The Israeli Banking System: Recent developments and challenges

Meeting with CFO Forum

Merav Shemesh, Advisor to the Supervisor of Banks, Bank of Israel

February 2025









Main macroeconomic variables



2024 0.6% 2025F 4%



Unemployment 2.6%



Bol Interest rate 4.5%



Public (Sovereign) debt to GDP 69%



Inflation 12-months
CPI
3.2%

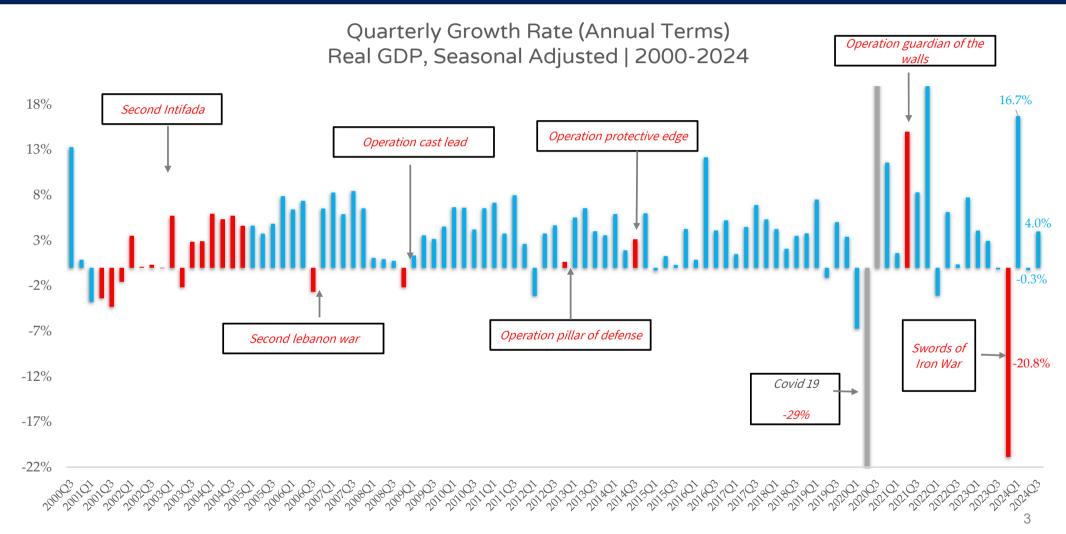


12 months accumulated fiscal deficit

2024 7% 2025F 4.7% The Israeli economy has been resilient to the shock of the October 7th terror attacks and subsequent war, thanks to its sound fiscal position before the war, deft monetary management, a resilient financial system and strong growth potential owing to high employment rates and a vibrant high-tech sector



In the past, the Israeli economy recovered quickly after geopolitical conflicts The data suggests slower recovery pattern than previous conflicts





Financial supervision Structure in Israel

Competition Authority

י רשות התחרות

Money
Laundering and
Terror Financing
Prohibition
Authority



National Cyber
Directorate



Micro-prudential Supervision

Capital
Markets,
Insurance, and
Savings
Authority



Pension and Provident Funds Insurance Companies and Agents Non-Bank Credit Providers Israel Securities Authority



Stock Exchange and Trading Platforms, Public Companies, Mutual Funds, Portfolio Managers, Investment Advisors, Payment and Information Services Banking Supervision Department



Banks Auxiliary Corporations Credit Card Companies Payment Systems Oversight

Credit Data Registry

Financial Stability (Macro-prudential)
Financial Stability Committee – Chaired by the Governor of the
Bank of Israel



The Banking Supervision Department's Vision and goals

Vision: To promote the public's benefit by maintaining the stability and fairness of the banking system, through supervision that is professional, leading, and transparent

Primary Objectives



Stability

Maintain the stability of the supervised entities, their business continuity, and depositors' funds, in routine times and in emergencies



Fairness

Integrate a culture of fairness vis-à-vis customers and an optimal and inclusive level of service

Secondary Objectives



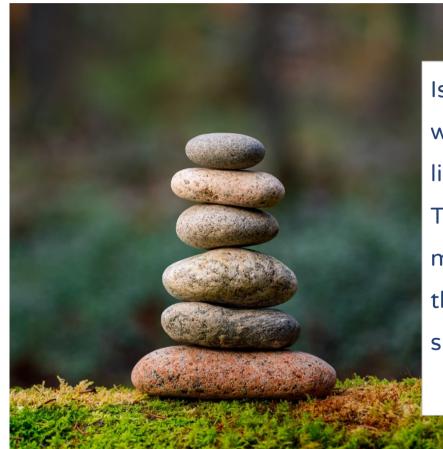
Encourage
Competition in the financial system



Strengthen the effectiveness of the Banking Supervision Department's work



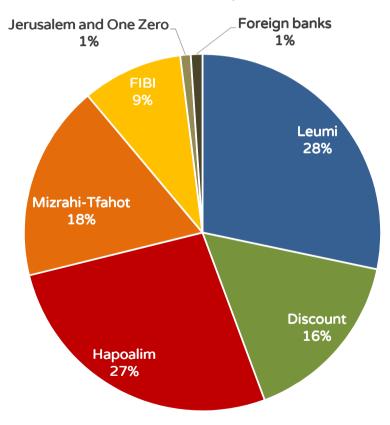
Israeli Banking System



Israeli banks entered the current geopolitical crisis with solid capital positions, high asset quality, good liquidity profile and high profitability and efficiency. This together with monetary, fiscal and supervisory measures allows banks to support the credit needs of the economy and withstand prolonged and severe shock.

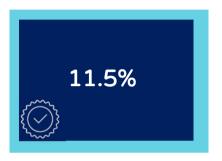


Market share of Israeli banks
Total banking system, Total assets, Q3/2024
Total assets: NIS2,662 Billion





Israeli banking system - Key indicators (Q3\2024)



Common Equity Tier 1 Capital Ratio (CET1)



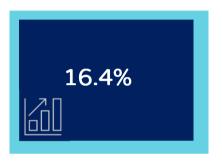
Share of Nonperforming Loans



Liquidity Coverage Ratio (LCR)



Total Assets



Return on Equity (ROE)



Share of transactions via direct channels



Israeli Banking System – Main Characteristics (Q3/2024)

- Relatively conservative and tightly regulated Banking System
- Strong business continuity management
- In line with international standards and best practices
- High confidence of the public in Israeli banks





BSD's response to the Swords of Iron war - Objectives







Providing relief and support to costumers



Monitoring financial and non-financial risks



Operational deployment of the BSD



01 Internally

- Dedicated taskforce within the BSD and the Bol
- Establishing a few
 Situation Estimate
 Forums
- Increasing the frequency of BSD and Bol management meetings



02 Externally

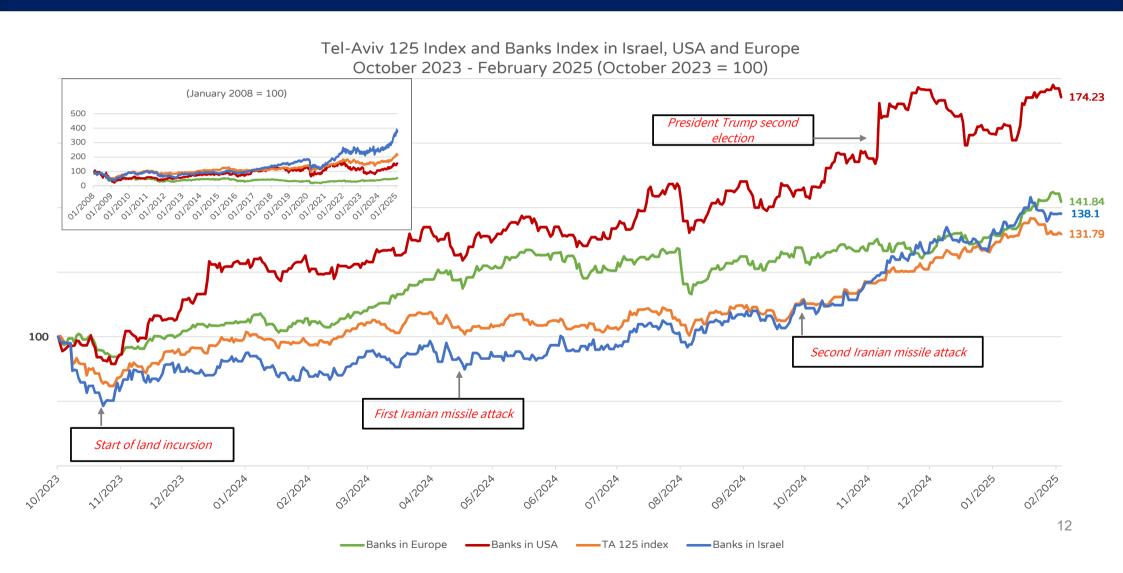
- Cooperating with national emergency authorities
- Financial supervisors coordination
- Cooperation with other relevant authorities



03 With banks

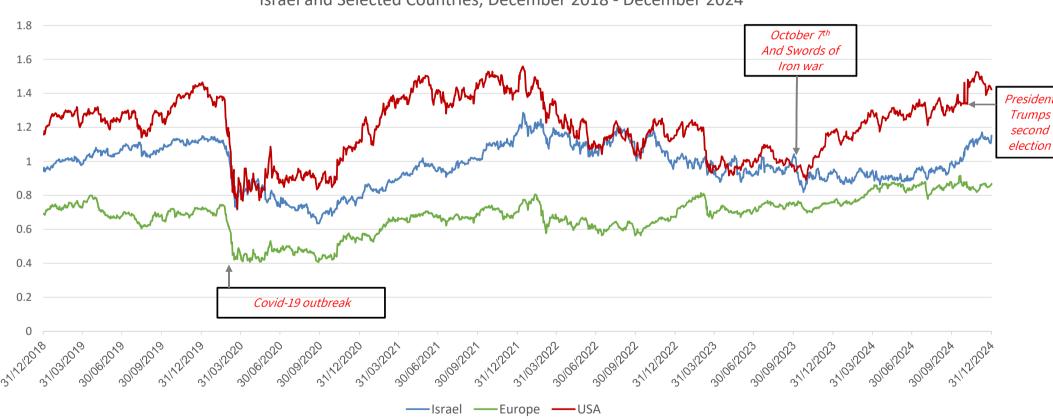
- Banks CEOs Forum
- Banks Business
 Continuity Managers
 Forum
- Banks Cyber Security
 Managers Forum
- Banks Public Inquiries
 Managers
 (Ombudsman Forum)

High market valuation of Israeli banks



High market valuation of Israeli banks

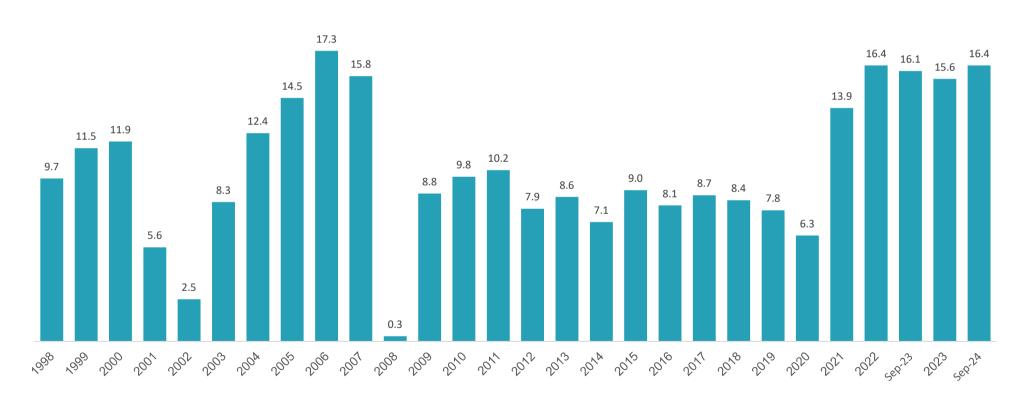
The MV/BV Ratios in the Banking Industry Israel and Selected Countries, December 2018 - December 2024





High profitability in recent years

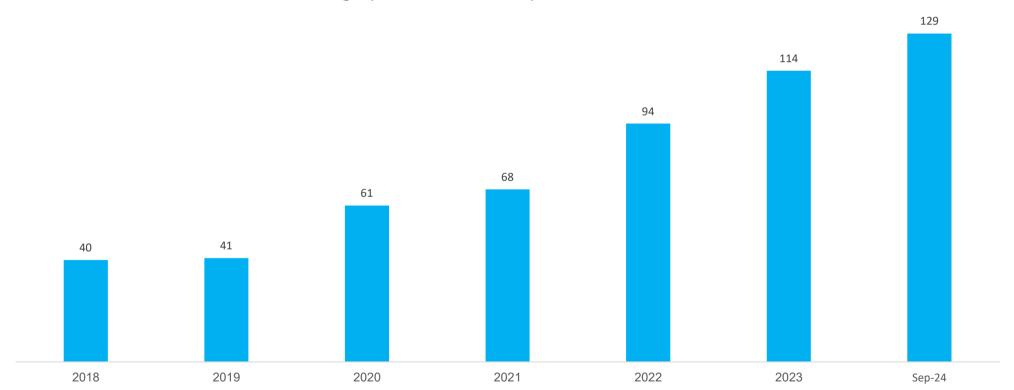
Return on Equity (ROE)
Total Banking System, 1998 to September 2024





Positive net CPI-indexed asset position contributes to high profitability

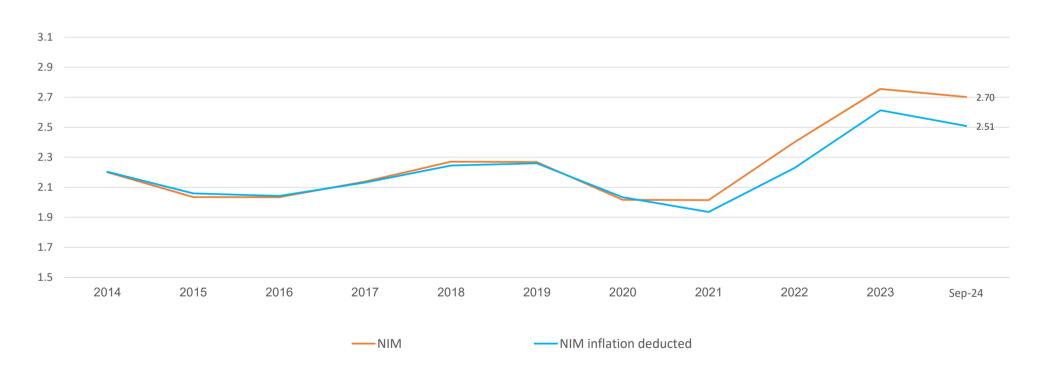






Positive effect of inflation on banks' profit reflected in Net Interest Margin (NIM)

NIM with and without inflation-effect Total Banking system, 2014 - September 2024

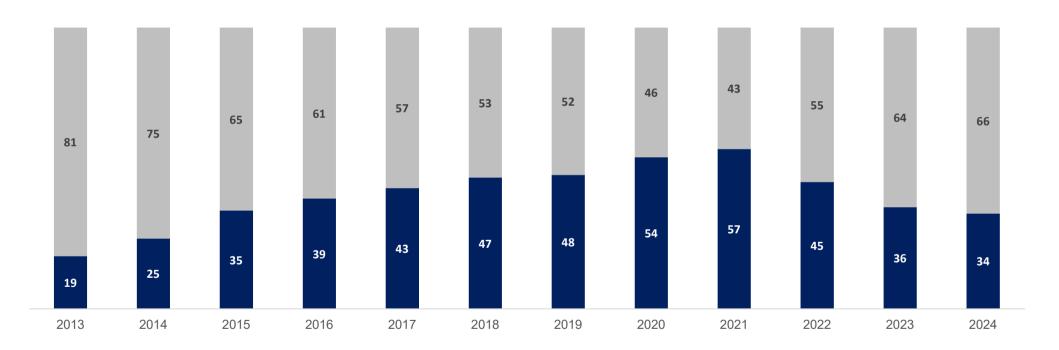




One-third of the deposits are non-interest-bearing

Share of banks Interest-bearing deposits versus non interest-bearing current account deposits

January 2013 - November 2024 (percent)



■ Share of non-Interest bearing deposits

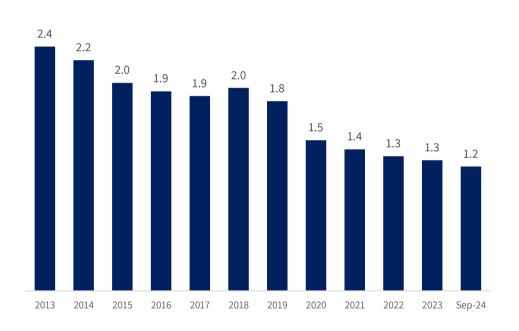
■ Share of interest bearing deposits (current account)

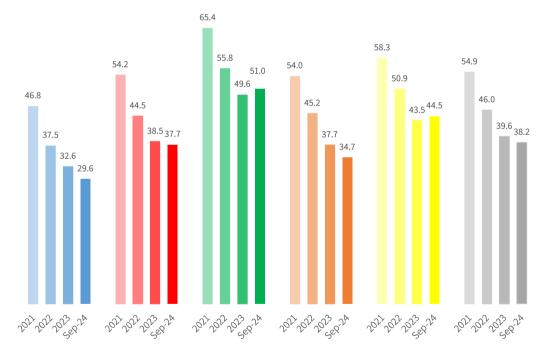


Continuous cost efficiency improvement

Cost per unit of capacity (average cost)
Total Banking System, 2013 - September 2024

Efficiency Ratio
Total Banking System, 2020 - September 2024





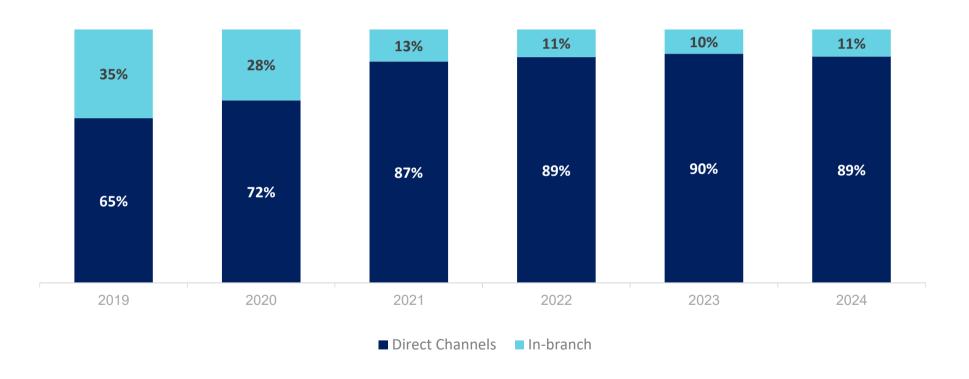
The ratio between total operating and other expenses and average balance of assets (average cost)

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



About 90% of transactions are via direct channels (digital, etc)

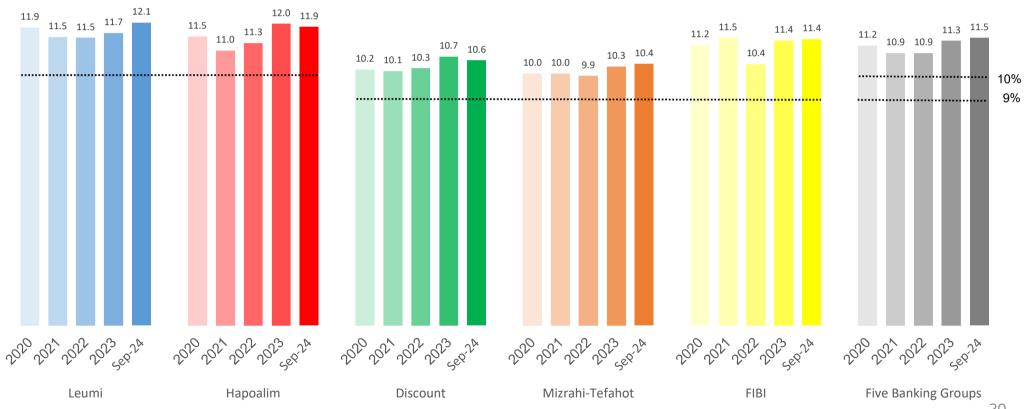
Share of transactions carried out by households via direct channels and in-branch transactions, 2019 To September 2024





Banks' Capital is well above the minimum requirements

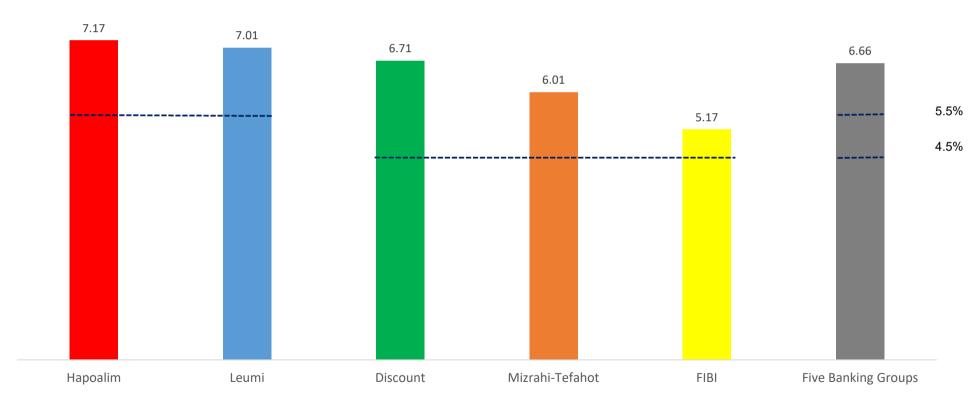
Common Equity Tier 1 Capital Ratios Five Banking Groups, 2020 to September 2024





Leverage ratio is high and well above minimum regulatory requirement

Basel III Leverage Ratio Five Banking Groups, September 2024

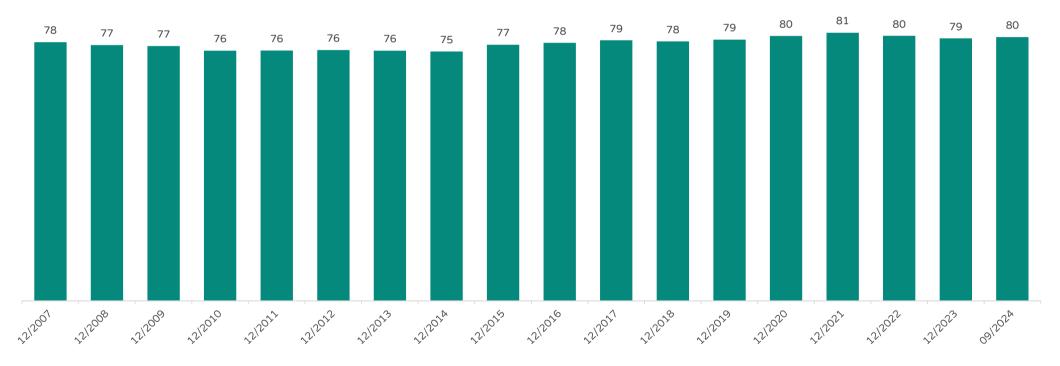


^{*} The minimum leverage ratio is 5% for all banks and 6% for Domestically important banks (those with a market share exceeding 24%). Currently, the minimum requirement is subject to a temporary directive that provides a relief of half a percentage point. accordingly, the minimum leverage ratio is 4.5% for all banks and 5.5% for Domestically important banks. The temporary directive is valid until June 2026



High confidence of the public in banks is reflected in stable share of deposits in banks' balance sheet

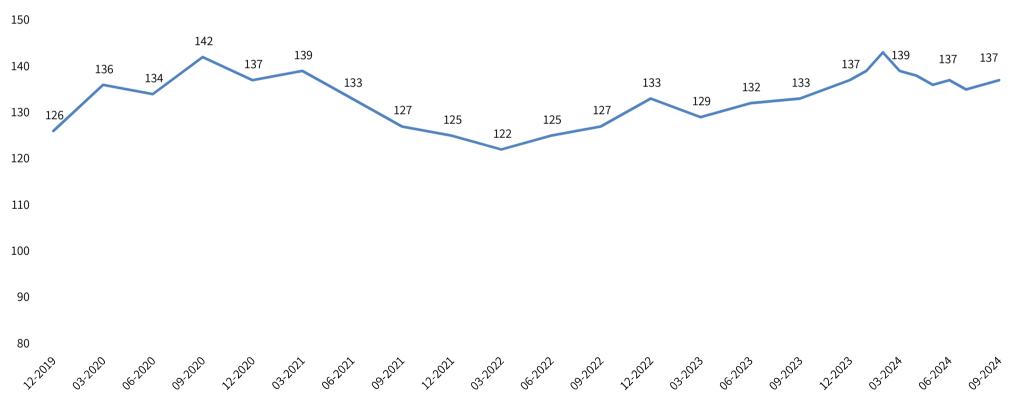
Share of public's deposits in banks' balance sheet Five Banking Groups, December 2007-September 2024





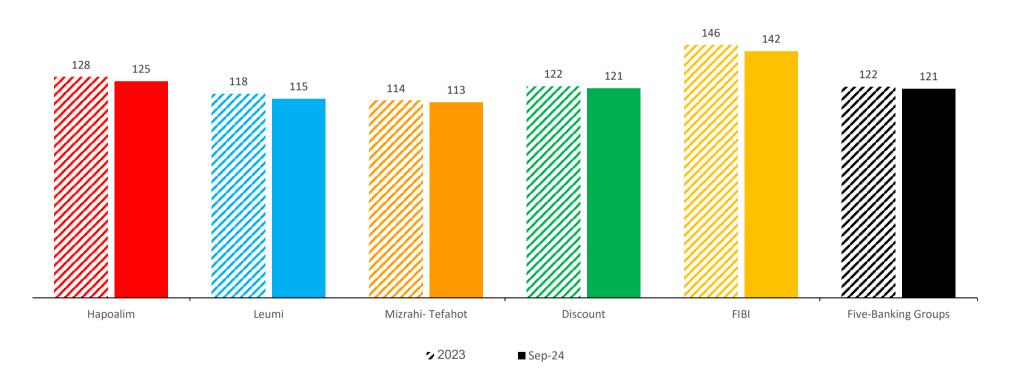
Liquidity Coverage Ratio is adequate and stable over time

Liquidity Coverage Ratio (LCR) Total Banking System, 2019 to September 2024 (percent)



Adequate Net Stable Funding Ratio

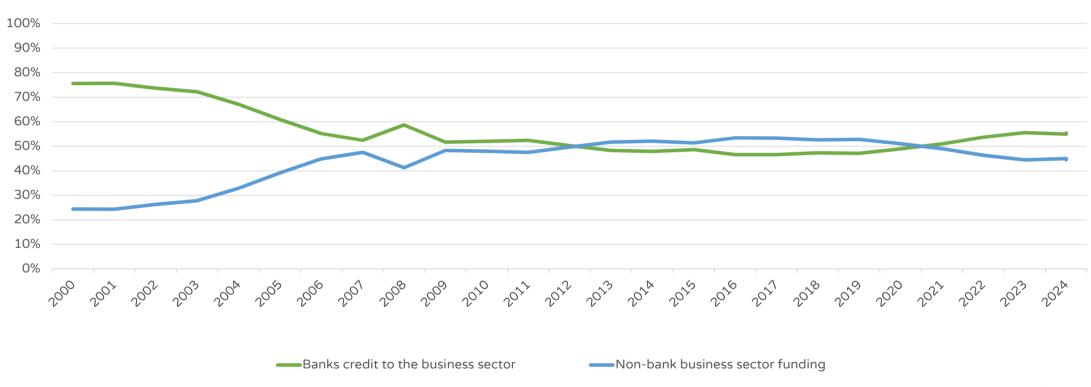
Net stable funding ratio (NSFR) Five Banking Groups, 2023 - September 2024





About 50% of business credit is granted by banks

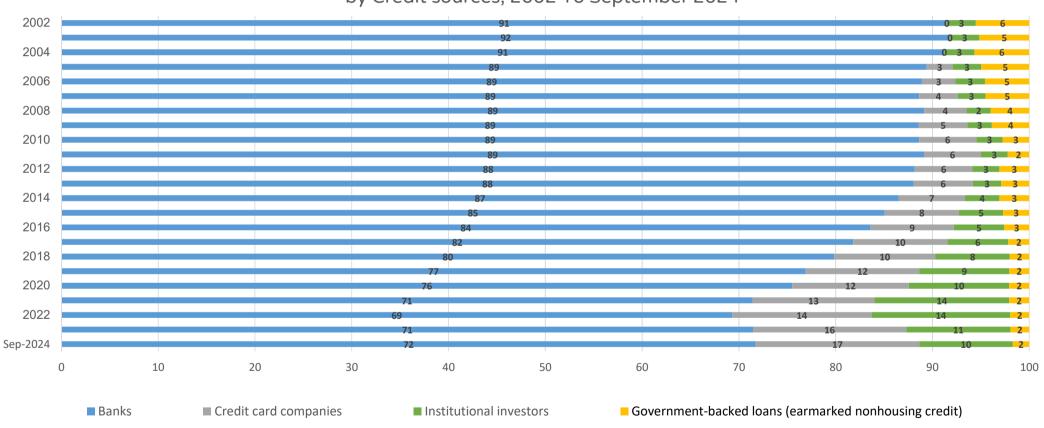
Share of bank business credit versus non-bank business credit and others 2000 - September 2024 (percent)





About 70% of household credit is granted by banks

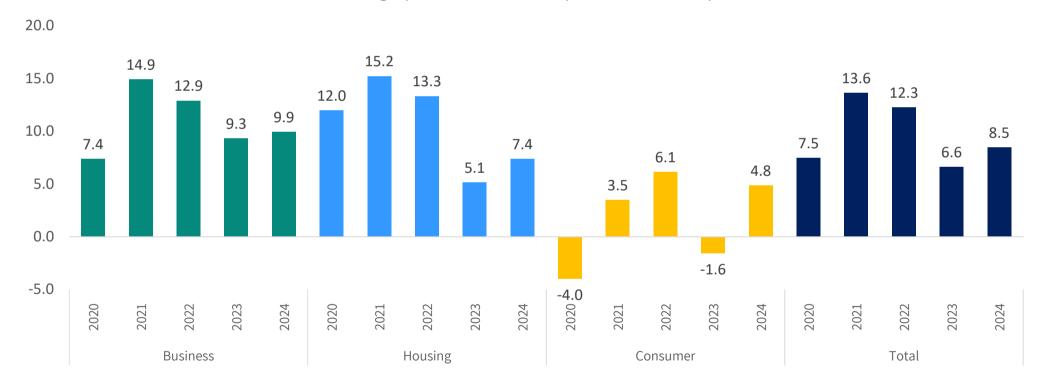






Increase in credit growth in 2024 after a decline in 2023

Annual Change in outstanding balance -sheet Credit to Principal Sectors Total Banking system, 2020 to September 2024 | percent

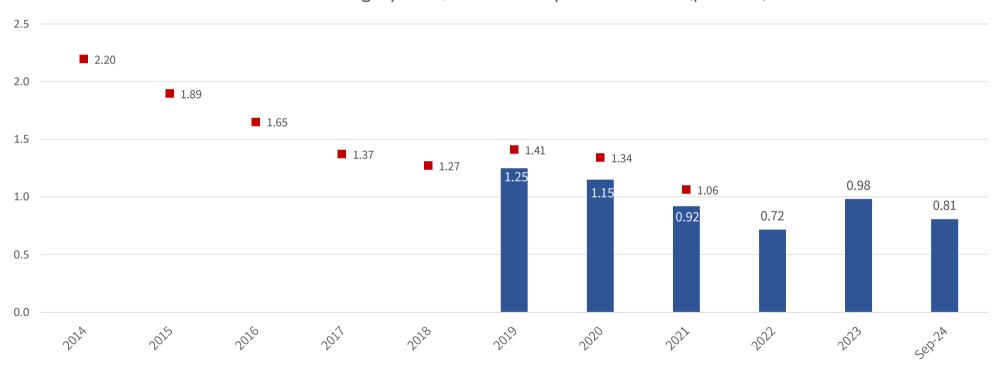


 $[\]hbox{*Business and Total Banking System include activity abroad}.$



Share of NPL remained stable and lower than the peak levels recorded during the Covid-19

Share of Non-performing Loans* Total Banking System, 2014 To September 2024 (percent)

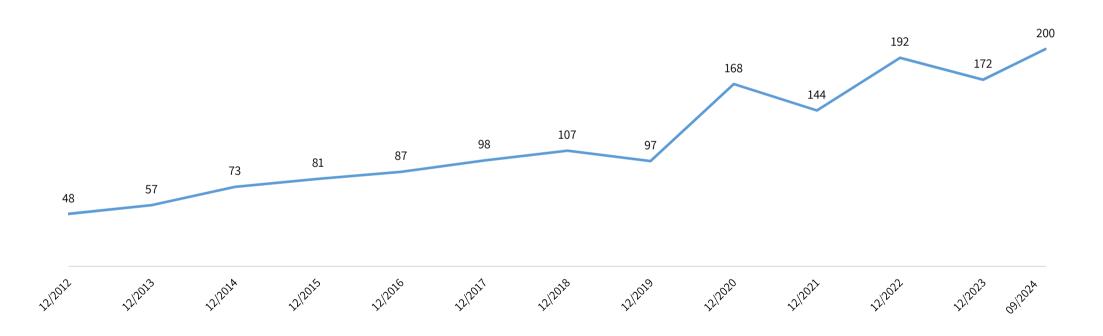


^{*}Data until 2018 represent Impaired loans and 90 days or more past due non-impaired loans as a share of total balance-sheet credit to the public. Data from 2018 and on represent non-accrual loans and 90 days or more past due accrual loans. **SOURCE**: Based on published financial statements and reports to the Banking Supervision Department.



Banks have established a high loan loss coverage ratio

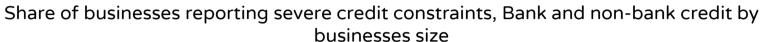
Credit Loss Coverage Ratio
Total Banking System, 2012–September 2024 | percent

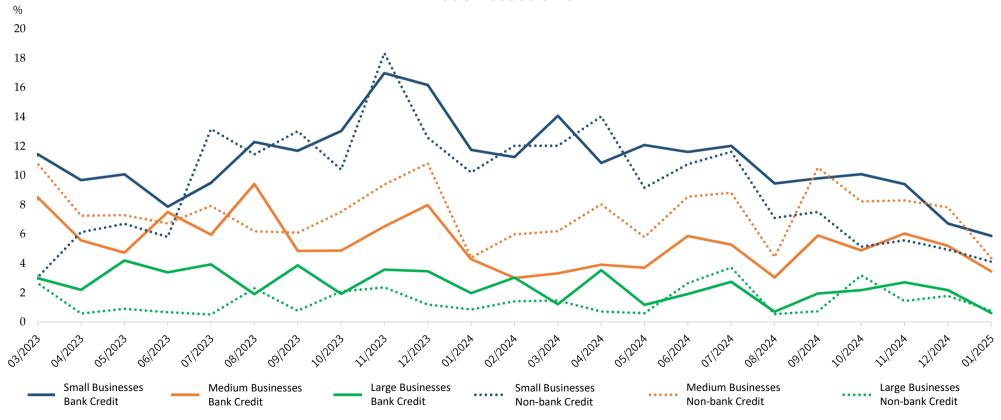


^{*} Calculated as the ratio between loan loss allowance to NPL (nonaccrual loans plus 90 days past due accrual loans)



All Businesses reported a decrease in credit constraints

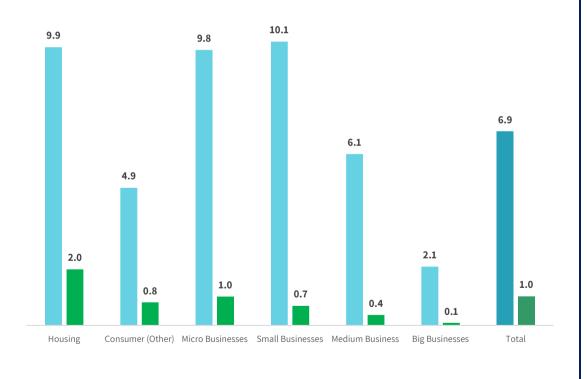






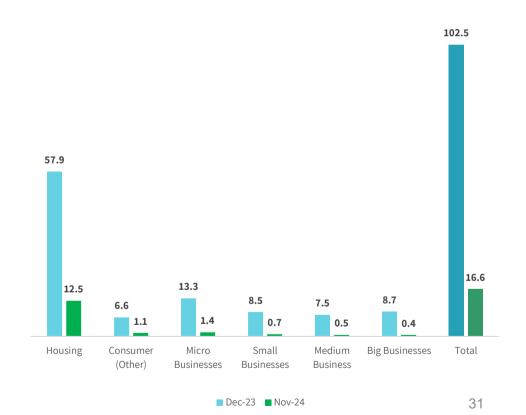
Most deferred payments have come to an end and customers have returned to making repayments





■ Dec-23 ■ Nov-24

Total Outstanding Balance of Deferred LoansTotal Banking System, Billion Nis (Nov. 2024)





Most customers end their loan deferrals

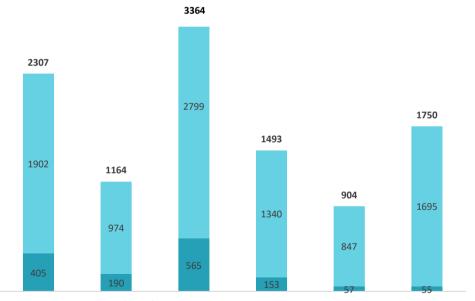
Amount of Deferred Payment

Total Banking System, NIS Million | Until 31.12.24

Total amount deferred: 10,983

Total amount currently in deferred status: 1,425

Total amount deferment ended: 9,558



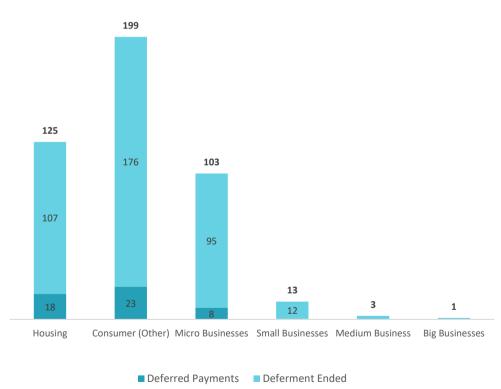
Housing Consumer (Other) Micro Businesses Small Businesses Medium Business Big Businesses

■ Deferred Payments ■ Deferment Ended

Number of Loans Postponed

Total Banking System, Thousands of Units | Until 31.12.24

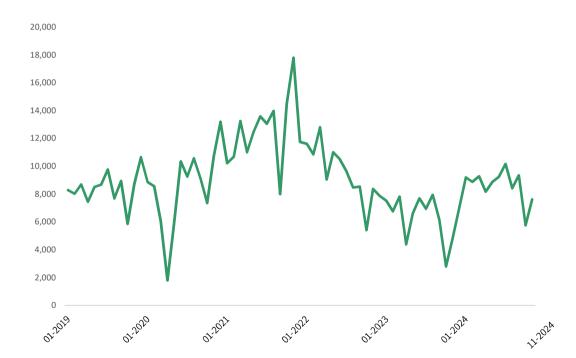
Number of loans deferred: 444th Number of loans currently in deferred status: 50th Number of loans deferment ended: 393th



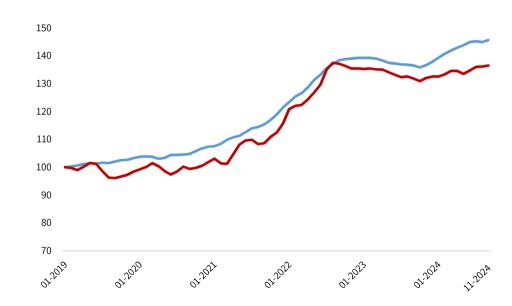


A moderate increase in the House Price Index in 2024

Number of Transactions in the Housing Market January 2019 - November 2024 | Number of Houses

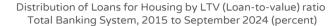


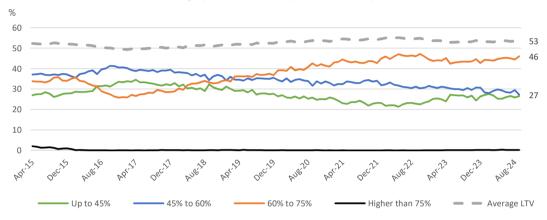
First and Second Hand House Price Index January 2019 - September 2024 | Index (January 2019 = 100)





Stability in share of high risk housing loans

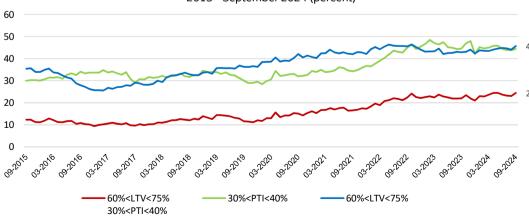




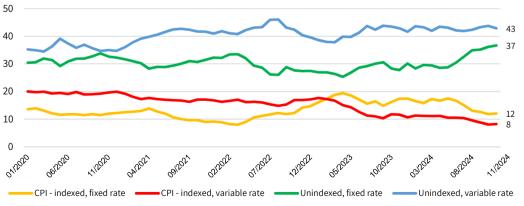
Distribution of Loans for Housing by PTI(Payment-to-Income) Ratio Total Banking System, April 2013 - September 2024 (percent)



Share of loans with both high LTV and high PTI rates 2015 - September 2024 (percent)



Distribution of mortgages by Type of Indexation and Type of Interest January 2020 to November 2024 | percent (percent)





Effective AML/CFT Framework - FATF



FATF report assesses strengths (12/2018)



Banks have a deep understanding of the risks and have developed risk assessment and risk management methodologies



The banks are a main source of information in Israel on beneficiaries and controlling interests at corporations and trusts, due to the extensive "Know Your Customer" process that they carry out and due to BSD's activities



BSD has a good understanding of ML/TF risks



BSD assigned staff exclusively for AML/CFT purposes



BSD has expanded its institution-specific prudential risk assessment to incorporate AML/CFT



Effective AML/CFT Framework - FATF

IMF Article IV, January 2021: "Improvements in the AML/CFT framework have raised Israel's capacity to one of the most effective among advanced economies."

Israel Follow-Up Report May 2022- FATF

to reflect Israel's progress, the
FATF has re-rated the country
from partly compliant to largely
compliant on Recommendation:
16 Wire transfers and 15 New
technologies.

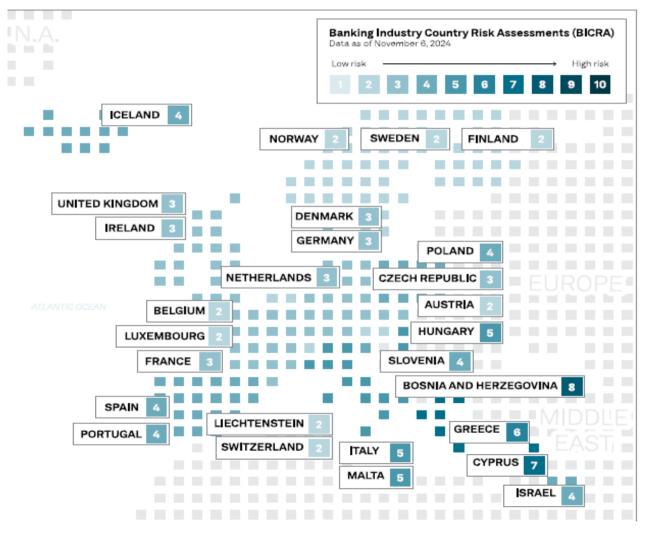




S&P Fitch Moody's A A Baa1



S&P: Banking Industry Credit Rating (BICRA - Europe) November 2024







S&P: Banking Industry Credit Rating (BICRA - Europe) November 2024 Cont.



Israel | BICRA group: 4

Risks Are Rising Amid Conflict And Related Uncertainty

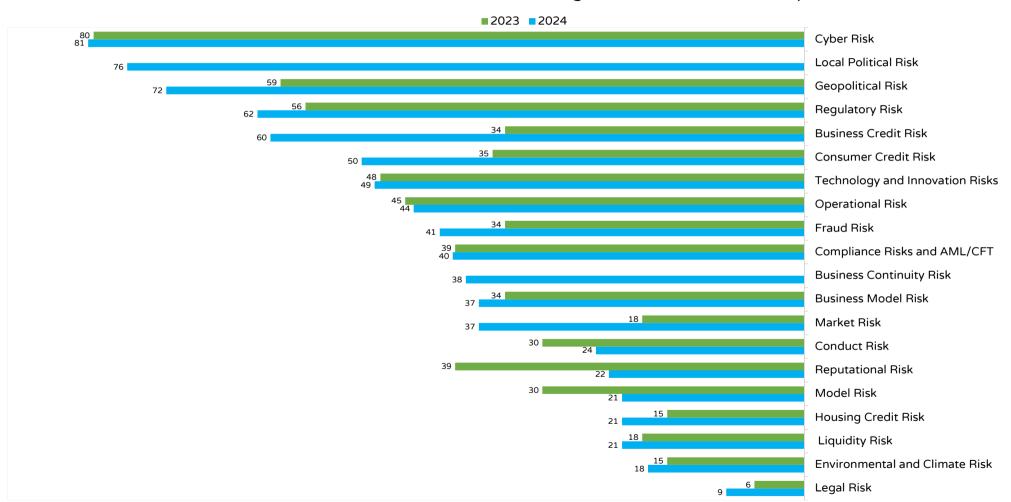
Key takeaways

- Escalating geopolitical risk could hurt the economy and banking sector.
- Israeli banks will face increasing risks with sound credit fundamentals.
- Structural challenges remain, including banks' sizable exposure to the real estate sector.



BSD's Risk Assessment Questionnaire among banks - results

BSD's Risk Assessment Questionnaire among banks – result (February 2024)





Challenges and risks currently facing the Israeli banking system are both unique and of a global nature



Swords of Iron war and macroeconomic developments



Non-financial risks



Credit risk



Construction, real estate and mortgages

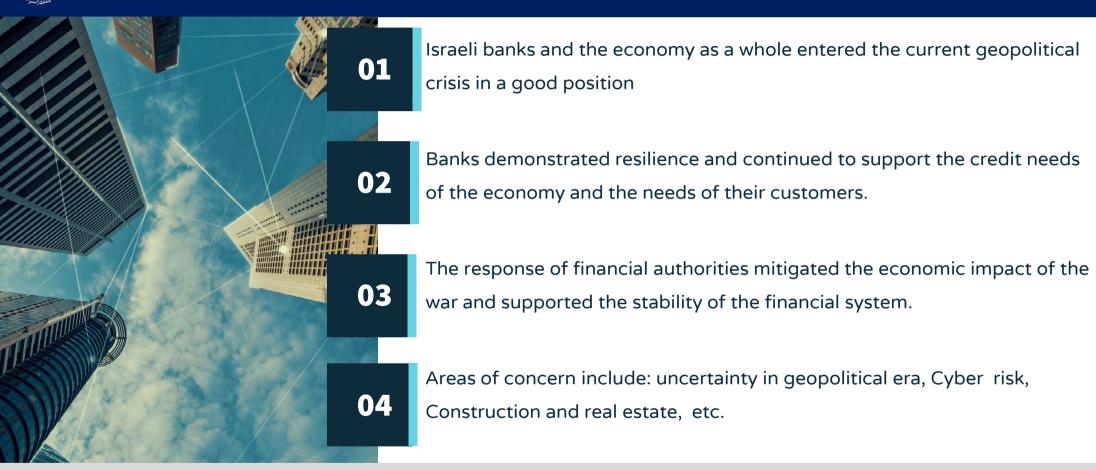


Business model risk



Political risk

Key points summary



The Bank of Israel continues to monitor developments and collaborate with the relevant Authorities in order to maintain the resilience of the Banking System and Financial Stability



Thank you.



