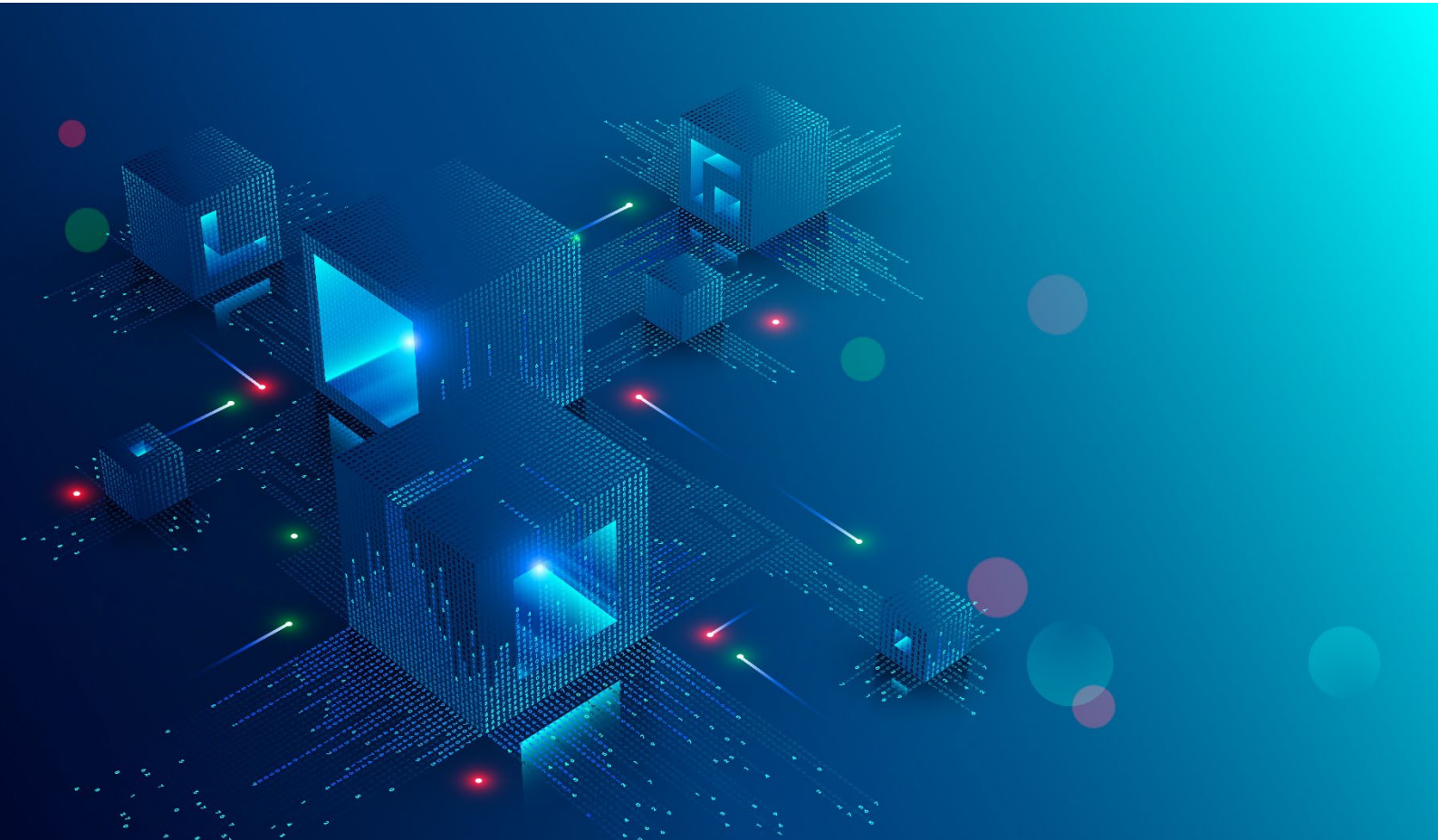




Bank of Israel

The Banking Supervision Department

The Economic Unit



Israel's Banking System

First Half of 2024

© Bank of Israel. Material from this publication may be quoted provided that the source is attributed.

Jerusalem

November 2024

TABLE OF CONTENTS

BUSINESS RESULTS OF THE BANKING SYSTEM	5
MV/BV ANALYSIS OF THE BANKS' RESULTS	12
MAIN DEVELOPMENTS IN BALANCE-SHEET AND OFF-BALANCE-SHEET ACTIVITY.....	18
CREDIT PORTFOLIO AND CREDIT RISK	28
LIQUIDITY RISK	48
MARKET RISK	57
Appendix—Tables	63

INTRODUCTION

This survey details main developments in Israel's banking system in the first half of 2024. The economic effects of the war slackened during this time but uncertainty about economic developments remained, for reasons including the ongoing warfare, its spread onto additional fronts, and the budget deficit. At the beginning of January 2024, the Monetary Committee announced a rate cut of 0.25 percent; from then on, it left the rate unchanged at 4.5 percent. After the GDP growth rate recovered in the first quarter of the year, growth slowed considerably in the second quarter. The inflation rate leveled off during the first half and the NIS depreciated against the USD and the EUR.

The banking system maintained its strength in the first half of 2024. Capital and liquidity ratios remained high for reasons including strong system profitability relative to previous years, occasioned largely by growth of the credit portfolio, a decrease in credit-loss provisions, and an upturn in the inflation environment. The growth rate of the credit portfolio resembled that observed in 2023, reflecting a slower pace than in previous years. Portfolio quality remained strong.

The Tier 1 capital ratio of the banking system remained high in the first half of 2024 and is estimated at 11.5 percent, attesting to the banking system's ample ability to withstand shocks and continue supporting the economy even at times of ongoing uncertainty. High profitability in the course of the year continued to help bolster capital ratios. Contrastingly, the distribution of earnings and the continued increase in risk assets had erosive effects on the capital ratio.

Bank credit to the public grew by 6.1 percent (annualized) in the first half of 2024, slightly slower than in 2023 (6.6 percent). Business credit and housing credit led the growth of the credit portfolio; fixed consumer credit to households was stable. Despite the high interest environment (reflecting an increase in borrowers' debt burden) and the macroeconomic conditions at hand, the credit-risk indicators have remained largely unchanged thus far. Just the same, the banks preemptively increased their credit-loss provisions in view of the eruption of the Swords of Iron War in the third

quarter of 2023. However, as the risk indicators did not worsen, some banks recorded income on the credit-loss provisions line in the second quarter of 2024.

The public's deposits grew by 4.6 percent (annualized) in the first half of 2024. The share of the public's money held in interest-bearing deposits, which began to increase in the second half of 2022 (when the Bank of Israel interest rate was rising) continue to grow in 2024 but at a gentler pace and came to 57 percent in view of the high interest level. Transmission from the Bank of Israel rate to lending rates in the various activity segments was complete (with the exception of housing loans, in which it was weaker). In contrast, the transmission rate from Bank of Israel interest to deposit interest was lower (68 percent) with variance among the activity segments, and transmission was even lower to households than to the business sector.¹ The transmission rate of central-bank interest to fixed-interest household deposits in Israel remained high by international standards.

Israel is still in an ongoing state of war, which expanded into the northern sector at the beginning of the fourth quarter of the year amid rising geopolitical tension. In addition, in the last weeks before publication, the Moody's and S&P rating agencies announced sovereign debt downgrades by two notches and one notch, respectively, together with negative rating outlooks.² Accordingly, the banking system needs to maintain its resilience with even greater resolve in order to withstand the challenges—those mentioned and others that may come about. With this construct, the outline put together by the Banking Supervision Department and adopted by the banking system, relating mainly to the possibility of deferring loan repayment and leniencies in paying fees and interest on current-account overdrafts—was extended in the first half of the year. The Banking Supervision Department will continue to monitor developments regularly and closely against the background of the ongoing war and the environment of uncertainty, *inter alia*.

¹ Notably, the Bank of Israel took action to improve the rate of transmission to households' deposits in the course of the year.

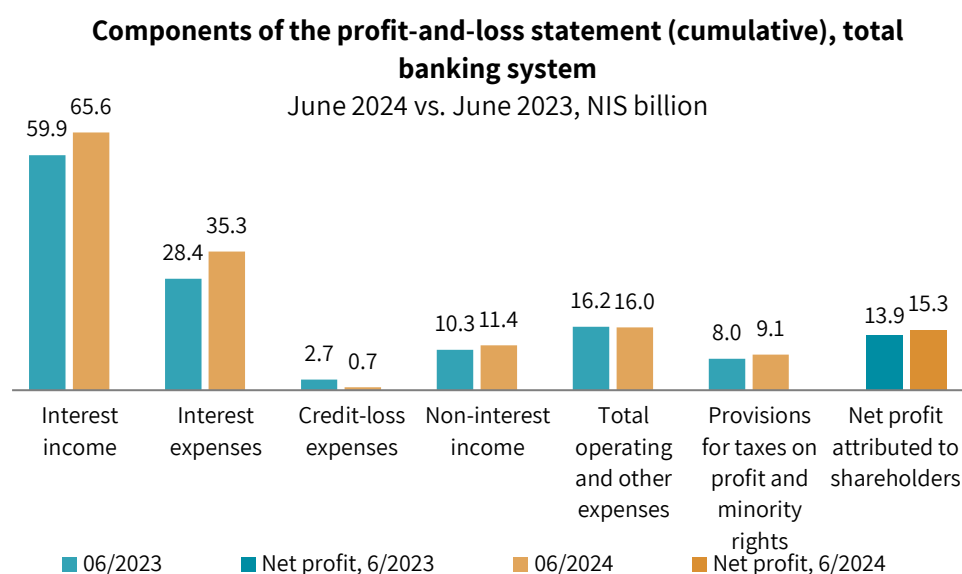
² Pursuant to downgrades by these agencies during the review period. (For elaboration, see the Capital Adequacy and Leveraging section of this survey.)

BUSINESS RESULTS OF THE BANKING SYSTEM

Profitability of the Banking System

The net profit³ of the banking system as a whole in the first half of 2024 was NIS 15.3 billion, up 10.4 percent from the year-earlier period (NIS 13.9 billion) (Table 2). The banking system owed its strong profitability mainly to the high interest environment and the lowering of credit-loss provisions relative to the year-earlier period due to the improvement in credit-portfolio quality (a decrease of NIS 2 billion; Figure 1). The inflation environment also continued to abet strong system profitability but was slightly lower in the current half-year than in the year-earlier period. Tax provisioning grew in the course of the half-year, largely due to the increase in current profitability and the passage of a statute mandating a special payment on account of the banks' profits in order to attain budget targets (Temporary Provision—Swords of Iron War). The banking system's return on equity was 16.9 percent in the first half of 2024 (15.6 percent when neutralized for CPI effects) as against 17.2 percent in the year-earlier period (15.6 percent net of CPI effects; Table 1).

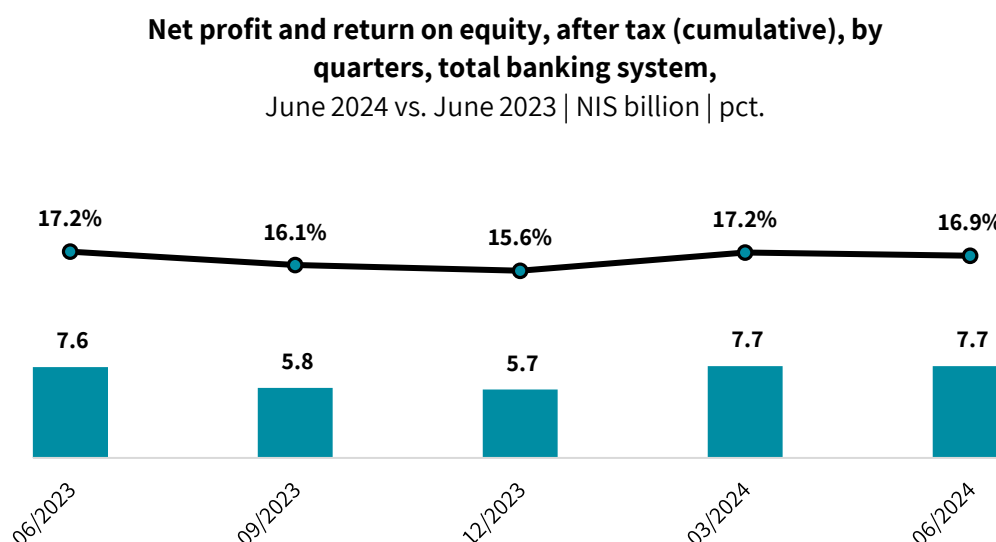
Figure 1: Net profits of the banking system climbed in the first half of 2024, mainly due to the high interest environment and less credit-loss expenditure



Source: published financial statements and processing by the Banking Supervision Department

³ The net profit attributed to the banks' shareholders.

Figure 2: The return on equity during the second half of 2024 continues to be high



Source: published financial statements and processing by the Banking Supervision Department

Development of Income and Expenditure Lines in the Profit-and-Loss Statement]

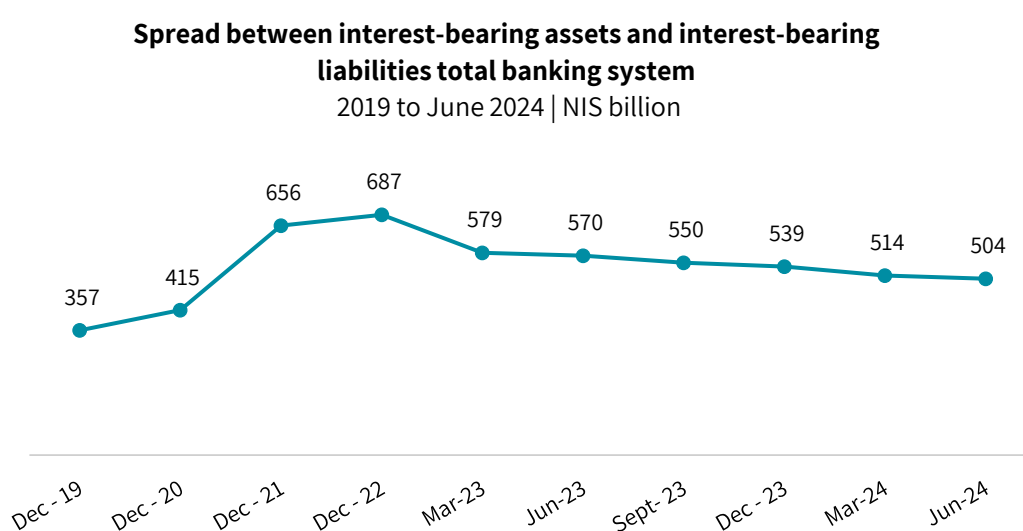
Net interest income decreased during the period reviewed by 5 percent relative to the year-earlier period and came to NIS 30.3 billion (Table 2). During this time, interest income increased by 9.6 percent to NIS 65.6 billion as of June 2024 (as against NIS 59.8 billion in June 2023). Interest expenses also increased but did so more rapidly (by 24.4 percent) to NIS 35.3 billion in view of the continued redirection of current-account funds to interest-bearing deposits. (For elaboration, see the balance-sheet chapter in this survey). The coupling of less interest income and more interest expenses also traces to the effect of the Consumer Price Index, which was lower in the first half of 2024 than in the year-earlier period.⁴

The banking system is characterized by a surplus of interest-bearing assets over interest-bearing liabilities (Figure 3). In the first half of 2024, the spread between interest-bearing assets and interest-bearing liabilities continued to narrow due to faster growth of the latter. The acceleration traces to continued redirection of current-account funds to interest-bearing deposits while on the

⁴ The banking system typically has a surplus of indexed assets over indexed liabilities; therefore the main impact of the change in the CPI is on interest income. The high inflation environment is affecting interest income in two ways: the total increase in assets originating in inflation—attributed to interest income—and the increase in the balance of indexed credit (in view of inflation), which also boosts interest income on account of this balance.

asset side, the rate of credit growth slowed. In particular, the banking system is typified by a surplus of interest-accruing assets in the track of indexation to the prime rate over interest-paying liabilities in both fixed interest and prime-rate-indexed interest. Accordingly, as long as the interest environment remains high, it will have a major effect on the increase in net interest income.

Figure 3: First half of 2024: the spread between interest-bearing assets and interest-bearing liabilities continued to narrow due to faster growth on the interest-bearing-liabilities side



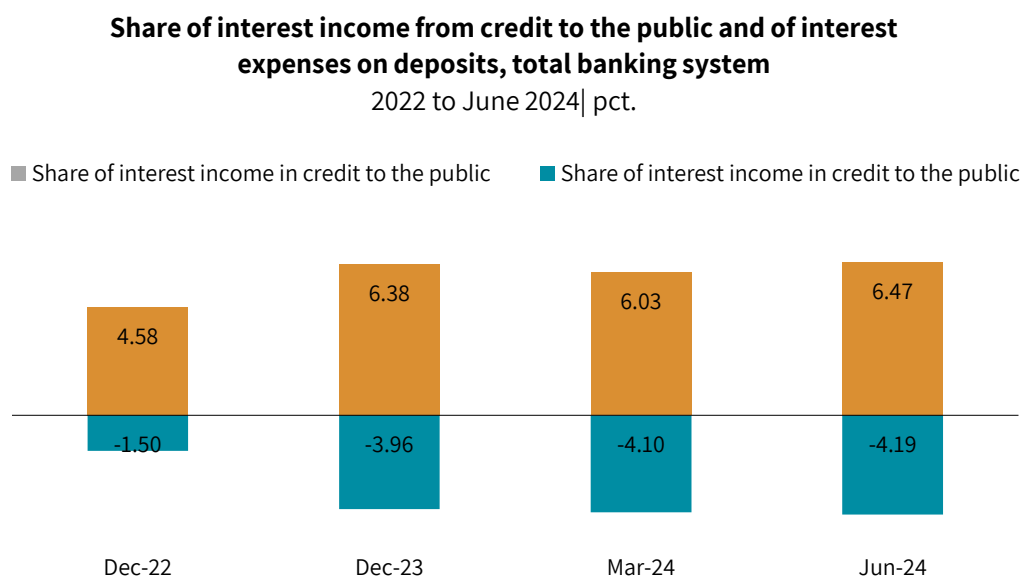
Source: published financial statements and processing by the Banking Supervision Department

During the period reviewed, both the rate of interest income from credit to the public and the rate of interest expenses on public deposits increased slightly. Net of the effects of inflation, however, the interest income from credit to the public decreased slightly (as the main effect of inflation was felt in the second quarter of this year; Figure 4). As a result, the interest-rate spread,⁵ which reflects the banks' profitability from their core activity (issuing credit and accepting deposits), decreased slightly in the first half of 2024 and came to 2.28 percent as against 2.4 percent at the end of 2023 (Figure 5). Notably, while the increase in the interest rate had a considerable effect on these rates in 2022–2023, the main effect in the quarter reviewed in this survey belongs to the high inflation rate, which found expression largely in the second quarter of this year. An analysis of the interest

⁵ In accordance with the spread between the interest income from credit and the interest expense rate on interest-bearing deposits. On the side of the public's deposits, it is conventional to calculate the interest spread including interest-bearing deposits only.

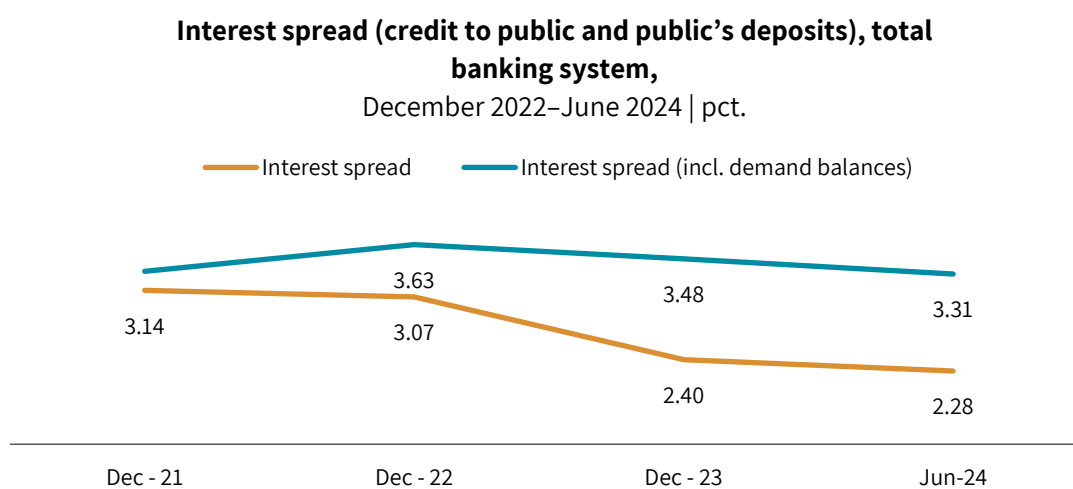
spread-rate including current-account balances (most of which are non-interest bearing but partially serve as a source of credit) reveals a similar trend, the spread narrowing to 3.31 percent as against 3.48 percent at the end of 2023 (Figure 5).

Figure 4: First half of 2024: both the share of interest income from credit to the public and the share of interest expenses on the public's deposits increased



Source: published financial statements and processing by the Banking Supervision Department

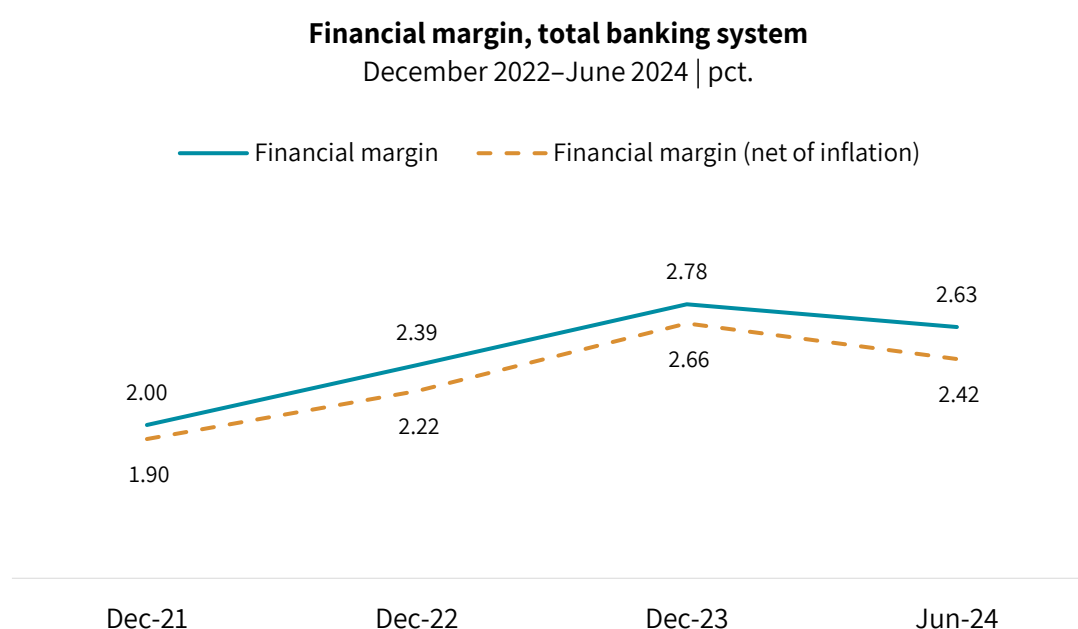
Figure 5: First half of 2024: interest spread continued to narrow



Source: published financial statements and processing by the Banking Supervision Department.

The financial margin,⁶ an indicator of the banking system's ability to generate profits from total assets that bring in financing income, narrowed slightly to 2.63 percent at the end of the first half of 2024 as against 2.78 percent at the end of 2023 (Figure 6), mainly due an increase in financing income and milder growth of assets that yield such income. Net of the effect of the Consumer Price Index, the growth rate of the financial margin slowed similarly.

Figure 6: In the first half of 2S024, the financial margin fell slightly due to an increase in financing income and a milder upturn in assets that yield financing income



source: published financial statements and processing by the Banking Supervision Department

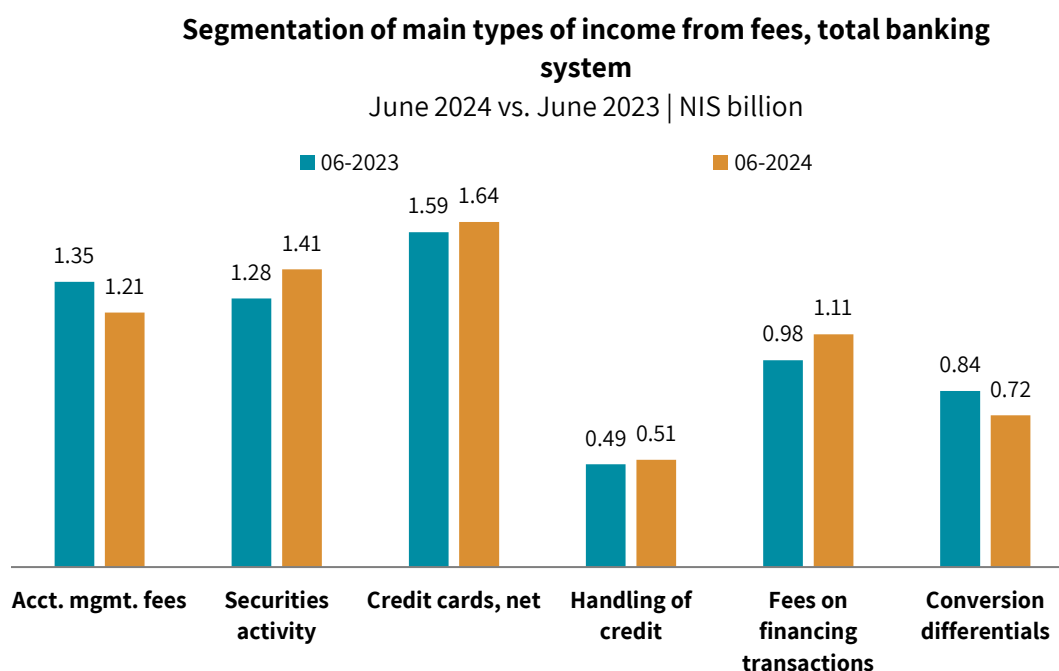
Credit-loss provisions declined in the first half of 2024 relative to the year-earlier period and came to NIS 728 million (Table 1) and several banking corporations actually recorded income on this line. The decline in credit-loss provisions traces to an improvement in certain borrowers' condition that found expression in individual credit-loss provisions and a slight improvement in the forecasts of several macroeconomic variables, reflected in group credit-loss provisions. (For elaboration, see the Capital chapter in this survey).

⁶ Total net financial (interest and non-interest) income divided by total interest-bearing assets.

Noninterest income increased by 10.8 percent in the first half of 2024 relative to the year-earlier period and came to NIS 11.4 billion (Table 1), due to fair-value adjustments of derivative instruments in view of exchange-rate differentials and an increase in several banking corporations' income from equity investments.

Income from fees grew by 0.7 percent in the first half of 2024 relative to the year-earlier period and added up to NIS 7.4 billion (Table 1). Most of the upturn originates in an increase in fees on securities activities and on financing transactions, along with a decline in account-management fees (occasioned in part by the Banking Supervision Department's relief programs) and in conversion differentials (Figure 7).

Figure 7: Most of the increase traces to an upturn in fees on activity in securities and fees on financing transactions alongside less income from account-management fees and conversion differentials



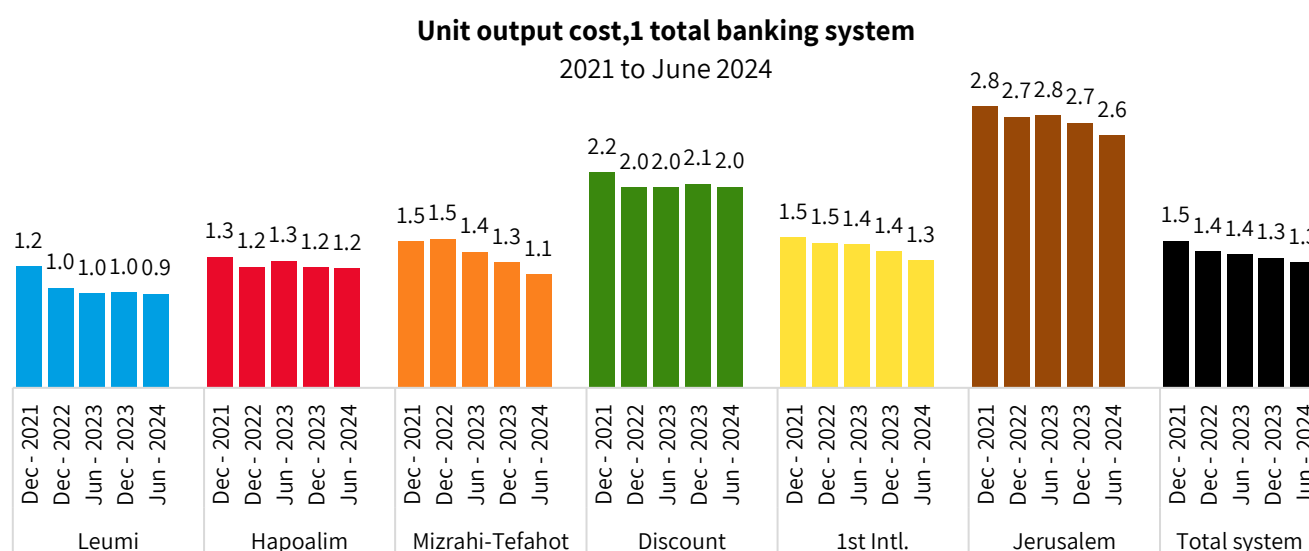
Source: published financial statements and processing by the Banking Supervision Department

Other income was NIS 1.1 billion in the first half of 2024 as against NIS 642 million in the year-earlier period, due to the effect of nonrecurring income from the sale of assets of a small number of banking corporations.

OPERATING EFFICIENCY

The operating-efficiency ratio remained low due to continued high income and stability on the expenditure side (Figure 8). Accordingly, unit output efficiency remained low as well (Figure 9).

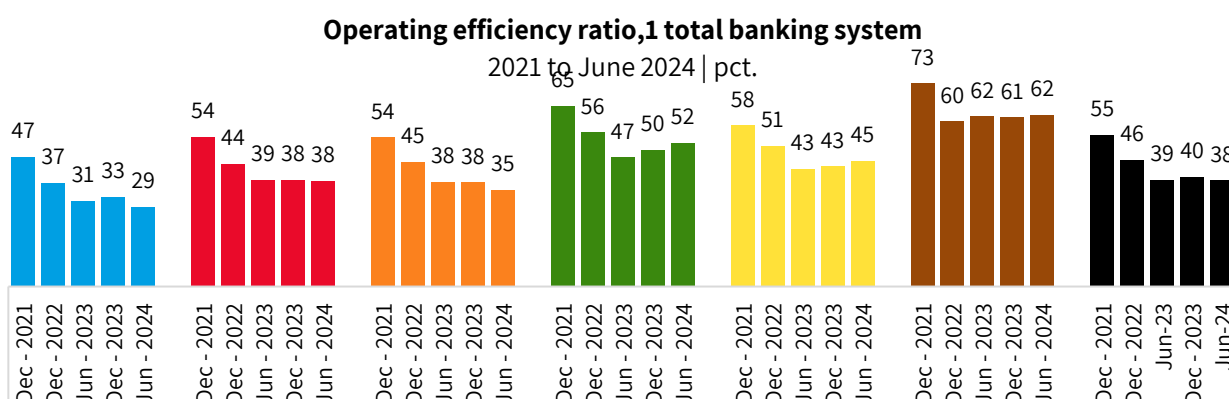
Figure 8: Operating efficiency ratio remains low



1)The ratio of total operating and other expenditure and average balance of assets (average cost)

Source: published financial statements, reports to the Banking Supervision Department, and processing by the Banking Supervision Department

Figure 9: Unit output cost remains low



1)The ratio of total operating and other expenditure and average balance of assets (average cost)

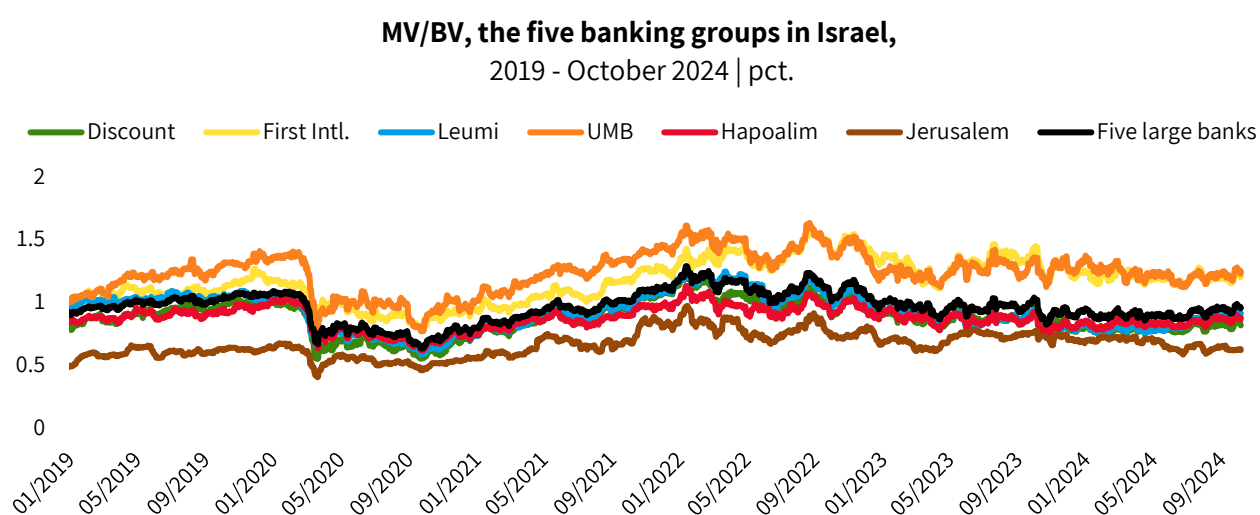
Source: published financial statements, reports to the Banking Supervision Department, and processing by the Banking Supervision Department

MV/BV ANALYSIS OF THE BANKS' RESULTS

A bank's MV/BV (market value to book value) ratio is a financial ratio that compares the bank's market value with its value on the books and gives an indication of the market's valuation of the bank relative to its accounting value. A ratio higher than 1 indicates that the market values the bank over its recorded worth, attesting to investors' trust in its growth potential, whereas a ratio below 1 may reflect concerns in the market that cause the bank to be overpriced.

When the banks' financial statements for the second quarter of 2024 were released, the MV/BV ratio of the entire banking system was 0.93 (as of August 2024; Figure 10). From the beginning of 2024 on, the index was somewhat volatile, following a decline and stronger fluctuations in the last few months of 2023 due to the effects of the war. This may indicate that investors consider the Israeli financial system stable and resilient in the long term despite the security situation and the uncertainty that comes with it.

Figure 10: Mild volatility in the first half of 2024 may be indicative of investors' trust in the strength of Israel's banking system

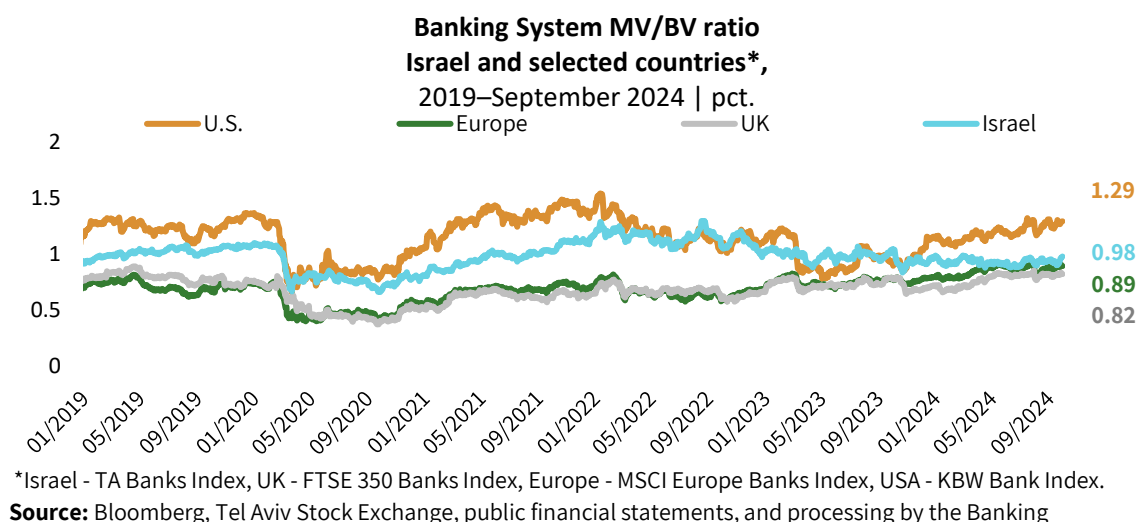


Source: Stock Exchange data, public financial statements, and processing by the Banking Supervision Department

The spread between MV/BV ratio of the banks in Israel and that of European and British banks, once quite wide, has narrowed due to a gentle upturn in the European and British banks' ratio and a mild decrease in the Israeli banks' MV. At the present writing, the ratio of the Israeli index remains higher than that of the UK and Europe. Relative to the index of the American banks, the spread is

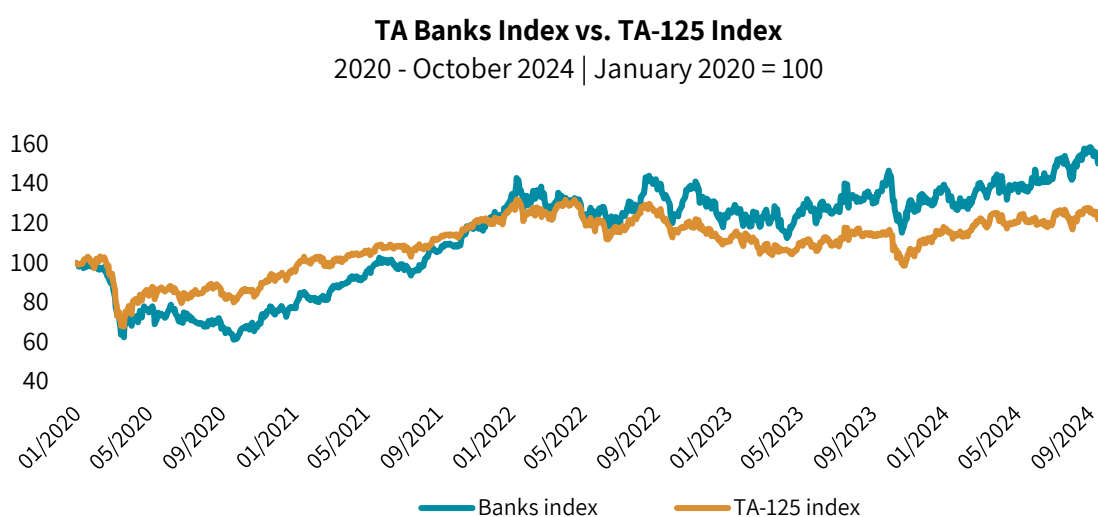
continuing to evolve as the American ratio rebounds (after slipping due to the liquidity crisis at several banks from March 2023 onward) while that of the Israeli banks continues to slump due to the war (Figure 11).

Figure 11: Israel's spread vis-a-vis U.S., Europe, and UK declines in view of war



Since the beginning of 2024, the banks' equities have been trending much as has the rest of the sectors in the economy but, the banks' index delivered better yields and their value rose more swiftly than did the TA-125 Index—possibly due to the high interest environment, which has been enhancing the banks' profitability.

Figure 11: The trends of the banking index are similar to the trends of other economic sectors

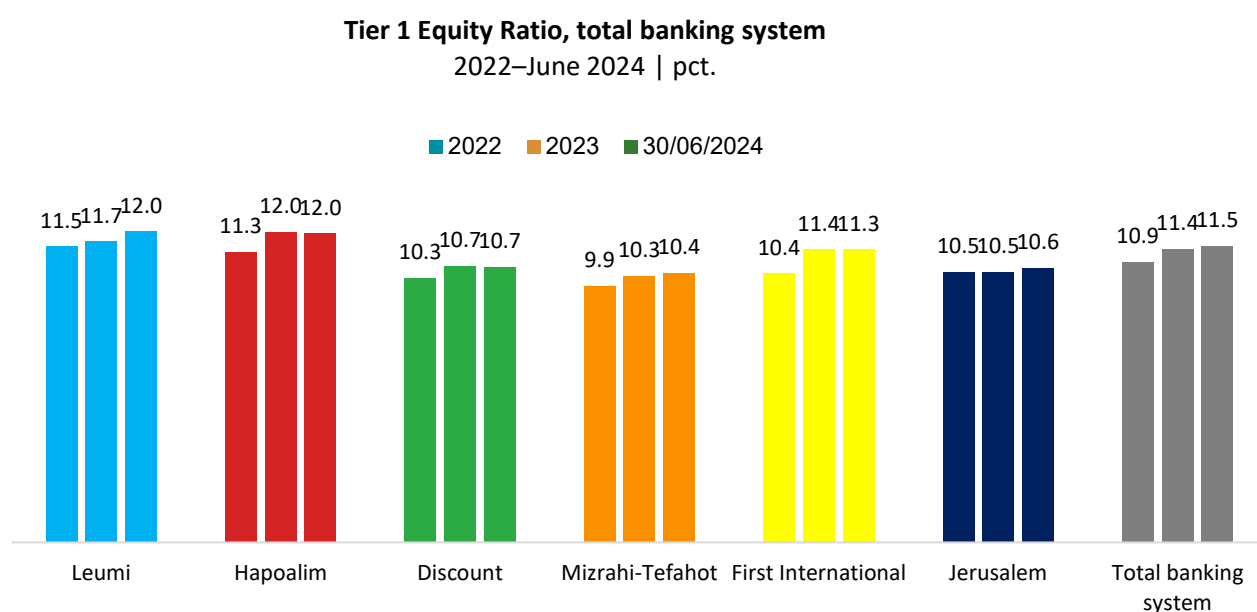


Source: Tel Aviv Stock Exchange and processing by the Banking Supervision Department

CAPITAL ADEQUACY AND LEVERAGE

The Tier 1 capital ratio of the banking system remained high in the first half of 2024 at approximately 11.5 percent (Figure 13). All the banks reported capital ratios in excess of the minimum requirements, indicating that banking system has the strength to withstand shocks and continue supporting the economy at times of crisis. Strong profitability in the course of the year continued to abet upward movement in capital ratios. In contrast, the distribution of profits and continued upturns in risk weighted assets had erosive effects on the capital ratio. Concurrently, the leverage ratio continued to improve, at 6.7 percent in June 2024 as against 6.5 percent at the end of 2023.

Figure 13: Equity ratio remains high



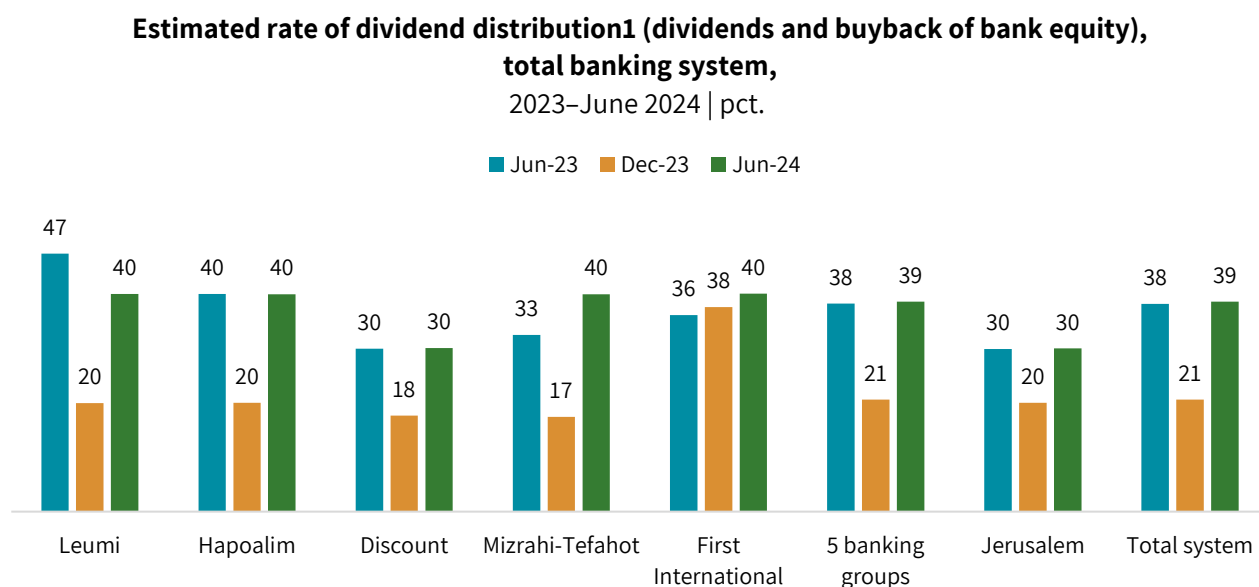
Source: published financial statements and processing by the Banking Supervision Department

The banking system's Tier 1 capital rose in the first half of 2024 by 12.9 percent (annualized) to NIS 189 billion (middle graph). The growth rate was slightly faster than the 12.2 percent annual average pace in the past two years. Strong profitability (NIS 15.3 billion in net profit in the first half of 2024 as against NIS 13.9 billion in the year-earlier period) continued to abet the increase in capital. Contrastingly, distribution of profit⁷ (NIS 4.3 billion in the first half of 2024) had a downward effect on capital for reasons including banks' because, *inter alia*, the banks reverted to

⁷ Distribution of dividends and buy-back of shares.

high rates of distribution of earnings (Figure 14). This development owes its background to a perceptible increase in capital in the second half of 2023, occasioned, among other determinants, by a relatively low rate of earnings distribution (15 percent–20 percent)⁸ in view of the war.

Figure 14: First half of 2024 sees reversion to high dividend-distribution rates



1) The data for Bank Leumi in the first half of 2023 include an NIS 600 million buyback plan. The data for the First International Bank in the second half of 2023 are composed of 20% distribution on account of second-half profits plus completion of a 50% dividend distribution from net profit in the first half of 2023.

Source: published financial statements and processing by the Banking Supervision Department.

Risk assets grew in the first half of 2024 by 10.9 percent (middle graph), outpacing the rate of increase in 2023 (7.5 percent). The growth of total risk assets was powered by credit-risk assets, which accounted for 91 percent of all risk assets in the first half of 2024. Credit-risk assets grew by 10 percent in the review period as against 6.7 percent in 2023. The acceleration traces to continued growth of the credit portfolio (for elaboration, see the Credit Portfolio and Credit Risk section of this survey) and the downgrading of Israel's sovereign rating⁹ by Moody's, S&P, and Fitch,¹⁰ which pushed up capital requirements on account of the banks' exposures to the

⁸ *Inter alia* in view of a Supervisory Letter, in which the Supervisor of Banks instructed the banking system to reexamine its earnings distribution policies. See Letter 202339, November 12, 2023, and Letter 202405, March 5, 2024, concerning capital planning and earnings distribution policies.

⁹ As a result of the sovereign rating downgrade, the credit ratings of most Israeli banks fell as well.

¹⁰ On February 9, 2024, Moody's announced a downgrade of Israel's sovereign debt rating from A1 to A2 and issued a negative rating outlook.

On April 18, 2024, S&P announced a downgrade of Israel's sovereign debt rating from AA- to A and issued a negative rating outlook.

Government of Israel,¹¹ public sector entities, institutional players, and banks. Thus, on Tuesday, October 10, 2024, S&P announced a downgrade of Israel's credit rating to A and issued a negative rating outlook after Moody's, on Friday, September 27, 2024, announced another downgrade, to Baa1, and posted a negative rating outlook. These downgrades had no direct effect on the Israeli banks' credit-risk assets but they triggered a further decline in the credit ratings of most Israeli banks. Notably in this context, most banks in the system¹² use S&P as the country's sole rating agency for capital-adequacy measurement purposes. Accordingly, a downgrade by the other companies is unlikely to have a direct effect on capital. Only S&P's BBB+ rating, positioned two notches under Israel's current rating, would directly affect the banks' capital allocation.

The system's strong profitability in recent years is also reflected in rapid growth of operating risk assets,¹³ which account for 7.3 percent of total risk assets. Operating risk assets continued to grow at a brisk 15.8 percent pace in the first half of 2024, as against 17 percent on annual average in 2022–2023.

Like the Tier 1 equity ratio, the total capital ratio remained high during the first half of 2024, estimated at 14.4 percent (unchanged from the end of 2023; see the capital ratios table). The improvement originates, among other determinants, in an NIS 850 million increase in the group credit-loss provision, which is recognized as Tier 2 capital.¹⁴

The leverage ratio continued to improve: that of the total system was 6.7 percent in the middle of 2024 as against 6.5 percent at the end of 2023 (see the leverage ratio table). The

On August 12, 2024, Fitch announced a downgrade of Israel's sovereign debt rating from A+ to A and issued a negative rating outlook.

¹¹ The banking corporations' exposures to the Government of Israel and the Bank of Israel, denominated or paid in foreign currency.

¹² Apart from Bank Leumi, which uses the strictest credit rating among the three rating companies (Fitch, S&P, and Moody's), all the banks use S&P only. Accordingly, Bank Leumi is also exposed to two downgrades of Moody's (Baa1) and Fitch (BBB+), insofar as such occurred, that would bring on an increase in the bank's credit-risk assets. (When three ratings are given, the two best ratings are examined, and from both of them the share of the risk is weighted in accordance with the inferior rating of the two.)

¹³ Israeli banks apply the profitability-based standard approach to calculate operating risk assets. For elaboration, see Proper Conduct of Banking Business Directive 206, "Operating Risk."

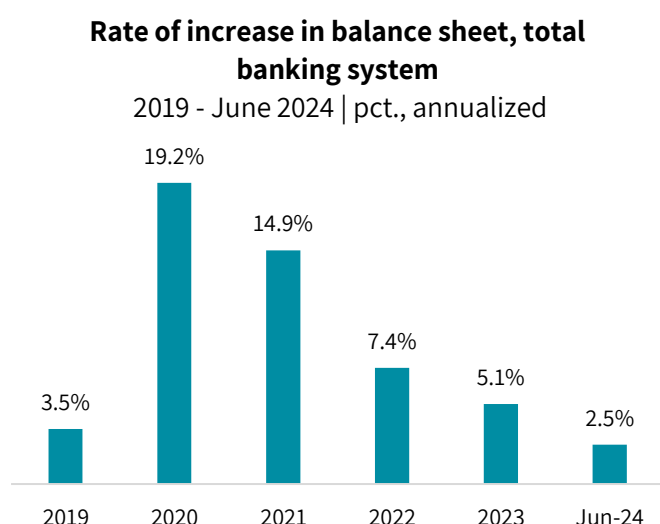
¹⁴ Group provisions before the effect of tax that qualify for inclusion in Tier 2 capital may not exceed 1.25 percent of total credit-risk-weighted risk assets calculated using the standard approach. For elaboration, see Proper Conduct of Banking Business Directive 202, "Supervisory Capital."

improvement in the banking system's leverage ratio in the course of 2024 originates in a higher growth rate of Tier 1 capital (12.9 percent) than of total exposures (4.9 percent). The growth rate of total exposures slowed mainly due to the continued decline in **the rate of increase in balance-sheet exposures (3.6 percent in the first half of 2024 as against 5.3 percent in 2023)**, which account for 87 percent of the system's total exposures—due, *inter alia*, to slower growth rates of the credit portfolio than in recent years. (For elaboration, see the Credit Portfolio and Credit Risk chapter.)

MAIN DEVELOPMENTS IN BALANCE-SHEET AND OFF-BALANCE-SHEET ACTIVITY

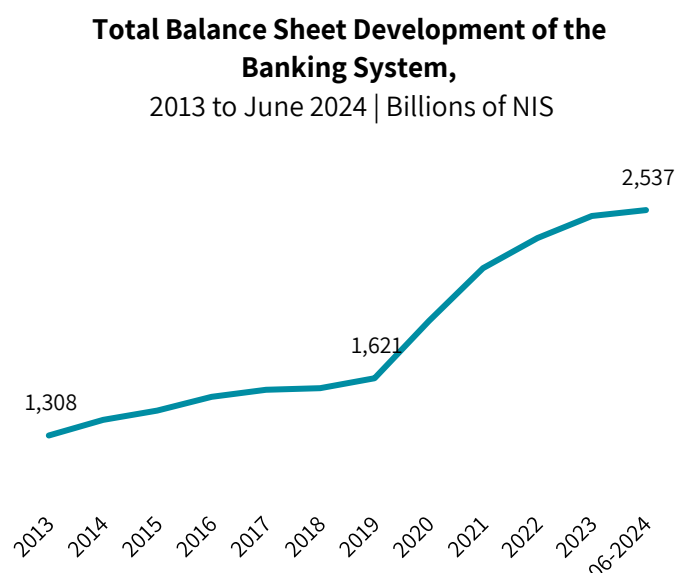
The aggregate balance sheet of the banking system was NIS 2,537 billion at the end of the first half of 2024, up 2.5 percent (annualized). The growth rate slowed relative to recent years due to the ongoing effects of the Swords of Iron War on the economy. (The annual average growth rate in the past five years was 10 percent; Figure 16.)

Figure 16: Rate of increase in the banking system's total balance sheet slows



Source: published financial statements and processing by the Banking Supervision Department.

Figure 15: Mild upturn in the banking system's total balance sheet



Source: published financial statements and processing by the Banking Supervision Department

MAIN DEVELOPMENTS ON THE ASSETS SIDE

Net credit to the public, the main component of the assets side of the banks' balance sheet (65 percent of total assets; Figure 17) grew by 6 percent (annualized) in the first half of the year and came to NIS 1,615 billion in June 2024 (for elaboration, see the Credit Portfolio and Credit Risk chapter)—down from the 8 percent rate of increase observed in the year-earlier period. The first half of 2024 ended with a 12.6 percent increase in the banks' cash and deposits (NIS 452 million) and a 15.5 percent contraction of their securities portfolio, to NIS 367 million as of June 2024 in view of an increase in monetary deposits in lieu of Makam issues by the Bank of Israel. (For elaboration, see the Liquidity Risk chapter and Figure 18.)

Figure 17: First half of 2024 sees an increase in the growth rate of net credit to the public and in cash and bank deposits in total banking-system assets, along with a decrease in the share of the banking system’s securities portfolio

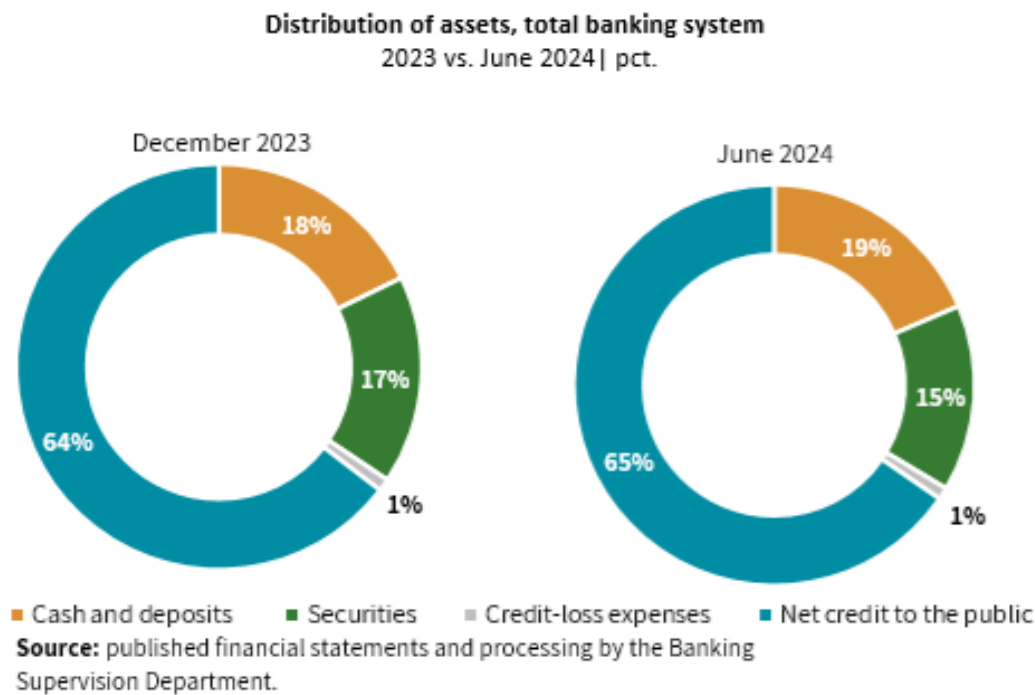
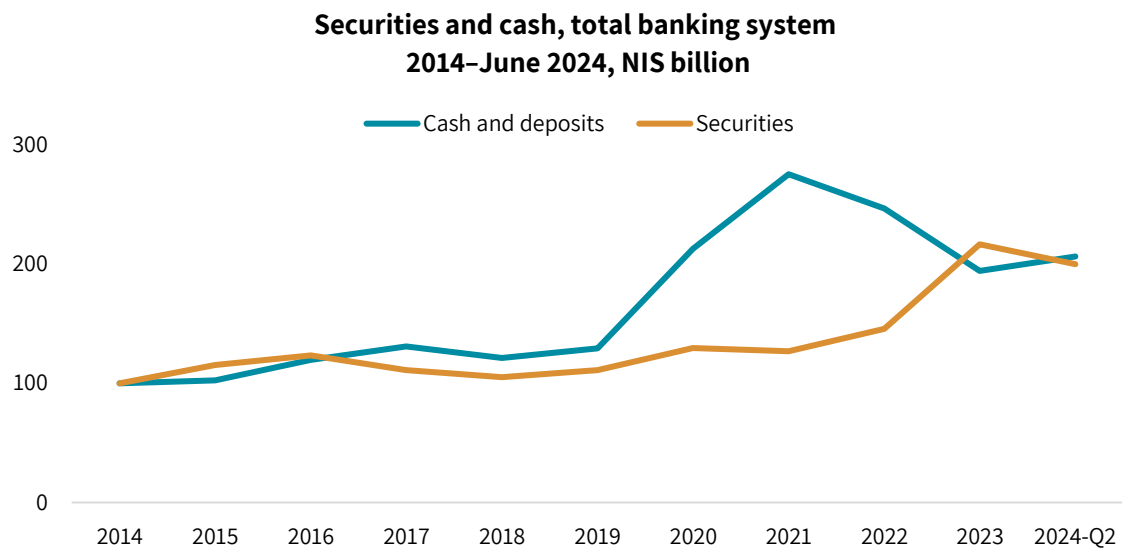


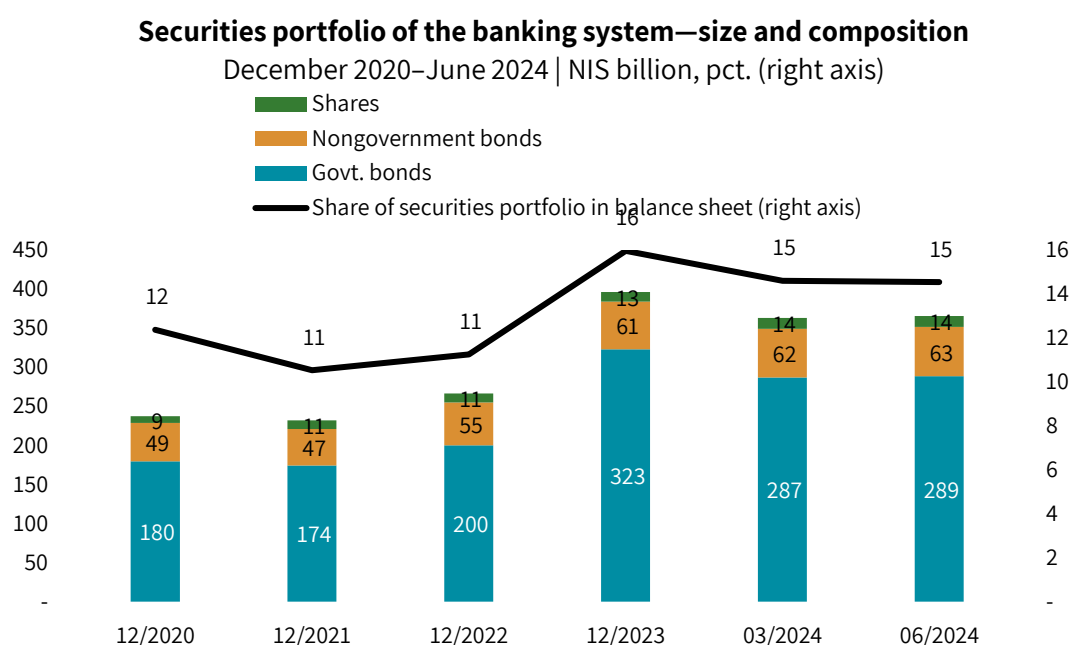
Figure 18: First half of 2024: increase in cash and bank deposits, decrease in the securities portfolio



Source: published financial statements and processing by the Banking Supervision Department

After a 61 percent increase in 2023, holdings of government bonds¹⁵ declined sharply in the first quarter of 2024, by 11 percent in cumulative terms, and stood at NIS 289 billion in June. This downturn accounted for much of the total contraction of the securities portfolio and traces largely to smaller holdings of Makams. Accordingly, the share of the securities portfolio in the total balance sheet fell slightly and came to 14 percent in June (Figure 19).

Figure 19: First half of 2024: share of government bonds down, their share in the balance sheet stable



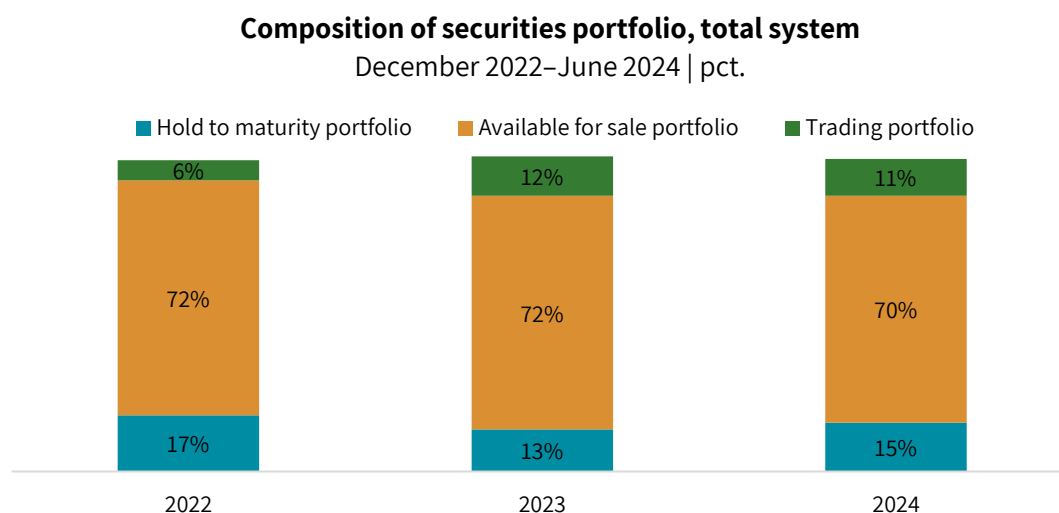
Source: published financial statements and processing by the Banking Supervision Department

The banks sort their securities investments into three main portfolios: held-to-maturity, in which assets are retained until maturity and are unaffected by ongoing changes in market prices; the trading portfolio, in which assets are traded regularly and changes in their value are recorded immediately in the profit-and-loss statements; and available-for-sale, in which changes in asset values are recorded under equity until the assets are actually sold. The last-mentioned portfolio accounts for most of the total portfolio but its share declined slightly relative to December 2023 and came to NIS 256 billion as of June 2024 (70 percent; Figure 20). After tripling in the course of

¹⁵ Including Makams.

2023 (from NIS 16 billion in 2022 to NIS 48 billion in 2023), the trading portfolio reversed direction in the first half of 2024 and contracted by 14 percent, leaving its value estimated at NIS 41 billion.

Figure 20: Share of portfolio for trading and portfolio available for sale in the banks' securities portfolio declines in the past year



Source: published financial statements and processing by the Banking Supervision Department

MAIN DEVELOPMENTS ON THE LIABILITIES AND CAPITAL SIDE

The public's deposits, which account for most of the liabilities side of the balance sheet, **increased by 4.6 percent (annualized) in the first half of 2024** (Figure 21) and came to NIS 2,032 billion in June. Thus, the slowing trend observed after the aberrant surge in recent years continued (10 percent annual average growth in the past five years). A slightly faster growth of credit to the public (6 percent) caused the ratio of credit to deposits to climb slightly, from 0.77 in December 2023 to 0.78 in June 2024 (Figure 22).

Equity increased by 13 percent (annualized) in the first half of 2024 and came to NIS 191 billion in June against the background of strong system profitability in recent years and conservative distribution of dividends in view of the ongoing Swords of Iron War. (For elaboration, see the Capital Adequacy and Leverage chapter).

Bonds and deferred promissory notes slipped by 0.9 percent to NIS 114 billion as of June 2024.

Figure 21: In the course of the year: a mild increase in the share of public's deposits and equity in the total balance sheet

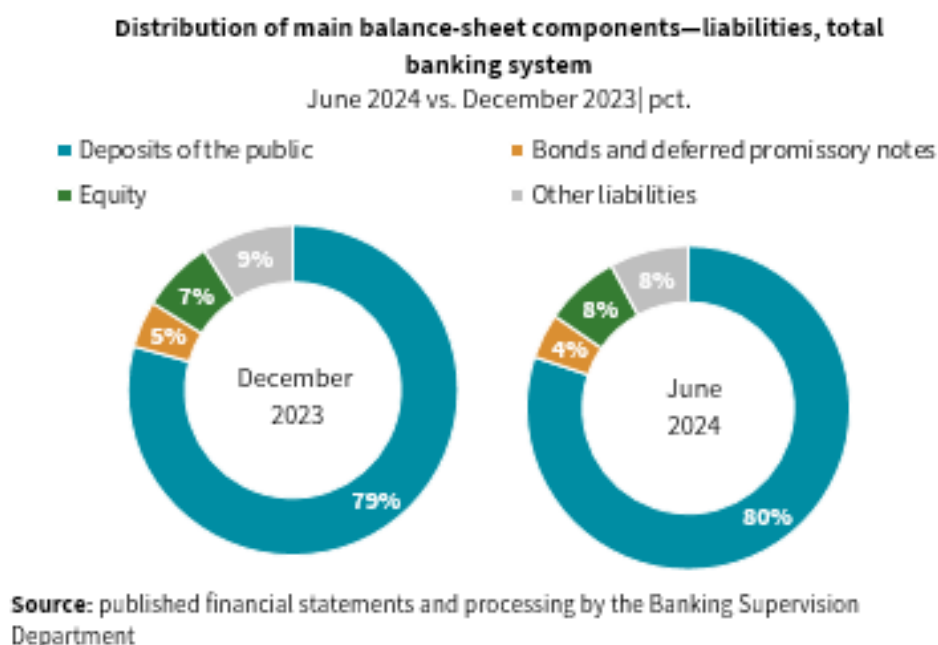
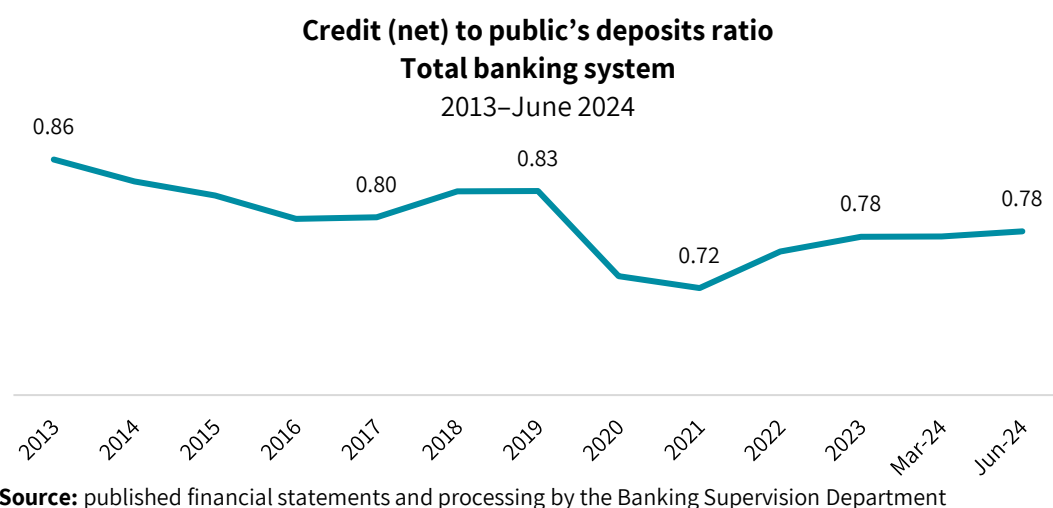
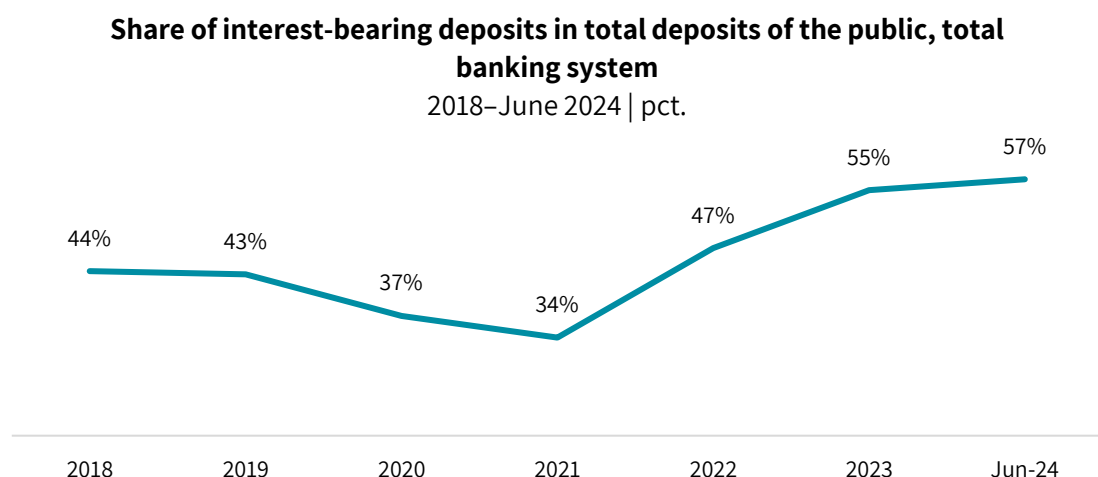


Figure 22: First half of 2024: credit–deposits ratio grows as credit increases more rapidly than the public's deposits



The share of the public's money kept in interest-bearing deposits, which began to rise in the second half of 2022 (in tandem with the Bank of Israel rate) continued to climb in the course of 2024 but less vigorously and came to 57 percent, reflecting the high interest level and measures taken by the Bank of Israel to encourage the public to divert funds to interest-bearing balances (Figure 23).

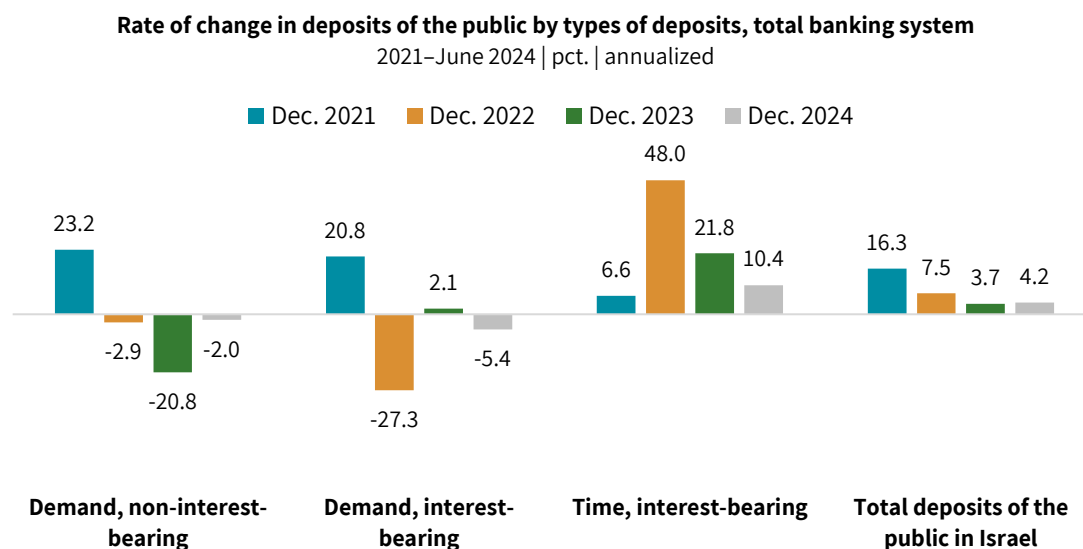
Figure 23: First half of 2024: the share of interest-bearing deposits in total deposits of the public continued to grow



Source: published financial statements and processing by the Banking Supervision Department

The growth rate of interest-bearing term deposits slowed in the first half of 2024 (to 10.4 percent in annual terms; Figure 24) as against a decrease in demand deposits (non-interest-bearing and interest-bearing: down 2 percent and 5.4 percent annualized, respectively).

Figure 24: First half of 2024: deposits of the public increased due to upturn in interest-bearing time deposits.



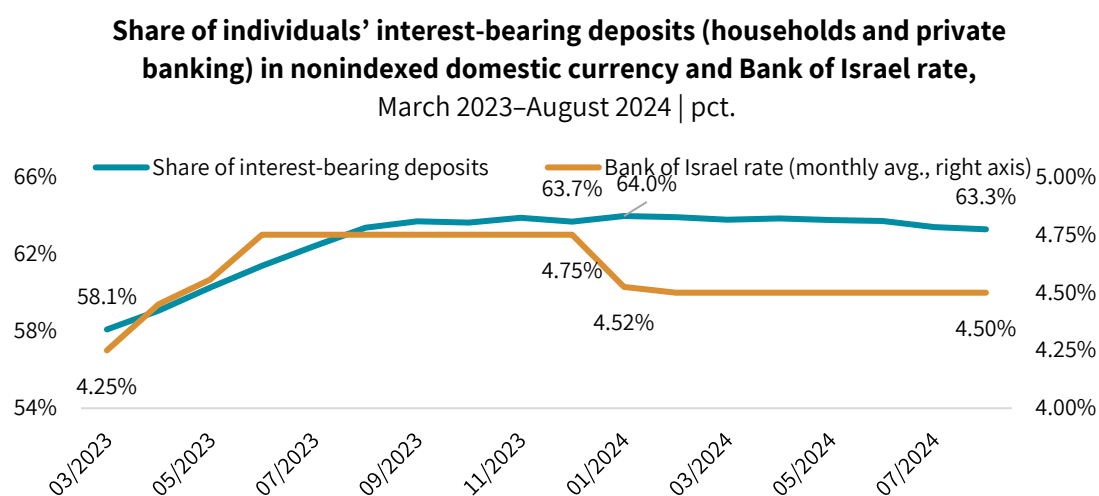
Source: published financial statements and processing by the Banking Supervision Department

Private DEPOSITS

The share of interest-bearing private deposits (term deposits and short-term-demand deposits) edged downward in 2024 from 63.7 percent to 63.3 percent (Figure 25), apparently due to weaker expectations of a rate cut, the security situation, and consumers' preference of liquid assets under conditions of uncertainty.

NIS-denominated money market funds¹⁶ serve households as a savings alternative to interest-bearing bank deposits. Such funds are exposed to solid assets, are liquid, charge relatively low fees, and are taxed on real earnings. In the past year and a half, accrual in NIS-denominated money market funds trended same as did the increase in interest-bearing bank deposits. In the second quarter of 2024, households' accrual in NIS-denominated money market funds grew while growth of interest-bearing private deposits increased less vigorously (NIS 9 billion accrual as against an NIS 3 billion increase in the balance of interest-bearing deposits; Figure 26). This may have been the outcome of a higher potential yield on a money market fund than the interest offered on bank deposits to households, along with liquidity for the customer.

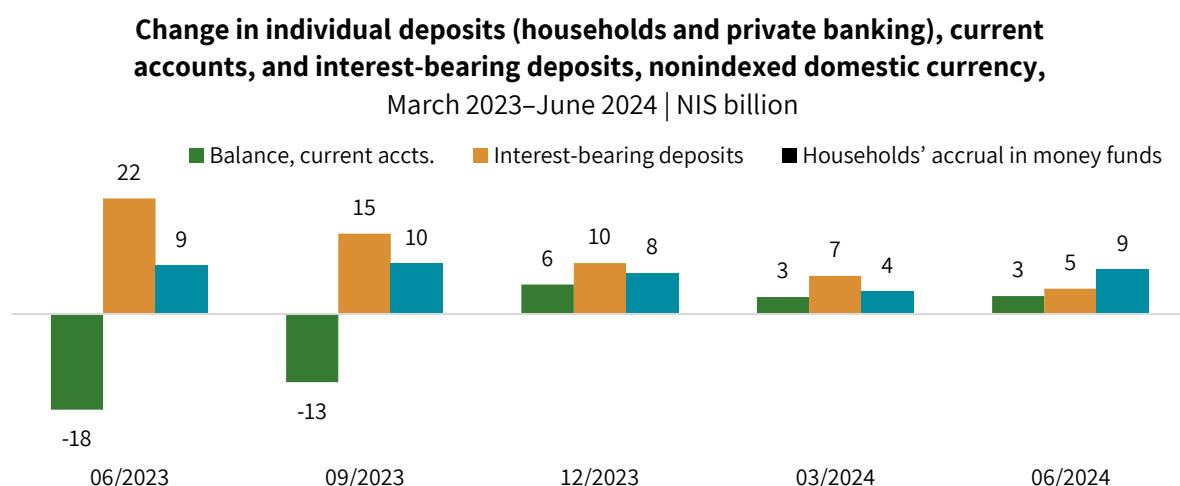
Figure 25: The share of individual interest-bearing deposits fell, apparently due the upturn in uncertainty



Source: published financial statements and processing by the Banking Supervision Department

¹⁶ A money market fund is a mutual fund that serves as an investment instrument to various terms. It is allowed to invest the money that it manages in assets that are considered solid (Makam, large bank deposits, highly rated bonds).

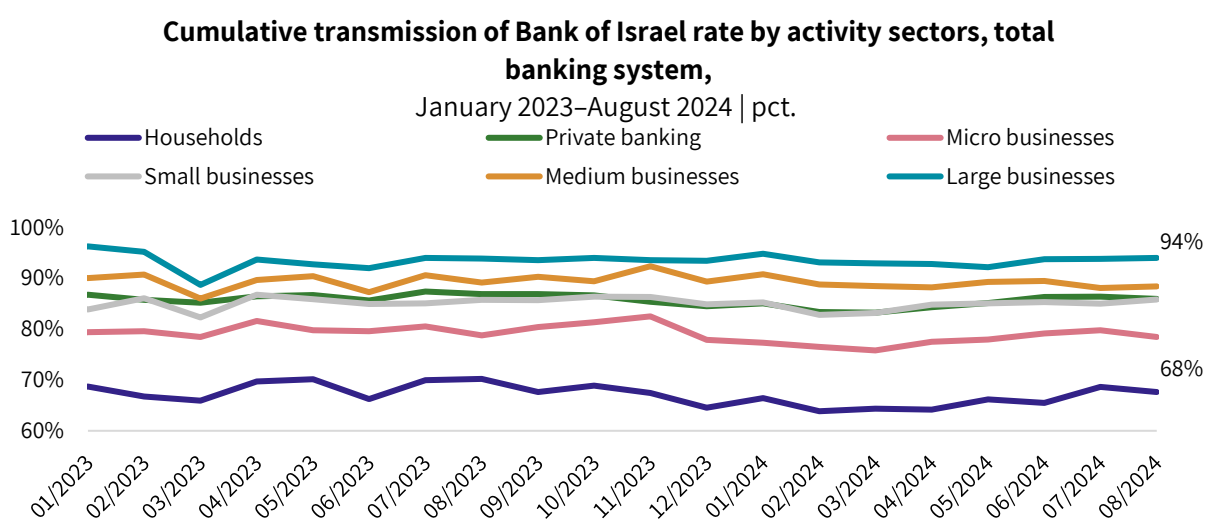
**Figure 26: Second quarter of 2024: increase in households' accrual in NIS money funds
along with slowing growth of interest-bearing deposits**



Source: published financial statements and processing by the Banking Supervision Department and the Bank of Israel

As for deposit performance, transmission of the Bank of Israel rate to households' deposits¹⁷ increased slightly in the second quarter of 2024 but remained low relative to other activity segments—68 percent in August 2024 as against 65 percent in December 2023, most of the increase tracing to fixed-interest deposits (Figure 27).

**Figure 27: Transmission of Bank of Israel rate to households' deposits remained low
relative to deposits of other activity sectors**

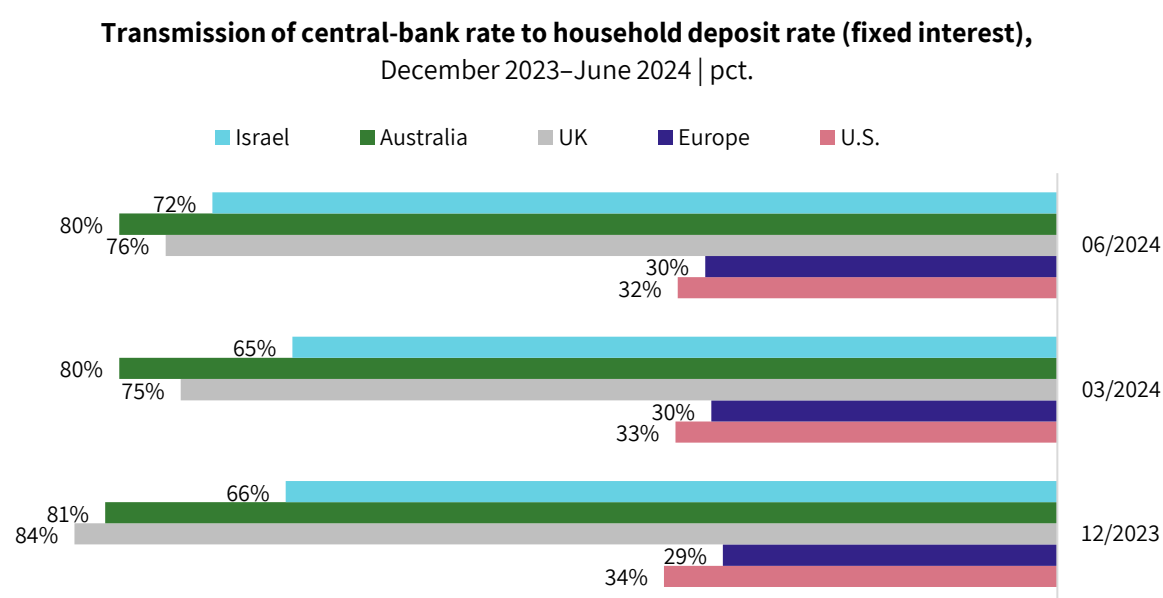


Source: reports to the Banking Supervision Department and processing by the Banking Supervision Department

¹⁷ This transmission is calculated as the numerator of the ratio of change in deposit interest in a given month to the deposit rate before the Bank of Israel began its round of rate increases in April 2022, as against the change in the Bank of Israel rate at that time.

The transmission from Israel’s central-bank rate to fixed-interest household deposits remains high by international comparison.¹⁸ In the second quarter of 2024, the rate of transmission in Israel again climbed relative to the countries compared. In most countries, the rate declined slightly during this time, apart from Europe, where transmission is very low. Central-bank rates remained unchanged with the exception of the ECB rate, which was lowered by 0.25 percent (Figure 28).¹⁹

Figure 28: Second quarter of 2024: rate transmission rises slightly and remains high by international standards



Sources:

U.S.—Federal Reserve Economic Data, interest: IOBR (Interest on Reserve Balances)

ECB—ECB data, European Central Bank—Statistical Data Warehouse, interest: deposit facility rate.

UK—BOE data, interest: BOE Base Rate

Australia—RBA data, RBA Official Cash Rate

Israel—reports to the Banking Supervision Department and processing by the Banking Supervision Department

¹⁸ Households’ deposits in different countries may have different characteristics. For the comparison shown here, we relate to deposits that have the following characteristics: **(1) Israel**—average rate on nonindexed fixed-interest household deposits (including private banking); **(2) United States**—average rate on twelve-month fixed-rate deposits of the public; **(3) European Union**—average rate on household deposits; **(4) Great Britain**—average rate household deposits that do not allow early withdrawal, including financial institutions that issue mortgage loans and do not rely on demand-account products; **(5) Australia**—fixed-time retail loans up to AUD 10,000 at Australia’s five largest banks.

¹⁹ The comparison relates to the period up to June 2024 in view of the availability of data on household’s deposits and does not include the Federal Reserve’s rate cut in September 2024.

MAIN DEVELOPMENTS IN OFF-BALANCE-SHEET ACTIVITY

In the first half of 2024, the total off-balance-sheet exposure increased by 5.9 percent due to transactions in off-balance-sheet financial instruments, in which the par value represents a credit risk. The increase in off-balance-sheet liabilities traces to three main lines: a 12 percent upturn in irrevocable undertakings to issue credit that was approved and not get given (including in-principle approvals of housing credit); a 9 percent upturn in undertakings issue guarantees; and a 3.8 percent increase in unused credit-card facilities. In addition, overdraft facilities and other credit facilities in demand accounts fell by 3.2 percent after growing vigorously in the last quarter of 2023 due to the Swords of Iron War.

\

CREDIT PORTFOLIO AND CREDIT RISK

In the first half of 2024, the banking system's credit portfolio grew by 6.1 percent (annualized), a slightly lower growth rate than the 6.6 percent in 2023 (both rates are lower than in previous years). Credit growth rates began to slow in 2022 in view of the interest rate increases that began in April 2022 and continued in 2023; the trend persisted until the interest rate cut in January 2024 (Figure 29). Business credit and housing credit led the growth of the credit portfolio. However, within business credit overall, construction and real-estate credit saw a marked downturn during this half-year relative to previous years. Unlike 2023, which ended with a decrease of outstanding consumer credit, in the first half of 2024 consumer credit grew by 3.8 percent (annualized). Most of this growth, however, is attributed to the use of bank-issued credit cards, which explains 91 percent of this upturn in outstanding consumer credit; excluding this, the growth rate was only 0.5 percent. The steep increase in the use of bank issued credit cards may be related to growth in households' consumption due to the inflation rates and the economic uncertainty (macroeconomic shocks, including the war that erupted in the last quarter of 2023).²⁰ In the first half of 2024, the growth rate of business credit continued to slow (to 5.6 percent in annual terms) and the decline was observed in all activity segments—particularly medium-sized businesses, in which most of the decrease is attributed to a reclassification of borrowers' business segment (Figure 30). **Despite the high interest rate environment (reflecting an increase in borrowers' debt service) and the current macroeconomic conditions, the credit-risk indicators have been basically unchanged thus far. The banks increased their credit-loss allowances preemptively in view of the eruption of the war in the third quarter of 2023. Since the risk indicators did not worsen perceptibly, however, several banks reported income on the credit-loss provisions line for 2024** (Figure 31; for elaboration, see below). Most of the non-performing credit, which is considered higher risk, is commercial credit (60 percent) and the rest is housing and consumer credit (20 percent each); this accounts for 3 percent of total credit to the public.²¹ About two thirds of non-accruing credit is more than ninety days in arrears.²² Notably, for

²⁰ Indeed, private consumption showed an 8 percent increase in the first half of 2024 (16 percent annualized).

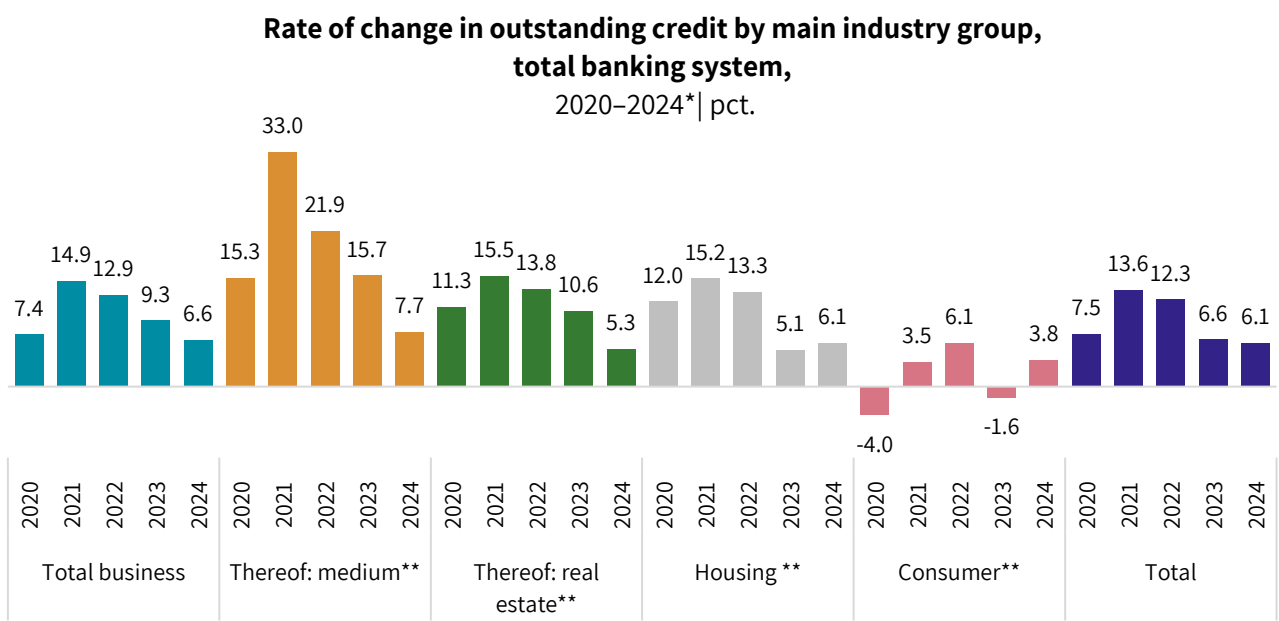
²¹ Credit to the public—activity in Israel.

²² Notably, some accruing credit is also in arrears; thus, credit in arrears and nonaccruing credit do not necessarily match.

88 percent of non-accruing credit there is an allowance for credit losses, and most of the credit for which there are no allowances is issued for construction and real estate.

The half-year reviewed saw no major change in interest rates in any supervisory activity segment other than that of households (Figure 32). The decrease recorded in the first quarter of 2024 is attributed to the Bank of Israel interest rate cut in January 2024. (Most credit in these activity segments is given at unindexed variable-rate interest.) Despite the absence of major change in interest rates, the credit spread showed a mixed trend in the first half of 2024²³: widening in the large-business segment, remaining essentially unchanged in housing and medium-business credit, and narrowing in the micro and small-business segment and in household consumer credit. The widening of the large-business credit spread alongside the slowdown in credit growth in this segment led to an increase in the rate of the credit spread in this segment, which was not observed in the other segments (Figure 33).

Figure 29: Bank credit continued to slow in 2024, although household credit (housing and consumer) increased at growth rate of bank credit



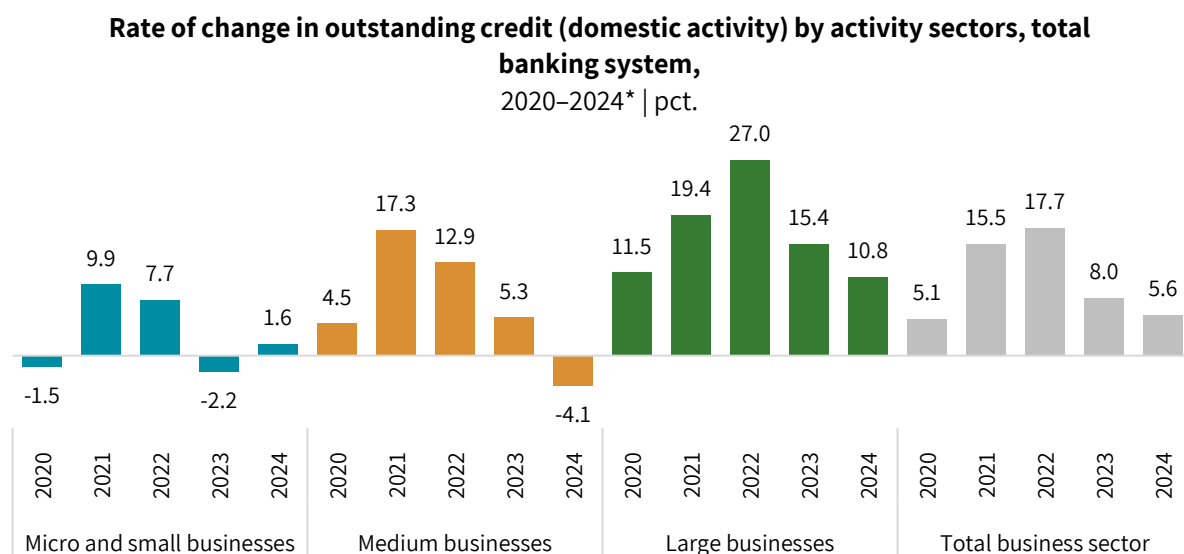
* annualized.

** not including borrowers' activity abroad in this sector.

Source: published financial statements, reports to the Banking Supervision Department, and processing by the Banking Supervision Department

²³ The spread between the cost to the bank of raising capital for lending purposes and the rate that the bank charges the borrower.

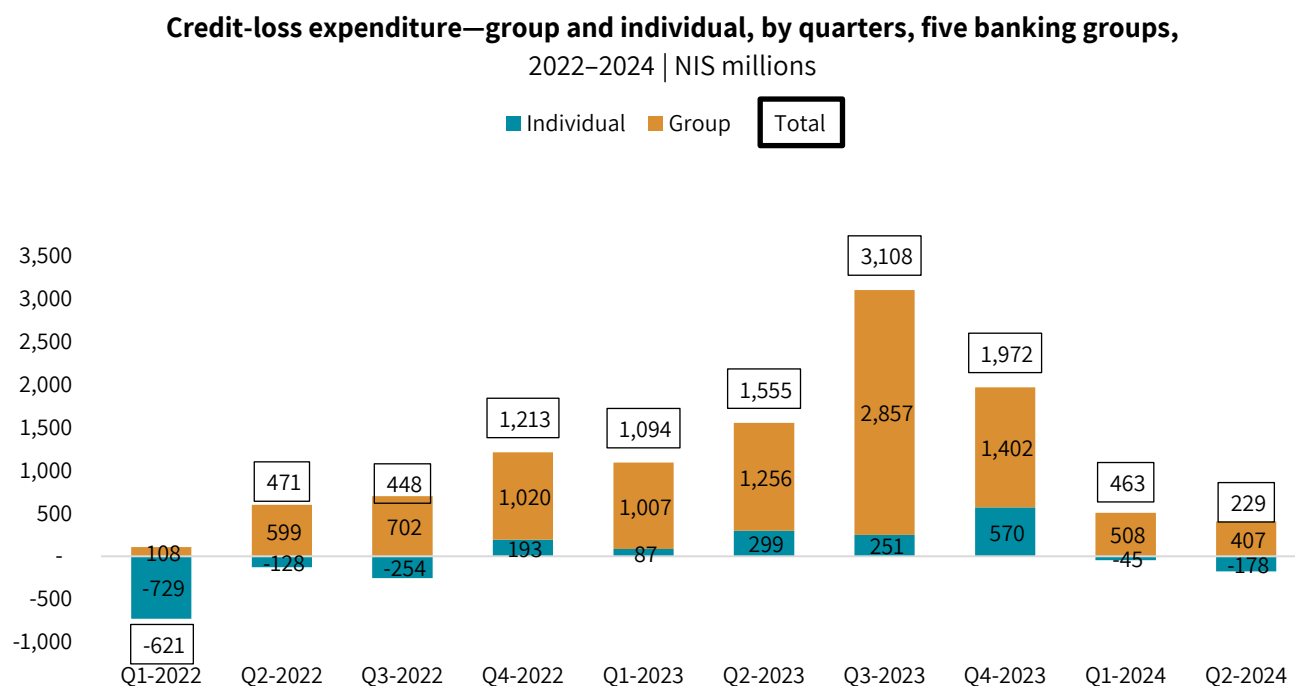
Figure 30: Mixed trends in rates of change in outstanding credit to different activity sectors



* annualized.

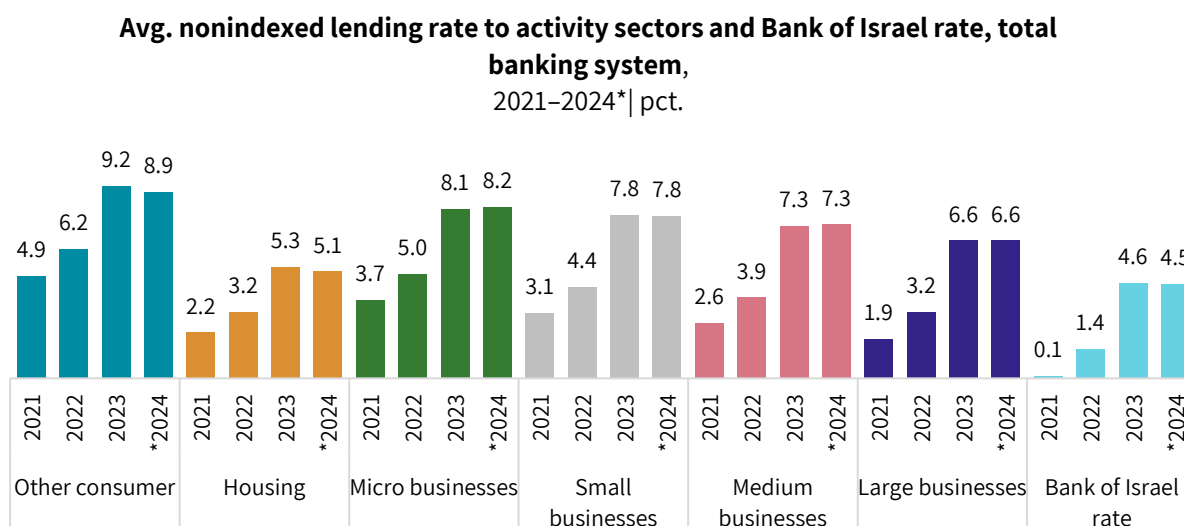
Source: published financial statements, reports to the Banking Supervision Department, and processing by the Banking Supervision Department

Figure 31: Second quarter of 2024: some banks recorded income on their credit-loss expenditure line



Source: published financial statements, reports to the Banking Supervision Department, and processing by the Banking Supervision Department

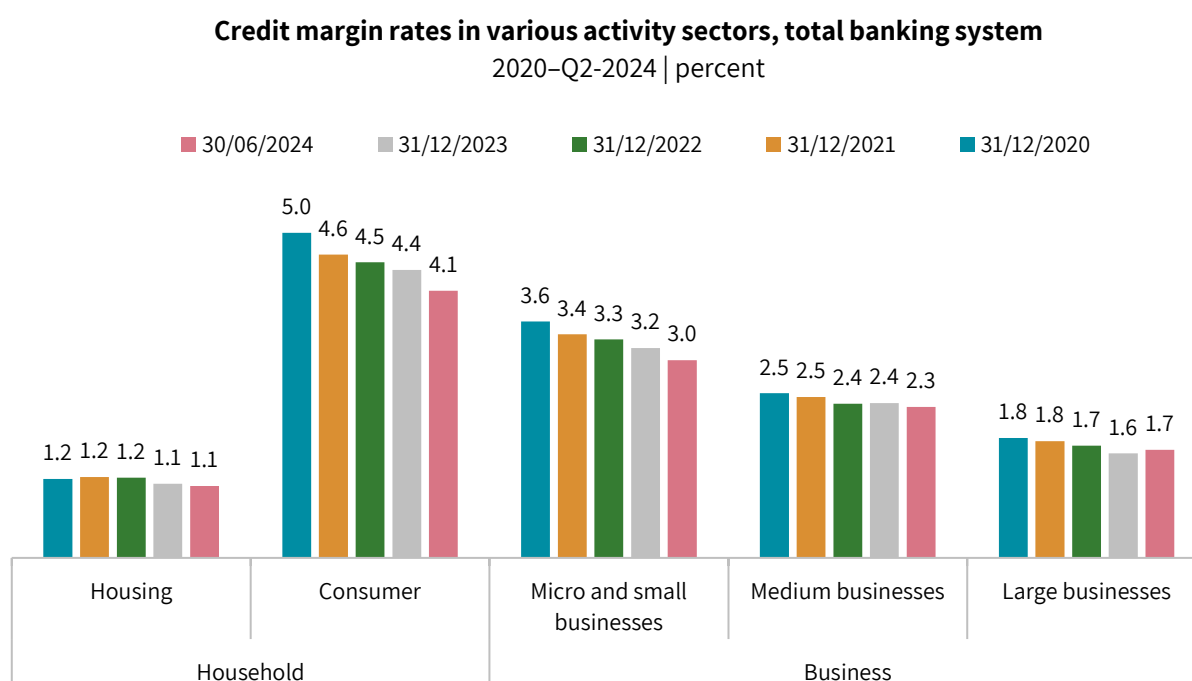
Figure 32: Interest rates basically unchanged except in business lending



* The 2024 data are based on January–September.

Source: published financial statements, reports to the Banking Supervision Department, and processing by the Banking Supervision Department

Figure 33: Credit margin narrows in most activity sectors except large businesses

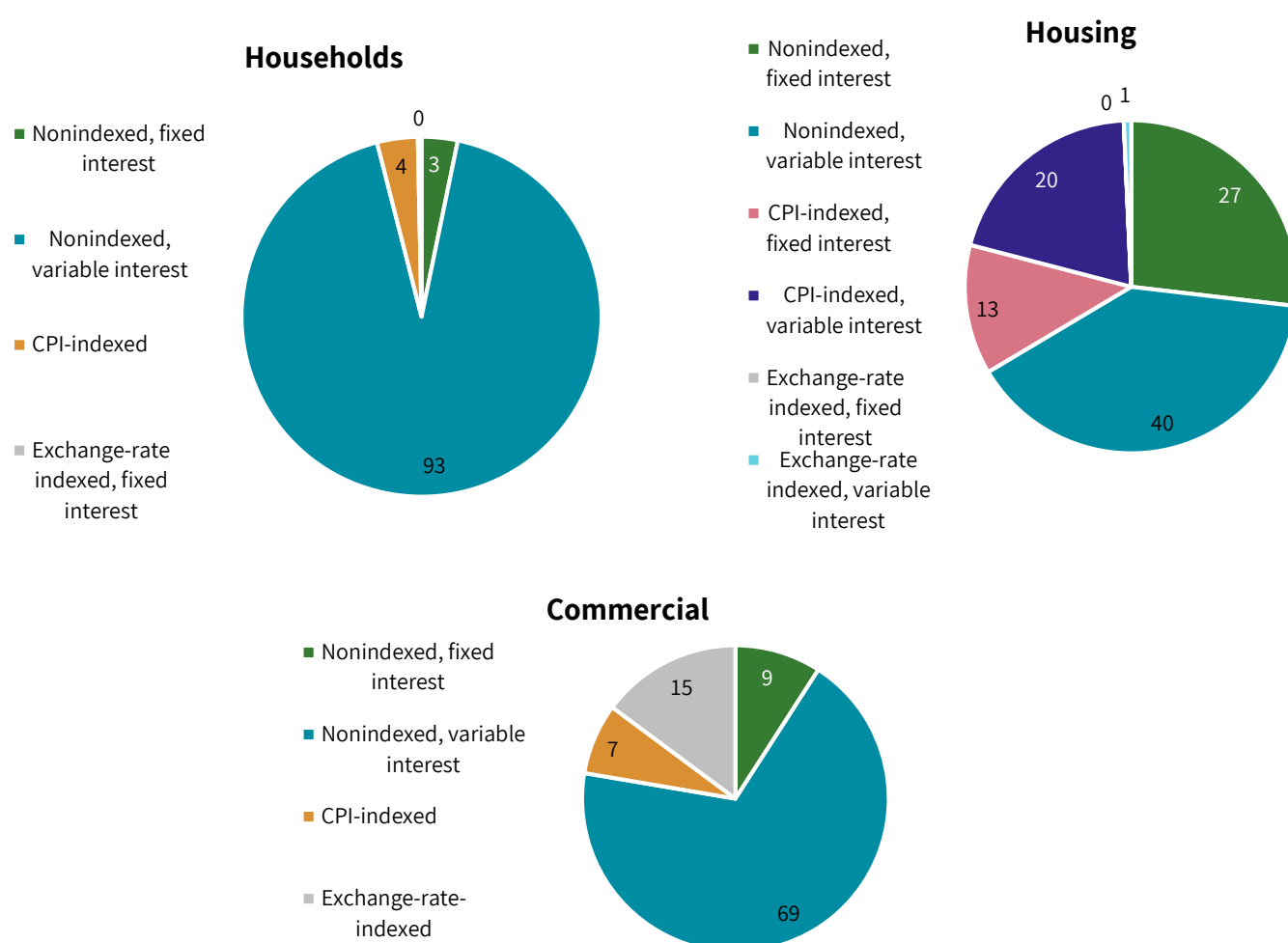


Source: published financial statements, reports to the Banking Supervision Department, and processing by the Banking Supervision Department

CREDIT PERFORMANCE

Credit performance in January–September 2024 showed a mild increase in total performance of both households (excluding housing credit) and the business sector (except the micro-business segment) relative to the corresponding period of the previous year. Concurrently, the pace of repayment of household credit (not including repayment on housing credit) slowed slightly, probably due to the deferral program delayed some credit repayments, and overall, no rate of increase occurred in total outstanding household consumer credit. Notably, most credit in all segments is given in the local currency (shekel), not indexed to the CPI, with a variable interest rate (most of it is indexed to the prime rate; Figure 34).

Figure 34: Most nonhousing credit is issued to the nonindexed domestic-currency activity sector at variable interest



Source: published financial statements, reports to the Banking Supervision Department, and processing by the Banking Supervision Department

HOUSEHOLD CREDIT

Consumer credit increased by 3.8 percent in annual terms in the first half of 2024. Most of the growth was attributed to the use of bank-issued credit cards, which account for 20 percent of outstanding consumer credit. Excluding this, the growth rate was only 0.5 percent (annualized). The banks' consumer credit consists of checking account overdraft facilities, use of banks' credit cards, security-backed loans (where a vehicle serves as collateral) and unsecured loans. The latter two types are sometimes known as "fixed-term credit", which account for 67 percent of nonhousing credit. The various components of credit trended in different ways: while the use of bank-issued credit cards increased by 15 percent during the half-year reviewed, unsecured lending grew by 2.3 percent, while credit given as current account overdraft contracted by 3 percent, and lending secured by a motor vehicle declined by 16 percent (Figure 35).²⁴ The downturn apparently stems from macroeconomic shocks that led to interest rate hikes, among other things, and the effects of the Swords of Iron War. For this purpose, the Bank of Israel in October 2023 launched a deferral program that helped households immensely.²⁵ Interest rates on all-purpose loans secured by a residential properties are much lower than on consumer credit (due to the existence of collateral; Figure 36). Since interest rates on credit secured by a residential property are much lower than unsecured credit, and following the Banking Supervision Department's easing of the loan-to-value ratio restrictions on such loans by raising the maximum financing ratio from 50 percent to 70 percent of property value in its update of Proper Conduct of Banking Business Directive no. 251 (Temporary Provision) in December 2023,²⁶ performance of this kind of credit increased by 14 percent. (This credit is not included in consumer credit because it is secured by residential properties; therefore, it is classified as housing credit.)²⁷ From the beginning of the regulatory relief through September 2024, approximately 8,200 loans were issued at a total sum

²⁴ This decrease corresponds to the decline observed in imports of private motor vehicles. <https://www.gov.il/he/pages/sa090624-2>

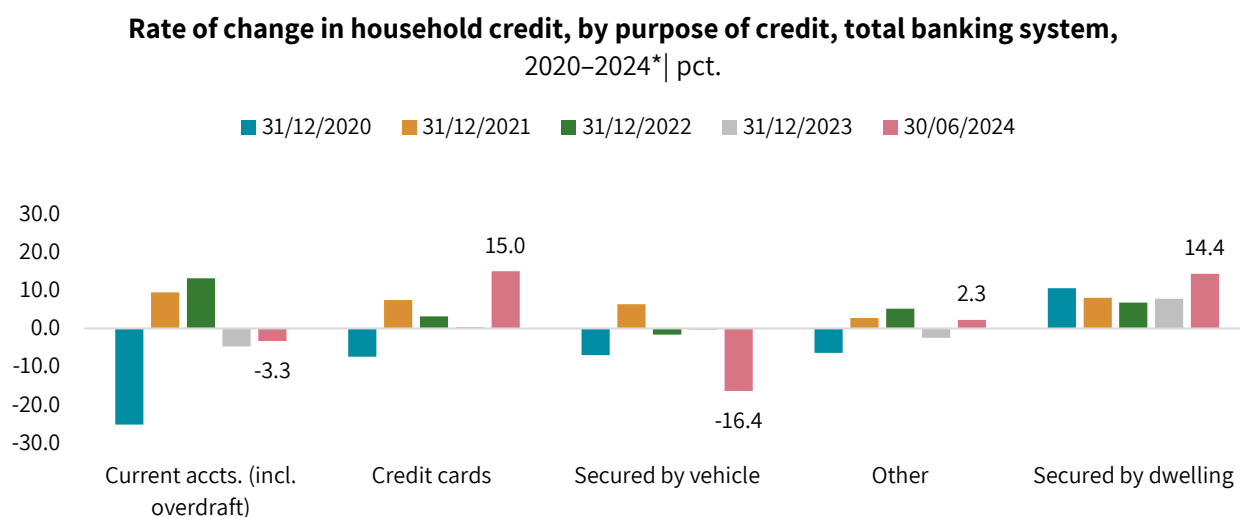
²⁵ For elaboration, see Box 6.2 in *Israel's Banking System* for 2023.

²⁶ Press release concerning extension of Proper Conduct of Banking Business Directive no. 251 – Temporary Provision and addition of leniencies in the Directive in relation to credit.)

²⁷ In its December 2023 update of Proper Conduct of Banking Business Directive no. 251, the Banking Supervision Department eased the limit on financing of all-purpose loans secured by residential properties by increasing the maximum loan to value ratio on such loans from 50 percent of property value to 70 percent, as long as the additional amount of the loan that exceeds 50 percent does not exceed NIS 200,000. In addition, an exemption was given on regulatory limits (e.g., LTV, PTI ratio) for credit up to NIS 200,000 for construction of a secure room (in accordance with terms promulgated in the directive). These reliefs were given for three months and were extended to December 31, 2024.

of NIS 1.7 billion. These loans account for 29 percent of total system performance of loans secured by residential properties.

Figure 35: Consumer household credit slows perceptibly except in all-purpose lending secured by a dwelling



* annualized.

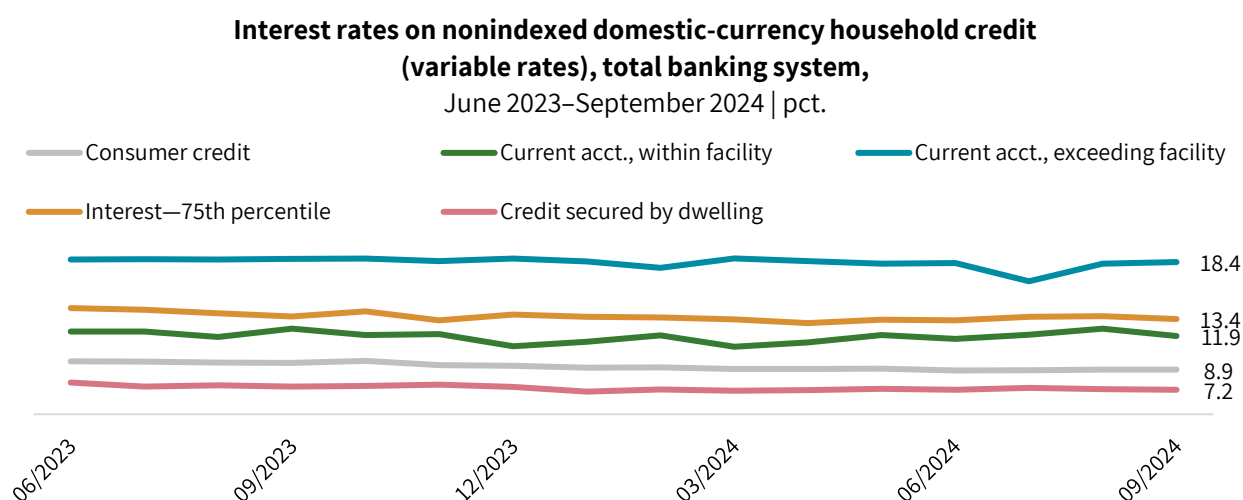
Source: published financial statements and processing by the Banking Supervision Department

Figure 36 also shows that interest on overdrawn demand accounts (use of credit facility)²⁸ is higher, on average, than the rate on a consumer loan, but some of the difference is explained by the existing difference between an overdrawn demand account and a consumer loan. In credit for the use of a facility, flexibility of timing and total use of facility are chosen by the customer and the bank must make this credit available at once (insofar as a facility exists) on the basis of underwriting data carried out when the facility was offered and in the absence of up-to-date underwriting processes and additional measures that the bank should take when extending credit. For this reason, credit for the use of demand-account facilities is riskier for the bank than are ordinary consumer loans. Therefore, the rates charged for use of a demand-account facility are higher on average than those on consumer credit. Notably, however, for certain customers, the rate for facility use (without overrunning the facility) is lower than that on consumer credit

²⁸ Notably, not every current account comes with a credit (overdraft) facility; an approved credit facility for a customer is created per agreement with the customer and is reflected in a credit-application document. When customers use their approved facility (without overrunning it), they pay interest at the rate agreed between them and the bank commensurate with the extent of facility use, and insofar as the facility is not used, the customer pays a credit-allocation fee.

(customers over the 75th percentile). As a rule, customers who foresee the possibility of using a credit facility in their demand account, particularly for an extended time, are advised to approach the bank at their initiative to seek advice and find alternative credit solutions, one of which is taking a consumer loan. Notably, as the high interest environment made it harder and harder for borrowers to service their debts—a difficulty that escalated when the Swords of Iron War broke out—the banks introduced several plans designed to alleviate the burden of current-account facility debt: lowering the overdraft rate (where the facility is not overrun) and allowing a positive balance in one demand account to offset a negative balance in another. These measures join many other moves by the Bank of Israel to improve the public’s welfare and stimulate competition in the banking system, particularly in the field of credit.²⁹

Figure 36: Interest rates on various types of nonindexed domestic-currency household credit (variable rates) fell but the decline was most strongly felt in consumer credit



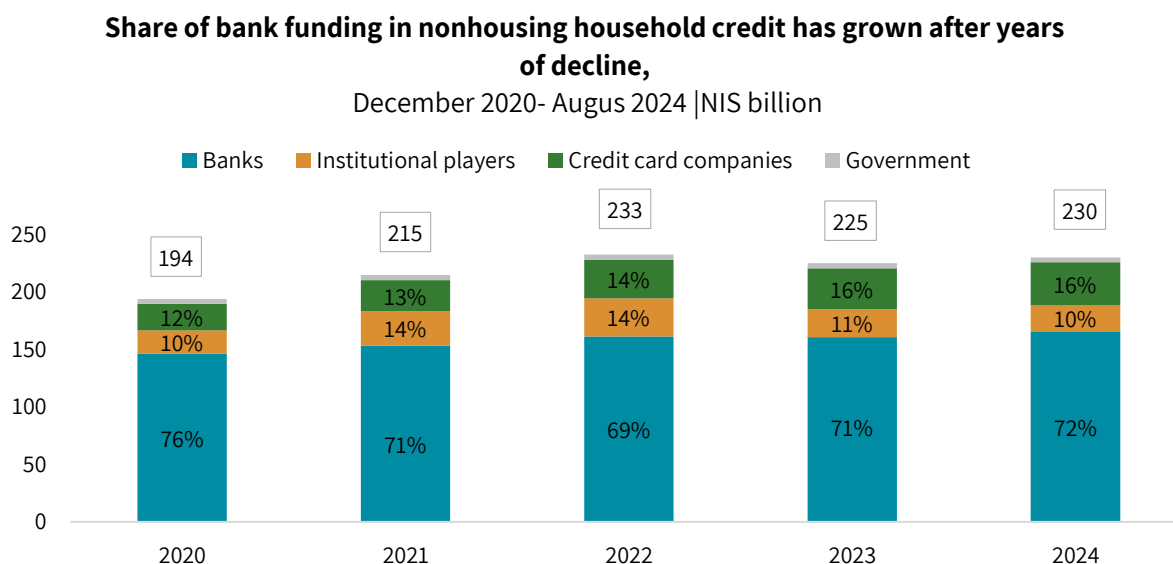
* The decrease in January 2024 originates in a Bank of Israel rate cut that month. The volatility in current-account interest traces to banks’ relief measures in response to the Swords of Iron War.

Source: published financial statements, reports to the Banking Supervision Department, and processing by the Banking Supervision Department

²⁹ The main measures are establishing a database of borrowers’ credit characteristics, such that all credit providers can get to know them and thus give them attractive offers and compete with their bank; introducing a “switch banks with a click” system that simplifies the process of switching banks; lowering barriers in order to allow new players to enter the market; allowing nonbank entities to participate in payment systems; introducing a reform that simplifies comparison of terms in housing loans that different banks offer by defining specific loan compositions in advance and requiring banks to provide a price bid for each basket; and providing access on the Bank of Israel’s site to data on each bank’s average rate on every mortgage track the previous month, along with a range of information about interest rates that the bank charges for various types of credit, and the rates it pays on various accounts with positive balances. In addition, the open-banking reform is expected to act in the spirit of this proposal and help customers compare different credit products, not necessarily of the bank where they maintain their current account, and choose the product most appropriate for them.

Total private (nonhousing) household credit in the first half of 2024 came to NIS 4 billion. Credit given by banks and credit-card companies continued to grow while that issued by institutional investors contracted slightly (Figure 37).

Figure 37: Share of bank funding in nonhousing household credit has grown after years of decline



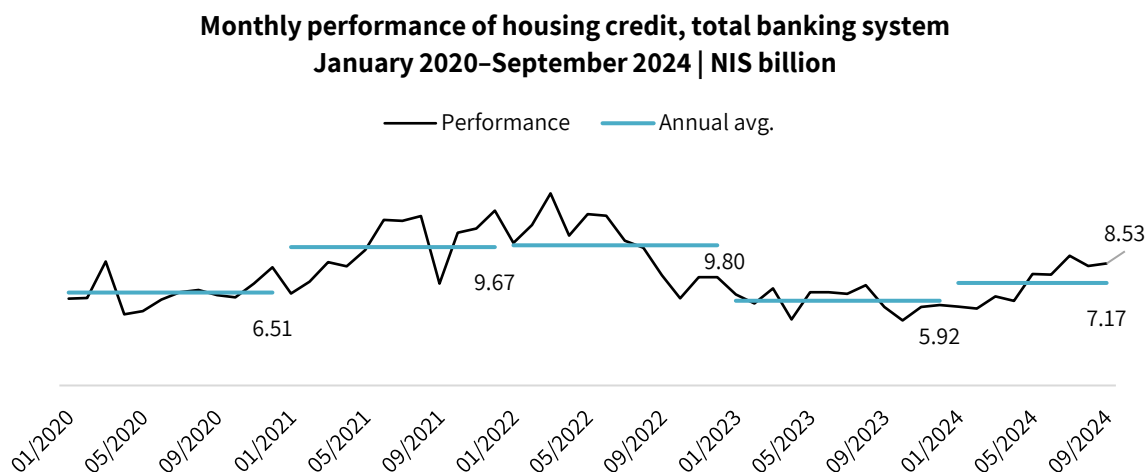
Outstanding bank debt includes credit given in the form of an all-purpose loan secured by a dwelling and credit for which the banks are not liable and do not guarantee. It does not include credit from nonresidents due to lack of data. The calculation does not include credit issued by non-bank entities that are not institutional and by credit-card companies.

HOUSING CREDIT

The slowdown in housing loan performance, which began in 2022 and continued at the end of 2023 due to the Swords of Iron War, reversed direction in the first half of 2024, particularly in the second quarter. Between January and September 2024, NIS 65 billion in credit was extended for dwelling purposes (Figure 38) and 66,000 loans were created, an increase relative to the corresponding period of the previous year both in volume and in number (up 16 percent and 13 percent, respectively). This, however, represents a low level of performance relative to previous years in view of the interest environment. The upturn in housing credit performance corresponds to the trend in housing transactions, with an increase in the rate of residential properties acquired, both from contractors and second-hand. The majority of residential credit activity continues to be

directed toward the purchase of a sole dwelling and a replacement dwelling. (Investors accounted for around 10 percent of performance in 2024).

Figure 38: Monthly performance returned to levels observed in the pre-Covid era

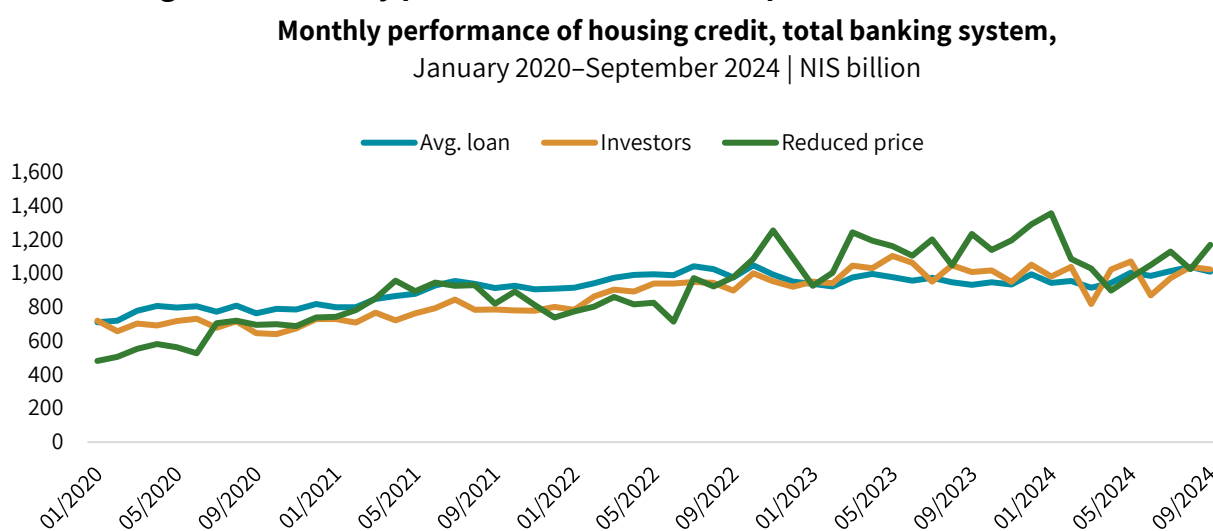


* The 2024 data are based on January–March.

Source: published financial statements, reports to the Banking Supervision Department, and processing by the Banking Supervision Department

The estimated average loan increased slightly to more than NIS 1 million as of September 2024, a relatively high sum, compared to the peak observed in October 2022 (Figure 39). This development aligns with the renewed rise in the Home Price Index from October 2023 onward (Figure 40).

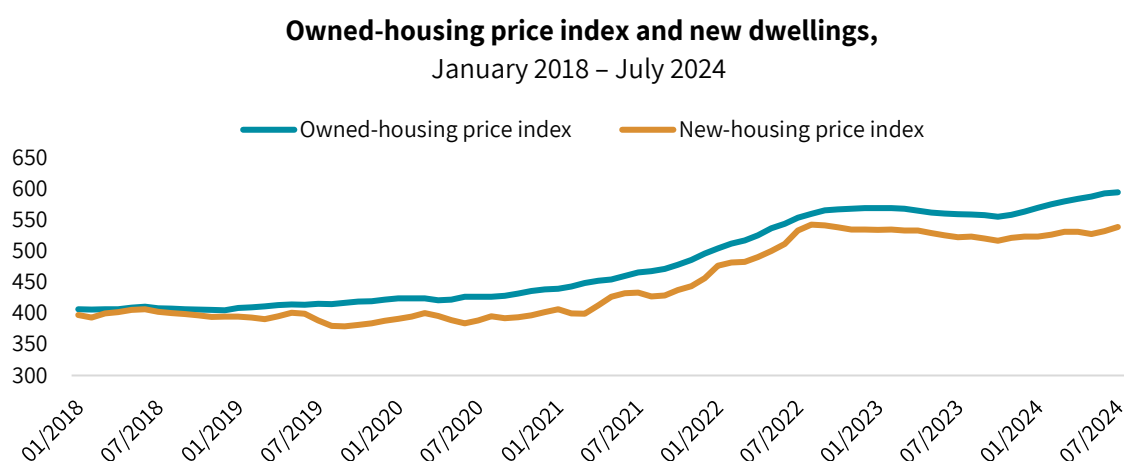
Figure 39: Monthly performance rebounds to pre-COVID levels



* The 2024 data are based on January–March.

Source: published financial statements, reports to the Banking Supervision Department, and processing by the Banking Supervision Department.

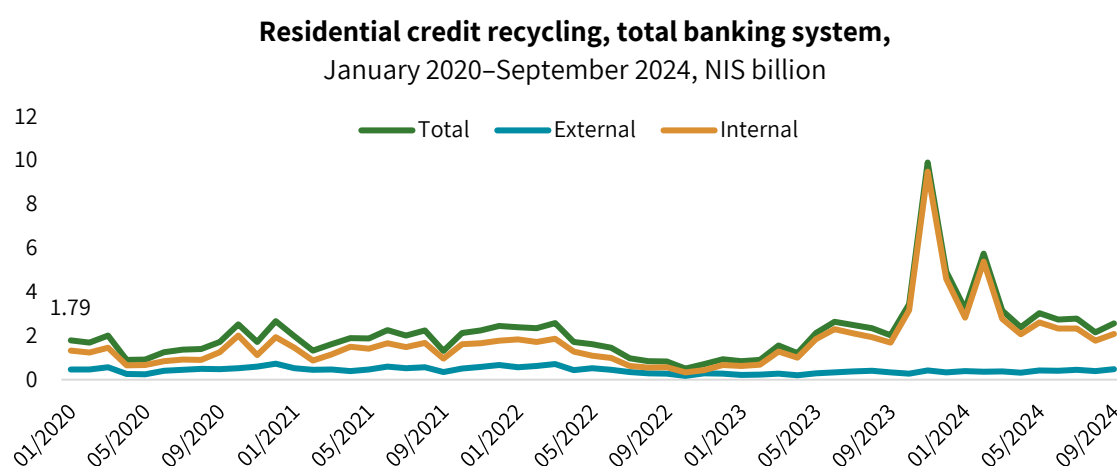
Figure 40: Housing price index reverts to increase after small decline



Source: Central Bureau of Statistics and processing by the Banking Supervision Department

The share of loan refinancing has been declining in the past nine months, as the Bank of Israel's assistance program of deferrals, set in response to the Swords of Iron War, ended. Recall that the share of refinancing increased starting in November 2022 and particularly from May 2023 as banks approached customers who were struggling to meet their monthly mortgage payments due to the upturn in interest rates. Refinancing peaked in October 2023 with the onset of the deferrals program (Figure 41).

Figure 41: Residential credit recycling declines since beginning of year

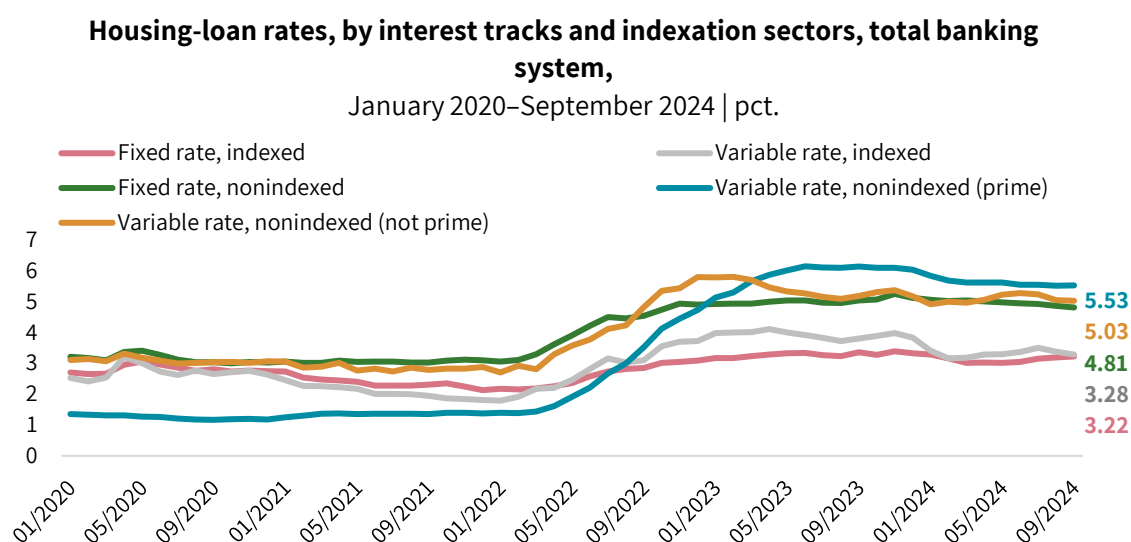


Source: published financial statements, reports to the Banking Supervision Department, and processing by the Banking Supervision Department

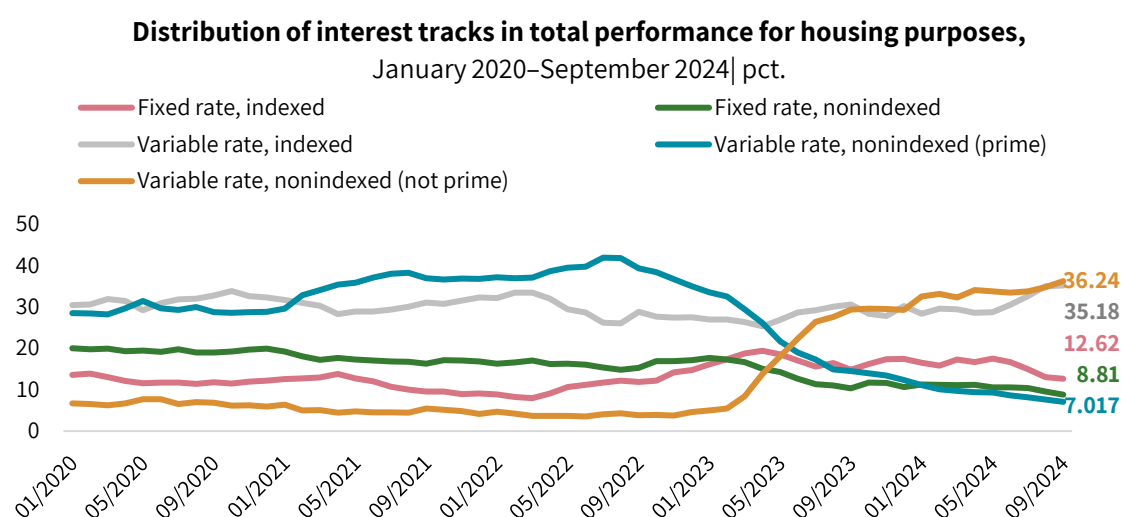
Interest rates on the various housing-loan tracks remained stable in the course of 2024 but the composition changed slightly; the share of fixed-rate unindexed lending increased slightly while

indexation to the prime rate continue to decline (Figures 42–43). The spread between the prime rate and the fixed unindexed rate evidently signals the market’s expectations of future rate-cutting by the Bank of Israel.

Figures 42–43: First half of 2024: rates stable in all indexation sectors; mix stable, too



Source: published financial statements, reports to the Banking Supervision Department, and processing by the Banking Supervision Department

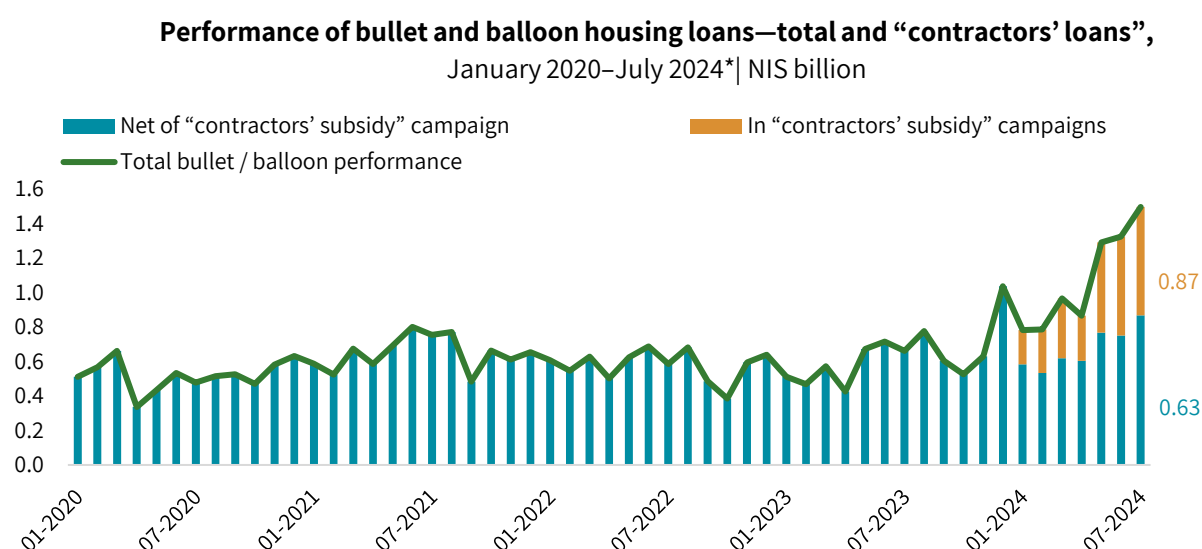


Source: published financial statements, reports to the Banking Supervision Department, and processing by the Banking Supervision Department

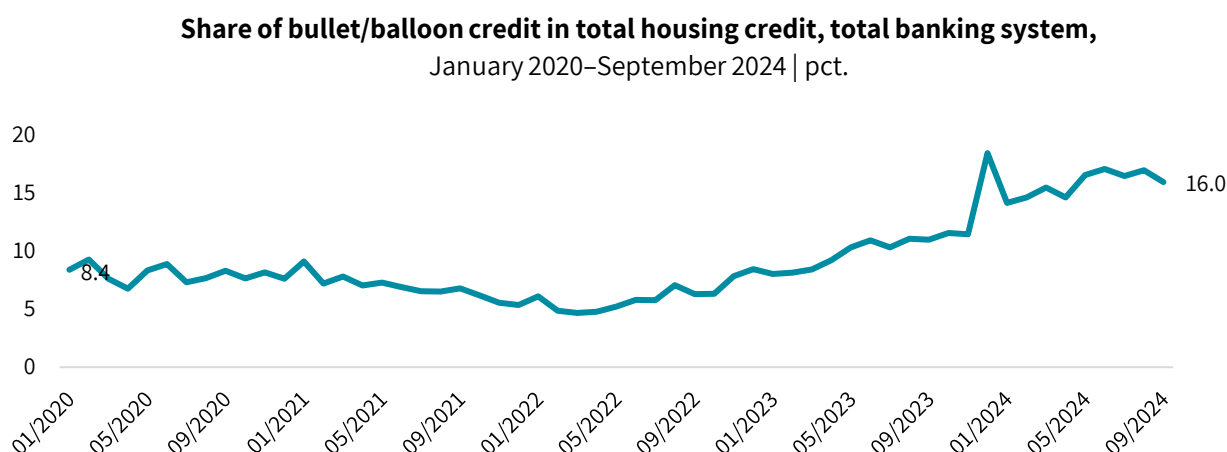
The slowdown in the housing market, driven by high market interest rates from the end of 2022 onward and the a series of economic disruptions (most recently from the Swords of Iron War and its consequences), led contractors to offer a range of incentives starting in late 2023 in order to stimulate real-estate transactions-dwellings. These incentives primarily included the cancellation

of indexation to the Construction Inputs Price Index, free additions and specification upgrades, and deferral of most payments to the date of tenancing (“20–80” Deferral of repayment existed previously but to a small extent). In another incentive, contractors offered subsidized bullet/balloon loans (payment of the interest is prepaid by the contractor), leading in practice to an increase in the extent of bullet/balloon issued for residential property purchases (this credit is transferred to the contractor on the date of signing but is repaid to the bank within one to three years, usually around the date construction is completed) as early as December 2023 (Figures 44–45).

Figures 44–45: Bullet and balloon housing loans surge ahead



Source: published financial statements and processing by the Banking Supervision Department

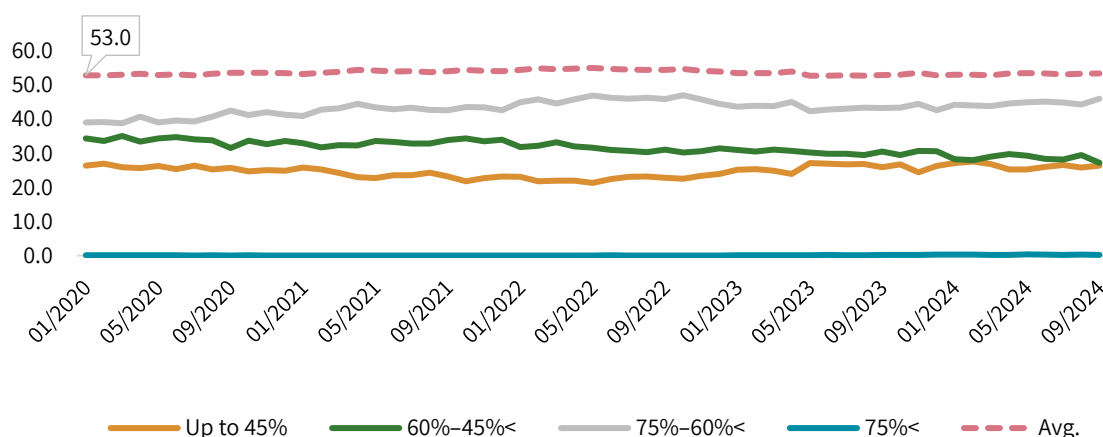


QUALITY OF THE HOUSING-CREDIT PORTFOLIO

The indicators of housing-credit portfolio risk showed no substantial change. The average LTV (loan to value) ratio (53 percent), average term to final repayment (27 years), and PTI (payment-to-income) ratio (29 percent) were stable, whereas the share of high-LTV and high-PTI housing loans rose slightly (24 percent). These rates of high-LTV and high-PTI loans, however, are relatively high in historical terms (Figures 46–48).

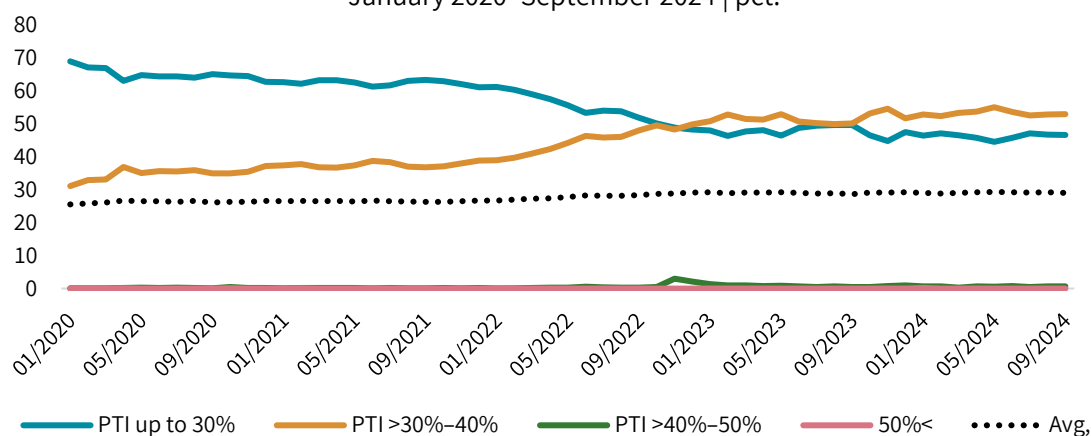
Figures 46–48: Quality of housing credit stable

Distribution of housing-loan performance, by LTV, total banking system
January 2020–September 2024 | pct.

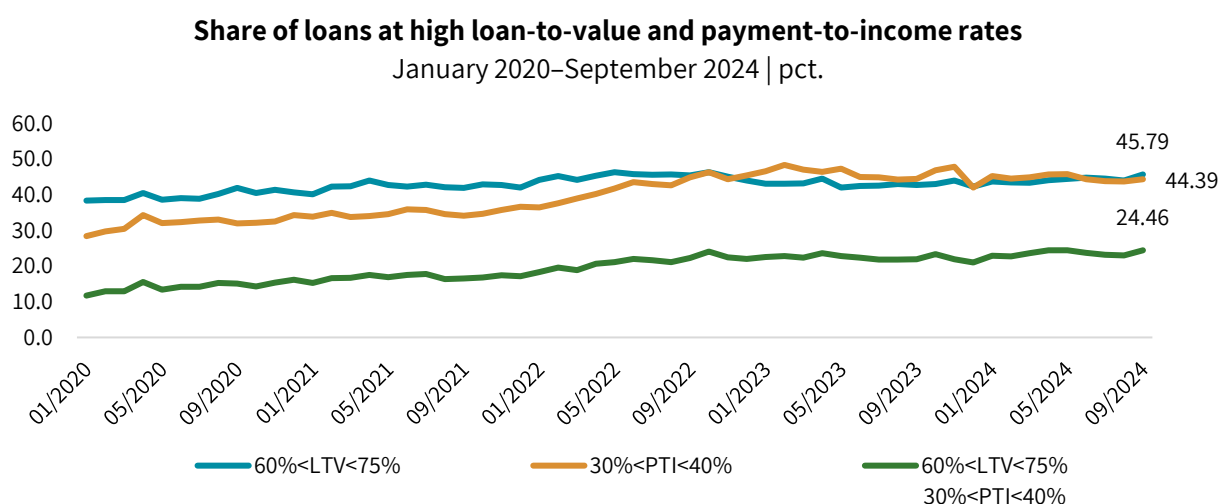


Source: published financial statements, reports to the Banking Supervision Department, and processing by the Banking Supervision Department

Distribution of housing-loan performance, by LTV, total banking system
January 2020–September 2024 | pct.



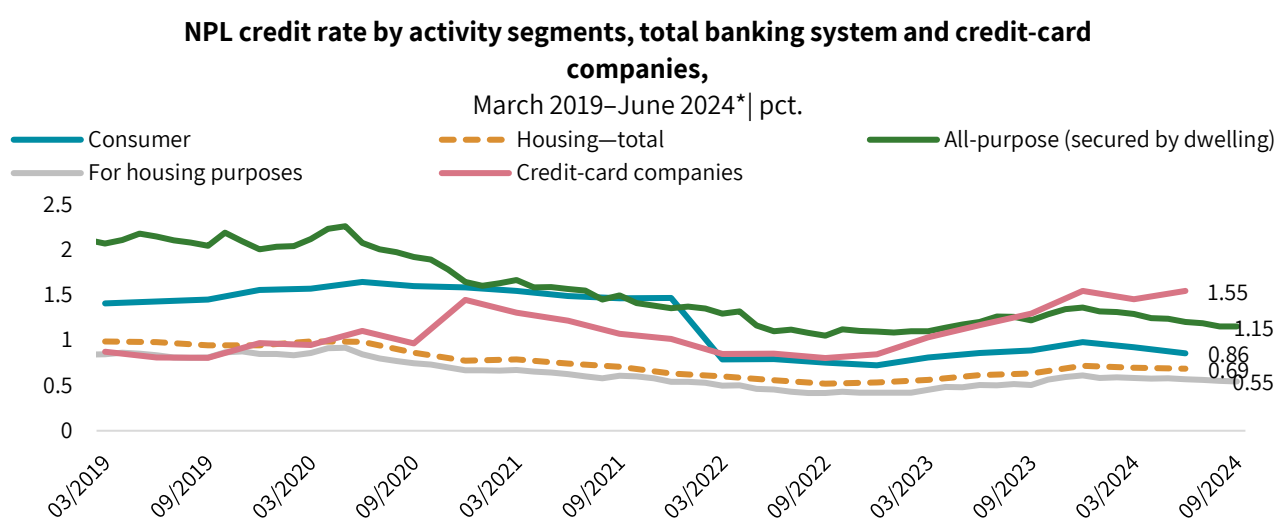
Source: published financial statements, reports to the Banking Supervision Department, and processing by the Banking Supervision Department



Source: published financial statements, reports to the Banking Supervision Department, and processing by the Banking Supervision Department

The share of credit classified as nonperforming loans (NPL) was stable (Figure 49).³⁰ In the course of 2023 and with greater intensity after the Swords of Iron War erupted, the banks offered their customers relief measures (some within the framework of the Bank of Israel program and some at their own initiative) by suspending, recycling, or deferring housing-loan repayments. These actions may have helped borrowers to avoid default, but there is concern that the share of credit considered NPL will rise once the relief programs end.

Figure 49: NPL credit rate stable, apparently due to relief programs



* In housing credit, the latest data point in the "for housing purposes" and "secured by dwelling" categories is September 2024.

Source: published financial statements, reports to the Banking Supervision Department, and processing by the Banking Supervision Department

³⁰ An estimate that includes nonaccruing credit and interest-accruing credit with more than ninety days in arrears.

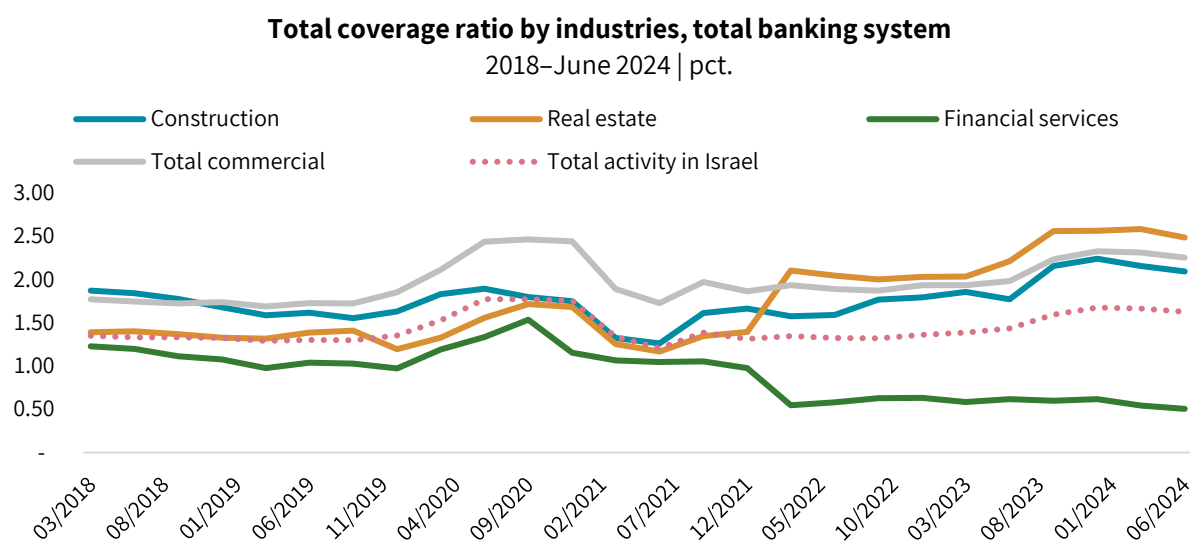
DISTRIBUTION OF CREDIT BY INDUSTRY

Some 40 percent of business credit is issued to the construction and real-estate industry, 15 percent to the financial services industry, and the remaining 45 percent to the other industries (see table of industries). The construction and real-estate industry continues to lead the growth of the portfolio, even though the growth rate in credit to this industry has declined considerably (to 6.8 percent annualized, about half of the pace in 2023). The credit growth rate in the financial-services industry declined (by 3 percent annualized), and the growth rate of the other industries grew by only 2 percent. Several factors account for the slowdown in the construction and real-estate industry: the deceleration in the housing market (with the onset of rate increases in 2022) that spread to the construction and real-estate industry, slowing the pace of sales and construction; the increase in the interest rate, which also raised land funding costs; a slowdown in high-tech, which caused the business real-estate market to slow, and finally, the Swords of Iron War, which led to a shortage of construction workers, impeding or delaying many projects. In view of this deceleration, contractors faced increased financing needs and had to raise additional sources of finance. (For elaboration, see the Credit chapter in *Israel's Banking System* for 2023.)³¹

The rapid increase in outstanding credit to the construction and real-estate industry in the past two years points to an upturn in the banking system's credit risk on account of this industry. Nevertheless, the coverage ratio (representing the total credit-loss allowance as against total credit) did not increase (Figure 50). Furthermore, while loan-loss provisions for the construction and real-estate industry grew considerably in the second half of 2023, due to the Swords of Iron War, among other determinants, they decreased markedly in the first half of 2024 (and some collection even took place; Figure 51).

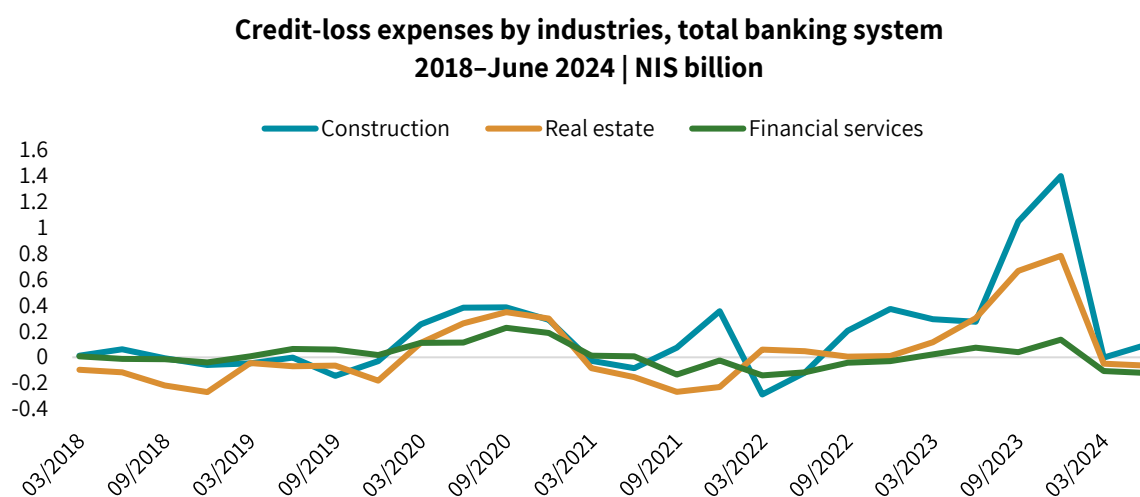
³¹ *Israel's Banking System* survey for 2023, Credit chapter, pp. 98-99.

Figure 50: High credit-loss expenses for the construction and real-estate industry



Source: published financial statements, reports to the Banking Supervision Department, and processing by the Banking Supervision Department

Figure 51: First half of 2024: steep decline in credit-loss provisions for the construction and real-estate industry



Source: published financial statements, reports to the Banking Supervision Department, and processing by the Banking Supervision Department

The share of NPL³² in the construction and Other Commercial industries remains high relative to total credit to the public in Israel (Figure 52). Some of the downturn observed in the first half of 2024 in this ratio in the construction industry may trace to an increase in net write-offs. The share increased notably in the second half of 2023, driven by the effect of the Swords of Iron War on the

³² An estimate that includes nonaccruing credit or accruing credit more than ninety days in arrears.

construction industry (triggering a major reduction of labor, leading to delays in construction). However, since credit-loss allowances for the construction industry are relatively large, most likely due to the industry's downturn, the NPL coverage ratio (credit-loss allowance relative to estimated credit defined as NPL; Figure 53) for the construction industry is low relative to that in other industries (and in total activity within Israel).

Figure 52: Estimated construction NPL exceeds NPL of total credit to the public in Israel; the change occurred during 2023 and accelerated when the war began

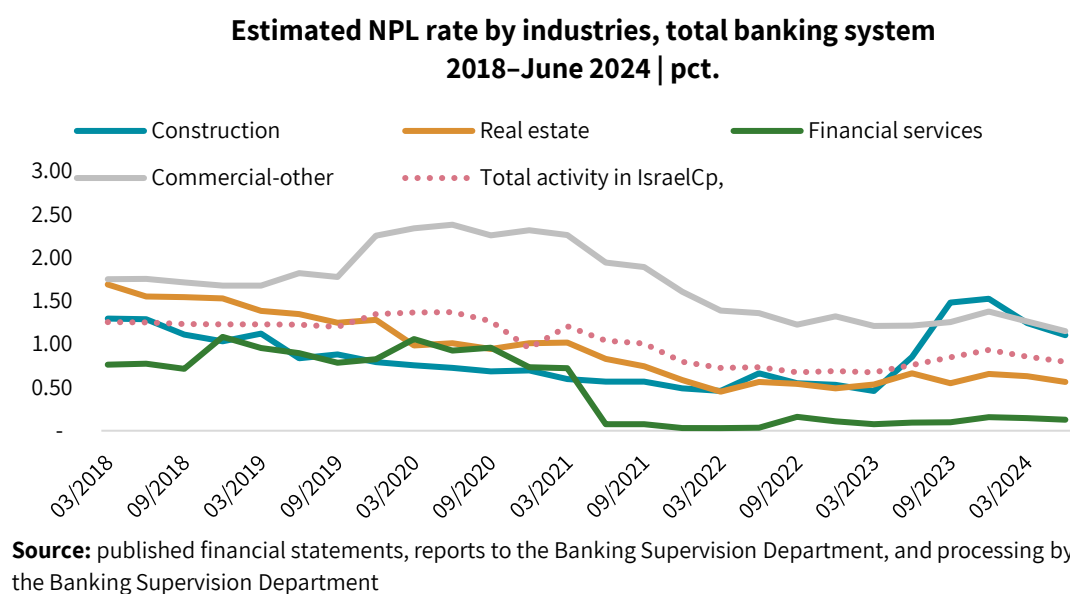
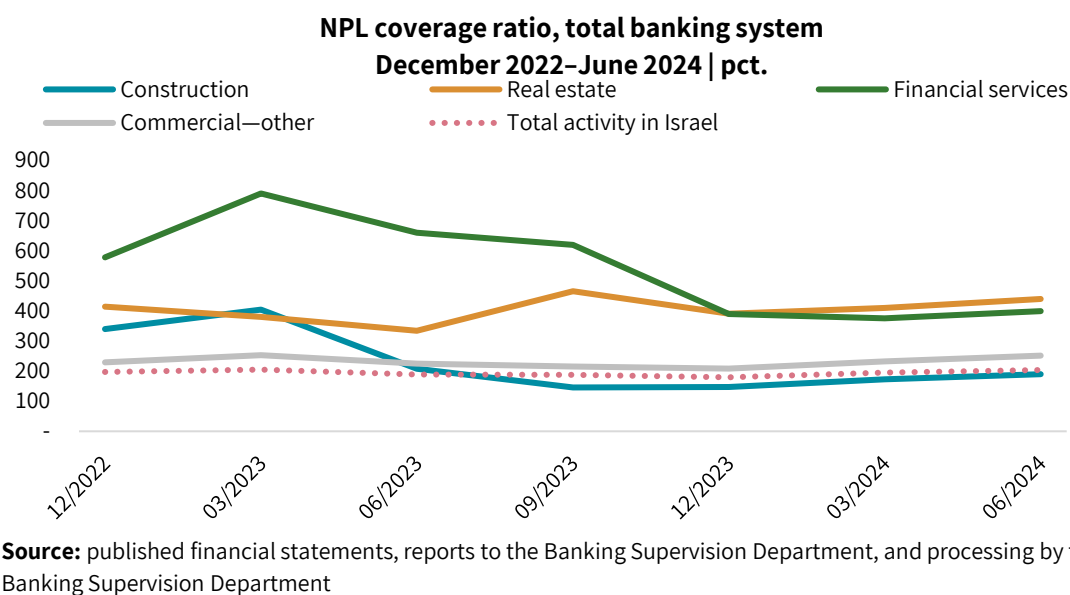


Figure 53: Banks' credit-loss cushion grows in tandem with increase in estimated NPL

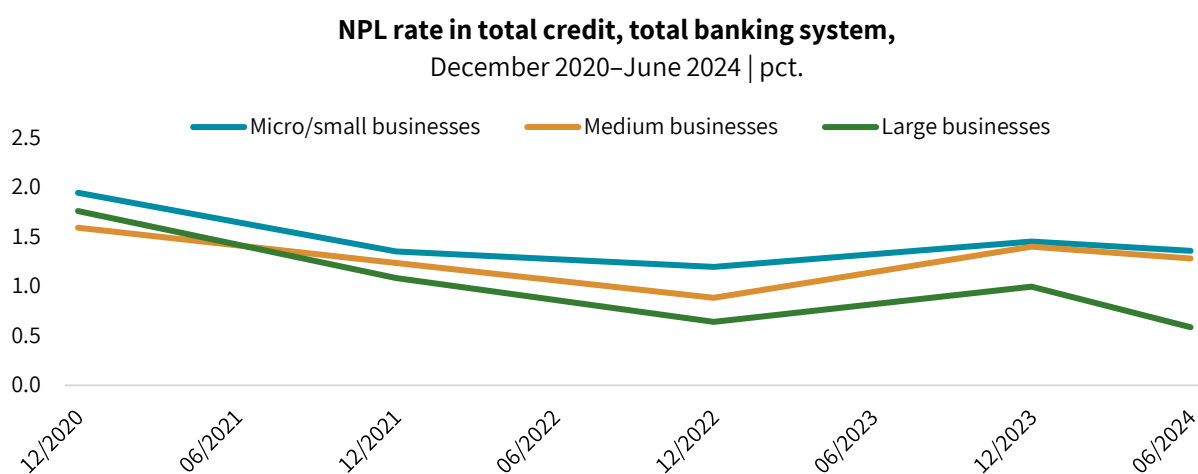


SUPERVISORY ACTIVITY SEGMENTS

Approximately 55 percent of business credit is extended to large businesses, 29 percent to small and micro businesses, and 16 percent to medium-sized businesses. The nature of the credit given to each activity segment differs in several aspects: loan amount, term to repayment, and sometimes also interest indexation. In the first half of 2024, different trends among the activity segments were observed (Figure 30): a slowdown in the growth rate of credit to large businesses, a decrease in outstanding credit of medium sized businesses—mostly attributed to resegmentation of businesses borrower type by one of the banks—and a mild increase in outstanding credit to micro and small businesses (after a decline in 2023).

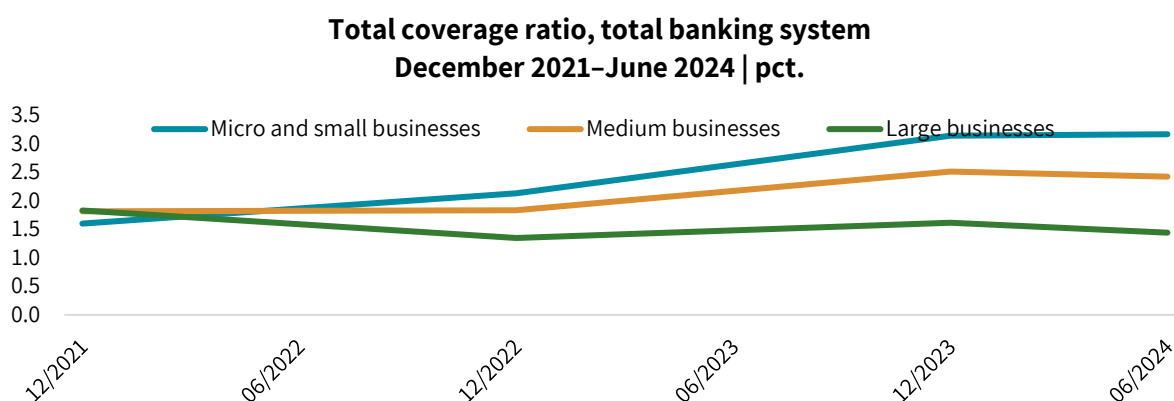
The share of credit defined as NPL decreased in the large-business segment and remained stable in the other activity segments (Figure 54). Changes in the growth rate of credit were also observed in the allowances banks allocate for credit losses, so overall, the coverage ratio remained stable and continued to be higher for the micro- and small-business segment (Figure 55). The increase in the NPL coverage ratio in the large-business segment is the outcome of the decline in estimated NPL in this segment (Figure 56). Improvement in loan-loss provisions among the various industries was also observed in all activity segments, although less so in lending to large and small-and-micro businesses (Figure 57).

Figure 54: Estimated NPL in large-business segment declines and remains the lowest among the segments



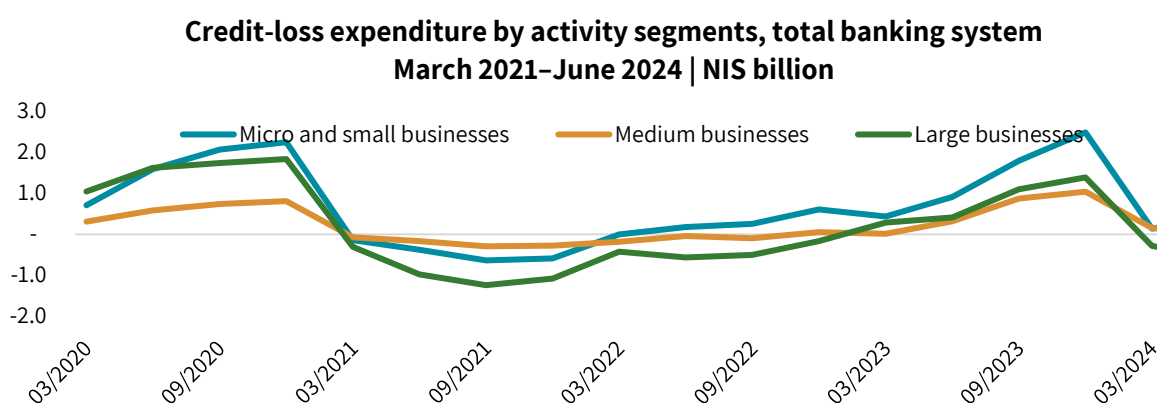
Source: published financial statements, reports to the Banking Supervision Department, and processing by the Banking Supervision Department

Figure 55: Banks are maintaining a large credit cushion for micro and small businesses



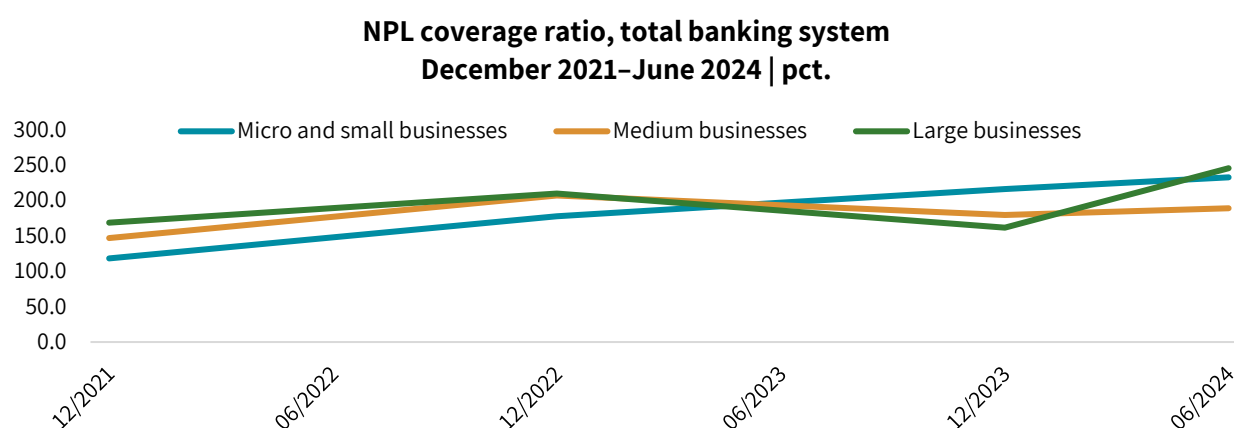
Source: published financial statements, reports to the Banking Supervision Department, and processing by the Banking Supervision Department

Figure 56: Banks' credit-loss cushion grows in tandem with increase in NPL ratio



Source: published financial statements, reports to the Banking Supervision Department, and processing by the Banking Supervision Department

Figure 57: Credit-loss expenditure falls significantly, but less on account of micro and small businesses



Source: published financial statements, reports to the Banking Supervision Department, and processing by the Banking Supervision Department

LIQUIDITY RISK

In the first eight months of 2024, the various liquidity indicators pointed slightly downward but continued to surpass the Banking Supervision Department's regulatory threshold requirement. In the first half of the year, the increase in government spending occasioned by the continuation of the Swords of Iron War prompted an upturn in government bond issues while the public's deposits grew less vigorously than at the end of 2023 due to unexpectedly strong government tax revenues. These developments brought on a mild increase in monetary deposits with the Bank of Israel at the expense of Makam issuance. Notwithstanding the interest level, retailers and small businesses preferred to keep money in shorter-term deposits, apparently due to uncertainty.

To manage liquidity risk, two standard liquidity ratios that are mandatory for banks were established within the Basel III framework. The first is the Liquidity Coverage Ratio (LCR),³³ meant to determine whether the banks have enough of a liquidity cushion to withstand a major extreme scenario that lasts thirty calendar days. The second is the Net Stable Funding Ratio (NSFR),³⁴ which examines whether the banks are maintaining a stable funding profile in accordance with the composition of their balance-sheet assets and off-balance sheet activity. A bank that maintains this ratio shows that it has enough available stable funding sources to perform its requisite

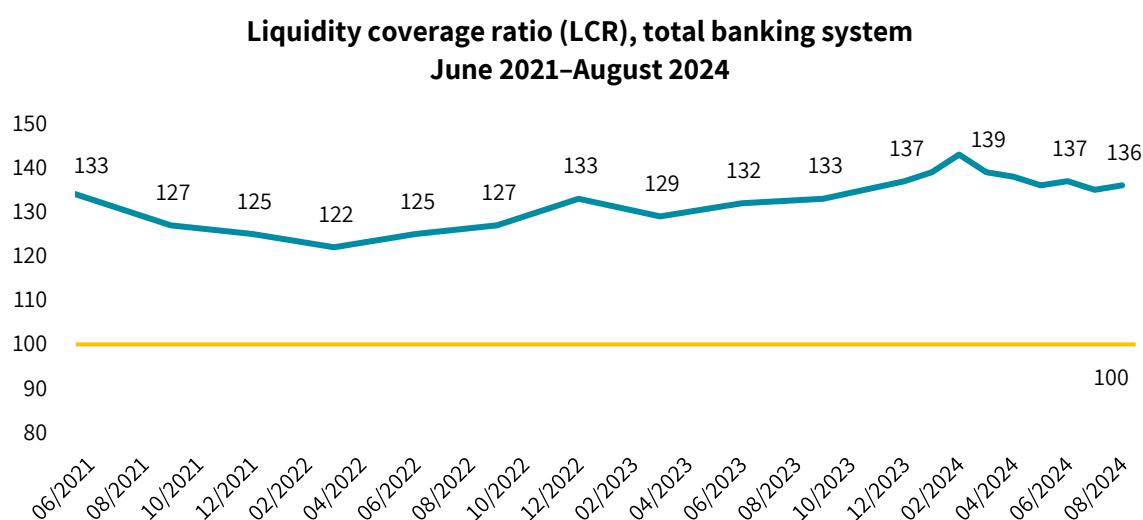
³³ The Liquidity Coverage Ratio indicator, developed by the Basel Committee to enhance the short-term resilience of banking corporations' liquidity profiles, shows the quantity of quality liquid assets that corporations should hold in order to weather a major extreme scenario lasting thirty calendar days. The LCR is made up of two components. The inventory of High Quality Liquid Assets (HQLA) appears in the numerator. It is comprised of two levels of assets: Level I high-quality assets of which the quantity held is unlimited; and Level II—assets of which holding is limited to 40 percent of total HQLA. (This level is divided into two secondary levels: 2a and 2b; holdings of assets of the latter level are limited to 15 percent.) Appearing in the denominator is the total net cash outflow, i.e., the total expected cash outflow in the extreme scenario less the total expected cash inflow in the same scenario. The total expected cash outflow is computed by multiplying the balances of different categories or types of balance-sheet and all-balance-sheet liabilities by the expected share of their withdrawal (runoff or drawdown). Total expected cash inflow is calculated by multiplying outstanding contractual receivables by the expected rate of receipt in the scenario, up to a cumulative bound of 75 percent of total expected cash outflow.

³⁴ The Net Stable Funding Ratio is meant to improve the stability of the banking system's funding profile in the long run by mandating that bank activity be funded mainly from relatively stable funding sources to a long term (one year or more). The NSFR is made up of two components. Appearing in the numerator is total available stable funding (ASF)—the share of capital and liabilities that can be relied upon as a funding source to a time horizon of one year or more. In the denominator is the required stable funding (RSF)—total assets (including off-balance-sheet exposures) that the bank expects to need for funding to a time horizon of one year or more, against which, accordingly, Available Stable Funding must be kept.

funding (looking ahead to a one-year range). A bank that concurrently maintains both ratios attenuates the liquidity risk that may come about due to unforeseen changes in cash flow.

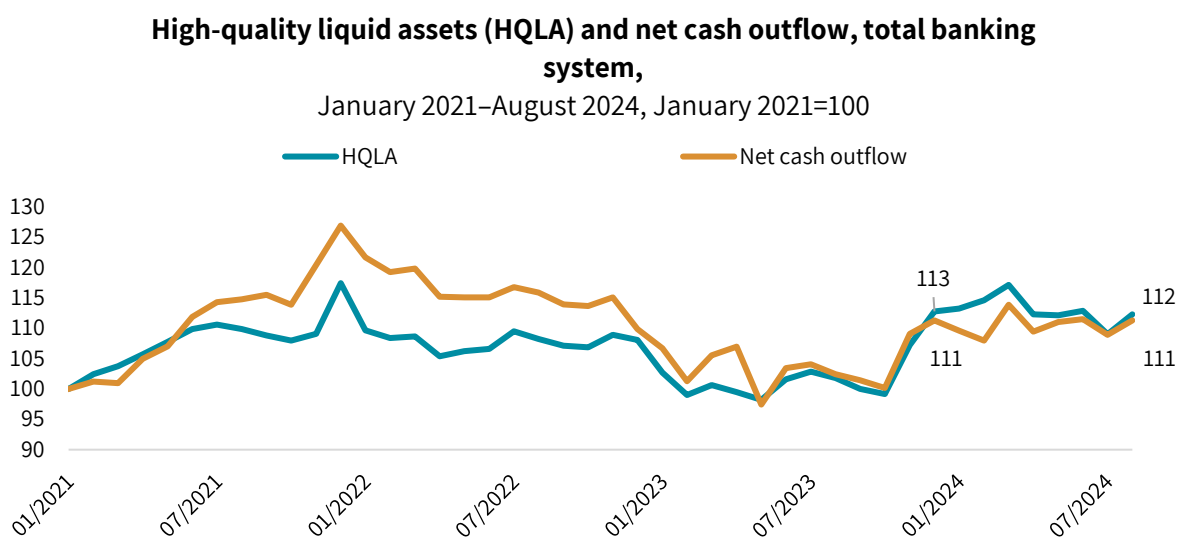
In the course of 2024, the LCR edged down from its December 2023 level. Trends that began in the last quarter of 2023 due to the war continued in various intensities from the beginning of 2024 onward. The Bank of Israel increased its monetary lending at the expense of Makam issuance. In view of the war, increase in government spending, government bond issuance ballooned as did the holdings of these instruments by banking corporations and institutional investors. The LCR increased in the first quarter of the year and eroded somewhat afterwards. The LCR was estimated at 136 percent in August as against 137 percent at the end of 2023, far exceeding the minimum established by the Banking Supervision Department (100 percent) (Figure 58). The stock of High Quality Liquid Assets (HQLA) and net outflow for the next thirty days remained similar in August 2024 to their level in December 2023 (Figure 59). At the beginning of the year, the ratio headed upward and HQLA grew more rapidly than did net outflow. The increase originated mainly in an upturn in cash and deposits with the Bank of Israel, somewhat offset by a decrease in qualified tradable securities due to an increase in monetary deposits with the Bank of Israel at the expense of Makam issuance. The decline in qualified tradable securities was also abetted by the sale of forex-denominated government bonds by the banks. The increase in the net outflow traces mainly to a downturn in other inflow by counterparties (chiefly financial and other wholesalers). From the second quarter of 2024 on, HQLA eroded more swiftly than did the net outflow mainly due to the increase in cash and deposits with the Bank of Israel (slowing of the growth rate of monetary deposits) and in the downward movement of qualified tradable securities in domestic currency. This erosion occurred in view of the falloff in Makam issuance and large-scale purchases of government bonds by institutional investors and despite purchase of government bonds by the banks. Furthermore, the net outflow decreased at a milder rate, largely due to an increase in other inflow by counterparties (largely financial wholesalers).

Figure 58: Liquidity coverage ratio slips slightly after Q1/24



Source: reports to the Banking Supervision Department and processing by the Banking Supervision Department

Figure 59: Stock of liquid assets vs. net outflow largely unchanged since late 2023



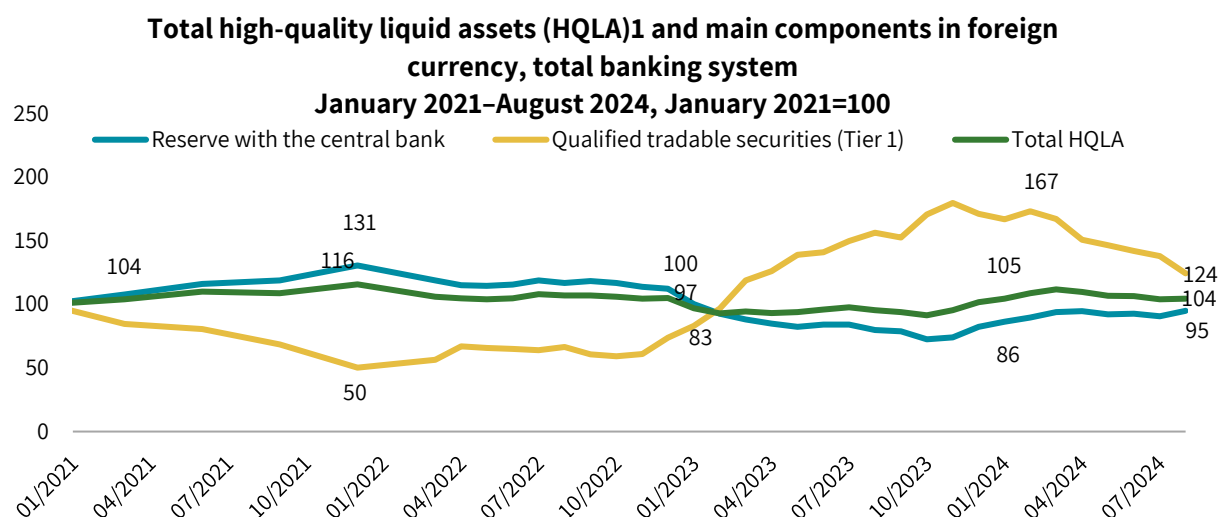
Source: reports to the Banking Supervision Department and processing by the Banking Supervision Department.

As noted above, high-quality liquid assets (HQLA) decreased slightly³⁵ in the course of 2024 (Figure 60) and by NIS 3 billion in the first eight months of the year, mostly due to an NIS 49 billion downturn in qualified tradable securities, offset by an NIS 46 billion increase in cash and deposits

³⁵ The decrease relates to HQLA in domestic and foreign currency.

with the Bank of Israel. In the first quarter of the year, the Bank of Israel continued to amass monetary deposits at the expense of Makam issuance (recomposing banking corporations' Makam holdings and monetary deposits; Figure 61), inducing an increase in cash and deposits with the Bank of Israel (up NIS 38 billion in the first quarter). Countering this increase, qualified tradable securities in foreign currency fell by NIS 15 billion in the first quarter of the year as foreign-currency government bonds were sold off in accordance with developments in the markets. After the first quarter and up to August, the increase in HQLA eroded and a mild decline in this component was recorded. At this time, the Bank of Israel continued to build up its monetary deposits, although at a slower pace, as against continued decreases in Makam issuance. The size of the upturn in cash and deposits with the Bank of Israel fell (NIS 5.5 billion) and that of qualified tradable securities dropped by NIS 33 billion. The slowing of growth in cash and deposits originated in a decrease in the rate of decline in the banking corporations' Makam holdings as against repayment of monetary loans and unexpectedly strong tax revenues. The decrease in qualified tradable securities, as stated, was abetted by the decline in the banks' Makam holdings, offset by purchases of domestic-currency government bonds by institutional investors, an upturn in Makam holdings (in lieu of monetary deposits) and a sizable increase in holdings of government bonds (by NIS 66 billion since the beginning of the year). These changes since the beginning of the year brought on a mild NIS 3 billion downturn in HQLA, with very minor changes in net outflow for the coming thirty days, so that the Liquidity Coverage Ratio edged downward to 136 percent as of August 2024.

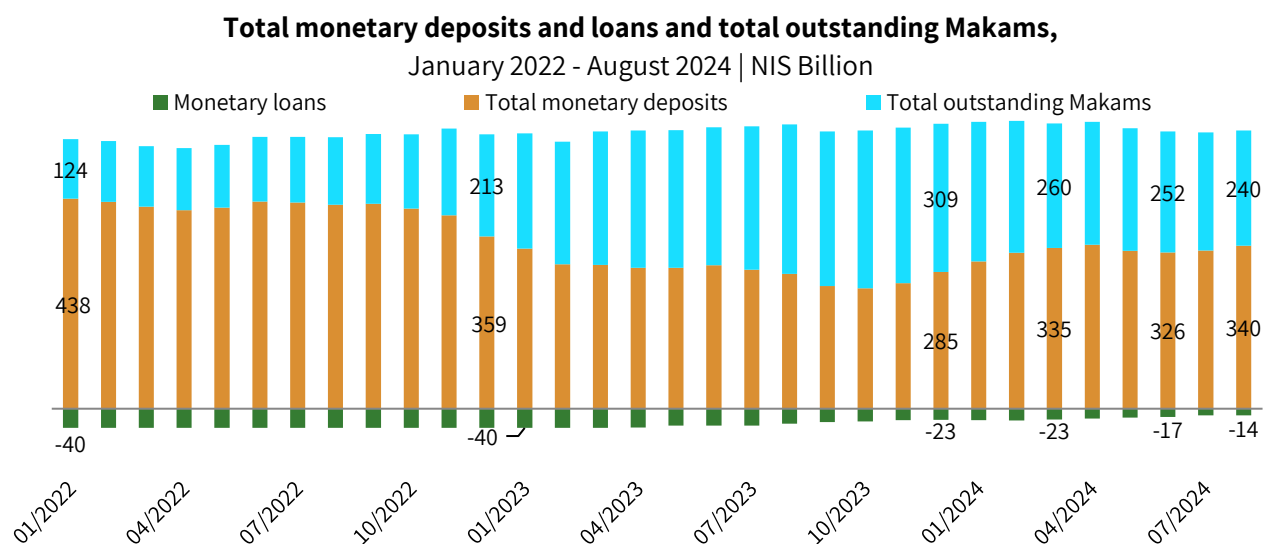
Figure 60: Since late 2023, minor changes in high-quality liquid assets as increase in central-bank reserves replaces downturn in qualified tradable securities



* As defined in Proper Conduct of Banking Business Directive 221.

Source: reports to the Banking Supervision Department and processing by the Banking Supervision Department

Figure 61: Bank of Israel continued to increase its use of monetary deposits at the expense of Makam issues



Source: The information and Statistics Department at the Bank of Israel

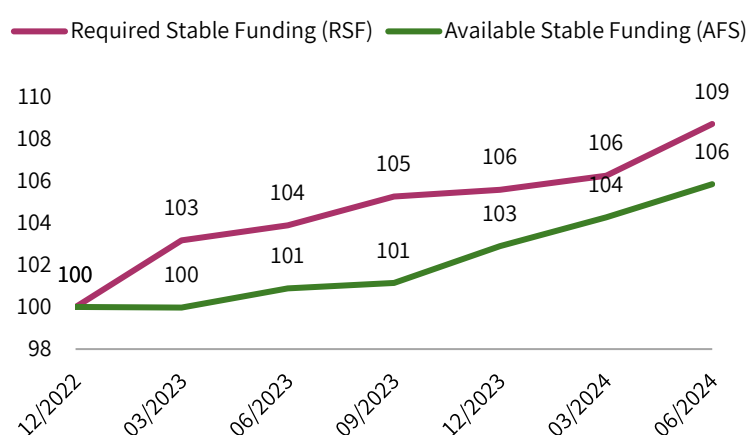
The Net Stable Funding Ratio remained basically unchanged in the first half of 2024, slipping somewhat in the course of the second quarter and settling slightly below its December 2023 level (122.5 percent as against 122.6 percent; Figures 62 and 63). The decrease in this ratio relative to

December 2023 owes its origin to an upturn in compulsory stable financing sources (5.9 percent in annual terms), largely in view of the increase in outstanding credit, particularly in the second quarter. This upward movement was slightly stronger than the 5.7 percent annualized increase in stable and available financing sources due to the upturn in the public's deposits and capital. The net stable funding ratio must exceed the 100 percent minimum set by the Banking Supervision Department.

Figures 62–63: First half of 2024: Net Stable Funding Ratio largely unchanged

Total Available Stable Funding (AFS) and total Required Stable Funding (RSF),¹ total banking system,

December 2022–June 2024 (December 2022=100)

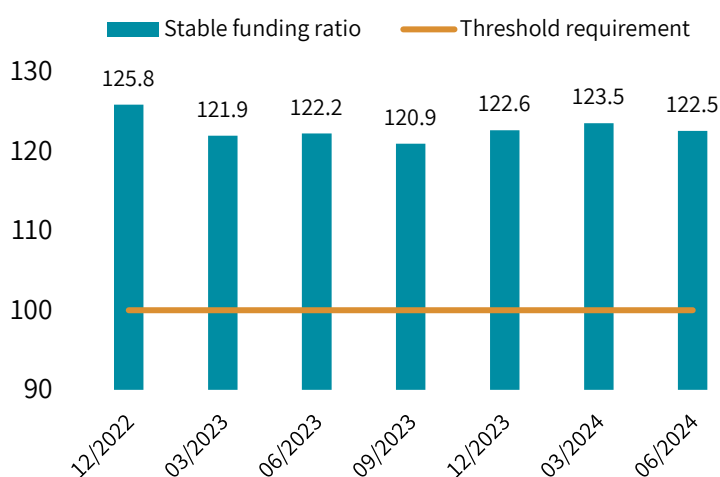


1) As defined in Proper Conduct of Banking Business Directive 222.

Source: published financial statements and processing by the Banking Supervision Department

Net Stable Funding Ratio (NSFR), total banking system

December 2022–December 2023

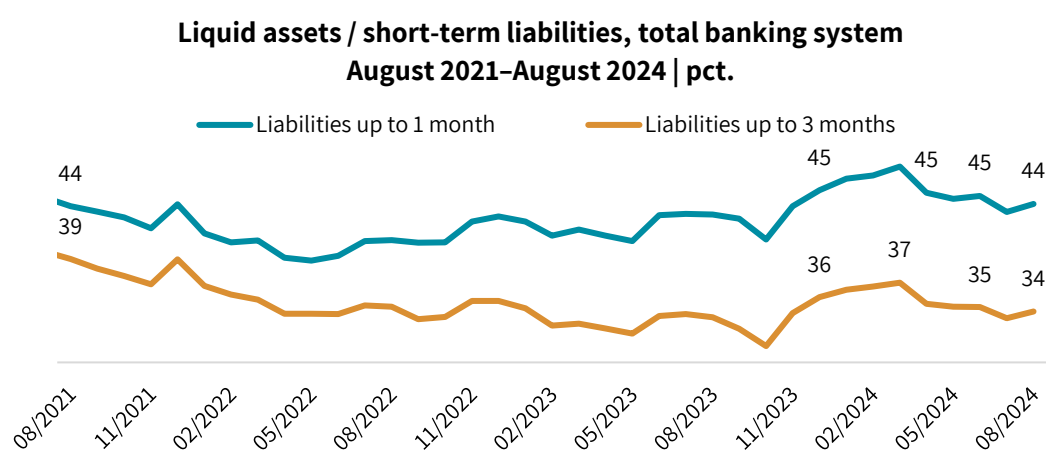


Source: published financial statements and processing by the Banking Supervision Department

The ratio of liquid assets to short-term liabilities (measured both to terms of up to one month and to terms of up to three months) **eroded slightly**. In the first two months of the year, an increase was observed mainly in the ratio of liquid assets to liabilities to a term of up to one month as an increase in liquid assets (16 percent annualized, largely in view of the aforementioned growth of monetary deposits at the expense of Makam issuance) in contrast to a negligible upturn in liabilities up to three months and contraction of liabilities up to one month (mainly by financial wholesalers) triggering an upward spurt in their ratio. From the second quarter onward, liquid

assets decreased while short-term liabilities grew moderately, causing the ratio between them to edge downward relative to its December 2023 level (Figure 64).

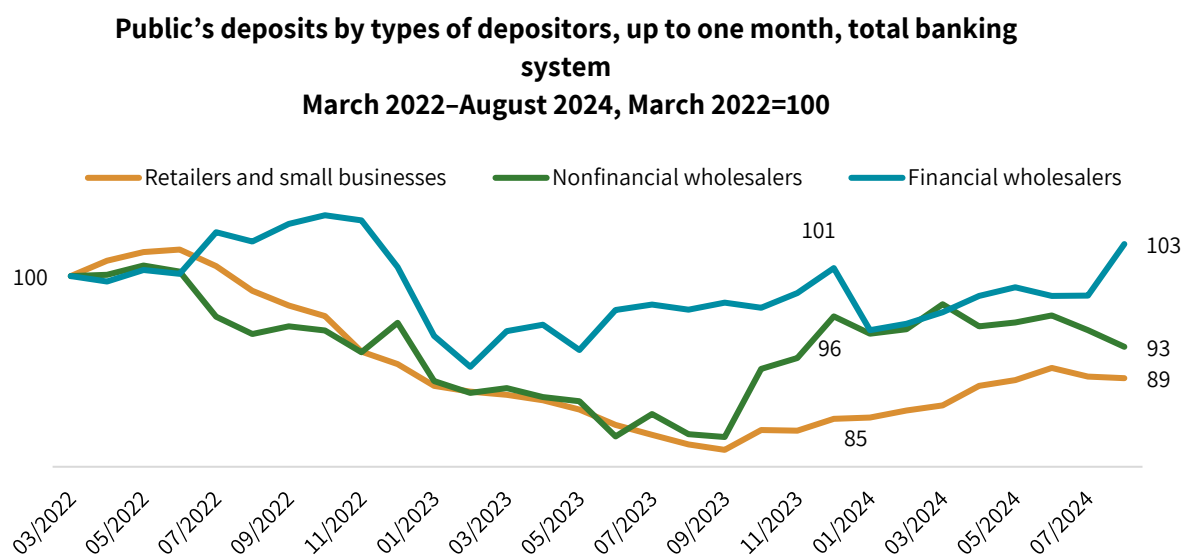
Figure 64: Mild decrease in liquid asset stock and gentle increase in short-term liabilities induce slight erosion of ratio relative to end-2023 level



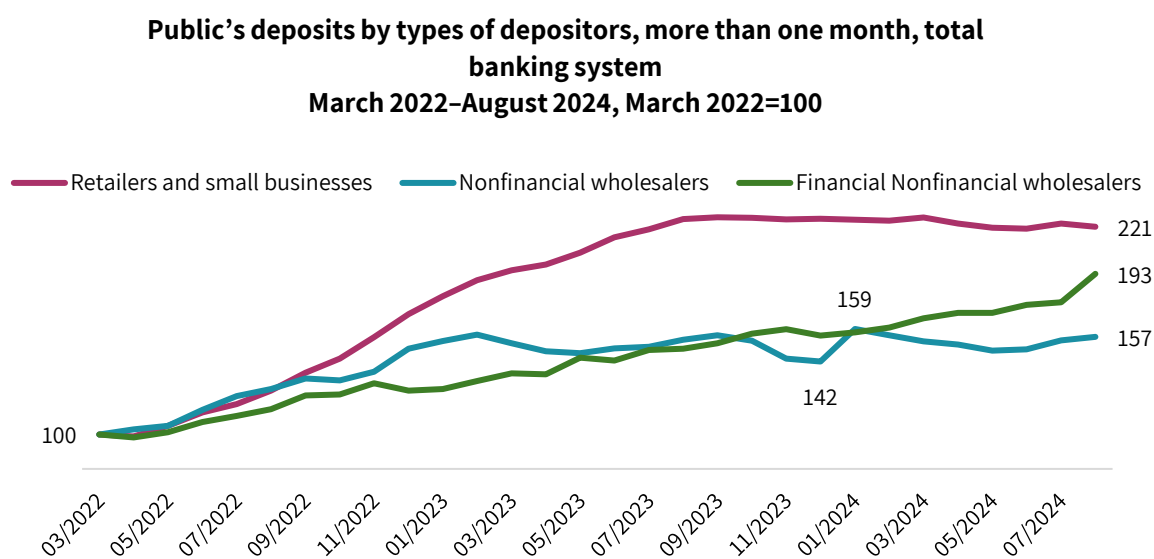
Source: reports to the Banking Supervision Department, processed by the Banking Supervision Department

From the last quarter of 2023 onward, funds deposited to terms longer than one month by retail and small-business customers (Figures 65–66) trended down. The tendency continued in the first half of 2024 (a 13 percent increase in retail and small-business deposits to up to one month as against a 5 percent increase in deposits to terms exceeding one month, annualized). From June onward, the trend slackened. Among non-financial and financial wholesalers, a different trend appeared: a stronger increase in deposits to terms exceeding one month (up by 15 percent and 34 percent in deposits to more than a one-month term as against a 3 percent decline and a 3 percent increase, respectively, annualized). This trend apparently traces to the effects of the war and the desire among individuals, particularly in the smaller activity segments, to keep liquid funds on hand due to the state of uncertainty.

Figures 65–66: In 2024, retailers and small businesses made most deposits to short terms

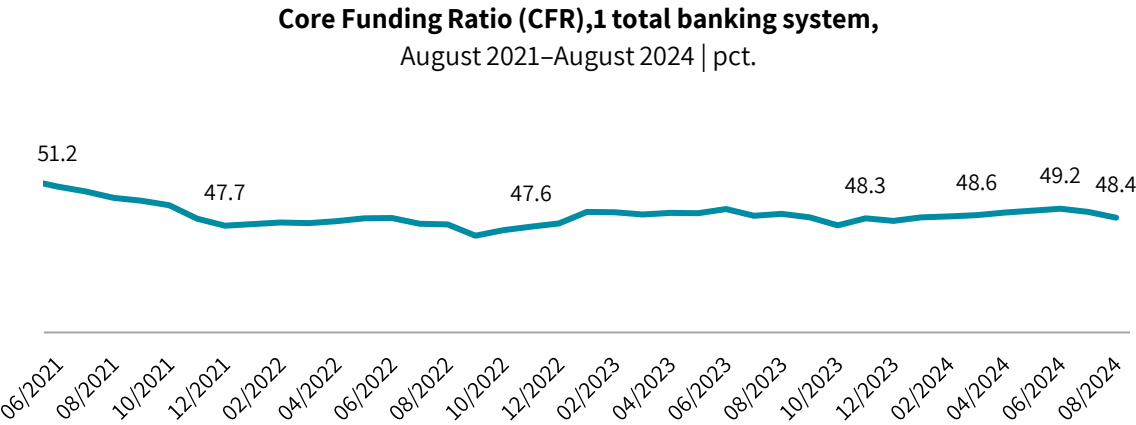


Source: reports to the Banking Supervision Department, processed by the Banking Supervision Department



The Core Funding Ratio (CFR),³⁶ which tests the quality of the sources on which the bank relies—the share of stable liabilities in total liabilities—increased slightly during the first half of 2024 to 49.2 percent, due to faster growth of stable liabilities (foremost retail and small-business deposits) than of total liabilities. From June onward, the balance of retail and small-business deposits decreased while outstanding liabilities continued to grow consistently, damping the ratio to 48.4 percent, still higher than in December 2023 (48.1 percent) (Figure 67).

Figure 67: 2024: core funding ratio remains high amid minor changes



1) In accordance with the EBA definition, the CFR comprises the following: in the numerator—total stable liabilities, composed of the balance of retail deposits, the balance of wholesale deposits to terms of more than one year, and deferred promissory notes; and in the denominator—total liabilities.

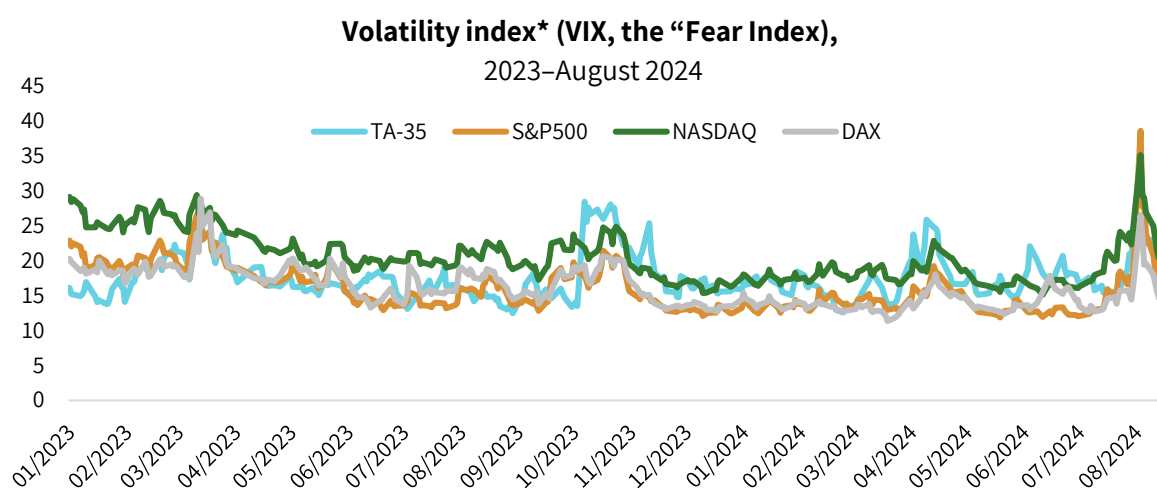
Source: reports to the Banking Supervision Department, processed by the Banking Supervision Department

³⁶ According to the EBA definition, the Core Funding Ratio is made up of the following components: in the numerator—total stable liabilities, composed of total retail deposits, total wholesale deposits to a term of more than one year, and bonds and deferred promissory notes; and in the denominator—total liabilities.

MARKET RISK

In recent years, developments in the financial markets have been challenging the world's banking system, and Israel's, in many ways. Volatility in the markets (Figure 68—the VIX index) and central banks' monetary tightening against the upturn in inflation (Figure 69—the annual inflation rate), which had a strong upward effect on bond yields, forced banking systems around the world to adjust their activities repeatedly in order to contend with these effects on market and liquidity risks.³⁷ Adjustments were particularly needed in the structure of assets and liabilities and the securities portfolio. Israel's banks are also exposed to the implications of the Swords of Iron War and the geopolitical tension, reflected in an increase in the country's risk premium (Figure 70—CDS) and rating downgrades at the sovereign level³⁸ and, in turn, of many Israeli firms including banks. In view of these developments, the indicators of market and interest risks attest to a mild upturn in risk in the course of 2024 relative to 2023.

Figure 68: Uncertainty during the year creates market volatility



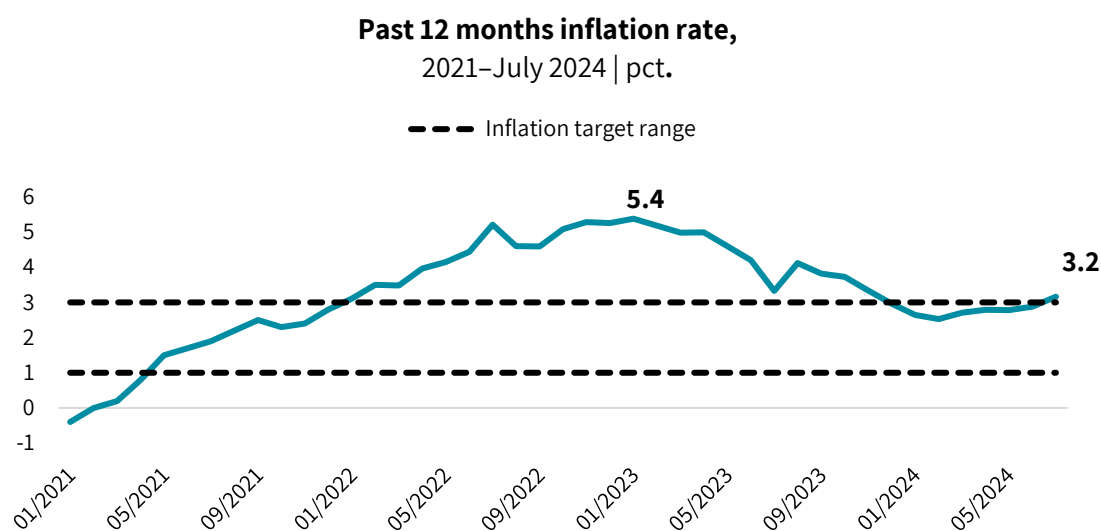
* Determined by calculating the implicit Standard Deviation in options traded on the leading share indices.

Source: Bank of Israel data

³⁷ For elaboration, see Box E-2, concerning lessons from the American bank failures in March–May 2023, in the *Israel's Banking System Survey* for 2023.

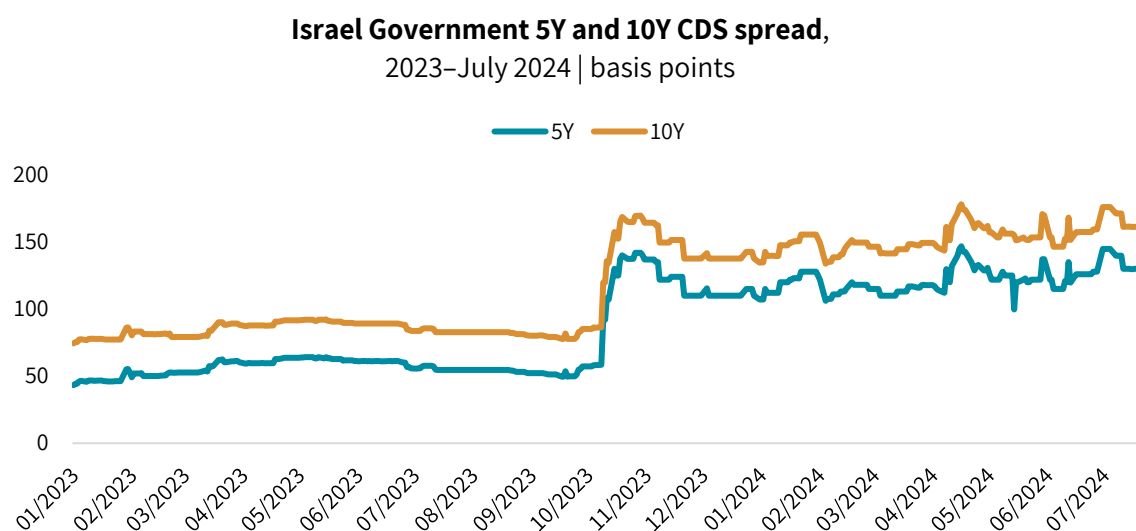
³⁸ On February 9, 2024, Moody's announced a sovereign downgrade to A2 with a negative rating outlook, and on September 27, 2024, it announced two additional downward notches, to Baa1, with a negative rating outlook. On April 18, 2024, S&P announced a downgrade of the long-term sovereign rating to (A+) with a negative outlook, and on October 1, 2024, it made another downgrade to A with a negative outlook. On August 12, 2024, Fitch announced a sovereign downgrade to (A) with a negative outlook.

Figure 69: The inflation rate rose in the course of 2024



Source: Central Bureau of Statistics

Figure 70: Israel's risk premium rises



Source: InvestingS and processing by the Bank of Israel

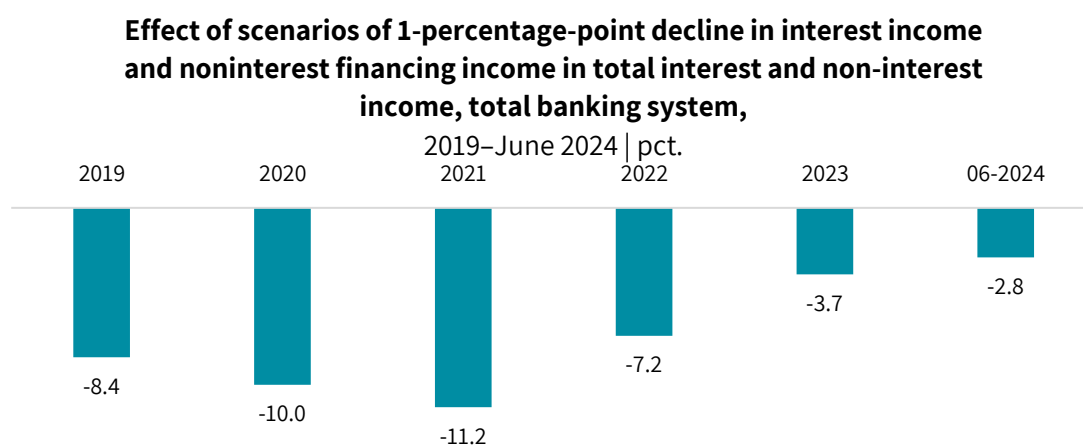
EXPOSURE TO INTEREST-RATE RISKS³⁹

According to the profits approach, which examines the effect of change in interest rates on expected profits to a twelve-month term, the scenario of concurrent rate-cutting had a

³⁹ Interest-rate risk (without the credit-risk spread) is the risk to the banks' profits as a result of fluctuations in interest rates, which affect the existing positions of each of the banks. When interest rates change, the present value and timing of future cash flows change with them. These, in turn, lead to changes in the fundamental value of the bank's assets, liabilities, and off-balance-sheet items and thus affect the bank's economic value. Changes in interest rates also affect the bank's profits through their effect on

milder impact in the middle of 2024 than at the end of 2023. The potential rate of loss in total income ⁴⁰ under this scenario was 1 percentage point **smaller** than in 2023 (Figure 71). Two determinants explain the decline in the rate of loss: the decrease in the total potential loss in a scenario of falling interest relative to the end of 2023 (the total potential loss stood at NIS 3.8 billion as of June 2024 as against NIS 4.7 billion in 2023) and an increase in profitability. (Estimated interest and non-interest income in mid-2024 year stood at NIS 137 billion as against NIS 127 billion in all of 2023; for elaboration, see the Business Results of the Banking System chapter). The decrease in the total loss originates, *inter alia*, in an adjustment of the assumptions in the banks' internal models⁴¹ for the calculation of sensitivity to rate changes due to the changes in the interest environment and the diversion of funds from non-interest-bearing demand deposits to interest-bearing deposits.⁴²

Figure 71: Decline in sensitivity to income changes as a result of rate changes



Source: published financial statements and processing by the Banking Supervision Department

income and expenses that are sensitive to the interest rate, thus affecting net interest income (NII). Excessive interest-rate risk may pose a threat to the bank's capital base and/or its future profits unless it is managed appropriately.

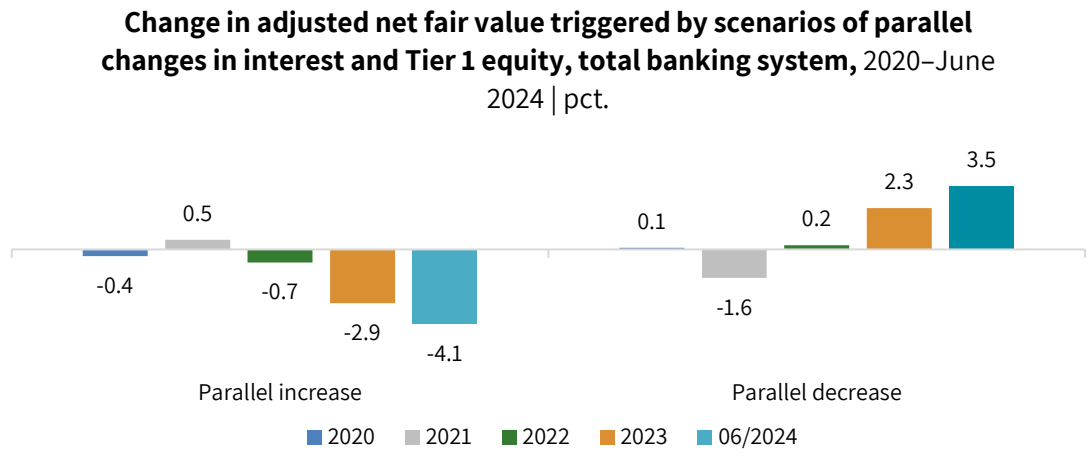
⁴⁰ Interest income plus noninterest financial income.

⁴¹ The interest-risk indicators in the banking portfolio that are based on economic value, as well as those based on profits, are both heavily affected by several assumptions that the bank makes for the purpose of quantifying the risk: expectations of the exercise of interest-rate options by the bank and its customers under specific interest-rate shock and extreme-test scenarios; treatment of balances and interest flows stemming from deposits that have no date of maturity; treatment of equity in economic-value indicators; and the implications of accounting methods for interest-rate risk in the banking portfolio. When a bank estimates its exposures to interest-rate risk in its portfolio, it must exercise judgment and make assumptions as to the way actual repayment or repricing behavior of an instrument may diverge from the contractual terms of the instrument due to characteristics of behavioral options. For elaboration, see Proper Conduct of Banking Business Directive 333. (An update of the Directive will go into effect on July 1, 2025.)

⁴² Relative to total deposits of the public, the share of interest-bearing individual deposits declined slightly.

The fair-value approach, used to estimate interest risk to time horizons to more than one year, tests the effect of various scenarios of rate changes on the fair value of a banking corporation’s assets, liabilities, and off-balance-sheet positions. **As of the middle of 2024, the banking system’s sensitivity to scenarios of concurrent change in yield curves was growing (Figure 72).** Within this generality, the potential blow occasioned by a scenario of concurrent increase grew in the course of the first half of 2024, as evidenced in the ratio of change in the adjusted net fair value,⁴³ as a result of the scenario, of Tier 1 equity, which increased as of the middle of 2024 to -4.1 percent as against -2.9 percent at the end of 2023. The upturn in sensitivity to the scenarios traces to developments in the banks’ balance sheets, foremost the continued growth of the credit portfolio (mostly in housing credit, which is typified by lengthy terms to maturity; for elaboration, see the Credit Portfolio and Credit Risk chapter), a contraction of the securities portfolio, and diversion of funds from demand deposits to interest-bearing deposits. (For elaboration, see Main Developments in Balance-Sheet and Off-Balance-Sheet Activity.) Furthermore, in view of developments in the banks’ balance sheets and the financial markets, the banks are also adjusting their internal models⁴⁴ to estimate their sensitivity to the scenarios.

Figure72: Increase in system sensitivity to scenarios of parallel changes



Source: published financial statements and processing by the Banking Supervision Department

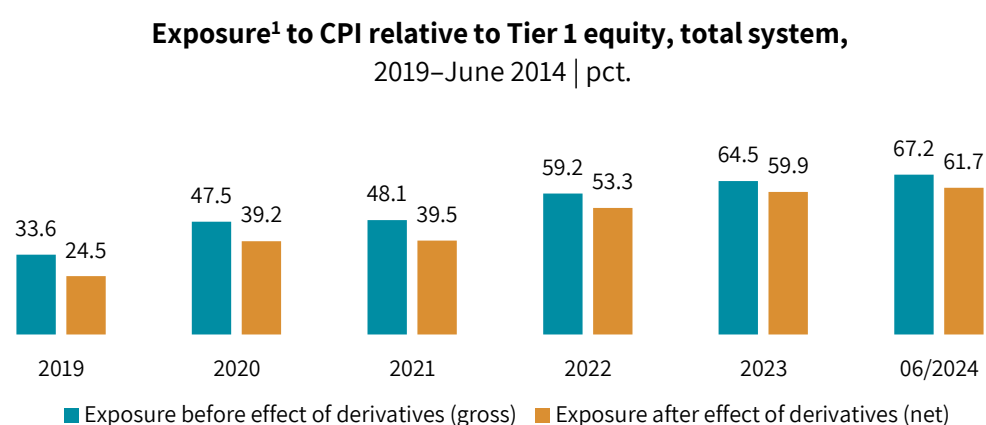
⁴³ The net fair value of financial instruments, excepting nonfinancial items and after the effect of liabilities on account of employee-related liabilities and attribution to the period of the public’s demand deposits.

⁴⁴ These models include the effects of attribution to the period of the public’s demand deposits, early repayment of housing loans, and early withdrawal of the public’s deposits.

INDEXATION-BASE RISK

The banking system's exposure to the price index continued to escalate in the first half of 2024, against the background of the rising inflation rate during the year and despite a mild downturn in the performance of price-indexed credit. Thus, the rate of exposure to the index relative to Tier 1 equity⁴⁵ was 67 percent in the middle of 2024 as against 65 percent at the end of 2023 (Figure 73). Furthermore, the net rate of exposure to the index (neutralized for the effect of derivatives) increased (although less aggressively), from 60 percent at the end of 2022 to 62 percent at the end of 2024.

Figure 73: Exposure to the Consumer Price Index continues to rise



1) Difference between assets and liabilities

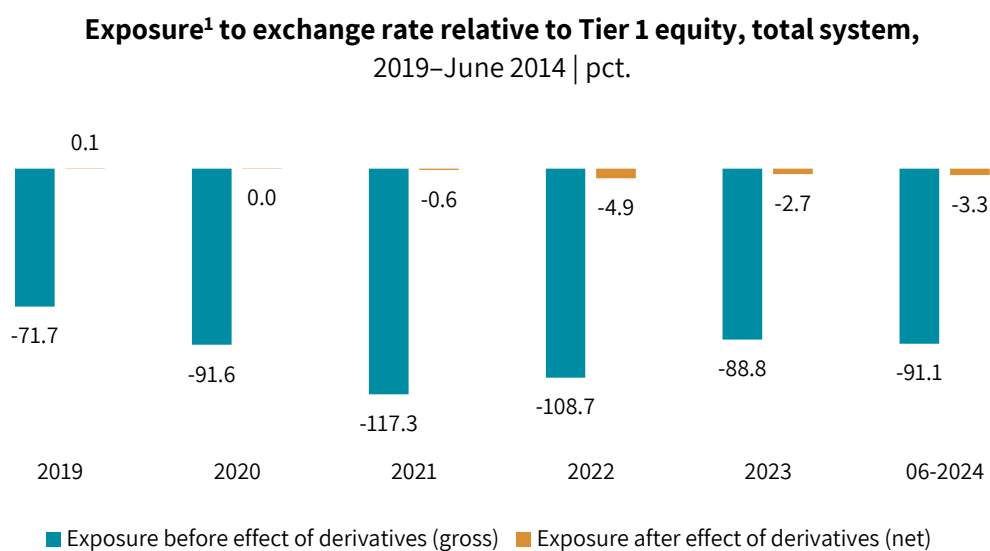
Source: published financial statements and processing by the Banking Supervision Department

FOREIGN CURRENCY

The banking system has a sizable liability surplus (NIS 172 billion) in its foreign-currency activity, most of its exposure accruing to the USD. Accordingly, the banks may sustain sizable losses in a scenario of depreciation of the NIS against foreign currencies (because in this state of affairs, the depreciation would increase their liabilities and reduce their capital). In practice, the banks hedge their exposure to foreign currency via activity in derivatives, leaving their net exposure (after the effect of derivatives) very small (NIS 6 billion). This may be seen in the rate of net exchange-rate exposure to Tier 1 equity (assets minus liabilities in foreign currency, after derivatives), which rose mildly from -2.7 percent at the end of 2023 to -3.3 percent as of June 2024 (Figure 74).

⁴⁵ The rate of exposure is calculated as the difference between indexed assets and indexed liabilities.

Figure 74: First half of 2024: mild increase in rate of exposure to foreign currencies



1) Difference between assets and liabilities

Source: published financial statements and processing by the Banking Supervision Department

Appendix—Tables

Table 1

Principal banking system indices, 2015–June 2024

	Common Equity Tier 1 capital ratio ^a (percent)	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 the public to GDP (percent)	Ratio of credit to deposits (percent)	Annual loan loss provision to total credit to the public (percent)	Herfindahl- Hirschman Concentration Index (HHI) ^{e,h}	Average yield spread between bonds of the banks and government bonds ^{f,h} (percentage points)	Ratio of market value to book value ^{g,h} (MV/BV)
2015	9.65	6.34	9.0	66.97	113	4.37	78.15	0.83	0.11	0.22	0.9	0.69
2016	10.69	6.53	8.1	66.89	138	2.61	76.81	0.81	0.10	0.21	0.8	0.83
2017	10.90	6.67	8.7	65.09	126	3.54	75.55	0.81	0.14	0.21	0.7	0.91
2018	10.77	6.76	8.5	64.52	129	3.81	74.92	0.84	0.22	0.21	0.9	0.97
2019	11.16	6.91	8.4	61.54	126	4.26	72.91	0.84	0.29	0.22	0.6	0.69
2020	11.11	6.22	6.2	58.30	137	7.46	76.37	0.75	0.68	0.22	0.6	0.90
2021	10.86	5.83	13.9	54.93	125	13.62	75.09	0.73	-0.25	0.22	0.7	1.16
2022	10.86	6.07	16.5	45.95	133	12.28	77.78	0.77	0.10	0.22	0.9	1.02
2023	11.33	6.46	15.6	39.65	134	6.63	82.44	0.79	0.50	0.22	0.9	0.96
Jun-24	11.48	6.71	16.9	38.36	134	3.05	83.26	0.79	0.05	0.22	0.6	0.93

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

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

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

^d The LCR, developed by the Basel Committee to enhance the short-term resilience of banking corporations' liquidity profiles, indicates the quantity of HQLA (High Quality Liquid Assets) that corporations should hold in order to

^e The Herfindal-Hirschman index of industry concentration is based on a standalone calculation of total credit at each bank, and not on a consolidated basis: $H = \sum_{i=1}^n \left(\frac{y_i}{Y}\right)^2$, where y_i = the output of bank i (credit to the public, net) and Y

^f Average for December of that year.

^g In calculating the MV/BV ratio, the book value (BV) of the five major banks is calculated with a delay of one quarter after the market value (MV). As of December 2014, the book value includes the effect of employee rights and software

^h Calculated for the entire banking system.

ⁱ As of January 2022, Israeli banks implement the Current Expected Credit Losses (CECL) methodology, a forward-looking methodology for estimating allowances for credit losses. The change in the ratios is partly due to the transition to

SOURCE: Based on Central Bureau of Statistics, Tel Aviv Stock Exchange, Bank of Israel, published financial statements, and reports to the Banking Supervision Department.

Table 2

Main items in consolidated profit and loss statements, total banking system, June 2023 - June 2024
(NIS million, at current prices)

	Bank Leumi				Bank Hapoalim				Mizrahi-Tefahot Bank			
	Jun-24	Jun-23	Dec-23	Rate of change relative to corresponding period of previous	Jun-24	Jun-23	Dec-23	Rate of change relative to corresponding period of previous	Jun-24	Jun-23	Dec-23	Rate of change relative to corresponding period of previous
Interest income	18,619	16,235	33,655	14.68	17,201	16,144	32,971	6.55	12,816	12,099	24,005	5.93
Interest expenses	10,474	8,023	17,658	30.55	9,003	7,812	16,886	15.25	6,911	5,772	12,030	19.73
Net interest income	8,145	8,212	15,997	-0.82	8,198	8,332	16,085	-1.61	5,905	6,327	11,975	-6.67
Loan loss provisions	204	724	2,383	-71.82	-63	764	1,879	-108.25	284	474	1,463	-40.08
Net interest income after loan loss provisions	7,941	7,488	13,614	6.05	8,261	7,568	14,206	9.16	5,621	5,853	10,512	-3.96
Noninterest income	3,893	2,483	5,181	56.79	2,624	2,752	5,297	-4.65	1,528	1,494	2,805	2.28
<i>of which:</i> Noninterest financing income	1,180	508	1,279	132.28	594	754	1,267	-21.22	371	337	511	10.09
<i>of which:</i> Stocks ^a	393	204	340	92.65	223	244	369	-8.61	49	30	30	63.33
Bonds ^b	-188	-194	-246	-3.09	-384	-220	-569	74.55	11	-55	-138	-120.00
Activity in derivative instruments ^c	2,698	2,861	2,926	-5.70	2,106	3,233	4,025	-34.86	1,057	1,535	1,583	-31.14
Exchange rate differentials	-1,723	-2,363	-1,741	-27.08	-1,508	-2,418	-2,369	-37.63	-746	-1,173	-964	-36.40
<i>of which:</i> Fees	1,845	1,838	3,737	0.38	1,991	1,929	3,892	3.21	1,018	1,029	2,028	-1.07
Total operating and other expenses	3,476	3,312	6,894	4.95	4,139	4,275	8,231	-3.18	2,607	2,958	5,569	-11.87
<i>of which:</i> salaries and related expenses	1,953	1,760	3,484	10.97	2,228	2,419	4,492	-7.90	1,724	1,940	3,544	-11.13
Pre-tax profit	8,358	6,659	11,901	25.51	6,746	6,045	11,272	11.60	4,542	4,389	7,748	3.49
Provision for tax on profits	2,843	2,253	3,988	26.19	2,559	2,145	3,930	19.30	1,728	1,526	2,669	13.24
After-tax profit	5,515	4,406	7,913	25.17	4,187	3,900	7,342	7.36	2,814	2,863	5,079	-1.71
Net profit attributed to shareholders	5,054	3,434	7,027	47.18	4,176	3,930	7,360	6.26	2,724	2,765	4,910	-1.48
Total pre-tax ROE (percent)	29.77	26.37	23.20		25.09	25.26	23.01		31.68	35.24	30.06	
Total after-tax ROE (percent)	18.00	13.60	13.70		15.53	16.42	15.02		19.00	22.20	19.05	
Total ROA (percent)	0.69	0.50	0.96		0.61	0.59	1.07		0.59	0.64	1.10	

Table 2 (cont.)

Main items in consolidated profit and loss statements, total banking system, June 2023 - June 2024

(NIS million, at current prices)

	Discount Bank				First International				Bank of Jerusalem			
	Jun-24	Jun-23	Dec-23	Rate of change relative to corresponding period of previous year	Jun-24	Jun-23	Dec-23	Rate of change relative to correspon	Jun-24	Jun-23	Dec-23	Rate of change relative to correspon
Interest income	10,793	10,027	20,712	7.64	5,455	4,699	9,850	16.09	747	672	1,371	11.13
Interest expenses	5,410	4,353	9,776	24.28	3,119	2,106	4,884	48.10	392	307	639	27.57
Net interest income	5,383	5,674	10,936	-5.13	2,336	2,593	4,966	-9.91	355	365	732	-2.71
Loan loss provisions	340	516	1,502	-34.11	-73	171	502	-142.69	36	51	133	-29.35
Net interest income after loan loss provisions	5,043	5,158	9,434	-2.23	2,409	2,422	4,464	-0.54	319	314	598	1.63
Noninterest income	2,397	2,668	5,138	-10.16	884	842	1,652	4.99	98	71	161	38.39
<i>of which:</i> Noninterest financing income	622	611	1,218	1.80	147	79	142	86.08	24	9	37	177.01
<i>of which:</i> Stocks ^a	138	49	151	181.63	53	23	58	130.43	3	0	1	-2,900.00
Bonds ^b	0	-100	-255	-100.00	-3	-34	-101	-91.18	-2	0	-1	#DIV/0!
Activity in derivative instruments ^c	1,820	2,798	2,343	-34.95	577	694	459	-16.86	5	3	7	73.08
Exchange rate differentials	-1,337	-2,136	-1,021	-37.41	-480	-604	-274	-20.53	-6	-8	-12	-24.05
<i>of which:</i> Fees	1,772	1,756	3,495	0.91	727	756	1,502	-3.84	66	62	124	6.95
Total operating and other expenses	4,049	3,901	7,966	3.79	1,463	1,464	2,877	-0.07	281	268	546	4.96
<i>of which:</i> salaries and related expenses	1,924	1,899	3,850	1.32	872	915	1,746	-4.70	125	126	254	-1.27
Pre-tax profit	3,391	3,925	6,606	-13.61	1,830	1,800	3,239	1.67	135	116	213	16.24
Provision for tax on profits	1,289	1,389	2,316	-7.20	643	622	1,090	3.38	46	42	76	7.57
After-tax profit	2,102	2,536	4,290	-17.11	1,187	1,178	2,149	0.76	90	74	137	21.19
Net profit attributed to shareholders	2,095	2,456	4,192	-14.70	1,178	1,218	2,172	-3.28	87	72	135	19.81
Total pre-tax ROE (percent)	23.31	30.36	24.74		29.83	33.40	29.38		19.87	18.60	16.62	
Total after-tax ROE (percent)	14.40	19.00	15.70		19.20	22.60	19.70		12.70	11.54	10.50	
Total ROA (percent)	0.52	0.63	1.06		0.51	0.59	0.98		0.39	0.36	0.62	

Table 2 (cont.)

Main items in consolidated profit and loss statements, total banking system, June 2023 - June 2024

(NIS million, at current prices)

Total banking system				Rate of change relative to corresponding period of previous year
	24-יוני	23-יוני	23-דצמ	
Interest income	65,631	59,876	122,564	9.61
Interest expenses	35,309	28,373	61,873	24.44
Net interest income	30,322	31,503	60,691	-3.75
Loan loss provisions	728	2,700	7,862	-73.03
Net interest income after loan loss provisions	29,594	28,803	52,828	2.75
Noninterest income	11,424	10,310	20,234	10.81
<i>of which:</i> Noninterest financing income	2,938	2,298	4,454	27.87
<i>of which:</i> Stocks ^a	859	550	949	56.17
Bonds ^b	-566	-603	-1,310	-6.10
Activity in derivative instruments ^c	8,263	11,124	11,341	-25.72
Exchange rate differentials	-5,800	-8,702	-6,381	-33.35
<i>of which:</i> Fees	7,419	7,370	14,778	0.67
Total operating and other expenses	16,015	16,178	32,083	-1.01
<i>of which:</i> salaries and related expenses	8,826	9,059	17,370	-2.58
Pre-tax profit	25,002	22,934	40,979	9.02
Provision for tax on profits	9,108	7,977	14,069	14.17
After-tax profit	15,895	14,957	26,910	6.27
Net profit attributed to shareholders	15,314	13,875	25,796	10.37
Total pre-tax ROE (percent)	27.58	28.46	24.96	
Total after-tax ROE (percent)	16.89	17.22	15.63	
Total ROA (percent)	0.60	0.58	1.02	

^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 3**The effect of quantity^a and price^b on interest income and expenses, total banking system, June 2023 - June 2024**

NIS million									
Jun-24									
	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 (liabilities) in Israel	2,401	3,864	-1,463	-184	2,553	-2,737	2,217	6,417	-4,200
Credit to the public (assets) / deposits of the public (liabilities) abroad	329	224	105	285	295	-10	614	519	95
Total credit to the public / deposits of the public	2,730	4,088	-1,358	102	2,848	-2,747	2,831	6,936	-4,105
Other interest-bearing assets / liabilities in Israel	1,091	-210	1,300	1,597	211	1,386	2,687	2	2,686
Other interest-bearing assets / liabilities abroad	106	-15	121	130	13	117	236	-2	238
Total other interest-bearing assets / liabilities	1,197	-225	1,421	1,727	224	1,503	2,923	0	2,924
Total interest income / expenses	3,927	3,863	63	1,828	3,072	-1,244	5,755	6,936	-1,181
Jun-23									
	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 (liabilities) in Israel	4,521	5,698	-1,177	14,148	13,613	535	18,669	19,311	-642
Credit to the public (assets) / deposits of the public (liabilities) abroad	4	257	-253	1,109	906	203	1,113	1,163	-50
Total credit to the public / deposits of the public	4,525	5,955	-1,430	15,257	14,519	738	19,782	20,474	-692
Other interest-bearing assets / liabilities in Israel	-161	730	-891	10,303	181	10,122	10,141	910	9,231
Other interest-bearing assets / liabilities abroad	113	1	112	593	9	584	706	10	696
Total other interest-bearing assets / liabilities	-48	731	-779	10,896	190	10,706	10,847	920	9,927
Total interest income / expenses	4,477	6,686	-2,209	26,152	14,708	11,444	30,629	21,394	9,235

^a The quantity effect is calculated as the change in the balance-sheet balance (current year versus previous year) multiplied by the price during the current period, divided by 1000.^b The price effect is calculated as the change in price (current year versus previous year) multiplied by the balance-sheet balance for the same period in the previous year, divided by 1,000.

SOURCE: Banking Supervision Department based on published financial statements.

Table 4

Average balances, interest income and expense rates, and interest rate gap in respect of assets and liabilities, total banking system, June 2023 to June 2024 (NIS million, percent in annual terms)

June 2024								
Assets				Liabilities				
	Average yearly balance (NIS million)	Interest income (NIS million)	Income rate (%)		Average yearly balance (NIS million)	Interest expenses (NIS million)	Expense rate (%)	Interest rate gap
Credit to the public	1,531,449	49,550	6.47	Deposits of the public	1,495,123	-31,353	-4	2.28
Deposits at banks	31,928	634	3.98	Deposits from banks	27,645	-478	-3	0.52
Deposits at central banks	360,421	7,923	4.40	Deposits from central banks	20,606	-83	-1	3.59
Bonds	364,188	7,155	7.39	Bonds	114,191	-2,581	-5	2.87
Other assets ^a	16,641	368	4.42	Other liabilities ^a	38,339	-814	-4	0.18
Total interest-bearing assets	2,304,627	65,631	5.70	Total interest-bearing liabilities	1,695,904	-35,309	-4	1.53
Net yield on interest-bearing assets (net interest margin)^b	2,304,626,700	30,322,000	2.63					
June 2023								
Assets				Liabilities				
	Average yearly balance (NIS million)	Interest income (NIS million)	Income rate (%)		Average yearly balance (NIS million)	Interest expenses (NIS million)	Expense rate (%)	Interest rate gap
Credit to the public	1,448,596	46,719	6.45	Deposits of the public	1,301,274	-24,417	-3.75	2.70
Deposits at banks	35,536	645	3.63	Deposits from banks	26,882	-326	-2.43	1.20
Deposits at central banks	350,321	7,169	4.09	Deposits from central banks	34,071	-10	-0.06	4.03
Bonds	319,885	5,030	6.58	Bonds	111,828	-2,755	-4.93	1.65
Other assets ^a	15,264	313	4.10	Other liabilities ^a	39,119	-865	-4.42	-0.32
Total interest-bearing assets	2,169,602	59,876	5.52	Total interest-bearing liabilities	1,513,174	-28,373	-3.75	1.77
Net yield on interest-bearing assets (net interest margin)^b	2,169,602,000	31,502,900	2.90					

^a Other liabilities and assets also include credit to the government and government deposits, and securities loaned or borrowed in repurchase agreements, among other things.

^b The net interest margin is the ratio between net interest income and total interest-bearing assets. The margin is shown in percent and calculated using annual data.

SOURCE: Banking Supervision Department based on published financial statements.

Table 5
Unit output cost^a and efficiency ratio^b of the total banking system^c, 2020 - June 2024
(percent)

	Year	Leumi	Hapoalim	Mizrahi- Tefahot ^{d,e}	Discount	First International	Bank of Jerusalem	Total banking system
Unit output cost	2020	1.38	1.50	1.35	2.41	1.66	2.79	1.60
	2021	1.23	1.32	1.48	2.18	1.52	2.85	1.49
	2022	1.01	1.22	1.50	2.03	1.46	2.74	1.38
	2023	0.96	1.22	1.27	2.06	1.38	2.68	1.31
	June 2024	0.95	1.21	1.15	2.03	1.29	2.56	1.27
Efficiency ratio	2020	53.8	56.9	53.9	67.5	61.8	69.1	58.3
	2021	46.8	54.2	54.0	65.4	58.3	73.5	54.9
	2022	37.5	44.5	45.2	55.8	50.9	59.8	46.0
	2023	32.6	38.5	37.7	49.6	43.5	61.2	39.6
	June 2024	28.9	38.2	35.1	52.0	45.4	62.1	38.4

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

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

^c Data for the Hapoalim group do not include the Isracard group. From 2019, data for the Leumi group do not include the Leumi Card group.

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

^e Starting with the annual report for 2020, data on the Mizrahi-Tefahot group include Union Bank.

SOURCE: Based on published financial statements.

Table 6

Distribution of capital and capital ratios in the banking system, December 2023 to June 2024

	Leumi		Hapoalim		Discount		Mizrahi-Tefahot		First Int'l.		Bank of Jerusalem		Total banking system	
	December 2023	June 2024	December 2023	June 2024	December 2023	June 2024	December 2023	June 2024	December 2023	June 2024	December 2023	June 2024	December 2023	June 2024
	(NIS million)													
Tier 1 capital ^{a,b}	53,892	58,151	52,641	55,596	28,890	30,708	28,434	30,252	12,292	12,834	1,366	1,432	188,973	188,973
Tier 2 capital ^b	14,141	14,525	13,338	13,680	7,469	7,692	8,366	9,289	3,569	3,038	366	361	48,585	48,585
Capital base	68,033	72,676	65,979	69,276	36,359	38,400	36,800	39,541	15,861	15,872	1,732	1,794	237,559	237,559
Credit risk	426,399	442,762	403,897	428,028	245,154	260,232	252,842	265,789	97,053	100,468	11,742	12,081	1,509,360	1,509,360
Total exposures after conversion to credit	711,900	733,311	689,175	702,237	395,711	403,819	458,835	473,479	215,193	227,517	22,467	22,919	2,563,282	2,563,282
Risk weighted average (RWA) ^c	55	0	55	0	58	0	53	0	42	0	51	0	0	0
Market risks	5,834	7,768	4,245	4,871	4,209	5,738	1,957	1,820	886	1,259	15	44	21,500	21,500
Operational risk	29,943	32,562	29,710	31,963	20,406	21,710	20,641	22,199	10,360	11,419	1,277	1,367	121,220	121,220
Total weighted items	462,176	483,092	437,852	464,862	269,769	287,680	275,440	289,808	108,299	113,146	13,035	13,492	1,652,080	1,652,080
	(Percent)													
Tier 1 capital ratio	11.7	12.0	12.0	12.0	10.7	10.7	10.3	10.4	11.4	11.3	10.5	10.6	11.0	11.6
Total capital adequacy ratio	14.7	15.0	15.1	14.9	13.5	13.4	13.4	13.6	14.6	14.0	13.3	13.3	14.0	14.6
Minimum required Tier 1 capital ratio	10.2	10.2	10.2	10.2	9.2	9.2	9.6	9.6	9.2	9.2	9.5	9.5		
Minimum required total capital ratio ^c	13.5	13.5	13.5	13.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5		

^a Including minority shareholders' rights, according to the groups' balance sheets.

^b After deductions.

^c Percent.

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

Table 7**Distribution of exposures and the leverage ratio in the total banking system, December 2023 to June 2024 (NIS million)**

	Leumi		Hapoalim		Discount		Mizrahi Tefahot		First Int'l		Bank of Jerusalem		Total banking system	
	December 2023	June 2024	December 2023	June 2024	December 2023	June 2024	December 2023	June 2024	December 2023	June 2024	December 2023	June 2024	December 2023	June 2024
	(NIS million)													
Tier 1 capital	53,892	58,151	52,641	55,596	28,890	30,708	28,434	30,252	12,292	12,834	1,366	1,432	177,515	188,973
Balance sheet exposures	682,277	685,965	648,724	654,067	381,827	389,585	442,835	456,243	217,965	230,385	21,980	22,336	2,395,608	2,438,581
Derivative Exposure	42,010	53,283	27,683	26,858	9,448	11,036	8,615	9,495	3,460	4,100	8	15	91,224	104,787
Securities Financing Exposure	15,177	18,003	11,986	10,161	5,008	4,247	2,524	3,924	57	29	0	0	34,752	36,364
Off-balance sheet exposure	70,550	74,324	72,003	75,660	37,910	37,631	33,509	35,674	12,187	12,318	644	791	226,803	236,398
Total exposures	810,014	831,575	760,396	766,746	434,193	442,499	487,483	505,336	233,669	246,832	22,633	23,141	2,748,388	2,816,129
	(percent)													
Leverage ratio	6.7	7.0	6.9	7.3	6.7	6.9	5.8	6.0	5.3	5.2	6.0	6.2	6.5	6.7
Required leverage ratio	5.5	5.5	5.5	5.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5

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

Table 8

Total balance sheet of the Israeli banking system^a,

June 2023- June 2024

	In current prices			Rate of change relative to corresponding period of previous year	Rate of change* in the first six months of 2023	Distribution			
	June 2024	June 2023	December 2023			June 2024	June 2023	December 2023	
	(NIS million)			(Percent)			(Percent)		
Cash and deposits at banks	451,621	415,640	424,894	8.66	6.29	17.80	17.26	16.96	
Securities	366,769	349,286	397,593	5.01	-7.75	14.46	14.50	15.87	
Securities borrowed or bought under reverse repurchase agreements	3,974	3,481	8,790	14.16	-54.79	0.16	0.14	0.35	
Credit to the public	1,615,307	1,533,455	1,567,456	5.34	3.05	63.67	63.67	62.56	
Allowance for credit losses	23,565	19,903	23,824	18.40	-1.09	0.93	0.83	0.95	
Net credit to the public	1,591,743	1,513,552	1,543,632	5.17	3.12	62.74	62.85	61.61	
Credit to governments	9,140	8,769	9,589	4.23	-4.68	0.36	0.36	0.38	
Investments in subsidiary and affiliated companies	6,409	6,673	7,040	-3.96	-8.96	0.25	0.28	0.28	
Premises and equipment	13,700	13,025	13,722	5.18	-0.16	0.54	0.54	0.55	
Intangible assets	641	634	637	1.10	0.63	0.03	0.03	0.03	
Assets in respect of derivative instruments	67,040	72,847	73,679	-7.97	-9.01	2.64	3.02	2.94	
Other assets	26,119	24,370	25,798	7.18	1.24	1.03	1.01	1.03	
Total assets	2,537,154	2,408,277	2,505,374	5.35	1.27	100.00	100.00	100.00	
Deposits of the public	2,032,210	1,895,699	1,986,173	7.20	2.32	80.10	78.72	79.28	
Deposits from banks	45,973	55,834	50,271	-17.66	-8.55	1.81	2.32	2.01	
Deposits from governments	3,958	3,824	3,493	3.50	13.31	0.16	0.16	0.14	
Securities lent or sold under repurchase agreements	26,927	35,135	32,697	-23.36	-17.65	1.06	1.46	1.31	
Bonds and subordinated notes	114,177	116,957	114,705	-2.38	-0.46	4.50	4.86	4.58	
Liabilities in respect of derivative instruments	59,110	63,208	72,503	-6.48	-18.47	2.33	2.62	2.89	
Other liabilities	64,263	68,697	66,644	-6.45	-3.57	2.53	2.85	2.66	
Total liabilities	2,346,618	2,239,354	2,326,487	4.79	0.87	92.49	92.99	92.86	
Minority interest	2,795	2,411	2,625	15.91	6.49	0.11	0.10	0.10	
Shareholders equity	187,741	166,512	176,262	12.75	6.51	7.40	6.91	7.04	
Total equity	190,536	168,923	178,887	12.79	6.51	7.51	7.01	7.14	
Total liabilities and equity	2,537,154	2,408,277	2,505,374	5.35	1.27	100.00	100.00	100.00	

^a On a consolidated basis.

^b Including deposits at the Bank of Israel.

SOURCE: Based on published financial statements.

Table 9

Total securities portfolio of the banking system, December 2023 and June 2024

		Bank Leumi				Bank Hapoalim				Mizrahi-Tefahot				Discount Bank			
		December 2023		June 2024		December 2023		June 2024		December 2023		June 2024		December 2023		June 2024	
		Book	Distribution	Book	Distribution	Distributio		Book	Distribution	Book	Distributio	Book	Distribution	Book	Distributio	Book	Distribution
		value		value		Book value	n	value		value	n	value		value	n	value	
		(NIS million)	(Percent)	(NIS million)	(Percent)	(NIS million)	(Percent)	(NIS million)	(Percent)	(NIS million)	(Percent)	(NIS million)	(Percent)	(NIS million)	(Percent)	(NIS million)	(Percent)
Securities	Of the Israeli government	95,886	60	66,175	51	84,303	66	84,943	69	19,452	84	21,304	84	39,369	66	41,312	68
	Of foreign governments	26,916	17	21,303	17	25,641	20	23,205	19	583	3	878	3	5,423	9	4,942	8
	Of Israeli financial institutions	481	0	452	0	458	0	635	1	776	3	856	3	99	0	127	0
	Of foreign financial institutions	10,297	6	10,650	8	9,023	7	8,777	7	251	1	162	1	630	1	595	1
	Asset-backed or mortgage-backed securities ^a	15,567	10	17,920	14	0	0	0	0	56	0	56	0	9,297	16	9,351	15
	Other - Israeli	982	1	1,063	1	0	0	0	0	1,100	5	1,173	5	287	0	285	0
	Other - foreign	5,002	3	5,429	4	3,264	3	1,778	1	235	1	196	1	2,160	4	1,860	3
	Stocks	4,917	3	5,581	4	4,433	3	4,610	4	618	3	745	3	2,003	3	2,162	4
	Total securities, all types	160,048	100	128,573	100	127,122	100	123,948	100	23,071	100	25,370	100	59,268	100	60,634	100

Total securities portfolio of the banking system, December 2023 and June 2024

		First International				Bank of Jerusalem				Total Banking System			
		December 2023		June 2024		December 2023		June 2024		December 2023		June 2024	
		Book	Distribution	Book	Distribution	Distributio		Book	Distribution	Book	Distributio	Book	Distribution
		value		value		Book value	n	value		value	n	value	
		(NIS million)	(Percent)	(NIS million)	(Percent)	(NIS million)	(Percent)	(NIS million)	(Percent)	(NIS million)	(Percent)	(NIS million)	(Percent)
Securities	Of the Israeli government	14,897	55	17,954	66	698	64	597	59	254,605	64	232,285	63
	Of foreign governments	10,407	39	6,557	24	75	7	77	8	69,045	17	56,962	16
	Of Israeli financial institutions	484	2	938	3	75	7	70	7	2,373	1	3,078	1
	Of foreign financial institutions	509	2	469	2	0	0	0	0	20,710	5	20,653	6
	Asset-backed or mortgage-backed securities ^a	0	0	0	0	0	0	0	0	24,920	6	27,327	7
	Other - Israeli	104	0	180	1	163	15	153	15	2,636	1	2,854	1
	Other - foreign	41	0	24	0	0	0	0	0	10,702	3	9,287	3
	Stocks	543	2	1,115	4	89	8	109	11	12,603	3	14,322	4
	Total securities, all types	26,985	100	27,237	100	1,099	100	1,007	100	397,593	100	366,769	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.

SOURCE: Based on published financial statements.

Table 10

**Transactions in off-balance-sheet financial instruments where the par value reflects credit risk,
total banking system, 2022– June 2024**

	End of year balance			Rate of change relative to corresponding period of previous year	Rate of change in the first six months of	Distribution		
	Dec-22	Dec-23	Jun-24			Dec-22	Dec-23	Jun-24
	(NIS million)					Percent		
Documentary credit	5,216	2,979	4,550	-0.1	0.5	1%	0%	1%
Credit guarantees	22,671	24,080	25,601	0.1	0.1	3%	3%	3%
Guarantees for home purchases	118,536	105,046	105,693	-0.1	0.0	18%	14%	14%
Other guarantees and liabilities	98,651	99,467	106,218	0.1	0.1	15%	14%	14%
Unutilized credit card facilities	81,419	99,162	102,223	0.3	0.0	12%	14%	13%
Unutilized CLA and other credit facilities in demand accounts	92,514	103,749	100,195	0.1	0.0	14%	14%	13%
Irrevocable commitments to provide credit that has not yet been extended	165,463	189,000	211,833	0.3	0.1	25%	26%	28%
Commitments to issue guarantees	78,582	101,758	110,512	0.4	0.1	12%	14%	14%
Total	663,052	725,241	766,825	0.2	0.1	100%	100%	100%

SOURCE: Based on published financial statements.

Table 11**Outstanding credit to the public, by principal industry, total banking system, December 2023 - June 2024**

	Total balance of credit risk ^a					Balance-sheet credit ^b (debts)				
	Balance		Distribution of credit to the public		Change in credit	Balance		Distribution of credit to the public		Change in credit
	Dec-23	Jun-24	Dec-23	Jun-24	Jun-24	Dec-23	Jun-24	Dec-23	Jun-24	Jun-24
	(NIS million)		(Percent)		(Percent)	(NIS million)		(Percent)		(Percent)
Borrower activity in Israel	2,034,309	2,109,421	91.5	91.1	3.7	1,474,492	1,507,057	94.1	93.3	2.2
Business sector	1,152,436	1,194,604	51.8	51.6	3.7	744,501	756,426	47.5	46.8	1.6
Construction and real estate	485,191	505,982	21.8	21.9	4.3	296,130	306,173	18.9	19.0	3.4
<i>Of which:</i> Construction	354,070	370,285	15.9	16.0	4.6	185,775	192,900	11.9	11.9	3.8
Real estate	131,120	135,697	5.9	5.9	3.5	110,355	113,273	7.0	7.0	2.6
Financial services	187,638	197,368	8.4	8.5	5.2	116,651	115,071	7.4	7.1	-1.4
Other business services	230,001	239,948	10.3	10.4	4.3	331,720	335,183	21.2	20.8	1.0
Private individuals	881,874	914,818	39.7	39.5	3.7	729,991	750,631	46.6	46.5	2.8
<i>Of which:</i> Housing loans	615,917	642,210	27.7	27.7	4.3	582,394	600,249	37.2	37.2	3.1
Private individuals - other	265,956	272,608	12.0	11.8	2.5	147,597	150,382	9.4	9.3	1.9
Borrowers' activity abroad	188,326	205,721	8.5	8.9	9.2	92,964	108,250	5.9	6.7	16.4
Total	2,222,635	2,315,142	100.0	100.0	4.2	1,567,456	1,615,307	100.0	100.0	3.1

^a Includes balance-sheet and non-balance-sheet credit risk.^b Includes credit to the public, excludes bonds and securities borrowed or purchased under reverse repurchase agreements.**SOURCE:** Banking Supervision Department based on published financial statements.