period to about 88 percent of total actions carried out by the public, in parallel with an increase of 14.5 percent in number of transactions relative to the same period in 2021. This trend is continuing to contribute to the system's efficiency, in view of the growth in the scope of banking activities without an accompanying increase in manpower.

CAPITAL ADEQUACY AND LEVERAGE

The banking system's Common Equity Tier 1 Capital Ratio declined somewhat during the first half of 2022, to 10.7 percent as compared to 10.9 percent at the end of 2021 (Table 7). This was the result of an increase in risk weighted assets (due to the continuing upward trend in credit; for further details see the section on credit), the distribution of dividends from 2021 profits, and the decline in the value of the portfolio of available-for-sale bonds (due to the sharp increase in yields since the beginning of the year; Figure 12). On the other hand, the banks' high level of profitability during the first half of 2022 (for further details, see the section on business results) and the issue of shares to the public by the banks worked to increase capital in the system and to moderate the drop in the capital ratio.

Figure 1.12
Yield to Maturity on Unindexed, Fixed Rate, 10-Year Government Bonds
2020–October 2022



SOURCE: Based on Tel Aviv Stock Exchange and Bloomberg.

[13] Direct channels include online sites, mobile apps, ATMs and telephone help desks (not including the voicemail of someone in the branch).

The banking system's Common Equity Tier 1 Capital increased by about 10.3 percent in annual terms during the first quarter of 2022 (as compared to a rate of 9.6 percent during 2021) to about NIS 148.9 billion (Table 7). The high profitability of the banking system (net profit of NIS 11.2 billion), the issue of shares to the public by Discount Bank and Bank Leumi (NIS 1.4 billion and NIS 2.7 billion, respectively), alongside a reduction or suspension of the distribution of profits during the first quarter of 2022 by a number of banks (as compared to a significant distribution of profits in the amount of NIS 5.4 billion during 2021)[14] contributed to the increase in capital. On the other hand, the distribution of 2021 profits, which was carried out during the first half of 2022, and the decline in the value of the portfolio of available-for-sale bonds as a result of the increase in bond yields,[15] moderated the growth in capital.[16] In this context, a number of banks reclassified bonds from the portfolio of available-for-sale bonds to the held-to-maturity portfolio in order to reduce the exposure of their capital and capital adequacy ratios to volatility in bond prices.

In parallel, risk weighted assets (RWA) grew by about 12.7 percent during the first two quarters of 2022 (Table 7), which is higher than the growth recorded during 2021 (11.4 percent), and the annual average of 4 percent during 2019–20. The majority of the increase in RWA was due to credit risk assets, as a result of the accelerated increase in the credit portfolio and in particular credit to the large business segment and housing credit (for further details, see the section on credit). This led to an increase in the share of credit exposure to corporations and exposures secured by residential housing (Table 8) and to an increase in the average weight of credit risk (to a level of 52.4 percent in June 2022 as compared to 50.6 percent in December 2021). In addition, the amendment of Proper Conduct of Banking Business Directive no. 203 regarding the risk weight for credit to finance highly leveraged land purchases[17] and the allocation of capital against financial derivative instruments (SA-CCR)[18] is expected to result in further growth in credit risk assets during the year. In order to moderate the increase in risk assets, a number of banks have increased their acquisition of credit insurance and guarantees during the year, since the debts of the insured party receive the risk weight that applies to the insurer, which is smaller than the credit risk.

The total capital ratio eroded slightly during the first half of 2022 to about 13.7 percent, compared to 14 percent in December 2021 (Table 7). This decline is the result of slower growth in the capital base relative to Common Equity Tier 1 Capital (9.6 percent vs 10.3 percent during the first half of 2022). This gap is the result of, among

[14] The banks have renewed their distribution of dividends from second-quarter profits.
[15] In contrast, the increase in bond yields worked to reduce liabilities due to workers' rights, although the effect of the decline in the value of the banking system's portfolio of available-for-sale bonds was larger.
[16] The first-time implementation of accounting rules for expected credit losses (CECL) also worked to reduce Tier 1 Capital; however, the banks were given the option of spreading the effect out over three years from the starting date.
[17] A bank can spread out the effect of the change in the risk weight on the capital adequacy ratio due to its existing inventory of loans as of the starting date, according to a fixed quarterly rate until June 30, 2023.
[18] The implementation of the directive started from July 1, 2022.

other things, the end of the recognition of Additional Tier 1 capital instruments that are eligible to be included in regulatory capital and the slower rate of growth in Tier 2 Capital relative to Common Equity Tier 1 Capital, even though it still grew at a significant rate of 9.3 percent during the first half of 2022 as compared to the average annual rate of 3.6 percent during the period 2019–21. The increase in Tier 2 Capital is mainly the result of bond issues (CoCo's), in the amount of NIS 1.9 billon by the banks since the beginning of the year.

The leverage ratios of all the banks exceed the Banking Supervision Department's minimal requirement.[19] Furthermore, and for the first time since the beginning of the pandemic, there was an improvement in the leverage ratio–to a level of 5.91 percent, compared to 5.83 percent in December 2021 (Table 9). The improvement in the banking system's leverage ratio during the first half of 2022 is the result of the faster growth in Tier 1 Equity Capital (10.3 percent) relative to the increase in total exposures (6.9 percent) and it is significantly lower than the average rate of increase during the past two years (16.7 percent).

BALANCE-SHEET AND OFF-BALANCE-SHEET ACTIVITY

The aggregate balance sheet of the banking system totaled about NIS 2,311 billion at the end of the first half of 2022, an increase of about 8.2 percent (in annual terms; Table 10). This is a moderate increase relative to that during the pandemic (the average rate of increase during 2020–21 was 15.5 percent), although it is higher than the long-term average for the pre-pandemic period (annual rate of increase of about 4.2 percent during the period 2009–19). This growth in the balance sheet was primarily the result of the growth in credit to the public, which increased as a result of both the continuing trend of high transaction levels in credit to the public and high inflation, which increased the total inventory of CPI-indexed assets. Thus, net of the effect of inflation, the growth in the balance sheet was about 7.6 percent. The banks, which normally have a surplus of CPI-indexed assets over CPI-indexed liabilities, increased this position even further, as a result of both inflation itself, which had a larger effect on the asset side due to the original differences in size, and the management decision to increase the position[20] (a trend that is expected to continue, contributing to profitability as long as the increase in the CPI continues; Figure 13). The weakening of the NIS against the dollar during the period being surveyed also affected the growth in the banks' balance sheets to a large extent, such that net of the effect of the depreciation of the NIS, the banks' balance sheets would have grown by 6.4 percent. Neutralizing both effects

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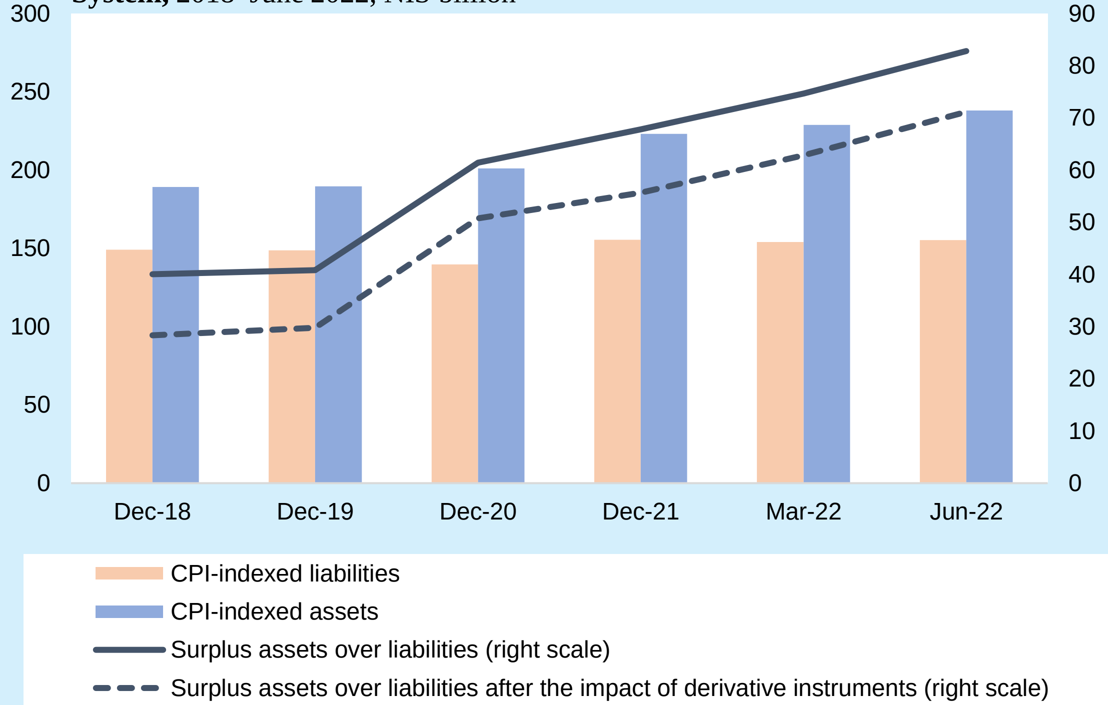
[19] During the pandemic, exemptions were given for the leverage ratio targets (Proper Conduct of Banking Business 2050), whereby a bank could not go below a leverage ratio of 4.5% on a consolidated basis (in contrast to 5 percent previously; Proper Conduct of Banking Business Directive 218) and a bank whose total balance-sheet assets on a consolidated basis constitute 24 percent or more of the banking system's balance-sheet assets could not go below a ratio of 5.5 percent (in contrast to 6 percent previously).
This exemption is in effect until June 30, 2024, such that the leverage ratio will not be less than its rate on December 31, 2023 or the required leverage ratio prior to the temporary directive, whichever is lower.

[20] The management decisions are reflected in both the pricing of gaps between indexed and unindexed assets and the decision not to attempt to reduce the position, which is derived from the demand by borrowers in the market.

(that of the exchange rate and that of inflation) yields an increase of only 5.8 percent in the banks' balance sheet.

Figure 1.13
Surplus CPI-Indexed Assets over CPI-Indexed Liabilities, Total Banking System, 2018–June 2022, NIS billion



SOURCE: Based on published financial statements.

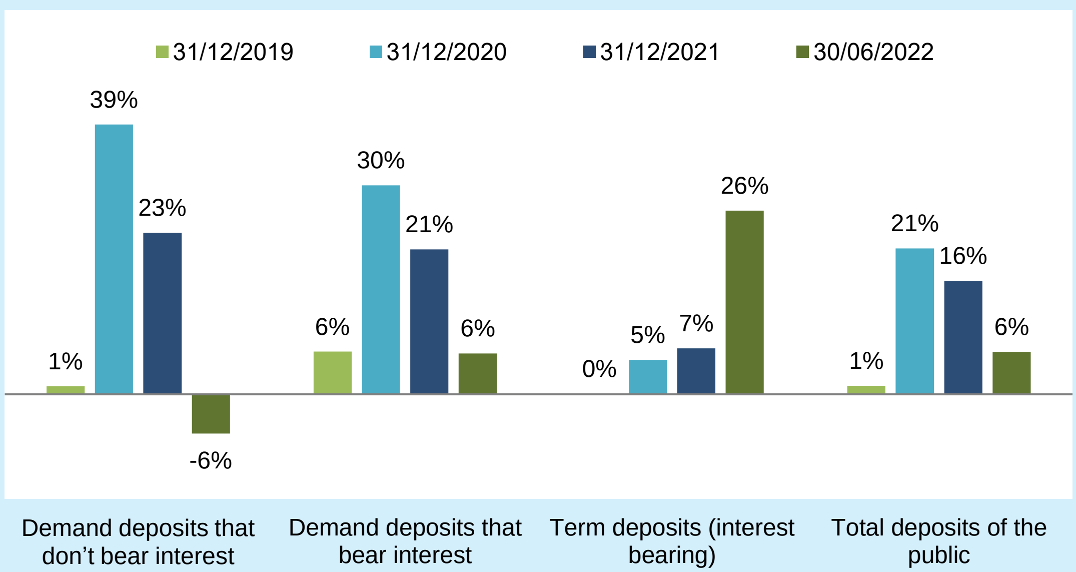
On the assets side, net credit to the public grew during the period being surveyed by about 15.5 percent (in annual terms and by about 13.3 percent net of the effects of the exchange rate and inflation) and it constitutes the main factor in the growth of total assets. In addition, there was an increase of about 16 percent (in annual terms; Table 11) in the banking system's securities portfolio during the first half of 2022, which is explained primarily by the acquisition of Israeli government bonds. At the same time, in contrast, there was a decline in total cash and deposits at the Bank of Israel (and primarily in the reserves at the Bank of Israel) of about 21.1 percent (in annual terms). The decline in cash and deposits at the central bank was the result of a decrease in the money base (for further details, see the section on liquidity) and it moderated the growth of the balance sheet during this period to a significant extent.

The net growth in credit to the public is primarily the result of the increase in housing credit and credit to the large business segment (for further details, see the section on credit). During this period, the total credit loss allowance also increased (by about 12.3 percent). At the beginning of 2022, Israeli banks began adopting the CECL system for the credit loss allowance. According to this system, one of the factors that affects the determination of the allowance is the macroeconomic environment. Therefore, the Israeli banks increased the total allowance during the period being surveyed, due both to the transition to CECL per se and the deterioration in the macroeconomic environment (for further details, see the section on credit).

The banking system's total capital also grew during the period being surveyed, by a rate of 14.2 percent. The accumulation of capital is the result of high profitability among all of the banks in the system, which was offset to some extent by the distribution of dividends in respect of 2021 profits (primarily during the second quarter of the year; see the section on capital adequacy).

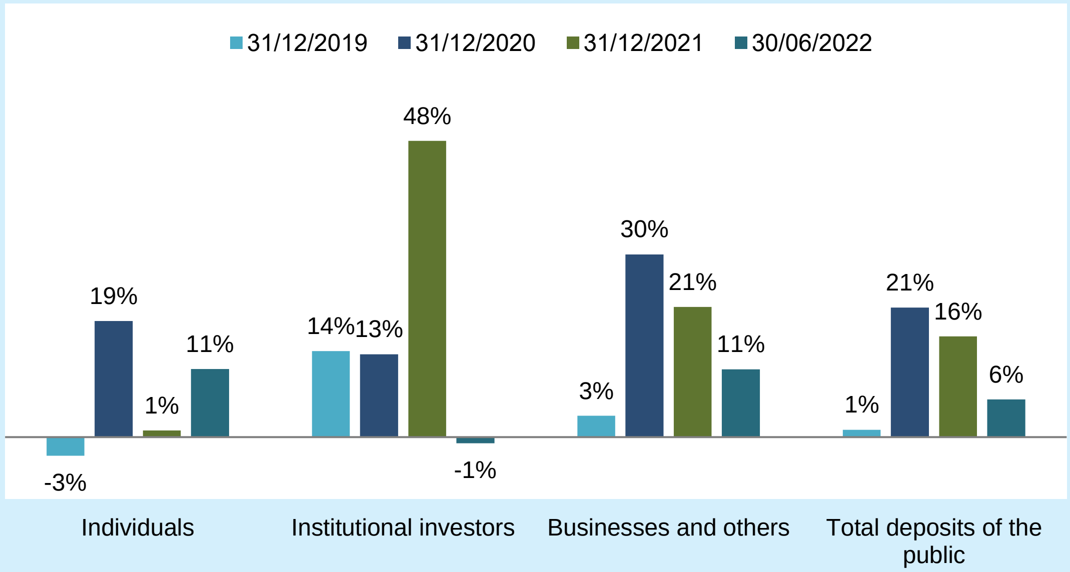
On the liabilities side, the public's deposits during the period being surveyed grew by about 6 percent. An analysis of the trends in the various type of deposits (Figure 14) shows that the main growth in the public's deposits is a result of the increase in interest-bearing deposits (which constitute about 63 percent of the public's total deposits), in the case of both on-demand deposits and fixed-time deposits. This can be attributed to the increase in the interest rates on these deposits (for further details, see Box 1 in this survey). In addition, the analysis of the trends according to the type of depositor (Figure 15) shows that the growth occurred in the deposits of both individuals and businesses (each of which account for about 40 percent of the public's total deposits). Also on the liabilities side, there was an increase of about 13.4 percent in the banking system's total holdings of bonds, despite the redemptions that occurred during the period being surveyed. This is due to the fact that during this period Israeli banks issued bonds worth a total of NIS 15,417 million.

Figure 1.14
Rate of Change in the Public's Deposits, by Deposit Type, Total Banking System
December 2019–June 2022 (percent, annual terms)



SOURCE: Based on published financial statements.

Figure 1.15
Rate of change in the public's deposits, by depositor type, total banking system
December 2019–June 2022 (percent, annual terms)



SOURCE: Based on published financial statements.

The assets and liabilities due to activity in derivative instruments also grew significantly during the period being surveyed as a result of the increase in activity in, among other things, interest rate derivatives. This is attributed to the interest rate environment in the various markets with the initiation of interest rate hikes by central banks worldwide. The increase in liabilities due to derivative instruments explains about 24 percent of the total increase in the banks' liabilities. Nonetheless, the increase in the assets line due to activity in derivative instruments during this period was larger than that in the liabilities line, such that the net balance-sheet exposure due to derivative instruments grew during this period, which is attributable to the high volatility in the markets.

Off-balance-sheet items: Total off-balance-sheet exposure at the end of the first half of 2022 was NIS 665 billion (a rate of increase of about 6 percent in annual terms) which constitutes 32 percent of total credit risk in the system. The total guarantees to homebuyers grew during the first half of 2022 by a rate of about 39 percent (in annual terms) and was about NIS 116 billion. This is explained by the expansion in activity in housing and in the construction and real estate industry in recent years. This rate of increase is somewhat more moderate than that in 2021 (42 percent) but it is significantly higher than the pre-pandemic average (an average annual increase of 0.5 percent during the period 2018–20). On this side, guarantees and other liabilities also grew (by about 22 percent in annual terms) due to, among other things, the high level of activity in the construction and real estate industry. In contrast, the irrevocable commitments to provide credit that was approved but not yet disbursed declined, where the main part of the decline originated in the total binding frameworks, primarily in the Hapoalim group[21] (a decline of 13 percent; Table 12).

Box 1: Transmission of a central bank interest rate increase to the interest rate on the public's deposits

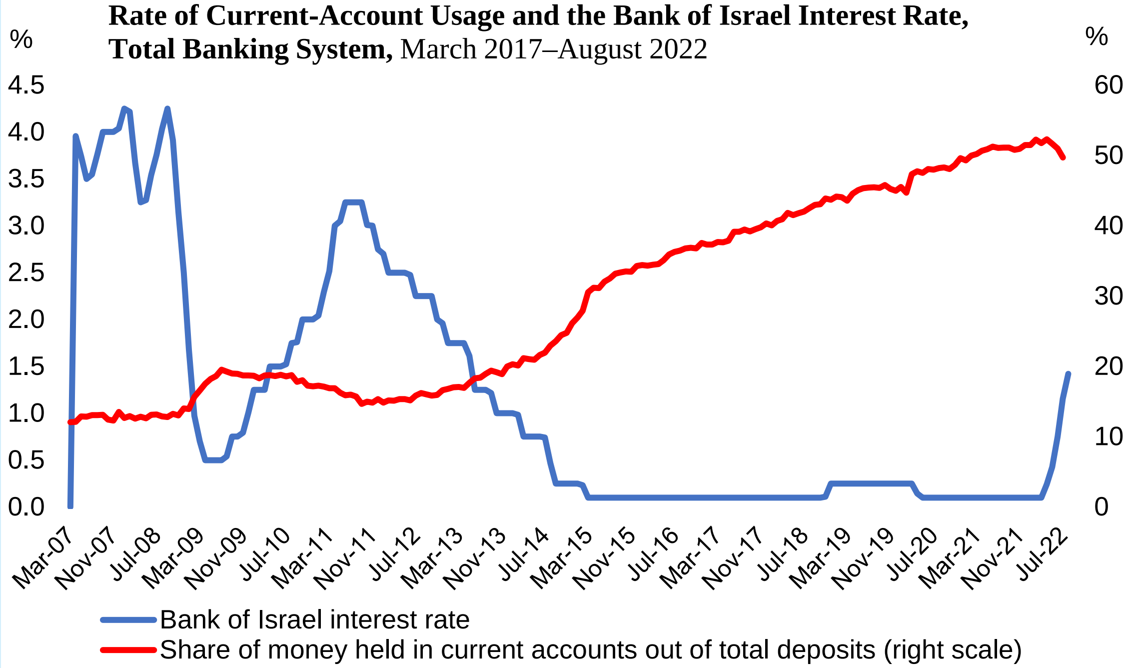
As part of the exit process from the COVID-19 crisis and in response to the acceleration in the inflation rate, central banks worldwide, including the Bank of Israel, began a process of raising interest rates and adopting a contractionary monetary policy. Thus, after a decade of near-zero interest rates, the economies worldwide had to adjust to a rising interest rate environment. According to the economic literature of the 1980s and 1990s, both in Israel and worldwide, in periods of rising interest rates the transmission of the central bank interest rate to the interest rate on fixed-term deposits (interest-bearing) occurs faster and with more intensity relative to the interest rate on credit, which is in contrast to what occurs in periods of falling interest rates (Goldberg, 1982; Arak et al., 1983; Geva and Ruthenberg, 1989; Elias, 1992). This phenomenon is the result of the high level of competition for deposits. Thus, the capital market was not as developed during that period as it is today and in particular the public saved by way of deposits, which the banks relied on for their sources. Note that Israel's banking system during that period operated with low liquidity surpluses and banks borrowed funds from the Bank of Israel by means of monetary loans, such that they were in need of the public's sources (fixed-term deposits) and therefore were affected by changes in their prices and quantities. With the rise in interest rates in recent months, we are observing a slower and less intense transmission relative to past periods of rising interest rates. Thus, a gap has emerged between the central bank interest rate and the interest rates on deposits. This phenomenon is not unique to Israel and is also characteristic of other advanced economies in which the central bank interest rate is rising. This is the result of the near-zero interest rate environment that prevailed globally during the past decade and its effect on the banks' balance sheets. The monetary and fiscal expansion during the COVID-19 crisis, which created large liquidity surpluses among the banks (for further details, see Box 1.4 of Israel's Banking System, Annual Survey 2020), only amplified this phenomenon.

The near-zero interest rate environment led to a decline in the worthwhileness of interest-bearing fixed-term deposits, since the interest paid on deposits did not compensate depositors for the loss of liquidity as a result of depositing their money in a fixed-term deposit. Accordingly, during the period of low interest rates, the share of demand deposits (current accounts and current loan accounts) within the public's total deposits increased significantly (Figure 1). Therefore, the banks increased the sophistication of the manner in which they manage their assets and liabilities and thus improved their ability to provide long-term credit based on short-term sources. This led to a decline in the banks' demand

[21] For example, in the Hapoalim Group it was decided for the first time to use "a non-binding credit ceiling" that in theory makes it possible not to have to allocate capital against it (according to Section 83 of Proper Conduct of Banking Business Directive no. 203).

for fixed-term deposits for the purpose of financing their activity. In addition, the monetary and fiscal expansion during the coronavirus crisis increased the liquidity of the banks to a large extent. This can be attributed to the increased supply of deposits from the public, which also led to a decline in the credit-to-deposit ratio, which is low even from a historical perspective (Figure 2).

Figure 1
Rate of Current-Account Usage and the Bank of Israel Interest Rate, Total Banking System, March 2017–August 2022

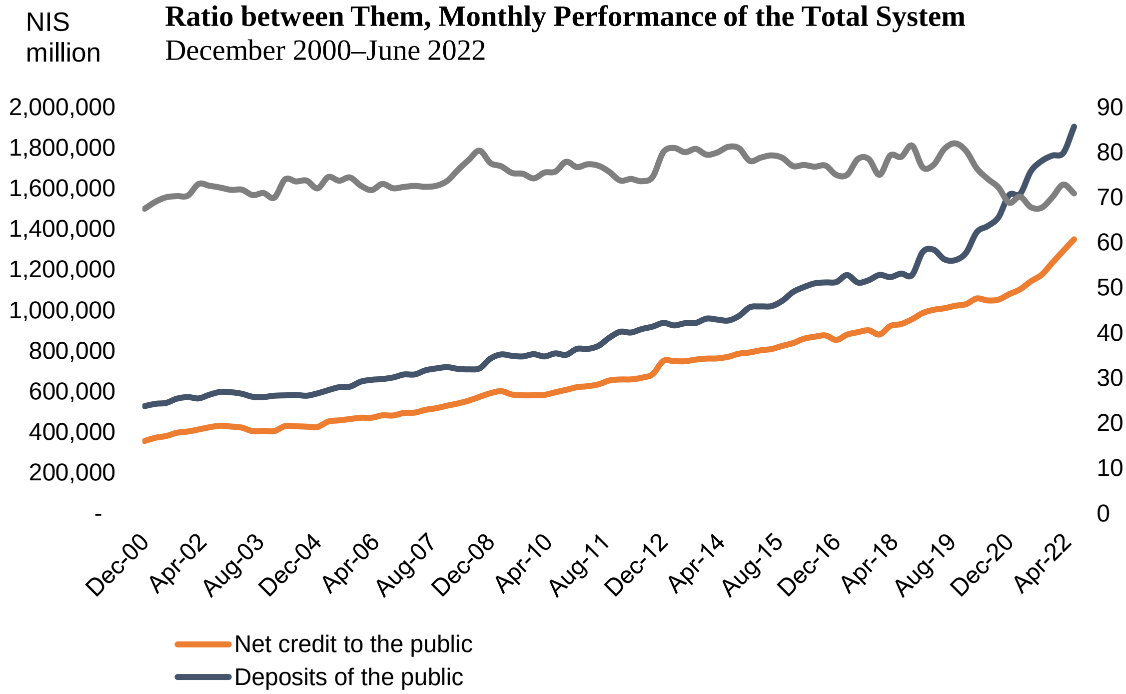


SOURCE: Based on reports to the Banking Supervision Department.

The pricing of the public's deposits is dependent on the demand of the banks for deposits and reflects their liquidity needs, as well as being dependent on the supply of the public's deposits, which is affected by macroeconomic developments. All these led to the current situation in which there is only weak transmission from the central bank interest rate to the interest rate on the public's deposits. This trend is now even more the case in view of the uncertainty in the capital markets, which is reducing a range of investment alternatives—alternatives with which the public is not very familiar in any case.

In Israel, the transmission to the average interest rate paid on the deposits of households is about 60 percent, such that as of August 2022 it stood at about 0.96 percent (at a time when the average Bank of Israel interest rate during that month was about 1.42 percent). With respect to the deposits of businesses and financial institutions, it appears that there is stronger transmission to the interest rate paid on their deposits. This is apparently because this customer segment is more sophisticated and has greater bargaining power since their deposits are on a larger scale (particularly relative to a household's deposit).

Figure 2
Development of Net Credit to the Public vs. Deposits of the Public, and the Ratio between Them, Monthly Performance of the Total System
December 2000–June 2022



SOURCE: Based on reports to the Banking Supervision Department.

This phenomenon is not unique to Israel and has been a topic of discussion in other economies as well. In some of the advanced economies[22] where the central bank interest rate is rising, the transmission is weaker than in Israel. For example, in the US the transmission of the central bank interest rate to deposits ranges from 5–18 percent only, depending on the type and size of the deposit.[23] In Australia, it is about 40 percent.[24] At the same time, it can be seen that in the UK there is stronger transmission to the interest rates on deposits of households than in Israel (Figure 3).[25]

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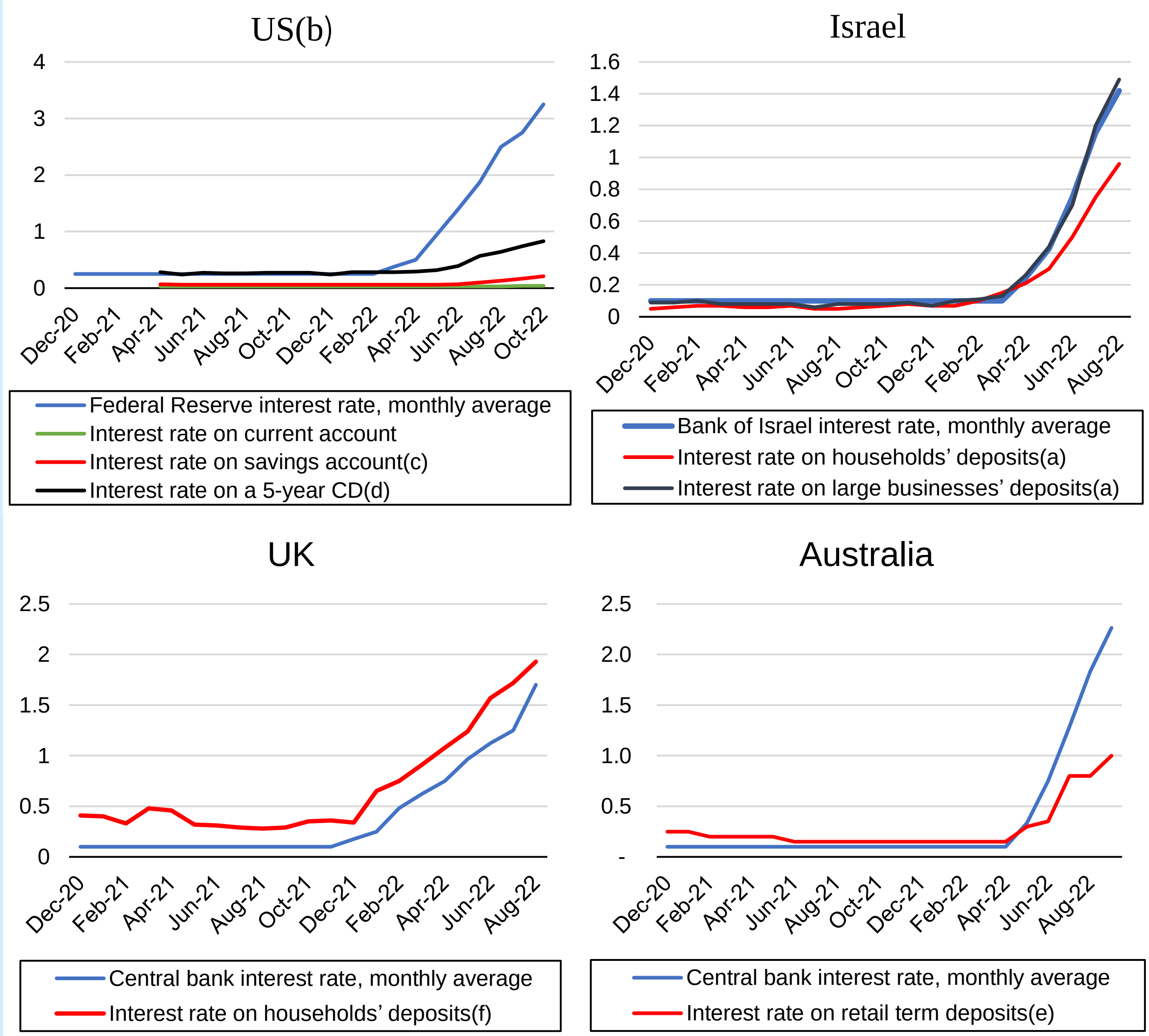
[22] It is not yet possible to identify a trend in the EU data on the interest rates on the public's deposits following the rise in the interest rate in the EU.

[23] There are three main types of deposits in the US: the balance in a checking account, a savings account (which allows limited withdrawal during the period of the deposit) and a certificate of deposit (CD) which is a non-liquid deposit. The rate of transmission differs in each type of deposit: for balances in a checking account the transmission is negligible; for a savings account, it is about 5 percent; and for 5-year CDs it is about 18 percent. The data are for all segments of activity combined.

[24] Fixed-term retail deposits up to $10,000 at the five largest banks in Australia.

[25] Fixed-term deposits of households, without the possibility of early withdrawal, are also offered by financial bodies and mortgage providers who do not rely on checking deposit products.

Figure 3
Central Bank Interest Rate vs. the Interest Rate on the Public's Deposits, Israel and Comparison Countries, 2021–22



For each country, the most up to date data for 2022 is presented.
Israel:
(a) Term deposits, unindexed sector.
US
(b) US interest rate include all activity segments
(c) An account in which the option to withdraw the deposit is limited for the deposit term.
(d) CD: Certificate of Deposit; a deposit without the option to withdraw the deposit
Australia
(e) Retail term deposits, up to AUD 10,000, at the 5 largest banks in Australia.
UK
(f) Household term deposits, without an option for early withdrawal, including financial entities that grant mortgages, that don't depend on current account products.
SOURCE: Israel—Bank of Israel and reports to Banking Supervision Department; US—Federal Reserve; Australia—Reserve Bank of Australia; UK—Bank of England.

We emphasize that informed financial conduct by households can increase their bargaining power and thus improve the interest rate on their deposits. To this end, it is important that households evaluate the various types of deposits and the degree to which they suit their needs, as well as how to shop around among the various banks (as of today, most of the banks in Israel accept deposits from any bank customer, not just their own). In September of this year, the Supervisor of Banks distributed a letter to the bank CEOs which expressed his expectation that the banks would modify their investment products according

to the changing interest rate environment, so as to meet the needs of their customers.[26] Among other things, the Supervisor of Banks wrote that: "As part of the various reforms initiated recently by the Bank of Israel with the goal of increasing transparency and increasing the power of the customer…it is the intention of the Banking Supervision Department to publish the interest rates paid by each of the banks for NIS deposits…This is in order to provide customers with a simple tool that will help them to easily compare the terms offered by the various banks and to choose the product that is most suitable for them." This comparison tool is available to the public on the Bank of Israel website and can help the public increase its bargaining power in their negotiations over deposit terms with the bank.[27]

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Goldberg, Michael (1982). "The Pricing of the Prime Rate", Journal of Banking and Finance, 1982.

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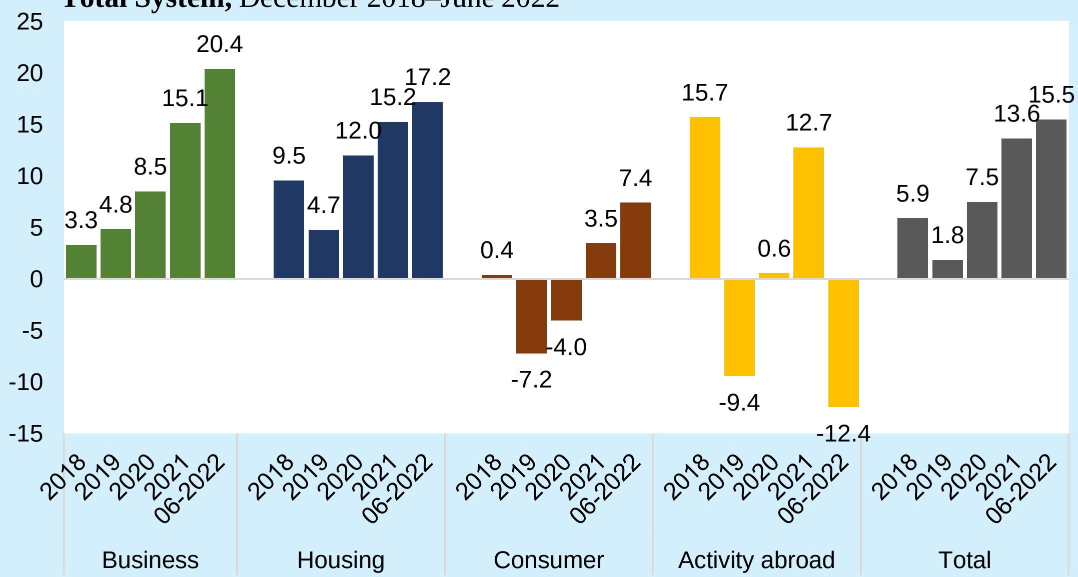
[26] For further details, see the letter from the Supervisor of Banks to the CEOs of the banks on "Fairness to consumers in a changing financial environment," dated September 7, 2022.
https://www.boi.org.il/he/NewsAndPublications/PressReleases/Pages/07-09-22.aspx [Hebrew]

[27] https://www.boi.org.il/he/BankingSupervision/Data/Pages/compareint.aspx [Hebrew]

THE CREDIT PORTFOLIO AND CREDIT RISK

The accelerated growth in credit that began in 2021 continued during the first half of 2022 and even strengthened. Thus, the credit portfolio grew by about 15.5 percent during the first half of the year[28] compared to about 13.6 percent in 2021 and an average of 3.75 percent during the pre-pandemic period of 2016–19 (Figure 16). Business credit and housing credit continued to lead growth in the credit portfolio and constituted about 95 percent of the increase in total credit (which is higher than their share of total credit). Furthermore, consumer credit also grew at the rapid rate of 7.4 percent compared to about 3.5 percent in 2021, following a contraction in credit during the period 2019–20. **In most cases, accelerated growth in credit tends to be accompanied by an increase in risk indices. However, even though there was an increase in the risk indices for housing credit, so far there is no indication of a material change in the quality of the overall credit portfolio.** During the second half of 2022 (and in particular during the second quarter, starting from April 2022), the Bank of Israel began raising the interest rate at an accelerating rate. Thus, following years of near-zero interest rates, the Bank of Israel raised the rate to 2.75 percent in October 2022, and the Research Department’s forecast includes additional interest rate hikes. As a result, during the period being surveyed and particularly in the second quarter, the interest rate in all of the supervised activity segments began to rise (Figure 17). The largest interest rate increases were observed in consumer credit and credit to large businesses, which increased by 0.56 percentage points and 0.55 percentage

Figure 1.16
The Rate of Change in Balance Sheet Credit in Main Industries,
Total System, December 2018–June 2022

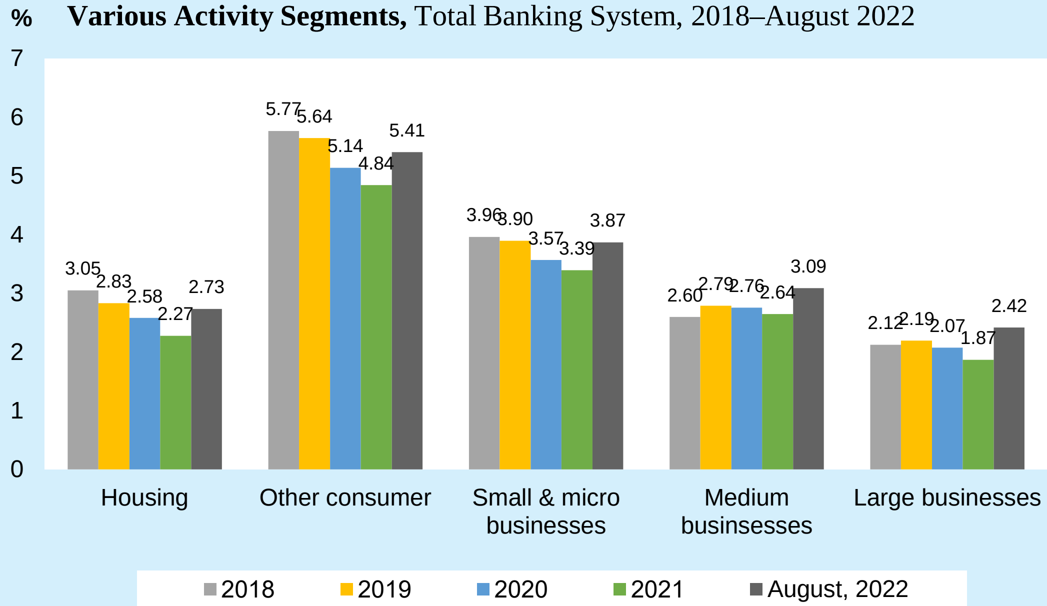


SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

[28] In annual terms.

points, respectively.[29] This followed many years during which these interest rates declined. As long as the CPI remains at its high level and causes interest rates to continue to rise, this is expected to have an impact on the rate of growth in credit, its quality and the ability of borrowers to service their debt.

Figure 1.17
Average Interest Rate on Unindexed Credit Granted to the Public in the Various Activity Segments, Total Banking System, 2018–August 2022



*Households include private banking.
SOURCE: Based on published financial statements.

Households

Consumer credit

During the first half of 2022, the growth in consumer credit accelerated (7.4 percent in annual terms); however, its share in total credit declined somewhat (from 10.8 percent to 10.3 percent) as a result of the faster growth in business credit and housing credit. Approximately 90 percent of the increase in consumer credit was the result of the increase in consumer loans not secured by a pledged vehicle. A small proportion of the increase reflects an increase in the usage of checking account credit lines of households to pre-pandemic levels. This growth in consumer credit is occurring after a number of years of contraction (during which the large banks preferred to focus on providing housing credit and business credit rather than consumer credit). Consumer credit reached a low during 2020, due to the impact of the pandemic and its effect on the demand for this type of credit (for further details, see Israel's Banking System, Annual Survey 2020).

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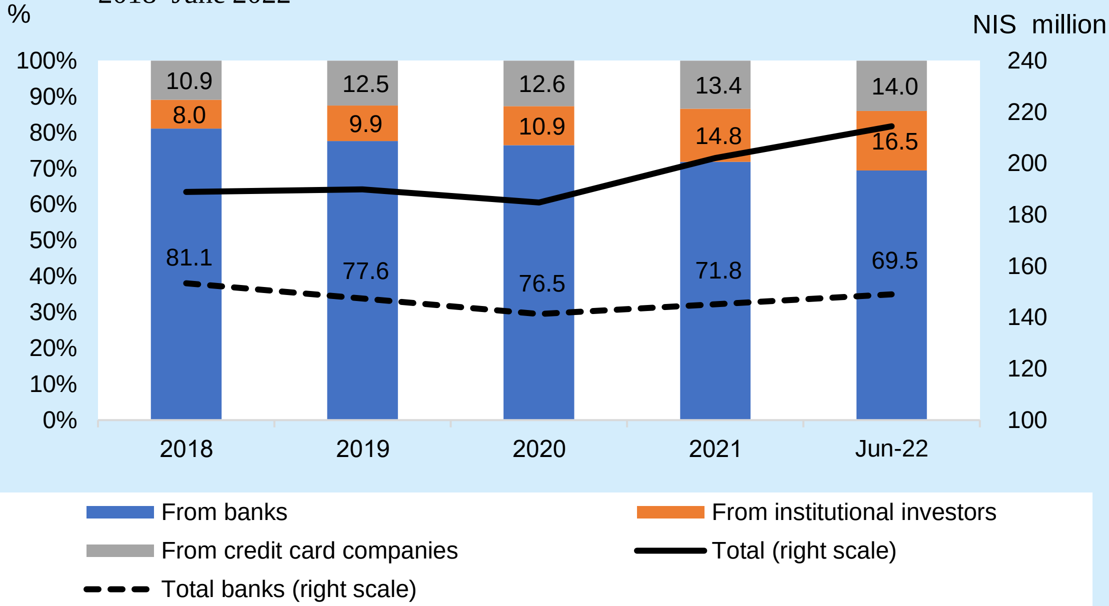
[29] It is important to mention that some of the reported numbers do not include the effect of the latest interest rate hikes.

Figure 1.18
Distribution of the Balance of Households' Nonhousing Debt, by Sources,
2018–June 2022



SOURCE: Based on reports to the Banking Supervision Department.

The banks are not the only source of consumer credit and currently the public also obtains consumer loans from institutional investors and credit card companies[30] (Figure 18). The competition over this type of credit has been intensifying in recent years. Total consumer credit (both bank and nonbank) rose by 14 percent between June 2018 and June 2022. This is reflected in the high rate of increase in credit from the institutional investors and the decline in the share of the banks in consumer credit, despite the large increase in consumer credit provided by the banks this year. In this context, the share of consumer credit provided by the financial institutions more than doubled—from 8 percent at the end of 2018 to 16.5 percent in June 2022.

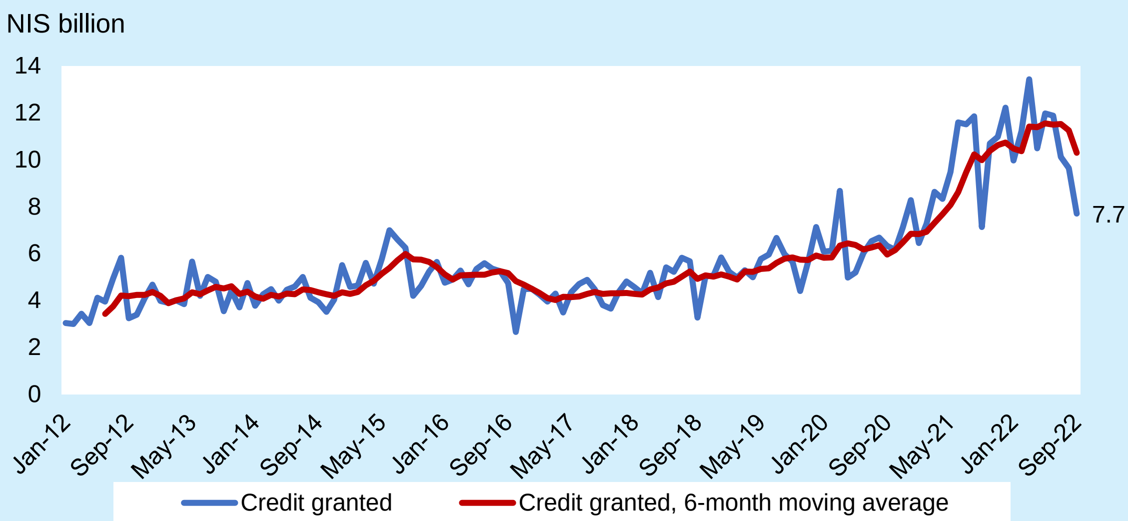
Housing credit

During the first nine months of 2022, housing credit was provided in the amount of NIS 96.4 billion and there were about 90,000 transactions up to the month of August, an increase of 17.3 percent and 6.5 percent, respectively, as compared to the same period in 2021 (Figure 19). Nonetheless, the rate of increase in monthly mortgage transactions slowed during the second quarter of 2022 and has been on a consistent downward trend since May (when the value of mortgage transactions was about NIS 12 billion), reaching NIS 7.7 billion in September. The decline in the value of monthly mortgage transactions was accompanied by an even larger drop in the number of new loans, primarily starting from the second quarter of 2022. These trends were led by, among others,

[30] There are additional consumer loans provided by other nonbank credit companies, but only on a small scale.

investors, whose mortgage transactions fell by 41.8 percent between December 2021 and August 2022 and whose number of loans received fell by 50.5 percent.

Figure 1.19
Monthly Volume of Residential Credit, 2012–September 2022



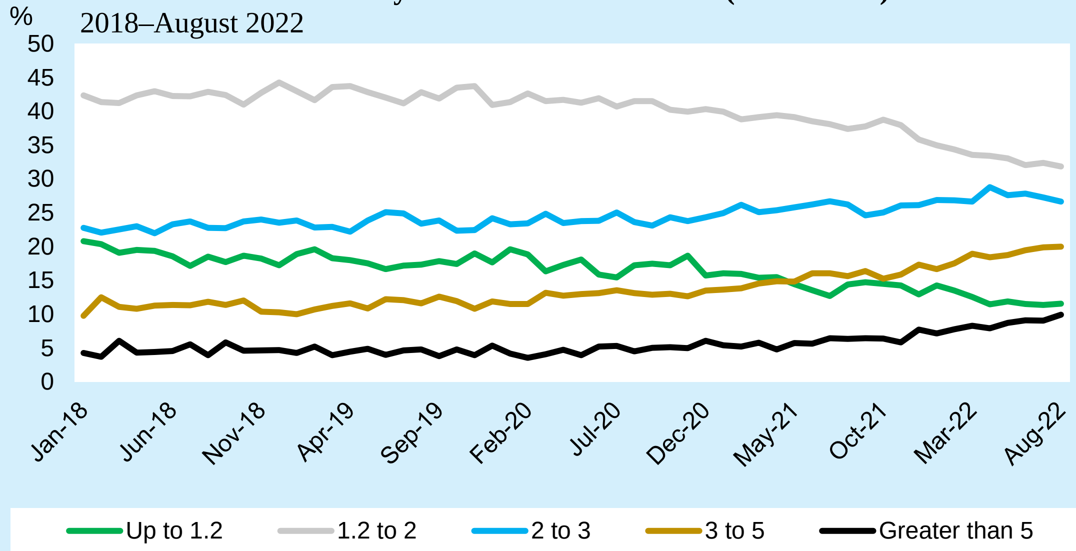
SOURCE: Based on reports to the Banking Supervision Department.

It may be that the halt in the growth of credit at the start of the second quarter is the result of a slowdown in the residential housing market, as indicated in a survey published by the Chief Economist at the Ministry of Finance. According to the survey, there was a total of 9,400 transactions during July 2022, a drop of 28 percent relative to July 2021. Investors purchased 1,800 homes, a sharp decline of 37 percent relative to July 2021.[31] We believe that this slowdown in the real estate market will continue and will be manifested in a downward trend in housing credit in coming months.

The value of transactions during the period being surveyed consisted of more expensive homes (Figure 20) and part of this change is a result of the continuing upward trend in home prices. Thus, the index of owner-occupied housing prices for July 2022, which is published by the Central Bureau of Statistics, shows a sharp rise in home prices (9.4 percent since the beginning of the year and 17.9 percent relative to the corresponding period in 2021). It is worth mentioning that housing prices are at a high level, even from a historical perspective (Figure 21). Furthermore, these increases are also reflected in the estimated average mortgage size, which rose by about 7 percent to nearly a million shekels.

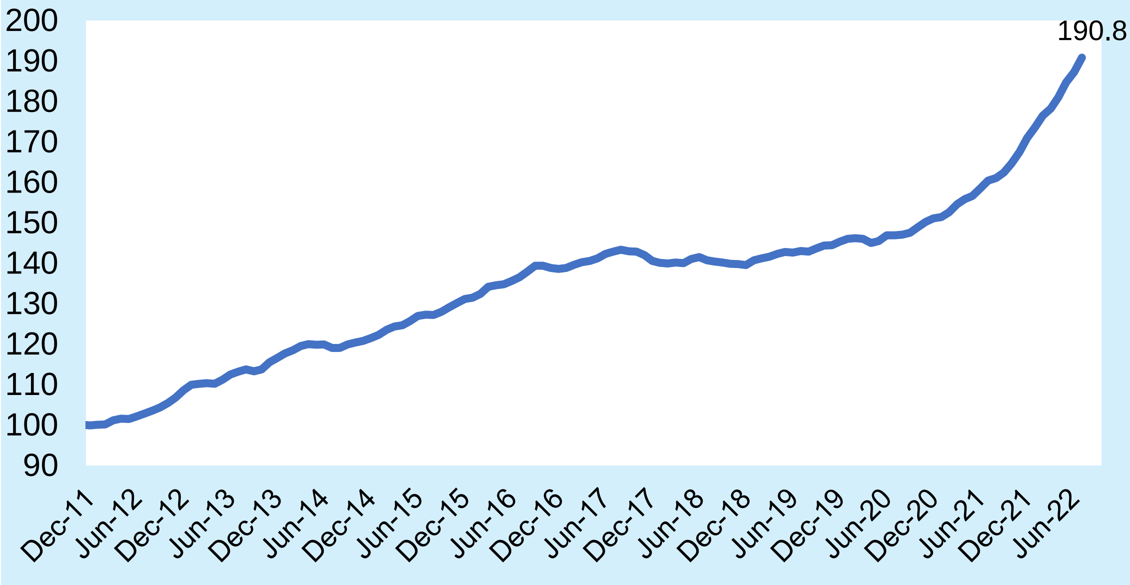
[31] Review of the Residential Real Estate Market, Chief Economist Branch in the Ministry of Finance, July 2022. [Hebrew]

Figure 1.20
Distribution of Volume by Value of Financed Asset (NIS million)
2018–August 2022



SOURCE: Based on reports to the Banking Supervision Department.

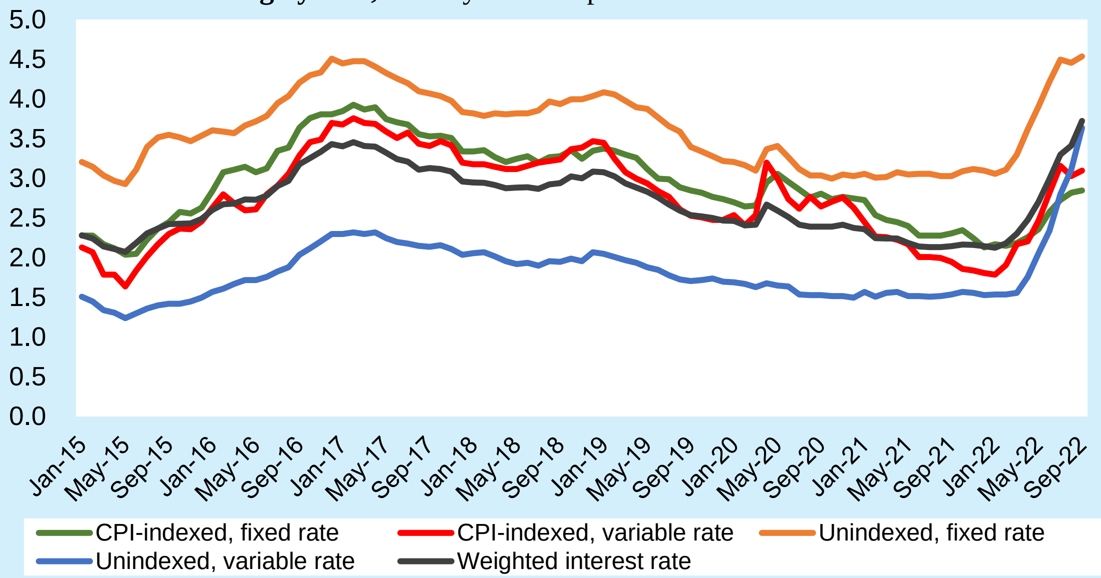
Figure 1.21
Home Prices Index (100=January 2012), January 2012–July 2022



SOURCE: Central Bureau of Statistics.

The weighted interest rate on new housing loans has risen significantly since the beginning of the year, and in particular starting from the second quarter of 2022, when the Bank of Israel began to raise the interest rate. The weighted interest rate as of September 2022 was 3.73 percent, an increase of about 1.6 percentage points from the beginning of the year (and an increase of 1.4 percentage points[32] since April). Furthermore, the increase was recorded in all of the interest rate and indexation tracks (Figure 22). The largest increase in rates since the beginning of the year was for the unindexed interest rate: the variable unindexed interest rate rose by 2.1 percentage points to 3.6 percent, and the fixed unindexed interest rate rose by 1.4 percentage points to 4.5 percent, as of September 2022, following the increase in inflation.

Figure 1.22
Interest Rate on Residential Loans, by Interest Rate and Indexation Track
Total Banking System, January 2015–September 2022



SOURCE: Based on reports to the Banking Supervision Department.

The significant increase in the unindexed, fixed rate interest rate track led to a decline in its share within new housing loans. The weight of the prime interest rate track within total transactions continued to rise, reaching 39 percent in September (Figure 23), despite the forecasts of a continuing upward trend in the Bank of Israel interest rate during the coming year. Furthermore, there was an increase in the weight of indexed fixed interest mortgages from 9.1 percent at the end of 2021 to 12.2 percent in September. This shift in the loan mix toward tracks with low initial interest payments (namely, the prime and fixed-rate indexed tracks, relative to the unindexed fixed-rate interest track) is partly the result of borrowers trying to reduce their initial monthly repayments. This is due to the fact that it is one of the main risk measures taken into account both by the customer and by the bank (when calculating the debt-to-income ratio).[33] Nonetheless, the shift to these interest rate tracks

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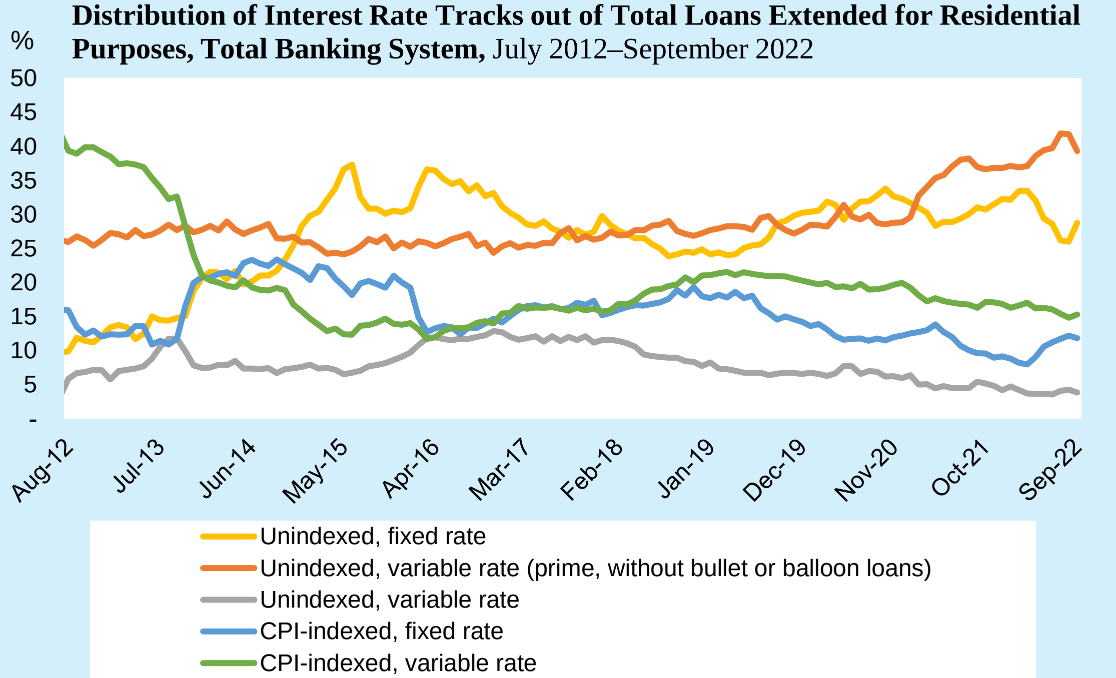
[32] It was in April 2022 that the Bank of Israel began to raise the interest rate, from 0.1 percent at that time to 2.75 percent currently.

[33] There can of course be many other reasons for choosing a particular track, such as the desire to avoid an early redemption fee, a better synchronization with the household's income stream, etc.

(variable and/or indexed rates) may mean that borrowers are not internalizing the full significance of the risk implicit in the interest rate and inflation increases, in view of the fact that changes in these components will likely affect the size of their monthly repayment. It should be noted that despite the increased weight of the prime interest rate track within total mortgage transactions, it is still significantly lower than the maximal permitted proportion (according to which at least one-third of a mortgage will be on the fixed interest rate track, such that de facto the prime interest rate track can at most be two-thirds of a mortgage).[34]

Figure 1.23
Distribution of Interest Rate Tracks out of Total Loans Extended for Residential Purposes, Total Banking System, July 2012–September 2022



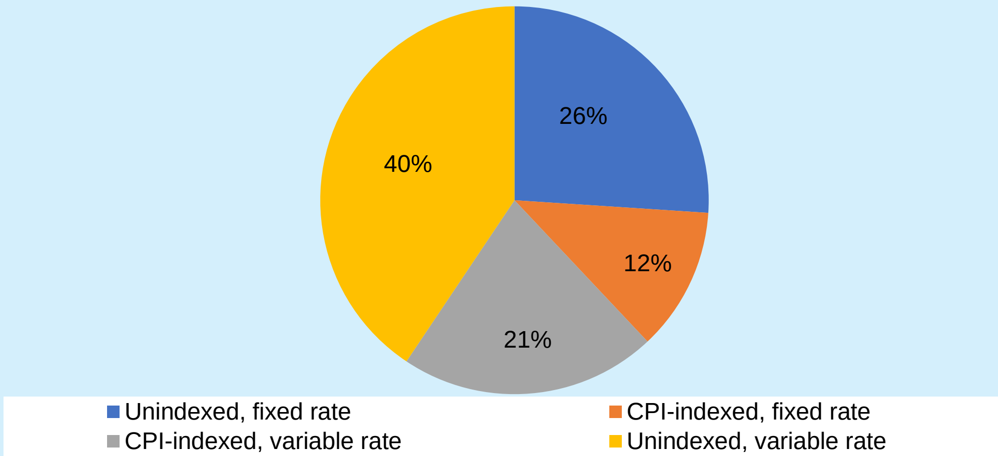
SOURCE: Based on reports to the Banking Supervision

According to the forecast of the Bank of Israel Research Department, the Bank of Israel interest rate is expected to be 3.5 percent on average during the second quarter of 2023[35] while the rate of inflation is expected to be 4.5 percent in 2022 and 2.4 percent in 2023. This is expected to have an effect on most mortgage holders, since about 74 percent of the borrowers' mortgage portfolio is exposed to an increase in the prime interest rate and in the CPI (Figure 24).

[34] For further details, see Proper Conduct of Banking Business Directive no. 329.

[35] The macroeconomic forecast of the Research Department at the Bank of Israel, October 2022. https://www.boi.org.il/en/NewsAndPublications/PressReleases/Pages/03-10-22.aspx

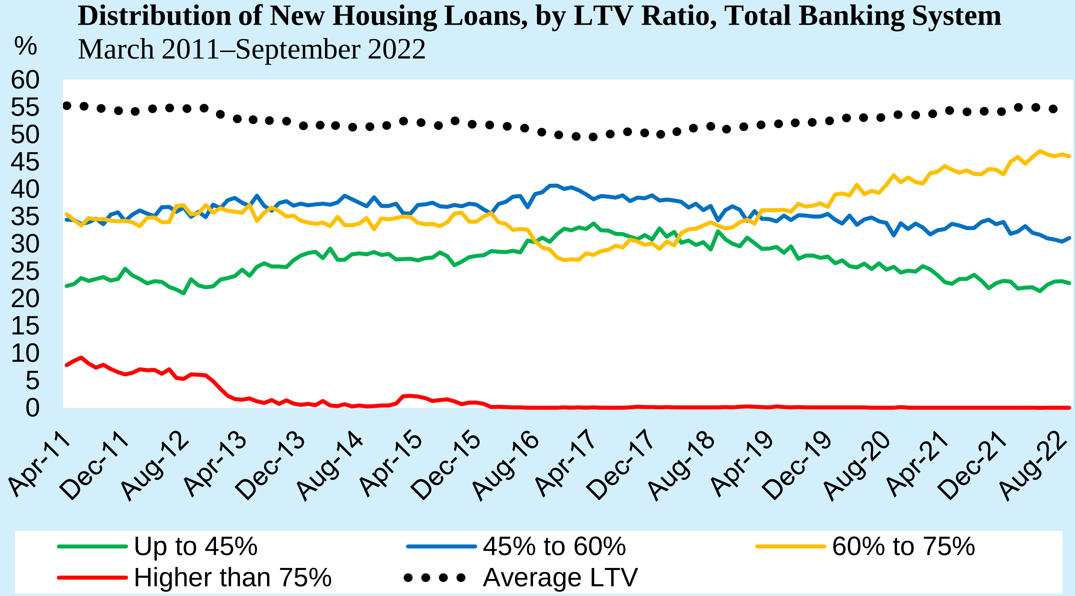
Figure 1.24
Distribution of mortgage balances, by indexation and type, Total Banking System, September 2022



SOURCE: Based on reports to the Banking Supervision Department.

At the same time, there has been an increase in the risk of new loans according to a number of measures. Even though the average loan-to-value (LTV) rate on new housing loans has remained almost unchanged since the beginning of the year (54.6 percent as of September 2022), **the proportion of snew loans with a high LTV ratio (60–75 percent) has grown since the beginning of the year and stood at 46 percent as of September 2022, an increase of about 3 percentage points relative to the same period in 2021** (Figure 25). Nonetheless, we note that in recent months there has been evidence of the beginning of a slight downward trend in the proportion of high-LTV mortgages, on the scale of one-half of a percentage point since May 2022.

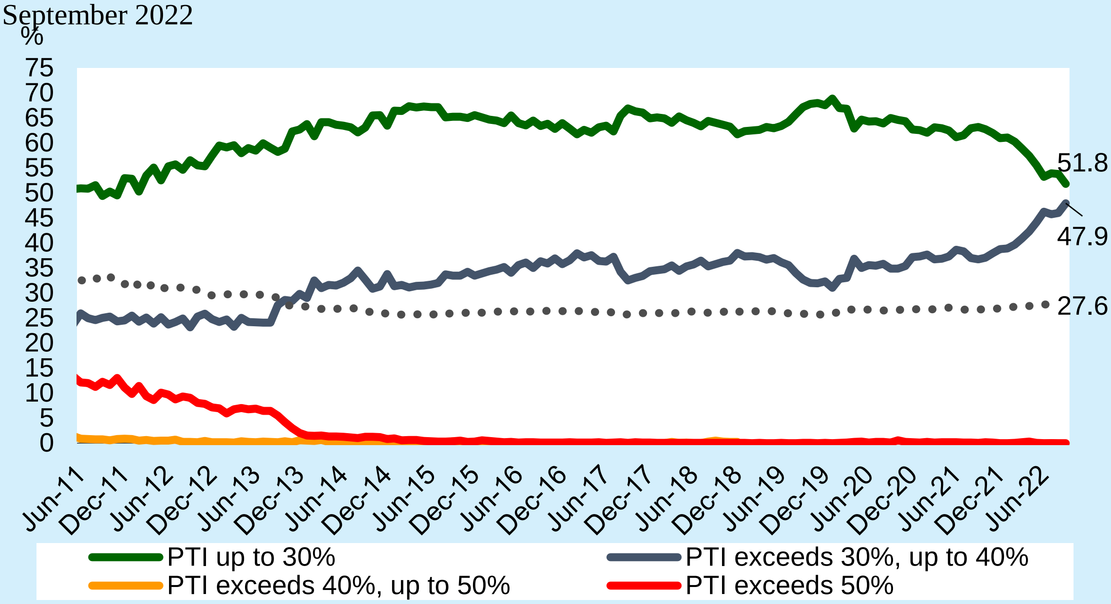
Figure 1.25
Distribution of New Housing Loans, by LTV Ratio, Total Banking System
March 2011–September 2022



SOURCE: Based on reports to the Banking Supervision Department.

The average debt-to-income ratio has risen by one percentage point since the beginning of the year, reaching a level of 27.9 percent as of September 2022. **The proportion of loans with a debt-to-income ratio of between 30 percent and 40 percent has risen sharply since the beginning of the year. It reached a level of 47.9 percent of mortgage transactions as of September 2022** (Figure 26), representing an increase of about 9 percentage points. The main part of the increase (about 7 percentage points) started in the second quarter.

Figure 1.26
Distribution of Housing Loan Volume, by PTI, Total Banking System, January 2015–September 2022



SOURCE: Based on published financial statements.

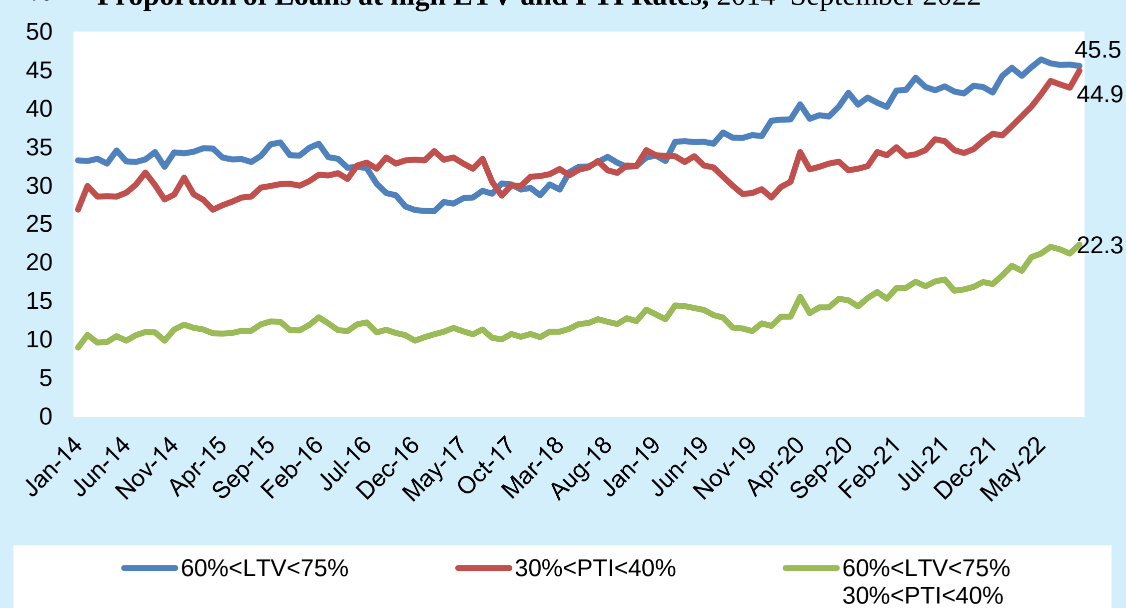
In addition, there has been an increase in the average period to maturity of mortgages, which reached 24.4 years in September 2022, as compared to an average of 22.9 years in 2021. This represents the continuation of an upward trend in this risk measure, which began in 2015 (Figure 27). This increase is apparently the result of a desire on the part of borrowers to reduce their monthly payment by spreading out their mortgage over a longer period.

Figure 1.27
Average Term to Final Repayment of Mortgages, Total Banking System, September 2011–September 2022

SOURCE: Based on reports to the Banking Supervision Department.

As a result of these developments, the share of new mortgages with a high LTV ratio (60–70 percent) combined with a high debt-to-income ratio (30–40 percent) rose to 22.3 percent of total transactions by September 2022, in contrast to an average proportion of 17 percent in 2021 (Figure 28).

Figure 1.28
Proportion of Loans at high LTV and PTI Rates, 2014–September 2022



SOURCE: Based on reports to the Banking Supervision Department.

Note that alongside the increase in a number of risk measures, in recent months there has been a downward trend in housing loan transactions.

Together with other considerations and based on an understanding that many borrowers are focusing on minimizing their initial monthly mortgage payment and not necessarily taking into consideration the full implications of the risk inherent in interest rate and inflation rate increases, the Bank of Israel launched a consumer-oriented reform at the end of August 2022 to increase the transparency of information for bank customers and improve competition in the mortgage market. As part of the reform, a series of measures related to mortgages were adopted which will help customers understand the terms of the mortgage offered to them and their implications for future payments. In addition, these measures make it possible for customers to more easily and in a more informed manner compare the offers they receive from the various banks, thus increasing competition in the market.[36]

Commercial credit

Commercial credit increased by 20.4 percent in annual terms during the first half of 2022, to 46 percent of the total bank credit portfolio. The construction and real estate industry led the increase in business credit although its rate of increase moderated somewhat in comparison to 2021 (22 percent in 2022 in annual terms as compared to 25.5 percent in 2021). This more moderate rate of increase was apparently the result of some of the banks approaching the limit of per-industry liability in the case of construction and real estate. In response, the two largest banks took steps to lower their exposure (by, for example, increasing their insurance for this type of credit), thus reducing their total liability with respect to the per-industry liability limit and allowing them to continue providing credit to this industry.

Despite the more moderate growth in credit to the construction and real estate industry, the share of this type of credit, together with housing credit, continues to be the largest and constitutes more than half of total bank credit to the public (about 58 percent). The accelerated growth of credit to the construction and real estate industry in recent years was accompanied by an increase in the banking system's credit risk due to this industry (for further details, see Box 1.8 in Israel's Banking System, Annual Survey 2021). In response to the increase in risk, and pursuant to the steps taken in October 2021, the Banking Supervision Department adopted a number of measures in March 2022 whose main goal is to reinforce credit risk management in the banking system.[37] They include:

1. A requirement to allocate additional capital against highly leveraged land financing.
2. Provision by the Banking Supervision Department of representative examples of underwriting and credit classification processes to the banking system.
3. Expanding the reporting requirements for the construction and real estate industry, which will facilitate better monitoring of developments in the industry.

[36] For further details, see Proper Conduct of Banking Business Directive 451.
[37] https://www.boi.org.il/he/NewsAndPublications/PressReleases/Pages/20-3-22.aspx [Hebrew]

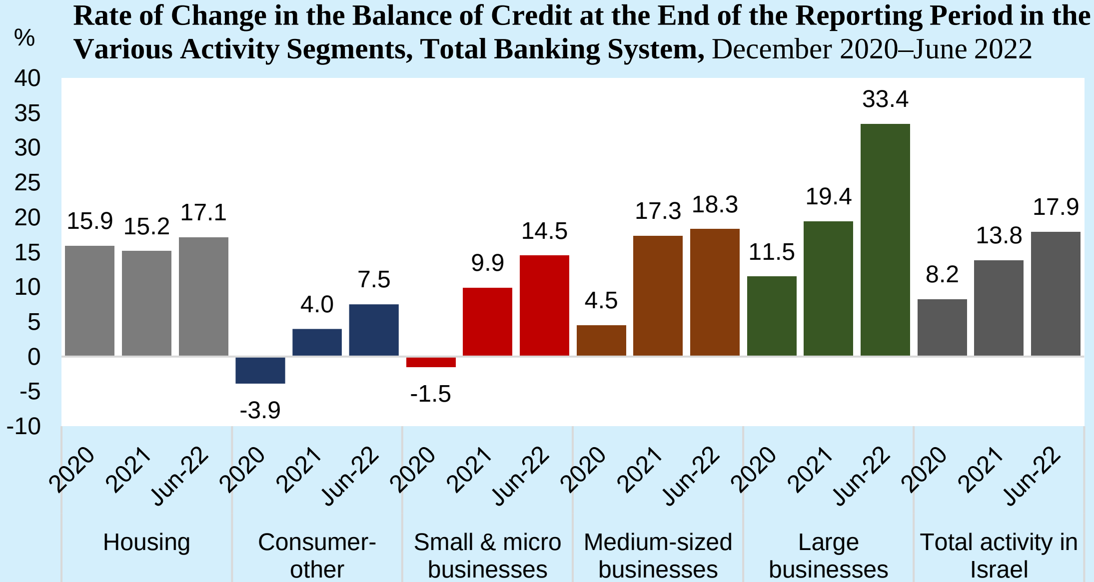
Credit to other business industries,[38] which also grew at a high rate (19 percent in annual terms), accounted for about 46 percent of total growth in business credit. The financial services industry grew at a similar rate (about 21 percent). This includes, among other things, an increase in the demand for credit by young fintech companies who use short-term business credit until they become better established. It appears that this trend began in the second quarter of 2021 and continued until the first half of 2022. The Open Banking reform and the opening of competition in this area, which went into effect during the second half of 2021, can explain part of the acceleration in the activity of new fintech companies in Israel. However, we would mention that they account for only a small part of the overall growth in business credit (financial services constitute only about 16.1 percent of total business credit).

Supervisory activity segments

The growth in business credit during the first half of 2022 was 24 percent (in annual terms) and it encompassed all of the activity segments. Growth was led by the large business sector, which grew by about 33.4 percent, followed by midsized businesses (18.3 percent) The small and micro business sector also grew at a high rate in 2022 relative to the past (14.5 percent; Figure 29). This upward trend is an indication of the banking system's support for this sector in recent years.

Figure 1.29

Rate of Change in the Balance of Credit at the End of the Reporting Period in the Various Activity Segments, Total Banking System, December 2020–June 2022



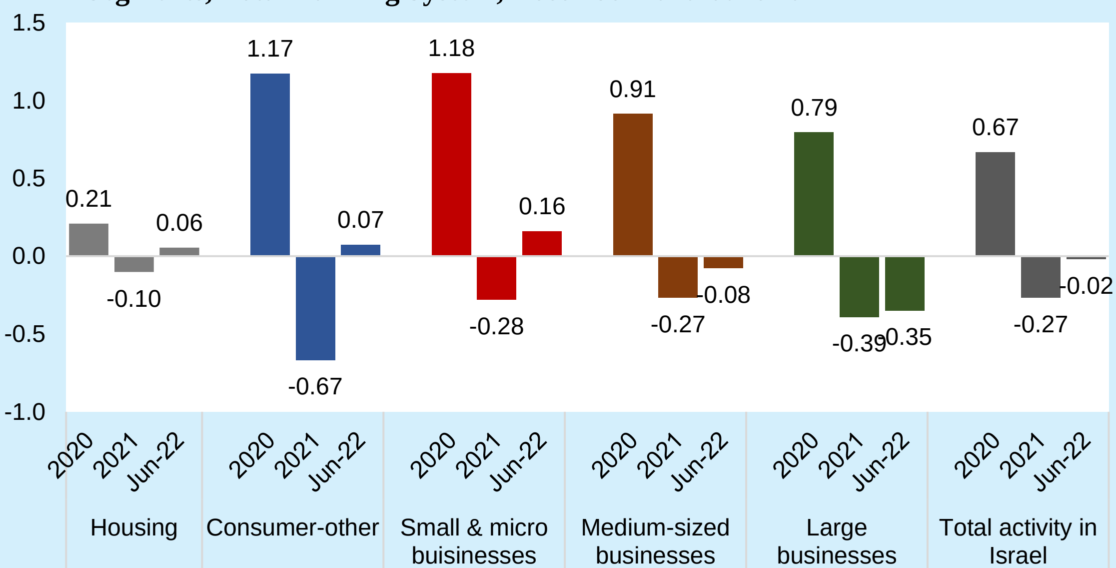
SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

[38] Credit provided to the business sector not including credit to the construction and real estate industry or the financial services industry.

Credit quality

Starting from January 2022 and in accordance with accepted standards worldwide, the banks were required to adopt the rules for Current Expected Credit Losses (CECL).[39] According to the banks' financial statements, there was a one-time increase in credit loss allowances of NIS 1.6 billion as a result of the adoption of the rules, which constitutes an increase of about 0.12 percent in the rate of the credit loss allowance relative to total credit. This was primarily the result of the increase in the allowance for the business credit portfolio and the consumer credit portfolio, alongside a reduction in the allowances attributed to the housing loan portfolio. As a result of the adoption of the new rules, the method of calculating the credit loss allowance is expected to better reflect the level of risk in the credit portfolio and to facilitate a more rapid reaction to a worsening in economic conditions and in the macroeconomic situation (for further details, see Box 1.3 in Israel's Banking System, Annual Survey 2021).

Figure 1.30
Loan-Loss Provisions in the Period-End Credit Balance in the Various Activity Segments, Total Banking System, December 2020–June 2022



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

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[39] The credit loss allowances are intended to provide a buffer to absorb expected losses from credit provided to the public and thus to maintain the stability of the banks and their ability to continue providing credit, even in crises when credit losses are realized, and also to better reflect their financial situation. As part of the lessons learned from the global financial crisis in 2008–09 when it became clear that banks worldwide had not maintained sufficient buffers against credit losses that were realized, it was decided on the global level to change accepted accounting rules so as to ensure that allowances would sufficiently take into account—based on a future-looking perspective—the losses that can be expected to materialize in the credit portfolio. This change was implemented starting from January 2020 among banks that are traded in the US while in Israel implementation began in January 2022, as mentioned above.

During the first half of 2022, there was an increase in the credit loss provisions, which encompassed all of the activity segments, although this was still recorded as income (a negative provision) for the system as a whole. This is because in the midsize and large business sectors, income (a negative provision) was recorded in this item despite the increase in provision rates, as a result of the reduction in the net specific allowance. This reduction was partly due to the recovery of debt from a small number of borrowers by one of the large banks during the first quarter of the year. The small and micro business segment, the consumer credit segment, and the housing credit segment, returned to a credit loss provision after recording negative provisions (income) in 2021 (Figure 30). The rate of provision in the first half of 2022 was affected primarily by the forecasted macroeconomic developments, given the increase in inflation and in the interest rate during the second quarter of 2022 (which as a result of the aforementioned transition to the CECL rules is reflected in the size of the credit loss allowance), and in contrast by the continuing growth in the banks' credit portfolio.[40]

The measures of credit quality present a mixed picture: On the one hand, there has been an improvement in the proportion of troubled credit within total credit, which fell somewhat to a level of 1.72 percent as of June 2022 (as compared to 1.99 percent as of December 2021). On the other hand, there was a small increase of 0.12 percentage points in the proportion of non-investment grade rated credit[41] within total balance-sheet credit, which stood at 3.54 percent in June 2022 as compared to 3.42 percent in December 2021. The increase in this risk measure is the result of the higher rate of increase in non-investment grade credit risk than in total balance-sheet credit. In addition, there was a slight increase in the share of nonperforming credit or performing debt in arrears of 90 days or more within total balance-sheet credit to the public, which rose from 0.73 in December 2021 to 0.75 in June 2022 (Table 16).[42]

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[40] The results reported in the financial reports of US banks for the third quarter of 2022 reflect an increase in the credit loss provision, and in particular a transition from negative provisions (income) in 2021, due to the economic improvement following the pandemic, to a provisions (expense) as a result of the macroeconomic situation in the US and worldwide. Since the banks had switched to the CECL rules already in January 2020, the aforementioned change can be attributed to developments in the macroeconomic environment.

[41] The risk of credit, the rating of which at the time of the report is not currently in line with the credit rating required for the provision of new credit according to the bank's policy. In other words, credit that was provided in the past but would not be provided according to currently existing conditions.

[42] As a result of the adoption of the new CECL rules in January 2022, the "impaired credit" classification was changed to non-accruing credit.

Liquidity risk

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),[43] which is used to assess whether the banks have a sufficient liquidity buffer to meet a major stress scenario of 30 days duration. The second is the Net Stable Funding Ratio (NSFR)[44] which requires that the banks maintain a stable financing profile according to the composition of their balance-sheet assets and their non-balance-sheet activity. Meeting this criterion implies that there are sufficient stable and available financing sources to provide the needed financing (with a forward-looking perspective of one year). Satisfying these two ratios simultaneously will mitigate the liquidity risk that may result from unexpected changes in cash flow.

In the second quarter of 2022, the banking system's LCR returned to its level at the end of 2021 and essentially to its prepandemic level, i.e. about 125 percent.[45] During the first half of the year, there was some erosion in the ratio followed by a recovery (Figure 31). Nonetheless, overall the banks' ratio remained significantly above the minimal requirement set by the Banking Supervision Department (100 percent; Figure 32). However, there have been changes in the structure of the banking system's assets and liabilities (as described below in this chapter). The NSFR eroded during the first half of 2022 to about 126 percent as compared to 130 percent in December 2021 (Figure 33). The decline is due to the continuing increase in the required stable financing items, primarily due to the increase in total loans, by about 15 percent (in annual terms) as opposed to only

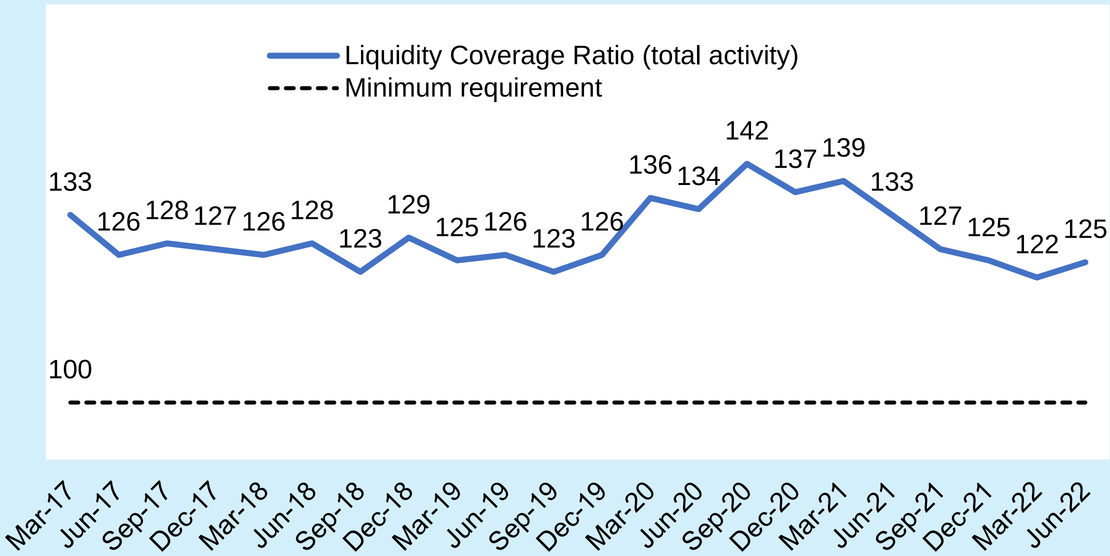
[43] The LCR, developed by the Basel Committee to enhance the short-term resilience of banking corporations' liquidity profiles, is a measure of the quantity of High-Quality Liquid Assets (HQLA) that corporations should hold in order to withstand a significant stress scenario that lasts thirty calendar days. The LCR is composed of two elements. The first, 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.

[44] 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 based primarily on relatively resilient and long-term (one year or longer) sources of financing. The NSFR has two components: the numerator is the total available amount of stable funding (ASF), which is the portion of capital and liabilities that can be relied on as a source of financing over a time horizon of one year or more. In the denominator is the required amount of stable funding (RSF), which is total assets (including off-balance-sheet exposures) that a bank expects to have to finance over a time horizon of one year or more and therefore it should hold stable and available funding against them.

[45] According to the banks' reports on monthly liquidity to the Banking Supervision Department. The aggregate figure according to the banks' financial statements eroded somewhat relative to December 2021 and stood at about 124 percent. The gap is the result of differences in the methodology of calculation (in the monthly report, the ratio is calculated according to end-of-month balances while in the financial statements it is calculated according to the average daily ratio over the quarter).

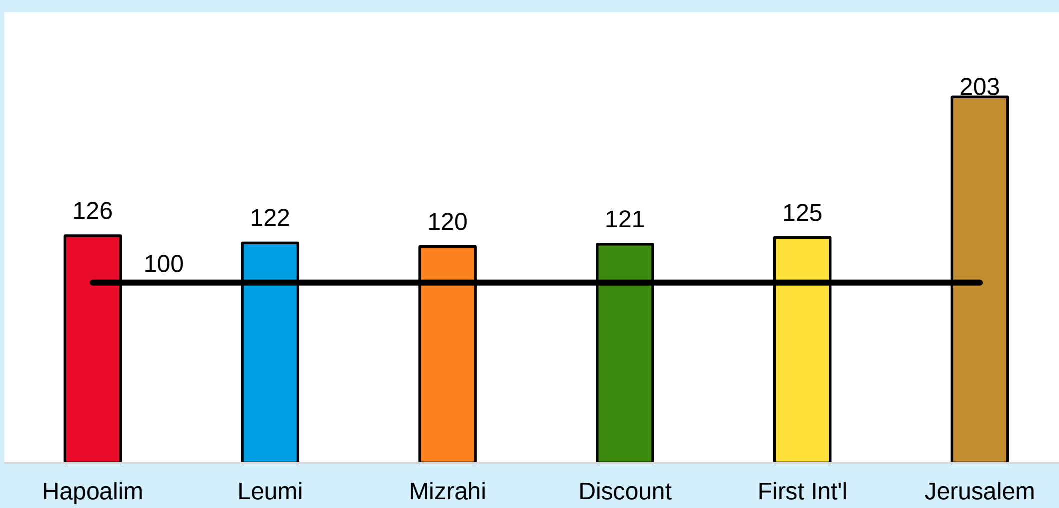
about a 9-percent increase (in annual terms) in the available stable financing items, due to the moderate increase in the public's deposits during this quarter.

Figure 1.31
Liquidity Coverage Ratio, Total Banking System
March 2017– June 2022



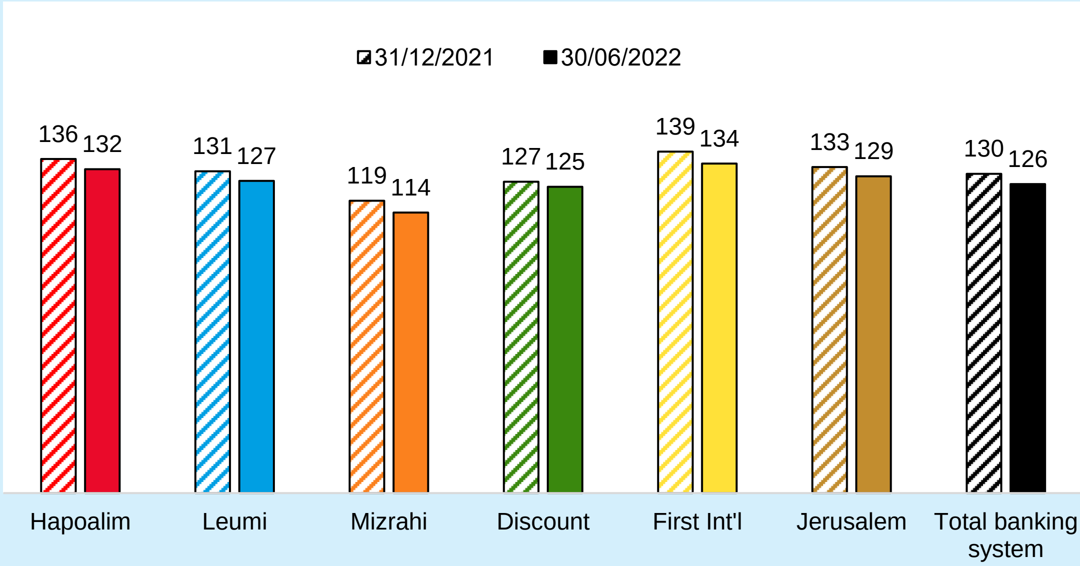
SOURCE: Based on reports to the Banking Supervision Department.

Figure 1.32
Liquidity Coverage Ratio (consolidated basis), Total Banking System
June 2022



SOURCE: Based on published financial statements.

Figure 1.33
Net Stable Funding Ratio, Total Banking System
June 2022 compared to December 2021



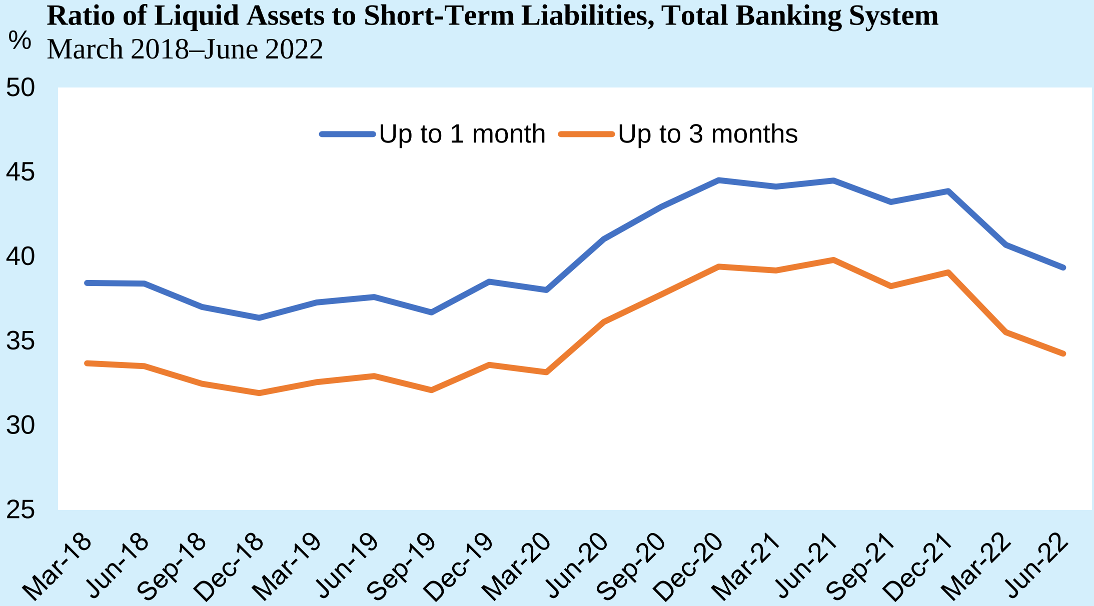
SOURCE: Based on published financial statements.

As mentioned, the level of the LCR is similar to that at the end of 2021; however during the first half of 2022 there were changes in the banks' structure of assets and liabilities, which have affected the system's liquidity risk: (1) The stock of high-quality liquid assets (HQLA) shrank, primarily as a result of the significant erosion of reserves with the Bank of Israel (about 31 percent in annual terms; about NIS 62 billion), compared to the end of 2021. The reason for this decline is the decrease in the money base[46] which resulted from the high level of government tax revenues (a trend that has reversed in recent months). Essentially, there was erosion of the money base during the first half of 2022, following two years in which it grew significantly as a result of expansionary monetary and fiscal policy (which led to, among other things, a significant increase in the public's deposits). Yet, the level of HQLA remained higher than prepandemic levels. The decline in the stock of liquid assets is manifested in the continuing downward trend in the ratio of liquid assets to short-term liabilities (although the ratio remained high relative to its prepandemic level; Figure 34). (2) A more rapid increase in total stable deposits relative to the rest of the public's deposits. In order to characterize the

[46] The money base, which consists of total cash held by the public and the banks, reflects the total amount of shekels in the economy that are not the result of credit provision. The money base is affected by both monetary and fiscal policy on the one hand and the public's demand for cash on the other. From the perspective of the banking system, the money base—less the cash held by the public—reflects the "cash and bank deposits" item, most of which is composed of, as mentioned, reserves deposited by the banks with the Bank of Israel.

aforementioned increase, we can look at the Core Funding Ratio (CFR[47]), which can be used to assess the quality of the sources on which the bank relies, or in other words the proportion of stable liabilities within total liabilities. During the first half of 2022, there was some recovery in this ratio (Figure 35), as a result of the more rapid increase in stable deposits, and primarily retail deposits, relative to the total increase in bank liabilities (Figure 36). This recovery followed a prolonged erosion in this ratio starting from the pandemic, due to the increased proportion of short-term retail deposits within total liabilities.

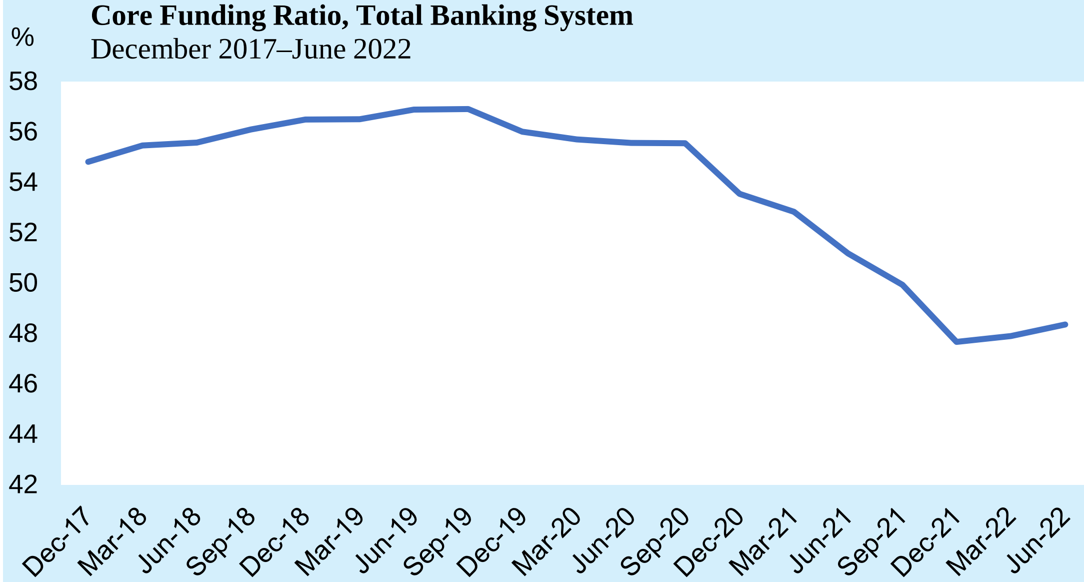
Figure 1.34
Ratio of Liquid Assets to Short-Term Liabilities, Total Banking System
March 2018–June 2022



SOURCE: Based on reports to the Banking Supervision Department.

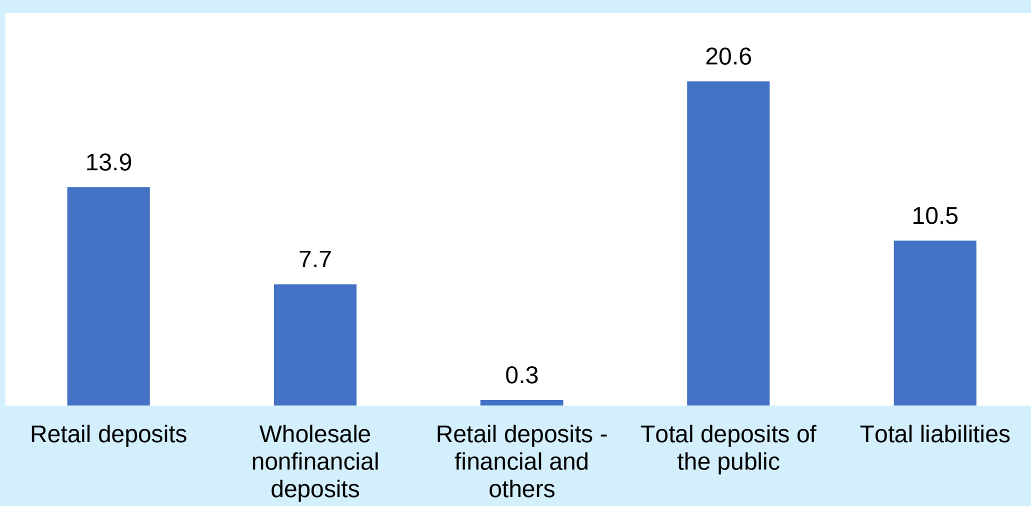
[47] According to the definition of the EBA, the Core Funding Ratio is composed of the following components: In the numerator—total stable liabilities, which is composed of total retail deposits, total wholesale deposits of more than one year and bonds and deferred promissory notes. In the denominator—total liabilities.

Figure 1.35
Core Funding Ratio, Total Banking System
December 2017–June 2022



SOURCE: Based on reports to the Banking Supervision Department.

Figure 1.36
Growth Rate in the Public's Deposits and Total Liabilities, Total Banking System
June 2022 compared to December 2021 (percent)

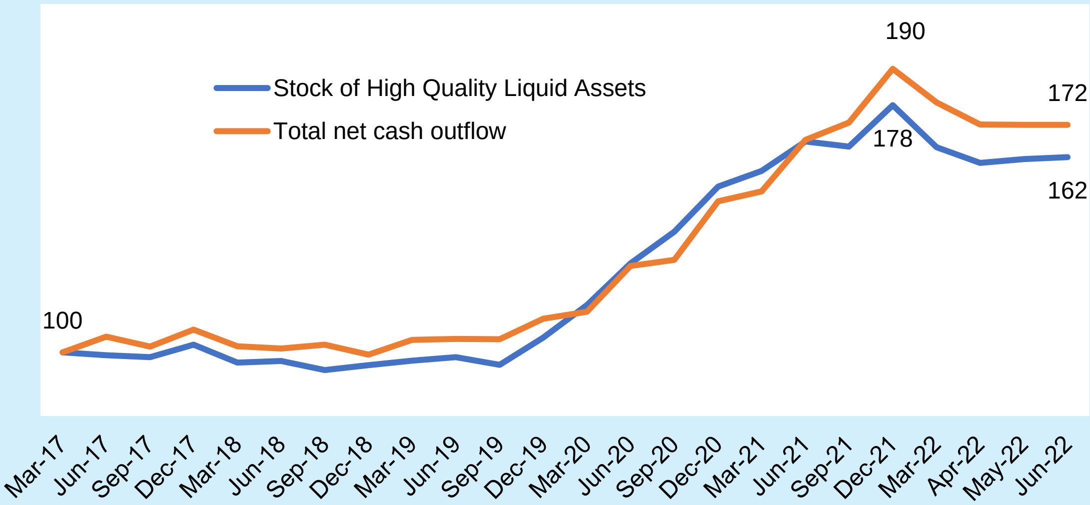


SOURCE: Based on reports to the Banking Supervision Department.

The erosion in the stock of liquid assets was not manifested to a significant degree in the LCR, which as mentioned did not change significantly. The reason for this is the decline in net cash outflow, which accompanied the decline in the stock of liquid assets (Figure

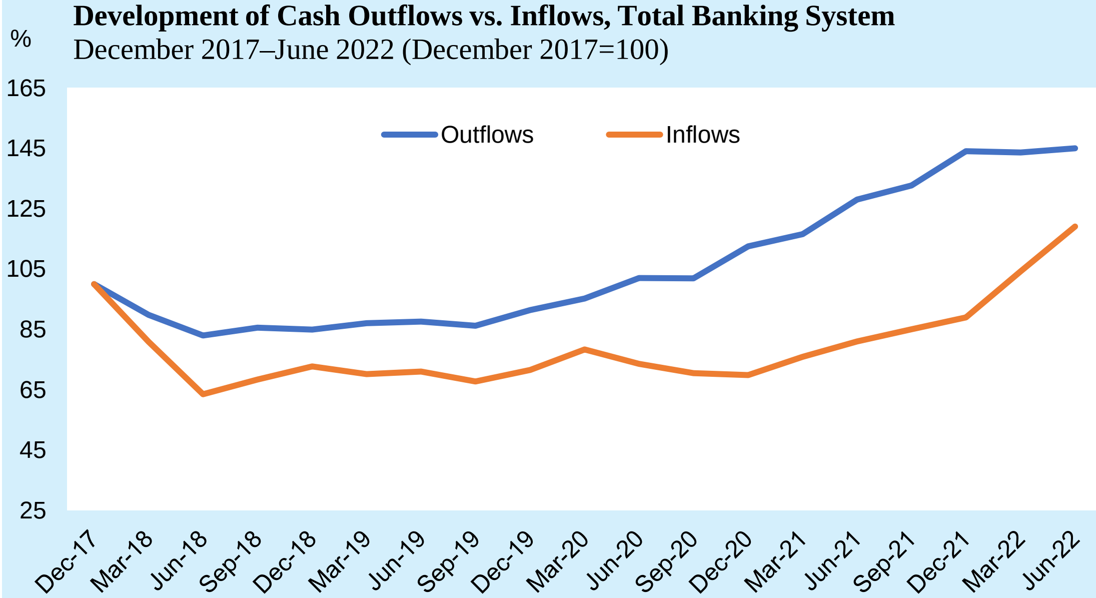
37). The drop in net cash outflow is the result of the more moderate rate of increase in outgoing cash flow, alongside a significant increase in incoming cash flow (Figure 38).

Figure 1.37
Development of High Quality Liquid Assets (HQLA)* and Net Outflows, Total Banking System, March 2017–June 2022 (March 2017=100)



*As defined in Proper Conduct of Banking Business Directive no. 221.
SOURCE: Based on reports to the Banking Supervision Department.

Figure 1.38
Development of Cash Outflows vs. Inflows, Total Banking System
December 2017–June 2022 (December 2017=100)

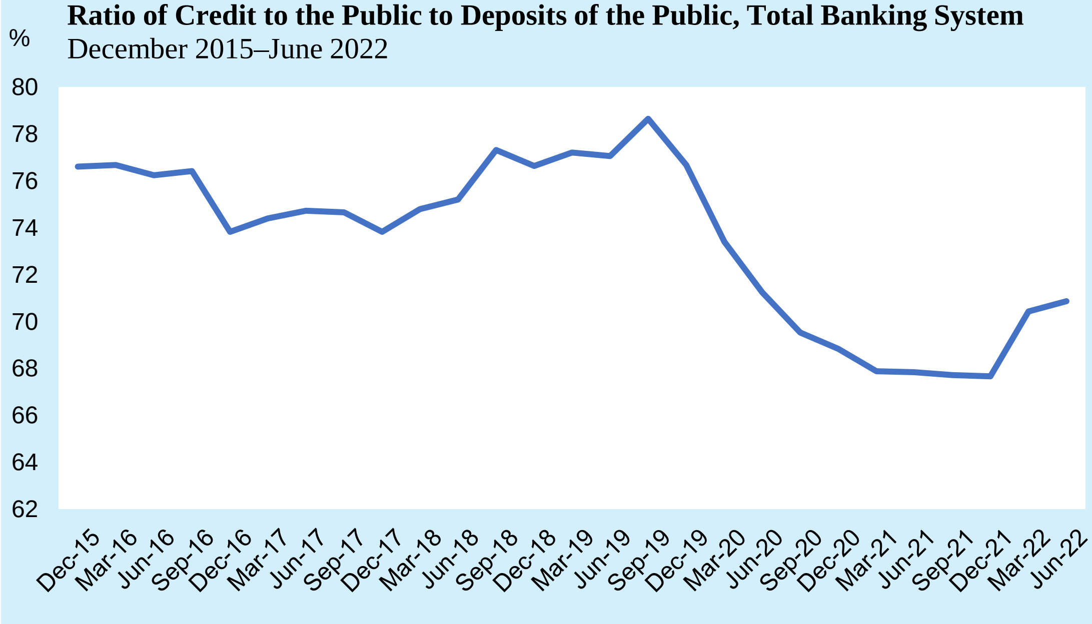


SOURCE: Based on reports to the Banking Supervision Department.

The more moderate rate of increase in cash outflow is the result of the shift to more stable deposits, as described above: an increase in the proportion of retail deposits, which are characterized by low withdrawal coefficients, alongside a decrease in the proportion of financial retail deposits for withdrawal of up to a month (which are characterized by withdrawal coefficients of 100 percent). In other words, during the first half of the year, there was a moderate increase in the public's deposits (despite the decline in the money base and as a result of the significant increase in credit to the public); however, that increase in the public's deposits was primarily the result of additional stable deposits. Alongside the cash inflow, the increase is due to the developments in the macroeconomic environment: (1) cash inflow due to the extending of credit—Alongside the continued rapid increase in credit during the period being surveyed, there was an increase in the interest rate and the inflation rate, which also contributed to the increase in incoming cash flow due to the total credit portfolio; (2) cash inflow due to derivatives—Against the background of the recovery in the global capital markets and the strengthening of the shekel during the first half of 2022, there was an increase in the cash inflow due to the banking system's derivatives activity.

The rapid increase in credit, alongside the more moderate rate of increase in the public's deposits, led to an increase in the ratio of credit to deposits, following a significant erosion during the two years since the beginning of the pandemic (Figure 39).

Figure 1.39
Ratio of Credit to the Public to Deposits of the Public, Total Banking System
December 2015–June 2022



SOURCE: Based on reports to the Banking Supervision Department.

TABLES:

Table 1

Principle banking system indices, 2014 to June 2022

	Common Equity Tier 1 capital ratio (percent)[a]	Leverage ratio[b] (percent)	ROE (percent)	Efficiency Ratio[c]	Liquidity Coverage Ratio[d,h] (percent)	Rate of change in balance-sheet credit to the public (percent)	Ratio of bank credit to GDP (percent)	Ratio of credit to deposits (percent)	Annual loan loss provision to total credit to the public (percent)	Herfindahl concentration index[f,i] (HHI)	Average yield spread between bonds of the banks and government bonds[g,i] (percentage points)	Ratio of market value to book value[h,i] (MV/BV)
2014	9.3	3.6	7.1	72.8		3.2	79.4	0.85	0.16	0.204	0.9	0.77
2015	9.7	6.4	9.0	67.0	109	4.4	79.1	0.83	0.11	0.204	0.9	0.69
2016	10.7	6.5	8.1	66.9	135	2.6	77.4	0.81	0.10	0.201	0.8	0.83
2017	10.9	6.7	8.7	65.1	125	3.5	76.8	0.81	0.14	0.200	0.7	0.91
2018	10.8	6.8	8.4	64.9	128	3.8	76.1	0.82	0.22	0.201	0.9	0.95
2019	11.2	6.9	7.8	61.5	125	4.3	74.8	0.84	0.29	0.201	0.6	0.69
2020	11.1	6.2	5.9	58.3	135	7.5	81.0	0.75	0.68	0.202	0.6	0.90
2021	10.9	5.8	13.9	54.7	124	13.6	83.0	0.73	-0.25	0.208	0.7	1.16
June 2022	10.7	5.9	15.8	48.2	124	15.5	84.4	0.76	-0.02	0.208	1.0	1.20

a. Until December 31, 2013, the banking corporations presented the Core Tier 1 capital ratio, in accordance with Basel II principles. From January 1, 2014, they present the Common Equity Tier 1 capital ratio, in accordance with Basel III principles.

b. Calculated in accordance with Proper Conduct of Banking Business Directive 221

c. Calculated in accordance with Proper Conduct of Banking Business Directive 218.

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

e. 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.

f. The index is calculated on its own on a credit basis. $H = \sum_{i=1}^{n} (\frac{y_i}{y})^2$ = The Herfindahl-Hirschman Index of industry concentration, where y_i = output of bank i (total assets) and y = the industry's output.

g. Average for December of that year.

h. 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.

i. Calculated for the entire banking system.

j. Beginning from January 2022, banks in Israle are implementing the CECL method for allowances., the change in ratios dervies fromamong other thngs the shift to this allowance method.

SOURCE: Banking Supervision Department 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 banking system, June 2022[a]

Bank	Balance sheet data: Share of total banking system assets	Share of total bank credit	Total assets	Credit to the public	Total deposits of the public	Equity	Direct holdings[b]: Stakeholder holdings[c]	Institutional holdings[d]	Public's holdings
	(Percent)		(NIS million)				(Percent)		
Bank Leumig	28.9	26.2	667,680	369,811	532,737	47,065	0.0	29.5	70.5
Bank Hapoalim	28.2	26.7	651,598	377,085	529,508	44,218	5.7	31.6	62.8
Israel Discount Bank	15.8	16.7	364,421	235,510	283,423	24,093	0.0	28.7	71.3
Mizrahi-Tefahot Bank	18.0	21.3	416,969	300,871	327,884	23,183	41.6	16.7	41.7
First International Bank for Israel	8.3	8.1	192,026	113,932	164,539	10,420	48.4	12.0	39.7
Bank of Jerualem	0.8	1.0	18,030	13,426	13,622	1,196	86.6	0.0	13.4
Total banking system	**100**	**100**	**2,310,724**	**1,410,635**	**1,851,713**	**150,175**			

a) Data on the total banking system are presented on a consolidated basis.

b) As of October 2022.

c) "Stakeholder" is defined as someone holding at least 5 percent of the corporation's issued equity or voting power. In addition, the report on stakeholders' holdings includes holdings of the CEO and directors

d) Institutional investors' holdings above 5 percent of the corporation's issued equity or voting power. Institutional investor is as defined in Regulation (33) of the Securities (Periodic and immediate reports) Regulations, 5730-1970.

SOURCE: Based on published financial statements, reports to the Banking Supervision Department, reports to the Tel Aviv Stock Exchange.

Table 3

Main items in consolidated profit and loss statements, total banking system, June 2021–June 2022

(NIS millon, current prices)

	Leumi				Hapoalim				Discount			
	Dec-21	Jun-21	Jun-22	Rate of change (%), June 2022 vs. June 2021	Dec-21	Jun-21	Jun-22	Rate of change (%), June 2022 vs. June 2021	Dec-21	Jun-21	Jun-22	Rate of change (%), June 2022 vs. June 2021
Interest income	11,672	5,838	7,387	26.5	11,684	5,800	7,707	32.9	7,491	3,708	4,657	25.6
Interest expenses	1,326	716	1,363	90.4	1,917	1,059	1,804	70.3	962	519	784	51.1
Net interest income	**10,346**	**5,122**	**6,024**	**17.6**	**9,767**	**4,741**	**5,903**	**24.5**	**6,529**	**3,189**	**3,873**	**21.4**
Loan loss provisions	-812	-370	86	-123.2	-1,220	-1,155	-509	-55.9	-693	-557	71	-112.7
Net interest income after loan loss provisions	**11,158**	**5,492**	**5,938**	**8.1**	**10,987**	**5,896**	**6,412**	**8.8**	**7,222**	**3,746**	**3,802**	**1.5**
Noninterest income	**5,511**	**2,906**	**2,507**	**-13.7**	**4,625**	**2,373**	**2,033**	**-14.3**	**3,962**	**1,908**	**2,110**	**10.6**
of which: Noninterest financing income	1,714	1,068	702	-34.3	1,081	650	129	-80.2	765	387	18	-95.3
of which: Stocks[a]	841	640	1,089	70.2	612	397	-141	-135.5	398	195	41	-79.0
Bonds[b]	213	109	-185	-269.7	202	108	32	-70.4	109	103	99	-3.9
Activity in derivative instruments[c]	-1,303	617	6,356	930.1	-1,430	785	6,013	666.0	-807	244	2,582	958.2
Exchange rate differentials	1,962	-298	-6,497	2080.2	1,697	-640	-5,724	794.4	1,065	-155	-2,705	1645.2
of which: Fees	3,506	1,721	1,802	4.7	3,355	1,619	1,792	10.7	3,125	1,509	1,676	11.1
Total operating and other expenses	**7,428**	**3,697**	**3,435**	**-7.1**	**7,803**	**3,899**	**3,954**	**1.4**	**6,858**	**3,263**	**3,423**	**4.9**
of which: salaries and related expenses	4,242	2,133	1,966	-7.8	4,333	2,261	2,229	-1.4	3,468	1,631	1,699	4.2
Pre-tax profit	**9,241**	**4,701**	**5,010**	**6.6**	**7,809**	**4,370**	**4,491**	**2.8**	**4,326**	**2,391**	**2,489**	**4.1**
Provision for tax on profits	3,275	1,703	1,490	-12.5	2,958	1,629	1,566	-3.9	1,516	846	818	-3.3
After tax profit	**5,966**	**2,998**	**3,520**	**17.4**	**4,851**	**2,741**	**2,925**	**6.7**	**2,810**	**1,545**	**1,671**	**8.2**
Net profit attributed to shareholders	**6,028**	**3,007**	**3,601**	**19.8**	**4,914**	**2,773**	**2,997**	**8.1**	**2,773**	**1,522**	**1,663**	**9.3**
Total pre-tax ROE (percent)	**23.00**	**24.23**	**23.79**		**18.76**	**21.51**	**20.80**		**21.22**	**24.35**	**22.30**	
Total after-tax ROE (percent)	**15.00**	**15.50**	**17.10**		**11.80**	**13.65**	**13.88**		**13.60**	**15.50**	**14.90**	
Total ROA (percent)	**0.99**	**1.04**	**1.09**		**0.83**	**0.99**	**0.93**		**0.88**	**1.01**	**0.95**	

Table 3 (cont'd.)

Main items in consolidated profit and loss statements, total banking system, June 2021–June 2022

(NIS millon, current prices)

	Mizrahi-Tefahot				First International				Total banking system			
	Dec-21	Jun-21	Jun-22	Rate of change (%), June 2022 vs. June 2021	Dec-21	Jun-21	Jun-22	Rate of change (%), June 2022 vs. June 2021	Dec-21	Jun-21	Jun-22	Rate of change (%), June 2022 vs. June 2021
Interest income	10,557	5,293	7,105	34.2	3,150	1,585	1,975	24.6	45,183	22,540	29,248	29.8
Interest expenses	2,872	1,567	2,508	60.1	356	205	372	81.5	7,608	4,161	6,980	67.7
Net interest income	**7,685**	**3,726**	**4,597**	**23.4**	**2,794**	**1,380**	**1,603**	**16.2**	**37,575**	**18,379**	**22,268**	**21.2**
Loan loss provisions	-278	-227	186	-181.9	-216	-137	31	-122.6	-3,278	-2,472	-105	-95.7
Net interest income after loan loss provisions	**7,963**	**3,953**	**4,411**	**11.6**	**3,010**	**1,517**	**1,572**	**3.6**	**40,853**	**20,851**	**22,373**	**7.3**
Noninterest income	**2,635**	**1,342**	**1,819**	**35.5**	**1,756**	**866**	**775**	**-10.5**	**18,650**	**9,457**	**9,341**	**-1.2**
of which: Noninterest financing income	401	255	293	14.9	303	151	12	-92.1	4,309	2,510	1,188	-52.7
of which: Stocks[a]	152	4,831	9,849	103.9	233	110	-52	-147.3	2,223	1,448	902	-37.7
Bonds[b]	34	26	18	-30.8	21	229	10	-95.6	579	359	-33	-109.3
Activity in derivative instruments[c]	-896	390	3,283	741.8	-440	189	1,384	632.3	-4,878	2,226	19,613	781.1
Exchange rate differentials	1,124	-268	-2,974	1009.7	489	-161	-1,330	726.1	6,340	-1,523	-19,221	1162.4
of which: Fees	1,947	946	1,028	8.7	1,444	711	755	6.2	13,480	6,556	7,112	8.5
Total operating and other expenses	**5,568**	**2,674**	**2,830**	**5.8**	**2,652**	**1,308**	**1,346**	**2.9**	**30,761**	**15,047**	**15,224**	**1.2**
of which: salaries and related expenses	3,536	1,713	1,833	7.0	1,601	800	815	1.9	17,387	8,633	8,646	0.2
Pre-tax profit	**5,030**	**2,621**	**3,400**	**29.7**	**2,114**	**1,075**	**1,001**	**-6.9**	**28,742**	**15,261**	**16,490**	**8.1**
Provision for tax on profits	1,730	898	1,141	27.1	728	377	348	-7.7	10,285	5,486	5,398	-1.6
After tax profit	**3,300**	**1,723**	**2,259**	**31.1**	**1,386**	**698**	**653**	**-6.4**	**18,457**	**9,774**	**11,093**	**13.5**
Net profit attributed to shareholders	**3,188**	**1,664**	**2,207**	**32.6**	**1,405**	**708**	**664**	**-6.2**	**18,452**	**9,743**	**11,196**	**14.9**
Total pre-tax ROE (percent)	**24.93**	**26.78**	**31.75**		**22.12**	**22.93**	**20.05**		**21.62**	**23.82**	**23.32**	
Total after-tax ROE (percent)	**15.80**	**17.00**	**20.61**		**14.70**	**15.10**	**13.30**		**13.88**	**15.21**	**15.83**	
Total ROA (percent)	**0.85**	**0.91**	**1.09**		**0.81**	**0.83**	**0.71**		**0.89**	**0.98**	**0.99**	

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 4

The effect of quantity[a] and price[b] on interest income and expenses, Israel and abroad (change compared with coresponding period the year before)

Total banking system, June 2021–June 2022

Jun-22	Quantity effect			Price effect			Net change		
	Assets side	Liabilities side	Net quantity effect	Assets side	Liabilities side	Net price effect	Assets side	Liabilities side	Contribution to net interest income
Credit to the public (assets) / deposits of the public (liablities) in Israel	3,671	350	3,320	2,151	1,206	945	5,822	1,557	4,265
Credit to the public (assets) / deposits of the public (liabilities) abroad	-23	0	-23	82	21	61	59	21	38
Total credit to the public / deposits of the public	**3,648**	**350**	**3,297**	**2,233**	**1,227**	**1,006**	**5,881**	**1,578**	**4,303**
Other interest-bearing assets / liabilities in Israel	184	631	-448	620	612	9	804	1,243	-439
Other interest-bearing assets / liabilities abroad	-21	-1	-20	44	-1	45	23	-2	25
Total other interest-bearing assets / liabilities	**163**	**630**	**-468**	**664**	**611**	**54**	**827**	**1,241**	**-414**
Total interest income / expenses	**3,810**	**981**	**2,830**	**2,898**	**1,838**	**1,060**	**6,708**	**2,819**	**3,889**

Jun-21	Quantity effect			Price effect			Net change		
	Assets side	Liabilities side	Net quantity effect	Assets side	Liabilities side	Net price effect	Assets side	Liabilities side	Contribution to net interest income
Credit to the public (assets) / deposits of the public (liablities) in Israel	1,584	275	1,308	2,640	-79	2,719	4,223	196	4,027
Credit to the public (assets) / deposits of the public (liabilities) abroad	-32	-1	-31	-202	-260	58	-234	-261	27
Total credit to the public / deposits of the public	**1,552**	**274**	**1,277**	**2,438**	**-339**	**2,777**	**3,989**	**-65**	**4,054**
Other interest-bearing assets / liabilities in Israel	356	227	129	-488	986	-1,474	-131	1,213	-1,345
Other interest-bearing assets / liabilities abroad	12	-11	23	-133	-15	-118	-121	-26	-95
Total other interest-bearing assets / liabilities	**368**	**216**	**152**	**-621**	**971**	**-1,592**	**-252**	**1,187**	**-1,440**
Total interest income / expenses	**1,920**	**491**	**1,429**	**1,817**	**632**	**1,185**	**3,737**	**1,122**	**2,615**

[a] The quantity effect is calculated as the product of 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 product of 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 5

Average balances, interest income and expense rates, and interest rate gap in respect of assets and liabilities, total banking system, June 2021 to June 2022 (NIS million, percent, in annual terms)

Jun-22

Assets	Average yearly balance	Interest income	Income rate (%)	Liabilities	Average yearly balance	Financing expenses	Expense rate (%)	Interest rate gap
Credit to the public	1,306,866	26,938	4.12	Deposits of the public	1,131,264	-3,944	-0.70	3.42
Deposits at banks	30,070	87	0.58	Deposits from banks	24,727	-29	-0.23	0.35
Deposits at central banks	454,333	637	0.28	Deposits from central banks	35,410	-11	-0.06	0.22
Bonds	228,762	1,456	1.28	Bonds	100,697	-2,939	-5.75	(4.47)
Other assets[a]	14,762	130	1.77	Other liabilities[a]	12,819	-57	-0.89	0.88
Total interest-bearing assets	2,034,793	29,248	2.90	Total interest-bearing liabilities	1,304,916	-6,980	-1.07	1.83
Net yield on interest-bearing assets (net interest margin)[b]	2,034,793	22,268	2.20					

Jun-21

Assets	Average yearly balance	Interest income	Income rate (%)	Liabilities	Average yearly balance	Financing expenses	Expense rate (%)	Interest rate gap
Credit to the public	1,128,737	21,057	3.73	Deposits of the public	1,021,642	-2,371	-0.46	3.27
Deposits at banks	23,853	64	0.54	Deposits from banks	22,205	-27	-0.24	0.29
Deposits at central banks	417,266	202	0.10	Deposits from central banks	24,281	-10	-0.08	0.01
Bonds	220,249	1,121	1.02	Bonds	85,623	-1,744	-4.03	(3.01)
Other assets[a]	15,185	96	1.27	Other liabilities[a]	4,449	-10	-0.45	0.82
Total interest-bearing assets	1,805,290	22,540	2.51	Total interest-bearing liabilities	1,158,199	-4,161	-0.72	1.80
Net yield on interest-bearing assets (net interest margin)[b]	1,805,290	18,379	2.05					

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 in annual terms.

SOURCE: Banking Supervision Department based on published financial statements.

Table 6

Unit output cost[a] and efficiency ratio[b], total banking system[c], 2018 to June 2022

(percent)

	Year	Leumi	Hapoalim	Discount	Mizrahi-Tefahot[d,e]	First International	Jerusalem	Total banking system
Unit output cost	2018	1.83	1.96	2.67	1.76	2.09	3.01	2.01
	2019	1.70	1.90	2.52	1.50	1.93	2.97	1.88
	2020	1.38	1.50	2.41	1.35	1.66	2.79	1.59
	2021	1.23	1.32	2.18	1.48	1.52	2.85	1.47
	Jun-22	1.04	1.23	1.96	1.40	1.45	2.71	1.33
Efficiency ratio	2018	60.58	65.05	68.16	63.64	68.37	72.39	64.43
	2019	56.80	66.44	65.18	54.59	64.39	70.03	61.43
	2020	53.83	56.93	67.45	53.94	61.75	69.10	58.17
	2021	46.84	54.22	65.37	53.95	58.29	73.47	54.50
	Jun-22	40.26	49.82	57.21	44.11	56.60	64.59	47.97

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 Isracard. From 2019, data for the Leumi group do not include Leumi Card.

d The merger with Union Bank in the fourth quarter of 2020 biased the unit output cost for 2020 downward.

e Beginning with the annual statement for 2020, data for the Mizrahi-Tefahot group include Union Bank.

SOURCE: Based on published financial statements.

Table 7

Distribution of capital and capital ratios, total banking system[a], December 2021 and June 2022

	Leumi		Hapoalim		Discount		Mizrahi-Tefahot		First International		Bank of Jerusalem		Total banking system	
	Dec-21	June-22	Dec-21	June-22	Dec-21	June-22	Dec-21	June-22	Dec-21	June-22	Dec-21	June-22	Dec-21	June-22
	(NIS million)													
Equity[b]	42,052	47,065	42,747	44,218	22,148	24,093	21,729	23,183	10,437	10,420	1,127	1,196	140,240	150,175
Common Equity Tier 1 capital[c]	43,117	44,910	42,772	44,446	21,839	23,939	21,969	23,567	10,199	10,214	1,121	1,191	141,017	148,267
Additional Tier 1 capital[c]	0	0	244	0	178	0	0	0	0	0	0	0	422	0
Tier 2 capital[c]	10,148	10,980	12,490	13,173	6,971	6,275	7,914	7,988	1,891	2,836	363	386	39,777	41,638
Total capital base	53,265	55,890	55,506	57,619	28,988	30,214	29,883	31,555	12,090	13,050	1,484	1,577	181,216	189,905
Total balance sheet	656,454	667,680	638,781	651,598	335,088	364,421	392,271	416,969	180,470	192,026	16,837	18,030	2,219,901	2,310,724
Credit risk	346,602	367,975	363,588	371,418	196,200	215,355	202,611	219,449	81,660	92,726	9,393	10,216	1,200,054	1,277,139
Market risks	5,592	7,059	4,097	3,795	3,738	4,690	2,268	1,843	683	654	85	68	16,463	18,109
Operational risk	22,582	24,135	22,595	23,652	15,383	15,490	13,831	14,491	6,645	7,255	987	1,045	82,023	86,068
Total risk-weighted assets	374,776	399,169	390,280	398,865	215,321	235,535	218,710	235,783	88,988	100,635	10,466	11,329	1,298,541	1,381,316
	(Percent)													
Common Equity Tier 1 capital ratio	**11.5**	**11.3**	**11.0**	**11.1**	**10.1**	**10.2**	**10.0**	**10.0**	**11.5**	**10.1**	**10.7**	**10.5**	**10.9**	**10.7**
Total capital adequacy ratio	**14.2**	**14.0**	**14.2**	**14.4**	**13.5**	**12.8**	**13.7**	**13.4**	**13.6**	**13.0**	**14.2**	**13.9**	**14.0**	**13.7**
Minimum required Tier 1 capital ratio[d]	9.2	10.2	9.2	10.2	8.2	9.2	8.6	9.6	8.2	9.2	8.6	9.5		
Minimum required total capital adequacy ratio[d]	12.5	13.5	12.5	13.5	11.5	12.5	12.5	12.5	11.5	12.5	11.5	12.5		

a The banking corporations allocate capital in accordance with Basel III rules, as per the transition directives.
b Including minority interest according to the groups' balance sheets.
c After deductions.
d Including capital requirements reflecting 1 percent of outstanding housing loans to the report date, implemented gradually at equal quarterly rates from April 1, 2015 until January 1, 2017.
SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

Table 8

Distribution of credit risk exposures, December 2021 and June 2022

	Leumi		Hapoalim		Discount		Mizrahi-Tefahot		First International		Jerusalem		Total banking system	
	Dec-21	Jun-22	Dec-21	Jun-22	Dec-21	Jun-22	Dec-21	Jun-22	Dec-21	Jun-22	Dec-21	Jun-22	Dec-21	Jun-22
							(אחוזים)							
Sovereigns	36.5	32.8	35.2	32.3	27.3	25.8	25.9	22.6	40.8	37.5	20.3	18.7	33.1	30.0
Public sector	2.2	1.6	1.1	0.9	3.3	3.1	0.7	0.6	0.7	0.6	0.3	0.1	1.6	1.4
Banks	3.1	2.9	1.6	2.2	2.3	2.6	1.2	1.5	1.5	1.8	1.5	1.0	2.1	2.3
Securities companies	0.3	0.8	0.4	0.4	0.1	0.1	0.2	0.2	0.8	0.3	0.1	0.2	0.3	0.4
Corporations	21.1	22.2	19.8	22.0	32.9	33.8	16.1	18.7	19.4	22.7	10.6	12.9	21.3	23.3
Retail exposures to individuals	5.7	6.0	7.6	7.6	9.2	9.1	6.2	6.3	12.8	12.6	8.7	10.0	7.5	7.6
Loans to small businesses	2.4	2.5	1.4	1.4	4.1	3.9	3.1	3.1	2.7	2.6	0.8	0.9	2.5	2.5
Secured by a residential asset	15.6	17.1	16.9	18.1	16.1	16.9	42.9	43.3	17.7	18.2	52.7	51.7	21.4	22.5
Secured by commercial real estate	10.7	11.8	13.3	12.4	1.3	1.2	1.5	1.3	1.3	1.4	0.0	0.0	7.6	7.5
Loans with a lag	0.4	0.4	0.3	0.4	0.6	0.6	0.6	0.9	0.3	0.3	1.4	0.6	0.4	0.5
Other assets	2.0	1.9	2.4	2.3	2.9	2.8	1.5	1.6	1.9	1.9	3.7	3.8	2.2	2.1

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

Table 9

Main capital indices, December 2017 to June 2022

(Percent)

	Year	Leumi	Hapoalim	Discount	Mizrahi-Tefahot	First International	Jerusalem	Total banking system
Common Equity Tier 1 capital ratio[a]	2017	11.43	11.26	10.00	10.20	10.38	10.16	10.90
	2018	11.07	11.16	10.24	10.01	10.51	10.46	10.79
	2019	11.88	11.53	10.31	10.14	10.81	10.40	11.15
	2020	11.87	11.52	10.20	10.04	11.18	10.48	11.11
	2021	11.50	10.96	10.14	10.04	11.46	10.71	10.86
	Jun-22	11.25	11.14	10.16	10.00	10.15	10.52	10.73
The ratio between credit risk assets and tot	2017	0.56	0.58	0.58	0.50	0.48	0.51	0.55
	2018	0.58	0.60	0.59	0.50	0.50	0.53	0.57
	2019	0.56	0.60	0.59	0.51	0.49	0.54	0.57
	2020	0.51	0.54	0.55	0.48	0.43	0.54	0.51
	2021	0.49	0.51	0.53	0.48	0.43	0.53	0.49
	Jun-22	0.51	0.52	0.54	0.49	0.46	0.54	0.51
Leverage ratio[b]	2017	6.94	7.37	6.81	5.48	5.50	5.71	6.67
	2018	7.05	7.51	6.90	5.42	5.76	6.17	6.76
	2019	7.35	7.61	6.87	5.55	5.81	6.23	6.91
	2020	6.57	6.78	6.28	5.19	5.29	6.30	6.22
	2021	6.06	6.03	5.98	5.18	5.34	6.29	5.83
	Jun-22	6.25	6.17	6.02	5.23	5.02	6.31	5.91
The ratio between equity and total balance sheet assets	2017	7.44	7.92	7.26	5.98	5.93	6.18	7.15
	2018	7.85	8.17	7.39	5.97	6.27	6.73	7.23
	2019	7.65	8.24	7.39	6.15	6.32	6.72	7.40
	2020	6.85	7.39	6.71	5.46	5.68	6.71	6.62
	2021	6.41	6.69	6.61	5.54	5.78	6.69	6.32
	Jun-22	7.05	6.79	6.61	5.56	5.43	6.63	6.50

a In Basel III terms, in accordance with the transition directives.

c Calculated as the ratio between Common Equity Tier 1 capital and total exposures, in accordance with the Basel III rules.

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

Table 10

Balance sheet of the total Israeli banking system, December 2020 to June 2022

	In current prices				Rate of change relative to corresponding period of previous year	Rate of change* in the first six months of 2022	Distribution	
	Dec-20	Jun-21	Dec-21	Jun-22			Dec-21	Jun-22
	(NIS million)				(Percent)	(Percent)		
Assets								
Cash and deposits at banks	465,351	532,688	602,506	538,823	1.2	-21.1	27.1	23.3
Securities	237,824	242,842	232,798	251,379	3.5	16.0	10.5	10.9
repurchase agreements	4,672	8,209	7,084	6,930	-15.6	-4.3	0.3	0.3
							0.0	0.0
Credit to the public	**1,152,361**	**1,216,378**	**1,309,284**	**1,410,635**	**16.0**	**15.5**	**59.0**	**61.0**
Allowance for credit losses	19,097	17,003	15,950	16,929	-0.4	12.3	0.7	0.7
Net credit to the public	1,133,263	1,199,375	1,293,334	1,393,706	16.2	15.5	58.3	60.3
Credit to governments	7,567	6,918	6,861	7,381	6.7	15.2	0.3	0.3
Investments in subsidiary and affiliated companies	2,366	2,464	3,210	6,864	178.6	227.7	0.1	0.3
Premises and equipment	12,117	11,924	12,523	12,211	2.4	-5.0	0.6	0.5
Intangible assets and goodwill	690	681	685	656	-3.7	-8.5	0.0	0.0
Assets in respect of derivative instruments	42,983	29,714	37,899	70,313	136.6	171.1	1.7	3.0
Other assets	25,590	23,213	23,002	22,460	-3.2	-4.7	1.0	1.0
Total assets	**1,932,424**	**2,058,028**	**2,219,901**	**2,310,724**	**12.3**	**8.2**	**100.0**	**100.0**
Liabilities and equity								
Deposits of the public	**1,545,972**	**1,663,947**	**1,797,073**	**1,851,713**	**11.3**	**6.1**	**81.0**	**80.1**
Deposits from banks	41,774	58,874	61,948	61,758	4.9	-0.6	2.8	2.7
Deposits from the government	1,842	1,517	2,439	2,199	44.9	-19.7	0.1	0.1
Securities lent or sold under repurchase agreements	772	1,486	5,708	10,826	628.5	179.3	0.3	0.5
Bonds and subordinated notes	89,555	85,727	100,093	106,796	24.6	13.4	4.5	4.6
Liabilities in respect of derivative instruments	49,306	30,856	42,019	61,657	99.8	93.5	1.9	2.7
Other liabilities	75,279	77,914	70,382	65,600	-15.8	-13.6	3.2	2.8
Total liabilities	**1,804,499**	**1,920,321**	**2,079,661**	**2,160,549**	**12.5**	**7.8**	**93.7**	**93.5**
Minority interest	2,261	2,447	2,512	2,105	-14.0	-32.4	0.1	0.1
Shareholders equity	125,664	135,260	137,728	148,070	9.5	15.0	6.2	6.4
Total equity	127,925	137,707	140,240	150,175	9.1	14.2	6.3	6.5
Total liabilities and equity	**1,932,424**	**2,058,028**	**2,219,901**	**2,310,724**	**12.3**	**8.2**	**100.0**	**100.0**

*In annual terms

SOURCE: Based on published financial statements.

<u>Table 11</u>

Securities portfolio of the total banking system, December 2021 – June 2022

		Bank Leumi				Bank Hapoalim				Discount Bank			
		Dec-21		**Jun-22**		**Dec-21**		**Jun-22**		**Dec-21**		**Jun-22**	
		Book value	Distribution	Book value	Distribution	Book value	Distribution	Book value	Distribution	Book value	Distribution	Book value	Distribution
		(NIS million)	(Percent)	(NIS million)	(Percent)	(NIS million)	(Percent)	(NIS million)	(Percent)	(NIS million)	(Percent)	(NIS million)	(Percent)
Securities	Of Israeli government	30,280	34.8	37,532	43.4	39,328	55.3	48,086	59.0	27,204	62.0	25,570	58.2
	Of foreign governments	26,512	30.5	15,579	18.0	21,445	30.2	20,865	25.6	3,580	8.2	5,032	11.5
	Of Israeli financial institutions	342	0.4	544	0.6	312	0.4	302	0.4	122	0.3	90	0.2
	Of foreign financial institutions	8,329	9.6	12,584	14.5	3,531	5.0	5,837	7.2	517	1.2	496	1.1
	backed securities[a]	9,532	11.0	10,193	11.8	-	-	-	-	8,190	18.7	8,755	19.9
	Other - Israeli	691	0.8	847	1.0	-	-	-	-	553	1.3	466	1.1
	Other - foreign	6,882	7.9	5,487	6.3	2,839	4.0	2,624	3.2	2,084	4.8	1,671	3.8
	Stocks	4,359	5.0	3,792	5.1	3,650	5.1	3,792	4.7	1,619	3.7	1,846	4.2
	Total securities, all types	**86,927**	**100**	**86,558**	**100**	**71,105**	**100**	**81,506**	**100**	**43,869**	**100**	**43,926**	**100**

		Mizrahi-Tefahot				First International				Total banking systemb			
		Dec-21		**Jun-22**		**Dec-21**		**Jun-22**		**Dec-21**		**Jun-22**	
		Book value	Distribution	Book value	Distribution	Book value	Distribution	Book value	Distribution	Book value	Distribution	Book value	Distribution
		(NIS million)	(Percent)	(NIS million)	(Percent)	(NIS million)	(Percent)	(NIS million)	(Percent)	(NIS million)	(Percent)	(NIS million)	(Percent)
Securities	Of Israeli government	10,421	69.3	11,774	52.6	12,200	80.8	11,106	72.4	119,911	51.5	134,770	53.6
	Of foreign governments	2,035	13.5	7,574	33.8	1,342	8.9	2,496	16.3	54,951	23.6	51,621	20.5
	Of Israeli financial institutions	601	4.0	869	3.9	138	0.9	346	2.3	1,557	0.7	2,190	0.9
	Of foreign financial institutions	177	1.2	252	1.1	244	1.6	276	1.8	12,798	5.5	19,445	7.7
	backed securities[a]	6	0.0	54	0.2	-	-	-	-	17,728	7.6	19,002	7.6
	Other - Israeli	765	5.1	865	3.9	363	2.4	308	2.0	2,481	1.1	2,615	1.0
	Other - foreign	302	2.0	284	1.3	72	0.5	46	0.3	12,193	5.2	10,117	4.0
	Stocks	726	4.8	712	3.2	732	4.9	771	5.0	11,179	4.8	11,619	4.6
	Total securities, all types	**15,033**	**100**	**22,384**	**100**	**15,091**	**100**	**15,349**	**100**	**232,798**	**100**	**251,379**	**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 guarantee for them or not.

b Includes Union Bank data (even before its merger into Mizrahi-Tefahot Bank.

SOURCE: Based on published financial statements.

Table 12

Transactions in non-balance sheet financial instruments in which the par value represents credit risk total banking system, December 2020–June 2022

	In current prices				Rate of change relative to corresponding period in the previous year	Rate of change* in the first 6 months of 2022	Distribution	
	Dec-20	Jun-21	Dec-21	Jun-22			Dec-21	Jun-22
	(NIS million)				(Percent)	(Percent)		
Documentary credit	3,634	5,324	5,590	5,265	-1.1	-11.6	0.9	0.8
Guarantees to secure credit	17,424	18,329	19,485	20,885	13.9	14.4	3.1	3.1
Securities borrowed or bought in reverse repurchase agreements	-	-	-	-	-	-	0.0	0.0
Homebuyer guarantees	68,026	78,859	96,993	116,095	47.2	39.4	13.2	17.5
Other guarantees and commitments	68,093	73,567	78,927	87,767	19.3	22.4	12.4	13.2
Unutilized credit card facilities	83,675	74,698	73,949	77,499	3.8	9.6	12.5	11.6
Unutilized current loan account facilities and facilities in other credit in on-demand accounts	108,822	110,129	104,494	99,854	-9.3	-8.9	18.5	15.0
Irrevocable commitments to extend credit that were approved and not yet extended	145,390	166,975	190,181	178,160	6.7	-12.6	28.0	26.8
Commitments to issue guarantees	68,327	67,776	77,121	79,758	17.7	6.8	11.4	12.0
Total	562,354	595,658	646,739	665,283	11.7	5.7	100.0	100.0

*In annual terms.

SOURCE: Based on published financial statements.

<u>Table 13</u>

Credit and spreads by supervisory activity segment, household sector[a], total banking system, December 2021 and June 2022

	Balance of credit to the end of the reporting period															
	Housing				**Credit cards**				**Other consumer**				**Total**			
	Dec-21	Jun-22	Difference	Ratge of change	Dec-21	Jun-22	Difference	Ratge of change	Dec-21	Jun-22	Difference	Ratge of change	Dec-21	Jun-22	Difference	Ratge of change
	(NIS million)			(Percent)	(NIS million)			(Percent)	(NIS million)			(Percent)	(NIS million)			(Percent)
Leumi	103,429	112,878	9,449	18.27	3,983	4,128	145	7.28	24,330	25,797	1,467	12.06	131,742	142,803	11,061	16.79
Hapoalim	114,690	122,947	8,257	14.40	4,563	4,341	-222	(9.73)	30,719	31,317	598	3.89	149,972	158,605	8,633	11.51
Discount	53,363	60,054	6,691	25.08	15,453	16,417	964	12.48	15,259	15,797	538	7.05	84,075	92,268	8,193	19.49
Mizrahi-Tefahot	175,626	190,179	14,553	16.57	4,631	4,643	12	0.52	21,694	22,362	668	6.16	201,951	217,184	15,233	15.09
First International	32,260	34,695	2,435	15.10	3,868	3,962	94	4.86	18,849	19,635	786	8.34	54,977	58,292	3,315	12.06
Total system	488,477	530,352	41,876	17.15	32,498	33,491	993	6.11	112,226	116,436	4,210	7.50	633,201	680,279	47,078	14.87
	Spread from credit activity															
	Housing				**Credit cards**				**Other consumer**				**Total**			
	Dec-21	Jun-22	Difference	Ratge of change	Dec-21	Jun-22	Difference	Ratge of change	Dec-21	Jun-22	Difference	Ratge of change	Dec-21	Jun-22	Difference	Ratge of change
	(Percent)				(Percent)				(Percent)				(Percent)			
Leumi	1.18	1.13	(0.05)	(8.16)	1.37	1.29	(0.08)	(11.46)	4.73	4.72	(0.01)	(0.54)	1.85	1.78	(0.07)	(7.61)
Hapoalim	1.10	1.11	0.02	2.81	0.39	0.41	0.02	8.51	5.37	5.09	(0.28)	(10.32)	1.96	1.86	(0.10)	(9.84)
Discount	1.20	1.23	0.03	5.41	3.67	4.98	1.31	71.19	4.58	4.30	(0.29)	(12.44)	2.31	2.36	0.05	3.94
Mizrahi-Tefahot	1.30	1.27	(0.03)	(4.68)	0.92	0.81	(0.11)	(23.71)	4.42	4.53	0.11	4.94	1.64	1.59	(0.05)	(5.88)
First International	1.42	1.36	(0.06)	(8.05)	0.29	0.40	0.12	82.96	3.66	3.53	(0.12)	(6.78)	2.15	2.05	(0.10)	(9.18)
Total system	1.24	1.22	(0.02)	(3.14)	2.29	2.77	0.48	41.41	4.67	4.56	(0.11)	(4.70)	1.91	1.85	(0.06)	(5.82)

a Excluding private banking.

SOURCE: Based on published financial statements.

Table 14

Credit and spreads by supervisory activity segment, business sector[a,b], total banking system, December 2021 and June 2022

December 2021 and June 2022

Balance of credit to the end of the reporting period

	Small and micro businesses				**Medium businesses**				**Large businesses**				**Total business sector**			
	Dec-21	Jun-22	Difference	ate of change	Dec-21	Jun-22	Difference	ate of change	Dec-21	Jun-22	Difference	ate of change	Dec-21	Jun-22	Difference	ate of change
	(NIS million)			(Percent)	(NIS million)			(Percent)	(NIS million)			(Percent)	(NIS million)			(Percent)
Leumi	57,527	63,868	6,341	22.05	34,534	37,851	3,317	19.21	93,927	117,706	23,779	50.63	185,988	219,425	33,437	35.96
Hapoalim	60,258	61,392	1,134	3.76	38,269	39,049	780	4.08	89,436	98,259	8,823	19.73	187,963	198,700	10,737	11.42
Discount	39,091	41,349	2,258	11.55	14,770	17,303	2,533	34.30	50,393	53,520	3,127	12.41	104,254	112,172	7,918	15.19
Mizrahi-Tefahot	30,744	34,493	3,749	24.39	10,066	11,476	1,410	28.02	23,574	28,460	4,886	41.45	64,384	74,429	10,045	31.20
First International	21,044	22,277	1,233	11.72	6,101	7,601	1,500	49.17	18,571	24,089	5,518	59.43	45,716	53,967	8,251	36.10
Total banking system	209,939	225,169	15,230	14.51	104,076	113,606	9,530	18.31	275,901	322,034	46,133	33.44	589,916	660,810	70,893	24.04

Spread from credit activity

	Small and micro businesses				**Medium businesses**				**Large businesses**				**Total business sector**			
	Dec-21	Jun-22	Difference	ate of change	Dec-21	Jun-22	Difference	ate of change	Dec-21	Jun-22	Difference	ate of change	Dec-21	Jun-22	Difference	ate of change
	(Percent)				(Percent)				(Percent)				(Percent)			
Leumi	3.13	3.08	(0.06)	(3.62)	2.35	2.25	(0.09)	(7.83)	1.88	1.74	(0.14)	(14.88)	2.37	2.23	(0.14)	(12.07)
Hapoalim	3.44	3.32	(0.12)	(7.11)	2.32	2.18	(0.14)	(12.00)	1.61	1.51	(0.10)	(12.35)	2.37	2.22	(0.15)	(12.90)
Discount	3.62	3.55	(0.07)	(4.10)	2.58	2.40	(0.18)	(14.19)	1.81	1.73	(0.09)	(9.68)	2.61	2.50	(0.10)	(7.89)
Mizrahi-Tefahot	3.88	3.97	0.09	4.75	3.18	3.12	(0.06)	(4.05)	2.35	2.19	(0.16)	(13.44)	3.25	3.18	(0.07)	(4.16)
First International	3.02	2.77	(0.25)	(16.47)	2.58	2.47	(0.11)	(8.18)	1.67	1.45	(0.22)	(26.69)	2.41	2.16	(0.25)	(20.73)
Total banking system	3.41	3.33	(0.08)	(4.68)	2.47	2.35	(0.12)	(9.34)	1.81	1.69	(0.12)	(13.77)	2.52	2.37	(0.14)	(11.35)

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.

Table 15

Outstanding credit to the public, by principal industries, total banking system, December 2021 and June 2022

	Total balance of credit risk[a]					Balance-sheet credit[b] (debts)				
	Balance		Distribution of credit to the public		Change in credit[c]	Balance		Distribution of credit to the public		Change in credit[c]
	Dec-21	Jun-22	Dec-21	Jun-22	Jun-22	Dec-21	Jun-22	Dec-21	Jun-22	Jun-22
	(NIS million)		(Percent)		(Percent)	(NIS million)		(Percent)		(Percent)
Borrower activity in Israel	**1,450,353**	**1,876,573**	**92.3**	**91.7**	**58.8**	**1,217,527**	**1,324,571**	**93.0**	**93.9**	**17.6**
Business sector	**807,439**	**1,054,911**	**51.4**	**51.5**	**61.3**	**587,419**	**647,272**	**44.9**	**45.9**	**20.4**
Construction and real estate - construction	234,273	301,942	14.9	14.7	57.8	131,792	148,174	10.1	10.5	24.9
Construction and real estate - real estate activity	91,510	111,571	5.8	5.4	43.8	87,740	95,431	6.7	6.8	17.5
Financial services	130,950	182,485	8.3	8.9	78.7	78,560	86,834	6.0	6.2	21.1
Business sector - other	350,707	458,913	22.3	22.4	61.7	289,327	316,833	22.1	22.5	19.0
Private individuals	**642,914**	**821,662**	**40.9**	**40.1**	**55.6**	**630,109**	**677,299**	**48.1**	**48.0**	**15.0**
Of which: Housing loans	474,795	577,583	30.2	28.2	43.3	488,828	530,797	37.3	37.6	17.2
Nonhousing loans	168,119	244,080	10.7	11.9	90.4	141,281	146,502	10.8	10.4	7.4
Borrowers' activity abroad	**120,897**	**170,906**	**7.7**	**8.3**	**82.7**	**91,757**	**86,064**	**7.0**	**6.1**	**-12.4**
Total	**1,571,250**	**2,047,479**	**100.0**	**100.0**	**60.6**	**1,309,284**	**1,410,635**	**100.0**	**100.0**	**15.5**

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.

c In annual terms.

SOURCE: Banking Supervision Department based on published financial statements.

<u>Table 16</u>

Credit portfolio quality[a] indicators, total banking system, 2017–June 2022

(percent)

Indicator/bank	Year	Leumi	Hapoalim	Discount	Miztahi-Tefahot	First Int'l	Total banking system
Year over year loan loss provision as a share of total balance-sheet credit to the public	2017	0.06	0.07	0.38	0.11	0.15	0.13
	2018	0.18	0.21	0.32	0.16	0.19	0.21
	2019	0.21	0.43	0.38	0.18	0.16	0.29
	2020	0.85	0.63	0.89	0.42	0.50	0.68
	2021	-0.23	-0.34	-0.32	-0.10	-0.21	-0.25
	Jun-22	0.04	-0.28	0.06	0.12	0.05	-0.03
Net write-offs as a share of total balance-sheet credit to the public	2017	0.15	0.21	0.39	0.09	0.17	0.20
	2018	0.09	0.19	0.25	0.11	0.16	0.16
	2019	0.23	0.12	0.22	0.11	0.09	0.16
	2020	0.18	0.09	0.19	0.11	0.10	0.13
	2021	-0.03	-0.06	0.03	0.05	-0.01	-0.01
	Jun-22	0.00	-0.06	0.10	0.03	-0.01	0.01
Allowance for credit losses as a share of total balance-sheet credit to the public	2017	1.18	1.36	1.40	0.81	1.03	1.18
	2018	1.24	1.31	1.36	0.80	1.02	1.18
	2019	1.16	1.58	1.38	0.82	1.05	1.24
	2020	1.76	2.00	1.95	0.98	1.38	1.66
	2021	1.30	1.43	1.41	0.77	1.05	1.22
	Jun-22	1.36	1.36	1.31	0.89	1.01	1.22

Table 16 (cont'd.)

Troubled loans as a share of total balance-sheet credit to the public	2017	2.71	2.37	2.80	1.39	1.78	2.30
	2018	2.45	2.30	2.23	1.52	1.89	2.19
	2019	1.96	3.06	2.56	1.78	1.86	2.32
	2020	2.87	3.41	3.90	1.50	2.16	2.83
	2021	1.85	2.26	2.91	1.25	1.68	1.99
	Jun-22	1.64	1.95	2.57	1.86	1.25	1.72
Non-performing loans and performing loans 90 days or more past due as a share of total balance-sheet credit to the public[b]	2018	1.08	0.91	0.84	1.21	0.77	1.03
	2019	0.85	1.39	0.78	1.32	1.00	1.12
	2020	0.89	1.14	0.74	1.10	0.80	0.97
	2021	0.63	0.76	0.62	0.91	0.67	0.73
	Jun-22	0.50	0.73	0.73	1.17	0.54	0.75
Allowance for credit losses as a share of non-performing loans and performing loans more than 90 days past due[b]	2018	130.32	166.09	174.88	70.62	142.73	130.01
	2019	152.40	126.28	192.10	66.35	110.77	123.90
	2020	214.58	196.48	285.04	97.33	183.94	186.23
	2021	228.91	217.34	244.90	92.60	168.12	185.77
	Jun-22	289.91	217.04	200.87	80.99	198.39	179.19
Noninvestment grade credit out of total balance sheet credit to the public[c]	2019	3.41	5.32	5.76	2.86	4.78	4.34
	2020	6.38	7.81	8.04	3.43	4.75	6.25
	2021	3.56	5.81	5.23	2.58	4.17	3.42
	Jun-22	2.81	3.96	5.03	2.88	3.23	3.54

[a] In annual terms.

[b] Beginning in January 2022, banks in Israel are implementing a forward-looking allowance method—CECL. As part of that, the credit was reclassified, from impaired credit to non-performing credit. Indicators from before 2022 are based on an estimate for non-performing credit.

[c] Credit with a credit rating, at the report date, that is in line with the credit rating for extending new credit according to the bank's policy. That is, credit that was granted in the past but would not have been granted under today's terms.

SOURCE: Based on published financial statements.

Table 17

Credit quality[a,b] by principal segments, total banking system, December 2018–June 2022

(Percent)

Bank/indicator	Year	Leumi	Hapoalim	Discount	Mizrahi-Tefahot	First International	Total banking system
Commercial credit							
Share of commercial credit	2018	59.01	56.52	61.94	25.10	47.04	50.73
	2019	60.65	56.86	61.23	24.34	46.81	51.13
	2020	61.22	56.71	61.38	27.10	46.16	51.08
	2021	62.09	58.09	60.46	26.66	46.31	51.66
	Jun-22	61.50	57.95	60.15	28.16	48.94	51.79
Loan loss provisions as a share of total commercial credit	2018	0.15	0.07	0.17	0.33	0.25	0.16
	2019	0.26	0.62	0.31	0.44	0.16	0.39
	2020	1.14	0.68	1.00	0.94	0.81	0.93
	2021	-0.29	-0.27	-0.41	-0.12	-0.45	-0.30
	Jun-22	0.04	-0.47	-0.06	0.24	0.08	-0.10
Non-performing loans or performing loans 90 days or more past due as a share of total commercial credit to the public[c]	2018	1.26	1.18	0.95	2.15	0.95	1.25
	2019	1.19	2.15	1.01	2.46	1.40	1.54
	2020	1.83	1.71	1.21	2.29	1.00	1.66
	2021	1.27	1.34	0.97	1.64	0.77	1.23
	Jun-22	0.94	1.14	1.09	1.68	0.67	1.08
Loan loss allowance as a share of non-performing credit or performing loans 90 days or more past due[c]	2018	119.96	158.57	164.89	77.53	146.49	130.43
	2019	128.79	111.06	162.19	74.76	105.54	116.23
	2020	130.73	175.79	199.08	96.11	214.36	153.28
	2021	141.54	174.41	180.21	111.64	191.43	156.55
	Jun-22	203.92	187.99	155.40	121.95	212.81	175.60
Housing credit							
Share of housing credit	2018	28.47	28.41	19.71	64.83	28.56	34.50
	2019	29.54	30.14	20.31	65.69	28.80	35.44
	2020	30.07	32.29	22.16	63.15	30.72	36.91
	2021	29.85	32.18	24.95	64.26	31.55	37.42
	Jun-22	30.58	32.74	25.81	63.26	30.45	37.71
Loan loss provisions as a share of total housing credit	2018	0.04	0.04	0.07	0.03	0.02	0.04
	2019	0.03	0.03	0.07	0.03	0.01	0.03
	2020	0.19	0.32	0.16	0.18	0.14	0.21
	2021	-0.14	-0.20	0.01	-0.08	-0.02	-0.10
	Jun-22	0.01	0.03	0.06	0.03	0.03	0.03

<u>Table 17 (cont'd.)</u>

Non-performing loans or performing loans 90 days or more past due as a share of total housing credit to the public[c]	2018	1.23	0.90	0.95	1.03	0.79	1.03
	2019	1.15	0.77	0.95	1.13	0.77	1.01
	2020	0.83	0.63	0.74	0.81	0.68	0.77
	2021	0.61	0.49	0.50	0.74	0.66	0.63
	Jun-22	0.45	0.46	0.40	1.14	0.44	0.71
Loan loss allowance as a share of non-performing credit or performing loans 90 days or more past due[c]	2018	55.57	67.09	60.32	49.16	62.30	55.47
	2019	56.27	64.17	58.64	43.99	61.73	52.74
	2020	85.25	120.89	82.17	74.00	85.42	85.77
	2021	77.74	93.67	95.20	61.85	75.00	74.06
	Jun-22	62.65	86.50	106.28	38.18	90.79	55.22
<u>Other private credit</u>							
Share of other private credit	2018	12.52	15.07	18.35	10.08	24.40	14.78
	2019	9.81	13.00	18.46	9.98	24.39	13.43
	2020	8.71	11.00	16.46	9.75	23.13	12.01
	2021	8.06	9.73	14.59	9.08	22.14	10.92
	Jun-22	7.92	9.31	14.03	8.58	20.61	10.50
Loan loss provisions as a share of total other private credit	2018	0.65	1.06	1.11	0.54	0.30	0.84
	2019	0.48	0.49	0.92	0.49	0.32	0.62
	2020	1.03	1.32	1.43	0.56	0.36	1.06
	2021	-0.16	-1.22	-0.55	-0.23	0.01	-0.53
	Jun-22	0.10	-0.35	0.48	0.25	-0.01	0.11
Non-performing loans or performing loans 90 days or more past due as a share of total other private credit[c]	2018	1.69	1.23	0.99	0.43	0.56	1.05
	2019	1.24	1.43	0.98	0.43	0.78	1.03
	2020	1.19	1.31	0.70	0.39	0.77	0.91
	2021	1.05	0.95	0.74	0.37	0.68	0.78
	Jun-22	0.99	1.05	1.25	0.48	0.59	0.87
Loan loss allowance as a share of non-performing credit or performing loans 90 days or more past due[c]	2018	189.44	194.83	395.78	341.56	271.00	238.43
	2019	221.21	165.62	416.86	345.57	192.31	236.13
	2020	290.11	267.19	886.49	395.35	230.43	358.79
	2021	281.78	218.12	633.61	317.50	256.69	312.33
	Jun-22	290.16	260.37	377.00	361.11	285.22	310.68

[a] Including credit in respect of borrowers' activities in Israel and abroad.

[b] In annual terms.

[c] Beginning from January 2022, the banks in Israel are implementing a forward-looking allowance method (CECL), in which the credit was reclassified from impaired credit to non-performing credit. The indicators that show before 2022 are on the basis of estimated non-performing credit.

SOURCE: Based on published financial statements.