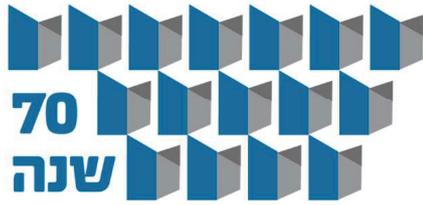


Bank of Israel
The Banking Supervision Department
The Economics Unit



Israel's Banking System

Annual Survey 2024



Bank of Israel
The Banking Supervision Department
The Economics Unit

Israel's Banking System

Annual Survey 2024

Jerusalem, May 2025

This publication is copyright, Bank of Israel.

Material from this publication may be quoted, provided that the source is attributed.

Any amendments to this Survey will be published on the Bank of Israel website: www.boi.org.il

Design and printing: Yael Yakir | Ayalon Printing, Jerusalem

Table of Contents | 2024

Preface	Introduction – The Supervisor of Banks	5
Chapter 1	Developments in the Activity of the Israeli Banking System	8
	1. Macroeconomic Developments in Israel and Worldwide	9
	2. Developments in the Financial System and in the Structure of the Israeli Banking System	14
	a. The banking system's structure and bank holdings	14
	b. The banks as part of the financial system	18
	3. The Banking System's Activity Channels	21
	Box 1.1: Providing payment services incidental to cryptocurrency activity	33
Chapter 2	Summary of the Main Developments in Balance-Sheet and Off-Balance Sheet Activity	40
	1. Introduction	41
	2. Main Developments on the Assets Side of the Banking System	41
	3. Main Developments on the Liabilities and Equity Side of the Banking System	45
	Box 2.1: Trends in current account balances, deposits, and shekel money market funds held by individuals	50
Chapter 3	The Banking System's Business Results	58
	1. The Profitability of the Banking System	59
	2. Income and Expense Items in the Profit And Loss Statement	61
	3. The Risk-Adjusted Return	70
	4. Analysis of the Banks' Performance According to the Market-To-Book Ratio	72
	Box 3.1: Transmission of the Bank of Israel interest rate to interest rates on household deposits in 2024	75
Chapter 4	Capital Adequacy and Leverage	84
	Capital Adequacy and Leverage	84
Chapter 5	Risks	88
	1. Introduction and Risk Survey	89
	2. Credit Risk	94
	a. Key developments in the portfolio of bank credit to the public	94
	b. Household credit (excluding housing credit)	98
	c. Household housing credit	101
	d. Business credit	110
	3. Liquidity Risk	119

4.	Market Risk	127
	a. Exposure to interest rate risk	128
	b. Indexation base risk	131
	c. Foreign currency	132
	d. Derivatives activity	132
5.	The Credit Card Companies	135
	a. The operating environment of the credit card companies	135
	b. Capital	136
	c. Credit card activity	137
	d. Profitability	141
	e. Credit	142
6.	Information Technology Risk	145
7.	Cyber Risk	148
	Box 5.1: Macroprudential stress test for the banking system for 2023	152
	Box 5.2: Promotional campaigns by developers for the purchase of homes and the actions taken in response by the Banking Supervision Department	162
	Box 5.3: The importance of quality of anti-money laundering regime in the context of correspondent relationships	174
	Box 5.4: The opportunities and risks implicit in quantum computing	181
Chapter 6	Banking Supervision Department Activity in 2024	186
1.	The Banking Supervision Department's Vision and Strategic Goals	187
2.	The Swords of Iron War: Banking Supervision and Conduct during a Crisis	188
3.	Main Activities to Maintain the Stability of the Supervised Entities and Their Continuous Functioning and to Protect the Funds of Depositors in Routine Times and in an Emergency	191
4.	The Main Activities to Integrate a Culture of Fairness toward Customers that is Inclusive and Impactful	202
5.	The Main Activities to Create a More Competitive and Advanced Financial System for the Benefit of Customers	211
	Box 6.1: Transparency in money market products as a tool for strengthening customer bargaining power and yield	214
	Box 6.2: Consumer aspects of financial frauds and scams, and supervisory measures to protect consumers	226
	Box 6.3: The reform in the banking system to enhance competition and transparency for customers	236
	Box 6.4: Service in the banking system	245
	Box 6.5: Steps taken by the Banking Supervision Department to regulate the prices of banking services in securities	255
	Box 6.6: Information technology, information security, and cybersecurity risk in a banking corporation	266
	Box 6.7: Opening and management of bank accounts for financial entities	270
Appendices		277
	Appendix 1: Tables	278
	Appendix 2: Directives Published by the Supervisor of Banks in 2024–2025 until This Report's Publication	307
	Appendix 3: Organizational Structure of the Banking Supervision Department	315

Supervisor of Banks: Introduction to the Annual Survey



This year was an especially challenging one for the Israeli economy, as was 2023. It was marked by uncertainty in the markets due to the ongoing war (which weighed on the economy and led to notable difficulties), global challenges, and inflation (which remains above the target range), as well as continued geopolitical uncertainty. Nonetheless, the domestic economy—including Israel’s banking system—demonstrated a high level of resilience. Despite the challenges, Israel’s economy continued on a path of moderate recovery.

The Banking Supervision Department’s vision is to promote the public interest by maintaining the stability and fairness of the banking system, through professional, proactive, and transparent supervision. Accordingly, the various steps we have promoted during the past year have helped to implement the supervisory strategy. In

the coming year, we will continue to operate with the same level of determination in order to realize the supervisory vision and strategy.

Over the past year, the Israeli banking system continued to provide credit to all sectors of the economy while maintaining its financial stability, and demonstrated resilience and robustness in the face of shocks. The stability of the banking system is essential in order to protect depositors’ funds, the stability of the financial system, and the functioning of the economy as a whole. Over the past year, we have endeavored to preserve the system’s stability both financially and operationally. We closely followed the activity of the banking system, identified, monitored and assessed existing and emerging risks, conducted examinations and reviews of various lines of activity within the banks, and as a result, we required them to modify their risk management and corporate governance and to limit emerging risks, including by means of regulatory tools (for example, hedging the emerging risk from the financing offered to buyers by contractors¹). In addition, we are in the midst of a process of reexamining the capital structure of the banks, with the goal of improving the alignment between the supervisory capital requirements applicable to banking corporations in Israel with the recommendations of the Basel Committee and international standards. In doing so, we are seeking to strengthen the capital mechanisms of the banking system and improve its ability to withstand shocks.

The stability of the financial system would not be possible without the public’s trust. To earn that trust, the system must project financial strength and resilience. However, it must also be fair to its customers. This understanding guides our actions and obligates us to continue working to improve the fairness of the system. This is manifested by means of, among other things, providing high quality and accessible services to the entire population, products suited to the customer, and fair pricing.

The Banking Supervision Department is adopting a variety of steps to improve the system’s fairness toward customers. An example is the relief program offered to the public, which began about a week after the outbreak of the war and was extended several times (until it was terminated in March of this year). The relief program was intended

¹ See the press release on the Temporary Order, including the link on the Bank of Israel site: <https://www.boi.org.il/publications/pressreleases/23-3-25/> [Hebrew]
It goes into effect on April 6, 2025 and will remain in effect until December 31, 2026.

to provide the public with support, primarily in terms of cash flow (by offering the option to defer loan payments), in order to alleviate the hardships experienced with the outbreak of the war, the extensive call up of reserves, and resulting economic disruption. With the conclusion of this program, we formulated a voluntary financial aid framework, under which the banks return a significant portion of their profits from the past year to the public, by means of additional steps related to current accounts, deposits, fees, and credit. This aid framework, with a total value of approximately NIS 3 billion, will be spread out over approximately two years and will be accompanied by public disclosure regarding its implementation. We expect the banking system to continue its efforts to enhance fairness toward customers, improve service levels and product quality, and to maintain a proactive approach. This will strengthen the foundation for trust between customers and the system.

In addition to promoting fairness in the system, the Banking Supervision Department is also working diligently to promote competition and is taking a variety of steps—which will be described below—based on the view that enhancing competition will inevitably lead to an improvement in the level of fairness within the system.

The first of these steps is to strengthen the power of customers in the banking system and to provide tools that will enable them to compare banks and conduct market research more efficiently. To this end, we have promoted data transparency in the areas of credit and deposits, by means of the Bank of Israel Equalizer², which includes tools for comparing prices and interest rates for various products; we expanded the "Comparison Dashboard" between banks so that it is now also possible to compare customer satisfaction metrics, branch distribution, ATM deployment, etc.; and we introduced regulation for the uniform publication of interest rate quotes on bank deposits and also issued guidance for similar publication of information on money market funds, among other things. In addition, we removed barriers to switching banks and simplified the switching process and the time it takes, with the goal of strengthening the customer's ability to obtain better terms, whether from their current bank or a competing bank.

The third pillar is our work to remove barriers to entry into the banking system and to bring in additional participants. The possibility of new participants entering and competing for customers also incentivizes existing entities to improve the services they offer and to create new value-added products. To this end, we launched a tiered licensing framework for small banks. Following the publication of an interim report on this issue,³ which was prepared by an internal team from the Banking Supervision Department, the Governor of the Bank of Israel and the Minister of Finance established a joint team, which included representatives from the Bank of Israel, the Ministry of Finance, financial regulators, the Israel Competition Authority, and the Ministry of Justice. The team is headed by the Supervisor of Banks and the Head of the Budget Department at the Ministry of Finance, and its goal is to increase competition in the retail banking sector.

As part of this effort, we published an interim report⁴ for public comment that describes the tiered licensing structure, along with recommendations with regard to market structure, including the possibility of allowing institutional entities to own a limited-scale small bank, alongside regulatory easing by the Banking Supervision Department. The team's guiding principle throughout this process is that any entity accepting deposits from the

² See the designated webpage of the Equalizer on the Bank of Israel site: <https://www.boi.org.il/en/information-and-service-to-the-public/banking-customer-service-information/financial-education/campaigns/boi-equalizer/>

³ See the press release on the interim report of the Banking Supervision Department from October 2023 on the Bank of Israel site: <https://www.boi.org.il/en/communication-and-publications/press-releases/14-10-2024b-en/>

⁴ See the press release announcing the interim report of the joint team from March 2025 on the Bank of Israel site: <https://www.boi.org.il/publications/pressreleases/31-3-25d/>

public is considered to be a bank and must be licensed as such and subject to the stability supervision of the Banking Supervision Department, in accordance with accepted standards. This is because protecting depositors' funds is a necessary condition for the success of this initiative. In parallel, we intend to amend the relevant legislation and regulation so that the new entities can build an appropriate business model that will allow them to operate competitively within the Israeli banking system.

The evolving technological environment also presents an opportunity to increase competition and improve customer service. This forms the basis for the banking corporations' business activity and their development and is a facilitating factor in the financial sector. Banking corporations must be aware of and prepared for changes in order to adapt their business models to customer needs. At the same time, they must understand the risks arising from the rapid evolution of the technological environment and the growing reliance on technology. The Banking Supervision Department is aware of this and supports the banks by means of principle-based regulation as part of the adjustment to existing and future technological risks, such as those related to artificial intelligence or quantum computing.

The advanced technological world also benefits criminals in carrying out financial fraud. In recent years, there has been an increase in the scale of fraud that targets financial system customers. This fraud affects all types of customers, although it is focused on populations with low financial and digital literacy. The Banking Supervision Department has determined that reducing and preventing fraud will be one of its main objectives in coming years, and we are focusing our efforts both on prevention—before the fraud occurs—and the aftermath—by assisting customers who have fallen victim to fraud. In addition, the Banking Supervision Department is initiating activities to raise awareness of fraud, and is a participant in a joint team—in collaboration with representatives from the Ministry of Communication and the Israel Police—to minimize the scale of these phenomena in Israel.

In this review, we present an in-depth analysis of the activity of Israel's banking system, the full range of risks stemming from its operations, and the challenges it faces. We also describe the extensive work of the Banking Supervision Department to promote a stable and resilient, innovative, competitive, and fair banking system—one that will continue to serve as an effective mechanism for credit allocation in the economy and as a central tool for the transmission of the Bank of Israel's monetary policy, both in normal periods and in emergencies.

In addition to the aforementioned, I would like to express my sincere and deep appreciation to the employees of the Banking Supervision Department. My thanks for your professionalism, responsibility, and dedication during such a complex year and under heavy workloads, with the goal of strengthening the banking system and benefiting the public in Israel. This is in parallel to your service in the reserves and the hardships experienced by your families. Your efforts are the basis of our ability to fulfill our mission and ensure a stable, fair, and competitive banking system.

I will conclude with great hope and a prayer for the swift and safe return of all the hostages from Gaza, for the recovery of the wounded, and for the safety and success of IDF soldiers and security forces across all fronts.

Sincerely,



Daniel Hahiashvili
Supervisor of Banks

CHAPTER 1

CHAPTER 1 DEVELOPMENTS IN THE ACTIVITY OF THE ISRAELI BANKING SYSTEM

1. MACROECONOMIC DEVELOPMENTS IN ISRAEL AND WORLDWIDE

The Israeli banking system continued to maintain its resilience and stability during 2024, despite economic and security challenges. The strength and stability of the banking system enabled it to continue supporting the economy's efforts to cope with the war and its recovery. As one of the main sources of financing in the economy—for both households and the business sector—the banking system is significantly affected by prevailing macroeconomic conditions, such as interest rates, inflation, and economic growth. These conditions affect both the financing needs of the private and business sectors, as well as the risks posed by them, in contrast. The Israeli economy grew by only 1.0 percent in 2024. The shekel traded for most of the year in a range between approximately NIS 3.6/\$ and NIS 3.8/\$—a range similar to that during the months prior to the war—while fluctuating with geopolitical developments. Annual inflation was 3.2 percent, which slightly exceeded the target and was slightly higher than in 2023. This contrasts with the global trend of moderating inflation. The Bank of Israel reduced its interest rate in January 2024 by 0.25 percentage points to a level of 4.5 percent, and it remained at that level until the end of the year (Figure 1.1). Israel's risk premium, as reflected in the yield spreads on government bonds and in the CDS premium, rose sharply with the outbreak of the war and continued to rise until October 2024, when the trend reversed. However, it still remains higher than on the eve of the war (Figure 1.2). During 2024, the three major international credit rating agencies downgraded Israel's sovereign credit rating by one to three notches. Moody's downgraded Israel's rating by three notches to Baa1 — the most significant downgrade among the agencies — and assigned a negative outlook.¹ The construction industry suffered from a labor shortage during the year, which led to a decline in building activity. This was mainly reflected in longer construction times, a decline in completions (both residential and nonresidential), and an even larger decline in nonresidential building starts. The volume of apartment purchases increased this year, alongside a 7.3 percent rise in home prices and an increase in the inventory of unsold homes. The rise in demand for new homes drove the increase in transaction volumes and was further amplified by, among other factors, financing packages offered by builders. **In this context, it is noted that in order to balance the growing risks associated with the use of financing packages and the continued controlled use of this tool in the housing market, the Banking Supervision Department issued temporary guidelines on the matter** (for further details, see Box 5.2 in this review).²

The Bank of Israel reduced its interest rate in January 2024 to 4.5 percent and remained at that level until the end of the year.

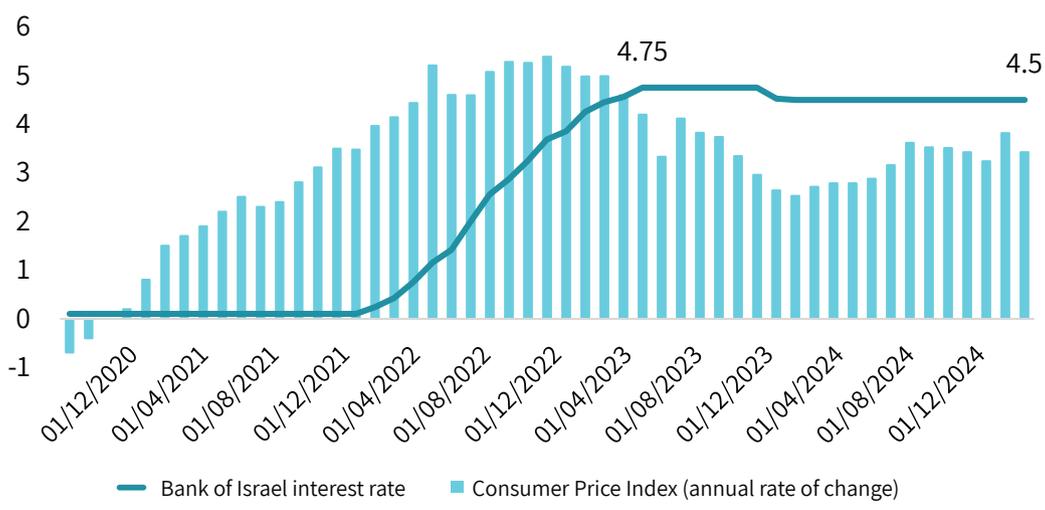
Inflation accelerated in the second and third quarters.

¹ The downgrade of Israel's credit rating directly affects the rating of the banks, which is customarily derived—at least in part—from the sovereign credit rating.

² The main measures are as follows: an additional capital allocation for residential construction projects in which the share of contracts that defer a significant portion of the sale price to the time of delivery (nonlinear payment schedules) exceeds 25 percent, along with a transitional provision for existing projects; and a restriction on the execution rate of bullet or balloon loans subsidized by contractors, limiting it to no more than 10 percent of the total loan disbursements in a calendar quarter for residential housing loans.

The Bank of Israel reduced its interest rate in January 2024 to 4.5 percent and remained at that level until the end of the year.

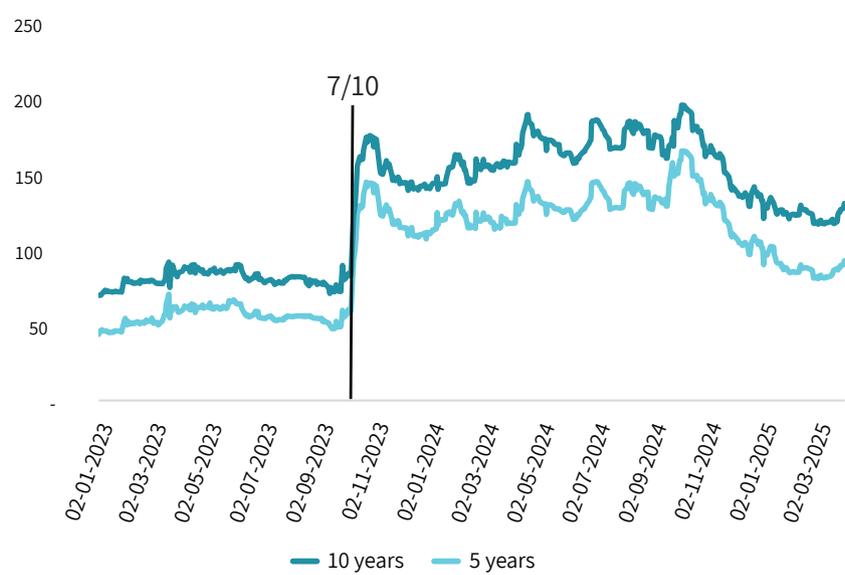
Figure 1.1 Bank of Israel Interest Rate and Consumer Price Index (annual rate of change), Monthly Average, December 2020–February 2025 (percent)



SOURCE: Bank of Israel and Central Bureau of Statistics.

Israel's risk premium rose sharply with the outbreak of the war and continued its upward trend until October, when it reversed; however, it still remains at a higher level than on the eve of the war.

Figure 1.2 Israel's 5-Year and 10-Year US Dollar CDS, January 2023–April 2024 (basis points)



SOURCE: Bloomberg.

The economic developments over the course of the year were heavily influenced by the war and the economic measures adopted in its wake. Several factors contributed to the resilience of the banking system and the continued increase in its capital ratios, including: high profitability, the high quality of the credit portfolio, strong efficiency ratios, and the implementation of a conservative profit distribution policy within the banking system.³

The inflation and interest rate environment, along with continued credit growth, led to high profitability in the banking system, similar to the trend observed in other banking systems around the world during 2024.⁴ The return on equity during the year was slightly higher than in 2023 and remained high in historical terms. In addition, the capital and liquidity ratios of the banking system remained elevated and exceeded the minimum regulatory requirements, reflecting the strength of the banking system and its ability to continue supporting the economy even in times of uncertainty. The total net profit of the banking system for 2024 amounted to approximately NIS 29.7 billion (growth of about 15.1 percent compared to 2023), and the return on equity remained historically high at 15.9 percent. It is worth noting that net of the effect of inflation, the return on equity for 2024 was lower by approximately 1.4 percentage points, i.e., 14.5 percent. The increase in profitability is explained by the rise in net interest income, which resulted from the elevated interest rate and the inflation environment, the volume of credit, and partial transmission to household deposits (despite the increase in interest-bearing deposit volumes, along with some improvement in transmission). There was also a decline in credit loss expenses compared to the previous year, in which high expenses were recorded, partly as a result of the war (see Chapter 3 in this review for more details). The high profitability during the year continued to contribute to the strengthening of capital, though it was offset by an increase in the dividend payout ratio compared to the second half of 2023 and the growth in risk-weighted assets (see Chapter 4 in this review for further details).

In 2024, the banking system's credit portfolio grew by 8.8 percent, which was higher than in 2023, but lower than in previous years. Most of the growth in the credit portfolio occurred in the second half of the year and originated from business credit, particularly credit to construction, real estate, and financial services. In household credit (consumer credit and housing credit), the slowdown observed in 2023 came to a halt, although the growth rate in consumer credit (excluding credit card activity) remained low. Despite improvements in credit quality indicators, credit risk remained largely unchanged, as reflected in various risk metrics (see Chapter 5.2 in this review for further details).

The banking system is inherently exposed to a wide variety of risks, the intensity and impact of which vary over time and according to economic developments. **As noted, the level of risk in banking system activity remained high throughout 2024. A risk survey conducted among**

³ Note that these factors are also reflected in the OECD Economic Survey of Israel for 2025 (OECD Economic Surveys: Israel 2025). The report further indicates that the Israeli banking system's capital buffers are, on average, in line with those of OECD countries.

⁴ For further details, see: https://www.oecd.org/en/publications/oecd-economic-surveys-israel-2025_d6dd02bc-en.htm. For more information, see Spotlight 3 in the Financial Stability Report for the second half of 2024 on the Bank of Israel's website.

senior executives of the banking system in March 2025 indicates that the level of risk increased over the year, and that cyber and information security risk, along with domestic political risk, are the most concerning to the banking system. In addition, geopolitical risk⁵ remains high (see Chapter 5.1 in this review for further details).

As in previous years, and in accordance with international practice, the Banking Supervision Department conducted a macroeconomic stress test of the banking system based on a uniform scenario. The stress test was conducted during 2024 and based on data from December 2023. Its goal was to ensure that even in the event of an extreme macroeconomic event, the banks will be able to absorb the resulting losses without endangering public deposits or the stability of the banking system. The results of this year's stress test indicate that the banking system remains stable even under this extreme scenario. However, the macroeconomic shock scenario is expected to significantly impair the profitability of the banking system and result in losses during the first year of the scenario (for further details, see Box 5.1 in this review).

This year, the Banking Supervision Department continued to promote fairness in the banking system's treatment of customers. Fairness is a key objective of the Banking Supervision Department, based on the understanding that fair conduct toward customers is a prerequisite for public trust in the financial system, which is closely tied to the system's stability. In this context, the Banking Supervision Department oversaw the implementation of the directive regarding the management of customer service and support systems and continued to conduct customer satisfaction surveys. These results indicate a noticeable shift in how the banking system perceives customer service, with early signs of change and improvement in this area (for more details, see Box 6.4 in this review). As part of the efforts led by the Bank of Israel to promote competition in the banking system, the Governor and the Minister of Finance appointed a joint working group in November 2024 whose task was to formulate a framework for granting banking licenses to nonbanking entities. The aim of this framework is to promote competition in retail banking services by removing barriers to entry.⁶ In addition, the Banking Supervision Department advanced various ongoing initiatives to enhance the fairness of the banking system towards customers. These include: strengthening comparability and providing customer with decision-making tools, removing barriers to switching banks that are internal to the system (for more details, see for example Box 6.1), removing external switching barriers (for more details, see for example Box 6.5), and facilitating the entry of new market participants (for additional measures, see Chapter 6 in this review). Interim short-term solutions are sometimes needed until structural measures are fully implemented. Thus, the Bank of Israel formulated a financial relief framework that was adopted by the banks, in which the banking system allocates a total amount of NIS 3 billion (NIS 1.5 billion annually), starting from the second quarter of 2025 and ending in the

⁵ This includes potential negative events such as wars, terrorist attacks, and tensions between countries, which can disrupt international relations and economic stability. An increase in geopolitical risk may threaten macroprudential stability through a number of channels, such as actual or potential restrictions on cross-border trade and financial transactions or military conflicts that could lead to volatility in financial markets, rising inflation rates, and increased risk in the operations of banking institutions.

⁶ https://www.gov.il/he/departments/Units/increasing_competition_banks_system_team_committee [Hebrew]

first quarter of 2027.⁷ **The Banking Supervision Department also adopted the goal of reducing and preventing financial fraud in coming years.** The Banking Supervision Department intends to ensure that consumers who fall victim to fraud receive the protection provided by law, with a focus on two activities: preventing fraud in advance and assisting victims after the fraud occurs (for more details, see Box 6.2 in this review).

Looking ahead, the war and its consequences are expected to persist in 2025, and the banking system likely to continue facing uncertainty, in addition to challenges and risks that may emerge. Beyond the increased level of financial risk, there has also been an intensification of cyber risk, domestic political risk, geopolitical risk, and volatility in financial markets. In addition, the war has not yet ended and may even escalate further. **Despite these developments, the Israeli banking system remains strong and well-positioned to continue supporting its customers and the economy as a whole.** The Banking Supervision Department will continue, as always, to monitor the risks inherent in the activities of the banking system, supervise them, and respond as needed using the various tools at its disposal.

⁷ See the following press release on the formulation of this plan: <https://www.boi.org.il/en/communication-and-publications/press-releases/the-bank-of-israel-announces-the-formulation-and-implementation-of-a-nis-3-billion-financial-relief-plan-for-customers-of-the-banking-system/>

2. DEVELOPMENTS IN THE FINANCIAL SYSTEM AND THE STRUCTURE OF THE BANKING SYSTEM IN ISRAEL

The Israeli banking system is dominated by five large banking groups: Leumi, Hapoalim, Mizrahi-Tefahot, Discount, and First International. These groups have both domestic commercial banks and overseas branches.⁸ Together, these five groups own approximately 97 percent of the total assets of the banking system and credit card companies (Figure 1.3). The banking system also includes two independent banks, "Jerusalem" and the new digital bank "One Zero," which was launched in 2022, as well as four branches of foreign banks that are mainly involved in nonretail banking: Citibank, HSBC, State Bank of India, and Barclays. At the end of 2022, a license was granted to the "Esh" Israel bank,⁹ which is expected in 2025 to complete the transition from the status of a banking corporation in formation to an operational bank with a permanent license. In parallel to the aforementioned commercial banks, three credit card companies also operate in Israel: "Isracard," which has been a publicly traded company since April 2019;¹⁰ "MAX," which is controlled by Clal Insurance Enterprises Holdings Ltd.; and "Cal" (Israel Credit Cards Ltd.), a private company controlled by Discount Bank, which is preparing for the sale of its controlling interest in the company.¹¹

Commercial banks in Israel offer a wide range of financial products and services and in many cases specialize in different sectors or areas of activity, often as part of their business strategy. This specialization is usually managed through various divisions within each banking group, allowing them to tailor their products to specific market needs. This strategic focus is a key factor in determining a bank's market share and the distribution of its services across different sectors of the economy, as shown in Table 1.1. A bank's market share in the various products or activities determines to a large extent the distribution of its overall market share, as can be seen in Figure 1.3.

⁸ The share of such branches is very small.

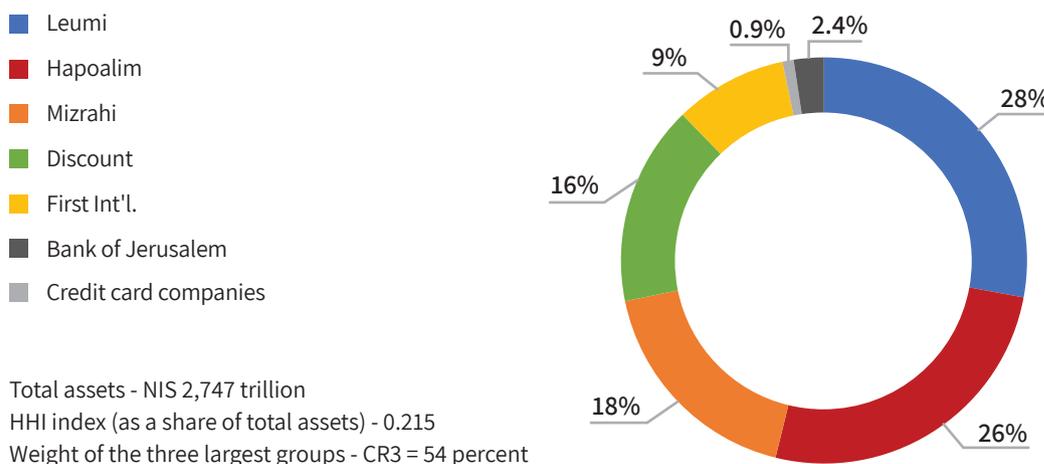
⁹ See the following press release (in Hebrew): <https://boi.org.il/%D7%A1%D7%A8%D7%98%D7%95%D7%A0%D7%99%D7%9D/%D7%93%D7%91%D7%A8%D7%99-%D7%94%D7%A0%D7%92%D7%99%D7%93-%D7%91%D7%9E%D7%A2%D7%9E%D7%93-%D7%94%D7%A2%D7%A0%D7%A7%D7%AA-%D7%A8%D7%99%D7%A9%D7%99%D7%95%D7%9F-%D7%9C%D7%91%D7%A0%D7%A7-%D7%94%D7%93%D7%99%D7%92%D7%99%D7%98%D7%9C%D7%99-%D7%90%D7%A9-%D7%99%D7%A9%D7%A8%D7%90%D7%9C/>

¹⁰ The company recently signed an investment agreement with the Delek Group, the completion of which is subject to a number of conditions (including approval of the deal by the Banking Supervision Department and the Competition Authority). For further details, see the company's 2024 financial report.

¹¹ For more information on the obligation imposed on the Discount Group to sell Cal, see the press release on the Ministry of Finance website: https://www.gov.il/en/pages/press_190123 as well as Note 30 in the company's 2024 financial report.

According to the CR2 index,¹² the two largest banking groups account for about 54 percent of the financial system's assets that are under the supervision of the Banking Supervision Department

Figure 1.3 Structure of the Israeli Banking System, December 2024
(groups on a consolidated basis, total assets, percent)



*Recall that the assets of Cal are included in the Discount Group's renaming (on a delayed basis). When Cal's assets are excluded from the Discount Group, the picture remains similar.

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

Table 1.1 | In most activity segments, the two largest banks hold more than half the market share.¹³

		Market share of the banks, by supervisory activity segment, December 2024, in percent					
		Leumi	Hapoalim	Mizrahi-Tefahot	Discount	First Int'l	Jerusalem
Households	Deposits	22.7	27.8	21.3	15.4	11.0	1.8
	Housing credit	23.0	22.2	35.9	11.6	5.8	1.5
	Nonhousing credit	19.8	23.1	17.8	23.2	15.1	0.9
Small and micro businesses	Deposits	29.3	30.8	17.8	14.0	7.7	0.4
	Credit	31.5	24.5	16.5	18.5	7.6	1.4
Total business	Deposits	34.2	28.0	15.0	15.3	7.2	0.2
	Credit	33.2	29.2	11.4	17.2	8.5	0.5
Total	Deposits	27.1	26.3	21.3	16.7	7.7	0.9
	Credit	28.8	26.7	18.3	15.4	10.0	0.8

SOURCE: Based on published financial statements.

¹² The Concentration Ratio (CR2) index reflects the share (in percent) of the two largest players in the market. For an international comparison of an index reflecting the share of the five largest banks in the market (CR5), see the link.

¹³ Including Cal's consumer credit.

As reflected in Table 1.1, there is some variation in market share across the various household banking products, indicating a certain degree of segmentation among different activity sectors. While Bank Hapoalim holds the largest market share in both household deposits and consumer credit granted to households, Mizrahi-Tefahot Group has the largest market share in housing credit—approximately 36 percent—despite owning only 18 percent of the system’s total assets. Thus, although it is the third-largest group in terms of total assets, it is prominent in the household housing credit sector, which is in line with the strategic plan it has pursued in recent years.¹⁴ Another example is Bank of Jerusalem, whose share in products used by households (particularly deposits and consumer credit) is double its share of total assets, which is in line with its strategic plan to focus on retail products.¹⁵ This situation highlights the competitive dynamics within the Israeli banking sector, where the strategic specialization of certain groups can have a significant impact on specific market segments, despite a relatively smaller overall asset base.

The Bank of Israel and the Banking Supervision Department are taking a number of steps to improve competition and fairness in the banking system. The main initiatives include: the establishment of a credit data system, which is intended to provide information on borrower characteristics, such that credit providers can access this information and offer attractive and competitive terms to customers; the launch of the “Click-to-Switch” system, which enables an easy and simple transition between banks;¹⁶ the open banking reform, which uses various products to benefit financial customers and create real value by, for example, enabling cost comparisons and access to financial services from multiple providers;¹⁷ the mortgage reform, which includes important measures to simplify and shorten the process of receiving a mortgage offer, thus providing the customer with clearer information in order to compare offers, as well as making it easier to refinance a mortgage with a different bank;¹⁸ and the publication of average interest rates on deposits and credit for each bank, alongside a wealth of additional information that allows easy and quick comparison of various banking services and products (via the Bank of Israel’s “Equalizer” website).¹⁹ Other initiatives include promoting the recommendations of a joint working group for enhancing competition in the retail banking sector (jointly led by the Supervisor of Banks and the Head of the Budget Department at the Ministry of Finance), among others.^{20,21} The Bank of Israel is continuing its efforts to promote competition in the banking system for the benefit of the public.

¹⁴ For additional details, see the group’s annual report.

¹⁵ For additional details, see the bank’s annual report.

¹⁶ The Banking Supervision Department is monitoring the implementation of the reform and considering its expansion to additional products, with the aim of encouraging switching in those areas as well.

¹⁷ For further details, see Box 6.6 in the 2023 Banking Supervision Department Review: <https://www.boi.org.il/en/communication-and-publications/regular-publications/israels-banking-system/israels-banking-system-annual-survey-2023/>

¹⁸ For further details, see Box 6.3 in this review.

¹⁹ For further details, see Box 6.1 in this review. The international magazine Central Banking announced that, following the Bank of Israel’s efforts in recent years to make banking information more accessible to the public, it was awarded the magazine’s 2025 prize in the Communication category.

²⁰ For further details, see Chapter 6 of this review.

²¹ In the OECD Economic Survey of Israel 2025 (OECD Economic Surveys: Israel 2025), the OECD highlighted the steps taken in recent years by the Banking Supervision Department and the Bank of Israel to enhance competition in the banking system and their positive impact on the economy. For more information, see: https://www.oecd.org/en/publications/oecd-economic-surveys-israel-2025_d6dd02bc-en.html.

These efforts include the removal of regulatory barriers, which facilitated the granting of banking licenses to two new banks, as well as the formulation of a tiered framework for licensing and regulation of banking corporation licenses for nonbank entities, including credit card companies.²² The Banking Supervision Department continues to monitor digital developments worldwide, to promote similar initiatives in Israel, and to make supervisory adjustments in response to the entry of AI-based models into the banking system.

The advancement of the tiered plan to provide banking licenses to nonbank entities²³

As part of the structural efforts led by the Bank of Israel to promote competition in the banking system, the Governor and the Minister of Finance appointed a joint working group in November 2024. The group's task is to formulate a framework for granting banking licenses to nonbank entities. The goal of the framework is to enhance competition in retail banking services by removing barriers to entry.

Credit to the public and deposits of the public grew at similar rates during 2024 (9 percent and 8 percent, respectively).²⁴ Nevertheless, there is variation in growth rates across the banks, with the medium-sized banking groups (particularly the Mizrahi-Tefahot group) continuing to lead in growth. However, the credit and deposits provided by the two largest banking groups still constitute more than half of the public's bank credit and deposits (Table 1.1). It is also worth noting that credit issued by credit card companies continues to grow at a high rate (Figure 1.4).²⁵

²² For further details, see Box 1.1 in the 2023 Banking Supervision Department Review <https://www.boi.org.il/en/communication-and-publications/regular-publications/israels-banking-system/israels-banking-system-annual-survey-2023/> as well as the press release on the publication of the call for proposals to advance the tiered plan of February 2024 <https://www.boi.org.il/en/communication-and-publications/press-releases/the-bank-of-israel-publishes-a-public-consultation-document-for-promotion-of-a-tiered-framework-for-granting-banking-corporation-licenses-to-nonbank-entities/>.

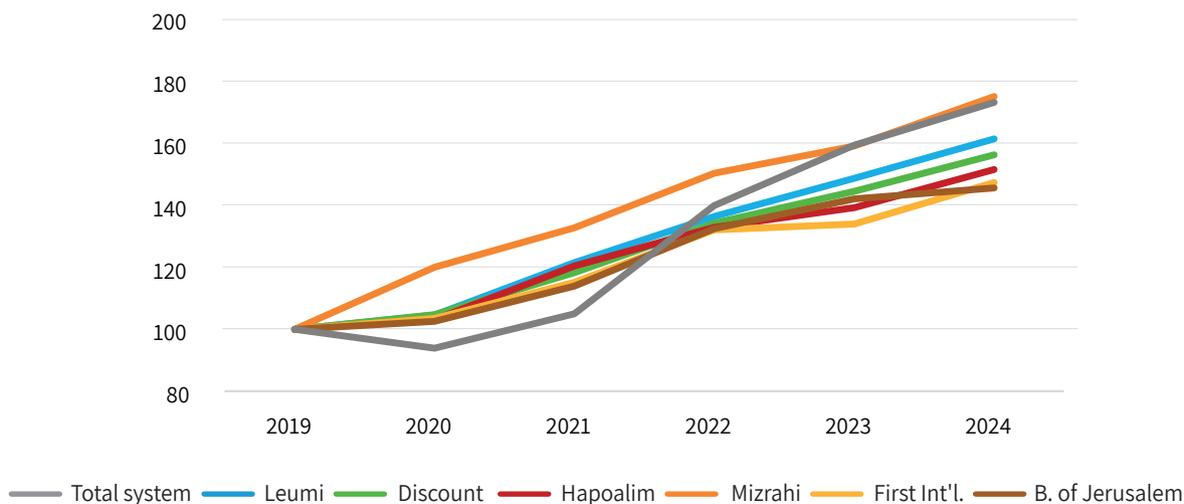
²³ For further details, see the interim report published for public comment on the Ministry of Finance website https://www.gov.il/he/departments/Units/increasing_competition_banks_system_team_committee [Hebrew], as well as the press release on the Bank of Israel website <https://www.boi.org.il/en/communication-and-publications/press-releases/main-findings-of-the-bank-of-israel-s-credit-officers-survey-for-the-first-quarter-of-2025/>.

²⁴ For more information, see Chapter 5.2 and 5.3 of this review.

²⁵ For further details on the activity of credit card companies, see Chapter 5.5 of this review.

The growth rate of credit to the public in the Mizrahi-Tefahot group has been faster than in the other banking groups in recent years.

Figure 1.4 Index of Development of Credit to the Public, 2019–2024
(groups on a consolidated basis, total banking system, index: 2019=100)



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

b. Banks as part of the financial system

Alongside commercial banks, which form a central pillar of the financial system, there are additional key players contributing to the financing of the economy. These include institutional entities such as pension funds, provident funds, insurance companies, nonbank entities,²⁶ and credit card companies. These institutions provide various services, some of which are similar to those offered by the banks, such as providing credit to the public and managing investment portfolios. Their involvement has an impact on the structure and sources of debt in the business sector.

In 2024, the growth of debt in the nonfinancial business sector (which constitutes the majority of total debt in the economy) to the financial system accelerated relative to 2023, reaching a total of NIS 1,401 billion, with a growth rate of 7 percent in 2024 and 5 percent in 2023. However, the 2024 growth rate was lower than those recorded in 2021–22, which were record levels. The increase in total debt in 2024 was driven mainly by companies in the construction and real estate sectors.²⁷ Approximately 75 percent of the debt of the nonfinancial business sector is financed through loans, and the remainder through bonds (primarily tradable). While the banking system and foreign residents finance this sector primarily through loans, households and others²⁸ finance it

²⁶ Such as Mimun Yashir, Peninsula, Nawi, Albar and others.

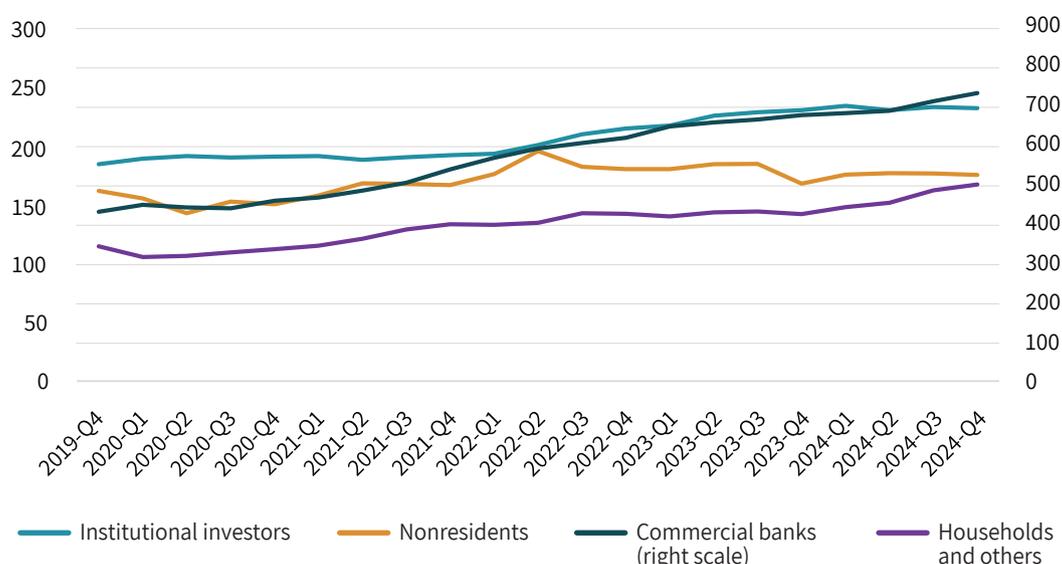
²⁷ For further details, see the 2024 Statistical Bulletin published by the Information and Statistics Department of the Bank of Israel in March 2025. <https://www.boi.org.il/en/communication-and-publications/regular-publications/statistical-publications/statistical-bulletin-2024/>

²⁸ This occurs directly or indirectly (via mutual funds, for example), and via other business and financial companies.

through bonds. Institutional entities finance this sector through both loans and bonds (42 percent and 58 percent, respectively). The share of banks in financing the nonfinancial business sector continues to grow. Over the past five years, the debt to the banking system has increased by a factor of 1.7—the highest growth among all sources of financing (Figure 1.5). In 2024 alone, bank financing increased by approximately 8 percent, led by large businesses. Overall, the banking system finances more than half of the debt of the nonfinancial business sector (Figure 1.6). The banking system also finances a significant portion of individual debt.²⁹

Bank financing of nonfinancial business sector debt has increased markedly in recent years

Figure 1.5 Development of Business Debt by Financing Source, 2019–2024 (NIS billion)



- 1) The nonbank companies included in the calculation beginning in 2019 are: Opel Balance Investments, Ltd.; Orshi G.S. Ltd.; S.R. Accord Ltd.; Bull Trading and Investment Ltd.; Barkat Capital Ltd.; Gibui Holdings, Ltd.; Gama Management and Settlement Ltd.; Gamla-Harel Residential Real Estate Ltd.; Unet Credit Financial Services, Ltd.; Michman BSD, Ltd.; Mihclol Financing, Ltd.; M.L.R.N. Projects and Trading, Ltd.; Manif Financial Services, Ltd.; Nawi Brothers Group, Ltd., Erech Halakhic Financing, Ltd., Psagot Group; Peninsula Group, Ltd.; A.N. Shoham Business, Ltd., and Yaakov Finance and Investments, Ltd.
- 2) Nonresident - anyone who is not defined as a resident of Israel. The debt to a nonresident includes bonds held by nonresidents (in Israel and abroad and loans are issued by them. The mix of loans includes financial loans (foreign banks, institutional investors, etc.), suppliers' credit, and owners' loans.

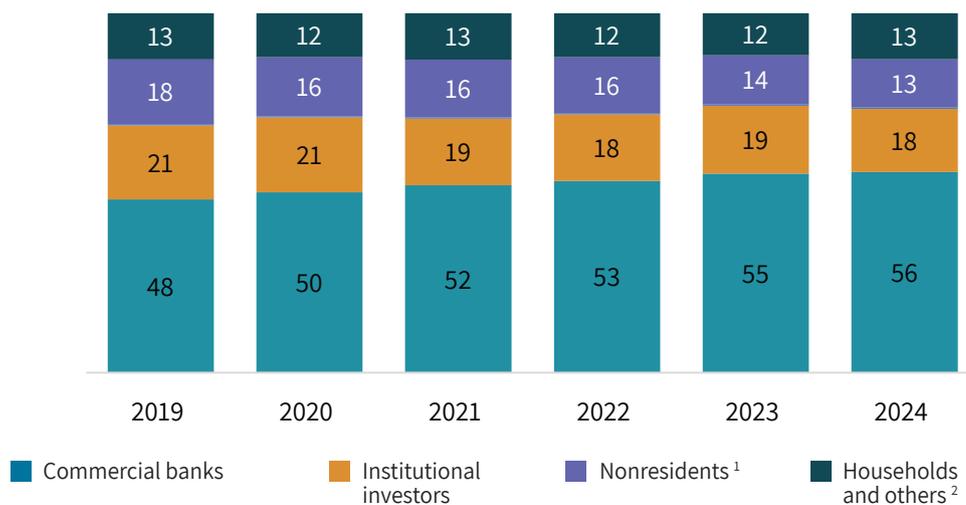
SOURCE: Based on reports to the Bank of Israel and the Tel Aviv Stock Exchange.

²⁹ For more information on the trend in individual debt, see the chapter on credit in this review, as well as the 2024 Statistical Bulletin published by the Information and Statistics Department of the Bank of Israel in March 2025. <https://www.boi.org.il/en/communication-and-publications/regular-publications/statistical-publications/statistical-bulletin-2024/>

³⁰ It should be noted that bank financing to the nonfinancial business sector also includes credit to the financial services sector. This credit includes, among other things, credit provided by the banking system to credit card companies and other nonbank financial institutions, which themselves extend credit to the nonfinancial business sector.

In 2024, the upward trend in the banking system's share of total financing of the nonfinancial business sector continued.³¹

FIGURE 1.7 Distribution of Business Sector Debt by Financial System Lender, 2019–2024 (percent)



1 Anyone who is not defined as a resident of Israel. Debt includes bonds held by non-residents and loans provided by them.

2 Households directly or indirectly (through mutual funds, for example), and other business and financial companies.

The share of the Knesset and the government in financing this sector is less than 1% and therefore was not included in the presentation. Data on other non-bank sources were not included due to the lack of data.

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

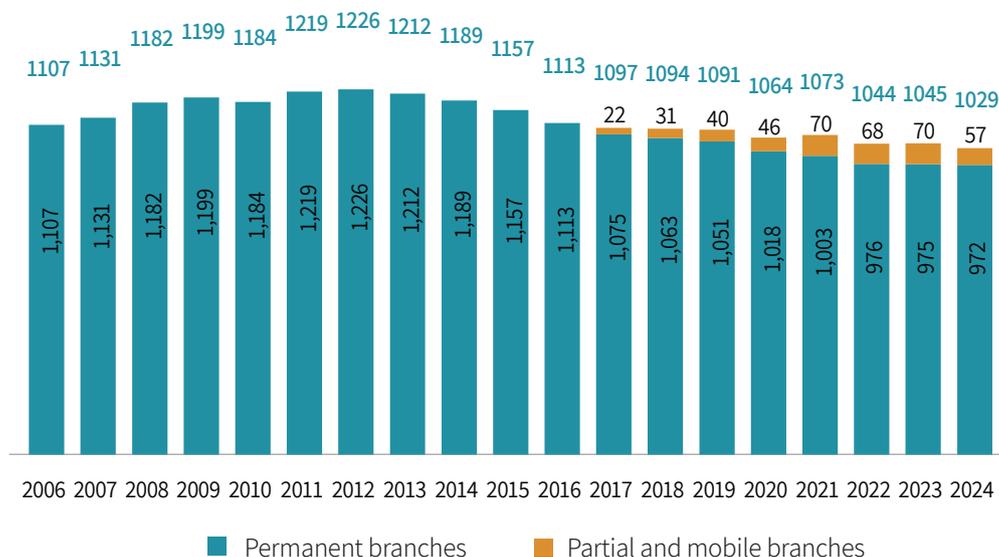
³¹ See footnote 30 above.

3. Activity channels in the banking system

The number of bank branches in Israel has been characterized by a moderate downward trend, which has slowed in recent years with the opening of partial and mobile branches.³² As of the end of 2024, the total number of branches in the banking system was 1,029, of which 972 are permanent and 57 are partial or mobile (Figure 1.7).³³ Although the reduction in number of branches has been larger in scale among the large banks, a breakdown by banking group shows that there is still only a partial correlation between the size of a group and the number of branches (Figure 1.8). It is worth noting that as part of the efforts by the Bank of Israel and the Banking Supervision Department to increase transparency in the banking system and make information accessible to the public, the Bank of Israel's website presents a large amount of real-time data on the distribution of bank branches by bank, geographic region, etc.³⁴

Stability in the number of bank branches in recent years

Figure 1.7 Number of Bank Branches^a, Total Banking System, 2006–2024



a Activity in Israel not including operational departments and units.

SOURCE: Based on reports to the Banking Supervision Department.

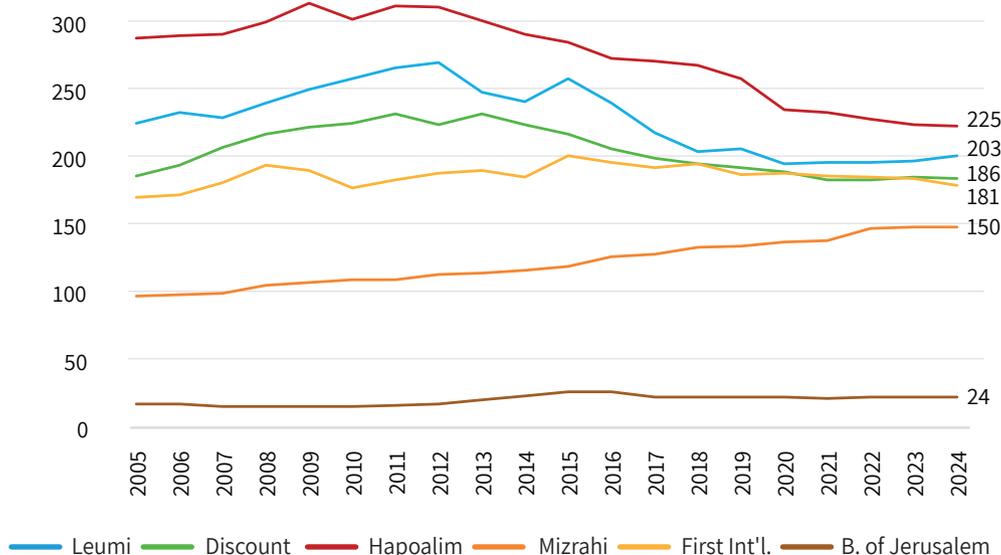
³² Including branches of the banking groups in Israel and the branches of foreign banks operating in Israel.

³³ The number of permanent branches has been revised and therefore there is a small amount of variation relative to previous years.

³⁴ Interface for locating bank branches in Israel by location or on a map and additional information on bank branches, ATMs, etc.: <https://www.boi.org.il/information/bank-branch-locate/> [Hebrew]

Despite the higher rate of reduction in number of branches by the two largest banking groups, they still lead in terms of number of branches.

Figure 1.8 Number of branches by banking group* 2005–2024



** The change in the number of branches during the period 2005–8 is a result of changes in ownership in the system. Bank Yahav purchased the Mizrahi-Tefahot group (in July 2008 the deal was completed); Bank Masad was acquired by the First International Bank (May 2008) and Bank Otzar Hahayal was acquired by the First International Bank (August 2006). The three acquired banks were previously owned by Bank Hapoalim.

* The change in the number of branches in the Mizrahi-Tefahot group in 2020 is the result of the acquisition of Bank Igud.

* The graph does not include three branches of foreign banks in Israel (SBI, HSBC and Citibank).

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

An analysis of branch distribution

In order to assess the accessibility of financial services to various population groups at the bank branches, the Banking Supervision Department examines the branch distribution across a number of dimensions: geographic area,³⁵ peripherality index,³⁶ socioeconomic classification,³⁷ and population group.³⁸ These analyses reveal that branch closures occur primarily in nonperipheral regions with high socioeconomic rankings, as described below.³⁹

According to a geographic breakdown, the share of branches in the central region (excluding Tel Aviv), Jerusalem, and the southern region has remained stable over the past twenty years and, as of 2024, stands at approximately 23 percent, 12 percent, and 11 percent of all branches in the

³⁵ Geographic regions are determined according to an annual CBS file.

³⁶ Central Bureau of Statistics data and data processing by the Banking Supervision Department.

³⁷ Central Bureau of Statistics data and data processing by the Banking Supervision Department.

³⁸ The sector is determined according to an annual Central Bureau of Statistics file.

³⁹ Data are presented for 2006–24, with jumps of three years for the sake of convenience of presentation.

system, respectively. In contrast, changes have occurred in the Tel Aviv region and the Haifa and northern region over the past two decades. In the Tel Aviv region, there has been a decline in branch share, which now stands at 25 percent, compared to 31 percent in 2006. Conversely, in the Haifa and northern region, the share has increased to 29 percent, compared to 24 percent in 2006 (Figure 1.9).

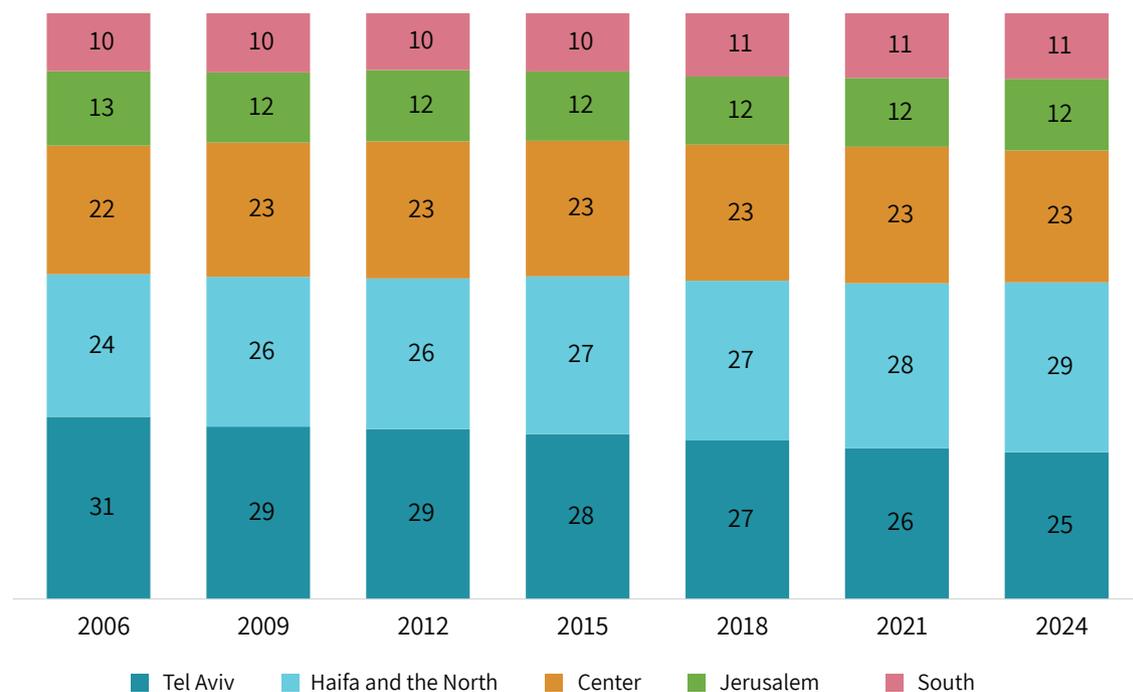
A breakdown by peripherality index⁴⁰ shows that the downward trend continued in the Center. The share of branches in central or very central areas is about 60 percent, as compared to 67 percent in 2006. In contrast, in areas classified as intermediate, peripheral, or very peripheral, the share of branches increased to 40 percent by the end of 2024, compared to approximately 23 percent in 2006 (Figure 1.10). The current state of the branch distribution by peripherality index is a result of Banking Supervision Department policy. One of the criteria considered when evaluating requests to close permanent branches is the “characteristics of the surrounding environment of the branch being closed,” including the peripherality index, which is taken into account in the decision-making process.

A similar picture emerges from the distribution of bank branches by socioeconomic ranking. There has been a decline in the share of branches located in high-ranked regions (currently 25 percent as compared to 33 percent in the past), while growth has occurred in the share of branches in medium- and low-ranked areas, which now account for approximately 75 percent, compared to 66 percent in the past (Figure 1.11). The distribution of bank branches by population group shows that the main change has been an increase in the share of branches in non-Jewish areas (which is now 10 percent), alongside a decline in the share of branches in Jewish and mixed areas (Figure 1.12).

⁴⁰ The level of peripherality of a local authority in Israel according to the Central Bureau of Statistics classification in 2008, based on data for 2004.

The shares of branches in the central, Jerusalem, and southern regions have remained stable. The share in the Haifa and northern region has grown, while the share in Tel Aviv has declined.

FIGURE 1.9 Breakdown of branches by region*All banks, 2006 - 2024 | percent

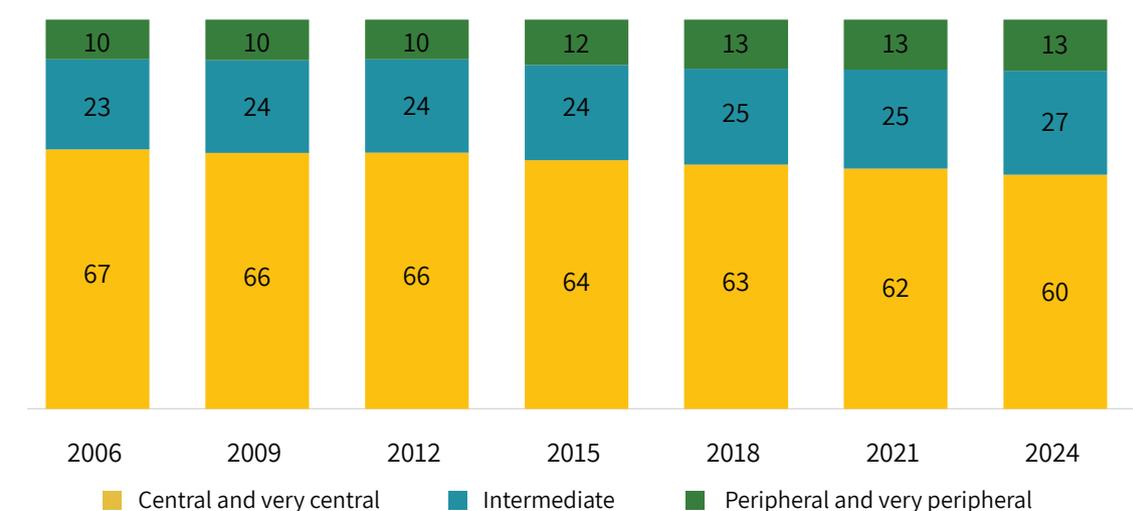


* The Jerusalem region includes Judea and Samaria.

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

With respect to peripherality, the share of branches in intermediate, peripheral, and very peripheral regions has grown, while it has declined in central and very central regions

FIGURE 1.10 Breakdown of branches by level of peripherality*All banks, 2006-2024 | percent



* Level of peripherality of the local authorities in Israel according to an index prepared by the CBS in 2008, based on data for 2004.

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

Decrease in the share of branches in high-ranked regions, alongside growth in intermediate- and low-ranked regions

FIGURE 1.11 Number of branches by socioeconomic ranking*All banks , 2006-2024 | percent



* Low ranking–score of 1–3; Intermediate ranking–score of 4–7; high ranking–score of 8–10

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

Increase in the share of branches in Arab regions, alongside a decline in Jewish and mixed regions

FIGURE 1.12 Breakdown of branches by population sector*All banks , 2006-2024 | percent



* We defined mixed cities as those with a non-Jewish population that constitutes more than 10% of its residents. These include: Haifa, Jerusalem, Lod, Maalot-Tarshicha, Nazareth Illit, Acre and Ramle.

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

Direct banking channels

The decline in the number of bank branches is occurring alongside a shift in customer preferences as to how they interact with the banks. In 2024, approximately 89 percent of banking transactions by individual customers were conducted through digital communication channels (including websites, mobile apps, and self-service kiosks), compared to 66 percent in 2019. About 55 percent of the digital transactions were executed via the bank’s mobile app, and around 45 percent via other channels (Figure 1.13).

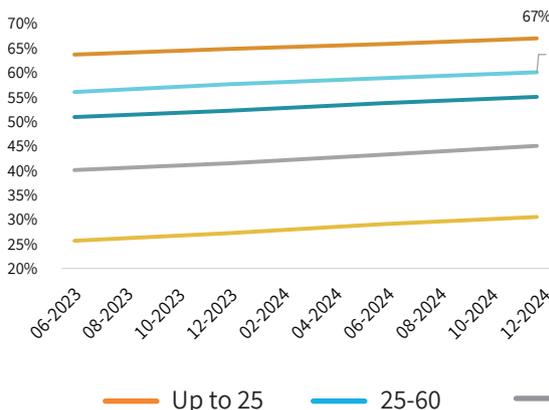
The shift to direct channels is the result of several factors, and primarily digital literacy, which correlates with a customer's age. Analyzing the rates of digital channel usage by age group reveals a rising trend across all age groups, with higher usage rates observed among younger customers (Figure 1.13). Among younger customers, the majority of transactions are conducted via the mobile app, reaching around 67 percent for customers under age 25, and 60 percent of those aged 26–50 (Figure 1.14). In contrast, older customers use the app less frequently: 45 percent of those aged 50–71 and 30 percent of those aged 71 and above. The rest of the transactions in the 71+ group are conducted via the website (45 percent) and self-service machines (24 percent).

There is also variation in the rate of digital usage across banking products. Payment transfers and the buying/selling of securities are most frequently conducted by means of digital channels (96 percent and 94 percent, respectively). In contrast, loan applications and checkbook orders have the lowest rates of execution via direct channels (69 percent and 79 percent, respectively; Figure 1.15).

Younger customers tend to use direct channels (online and mobile), especially mobile apps.

Figure 1.13

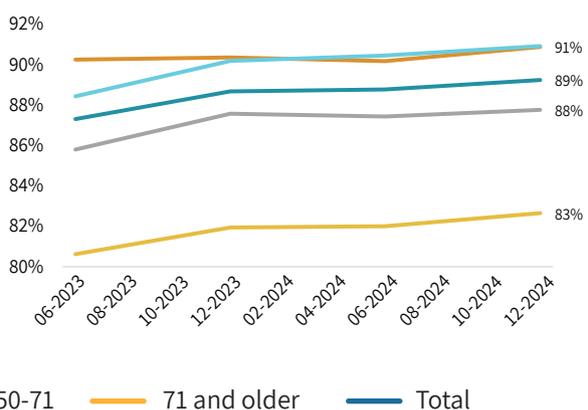
Proportion of transactions carried out using the app within total transactions in direct channels according to age group
All banks, June 2023–December 2024 | percent



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

Figure 1.14

Proportion of transactions carried out through direct channels within total transactions carried out, by age group
All banks, June 2023–December 2024 | percent

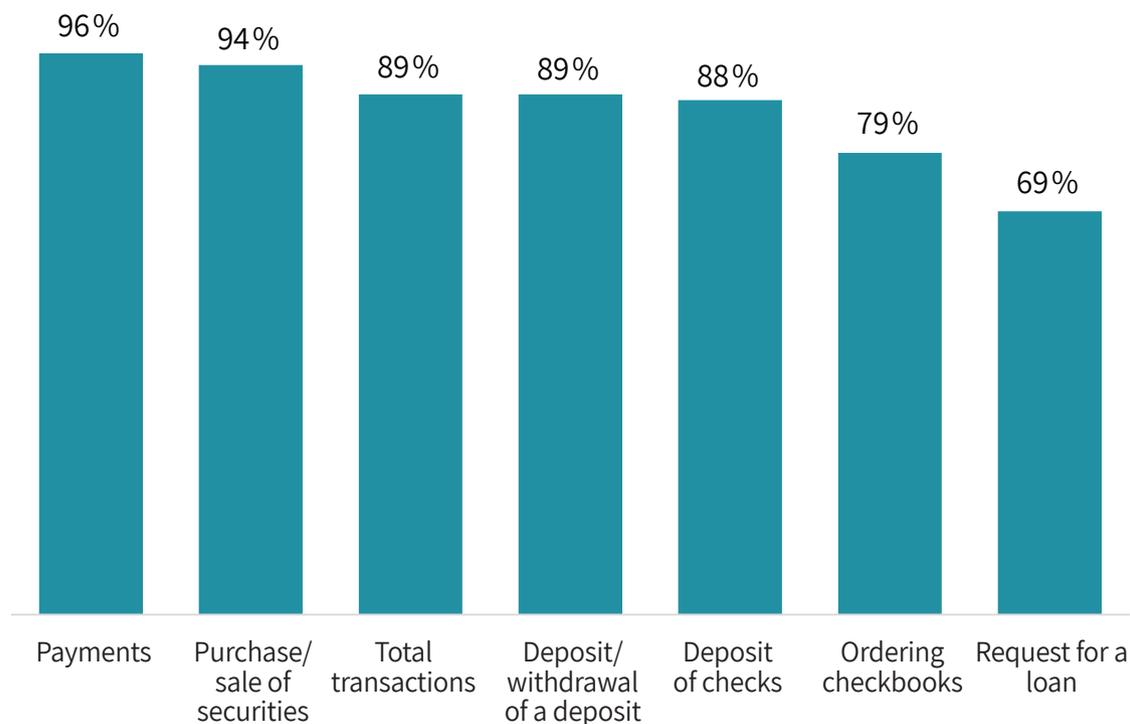


SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

Most transactions in the various products are conducted through direct channels.

FIGURE 1.15

Proportion of transactions carried out through online banking channels, by product, All banks , 2024 | percent



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

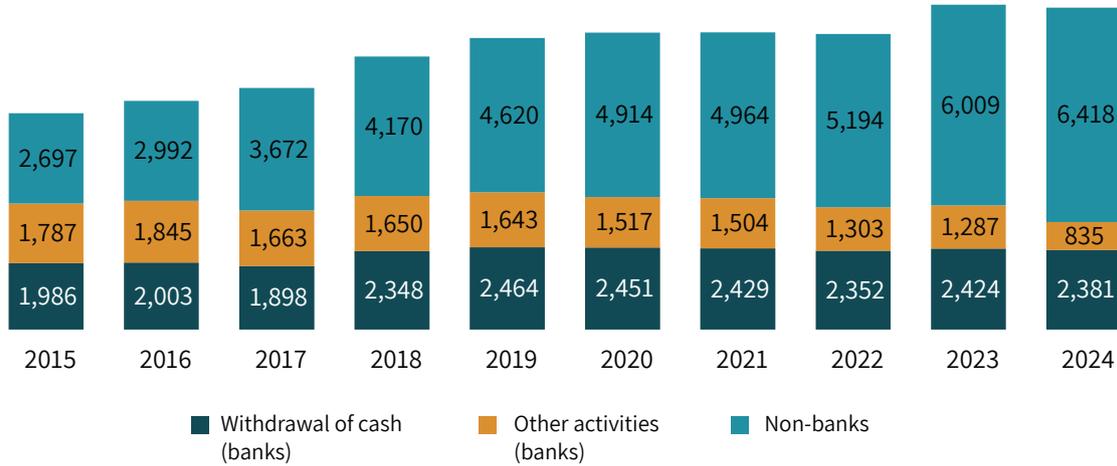
ATMs

In 2024, the number of ATMs in Israel decreased slightly relative to 2023 (9,634 compared to 9,720; Figure 1.16). The number of bank-owned machines dropped by around 500, mainly due to a reduction in multifunction machines. At the same time, the number of nonbank machines increased by about 400.⁴¹

⁴¹ For a map of the distribution of ATMs by region or bank, see the Bank Comparison Dashboard on the Bank of Israel website: https://www.boi.org.il/roles/supervisionregulation/comparison_banks/ [Hebrew]

Decrease in bank-owned ATMs alongside an increase in nonbank machines

FIGURE 1.16 Total ATMs and withdrawal of cash Israel, 2015–2024 | Units



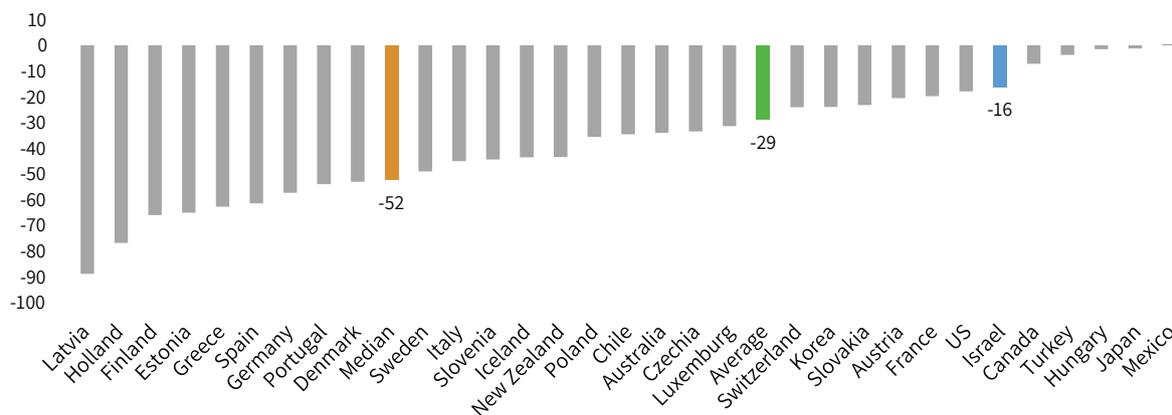
SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

International comparison

A comparison to other countries reflects a positive picture with regard to Israel’s branch and ATM infrastructure relative to OECD countries. The rate of change in the number of branches between 2011 and 2023 in Israel is lower than that of the reference countries (Figure 1.17). Israel also ranks high in the number of branches per 1,000 square kilometers (Figure 1.18). However, Israel ranks relatively low in the number of branches per 100,000 adults (Figure 1.19). Israel leads the OECD countries in the number of ATMs per 1,000 square kilometers and ranks very high in the number of machines per 100,000 adults (Figures 1.20 and 1.21).

The rate of change in the number of branches in Israel is low by international comparison.

FIGURE 1.17 Rate of change in number of bank branches 2011–23
Israel, OECD countries, December 2023 | percent



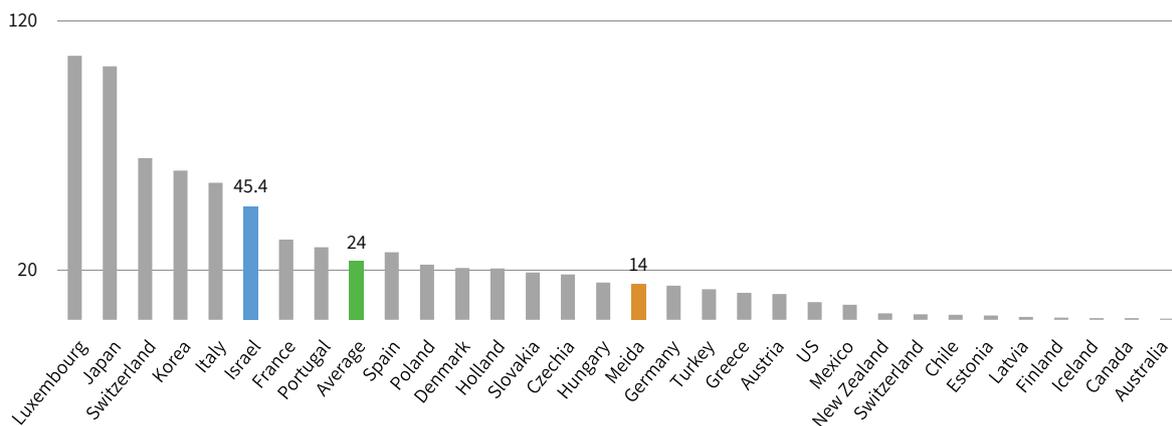
*Does not included activity abroad.

** Belgium, UK, Ireland and Norway are not included in the comparison due to missing data.

SOURCE: Foreign countries–IMF; US–FDIC; Israel–reports to the Banking Supervision Department and processing by the Banking Supervision Department.

Number of branches per 1000 km² in Israel is high relative to OECD countries.

FIGURE 1.18 Number of branches* per 1000 square kilometers
OECD countries**, December 2023



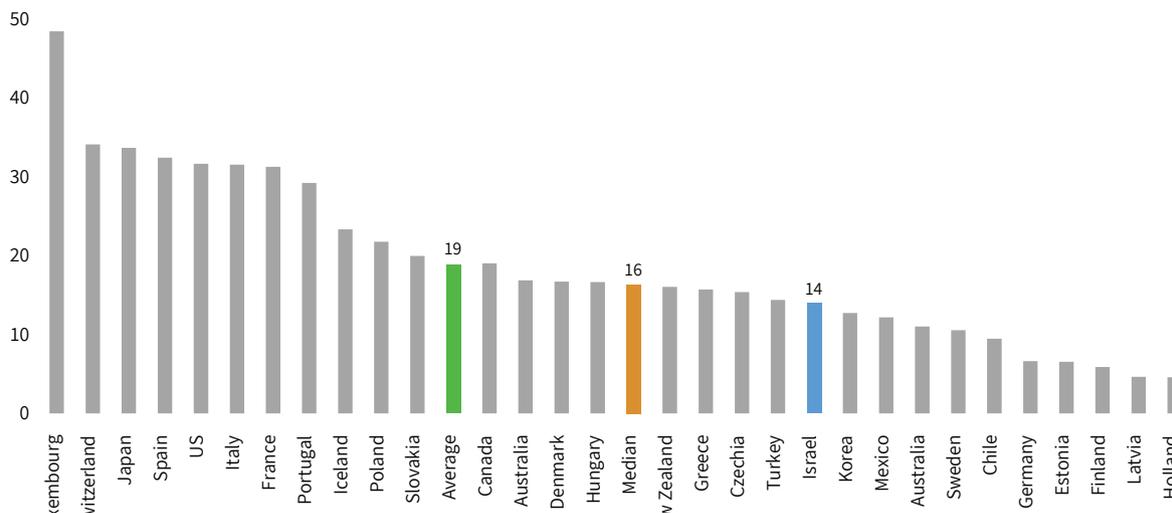
* According to the broader definitions of the IMF which also include extensions.

** Belgium, UK, Slovenia, Ireland and Norway are not included in the comparison due to missing data.

SOURCE: Foreign countries–IMF; US–FDIC; Israel–reports to the Banking Supervision Department and processing by the Banking Supervision Department.

Number of branches per 100,000 adults in Israel is low relative to OECD countries.

FIGURE 1.19 Number of branches* per 100 thousand adults, OECD countries**, December 2023



* According to the IMF definitions, ATMs include bank and non-bank machines for withdrawal of cash and machines for carrying out other transactions.

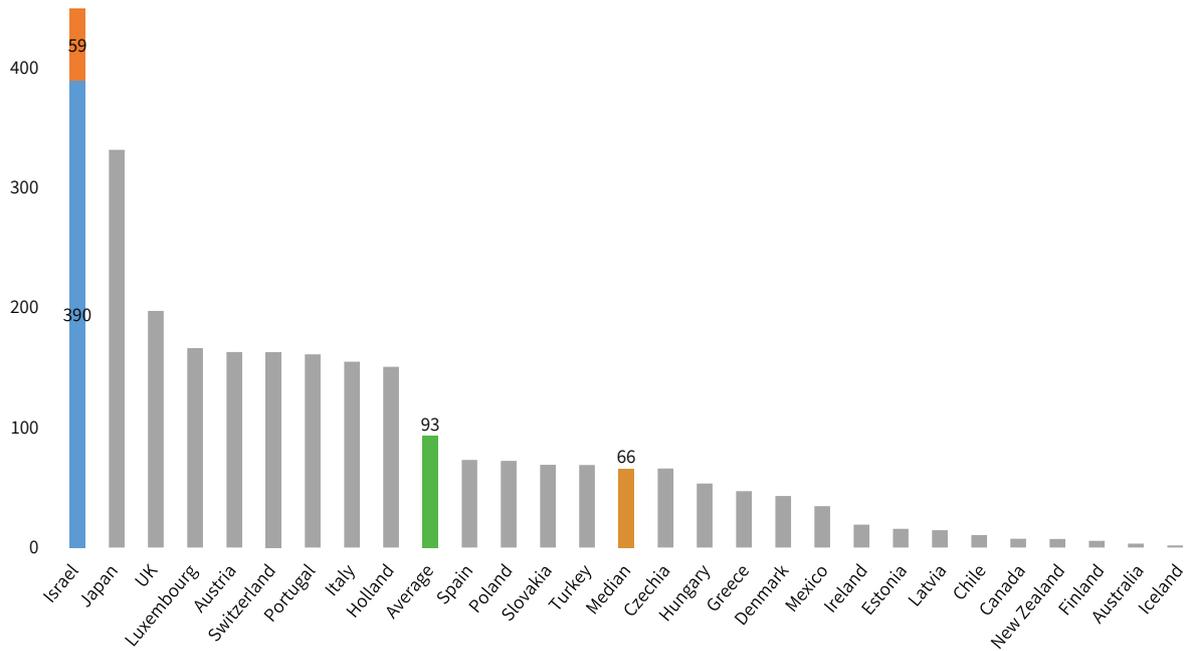
** The US, Belgium, Germany, France, Korea, Norway, Slovenia and Sweden are not included in the comparison due to missing data.

*** In the case of Israel, a distinction was made between machines for cash withdrawal and machines for carrying out transactions (without the possibility of cash withdrawal). This distinction is not possible for the other countries

SOURCE: Foreign countries-IMF; US-FDIC; Israel-reports to the Banking Supervision Department and processing by the Banking Supervision Department.

Israel leads in the number of ATMs per 1,000 km².

FIGURE 1.20 ATMs* per 1000 square kilometers, OECD countries**, December 2023



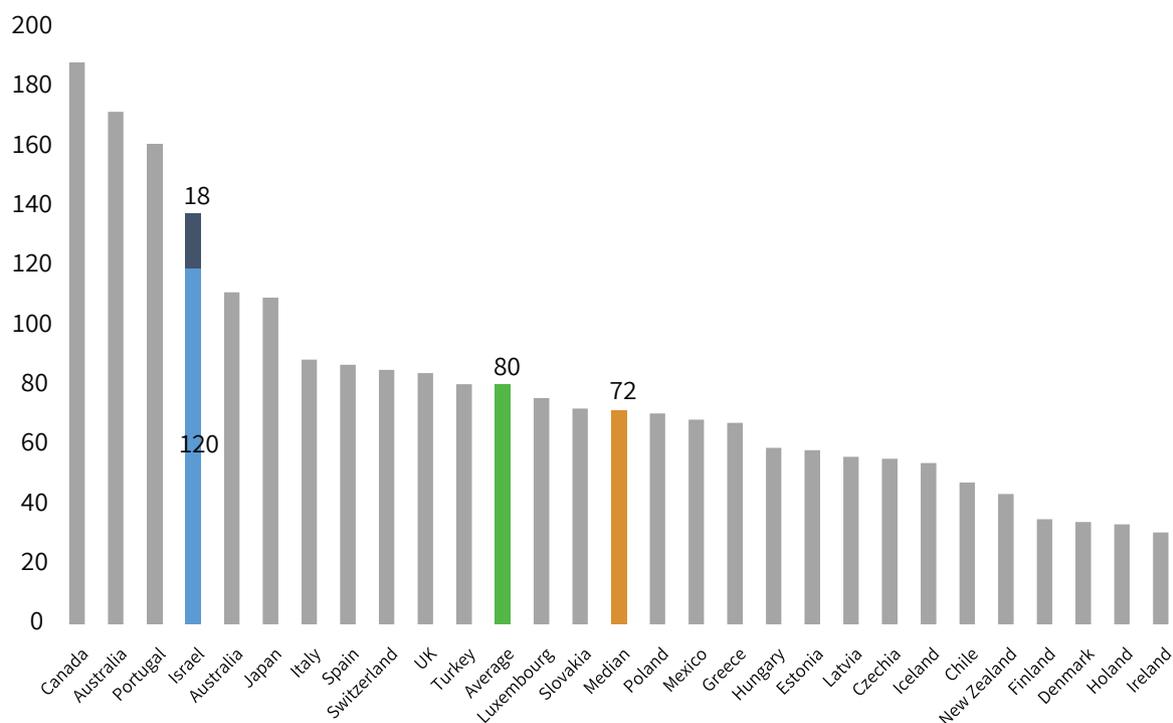
* According to the IMF definitions, ATMs include bank and non-bank machines for withdrawal of cash and machines for carrying out other transactions.

** The US, Belgium, Germany, France, Korea, Norway, Slovenia and Sweden are not included in the comparison due to missing data.

*** In the case of Israel, a distinction was made between machines for cash withdrawal and machines for carrying out transactions (without the possibility of cash withdrawal). This distinction is not possible for the other countries.

SOURCE: Foreign countries–IMF; US–FDIC; Israel–reports to the Banking Supervision Department and processing by the Banking Supervision Department.

Israel ranks very high in the number of ATMs per 100,000 adults

FIGURE 1.21 ATMs* per 100 thousand adults
OECD countries**, December 2023

* According to the IMF definitions, ATMs include bank and non-bank machines for withdrawal of cash and machines for carrying out other transactions.

** The US, Belgium, Germany, France, Korea, Norway, Slovenia and Sweden are not included in the comparison due to missing data.

*** In the case of Israel, a distinction was made between machines for cash withdrawal and machines for carrying out transactions (without the possibility of cash withdrawal). This distinction is not possible for the other countries.

SOURCE: Foreign countries–IMF; Israel–reports to the Banking Supervision Department and processing by the Banking Supervision Department.

BOX 1.1: Provision of payment services incidental to cryptocurrency activity

- Recent years have been marked by the development of both global and domestic regulation of crypto assets. The purpose of these developments is to manage risks wisely the various risks in this activity while supporting its growth. In this context, the providing of banking payment services incidental to cryptocurrency activity has also been regulated.
- Alongside the regulation of activity, from December 2023, the Banking Supervision Department has been collecting data on the volume of payment services incidental to cryptocurrency activity in customer accounts within the banking system¹, with the aim of follow the implementation of this regulation and identifying any operational obstacles that arise.
- The data show that from the second half of 2023 through the end of 2024, banking-system customers transferred roughly NIS 1.8 billion for the purpose of conducting cryptocurrency transactions.
- In the same period, about NIS 0.9 billion generated by cryptocurrency activity (after conversion to fiat²) flowed into the banking system. Moreover, this period exhibits a clear increase in the volume of such activity.
- An examination of the flow of incoming crypto-related funds from individuals to corporations reveals that, in value terms, roughly half of the funds relate to individual accounts. However, in terms of the number of transactions, they represent about 88 percent. This reflects an average transaction size of NIS 26,000 for individuals and NIS 197,000 for corporations.
- With regard to the refusal rate for incoming funds originating from cryptocurrency activity, reports from the banking corporations indicate that during this period the refusal rate amounted to only about 5 percent of the total transaction value and 3.5 percent of the number of transactions.
- The Banking Supervision Department is currently considering an update to the regulatory framework in order to support an expansion of payment services incidental to cryptocurrency activity. This effort involves a risk-based approach and draws on the experience and knowledge accumulated during the period—within the banking system, within the Banking Supervision Department itself, and based on relevant international regulation.

¹ This box presents data reported by the banking corporations to the Banking Supervision Department regarding transfers of funds from customers' accounts in the banking system to crypto service providers, and the receipt of funds in customers' accounts in the banking system from crypto service providers.

² Fiat currency refers to legal tender issued by governments. Examples include the shekel, the dollar, the pound sterling, the yen, etc.

- The Banking Supervision Department will continue follow developments in the crypto-asset domain and will act in customers' interests while maintaining rigorous risk management.

Background

Bank customers in Israel are conducting transactions in cryptocurrency (hereinafter: "crypto," "virtual assets," or "virtual currencies") in ever-increasing volumes, via virtual-currency service providers incorporated in Israel or abroad. Although this activity entails risk, it offers significant potential for innovation in the financial sector. In recent years, numerous developments have taken place in both global and domestic regulation of the crypto-asset sector. The purpose of this regulation is the prudent management of crypto risks and the support of crypto-related growth. Among other things, local banking regulation has been revised to include banking payment services incidental to virtual-currency activity—namely, the deposit of fiat¹ funds originating from virtual-currency transactions (for further discussion of regulatory developments in the field, as well as the risks inherent in such activity, see Box 7.2 in Israel's Banking System 2022, "Regulation of Banking Corporations' Activity in Crypto-Assets"³).

In addition, the Banking Supervision Department has been collecting data on the volume of payment services incidental to cryptocurrency activity in bank customers' accounts since December 2023. This includes both the transfer of funds from bank customers' accounts for the purpose of crypto activity, and the receipt of funds originating from cryptocurrency activity into those accounts (after conversion into fiat currency). The goal is to follow the implementation of the regulatory framework and to identify barriers to such activity. The data collected include information on the total amount of funds transferred for the purpose of crypto activity, the total amount of funds received from crypto activity, and the total number of rejections of funds originating from cryptocurrencies. The data are broken down by individual and corporate accounts, as well as by activity involving currency service providers incorporated in Israel versus those incorporated abroad—measured in terms of both number of transactions and transaction amounts in shekels. The data are reported semi-annually, in accordance with Reporting Directive to the Banking Supervision Department No. 825, "Semiannual Report on Exposure to Compliance Risks."⁴

This box presents the main findings based on these reports.

Volume of payment services incidental to virtual currency activity

From the second half of June 2023 to the end of 2024, banking system customers transferred approximately NIS 1.8 billion from their accounts in order to conduct cryptocurrency

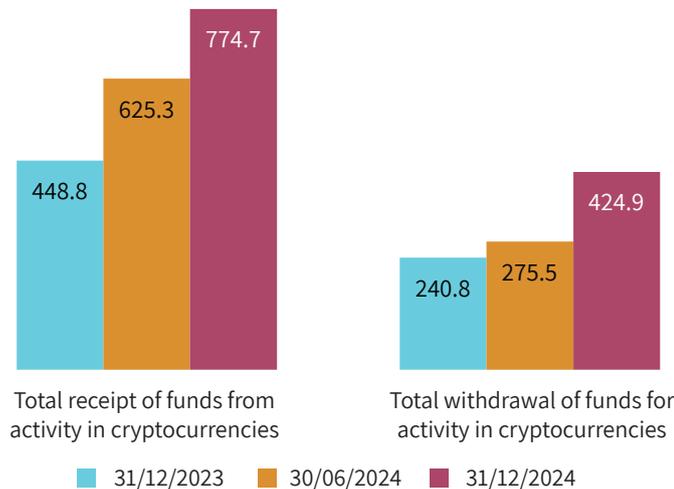
³ <https://www.boi.org.il/en/communication-and-publications/regular-publications/israels-banking-system/27-12-23/>

⁴ Table 8 in Reporting to the Banking Supervision Department Directive no. 825—Semiannual [Report on Exposure to Compliance Risk](#) [Hebrew]

transactions. During this period, approximately NIS 0.9 billion, originating from crypto activity (after being converted into fiat currency) was deposited into customers' bank accounts. Moreover, there is a clear increase in the volume of activity in each six-month period (Figure 1.22). It is important to mention that one should not expect to see a correlation between the volume of outflow funds for the purpose of crypto activity and the volume of incoming funds from such activity. This is because in most cases outflow funds are intended for investment in crypto assets, while the incoming funds occur only when customers decide to realize their investment. Therefore, by the nature of investment activity, the volume of Cash outflow funds is expected to exceed the volume of incoming funds from crypto activity.

There is an upward trend in the volume of outflow and incoming funds from crypto activity.

FIGURE 1.22 Withdrawal of funds for activity in cryptocurrencies and receipt of funds from activity in cryptocurrencies, All banks, H2 2023 to H2 2024 | millions of NIS



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

Approximately 95 percent of outflow **funds** during the surveyed period were from the accounts of individuals. Although corporate transactions were fewer in number, they were of significantly larger amounts, such that individuals accounted for only about 55 percent of outflow funds for virtual currency activity. Thus, it appears that corporate transactions tend to be conducted in substantially larger amounts in substantial rate than those of individuals. Similarly, about 92 percent of outflow funds went to virtual currency service

providers incorporated in Israel, although in terms of total transaction value, this proportion was only 78 percent.

An analysis of funds coming into the banking system from crypto activity during the period between July 2023 and the end of 2024 shows that, in terms of value, approximately half originated from virtual currency service providers incorporated abroad (Figure 1.23), while in terms of transaction volume, they accounted for only about 8 percent (Figure 1.24). This indicates an average transaction size of approximately NIS 318,500 with foreign service providers, compared to an average of about NIS 24,500 with Israeli service providers.

In terms of transaction amounts, the majority of incoming funds originating from crypto activity were made via virtual currency service providers incorporated abroad.

In terms of number of transactions, the vast majority of incoming transfers originating in crypto activity were via virtual currency service providers incorporated in Israel.

Figure 1.23

Receipt of funds from activity in cryptocurrencies; breakdown of amount of funds according to type of financial service provider All banks | percent

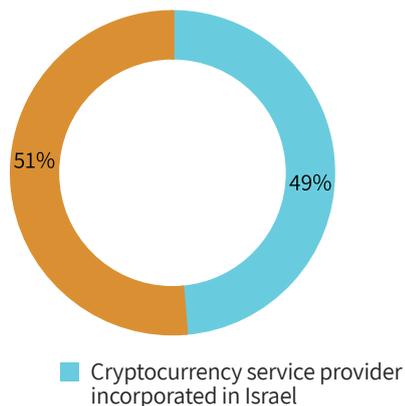
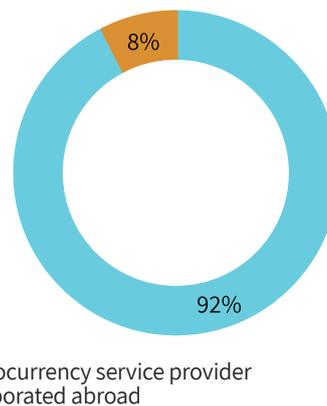


Figure 1.24

Receipt of funds from activity in cryptocurrencies; breakdown of quantity of transactions by type of financial service provider, All banks | percent



Cumulative data from H2 2023 until H2 2024

SOURCE: Based on reports to the Banking Supervision Department.

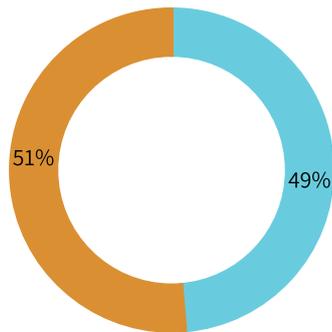
A similar picture emerges from the breakdown of incoming funds from virtual currency activity between individuals and corporations. Thus, in terms of value, approximately half of the funds were deposited into individual accounts (Figure 1.25), whereas in terms of number of transactions, individuals accounted for about 88 percent (Figure 1.26). This reflects an average transaction size of NIS 26,000 in the case of individuals and NIS 197,000 in the case of corporations.

In terms of transaction value, about half of the funds originating from crypto activity were deposited into individuals' accounts.

In terms of number of transactions, the majority of incoming funds originating from crypto activity were deposited into individuals' accounts.

Figure 1.25

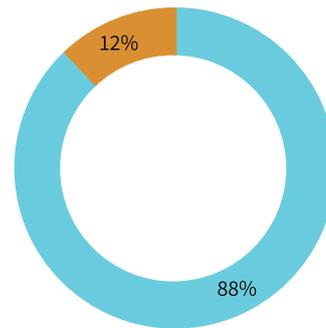
Receipt of funds from activity in cryptocurrencies; breakdown of amount of funds by type of customer, All banks | percent



■ individual ■ Corporation

Figure 1.26

Receipt of funds from activity in cryptocurrencies; breakdown of quantity of transactions by type of customer, All banks | percent



Cumulative data from H2 2023 until H2 2024

SOURCE: Based on reports to the Banking Supervision Department.

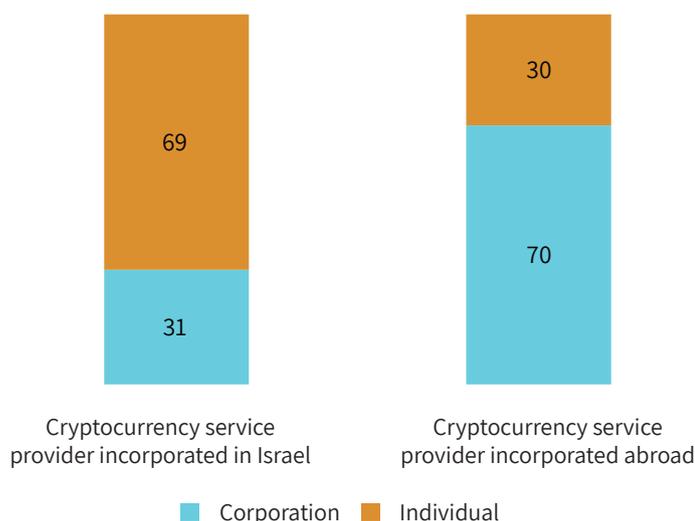
The analysis of incoming funds originating from virtual currency activity also shows that while virtual currency service providers incorporated in Israel primarily serve individual clients (approximately 69 percent of total transaction value), providers incorporated abroad primarily serve corporate clients (approximately 70 percent of total transaction value; Figure 1.27). This trend can be explained by several factors, including a higher level of financial literacy among corporations, as well as the high level of trust placed by individual Israeli customers in domestic providers, which are regulated by the Capital Market, Insurance and Savings Authority as well as their higher accessibility. Furthermore, corporations involved in virtual asset activity—including technology firms operating in the field—are partially, though also structurally, funded by money originating from crypto activity conducted abroad.

With regard to the refusals rate of funds originating from virtual currency activity, reports from the banking corporations indicate that between July 2023 and December 2024, approximately 5 percent were refused in terms of transaction value and 3.5 percent in terms of number of transactions.⁵

⁵ This figure reflects refusals of requests to transfer funds from accounts of virtual currency service providers to accounts held by customers of the banking system. The Banking Supervision Department maintains additional controls that examine refusals or barriers to receiving funds originating from cryptocurrency activity and that do not constitute a refusal of a specific transfer requests.

Virtual currency service providers incorporated in Israel primarily serve individual customers.

FIGURE 1.27 Breakdown of amount of funds received from cryptocurrency activity, by payment service provider and type of customer, All banks | percent



Cumulative data from H2 2023 until H2 2024

.SOURCE: Based on reports to the Banking Supervision Department

Supervisory measures by the Banking Supervision Department

After regulation of payment services incidental to virtual currency activity,⁶ the Banking Supervision Department undertook a series of steps to follow the implementation of these regulatory measures and to identify barriers to the provision of payment services incidental to virtual currency activity. These measures included conducting audits, handling individual public complaints, holding meetings with crypto-sector companies (including both financial service providers and technology firms operating in the field), and collecting the aforementioned data. In addition, the Banking Supervision Department has held several roundtable discussions over the past year between crypto companies and the banking system, with the aim of discussing the barriers encountered by crypto firms and highlighting the difficulties encountered by the banking system in this area. These sessions were intended to identify and then reduce the gaps in knowledge between the parties and to reduce existing obstacles.

⁶ See Section 87a of Proper Conduct of Banking Business Directive 411 – Management of Anti-Money Laundering and Countering Financing of Terrorism Risks: https://www.boi.org.il/en/economic-roles/supervision-and-regulation/proper_conduct/nbt411_en/

The Banking Supervision Department will continue to monitor developments in the field of crypto assets and remains committed to protecting customers' interests while maintaining rigorous risk management. In this context, and upon steps already taken to identify barriers to accessing services incidental to virtual currency activity, the Banking Supervision Department is currently considering revisions to the regulatory framework. These revisions are intended to support the expansion of payment services related to virtual currency activity, including provisions for receiving funds originating from crypto as part of a company's ongoing business activity (e.g., investment, etc.). This is based on a risk-based approach and on the knowledge and experience accumulated during this period by the banking system and the Banking Supervision Department, as well as international regulatory developments.

CHAPTER 2

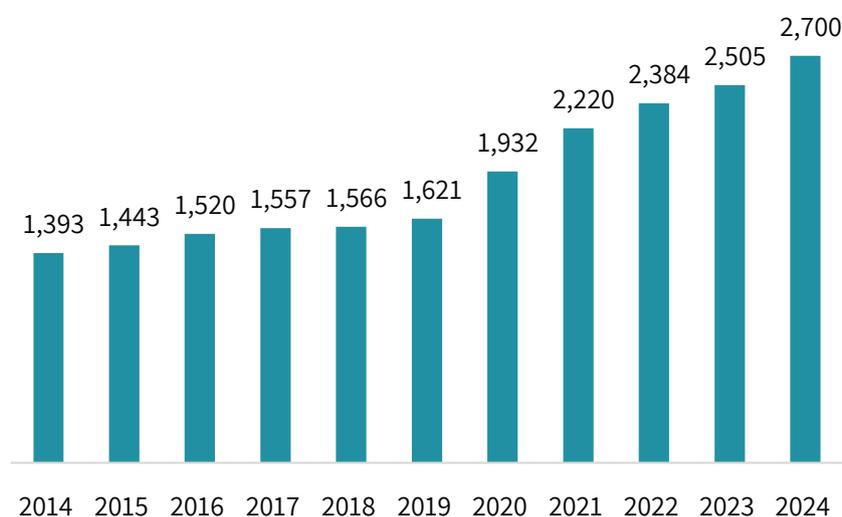
CHAPTER 2 SUMMARY OF THE MAIN DEVELOPMENTS IN BALANCE-SHEET AND OFF-BALANCE-SHEET ACTIVITY

1. INTRODUCTION

In 2024, the upward trend in the total balance sheet of Israel's banking system continued, reaching approximately NIS 2,700 billion, a 7.8 percent increase relative to 2023 (Figure 2.1). This growth rate is high compared to the previous year, which had a 5.1 percent increase, but lower than the five-year average of 10.9 percent (a particularly high growth rate of about 19 percent in 2020 contributed to raising the five-year average).

Continued growth in the banking system's balance sheet.

FIGURE 2.1 Total balance sheet of the banking system, 2014–24 | NIS billions



SOURCE: Published financial statements and processing by the Banking Supervision Department.

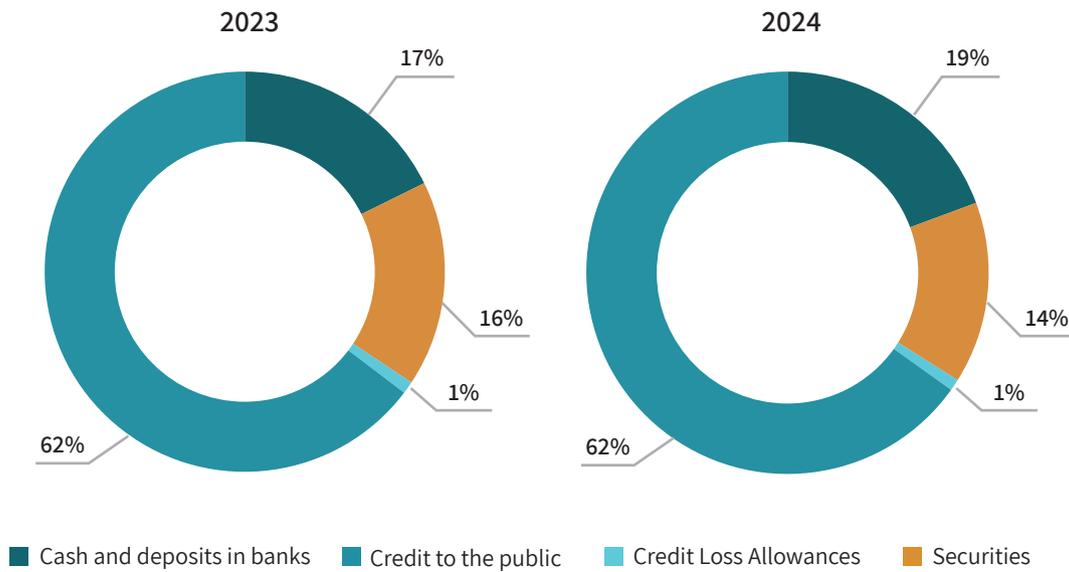
2. MAIN DEVELOPMENTS ON THE ASSETS SIDE OF THE BANKING SYSTEM

In 2024, the upward trend in net credit¹ to the public continued. This is the main component on the asset side of the banks' balance sheets, making up about 62 percent of total assets (Figures 2.2 and 2.3 and Table 3). Net credit to the public amounted to NIS 1,684 billion, which represents an 8.9 percent increase relative to 2023. Most of the growth occurred in the second half of the year, led by the large business sector and housing credit (see Chapter 5.2 in this review for further details). The total provision for credit losses remained high relative to previous years at approximately NIS 24 billion, which was unchanged from the previous year.

¹ Total credit provided to the public less the total provision for credit losses.

The share of cash and deposits increased, while the share of securities decreased

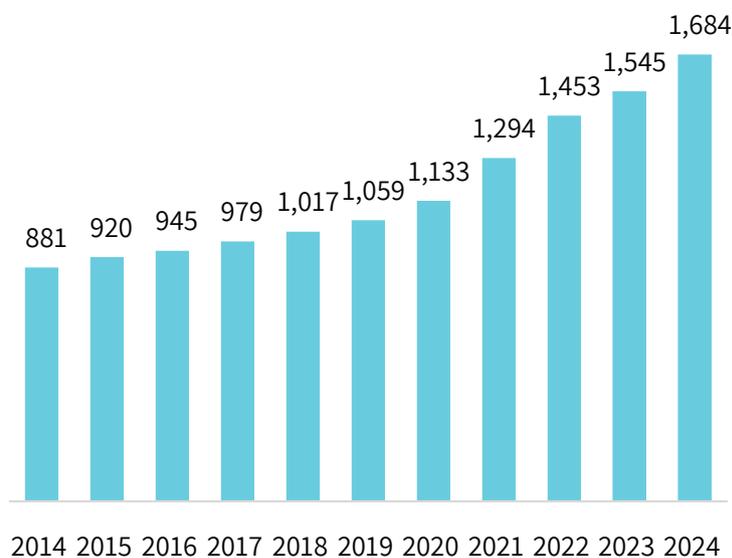
FIGURE 2.2 Distribution of key balance sheet items on the assets side, total banking system, 2024 vs. 2023 | Percent



SOURCE: Based on published financial statements.

Credit to the public continued to grow in view of the macroeconomic conditions.

FIGURE 2.3 Net credit to the public, total banking system, 2014–24 | NIS billion

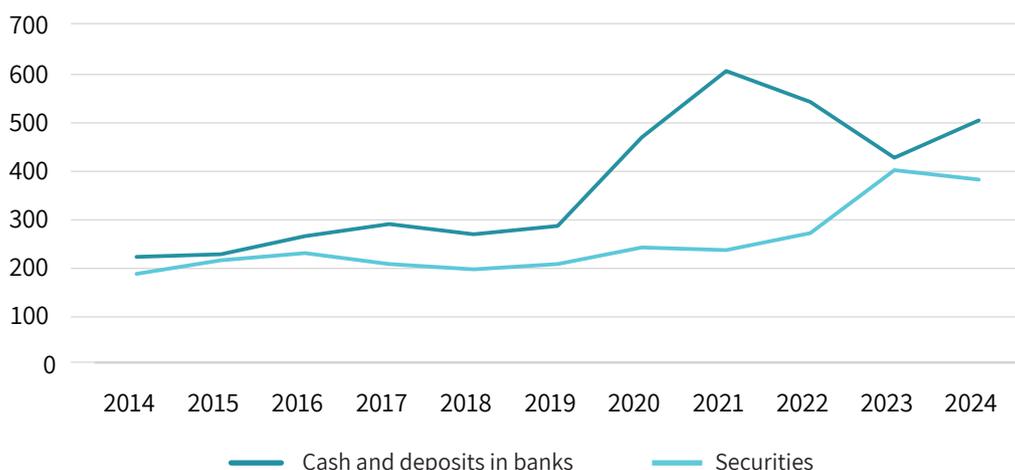


SOURCE: Based on published financial statements.

After two consecutive years of decline in **cash and deposits** with the banks,² this year saw a reversal in the trend, with an increase of approximately 18 percent. By the end of the year, this item totaled about NIS 500 billion. At the same time, there was a shift in the trend of the banks' **securities**, which declined by 5 percent to NIS 377 billion (Figure 2.4; for further details, see Chapter 5.3 in this review).

In 2024, cash and bank deposits increased, while holdings of securities declined.

FIGURE 2.4 Securities and Cash, Total Banking System, 2014–2024 (NIS billion)



SOURCE: Based on published financial statements.

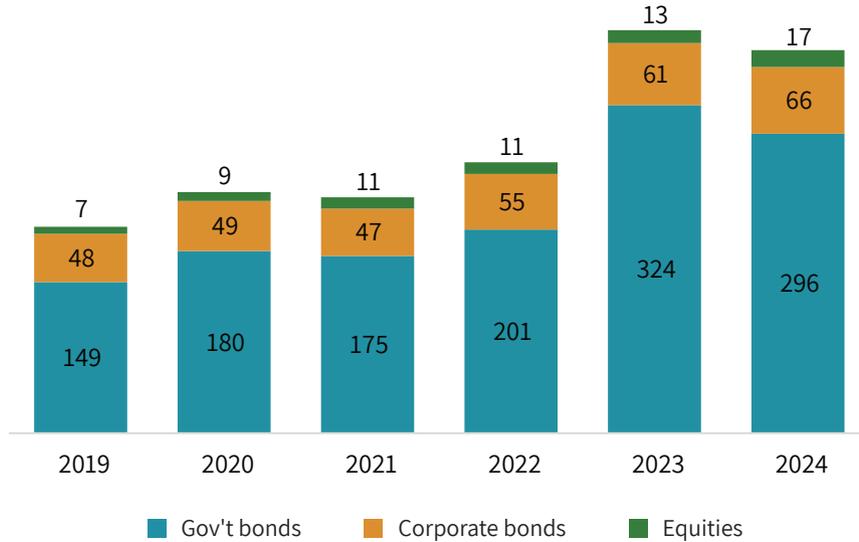
The main part the decline in the banking system's securities portfolio in 2024 occurred in government bonds, which make up the core component of the banks' securities holdings and that account for approximately 78 percent of the total portfolio (Figure 5.5). During the year, holdings of securities declined by NIS 28 billion, a 9 percent decrease relative to the previous year. This decline was mainly due to a reduction in the banks' holdings of *Makam*, as a result of lower issuing by the Bank of Israel during the year. However, this decline was partially offset by an increase in holdings of long-term government bonds.

Simultaneously, there was an increase in nongovernment bond holdings and in equities: nongovernment bond holdings increased by 7 percent, while equity holdings increased by 3 percent (Table 4).

² This item consists primarily of the deposits held by the commercial banks at the central bank.

In 2024, the banks' securities portfolio contracted due to a reduction in holdings of *Makam*.

FIGURE 2.5 Composition of the Securities Portfolio of the Total Banking System, 2019–2024 (NIS billion)



SOURCE: Based on published financial statements.

The securities portfolio is divided into three categories: hold-to-maturity, trading portfolio and available-for-sale. The available-for-sale portfolio, which constitutes the largest portion of the securities portfolio (about 68 percent), decreased by 10 percent to NIS 256 billion by the end of the year. At the same time, the hold-to-maturity portfolio grew by 16 percent to NIS 60 billion. The trading portfolio remained essentially unchanged.

In 2024, the available-for-sale portfolio declined in size, while the hold-to-maturity portfolio grew.

FIGURE 2.6 Composition of the Securities Portfolio of the Total Banking System, 2021–2023 (NIS billion)



SOURCE: Based on published financial statements.

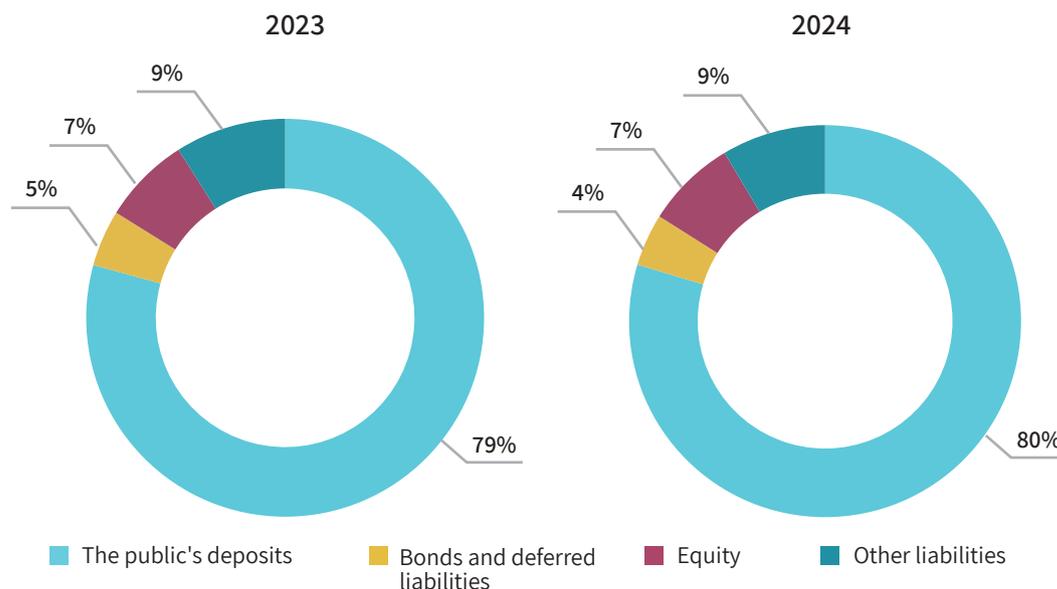
3. MAIN DEVELOPMENTS ON THE LIABILITIES AND EQUITY SIDE OF THE BANKING SYSTEM

On the liabilities side, **deposits of the public**³— the main component of banking system liabilities (approximately 80 percent; Figure 2.7)—increased by about 8 percent during the year, compared to 4 percent in 2023. As of December 2024, deposits totaled NIS 2,151 billion (Figure 2.8). During the course of the year, deposits of the public grew at a similar pace to that of credit, with most of the growth occurring in the second half of 2024. Accordingly, the credit-to-deposit ratio remained nearly unchanged, in contrast to a 2-percent increase in 2023 (Figure 2.9). However, the growth in shekel-denominated deposits was slightly higher, mainly due to government transfers in the first half of 2024.

³ Total deposits by the public including checking accounts, on-demand deposits and fixed-term deposits.

During the year, deposits of the public and shareholders' equity grew, but their relative weight in the balance sheet remained nearly unchanged.

FIGURE 2.7 Distribution of the Main Liability and Equity Items, Total Banking System, 2023-2024 (percent)



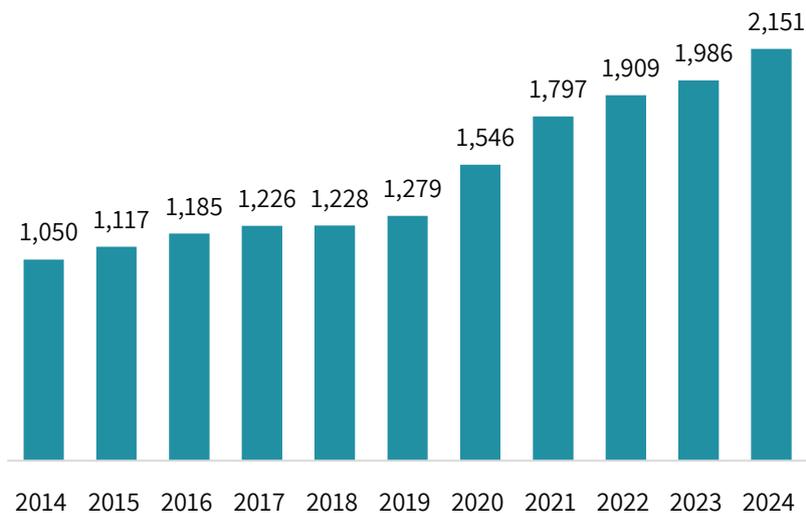
SOURCE: Based on published financial statements.

In 2024, total shareholders' equity in the banking system increased by 12.5 percent, reaching NIS 201 billion at the end of the year. This growth rate resulted from the banking system's high profitability together with moderate profit distribution. (For further details, see Chapter 3.1 and 4 of this review.)

During the year, bonds and deferred promissory notes grew by approximately 1.4 percent to around NIS 116 billion as of December 2024. This increase was primarily due to a number of banks and included the issuance of new bond series, commercial paper, and contingent convertible (CoCo) notes, alongside the redemptions of bonds and early repayment of deferred promissory notes.

Deposits of the public grew rapidly throughout the year.

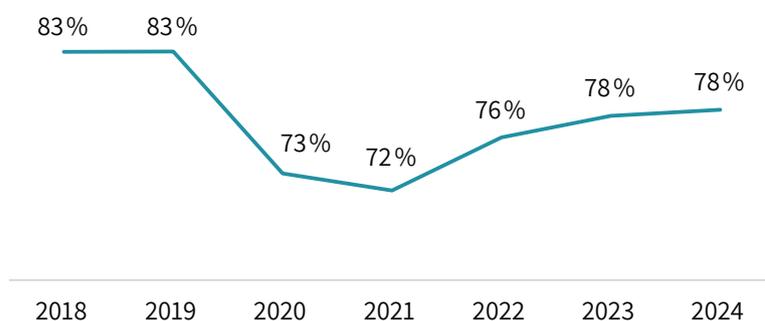
FIGURE 2.8 The public's deposits All banks, 2014–24 | NIS billion



SOURCE: Published financial statements and processing by the Banking Supervision Department.

Deposits of the public increased at a pace similar to that of credit during the course of the year. Accordingly, the credit-to-deposit ratio remained nearly unchanged.

FIGURE 2.9 Ratio of Credit to the Public's Deposits, Total Banking System, 2018–2024 (percent)



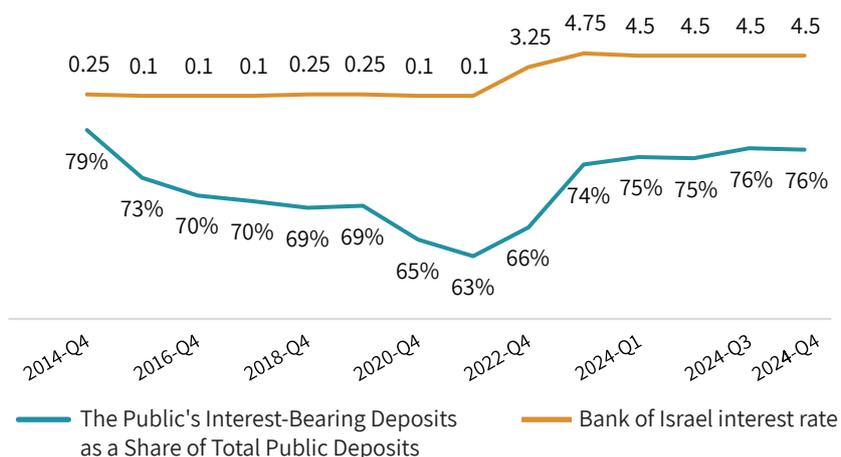
SOURCE: Based on published financial statements.

In 2024, the denominated value of assets and liabilities related to derivative instruments increased by 24 percent. However, their fair value declined by 6.25 percent on the asset side and 9.9 percent on the liability side. Most of the increase in denominated value stemmed from activity in foreign exchange contracts, especially forward and futures contracts. The decrease in liabilities was larger than that in assets, leading to an increase in net on-balance-sheet exposure from derivatives.

Unlike the previous two years, which saw a major shift from checking accounts (non-interest-bearing) to fixed-term interest-earning deposits, in response to rising Bank of Israel interest rates, the trend in 2024 moderated (Figure 2.10). The share of interest-earning deposits within total deposits and checking accounts increased slightly to around 76 percent, while total checking account balances remained stable. Additionally, the growth in the proportion of fixed-term interest-earning deposits slowed to 12.3 percent, reaching NIS 1,185 billion (Figure 2.11). At the same time, the growth rate of interest-earning on-demand deposits accelerated to 5.8 percent, reaching NIS 387 billion. This is a continuation of the trend in 2023, when the final quarter saw a particularly large increase in interest-earning on-demand deposits, indicating a customer preference for liquidity. This was likely due to increased uncertainty stemming from the security situation.

The share of interest-bearing deposits within total deposits of the public rose slightly in 2024.

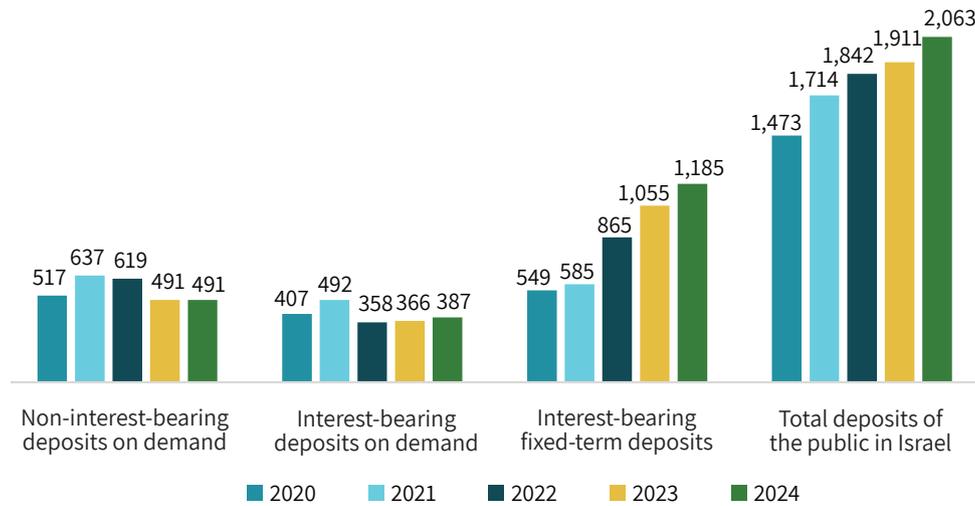
FIGURE 2.10 The Public's Interest-Bearing Deposits as a Share of Total Public Deposits, Bank of Israel interest rate, Total Banking System, 2014–2024 (percent)



SOURCE: Based on published financial statements.

The growth in deposits of the public in 2024 was driven by interest-earning deposits while non-interest-earning on-demand deposits remained unchanged.

Figure 2.11 The public's deposits by type of deposit, All banks, 2020–24 | NIS billion



SOURCE: Published financial statements and processing by the Banking Supervision Department.

BOX 2.1: Trends in current account balances, deposits, and shekel money market funds held by individuals

- In April 2022, the Monetary Committee of the Bank of Israel raised the central bank interest rate following a prolonged period during which it remained at near zero.¹ Following the sharp hike in the interest rate, changes occurred in the volume and mix of funds held by individuals in current accounts, interest-bearing deposits, and other low-risk investments.
- Since the end of 2023, the trend of transferring funds from current accounts with positive balances to deposits has continued to moderate. This is likely due to growing uncertainty surrounding the security situation, which leads customers to prefer greater liquidity.
- In 2024, the holdings of shekel money market funds by individuals continued to grow and at a rate that exceeded the growth in positive current account balances and deposits.
- The average positive current account balance per household at the five largest banks stands at approximately NIS 35,000, while the median balance is between NIS 5,000 and NIS 9,000. This difference is the result of a small number of customers holding very large current account balances. It is worth noting that customers with securities accounts and deposits—who presumably are characterized by a relatively high level financial literacy—tend to have higher average and median current account balances than the general population.

Positive current account balances, deposits, and money market funds held by individuals

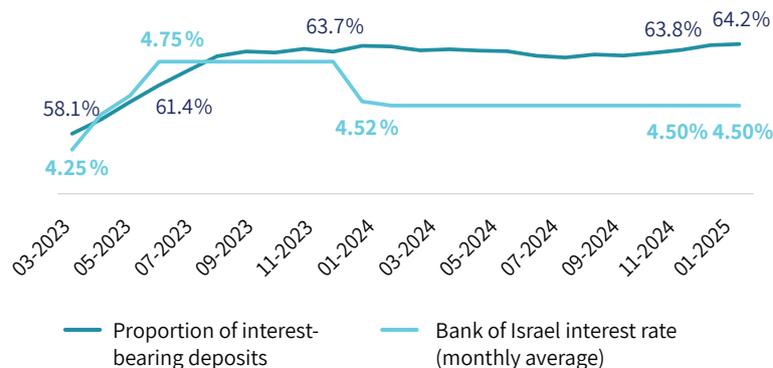
In April 2022, against the background of rising inflation, the Monetary Committee of the Bank of Israel decided to raise the central bank interest rate, following about seven years during which it remained near zero. The sharp rise in the interest rate led to a number of changes in household finances. The share of the public's funds, and of individuals in particular, held in interest-bearing deposits rose, at the expense of the share held in current accounts. At the same time, and against the background of the rise in the Bank of Israel interest rate, individuals increased their investment in shekel-denominated low-risk investments, including money market funds.

¹ In March 2015, the Bank of Israel interest rate was 0.1 percent. In November 2018, the rate increased to 0.25 percent, but in April 2020 it was lowered again to 0.1 percent, where it remained until the beginning of the interest rate hike cycle in April 2022. By mid-2023, the interest rate had reached 4.75 percent, and in January 2024 it was reduced to 4.5 percent, where it has remained since then.

The share of individuals² interest-bearing³ deposits within the total deposits of individuals (both interest-bearing and non-interest-bearing) has risen somewhat - from 63.7 percent at the end of 2023 to 64.2 percent as of February 2025 (Figure 2.12). In early 2025, total interest-bearing deposits remained unchanged, although there was a decrease in current account balances. As of February 2025, the aggregate current account balances of individuals was approximately NIS 227 billion (a decrease of NIS 0.3 billion relative to December 2023) while the balance of interest-bearing deposits stood at approximately NIS 407 billion (an increase of approximately NIS 8 billion relative to December 2023; Table 2.1). Since the end of 2023, the share of interest-bearing deposits has remained relatively stable, reflecting a lack of change in the pace of the shift by individuals from current accounts to interest-bearing deposits. This stability was maintained against the background of two opposing effects—the worsening security situation, which likely increased individuals' preference for holding liquid assets given the level of uncertainty (mainly in the first half of 2024), while in contrast, there was a moderation in expectations of a rate cut during the year.

The share of interest-bearing deposits held by individuals remained stable given the lack of change in interest rates.

FIGURE 2.12 Proportion of interest-bearing deposits of individuals (households and private banking) in local currency and unindexed and the Bank of Israel interest rate March 2023–February 2024 | percent



SOURCE: Based on published financial statements.

² The majority of individuals' deposits are held in the unindexed local currency segment (approximately 80 percent), and the analysis in this box refers exclusively to those deposits. It should be noted that data segmented by type of deposit holder have been available to the Banking Supervision Department only since March 2023, and the analysis below is carried out accordingly. Nonetheless, it is reasonable to assume that the trend identified in the analysis reflects the continuation of a pattern that began around the time of the start of the Bank of Israel's interest rate hike cycle in April 2022.

³ Interest-bearing deposits: term deposits and short-term on-demand deposits.

Table 2.1: Current account and deposit balances of individuals

	December 2023	February 2025
	Average balance (NIS billion)	Average balance (NIS billion)
Current accounts	227.1	226.8
Of which: Interest-bearing current accounts	23.5	17.3
Interest-bearing deposits	398.2	406.6
Of which: Term deposits	259.2	265.6
Of which: Variable-rate term deposits	108.2	111.5
Total deposits and current accounts	625.3	633.4

SOURCE: Based on reporting to the Banking Supervision Department.

In 2024, the upward trend continued in the holdings of money market funds⁴ by individuals. For households, shekel-denominated money market funds serve as a savings alternative to interest-bearing deposits, since they are invested in low-risk assets, offer daily liquidity, and are taxed based on their real (inflation-adjusted) returns. From mid-2023⁵ through the second quarter of 2024, there was an increase in the inflow into shekel money market funds and in total interest-bearing deposits, accompanied by a decline in current account balances. This accumulation in money market funds continued from the second half of 2024 through February 2025. During 2024, the pace of accumulation in shekel money market funds held by individuals⁶ moderated relative to 2023 (rising by approximately NIS 26 billion in 2024 versus around NIS 37 billion in 2023), though it still outpaced the growth in current account balances and interest-bearing deposits. If we consider the weighted average of money

⁴ A money market fund, as defined in the Joint Investment Trust Law 1994, invests in short-term, low-risk instruments. Fund units can be purchased or redeemed on any trading day. The fund's assets are invested in low-risk, short-duration instruments (such as *Makam*, large bank deposits, and high-rated bonds), and its return is not guaranteed. When purchased through a bank, the fund is exempt from purchase/sale commissions and securities management fees (although fund management fees still apply).

⁵ Data segmented by deposit holder type are available only starting from March 2023; however, it is reasonable to assume that the trend reflects a continuation of patterns that began with the start of the Bank of Israel's interest rate hike cycle in early 2022:Q2.

⁶ As of February 2025, the total balance of shekel money market funds stood at approximately NIS 131 billion. Using the data reported to the Bank of Israel, some money market funds cannot be classified by specialization; therefore, it is possible that the actual household holdings of shekel money market funds are slightly higher than the figure presented in this box.

market funds together with current account balances and interest-bearing deposits, then the share of non-interest-bearing liquid balances (i.e., current accounts) held by individuals declined somewhat—from 33 percent at the end of 2023 to 31 percent in February 2025 (Figures 2.13, 2.14).⁷

The share of money market funds within low-risk assets⁸ of individuals has grown, but total money market funds remain significantly smaller than total deposits and current accounts.

Figure 2.13

Balance of funds in current accounts, interest-bearing deposits, and money market funds within total balances of individuals, December 2023–February 2025

| NIS billions

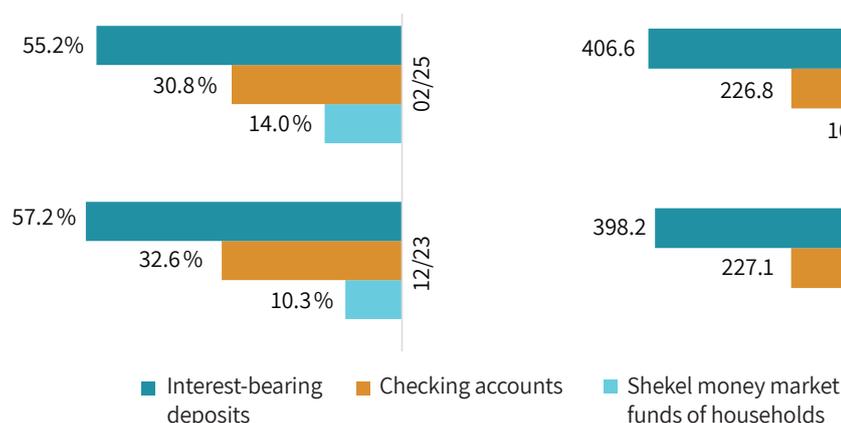
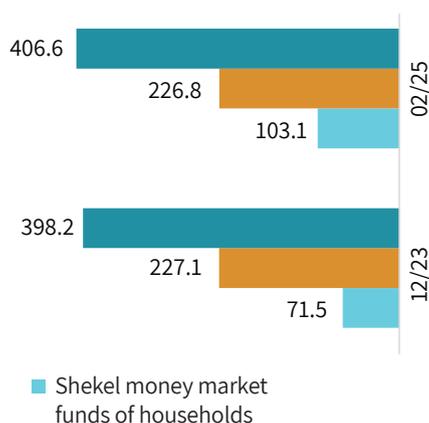


Figure 2.14

Share of total current accounts, interest-bearing deposits, and money market funds within total balances of individuals, December 2023–February 2025

| Percent



* The data on holdings of money market funds within the securities system. This system receives reports from the banks but is not a direct source for the funds' reports. Some of the money market funds cannot be identified in the system (according to specialization) and it may that the holdings of households in money market funds is not complete.

Source: Based on reports to the Banking Supervision Department, Information and Statistics Department of the Bank of Israel

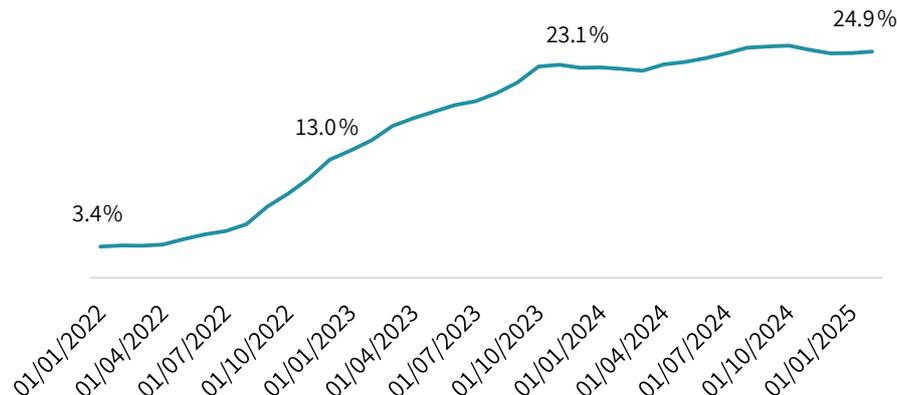
⁷ For further details on the growth of household holdings of money market funds, see Chapter 2 of the 2024 Statistical Bulletin.

⁸ This analysis does not include the holdings of individuals in Makam (short-term bills issued by the Bank of Israel on a monthly basis with a maturity of up to one year; they are issued at a discount, so that at the end of the period the par value of the security is paid out). This is because Makam constitutes a very small portion of household holdings in short-term low-risk assets (1 percent of the total holdings in current account balances, deposits, and money market funds) and there were only minor changes in holding of Makam during the reviewed period.

In addition, the upward trend in the share of shekel money market funds within total mutual fund holdings of individuals continued (albeit at a slower pace), rising from 13 percent at the end of 2022 to 23.1 percent at the end of 2023, and to 24.9 percent in February 2025 (Figure 2.15). The total increase in the mutual fund holdings of individuals (across all asset classes) in 2024 amounted to NIS 87 billion, of which 30.7 percent was the result of growth in money market funds.

The share of money market funds within total holdings of individuals in mutual funds grew during the last three years and remained stable.

FIGURE 2.15 The share of holdings of shekel mutual funds within total holdings of mutual funds by individuals, January 2022–February 2025 | Percent



SOURCE: Information and Statistics Department of the Bank of Israel.

These developments may be attributable to the fact that during the period being surveyed, money market funds offered a more attractive low-risk alternative for households, since their potential yield exceeded that on deposits, while also offering high liquidity.

Note that despite the increase in investment in money market funds, their size and their share within households' low-risk assets remains significantly lower than total private deposits and even current account balances (Table 2.1, Figure 2.2 and 2.3).

In 2024, the Knesset approved an amendment to the Joint Investment Trust Law-1994, and a corresponding amendment to the Investment Advising, Investment Marketing and Portfolio Management Law-1995. These changes facilitated the launch of a new type of money market fund in Israel ("fixed-term money market funds"), which is expected to expand the range of investment vehicles available to the public. (For more details, see Box 6.1 in this review.)

Characteristics of positive current account balances

As of October 2024, households' positive balances in current accounts at the five largest banks totaled NIS 198 billion, distributed across 5.6 million accounts.⁹ An analysis of the data shows that the relatively large proportion of accounts with positive balances of up to NIS 30,000 account for a relatively small proportion of the total positive balances. Conversely, a small number of accounts with very high average balances (over NIS 100,000) account for a substantial share. Thus, about 76 percent of current accounts have a balance of up to NIS 30,000, representing only about 13 percent of the total balances, while around 9 percent of accounts have balances exceeding NIS 100,000 and account for about 63 percent of the total. This pattern becomes even more pronounced when considering balances of over NIS 500,000, which account for only about 45,000 accounts: they represent 0.8 percent of all accounts but account for about 19.3 percent of the total balances (Figure 2.5). The average current account balance is around NIS 35,000, which is significantly higher than the median as the result of a small number of accounts with very large balances. The median current account balance in the five largest banks ranges from NIS 5,000 to NIS 9,000. Among accounts with balances up to NIS 30,000, the average is approximately NIS 7,000, with even lower averages in the lowest category (up to NIS 5,000) (Figure 2.6). In all categories, the median balance is lower than the average. Notably, an almost identical pattern was observed in a similar analysis conducted using April 2023 data.

⁹ In 2024, the Banking Supervision Department received a special report from the five large banks on the characteristics of the positive balances in current accounts. (A similar report was received during 2023.) Accounts included in the report were those that had a positive balance at least one day per month, and on a monthly average maintained a positive balance in the current account, while on average these accounts went almost an entire month with a positive balance. The current account balance of private customers of the five large banks make up approximately 84 percent of the current account balances of private customers in the banking system.

The data were catalogued by account balance size and various tiers, and segmented by various characteristics of the deposit holders. The balances were divided into tiers ranging from any positive balance to those exceeding NIS 500,000. Account-holder characteristics were classified based on holdings of assets exceeding NIS 50,000 (customers holding a securities account managed by the bank and/or deposits totaling more than NIS 50,000, net of current balances).

In addition, characteristics were examined by age group, advisory status (whether or not the customer receives financial advice), and income level.

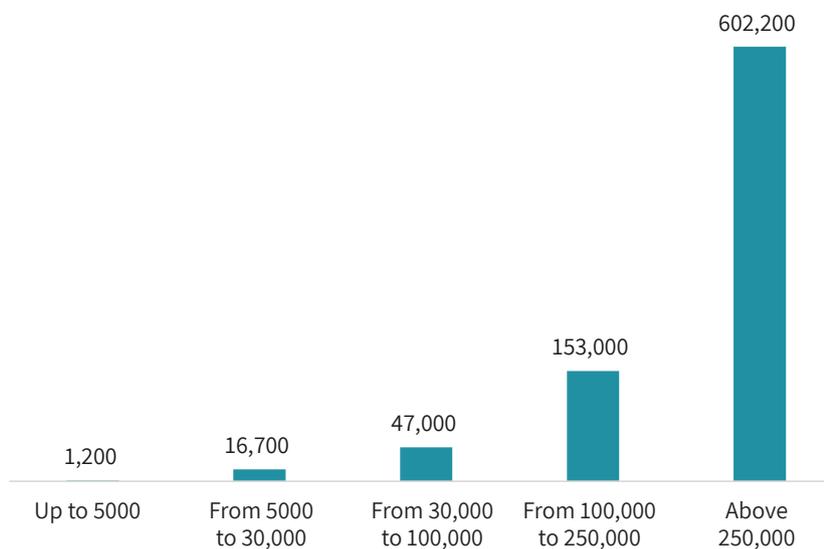
The report included data from the months of April 2023, September 2024, and October 2024. The report we used in this analysis was the latest report, for October 2024. While the total balance volumes varied slightly between the reporting periods, the distribution of balances remained virtually unchanged. Therefore, the data for October 2024 are a good representation of the various segmented characteristics of the current account balances of private customers.

Most accounts hold only a small proportion of total balances. At all levels, average balances are significantly higher than median balances.

FIGURE 2.16 Distribution of current accounts and balances by account balance size; positive balances, households, October 2024 | Percentages



FIGURE 2.17 Average checking account balance by size of account balance, positive balance, households, October 2024 | NIS



מקור: דיווחים לפיקוח על הבנקים ועיבודי הפיקוח על הבנקים.

Accounts belonging to customers that are holding assets exceeding NIS 50,000¹⁰ may constitute an indicator of accounts held by customers with a relatively high level of financial literacy and a relatively high level of activity, given that they are already investing through some channel. They account for approximately 21.5 percent of total balances, and they own a higher proportion of total current account balances, i.e., 32.1 percent. That is, about one-third of current account balances belong to customers who already have investments in securities through the bank or own a deposit. The average positive balance in the current accounts of these customers ranges from NIS 50,000—NIS 60,000, while the median ranges from NIS 15,000 to NIS 22,000. It is possible that these customers hold relatively large current balances compared to the rest of the population out of necessity and as part of a conscious financial management strategy.

Note that most of the funds held in current account balances do not earn interest or they earn a very low rate of interest. In March 2025, the Bank of Israel announced the creation and launch of a relief plan for bank customers. Part of the relief is aimed at households with credit balances in their current accounts.¹¹ The Bank of Israel recommends that bank customers who maintain high credit balances in their current accounts over time consider various savings options. It is recommended that they compare the terms offered by the banks and consider using various low-risk savings channels, with the goal of attaining the highest possible return on the funds held in current accounts according to the customer's needs.

¹⁰ In this analysis, customer's holdings includes assets that the customer maintains in the same bank (deposits, securities portfolio, etc.), excluding positive current account balances.

¹¹ Press release: <https://www.boi.org.il/en/communication-and-publications/press-releases/the-bank-of-israel-announces-the-formulation-and-implementation-of-a-nis-3-billion-financial-relief-plan-for-customers-of-the-banking-system/>

CHAPTER 3

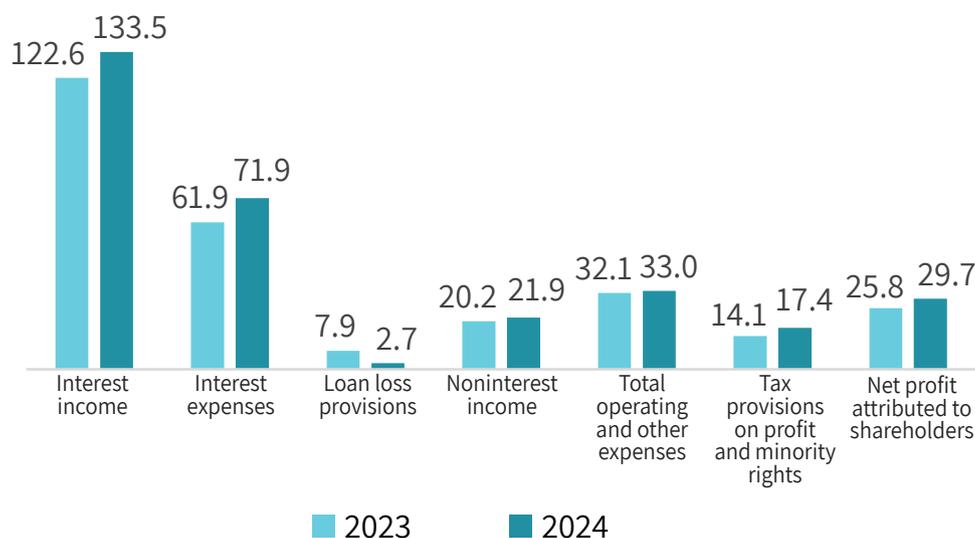
CHAPTER 3 THE BANKING SYSTEM'S BUSINESS RESULTS

1. THE PROFITABILITY OF THE BANKING SYSTEM

The net profit of the banking system in 2024 was approximately NIS 29.7 billion, representing a growth rate of approximately 15.1 percent compared to 2023 (Figure 3.1). The increase in net profit is explained by growth in interest income, due to, among other things, the high interest rate environment and the marked increase in credit to the public provided by the banks during 2024 (an increase of about 8.9 percent; for further details see Chapters 2 and 5.2 of this survey); an increase in noninterest income; and a decrease in loan loss provisions against the background of improved macroeconomic forecasts relative to the previous year (a decrease of about NIS 5 billion). The increase in net profit was offset by operating and other expenses (an increase of about 3 percentage points) and interest expenses, which was due to an increase in interest-bearing deposits and a rise in the interest rates paid on them by the banks (for further details, see Chapters 2 and 5.3 of this survey). During 2024, and despite a mixed trend at the individual bank level, there was no change in the banking system's efficiency indices, due to a similar growth rate in operating and other expenses, net interest income, and in total assets during the year.

The high level of profitability is explained by the increase in interest income, against the background of the high interest rate environment and the marked increase in credit provided to the public by the banks, a slight increase in noninterest income, and a decrease in loan loss provisions due to improved macroeconomic forecasts.

Figure 3.1 Profit and Loss Statement Components, Total Banking System, 2023 and 2024 (NIS billion)



SOURCE: Based on published financial statements.

The return on equity (ROE) remained historically high, due to among other things the high interest rate environment and inflation rate during the year, and was 15.9 percent (Figure 3.2). Excluding the effect of inflation, the return on equity for 2024 is lower by approximately 1.4 percentage points, reaching 14.5 percent.

During 2024, there was a slight increase in the return on equity.

Figure 3.2 Return on Equity (ROE) After Tax, Total Banking System, 2011–2024 (percent)



SOURCE: Based on published financial statements.

At the beginning of April 2025, the Bank of Israel announced a financial relief plan under which the banking system will allocate a cumulative amount of NIS 3 billion to its customers over two years, starting from the second quarter of 2025. As part of this voluntary plan, the various commercial banks¹ will provide a range of financial relief components and direct refunds to millions of retail banking customers.²

To assist banking system customers in coping with the effects of the Swords of Iron War, the Bank of Israel announced the formulation of a comprehensive relief plan for easing credit and fee burdens about a week after the outbreak of the war. It was adopted by all the banks and credit card companies.³ During 2024, the plan was extended and expanded due to the continuation of the war and its spread to additional fronts. At the end of 2024, the Banking Supervision Department announced a further extension of the plan until March 2025. In this plan, benefits worth approximately NIS 1.5 billion were provided to customers of the banking system, about NIS 850 million of which was provided during 2024.

During the year, there was an increase of approximately 23.7 percent in the provision for income taxes, primarily due to the rise in profitability and the enactment of The Special Payment for

¹ Bank Leumi, Bank Hapoalim, Mizrahi-Tefahot, Discount, First International Bank of Israel, Mercantile, Yahav and Massad.

² See the press release: <https://www.boi.org.il/en/communication-and-publications/press-releases/the-bank-of-israel-announces-the-formulation-and-implementation-of-a-nis-3-billion-financial-relief-plan-for-customers-of-the-banking-system/>

³ For further details, see Chapter 6.

Attaining Budgetary Objectives Bill (Temporary Provision—Swords of Iron)). In addition to existing taxes, this law imposes a special tax on the banks' profits in an amount equal to 6 percent of the profit generated from their activity in Israel (applied during part of 2024, resulting in a tax payment of 4.5 percent).⁴ The law stipulates payments during the years 2024–25, with an annual payment cap at the system-wide level of NIS 1.2 billion for 2024 and NIS 1.3 billion for 2025. In addition, and starting on January 1, 2025, the VAT rate will be increased to 18 percent, such that the payroll tax and profit tax rates on banks are expected to rise in the next two years.⁵

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

Net interest income increased in 2024 by a moderate rate of approximately 1.4 percent relative to 2023, amounting to NIS 61.6 billion (Table 6). Interest income rose by 8.9 percent and totaled NIS 133.5 billion, an increase explained by, among other things, continued growth in credit to the public. Interest expenses increased in 2024 by approximately 16.3 percent, to NIS 72 billion. The large increase in interest expenses stems from continued growth in total interest-bearing deposits and a slight increase in the rate of interest expenses on deposits, against the backdrop of a slight improvement in the rate of transmission of the Bank of Israel interest rate to the deposit rate, as well as longer-term lock-in of deposits (for more details, see Chapter 5.3 of this survey).

The decline in the inflation rate, along with continued benefits and relief in financing terms extended to customers in response to the Swords of Iron War, led to a further decrease in the interest rate spread⁶ during 2024, from 2.4 percent to 2.27 percent. Accordingly, the interest rate spread that also includes non-interest-bearing balances in current accounts also declined—from 3.46 percent to 3.29 percent (Figure 3.3). This decrease in the interest rate spread is explained by, among other things, the increase in interest-bearing deposits, a slight improvement in the transmission rate of the Bank of Israel interest rate to the deposits rate, and longer lock-in of deposits. It may also indicate a certain intensification in the competitive environment (see Chapters 2 and 5.3 in this survey; Figure 3.4).

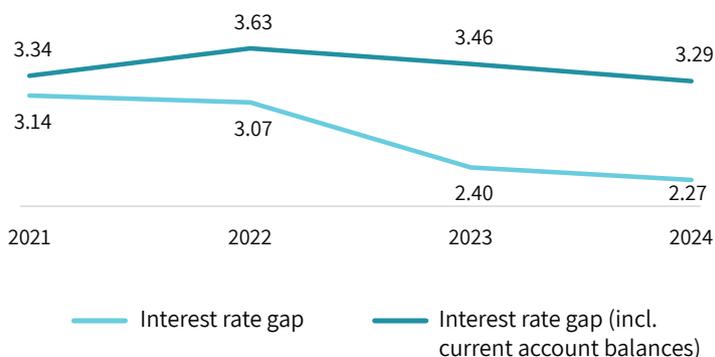
⁴ The taxes on the profits of banking corporations include corporate tax (23 percent) imposed under the Income Tax Ordinance (18 percent as of 2024) and the profit tax imposed under the Value Added Tax Law on financial institutions, as well as the payroll tax.

⁵ On April 14, 2024, an amendment to the Value Added Tax (Tax Rate on Nonprofit Organizations and Financial Institutions) Order, 5784-2024, was published. It specified that the payroll tax and profit tax rates payable on activity in Israel by a financial institution will be increased to 18 percent. This amendment will apply to a paying bank starting from 2026.

⁶ According to the spread between the average interest rate on the credit balance and the average interest rate on the deposit balance.

During 2024, there was a further decrease in the interest rate spread.

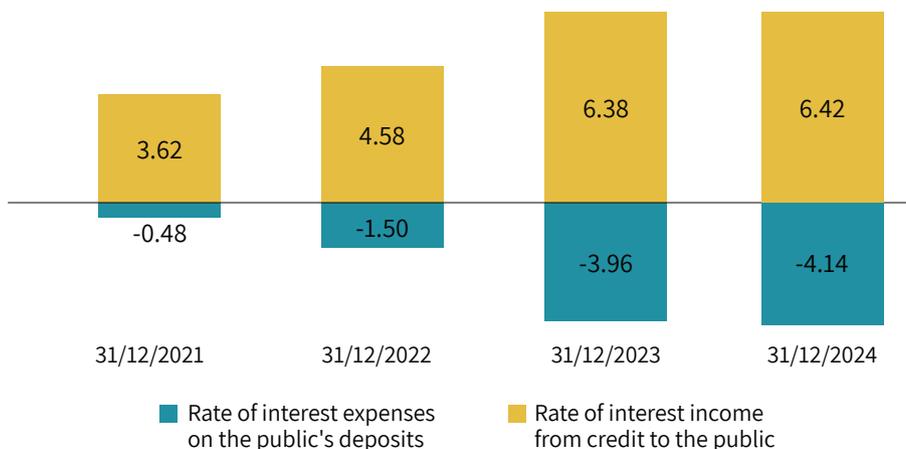
Figure 3.3 Interest Rate Gap (Credit to the Public and the Public's Deposits), Total Banking System, 2021–2024 (percent)



SOURCE: Based on published financial statements.

In 2024, there was a slight increase in the rate of interest income from credit to the public alongside a higher increase in the rate of interest expense on deposits.

Figure 3.4 Rate of Interest Income from Credit to the Public, and Rate of Interest Expenses on Deposits, Total Banking System, 2021–2024 (percent)



SOURCE: Based on published financial statements.

There is an excess of interest-earning assets over interest-bearing liabilities in the banking system's balance sheet. This spread is mainly due to the volume of credit balances in current accounts, which amount to approximately NIS 450 billion⁷ and constitute a significant share of total deposits (about 24 percent). This year, against the backdrop of continued growth in interest-earning

⁷ Of which about NIS 231 billion belong to individuals, as of December 2024.

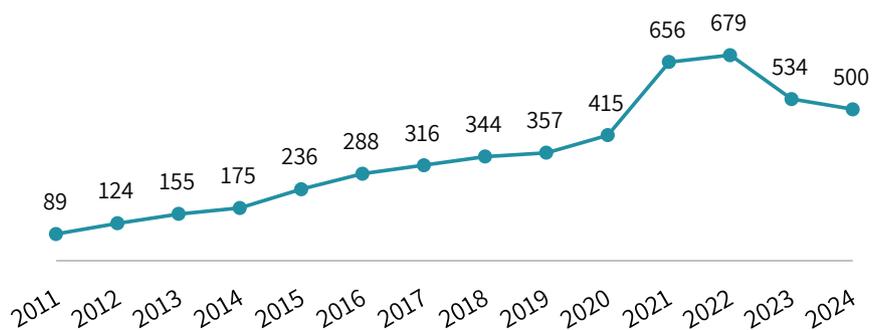
deposits compared to relative stability in current accounts' balances, there was a further decline in the excess of interest-earning assets over interest-bearing liabilities (for further details, see Chapter 2 of this survey; Figure 3.5).

With the rise in the Bank of Israel interest rate starting in April 2022, there was a significant increase in the rate of interest income on credit to the public and the rate of interest expense on deposits. While in 2022 the increase in income and expense rates was similar, in 2023, the interest expense rate on deposits increased more than the rise in interest income from credit to the public, and during 2024 the interest expense rate on deposits continued to increase even as the Bank of Israel interest rate declined (Figure 3.6). Nevertheless, and despite the higher rise in the interest expense rate on deposits, the excess of interest-earning assets over interest-bearing liabilities led to a larger increase in interest income than in interest expenses, resulting in an overall increase in net interest income.

In addition, the banking system is characterized by an excess of CPI-indexed assets over CPI-indexed liabilities. Accordingly, an increase in inflation significantly benefits the banks' interest income, since the rise in interest income from CPI-indexed assets is substantially larger than the rise in interest expenses on CPI-indexed liabilities.

In 2024, the interest rate spread between interest-earning assets and interest-bearing liabilities narrowed.

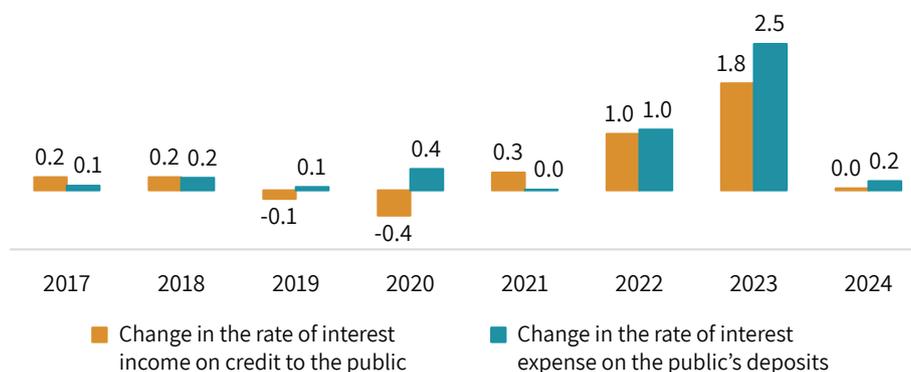
Figure 3.5 Difference between Interest-Bearing Assets and Interest-Bearing Liabilities, Total Banking System, 2011–2024 (NIS billion)



SOURCE: Based on published financial statements.

During 2022 and 2023, there was a significant increase in the rate of interest expense on deposits in view of improved transmission of the Bank of Israel interest rate to deposit interest rates and continued shift of funds from non-interest-earning current accounts to interest-bearing deposits.

Figure 3.6 Change in the rate of interest income on credit to the public, rate of interest expense on the public's deposits, All banks, 2016–2024 | percentage points



SOURCE: Based on reports to the Banking Supervision Department.

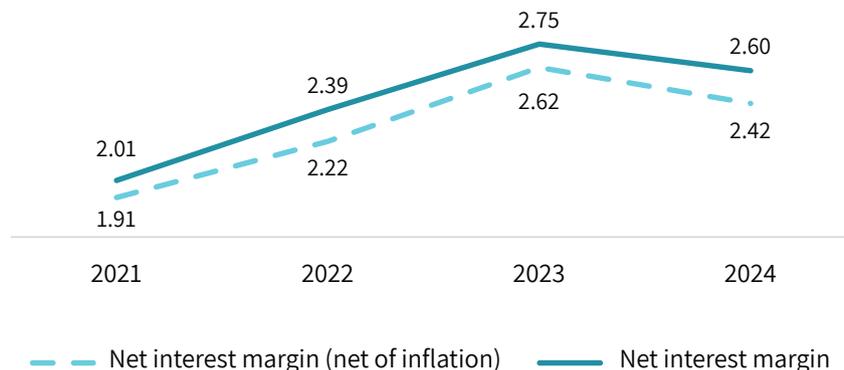
During 2024, the increase in credit to the public and in deposits enhanced the positive quantity effect on net interest income relative to the previous year, while the price effect on net interest income was negative (Table 7). Moreover, both the price and quantity effects had a negative impact on the net interest income derived from credit to the public and deposits (with price having a stronger impact). Meanwhile, the price and quantity effects were positive for net interest income derived from other interest-bearing assets and other interest-bearing liabilities.

As in the case of the interest rate spread, during 2024 the financial spread⁸ declined to 2.6 percent, as a result of the relative stagnation in net financing income alongside an increase in the volume of interest-bearing assets (an increase of 5.5 percent; Figure 3.7). The decline in the financial spread originated from other bank activities unrelated to lending and deposits of the public (e.g., the securities portfolio). The main decrease in the financial spread occurred in the first half of the year and was slightly offset in the second half by a slight increase in financing income.

⁸ An index that reflects the banking system's ability to generate profits from assets that yield financing income. It is calculated by dividing total net financing income (both interest and non-interest) by total interest-bearing assets.

During 2024, there was a decline in the financial spread, , due to relative stagnation in net financing income alongside an increase in the volume of interest-earning financial assets.

Figure 3.7 Net Interest Margin, Total Banking System, December 2021–December 2024 (percent)



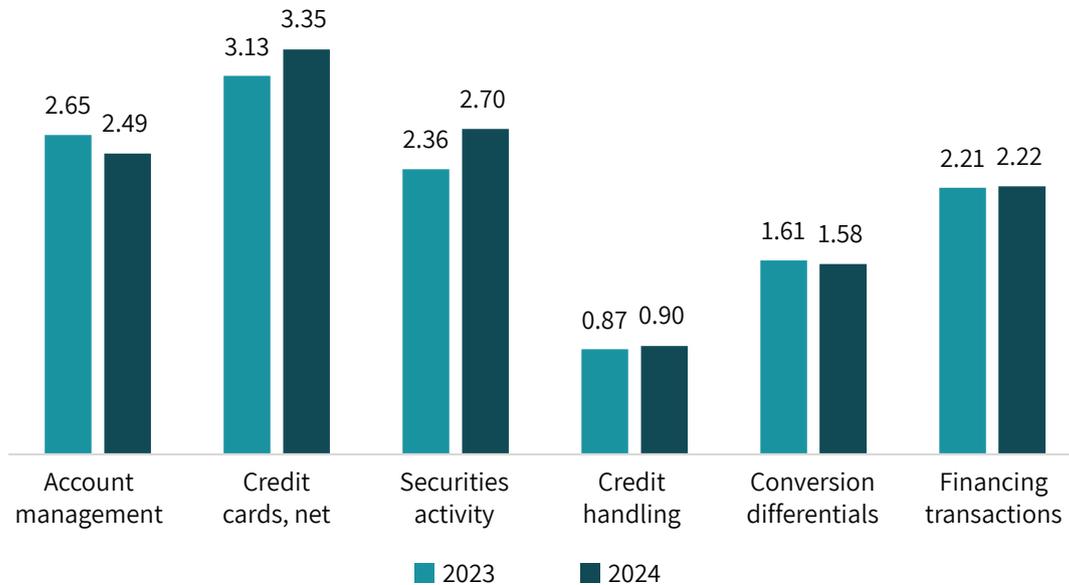
SOURCE: Based on published financial statements.

Loan loss provisions totaled NIS 2.7 billion in 2024, compared to approximately NIS 7.9 billion in 2023 (Figure 3.1). In 2023, the banking system significantly increased its collective allowance for credit losses due to macroeconomic forecasts with increased economic uncertainty, including the impact of the Swords of Iron War. In 2024, the banking system continued to increase its credit loss allowances, but at a more moderate pace, in line with improved macroeconomic forecasts relative to the same period in the previous year (see Chapter 5.2 for details).

Noninterest income was NIS 21.9 billion in 2024, an increase of 8.1 percent relative to 2023. This growth was primarily driven by higher non-interest income from financial activities, stemming from profits on equity investments and trading activities, along with a slight increase in fee income (as detailed below). **Fee income** was NIS 15.3 billion in 2024, an increase of approximately 3.3 percent relative to 2023. The main driver of this increase was higher income from credit card fees and fees for securities activity, reflecting increased financial activity by customers. Additionally, there was a decline in account management fees due to relief plans and benefits provided to customers in response to the Swords of Iron War (Figure 3.8).

The main increase in fee income in 2024 reflects growth in customers' financial activity.

Figure 3.8 Breakdown of Main Fee Income Items, Total Banking System, 2023 and 2024 (NIS billion)

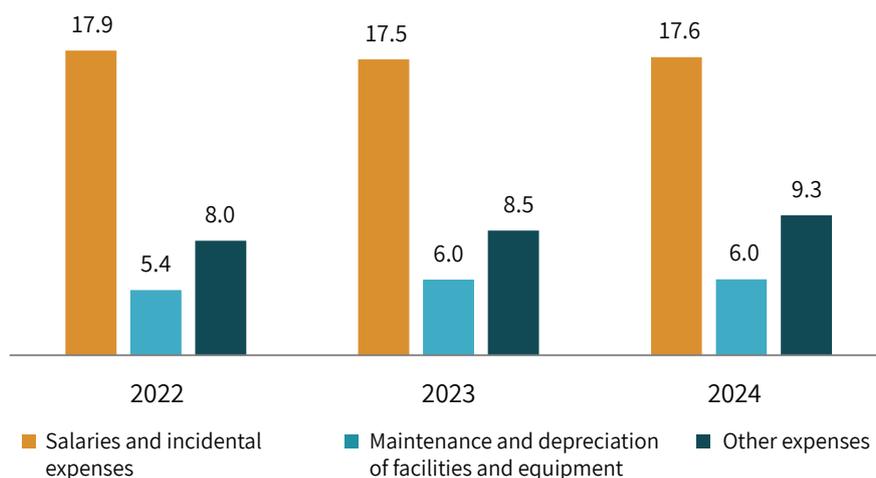


SOURCE: Based on published financial statements.

Operating and other expenses increased by approximately 3 percent during 2024 relative to the same period last year, amounting to approximately NIS 33 billion. That growth rate is similar to previous years. The main contribution to this increase is the "other expenses" category (an increase of about NIS 800 million), most of which was the result of recording an expense of about NIS 600 million for Bank Hapoalim's efficiency program (Figure 3.9).

The increase in operating and other expenses compared to the same period last year occurred against the backdrop of Bank Hapoalim's efficiency plan.

Figure 3.9 Breakdown of Main Operating and Other Expense Items^a, Total Banking System, 2022–2024 (NIS billion)



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

SOURCE: Based on published financial statements.

Salary and related expenses increased slightly in 2024, rising by approximately 0.7 percent compared to the previous year, totaling around NIS 17.6 billion as of December 2024 (Figure 3.8). Among the banks, this category showed mixed trends, mainly due to performance-based bonuses and adjustments stemming from wage agreements. In 2024, there was an increase of approximately 240 positions in lower salary brackets (up to NIS 120,000), alongside a decrease of about 487 positions in mid-to-high salary ranges (between NIS 120,000 and NIS 1 million). In the highest salary bracket (above NIS 1 million), the number of positions rose by approximately 38, accompanied by an increase of about NIS 90,000 in the average salary at that level. Overall, the banking system saw a slight decline of approximately 0.6 percent in total positions (around 209 positions). Additionally, the number of outsourced employee positions dropped by about 18 percent, and related expenses decreased by approximately 12 percent (Table 11). There was a 0.3 percent increase in **other expenses and in maintenance and depreciation expenses for buildings and equipment** in 2024 relative to the previous year.

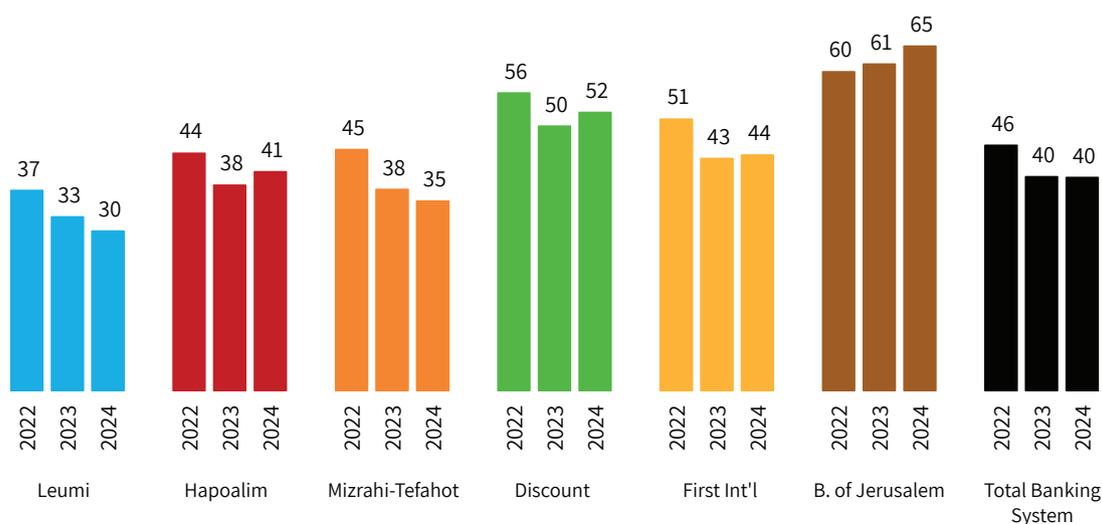
In particular, **other expenses rose by approximately 9.4 percent** mainly due to the Bank Hapoalim's efficiency plan and charitable contributions.

During 2024, there was no change in efficiency ratios, following the significant improvement in recent years as a result of the increase in net interest income and efficiency measures

implemented by the banks.⁹ This year, there were similar growth rates in operating and other expenses, net interest income, and total banking system assets. However, at the individual bank level, trends varied. The cost-to-income ratio¹⁰ remained unchanged from 2023 and stood at approximately 40 percent as of December 2024 (Figure 3.10), with the growth rate of net interest and noninterest income being similar to that of operating and other expenses (Figure 3.11). Likewise, the average cost ratio¹¹ remained unchanged from the previous year and stood at approximately 1.3 percent as of December 2024 (Figure 3.12), reflecting a similar growth rate in both total banking system assets and operating and other expenses.

The cost-to-income ratio remained unchanged compared to 2023, following several years of significant improvement driven by growth in net interest income and efficiency measures implemented by the banks.

Figure 3.10 Operational Efficiency Ratio^a, Total Banking System, 2022–2024 (percent)



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

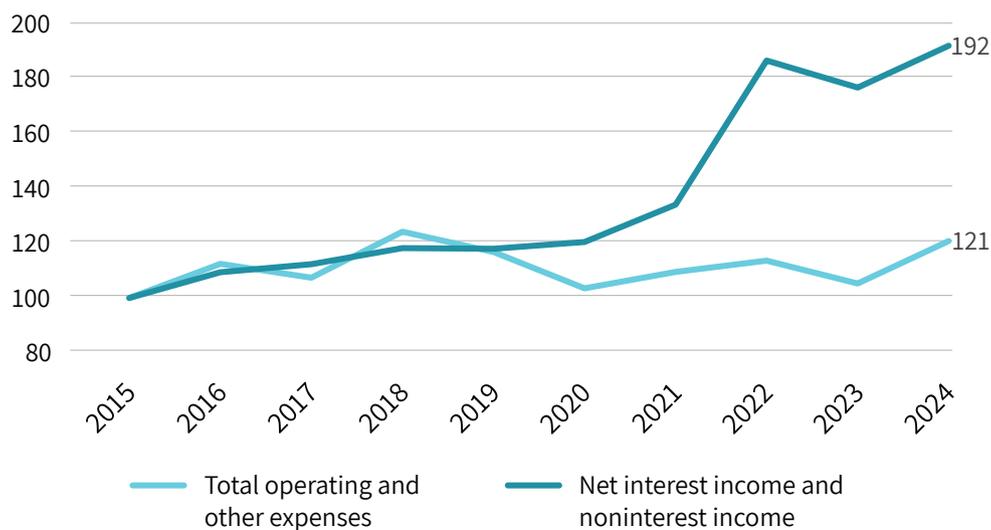
⁹ In recent years, the Israeli banking system has undergone processes to increase efficiency, reflected in, among other things, improved efficiency ratios, which were supported by Banking Supervision Department actions. In 2015, the Banking Supervision Department instructed banking corporations to submit multiyear operational efficiency plans. To support the system's efficiency efforts, the Supervisor of Banks later issued an accounting exemption that allowed the banks to spread the costs of the efficiency plans they had formulated when calculating capital adequacy and leverage ratios.

¹⁰ The ratio of total operating and other expenses to total net interest and noninterest income (cost-to-income ratio).

¹¹ The ratio of total operating and other expenses to the average balance of assets (average cost).

The rate of growth in net interest income and noninterest income was similar to that in operational and other expenses.

Figure 3.11 Development of The Efficiency Ratioa Components, Total Banking System, 2015–2024 (index: 2015=100)

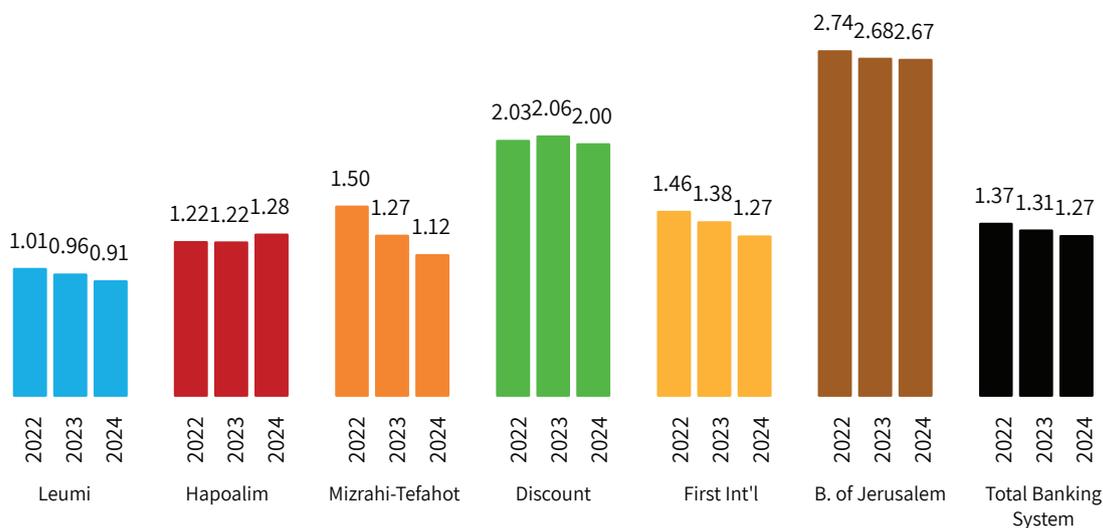


a The ratio between total operating and other expenses and the average balance of assets (average cost).

SOURCE: Based on published financial statements.

The average cost ratio remained similar to the previous year given the similar rate of increase in both the banking system's total assets and total expenses.

Figure 3.12 Cost per Output Units, Total Banking System, 2022-2024



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

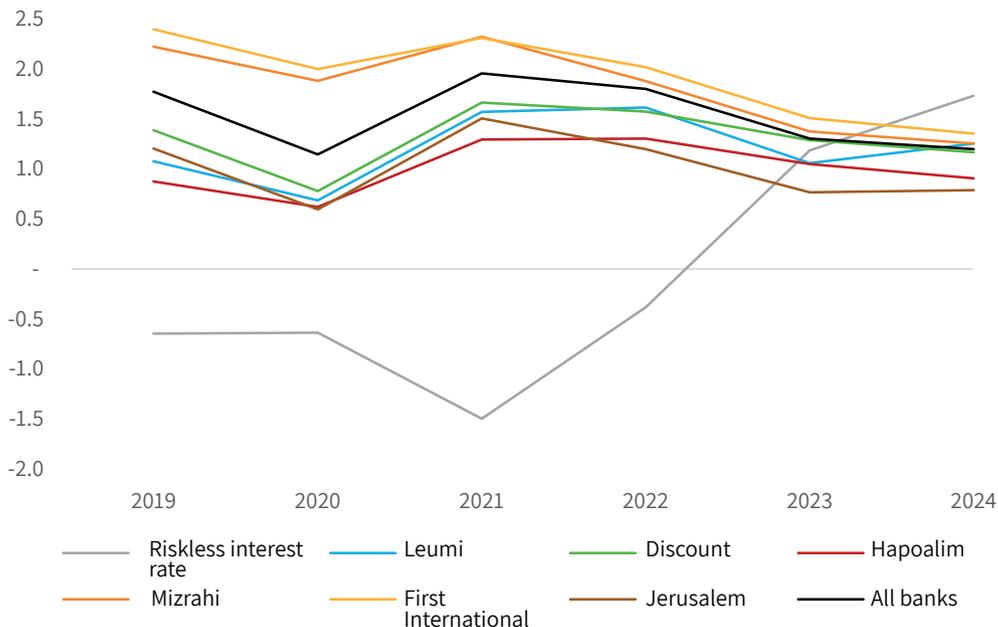
SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

3. RISK-ADJUSTED RETURN

The risk-adjusted return on capital (RAROC) is calculated as the ratio of the excess return on capital (above the risk-free rate of return) to the standard deviation of the return on equity during the same period (representing the banks' Value at Risk, i.e., the unit of risk).¹² This metric is based on the "Value at Risk" (VaR) approach, which defines the maximum expected loss from the bank's operations over a certain period and at a specified confidence level.¹³ Generally, the higher the RAROC value, the greater the excess return achieved by the bank relative to its risk level. An analysis of the Israeli banking system indicates a slight further decline in RAROC compared to the previous year (1.2 versus 1.3 in 2023; Figure 3.13), driven by an increase in the risk-free interest rate and a rise in the denominator—i.e., the level of risk. A six-year analysis of individual banks reveals notable differences in risk-adjusted performance across institutions (Figure 3.14). Each bank's RAROC is represented by the slope of a line segment starting from the risk-free return (denoted RF, averaging -0.04 percent over the past five years) and ending at a point on the coordinate system that reflects the bank's achieved return and risk. The steeper the slope, the higher the return per unit of risk—indicating stronger performance—and vice versa.

Differences in risk-adjusted return among banks have gradually diminished over time.

Figure 3.13 Risk-adjusted return (RAROC) according to the variance approach – joint variance All banks, 2019–24



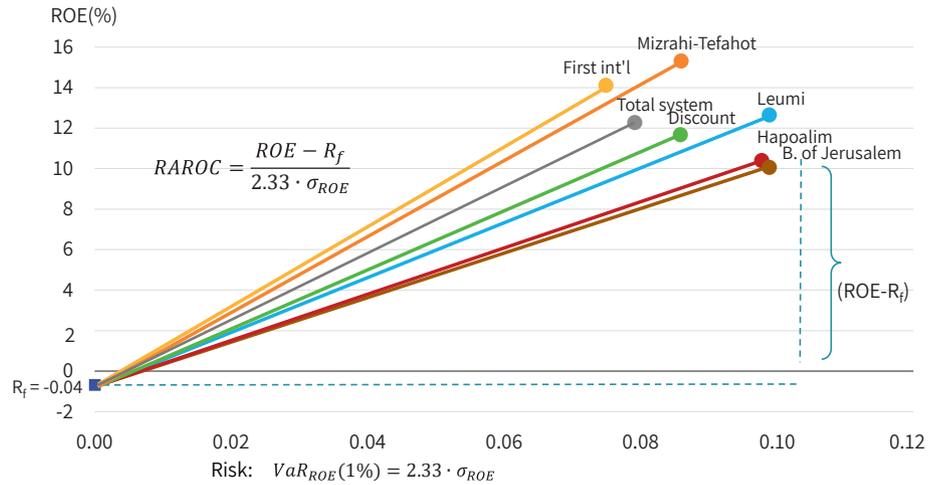
SOURCE: Published financial statements and processing by the Banking Supervision Department.

¹² The development of RAROC (Risk Adjusted Return on Capital) metrics began in the late 1970s at Bankers Trust and has since become a widely accepted measure for evaluating risk-adjusted performance in banking systems.

¹³ The assumption underlying this calculation is that all banking risks are reflected in the return on equity, which is normally distributed over the relevant period. The standard deviation of the annual return on equity (average return on equity of the previous four quarters) is calculated each quarter over a seven-year period, i.e., 28 observations.

There is variation in risk-adjusted returns across banks.

Figure 3.14 Risk-adjusted return on capital – comparison between banking groups and the system average, average 2019 to 2024



R_f Average annual risk-free interest rate, 2018–2023, based on return to maturity of 5-year CPI-indexed bond (“Galil”),
 ROE Average annual return on equity, 2018–2023.
 σ_{ROE} Standard deviation based on ROE of each quarter in a seven-year period (28 observations).
 SOURCE: Based on published financial statements.

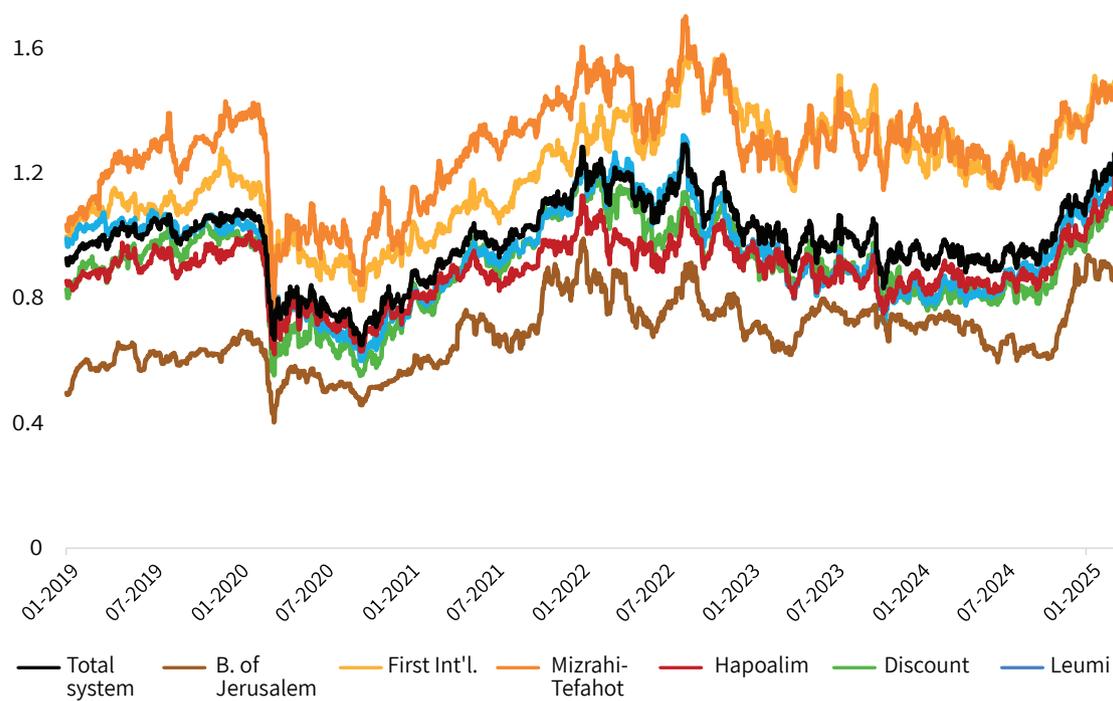
4. ANALYSIS OF THE BANKS' PERFORMANCE ACCORDING TO THE MARKET-TO-BOOK RATIO

The ratio of market value of equity to its book value (MV/BV) reflects the gap between how investors assess a company's value and the book value of its equity. When this ratio is greater than 1, it indicates that investors believe in the company's future growth potential and therefore assign it a higher value than what is recorded in the books. Conversely, a ratio below 1 may suggest that the market expects the company's activity or profitability to decline, implying that its book value exceeds its actual economic value. Thus, the MV/BV ratio serves as an important tool for understanding market expectations regarding the banks' profitability, as well as a proxy for their future ability to raise capital.

Throughout 2024, the MV/BV ratio of the total banking system remained below 1, with a moderate downward trend. Beginning in September, the ratio started to rise, and exceeded 1 in the fourth quarter of the year (Figure 3.15). The year ended with an MV/BV ratio of 1.11, and the upward trend continued into the first months of 2025, reaching 1.25 in March. The MV/BV ratio was relatively stable during the year, particularly compared to the higher volatility observed in the previous two years. The increase in the ratio was driven by a significant rise in the banks' market value (MV), which outpaced the growth in book value (BV).

Starting from 2024:Q4, there was a sharp rise in the MV/BV ratio, driven by an increase in the banks' market value.

Figure 3.15 Market Value to Book Value Ratio (MV/BV), Five Banking groups, 2019 – March 2025 (percent)



SOURCE: Based on Tel Aviv Stock Exchange .

Mizrahi-Tefahot and First International Bank of Israel maintained their position as the banks with the highest MV/BV ratios (Figure 3.15). A key reason for this is their high profitability, reflected in return on equity (ROE) rates that are among the highest in the banking system: 18.5 percent for Mizrahi-Tefahot and 19 percent for the First International Bank of Israel, compared to a system-wide average of approximately 15.9 percent (see Chapter 3.1 for more details).

In line with the above, this year saw a moderate upward trend in the TA-Banks Index, which intensified from September onward. By year end, the index reached a multiyear high (Figure 3.16). Over the course of the year, the index rose by approximately 38 percent—a significant increase relative to the previous two years (10 percent in 2023 and a 4 percent decrease in 2022). However, this increase is still less than the 68 percent jump in 2021. The upward trend in the TA-Banks Index reflects a broader rise across market sectors, including the TA-125 Index, although the Banks Index responded more quickly and with greater intensity. This may be due to investors' perception that banks are more sensitive to macroeconomic trends than the rest of the economy.

The general rise in the TA-Banks Index is likely due to investors' attention to bank profitability and their expectations of its continuation and intensification. The profitability of the banks is due to improvements in efficiency and reflects the high returns on equity that are supported by the prevailing interest rate and inflation environment, which remained elevated throughout 2024. The intensification of the upward trend in the TA-Banks Index starting in September may also be due to a decline in Israel's risk premium, which spiked with the outbreak of the war and later subsided as hostilities eased.

The Banks Index rose in parallel to the broader TA-125 index.

Figure 3.16 TA-Banks Index and TA-125 Index, 2024 to March 2025 | January 2024 = 100

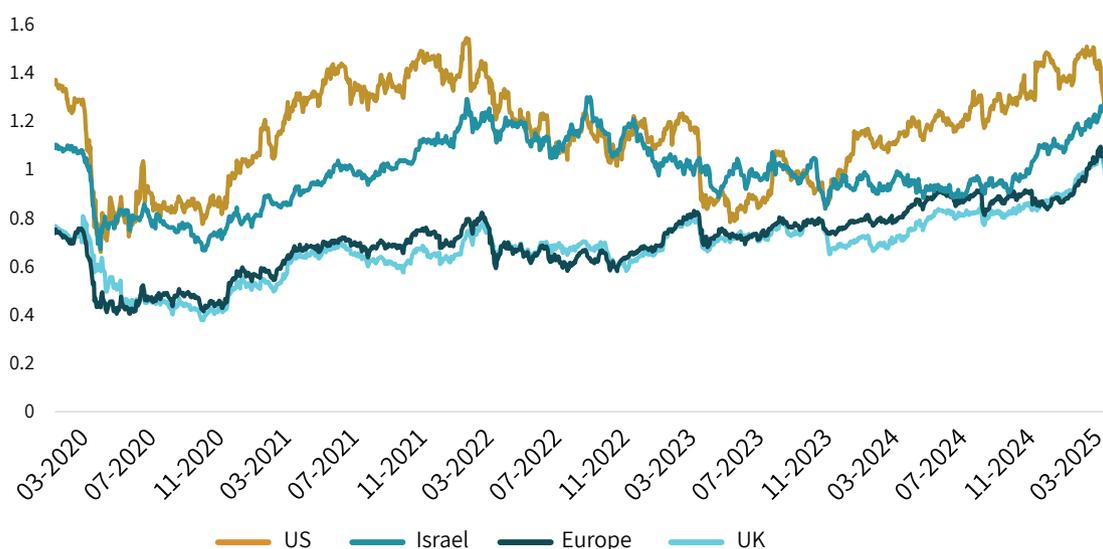


SOURCE: Tel Aviv Stock Exchange data.

In 2024, the MV/BV ratios of the banking sectors in Europe and the UK also continued on a moderate upward trend, as in the case of Israel. Toward the end of the year, this trend became slightly steeper (Figure 3.17). Contributing factors include interest rate cuts by central banks, which signaled a shift to a more accommodative monetary policy. While such a policy may reduce bank profitability somewhat, it also supports credit growth, rising share prices, and increased economic activity. The US banking index also showed an upward trend, though also greater volatility, as in previous years. From 2024:Q4 through April 2025, this volatility intensified, driven in part by rising inflation, the presidential election, and changes in trade policy, all of which increased uncertainty in financial markets.

Movements in the MV/BV ratio of Israeli banks resembled those in Europe and the UK, while in the US volatility was higher.

Figure 3.17 MV/BV Ratio in the Banking Industry, Israel and Selected Countries^a, 2020–March 2025 (percent)



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

SOURCE: Based on Bloomberg and Tel Aviv Stock Exchange.

Box 3.1

Transmission¹ of the Bank of Israel interest rate to interest rates on household deposits in 2024

- In 2024, there was a slight decline in the total volume of activity in household deposits, though it remained close to its 2023 level.
- The transmission of the Bank of Israel interest rate to interest rates on household deposits is high, relative to other countries, but it is still low relative to deposits in other segments;
- The transmission of the Bank of Israel interest rate to variable-rate deposits declined during 2024, mainly due to the high proportion of daily deposits. These deposits are generally priced at a low interest rate, in line with the liquidity provided to the customer. This reflects the bank's limited ability to rely on these funds as a stable source for extension of credit.
- There are significant differences between the transmission to the median rate and the transmission to the average rate in the case of variable-rate deposits, indicating large gaps between the interest rates offered to customers.

Volume of household deposit activity

The deposits of private customers, amounting to NIS 788 billion, make up roughly 40 percent of deposits in the banking system.² Of this total, around 80 percent are in unindexed local currency deposits. Of those, about two-thirds are held in interest-bearing deposits.

In 2024, there was a slight decline in deposit activity compared to 2023, though it still remained higher than in 2022, the year in which the Bank of Israel began raising interest rates (a monthly average of NIS 43 billion in 2024, as compared to NIS 45 billion in 2023 and NIS 38 billion in 2022). The unindexed local currency deposits are differentiated by interest rate mechanism between fixed-rate and variable-rate deposits, with slightly more than half of the monthly activity taking place in the former type (Figure 3.18).³

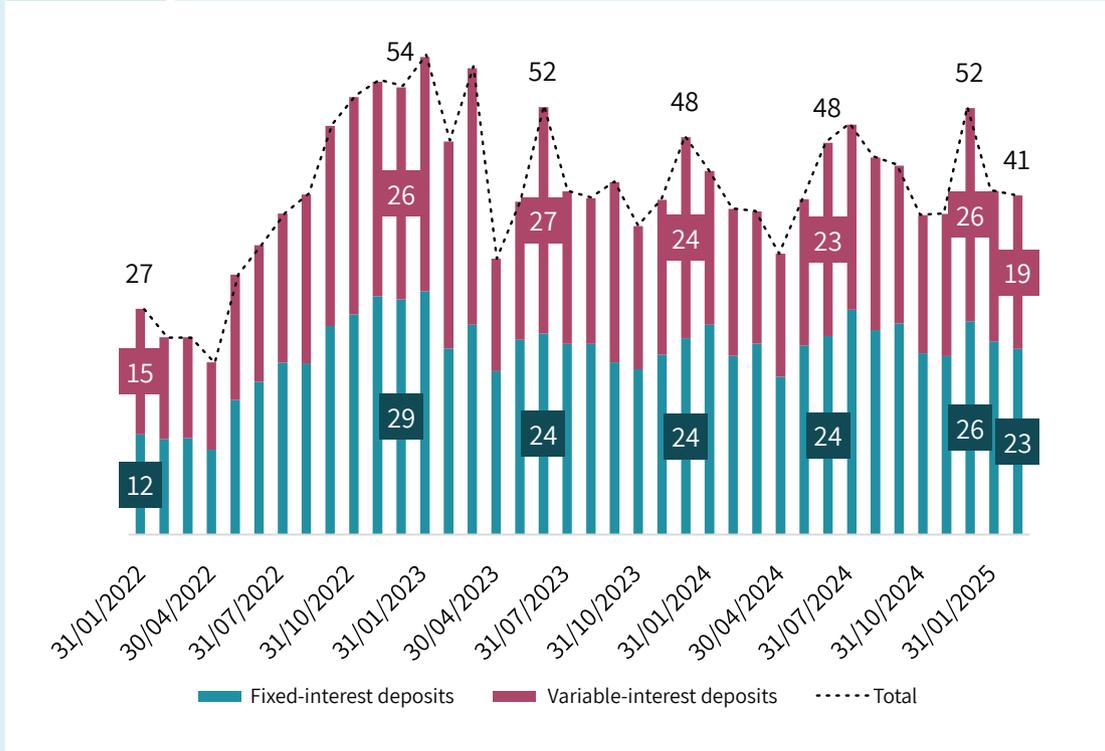
¹ The transmission rate is essentially the rate at which banks pass on the change in the Bank of Israel interest rate to the interest rates on deposits. The transmission rate reflects the elasticity of the interest rate on deposits in the various segments with respect to the Bank of Israel policy rate. It is found by calculating the cumulative change in deposit interest rates in a given month relative to the deposit interest rates in March 2022 (the month preceding the Bank of Israel's rate hike cycle) divided by the cumulative change in the Bank of Israel interest rate over the same period. It should be noted that in January 2024 the Bank of Israel reduced the interest rate, and since then it has remained at 4.5 percent. Since the rate has stayed at this level, the calculation presented in this box incorporates the rate cut into the cumulative calculation for convenience and simplicity. Without the rate cut, the transmission rate for the January 2024 data would have been lower by 3 to 4 percentage points.

² As of February 2025. Deposits of individual customers (including current account balances), both Israeli residents and nonresidents, in all indexation segments.

³ Fixed-rate deposits are those in which the interest paid to the customer is predetermined and fixed for the entire deposit period. Variable-rate deposits are those in which the interest can change during the deposit period. The interest rate on these deposits is composed of a benchmark rate (usually the prime rate) and a spread (a discount from the base rate). The spread remains fixed throughout the deposit period, while the base rate (which is external and objective from the bank's perspective) changes according to the deposit's adjustment mechanism.

Text

Figure 3.18 Total transactions by households in shekel unindexed deposits by type of interest rate, January 2022–February 2025 | NIS billion



Source: Based on reports to the Banking Supervision Department.

Transmission to deposit interest rates

The transmission from the Bank of Israel interest rate to household deposit rates is consistently lower than in other segments of the economy (for further details, see Box 3.1 in Israel’s Banking System for 2023). The transmission increased slightly relative to the end of 2023 (65 percent) and as of February 2025 was 67 percent. This is compared to an average rate of about 89 percent in the case of business sector deposits.⁴

⁴ Weighted average of the business sector segments, according to volume of activity.

Relative to other countries⁵, the transmission from the central bank interest rate to household fixed-rate deposits remains high. In 2024, the transmission rate in Israel also increased relative to some of the reference countries. It should be noted that in those countries, central banks began cutting the interest rate.⁶ In Europe and the US, household deposit rates declined, but by a much lower rate than the reduction of the central bank interest rate (Figure 3.19).

Text

Figure 3.19

Comparisons of the central bank interest rate to the interest rate on household deposits (fixed-interest), February 2025 | percent



Source:

Israel – Based on reports to the Banking Supervision Department.

US – Federal Reserve Economic Data, Interest on Reserve Balances (IORB).

ECB – Statistical Data Warehouse, ECB – European Central Bank, deposit facility rate.

UK – BOE base rate.

Australia – RBA official cash rate.

Deposit funds serve as a primary source used by banks to provide loans. The longer the deposit term, the greater the bank's ability to rely on these funds for lending purposes. Accordingly, interest rates on long-term deposits tend to be higher than those offered on short-term deposits.

⁵ The data for the comparison are for January 2025. The transmission was calculated in the same manner as for Israel for the sake of simplicity, despite the fact that central bank interest rates in those countries are on a downward trajectory. The characteristics of household deposits may differ across the various countries. For the purpose of the comparison presented here, we refer to deposits with the following characteristics: (1) Israel – average interest rate on household deposit at a fixed, unindexed rate; (2) US – average interest rate on the public's deposit activity for a fixed interest rate and a 12-month term; (3) EU – average interest rate on household deposit activity; (4) UK – average interest rate on household deposit activity, without the option of early withdrawal, including mortgage-lending financial institutions that do not rely on current account products; (5) Australia – retail time deposits up to 10,000 dollars in the five largest banks in Australia.

⁶ The comparison relates to the period up to February 2025, given the availability of data on interest rates on household deposits, and does not include the interest rate reductions carried out subsequently by the ECB and the BOE.

The pricing of deposits across different interest rate structures is influenced by expectations regarding the future path of interest rates. In fixed-rate deposits, banks are exposed to interest rate risk, which may affect the degree of transmission from the Bank of Israel's policy rate to deposit rates, even in the absence of a change in the policy rate itself. In contrast, variable-rate deposits—typically linked to the prime rate—do not expose banks to interest rate risk.

In addition to interest rate expectations, deposit pricing is also affected by each bank's business model, liquidity requirements, and asset-liability management strategy.

The overall transmission rate on total deposits is affected by the distribution of deposit activity by deposit maturity and interest rate mechanism. First, we will examine the distribution of deposit activity by fixed-rate and variable-rate deposit maturities, and then the impact of deposit activity on the overall transmission rate.

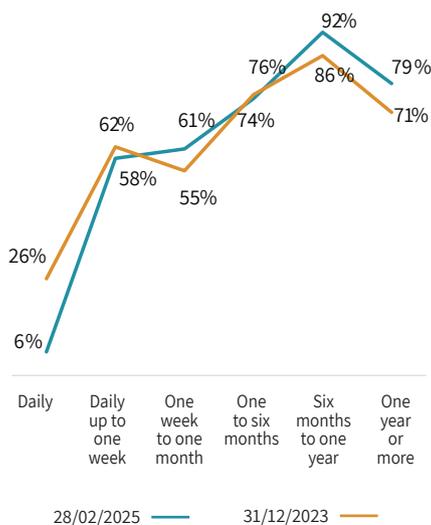
Following the outbreak of the war, from the end of 2023 until the second half of 2024, household customers closed fixed-rate deposits with shorter maturities. During this period, there was an increase in the share of fixed-rate deposit activity with maturities of six months to one year, at the expense of activity in deposits with maturities of more than one year. Starting in mid-2024, apparently against the backdrop of moderating expectations of interest rate cuts⁷ (that is, an expectation of a higher interest rate environment), the transmission rate for fixed-rate deposits rose, particularly in the case of terms longer than six months. Consistent with this increase, the proportion of activity in these maturities also rose (to about two-thirds of activity as of February 2025). For very short-term deposits (up to one week), the transmission rate declined, and in parallel their proportion of activity also fell, from 16 percent at the end of 2023 to about 11 percent in February 2025 (Figure 3.20, which presents the transmission for different deposit maturities as of February 2025 compared to the end of 2023; and Figure 3.21, which presents the distribution of deposit activity by maturity during the surveyed period).

⁷ According to the expectations derived from the Makam and Telbor curves.

Text

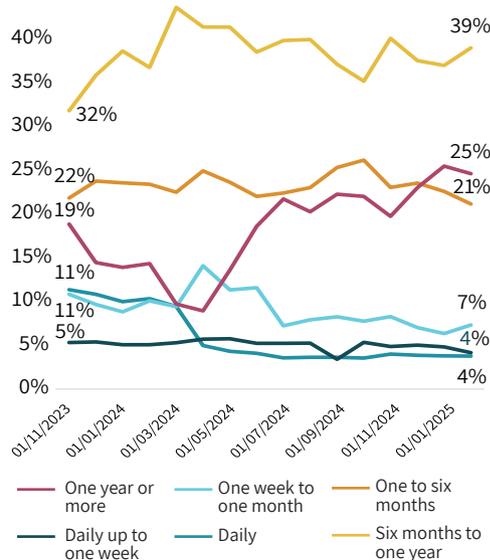
Figures 3.20

Cumulative transmission of the Bank of Israel interest rate to the interest rate on shekel unindexed fixed-term deposits of households, by term of the deposit, December 2023–February 2025 | percent



Figures 3.21

Breakdown of transactions, interest rate on shekel unindexed household fixed-interest deposits, by term of the deposit, December 2023–February 2025 | percent



Source: Based on reports to the Banking Supervision Department.

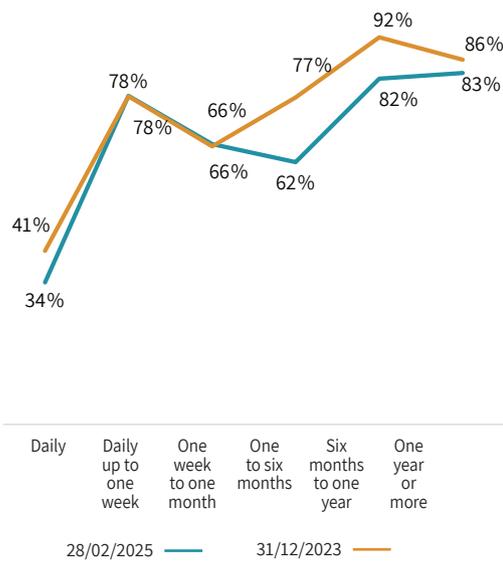
Since the beginning of 2024, there has been a downward trend in transmission for variable-rate deposits across all maturities, particularly in the case of daily deposits. Daily deposits are generally priced at a low interest rate because customers can withdraw their funds at any time. Due to the high liquidity of such deposits, banks have limited ability to rely on these funds as a stable source for their uses, particularly for providing credit. In 2024, the interest rate on variable-rate daily deposits continued to decline, yet their share of total activity increased (as did the share of deposits with maturities of up to one month). Of the total activity in variable-rate deposits, about 80 percent have maturities of up to one month, and nearly 40 percent are daily deposits, for which the transmission rate is particularly low (6 percent as of February 2025; Figures 3.5, 3.6). This trend may reflect the increase in households' uncertainty regarding the security situation, since these types of deposits allow households to hold funds that can be withdrawn at any time, while still receiving some interest on them.

It should be noted that households have alternatives to deposits in terms of liquidity level, risk, and potential return. The Bank of Israel has issued a new Proper Conduct of Banking Business Directive intended to encourage competition in the banking system in the area of deposits and to increase transparency. The directive establishes uniform rules and structure for presenting information on deposits to the public. In addition, Proper Conduct of Banking Business Directive No. 447A was expanded, in cooperation with the Israel Securities Authority, with the goal of increasing household exposure to existing and new money market funds and to Makam (for further details see Chapter 6 and Box 6.1 in this review).

Text

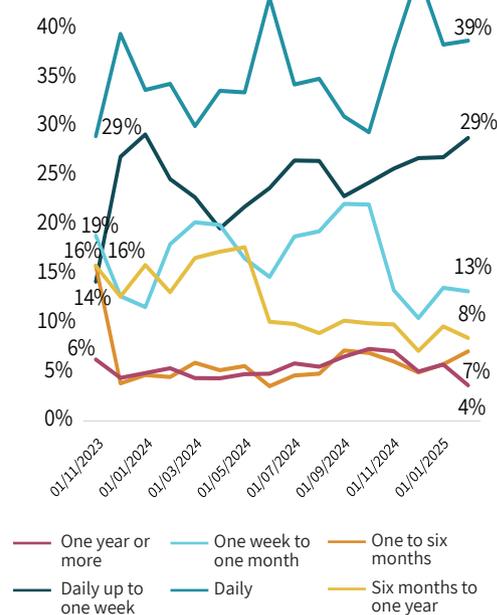
Figures 3.22

Cumulative transmission of the Bank of Israel interest rate to the interest rate on shekel unindexed variable-interest deposits of households, by term of the deposit, December 2023–February 2025 | percent



Figures 3.23

Breakdown of transactions, interest rate on shekel unindexed variable-interest deposits of households, by term of the deposit, December 2023–February 2025 | percent

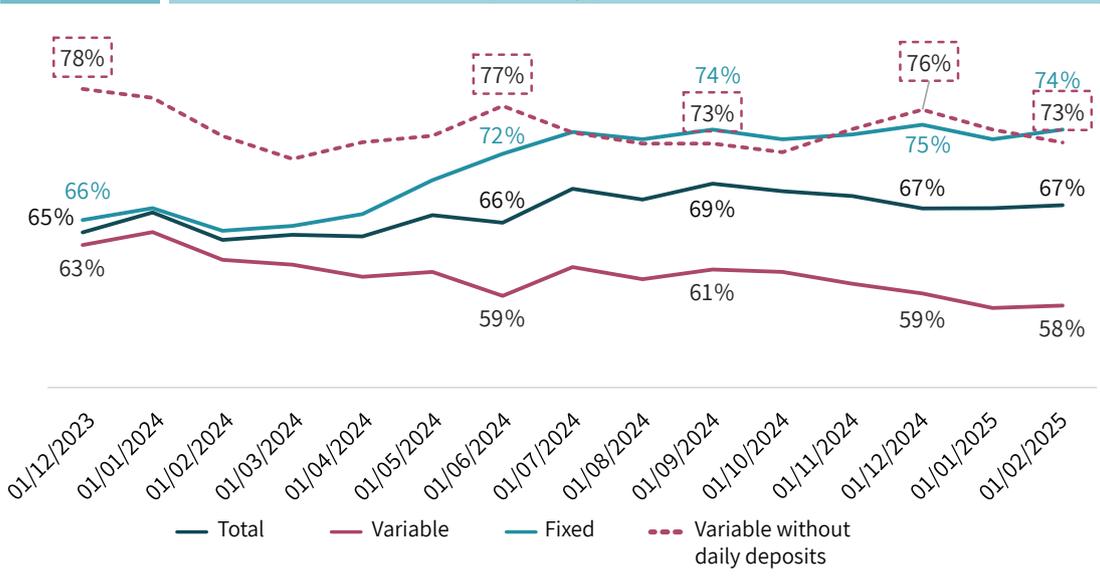


Source: Based on reports to the Banking Supervision Department.

As noted above, there was a slight increase in the overall transmission rate—from 65 percent at the end of 2023 to 67 percent in February 2025. At the end of 2023, the transmission rate for both fixed-rate and variable-rate deposits (average across all maturities) was relatively similar, reflecting the uncertainty regarding the trajectory of the Bank of Israel interest rate. It can be seen that the main factor contributing to the slight increase in the overall transmission rate is the cumulative increase in transmission to fixed-rate deposits during 2024, due to both a slight increase in transmission for longer maturities and higher activity volumes in those maturities. This increase was offset by a decline in cumulative transmission to variable-rate deposits, mainly due to the decrease in transmission to daily deposit rates, which constitute a significant share of both variable-rate deposit activity and total deposit activity. Excluding variable-rate daily deposits, the transmission rate for fixed-rate and variable-rate deposits is almost identical (74 percent and 73 percent, respectively; Figure 3.24).

Text

Figure 3.24 Cumulative transmission of the Bank of Israel interest rate to shekel unindexed deposits of households, by type of interest, December 2023–February 2025 | percent



Source: Based on reports to the Banking Supervision Department.

Transmission of the median interest rate

It should be noted that the interest rates presented in this analysis are averages, calculated as the weighted average of the interest rates in all deposit activity for a given maturity in a given month.

Deposits serve as a source of funding for credit in the banking system, and therefore the size of the deposit is one of the bank's main considerations in setting the interest rate offered to the customer. In addition, the size of the deposit generally reflects the customer's bargaining power and overall scope of activity and therefore, large deposits typically receive higher interest rates. For this reason, the average rate may sometimes be higher than the median rate⁸, particularly in cases where there is a small share of large deposits and a large share of smaller deposits. Accordingly, the median interest rate on deposits is also examined using the ratio of the transmission rate to the median interest rate and to the average interest rate: the lower the ratio, the lower the transmission to the median rate relative to the transmission to the average rate. A ratio of 100 percent reflects equality between the median and average rates.⁹ The range in each month reflects the spread between the bank with the highest ratio of median rate of transmission to the average rate and the bank with the lowest ratio. However, it is important to note that the information on the distribution of deposits by size and interest rate for each bank is limited, and thus the presented ratio does not perfectly reflect the distribution.

It can be seen that for fixed-rate deposits the ratio narrowed during the year and in February 2025 ranged between 23 percent and 68 percent. This indicates a more equal distribution of rates offered to customers. In contrast, for variable-rate deposits the gap between the minimum and maximum ratios is more significant. There are banks where the difference between the median and average rates they offer is negligible (98 percent). In contrast, for some banks, the transmission to half of the customers is about 4 percent of the average transmission on deposits (Figures 3.8 and 3.9, with each point in time showing the maximum and minimum across the banks).

⁸ For further details on the publication of interest rates on deposits, see Box 6.1 in this review. The calculation of the median interest rate is carried out by ranking the deposits according to interest rate. In other words, the median interest rate is calculated according to the depositors; the average interest rate is weighted by volume of deposit activity.

⁹ The calculation of the transmission to the interest rate on the median deposit interest rate is similar to the calculation for the transmission to the average deposit interest rate. The reporting of the median interest rate is on the level of the individual bank and therefore the calculation is carried out only on that level.

Text

Figure 3.25 Fixed-interest deposits of households, minimum-maximum range of the ratio between transmission of the median interest rate to the average interest rate, All banks, January 2024–February 2025 | percent

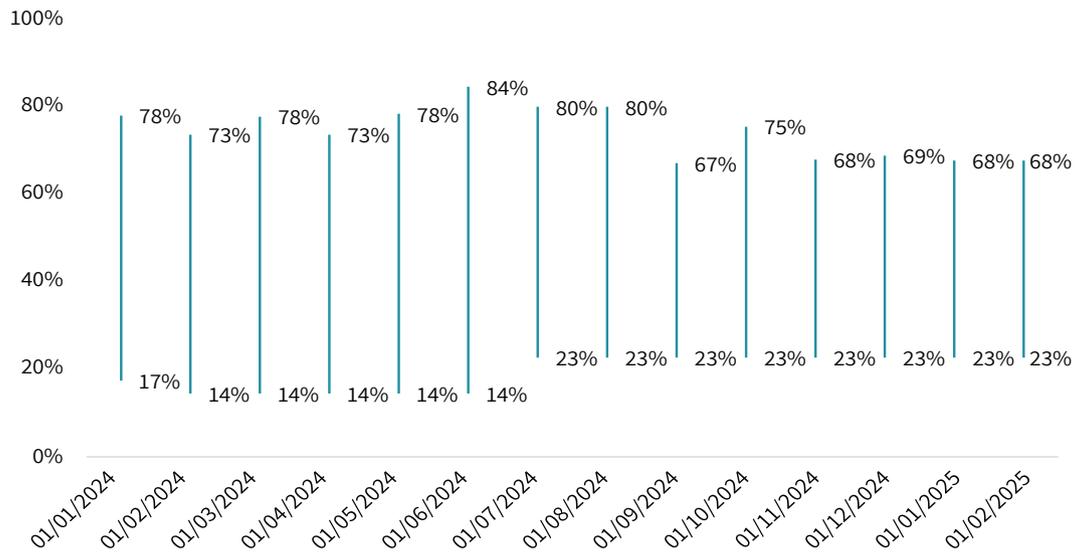


Figure 3.26 Variable-interest deposits of households, minimum-maximum range of the ratio between transmission of the median interest rate to the average interest rate, All banks, January 2024–February 2025 | percent



Source: Based on reports to the Banking Supervision Department.

CHAPTER 4

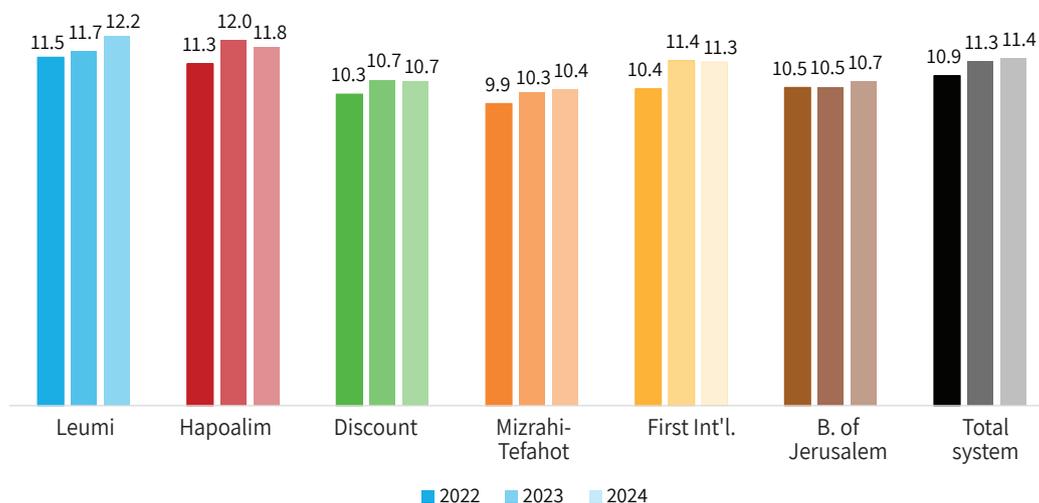
CHAPTER 4 CAPITAL ADEQUACY AND LEVERAGE

During 2024, the Tier 1 capital ratio of the Israeli banking system remained at a high level—11.4 percent as compared to 11.3 percent at the end of 2023 (Figure 4.1). This reflects the strength of the banking system and its ability to withstand shocks while continuing to support the economy in periods of crisis.¹ High profitability was maintained throughout the year and continued to contribute to Capital Accumulation, while profit distributions and the growth in risk-weighted assets exerted downward pressure on capital ratios. As in the case of the capital adequacy ratios, the leverage ratio also remained high, standing at 6.7 percent at the end of 2024, as compared to 6.5 percent at the end of 2023 (Table 13).

The potential risks facing Israel's financial system (see Chapter 5 for further details) underscore the importance of the Banking Supervision Department's role in ensuring the stability of the banking system. In this context, the Supervisor of Banks is reviewing amendments to directives concerning the calculation of risk-weighted assets and capital and leverage requirements. The goal is to improve alignment between regulatory capital requirements for Israeli banking corporations and the Basel Committee's recommendations and international best practices while maintaining the stability of the banking system and its capacity to support the economy.

High capital ratios

Figure 4.1 Tier 1 Capital Ratio, Total Banking System, 2022–2024 (percent)



SOURCE: Based on published financial statements.

¹ According to the OECD Economic Survey: Israel 2025, the Israeli banking system maintains capital buffers that are close to the OECD average. For further details, see: https://www.oecd.org/en/publications/oec4.economic-surveys-israel-2025_d6dd02bc-en.html

During 2024, Tier 1 capital in the banking system increased by 12 percent on an annual basis, totaling approximately NIS 199 billion (Table 12). This growth rate is similar to the average for the past two years, which stood at around 12.2 percent. The high level of profitability (net profit of about NIS 29 billion in 2024 versus NIS 25 billion in 2023) continued to contribute to capital growth. Conversely, profit distributions² (about NIS 11.7 billion in 2024 as compared to NIS 7.8 billion in 2023) worked to reduce capital, marking a return to distribution levels of before the Swords of Iron War. This followed a significant increase in capital during the second half of 2023, driven in part by relatively low profit distribution rates (15–20 percent)³ which were intended to preserve adequate capital buffers amid uncertainty surrounding the war.

In 2024, risk-weighted assets grew by 11.2 percent (Table 12), compared to growth of 7.5 percent in 2023. Credit risk assets, which accounted for approximately 91 percent of total risk-weighted assets at the end of 2024, grew by 10.8 percent, a high rate compared to 6.7 percent in 2023. This was due to continued growth in the credit portfolio (see Chapters 2 and 5.5 for further details) and the downgrade of Israel's sovereign credit rating⁴ by Moody's, S&P, and Fitch rating companies.⁵ That downgrade led to an increase in capital requirements against bank exposure to the Israeli government,⁶ public sector entities, institutional investors, and other banks in Israel.

As with the Tier 1 capital ratio, the total capital ratio also remained at a high level during 2024, at approximately 14.2 percent which is similar to the end of 2023 (14.4 percent; Table 12). The capital base⁷ grew during the course of the year, partly due to a 3-percent increase in Tier 2 capital (equivalent to NIS 1.4 billion). This growth in Tier 2 capital was due to an increase of about NIS 850 million in the collective allowance for credit losses (recognized as Tier 2 capital⁸), and an additional NIS 720 million in contingent convertible bonds (CoCos), which are recognized as Tier 2 capital.

² Dividend distributions and share buybacks.

³ This is in light of, among other things, a letter from the Supervisor of Banks to the banking system urging a reassessment of profit distribution policies. See letter no. 202339 dated November 12, 2023 and letter no. 202405 dated March 5, 2024 on capital planning and profit distribution policy.

⁴ Following the downgrade of Israel's sovereign credit rating, the credit ratings of most Israeli banks were also downgraded.

⁵ On April 18, 2024, S&P announced a downgrade of Israel's long-term credit rating to A+, with a negative outlook. On October 1, 2024, S&P issued a further downgrade to A, while maintaining the negative outlook. On Monday, August 12, 2024, Fitch downgraded Israel's sovereign debt rating from A+ to A, while also announcing a negative outlook.

⁶ The exposures of the banking corporations to the government of Israel and to the Bank of Israel which are denominated in foreign currency or were paid in foreign currency.

⁷ Tier 1 and Tier 2 capital.

⁸ The collective allowance for credit losses, before the impact of taxes, that are eligible for inclusion in Tier 2 capital, must not exceed 1.25 percent of total credit risk-weighted assets, as calculated using the standardized approach. For more details, see Proper Conduct of Banking Business Directive no. 202 on "Supervisory Capital."

The leverage ratio serves as a complementary tool for determining risk-based capital requirements, with the goal of limiting a bank's ability to increase leverage in an uncontrolled manner. This, in turn, helps to mitigate the risk of negative spillovers to the financial system and the broader economy. As of the end of 2024, the leverage ratio for the entire banking system remained high,⁹ at 6.7 percent, compared to 6.5 percent at the end of 2023 (Table 13). The improvement in the banking system's leverage ratio during 2024 was driven by higher growth in Tier 1 capital (12.2 percent) relative to the growth rate of total exposures (9 percent), which grew by 5.4 percent in 2023. During 2024, there was an increase of 7.4 percent in total exposures (as compared to 5.3 percent in 2023) and in their rate of growth,¹⁰ with most of the growth attributable to on-balance-sheet exposure, which accounts for approximately 86 percent of total exposure.

⁹ On November 15, 2020, the Banking Supervision Department published an update to the Proper Conduct of Banking Business Directives, which relaxed the leverage ratio requirements as follows: 4.5 percent for banking corporations with a market share of less than 24 percent, and 5 percent for those with a market share of 24 percent or more. The temporary directive has been extended from time to time and in a circular dated December 20, 2023, the relief was extended until June 30, 2026, on the condition that the leverage ratio does not fall below the ratio's level as of December 31, 2025, or the minimum leverage ratio required of the banking corporation prior to the issuance of the temporary order, whichever is lower.

¹⁰ Total exposures: balance sheet exposure, derivatives exposure, exposure to securities financing transactions and off-balance sheet exposure.

CHAPTER 5

CHAPTER 5 RISKS

1. INTRODUCTION AND RISK SURVEY

The banking system is exposed to a wide range of risks typical of banking systems, given the nature of the banks' activities. These include credit risk, market risk, liquidity risk, and operational risk. In addition, other risks have intensified, as a result of the evolving operating environment of the banks, which involves technological developments, regulatory changes, information security and cyber risks, compliance with anti-money laundering and counter-terrorist financing regulations, etc.

Beyond microprudential risks, which affect individual banks and arise from the nature of their activities and exposures, the banking system is also exposed to macroeconomic risks, which result from adverse events in the real economy and capital markets. When macroeconomic risks materialize, the correlation between the various risks increases, thereby potentially exacerbating the vulnerability of the banking system.

A favorable macroeconomic environment and regulatory measures implemented by the Banking Supervision Department over the past decade have helped strengthen the resilience of the banking system and its ability to withstand shocks. These developments—reflected among other things in improved capital quality and high capital ratios, higher credit portfolio quality, reduced concentration, and high liquidity—positioned the banking system at a strong starting point for coping with the consequences of the Swords of Iron War, supporting its customers, and continuing to provide credit in support of the economy. However, the banking system faces significant challenges amid geopolitical uncertainty, volatility in financial markets, and domestic political and social tensions, all of which contribute to an elevated level of risk in the system's activities. In this context, the decision by rating agencies during the year to downgrade Israel's credit rating—and as a result, the ratings of many Israeli companies, including banks¹—is an example of such risks materializing.

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

Market risk arises from the likelihood that unexpected changes in market prices—interest rates, price indices, exchange rates, share prices, etc.—will adversely affect the bank's revenue or its equity value. This occurs due to on-balance-sheet and off-balance-sheet positions that are affected by changes in the fair value of financial instruments due to shifts in market conditions.²

Liquidity risk arises from the possibility that a banking corporation will not be able to meet its financial obligations on time, due to an inability to convert assets into liquidity quickly and at a reasonable cost. This situation may arise from sudden withdrawals of deposits by customers, a decline in the value of liquid assets, or difficulty in raising capital in financial markets.

¹ For further details, see Chapter 4 in this survey.

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

Operational risk³ is due to possible loss or disruption of the bank's business continuity resulting from inadequacies or failures in internal processes, human resources or systems, or due to external events.

During 2024, the risk level in the banking system's activity remained high, as described later in the chapter. This is due to the ongoing war, geopolitical tensions, an economic slowdown, rising inflation, and high interest rates. Likewise, the risk level remained elevated in early 2025, against a backdrop of geopolitical uncertainty (security and economic), volatility in financial markets, and domestic political tension.

As in previous years, the Banking Supervision Department conducted a survey this year among senior executives in Israel's banking system.⁴ Its goal is to compile an overall assessment of risk in the economy based on the perspectives of senior executives at the banks and credit card companies. This year, the survey's target audience was expanded to include experts from outside the banking system,⁵ in order to gain an additional perspective on developments and risks within the Israeli banking system.

The results of the survey **indicate that the risk level increased during the year, and that cyber and information security risk and domestic political risk are the most concerning for the banking system** (Figure 1). According to the responses, **the increase in domestic political risk** compared to the 2023 survey is attributed to ongoing political tension, the promotion of reforms without a broad consensus, and the rise in the deficit level—factors that raise concerns regarding Israel's credit rating, capital flight from local banks, and the perceptions among foreign investors. Respondents also reported **a high level of geopolitical risk**,⁶ which includes potential adverse events such as wars, terrorist attacks, and tensions between countries that might disrupt international relations⁷ and economic stability. An increase in geopolitical risk can threaten macrofinancial stability through several channels, including actual or potential restrictions on cross-border trade and financial transactions, or military conflicts that could cause financial market volatility, rising inflation, and greater risk in banking operations.

Against the backdrop of the high interest rate environment and ongoing hostilities, which are making it more difficult for borrowers to meet debt obligations, there has been **an increase in perceived risk related to housing credit**. This is in parallel to a rise in the number of campaigns initiated by developers which allow the buyer to defer a significant portion of the sale price until the delivery date, as well as “bullet” housing loans, in which the developer pays all or part of the interest payments at the time the loan is extended or during its term, according to the agreement with the bank providing the housing loan (see Box 5.2 in this survey for more details). In contrast, there has been **a decrease in the perceived risk of business credit**, due to improved macroeconomic forecasts relative to the previous year.

³ Section 5 in Proper Conduct of Banking Business Directive no. 350 – Operational Risk Management.

⁴ Including the credit card companies.

⁵ Regulators and relevant government ministries, accounting and consulting companies, etc.

⁶ For further details regarding the trend in geopolitical risk and its consequences, see Global Financial Stability Report, IMF2025.

⁷ For further details, see Box 5.3 in this survey.

In this context, it appears that the perceived concerns about risks affecting the banking system's activity among respondents from within the banking system are similar to those of external experts (Figure 5.2). In addition to the major risks reported by senior banking executives (domestic political, cyber and information security, geopolitical, and housing credit), respondents also identified regulatory risk (including sector-specific legislation), technology risk (including artificial intelligence), and risks of embezzlement and fraud as factors that could significantly impact the system's operations.

Regarding **the factors expected to affect the banking system's activity in coming years**, all the respondents cited geopolitical and domestic political tensions as potential threats to the stability of financial markets globally and in Israel. They also mentioned regulatory changes, such as aligning regulations with accepted international standards, steps to promote competition,⁸ and threats related to sector-specific legislation. In addition, technological innovations are expected to have a significant impact on the banking system's activity, including through the adoption of new technologies, an increase in cyber and information security threats, and growing competition from technology-based financial entities (fintech).

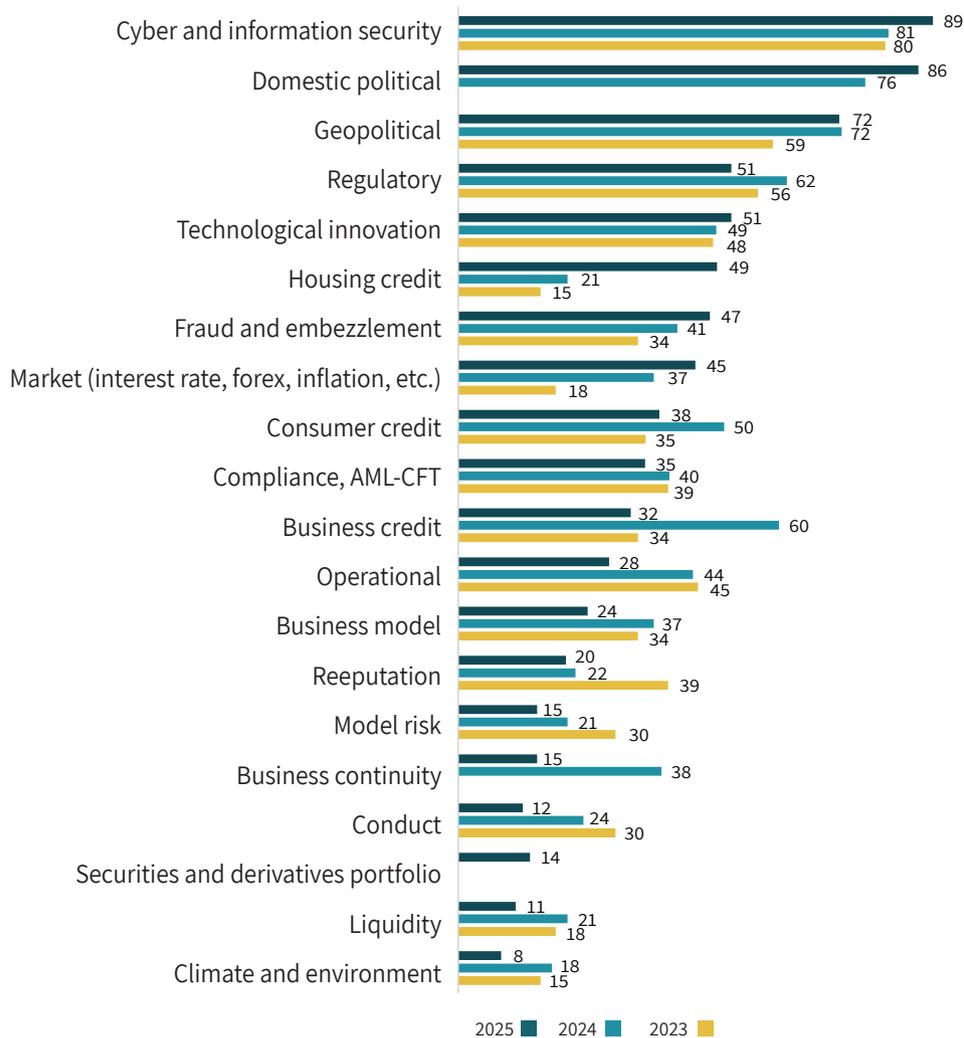
Most respondents are of the view that if the war ends in the near term, its direct effects on the banking system are not expected to be severe. However, the majority of respondents believe that the war's indirect effects—such as an increase in the government's debt burden, and negative implications for growth, exports and imports, consumption, and unemployment—are expected to significantly impact the economy's activity and the banking system over the long term.

The Banking Supervision Department continues to monitor the full range of risks facing the banking system. It is utilizing all available tools to ensure that these risks are properly managed, with the aim of maintaining a strong and stable banking system that can withstand any scenario it may encounter now and in the future, and thus safeguard the public's funds.

⁸ Joint Press Release from the Ministry of Finance and the Bank of Israel: The interim report of the interministerial team for examining measures to increase competition in the banking system for the retail sector has been published for public comment. The report includes recommendations aimed at easing the process for nonbank entities to obtain a banking corporation license. <https://www.boi.org.il/publications/pressreleases/31-3-25d/> [Hebrew]

Domestic political risk and geopolitical risk were ranked as the most concerning risks.

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

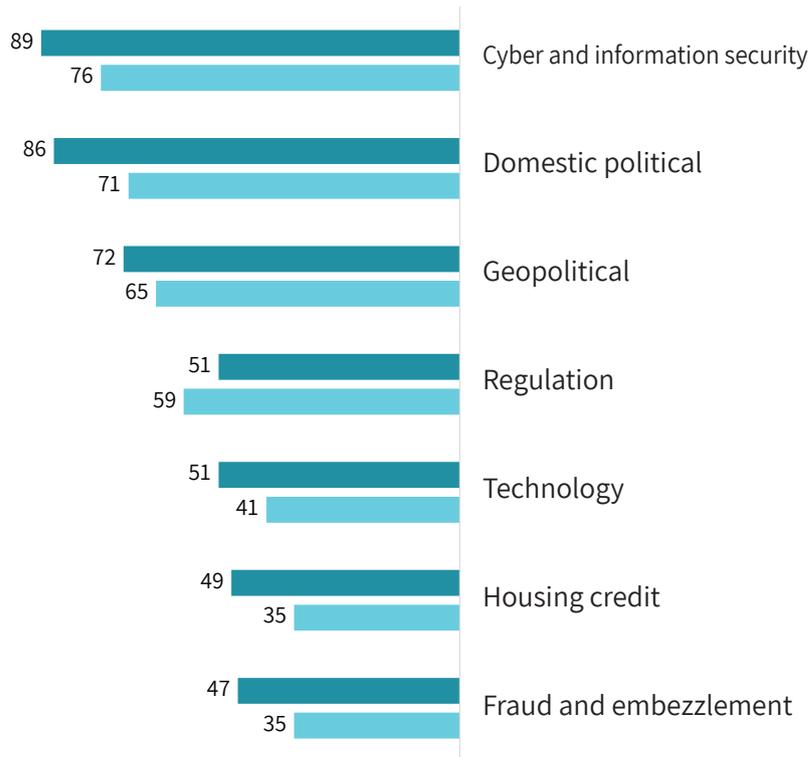


* In 2025, securities and derivatives portfolio risk was introduced for the first time. In 2024, domestic political risk was separated from geopolitical risk for the first time, and technological innovation and business continuity were split into separate items.

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

Perceptions of risk in banking system activity among respondents within the banking system were similar to those of external experts.

Figure 5.2 Comparison of primary risks by type of respondent, Risk Survey for 2025, percent



■ The banking system and the credit card companies ■ Respondents from outside the banking system

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

2. CREDIT RISK

a. Key developments in the portfolio of bank credit to the public

In 2024, the credit portfolio of the banking system grew by 8.8 percent, a high growth rate relative to 2023. However, it was slightly lower than in previous years, with an average of 9.8 percent over the past five years (Figure 5.3). In 2024, economic developments were significantly influenced by the war, which continued at varying intensities throughout the year, as well as by the environment of uncertainty. A partial recovery in economic activity was evident during 2024, as reflected in credit growth. Nonetheless, the economy has not yet returned to its pre-war level of activity. Most of the growth in the credit portfolio originated in business credit, particularly in credit to financial services, construction, and real estate industries (Table 14), led by the large business sector (Table 15). The year 2024 began with low growth rates in the first half of the year, but they were particularly high during the second half, resulting in a high annual growth rate. In household credit, consumer credit and housing credit, the slowdown seen in 2023 did not continue, and growth rates were 4.4 percent and 7.9 percent, respectively. However, excluding credit card activity, the growth rate in consumer credit was only 1.6 percent. Against the backdrop of rising credit risk in the construction, real estate, and housing credit⁹, partly due to the increasing use of financing campaigns offered by developers, the Banking Supervision Department issued a temporary directive on the matter in April 2025. Its goal was to balance the growing risks from the use of financing mechanisms against continued and controlled use of this tool. Interest rates in most industries remained stable, in line with the Bank of Israel's interest rate, which was 4.5 percent throughout 2024,¹⁰ except for a 0.25 percentage point reduction in January. Nonetheless, a slight increase (0.1 percentage points on average) was observed in the micro business segment. Among households, a decrease of 0.2–0.3 percentage points on average was observed. Part of this decline may be due to bank assistance programs in response to the Swords of Iron War.

Despite the high interest rate environment, macro conditions, and the geopolitical situation, there was a slight improvement in credit quality indicators relative to 2023. The share of the credit loss allowance decreased but remained high, and the Non-Performing Loans (NPL)¹¹ rate declined, partly due to redemptions and debt restructuring and partly due to write-offs.¹² There was also a decline in the rate of problematic credit (Figures 5.5, 5.6; Table 17). Relative to 2023, loan loss provisions decreased in 2024, partly due to the credit portfolio's growth and various relief programs provided during the year (particularly for households and

⁹ For further details, see Box 5.2 in this review and the circular regarding the update of Directive 203 and 329 on the Bank of Israel website.

¹⁰ Except for housing, most of the credit provided was in the unindexed segment. For further details, see the chapter on credit in Israel's Banking System for the first half of 2024. It should be noted that in the small business segment, the interest rate remained stable despite the volatility observed throughout the year.

¹¹ The estimate of Non-Performing Loans (NPL) is calculated as the total of noninterest-accruing credit plus interest-accruing credit in arrears of more than 90 days. This estimate serves as an indicator of default credit (a loan not being serviced as agreed upon).

¹² A write-off occurs when the debt reaches the maximum arrears period or as part of a debt restructuring. When a write-off is recorded, it affects the NPL ratio in both the numerator and the denominator, since it is subtracted from both.

micro and small businesses).¹³ **Despite the improvement in credit quality indicators, credit risk remained largely unchanged due to the high interest rate environment, developments in the construction and real estate industries and the housing market, and concerns over potential future credit defaults due to macroeconomic developments.** In 2024, there was an improvement in macroeconomic adjustments relative to previous forecasts, banks managed to collect debts and there was an increase in write-offs, leading to a reduction in loan loss provisions (Figure 5.7). This followed the significant loan loss provision recorded in the second half of 2023 due to the anticipated effects of the high interest rate environment and the war's consequences. In April, the OECD published a report¹⁴ that reviewed, among other things, the resilience of Israel's financial system, particularly in light of the Swords of Iron War that broke out in the last quarter of 2023. The report's authors highlighted the high level of household debt (especially housing debt) as a potential risk to financial stability and economic resilience in the event of a shock. Nevertheless, they noted that total housing credit in Israel is low by international standards and that macroeconomic risks stemming from housing credit are limited, partly due to prudent policies adopted by the Banking Supervision Department and the Bank of Israel, particularly regarding loan to value (LTV) ratios. This policy helps to prevent excessively high debt levels among households, supporting financial stability and long-term growth, and requires ongoing monitoring. The report also mentioned the new financing campaigns offered by developers, the risks they pose, and their impact on developers, homebuyers, and the economy as a whole.¹⁵ The Banking Supervision Department continues to monitor credit risk developments, especially among households and micro businesses, in order to maintain a stable financial environment.

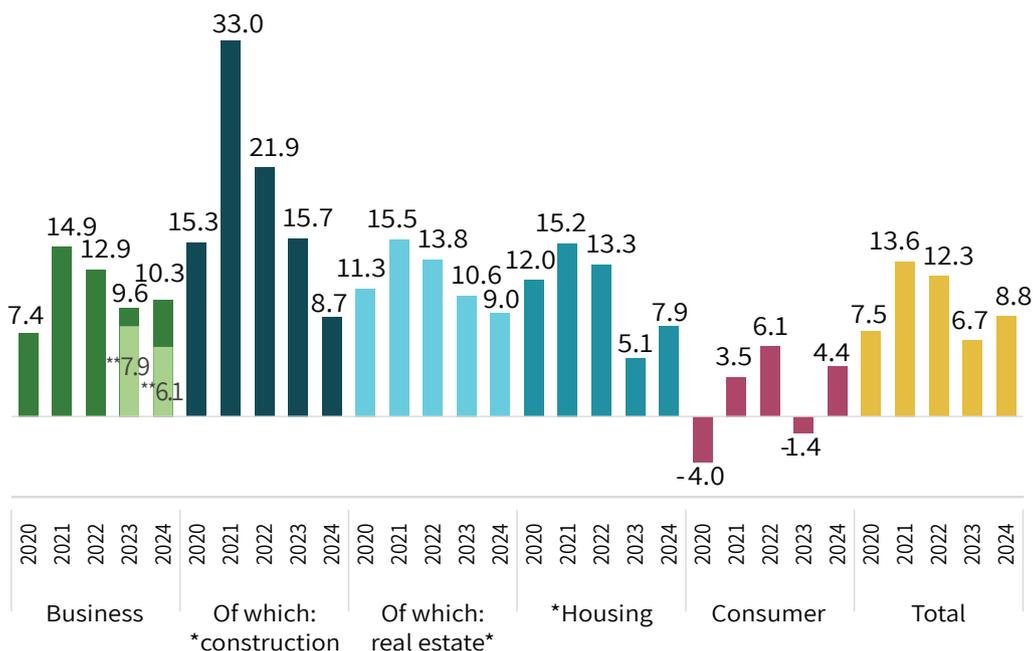
¹³ Following the outbreak of the Swords of Iron War, the Bank of Israel established a deferral program for households and micro and small businesses. Most of the deferrals have ended, and payments have resumed as scheduled (see Table 21).

¹⁴ For further details see: https://www.oecd.org/en/publications/oecd-economic-surveys-israel-2025_d6dd02bc-en.html

¹⁵ For further details, see Box 5.2 in this review.

There were high growth rates in most industries in 2024. The slowdown in household credit ended.

Figure 5.3 Rate of Change in Outstanding Credit to Main Segments, Total Banking System, 2020–2024 (percent)

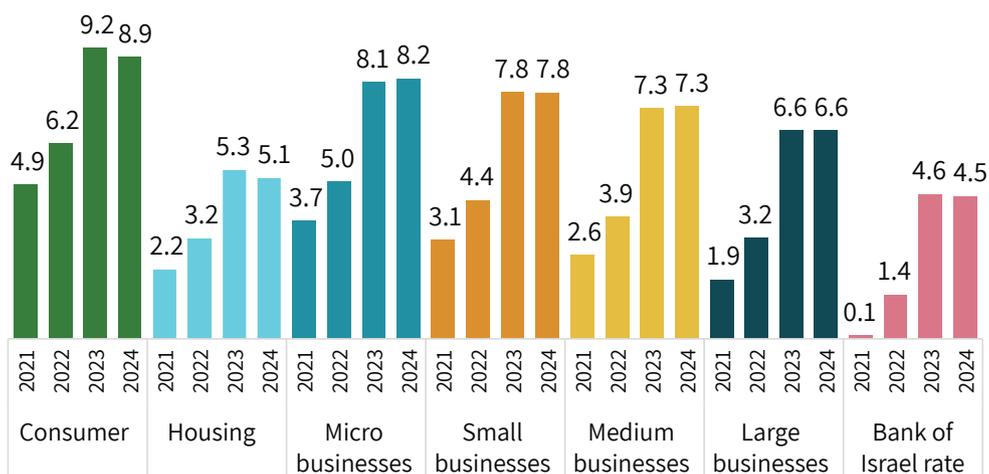


* Does not include borrower activity abroad in this industry.

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

The interest rate in most industries remained stable while in the household sector (consumer credit and housing credit) there was a slight decline.

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



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

Starting in the third quarter of 2024, the Bank of Israel began conducting a quarterly credit officers survey within the banking system, as is the practice in other countries worldwide.¹⁶ Responses to the survey contribute to a deeper understanding of credit market developments and help inform the Bank of Israel’s decision-making processes. According to the survey responses, there was a slowdown in demand for credit in the micro and small business segment in the first quarter of 2025 (with growth expected in the following quarter), an increase in household consumer credit (with continued growth expected in the following quarter), and stability in housing credit. Banks also expect further growth in demand for construction credit¹⁷ in the following quarter and a slowdown in real estate credit.

The rate of the credit loss allowance has declined but remains high and in line with the macro environment. The NPL rate has declined.

Figure 5.5

Credit Loss Allowances as a Share of Total Credit to the Public, Total Banking System, 2020–2024 (percent)

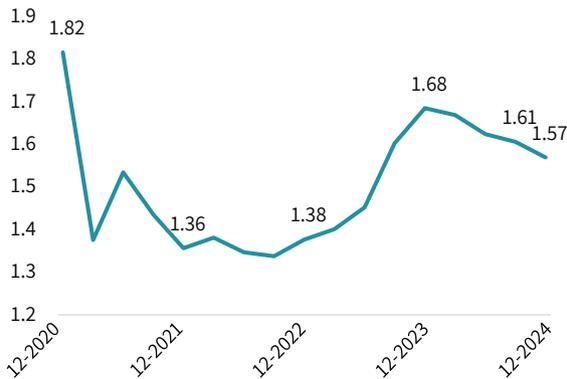


Figure 5.6

Noninterest-Bearing Credit or Credit More Than 90 Days in Arrears (estimated NPL) as a Share of Total Credit to the Public, Total Banking System, 2020-2024 (percent)



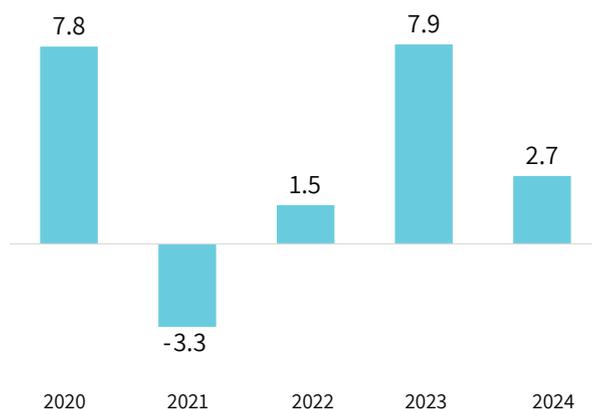
SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

¹⁶ The survey is based on similar ones conducted by leading central banks around the world, including the US Federal Reserve, the European Central Bank, the Bank of England, and others. For more information, see the related [press release](#).

¹⁷ It should be noted that the survey was conducted before the issuance of the temporary directive concerning developer financing campaigns.

The rate of credit loss provision has declined as a result of modification out carried by the banks based on market developments.

Figure 5.7 Annual credit loss provisions, Total Banking System, 2020–2024 | NIS billion



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

b. Household credit (excluding housing credit)

In 2024, the balance of household credit grew by 4.4 percent (Figure 5.3). However, excluding credit related to credit card activity, the rate of growth was only 1.6 percent (Table 16). This growth followed a slight reduction in 2023 due to the high interest rate environment and the outbreak of the Swords of Iron War, and reflects the partial recovery of the economy. During 2024, household consumer credit activity (excluding housing credit) increased by 11 percent relative to 2023.¹⁸ Part of this growth in credit activity aligns with the increase in private consumption.¹⁹ Following the growth observed in consumer credit extended by the banks, a 5 percent growth rate was also recorded in total nonhousing private debt,²⁰ which includes additional credit sources. This was led by the growth in credit provided by credit card companies (Figure 5.8; for more details on credit card companies' activity, see Section 5.5 in this review). The growth in debt to banks and credit card companies occurred alongside an ongoing decline in the balance of debt to institutional investors.²¹

¹⁸ Credit activity includes loan-type credit (term credit), credit lines, and on-call credit.

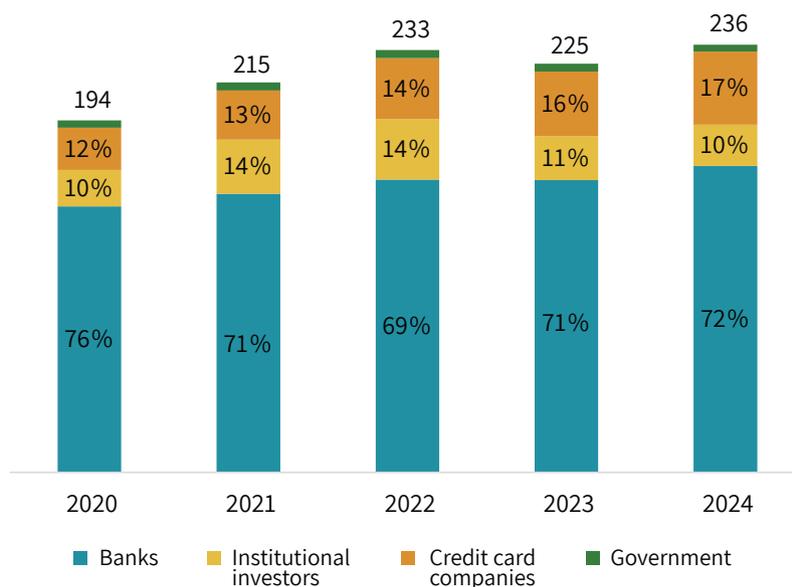
¹⁹ In 2024, private consumption expenditure increased by 3.9 percent. For more details, see the [CBS Review of the National Accounts for 2024](#).

²⁰ Total debt is calculated before provisions for loan losses, while total credit is presented after allowances for credit losses.

²¹ The decline in non-housing loans from institutional entities occurred across all savings products, except for pension funds, whose share of total loans is the smallest. For further details, see the [Statistical Bulletin for 2024](#) published by the Bank of Israel's Information and Statistics Division, published in March 2025.

There was an increase in households' total nonhousing debt, led by banks and credit card companies.

Figure 5.8 Distribution of Households' Outstanding Nonhousing Debta, by Source, 2020-2024 (NIS billion)



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

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

The relatively low growth rate in fixed-term bank credit²² may be due to the increase observed in credit secured by a residence,²³ which grew by 3.7 percent in 2024. This was partly due to easing by the Banking Supervision Department under the updated temporary directive (Figure 5.9).²⁴ During 2024, approximately 10,500 loans were provided through this channel, totaling about NIS 2.15 billion. These loans accounted for approximately 28 percent of the total loans provided in the system for any purpose and secured by a residence.

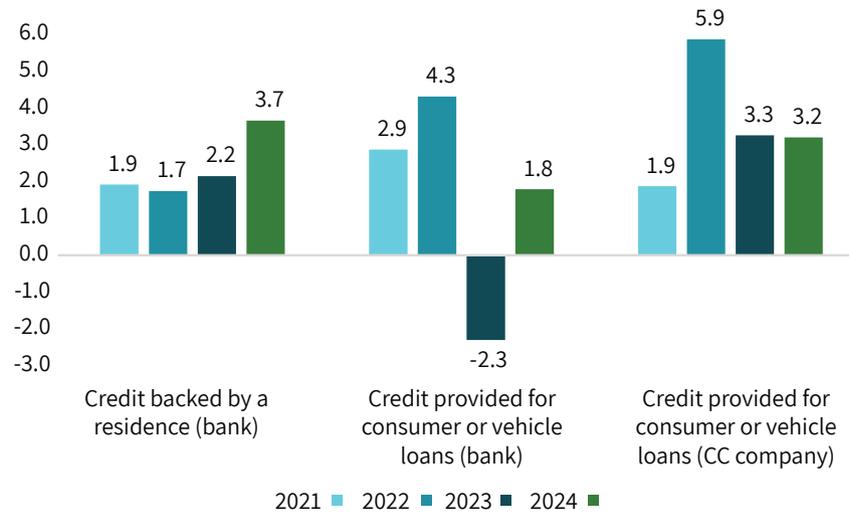
²² Bank consumer credit consists of overdrafts, activity on bank-issued credit cards, secured loans (e.g., vehicle-collateralized), and unsecured loans. The latter two are sometimes referred to as "fixed-term credit."

²³ Part of housing credit consists of all-purpose loans secured by residential property (and thus are classified as housing credit), but in practice, they function as a form of low-cost consumer credit (see Figure 36 in the semiannual Israel's Banking System 2024). Therefore, in this analysis, they are treated as such.

²⁴ According to the temporary directive, Proper Conduct of Banking Business Directive 251, a banking corporation can approve a housing loan not intended for the purchase of real estate with a loan to value (LTV) ratio of up to 70 percent, provided that the portion of the loan exceeding 50 percent LTV amounts to no more than NIS 200,000. These reliefs have been extended until the end of 2025. For more information, see the relevant [link](#) [Hebrew].

In 2024, there was growth in consumer credit of all types.

Figure 5.9 Total Change in Outstanding Consumer Credit of Different Types, Total Banking System, 2010–2024 (NIS billion)

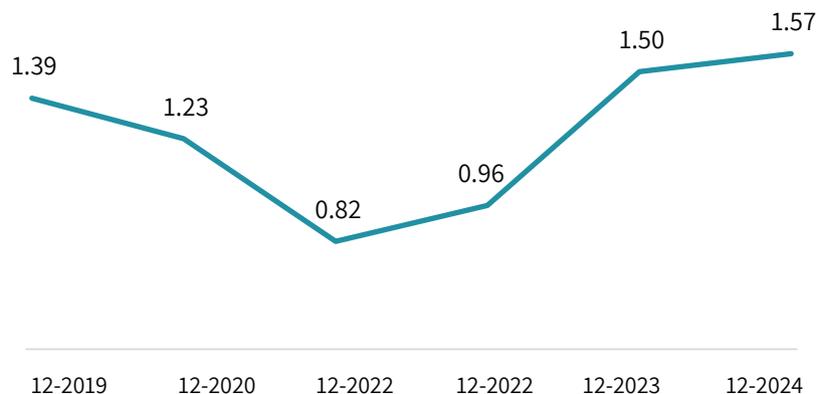


Source: Published financial statements, reports to the Banking Supervision Department and processing by the Banking Supervision Department.

The rate of household credit that is nonaccruing or interest-accruing but in arrears for over 90 days (an estimate of NPL) remained low relative to previous years at 0.8 percent (see Figure 5.19 later in this chapter). However, the write-off rate in 2024 rose to 1.6 percent, a historically high level (Figure 5.10). Accordingly, the coverage ratio for household credit (i.e., the rate of the credit loss allowance as a share of total nonhousing credit) increased. The decline in the share of nonaccruing credit or interest-accruing credit in arrears for over 90 days (an estimate of NPL) was also reflected in an increase in the household segment's NPL coverage ratio (i.e., the allowance rate for credit losses as a share of nonaccruing credit or interest-accruing credit in arrears for over 90 days; Table 18).

In 2024, there was growth in consumer credit of all types.

Figure 5.10 Rate of write-offs within total consumer credit to households, All banks, December 2020–December 2024 | percent



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

c. Household housing credit

Despite the high interest rate environment, 2024 saw an acceleration in the volume of residential credit activity following a slowdown that began in mid-2022 (Figure 5.11). This recovery in mortgages coincided with a rebound in real estate transactions, particularly the purchase of new homes, supported in part by the growth in developers' incentive campaigns (for more details, see Box 5.2 in this review). In 2024, a total of NIS 93 billion in housing credit was provided, with a peak in December of NIS 13.8 billion (14.8 percent of total annual housing credit). This was driven by the upcoming VAT increase in January 2025 and the desire of buyers (and developers) to bring payments forward. This recovery has continued into 2025, with a cumulative NIS 15 billion in housing credit issued in January and February, which is 34.5 percent more than in the same period in 2024. An increase was also observed in “bullet” or “balloon” loans²⁵ (Figure 5.12). These are primarily granted as bridge loans,²⁶ but the increase is mainly attributed to the growth in developer-subsidized loans, i.e., mortgages issued to buyers in which the interest is capitalized and paid by the developer at the time of the loan issuance or later on. These were also promoted through incentive campaigns launched at the end of 2023. The average loan amount remained stable throughout 2024, with an annual average of about NIS 1 million (for further details, see later in this chapter). For a detailed breakdown of the housing loans issued in 2024, see later this chapter. Approximately 16 percent of the outstanding housing credit was issued in 2024, around 11 percent in 2023, and roughly one-third over five years ago (Table 19).

²⁵ Loans in which the principal—and sometimes also the interest—are repaid on the final maturity date of the loan.

²⁶ These are loans intended to address or bridge a cash flow gap, such as, for example, when a buyer wishes to purchase a new home and needs time to sell their current property.

There was a recovery in residential credit volume in 2024.

Figure 5.11 Monthly New Housing Credit, Total Banking System, January 2021–March 2025 (NIS billion)

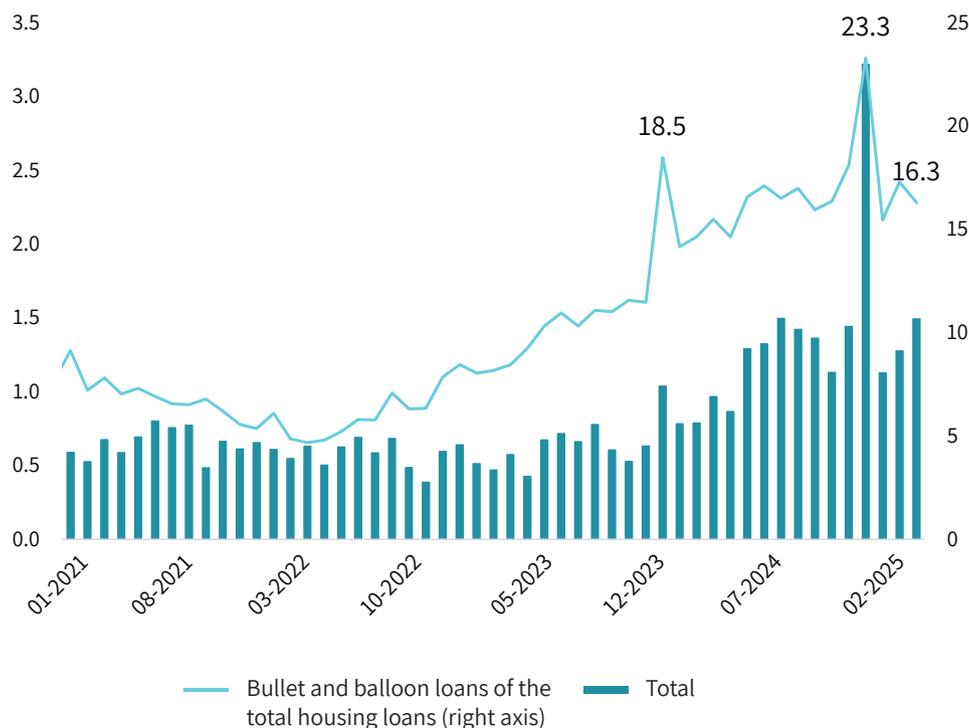


* 2024 data are based on January–March data.

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

Total credit provided as bullet/balloon loans has increased, particularly in December 2024.

Figure 5.12 Bullet/Balloon Loans in Housing Credit, Total Banking System, January 2021–March 2025 (NIS billion, Percentage)



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

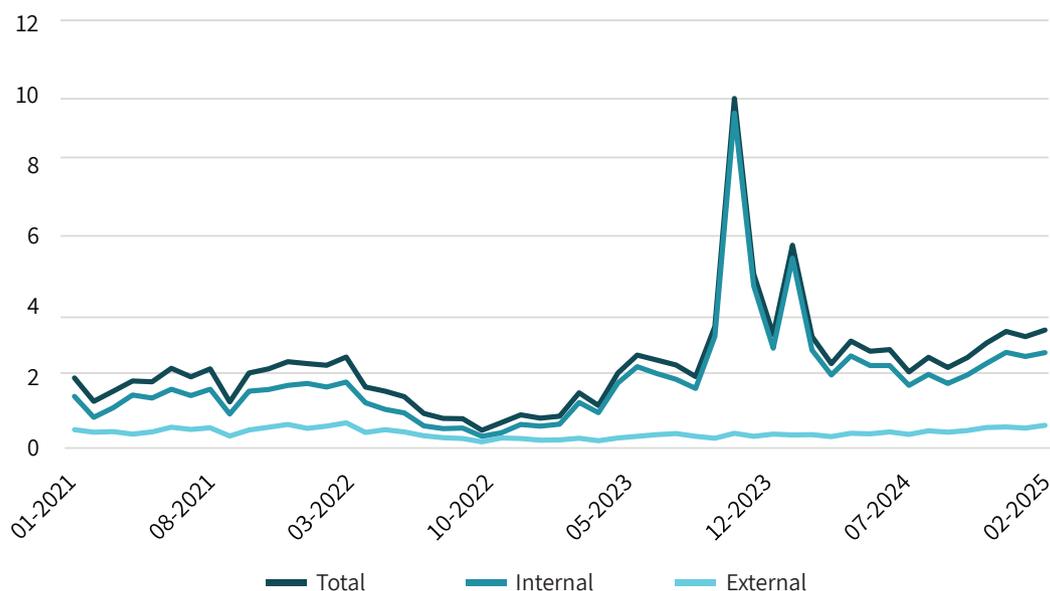
With the conclusion of the Bank of Israel’s deferral framework²⁷ in the first half of 2024, a decline in refinancing (loan turnover) activity was observed.²⁸ Nevertheless, starting from the end of 2024, refinancing volume began to rise again (Figure 5.13). This may be due to the end of the deferral period, since customers who resumed payments are now also required to repay the deferred installments, thus increasing their debt burden and prompting them to refinance in order to reduce the monthly payment.

²⁷ For further details, see Box 6.2 in [Israel’s Banking System 2023](#).

²⁸ During the Swords of Iron War, deferrals of more than three months were classified as “refinanced credit.” It should be noted that during the COVID-19 period, the guidance to banks was different. Thus, deferrals of up to six months were not included under “refinanced credit.” The deferral framework ended in March 2025. For more details, see Chapter 6 of this review.

Total refinancing fell with the conclusion of the deferral framework; however, in recent months there has been an upward trend.

Figure 5.13 Refinancing of Housing Credit, Total Banking System, January February 2025 (NIS billion)



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

During 2024, interest rates across the various mortgage tracks remained relatively stable, with only slight changes in the variable-rate tracks that were driven by fluctuations in yields on short-term (up to 5 years) Israeli government bonds (Figure 5.14). The gap between the prime interest rate and the unindexed fixed interest rate—which has persisted over the past two years—reflects market expectations of a future decrease in the Bank of Israel’s interest rate. The unindexed fixed interest rate track and the unindexed variable-rate track (up to two years) continue to be the most popular options (Figure 5.15).

The increase in the share of the fixed unindexed interest rate track observed in December is partly explained by the rise in “bullet” and “balloon” developer-subsidized loans, given that these loans are typically issued on fixed-rate tracks.

The interest rates on the various tracks were stable during 2024. The proportion of credit on unindexed tracks (fixed and variable up to two years) continues to grow at the expense of the other tracks.

Figure 5.14

Interest Rate on Residential Loans by Interest and Indexation Track, Total Banking System, January 2023–March 2025 (percent)

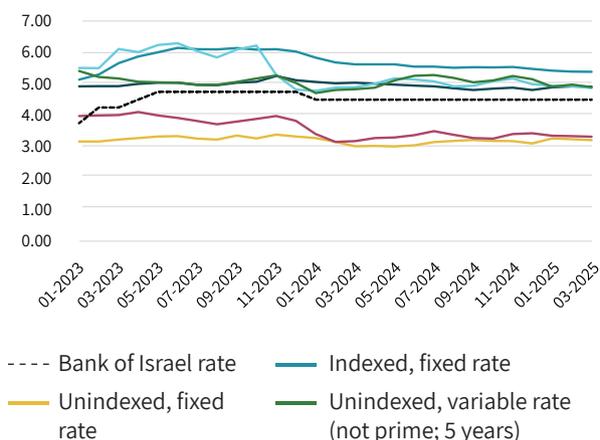
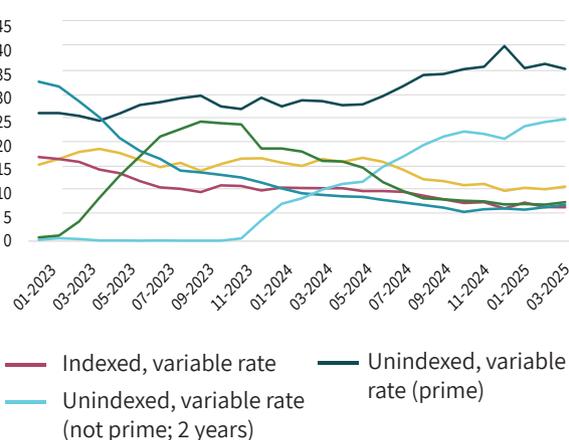


Figure 5.15

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



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

Risk indicators in the housing credit portfolio

In view of the high interest rate environment, the high volume of home sales under various developer incentive campaigns, and the growth in loans with high loan-to-value (LTV) and high payment-to-income (PTI) ratios, the overall risk level in the portfolio has increased.²⁹ Nevertheless, the NPL rate, the average loan term, the LTV ratio, and the payment-to-income ratio remained stable. In 2024, the average loan term in the housing credit portfolio was approximately 27 years (excluding “bullet” and “balloon” loans, which typically have shorter terms and whose share in housing credit provision increased). The average LTV ratio in the housing credit portfolio remained nearly unchanged throughout 2024 at around 53 percent (Figure 5.16). The average PTI ratio in the housing credit portfolio also remained stable over the course of 2024, at approximately 29 percent (Figure 5.17).

²⁹ For further details, see Box 5.2 in this review and the circular on the updating of Directive 203 and 329 on the Bank of Israel site.

In 2023, the average LTV and PTI ratios remained stable.

Figure 5.16

Distribution of New Housing Loans by LTV Rate, Total Banking System, January 2021–February 2025 (percent)

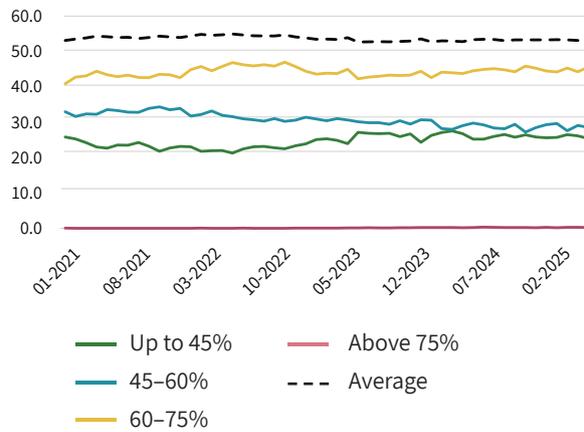
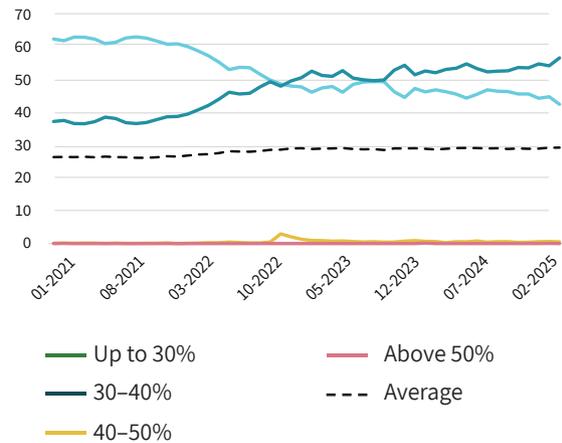


Figure 5.17

Distribution of New Housing Loans by PTI Rate, Total Banking System, January 2021–February 2025 (percent)

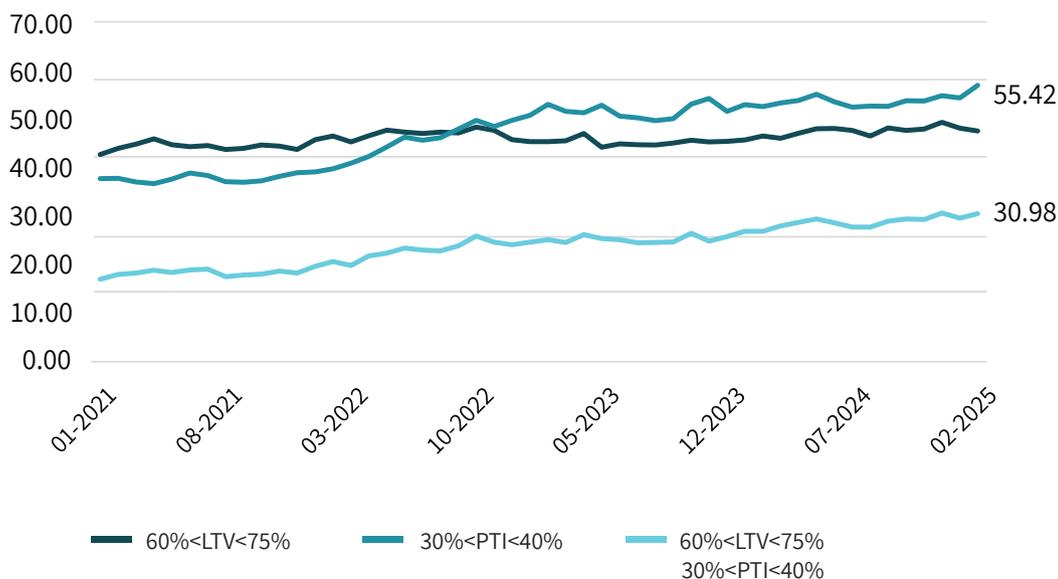


SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

Despite the stability in the average LTV and PTI ratios, the share of loans provided at high LTV levels (60 percent to 75 percent) and high PTI ratios (30 percent to 40 percent)—which are considered higher-risk loans—was elevated throughout 2024, particularly from a historical perspective (Figure 5.18).

The proportion of loans with high LTV and PTI ratios continues to grow.

Figure 5.18 Weight of Loans with High LTV and PTI Rates, Total Banking System, January 2021 - February 2025 (percent)



*Excluding bullet and balloon loans

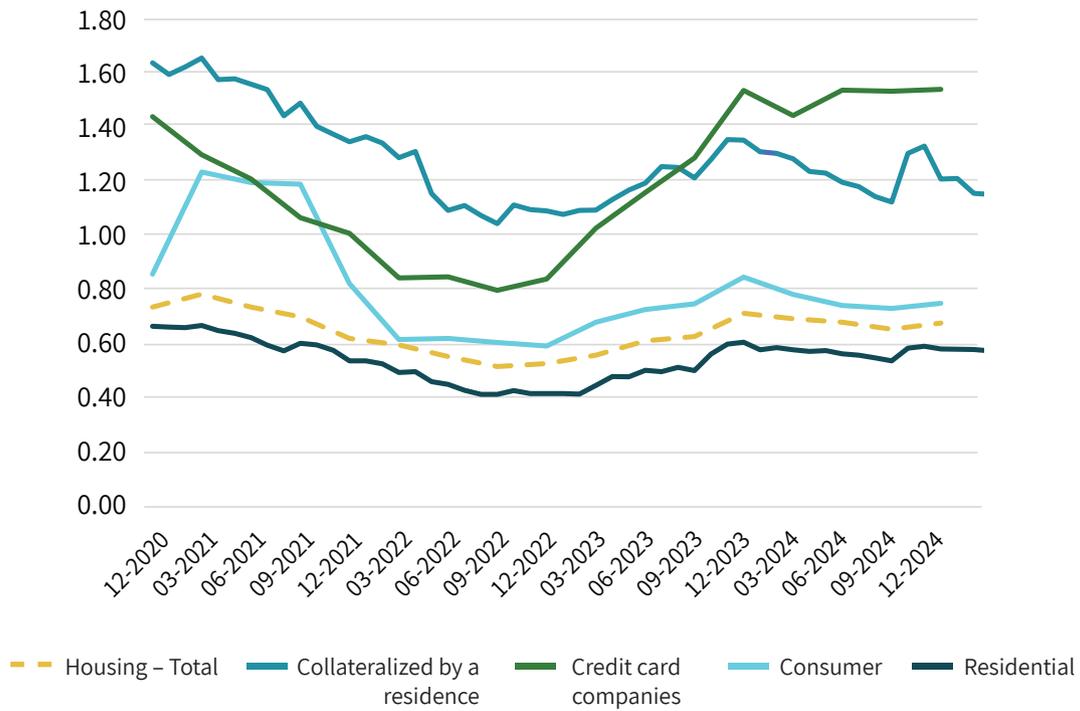
SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

The NPL rate has remained stable³⁰ in both housing credit and consumer credit, at around 0.8 percent (Figure 5.19). In housing credit, the delinquency rate (over 90 days in arrears) is higher for nonresidential loans secured by residential property (1.2 percent) than for residential loans (0.6 percent). These rates have increased relative to 2022; nonetheless, they remain low from a historical perspective. During 2024, there was a slight deterioration in the delinquency rate of nonresidential loans secured by residential property, a trend that was not observed in residential loans. However, since November 2024, this rate has been characterized by a downtrend. With the conclusion of the deferral framework, the Banking Supervision Department is closely monitoring both the development of household debt burdens and default rates. In contrast, the delinquency rate in credit extended by credit card companies is high and remained at elevated levels throughout 2024 (for further details, see Section 5.5 in this review).

³⁰ An estimate calculated using the proportion of nonaccruing credit and interest-accruing credit with more than ninety days in arrears within total credit.

The rate of NPL, in the case of both housing credit and consumer credit, remains stable.

Figure 5.19 NPL rate on credit to households by segment
All banks and credit card companies, December 2020–March 2025 | percent



* The drop in NPL for consumer credit at the beginning of 2022 was due to the transition to CECL. The transition for credit card credit about a year later was less significant.

Source: Based on published financial statements, reports to the Banking Supervision Department.

Further details on mortgages extended in 2024

During 2024, approximately 89,000 new loans were provided,³¹ with the average loan amount being about 1 million shekels. About 75 percent were loans for the purpose of purchasing a home, while the rest were loans secured by a residential property (Table 5.1). Most of the loans for home purchases were provided to first-time homebuyers. There is variability across the different categories, in both the average property value and the average loan amount. Despite the increase in the proportion of “bullet” and “balloon” loans—partly driven by incentive campaigns—most loans that included a “bullet” or “balloon” component were provided to existing home owners. More than half of the loans provided in 2024 included component, that is indexed to the CPI. The lowest rate of CPI-indexed loans was observed among buyers of investment property (i.e., buyers who already own at least one other property).

Only about 37 percent of the loans involved a comparison of preliminary approvals from multiple banks, with higher rates observed among first-time homebuyers, investors, and those who refinanced their loan at a different bank. The low rate of competition among those taking out nonresidential loans secured by a residential property may be due to the fact that this type of loan is usually taken out after a home purchase loan. In other words, the property is already mortgaged to a bank and therefore, additional credit is usually taken from the same bank. About 57 percent of borrowers used mortgage advisors, with lower rates observed among investors, those who took out nonresidential loans (secured by a residential property), and existing homeowners.

Table 1: Descriptive statistics for loans provided in 2024

	Residential loans				Nonresidential loans collateralized with a residential property
	Sole dwelling	Replacement dwelling	Investment	Refinancing ³²	
Proportion of total loans	44	18	7	6	25
Average size of loan (NIS thousand)	1,024	1,204	1,022	913	295
Average value of property (NIS million)	2.17	2.95	2.81	2.8	2.32
Proportion of loans with a “bullet” or “balloon” component within that segment	10	51	24	3	4
Proportion of loans which include a CPI-indexed component within that segment	57	47	38	55	61
Proportion of borrowers who checked more than one bank within total loans in that segment	46	40	38	38	17
Proportion of borrowers that were assisted by an advisor within total loans in that segment	62	51	46	70	49

³¹ Loans for which more than 60 percent of the loan amount was taken, such most of the developer-subsidized loans were included.

³² מעבר של הלוואה לרכישת דירה מבנק אחד לאחר.

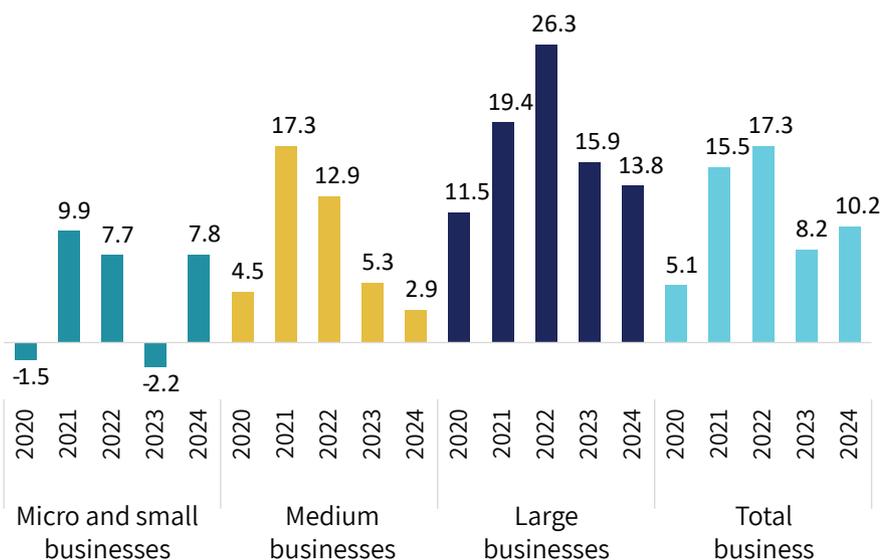
d. Business credit

Supervisory activity segments

As of the end of 2024, total business credit in the banking system was approximately NIS 810 billion, with a growth rate of about 10 percent in 2024. This is higher than the 8 percent growth rate recorded in 2023, but lower than in previous years (17.3 percent in 2022 and 15.5 percent in 2021). The growth in business credit was led by the large business sector, where credit grew by about 14 percent. High growth rates of around 8 percent were also observed in the micro and small business sector, despite the high interest rate environment and the impact of the Swords of Iron War. The medium business sector showed the lowest growth rate, at around 3 percent, relative to 5 percent in the previous year. An analysis of credit performance in the business sector reveals differences across supervisory business segments: in the small business sector, credit performance grew the fastest in 2024, by a rate of 12 percent. In the medium business sector, credit performance increased by 7 percent, while in the large business sector, the increase was only 5 percent. In contrast, credit performance in the micro business sector declined by 2 percent. It is worth noting that in all business segments, there was an increase in credit performance in December 2024, driven by the planned VAT increase in January 2025 and the desire to bring forward transactions and payments. Relative to previous years, both credit performance and redemptions in the business sector grew at lower rates, resulting in a limited impact of credit performance on total balance sheet credit.

Growth in credit was led by the large business segment.

Figure 5.20 Rate of Change in Outstanding Credit by Activity Segment, Total Banking System, 2020–2024 (percent)

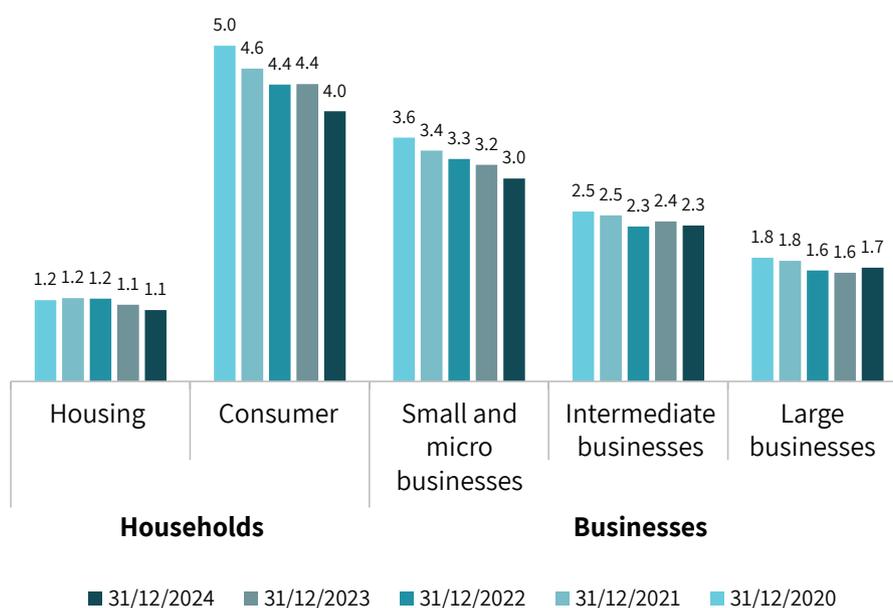


Source: Based on published financial statements and reports to the Banking Supervision Department.

In 2024, credit spreads declined in the micro and small business segment, as well as in consumer credit, relative to 2023, while there were only minor changes in credit spreads in other segments (Figure 5.21). According to Bank of Israel's credit officers survey,³³ although credit spreads on an average loan decreased across most business segments, loans with high risk levels actually saw an increase in spreads. As of the end of 2024, more than half of total business credit (about 56 percent) was provided to large businesses. Approximately 29 percent was provided to micro and small businesses, while the share of credit to medium-sized businesses stood at just 15 percent. About one-third of total business credit was issued in 2024 ("new credit"), another third is classified as "revolving loans," and the remainder was issued in previous years (Table 19).

Credit spreads in the micro and small business segment and in consumer credit declined in 2024

Figure 5.21 Rate of credit spread in the various segments, All banks, 2020–2024 | percent



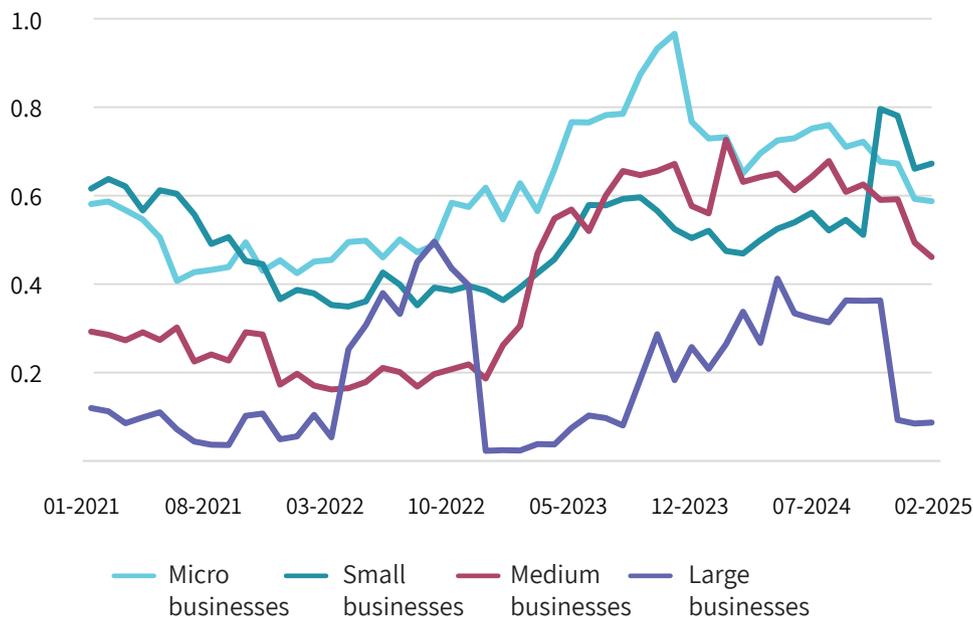
Source: Based on published financial statements and reports to the Banking Supervision Department.

Throughout 2024, there was a mixed trend in the proportion of credit in arrears of over 90 days across the various business segments. In the small business segment, the proportion increased by the end of 2024, with a slight downward trend beginning in January 2025. In the large business segment, an upward trend was observed until May, followed by a sharp decline by year-end, back to pre-war levels. In the micro and medium business segments, the share of credit in arrears remained relatively stable throughout 2024 (Figure 5.22).

³³ For further details, see the relevant press release.

There were mixed trends in the proportion of credit in arrears of over 90 days.

Figure 5.22 Rate of Credit More than 90 Days in Arrears by Activity Segment, Total Banking System, January 2021–February 2025 (in Israel, percent)



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

During 2024, loan loss provisions decreased relative to 2023 in all business segments. This was due to adjustments made by the banks to their models in accordance with CECL³⁴, against the decline in risk level and the non-realization of significant credit defaults as previously expected. The large business segment was notable, as it recorded income in this line item in 2024, partly due to recoveries made by some of the banks in the last quarter (Figure 5.23). The credit loss allowance rate declined in all business segments except for the micro business segment, where the increase in the allowance for credit losses was greater than the growth in credit in this segment (Figure 5.24).

³⁴ Current Expected Credit Losses (CECL). According to this method, the allowance for credit losses is determined based on the bank's estimate of the expected loss over the entire credit period, rather than estimating the incurred loss as of the reporting date. In calculating the expected loss, historical losses are taken into account, as well as the uncertainty inherent in the realization of these losses. Greater weight is placed on forward-looking information, including by means of reasonable forecasts of future economic events.

There as a decline in loan loss provisions, against the background of non-realization of defaults and in view of the adjustments made by the banks to their models, such that the share of the credit loss allowance declined in most activity segments.

Figure 5.23

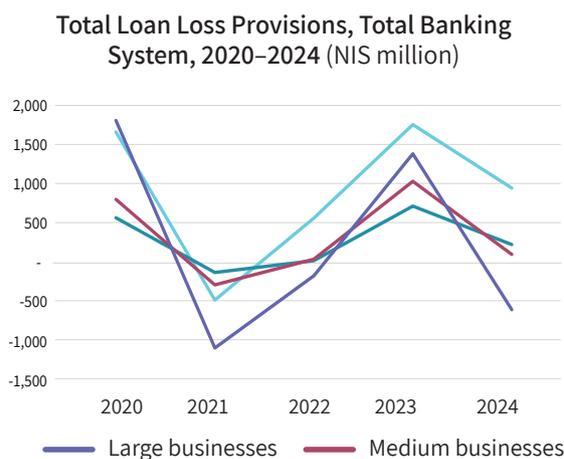
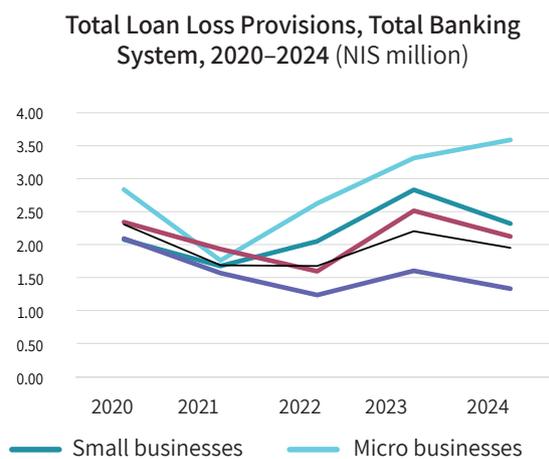


Figure 5.24



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

The rate of problematic credit (comprising nonaccruing credit, substandard credit, or special mention credit³⁵) within total credit declined in all business segments compared to recent years (Figure 5.25). The NPL coverage ratio³⁶ increased relative to 2023 in all business segments except for the small business segment (Figure 5.26). The increase in the ratio was particularly large in the large business segment, due to the decrease in the volume of nonaccruing credit and accruing credit in arrears for more than 90 days. Thus, the banks' buffers against credit losses grew at a faster pace than the increase in defaults during 2024.

³⁵ Problematic credit is in part subjective, in view of the variation across the banks with respect to both their models and their risk assessment.

³⁶ Calculated as the allowance for credit losses within total credit that is not accruing interest and accruing credit that is in arrears of over 90 days.

There was a decline in problematic credit alongside an increase in the banks' buffer against credit losses.

Figure 5.25

Problematic Credit as a Share of Total Credit, by Activity Segment, Total Banking System, 2020–2024 (percent)

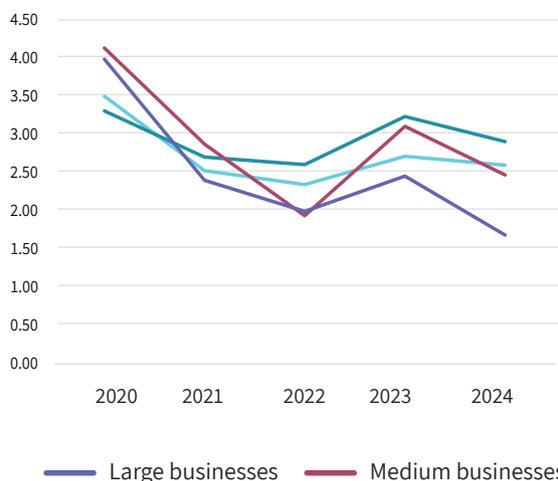
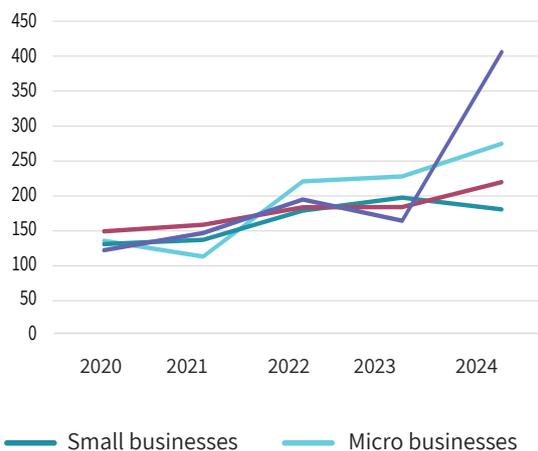


Figure 5.26

Coverage Ratio* by Activity Segment, Total Banking System, 2020–2024 (percent)



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

The various industries of the economy Most of the growth in the credit portfolio originated in business credit, particularly in credit to construction, real estate, and financial services (Table 14). **In terms of the quality of the business credit portfolio by industry, there was improvement in all credit quality indicators:** loan loss provisions declined in all industries, especially in construction and real estate and in trade (Figure 5.27). The allowance rate within total credit also decreased in most industries (except for the manufacturing industry; Figure 5.28). The decrease in provisions and in total credit loss allowance is consistent with the decline in the rate of problematic credit (Figure 5.29). The NPL³⁷ coverage ratio increased relative to 2023 and is high even from a historical perspective (Figure 5.30). Nevertheless, the level of loan loss provisions, the coverage ratio, and the rate of problematic credit remain similar to previous years.

³⁷ Calculated as the total credit loss allowance within total nonaccruing credit and problematic credit in arrears of over 90 days. It should be noted that problematic credit is divided into accruing and nonaccruing credit. Nonaccruing credit and accruing credit in arrears of over 90 days represent an estimate of NPL, which is an “objective” measure of problematic credit across banks, and therefore it is correct to place it in the denominator (arrears for up to 90 days are sometimes only technical delays). It should also be noted that most problematic credit is in fact accruing credit that is not in arrears of over 90 days.

There was a decline in loan loss provisions and in the share of the allowance in the various industries.

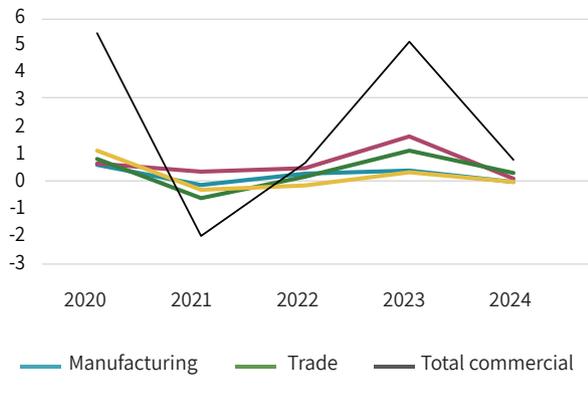
Figure 5.27

Loan Loss Provisions by Main Industry, Total Banking System, 2020–2024 (NIS billion)



Figure 5.28

Credit Loss Allowance as a Share of Total Credit by Main Industry, Total Banking System, 2020–2024 (percent)



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

There was improvement in the indicators of credit quality in the various industries.

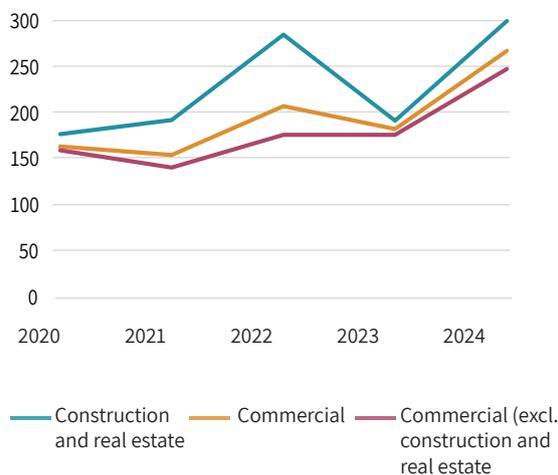
Figure 5.29

Problematic Credit as a Share of Credit by Main Industry, Total Banking System, 2020–2024 (percent)



Figure 5.30

NPL coverage ratio*, Total Banking System, 2020–2024 | Percentage



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

Analysis of construction and real estate

About 40 percent of business credit is extended to the construction and real estate industry (about 20 percent of total credit for economic activity in Israel; Table 14), with the construction industry accounting for about 63 percent of that amount (the remainder being credit for financing real estate activity). In view of the increase in credit risk in the construction and real estate industry, partly due to the growing prevalence of financing mechanisms offered by developers, the Banking Supervision Department published temporary directives³⁸ in April 2025 to achieve a balance between reducing the growing risk due to the use of these financing mechanisms and the continued and controlled use of this tool. Balance-sheet credit in the construction and real estate sector grew by 8.7 percent in 2024, which is less than in previous years (the average growth rate over the past five years was about 19 percent; Figure 5.3), with about one-third of the credit in the construction sector extended during 2024 (Table 19). Credit to the real estate industry also showed a slowdown in the rate of growth, though less so than construction credit (growth of about 9 percent, compared with an average growth rate of about 12 percent over the past five years).

Credit in the construction and real estate industry is used for financing in the various stages of a project: land financing, financing of construction, commercial real estate (the construction for which has been completed), and credit not secured by real estate (part of which is also intended for infrastructure financing; Table 20). In all the aforementioned activity, credit is extended both for residential projects (54 percent), projects intended for offices and commerce (35 percent), and the remainder for other purposes (Most of the credit for land purchase or construction is for residential projects, while most of the credit for commercial real estate is for office and commercial projects). Both credit for residential projects and credit for office and commercial projects grew at similar rates (11 percent and 12 percent, respectively). Below we discuss the developments that occurred in the industry during the past year.

Credit for residential projects

About 54 percent of credit secured by real estate in Israel (construction and real estate industry) is for residential projects in various stages of development: about 52 percent is for projects at the land purchase stage, about 34 percent is for projects in the construction stage, and the remaining 13 percent is commercial residential real estate (rental apartments, assisted living, etc.). This type of credit grew by about 11 percent in 2024. For further details on credit to finance residential projects, see Box 5.2 in this review.

An analysis of credit quality indicators for residential projects presents a mixed picture. While the share of credit with high LTV ratios declined slightly, there was an increase in the share of projects characterized by a gap between construction progress and sales. During the year, there was a slight decline in the share of credit extended for residential projects in the land purchase stage with high LTV ratios; nevertheless, most of the credit for residential projects in this stage is extended at high LTV ratios (75 percent or more; Figure 5.31). In addition, and given the interest

³⁸ For further details, see Box 5.2 in this review and the circular regarding the update of Directives 203 and 329 on the Bank of Israel website.

rate environment and macroeconomic conditions, there has been a slowdown in housing market activity since the second half of 2022, which was also reflected in an increase in the share of projects with a gap between construction progress and sales (Figure 5.32).³⁹ At the same time, the share of credit extended to projects with low absorption capacity declined in 2024 (4 percent of total credit extended to projects under construction that are intended for sale).⁴⁰

There was a mixed trend in the risk indices of credit for residential projects. While the proportion of credit with high LTV ratios declined somewhat, there was an increase in the proportion of projects with a gap between construction progress and sales.

Figure 5.31

Breakdown of credit to finance land acquisition for residential construction by rate of financing, All banks, December 2022–December 2024 | percent

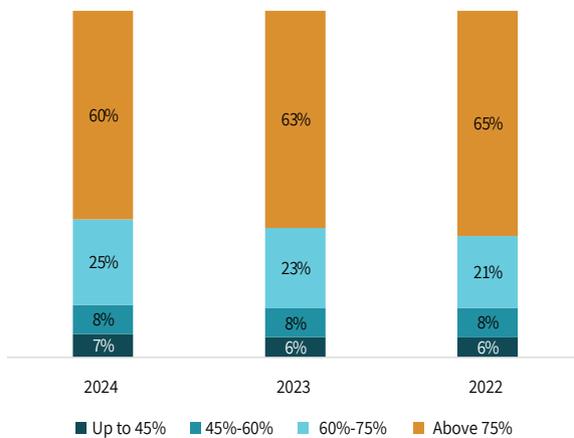
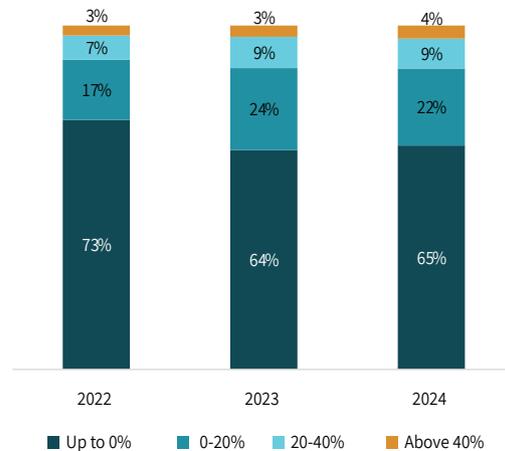


Figure 5.32

Breakdown of the gap between rate of progress in construction vs sales, All banks, December 2022–December 2024 | percent



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

³⁹ A gap between the rate of construction progress and the rate of sales may indicate difficulty on the part of the developer in selling the apartments. The larger this gap, the greater the implied difficulty in selling the apartments.

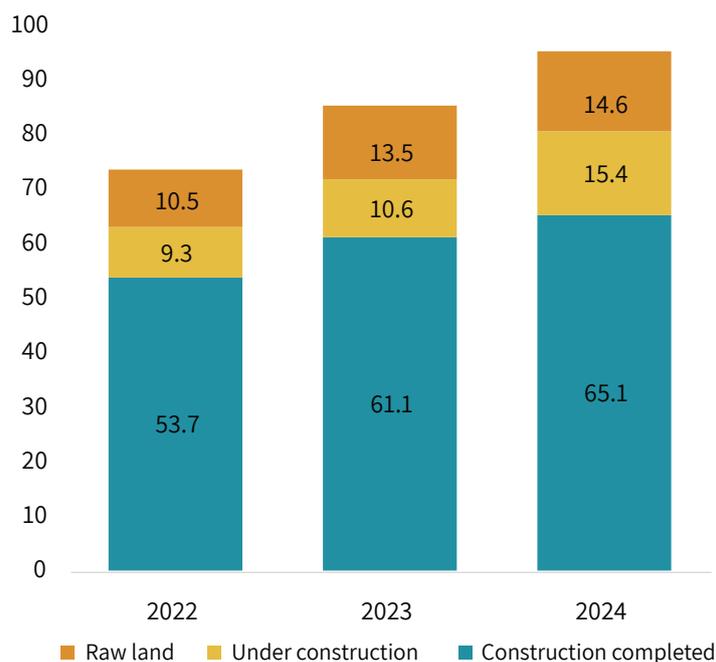
⁴⁰ Absorption capacity reflects the maximum possible decline in apartment sale prices that can occur without the bank incurring losses from the project. The developer also relies on equity capital, and therefore the bank's loss would occur only after the developer's equity loss.

Credit for offices and commerce

Outstanding credit for offices and commerce accounts for about 35 percent of credit secured by real estate in Israel. In 2024, outstanding credit for offices and commerce grew by about 12 percent, while commercial real estate (construction of which has been completed), which constitutes about 68 percent of this segment, grew by only 7 percent. In 2024, the growth of credit for offices and commerce in the construction stage was particularly notable, with the credit in this stage increasing by about 45 percent in 2024, reaching NIS 15.4 billion (Figure 5.33). The occupancy rate of offices and commerce spaces whose construction has been completed serves as a risk indicator that may reflect the project's robustness. The lower the occupancy rate, the lower the project's profitability may be, and accordingly, the credit risk of such a project increases. The share of credit extended to office and commerce projects whose construction has been completed and whose occupancy rate is below 75 percent is low and has also been on a downward trend (about 10 percent in 2022, about 7 percent in 2023, and about 6 percent in 2024).

There was an increase in office and commerce projects, particularly credit during the construction stage.

Figure 5.33 Total credit for offices and commercial according to stage of the project, All banks, December 2022–December 2024 | NIS billion



SOURCE: Bank of Israel Information and Statistics Department.

The improvement in credit risk indicators in the real estate sector (which is primarily offices and commerce) may explain the slight improvement observed in the risk indicators of the credit portfolio for the construction and real estate sector (Figures 5.28, 5.29 and 5.30).

3. Liquidity Risk

In 2024, there was a slight decline in the liquidity ratios of the banking system, although they remained stable and significantly above the minimum threshold set by the Banking Supervision Department. The trends that began in the last quarter of 2023, with the outbreak of the Swords of Iron War, continued in 2024. During this period, the Bank of Israel increased the volume of its monetary deposits at the expense of Makam issuances⁴¹, and the government increased its expenditures, resulting in a rise in government bond issuances and in their holdings by banking corporations. The growth in public deposits occurred mainly among commercial and institutional depositors, while retail depositors and small businesses preferred to hold short-term deposits—likely due to increased uncertainty. The share of institutional investors within the short-term deposit category rose slightly.

As part of liquidity risk management, Basel III established two standard liquidity ratios that banks are required to meet. The first is the Liquidity Coverage Ratio (LCR)⁴², which is designed to assess whether banks have a sufficient liquidity buffer to withstand a significant stress scenario lasting 30 calendar days. The second is the Net Stable Funding Ratio (NSFR)⁴³, which is used to determine whether the banks are maintaining a stable funding profile that is in line with the composition of their balance-sheet assets and off-balance-sheet activities. Compliance with this ratio indicates that sufficient stable funding sources are available to meet expected funding needs over a one-year horizon. Contemporaneous compliance with both ratios helps mitigate liquidity risk that may arise from unexpected changes in cash flows.

During 2024, there was a slight decline in the liquidity coverage ratio relative to the end of 2023. The ratio remained stable throughout 2024 and was 136 percent in December 2024, compared to 137 percent in December 2023. As of February 2025, the ratio declined somewhat further to 135 percent. The liquidity coverage ratio remains well above the minimum requirement set by

⁴¹ Makam is a security issued by the Bank of Israel for short periods (up to about one year), through which it can inject or absorb liquidity. These securities are issued to the general public and can be traded on the stock exchange. Makam are issued monthly, such that at any given time there are 12 tradable Makam series with maturities of up to one year. Makam yields can be used to calculate public expectations of inflation and thus assist in managing short-term monetary policy (up to one year).

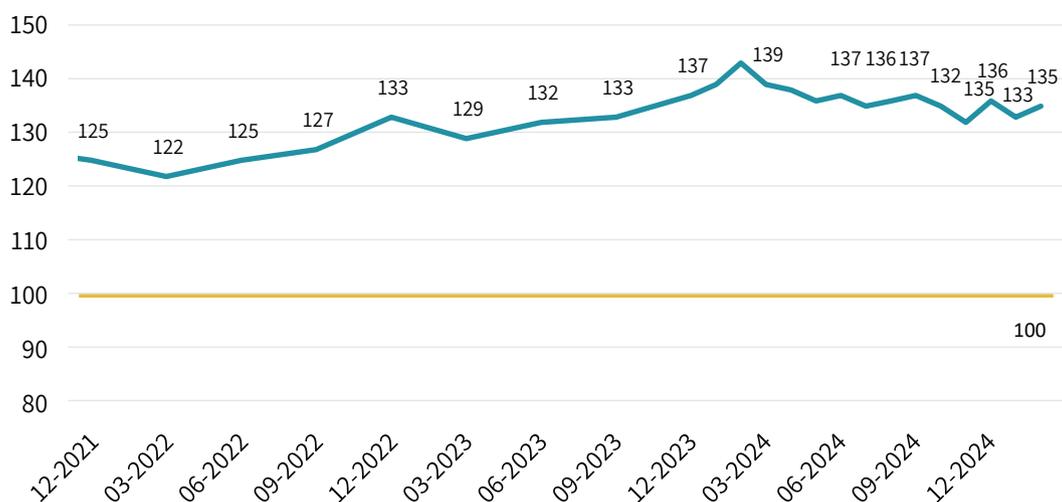
⁴² The LCR, developed by the Basel Committee to enhance the short-term resilience of banking corporations' liquidity profiles, is a measure of the quantity of High-Quality Liquid Assets (HQLA) that banking corporations should hold in order to withstand a significant stress scenario that lasts for 30 calendar days. The LCR is composed of two elements. The first, on the numerator side, is the inventory of HQLA, comprised of two levels of assets: Level 1, formed of high-quality assets that may be held in unlimited amounts, and Level 2, composed of assets that are limited to a maximum aggregate holding of 40 percent of the HQLA inventory. (This level is divided into two sublevels: 2A and 2B. At the latter level, the share of assets that may be held is limited to 15 percent.) The second element, on the denominator side, is the total net cash outflow, i.e., the expected total cash outflow less the expected total cash inflow in the stress scenario. The expected total cash outflow is calculated by multiplying the balances of different categories or types of balance-sheet and off-balance-sheet liabilities by their expected runoff or drawdown rates. The total expected cash inflow is calculated by multiplying outstanding contractual receivables by the rates at which they are expected to be received in the scenario, up to a cumulative 75 percent of the predicted total cash outflow.

⁴³ The goal of the NSFR is to improve the stability of the banking system's financing profile in the long term based on a requirement that the financing of the bank's activity be primarily based on financing sources that are relatively stable and long term (one year or more). The NSFR is composed of two components: the numerator – the available amount of stable funding (ASF), which is the part of capital and of liabilities that can be relied on as a source of financing over a period of one year or more; and the denominator – the required amount of stable funding (RSF), which is the total assets (including non-balance-sheet exposures) that the bank expects to have to finance over a period of one year or more and therefore stable and available financing should be maintained against it.

the Banking Supervision Department, and all the banking corporations are significantly above this threshold (see Figure 5.34). It should be noted that banking corporations are also required to meet the liquidity coverage ratio in foreign currency. The components of the foreign currency LCR are highly sensitive to changes in global capital markets and can be affected by relatively small movements in the ratio's components. These characteristics mean that the foreign currency LCR can be highly volatile. Accordingly, all banking corporations in Israel maintain this ratio at a level well above the minimum requirement set by the Banking Supervision Department.

During 2024, the Liquidity Coverage Ratio remained stable and was a higher level than the minimum requirement set by the Banking Supervision Department.

Figure 5.34 Liquidity Coverage Ratio (LCR), Total Banking System, September 2021–February 2025 (percent)



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

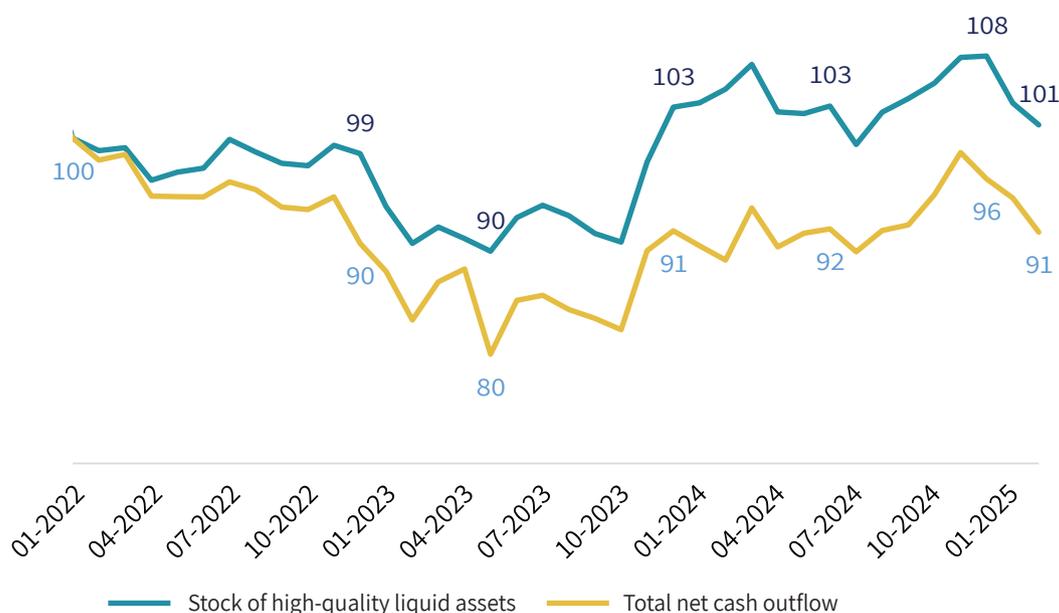
At the end of 2024, there was a similar rate of increase in both the stock of high-quality liquid assets (HQLA) and the projected net 30-day cash outflow—that is, 4.6 percent and 5.2 percent, respectively (see Figure 5.35). The main contributor to the increase in HQLA was the “reserves at the central bank” component, while there was a decline in the “eligible tradable securities” component. Beginning at the end of 2023 and continuing throughout 2024, the Bank of Israel increased the volume of monetary deposits at the expense of Makam issuances (see Figure 5.36). This trend, along with a reduction in Makam holdings by banking corporations and an increase in holdings by institutional investors, led to a rise in the central bank reserves component and a decline in the eligible tradable securities component. The decrease in eligible tradable securities was offset by an increase in government bond holdings by banking corporations (for further details, see Chapter 2 of this survey). The increase in net 30-day cash outflows was mainly due to a shortening of the average maturity of retail and small business deposits—especially at the beginning of the year—likely in response to the war and customers’ preference for more liquid

assets amid uncertainty. It was also driven by an increase in deposits from financial wholesalers (institutional investors), including short-term deposits.

At the beginning of 2025, there was a faster decline in the stock of HQLA relative to the decline in net cash outflows, with decreases of 5.9 percent and 5.1 percent, respectively. This erosion resulted from exceptionally high government tax revenues, particularly in January 2025, which led to a reduction in central bank reserves and in public deposits—mainly deposits by nonfinancial wholesale entities (commercial without institutional investors). The decline in these components was reflected in both the HQLA inventory and the projected 30-day cash outflow. As a result, the liquidity coverage ratio stood at 135 percent in February 2025.

At the beginning of 2025, there was a sharp decline in the stock of liquid assets and the net cash outflow; they are similar to their levels at the beginning of 2024.

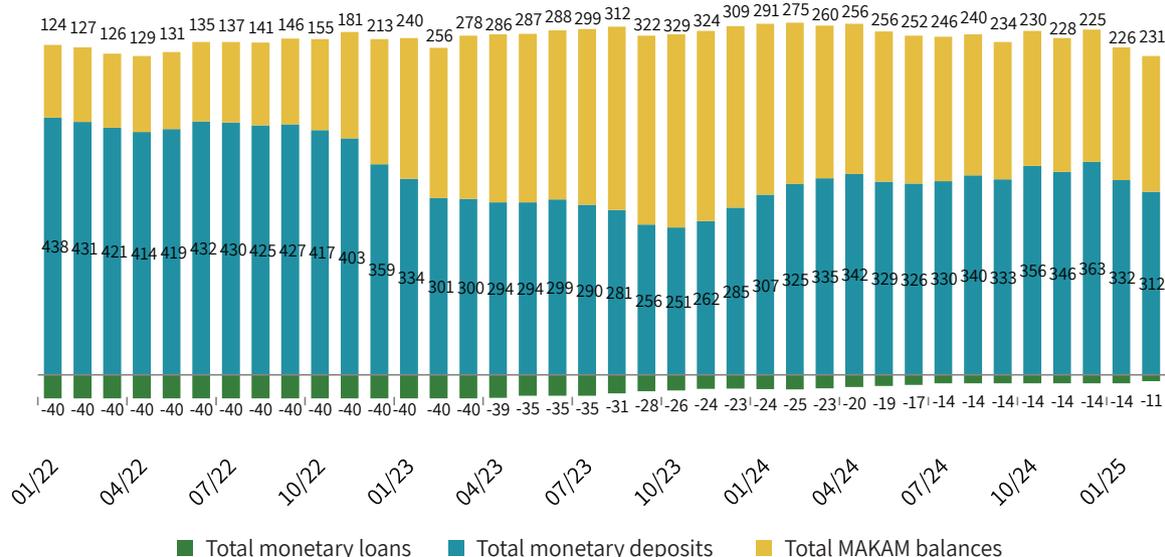
Figure 5.35 High-Quality Liquid Assets (HQLA) and Net Cash Outflow, Total Banking System, January 2022–February 2025 (index: January 2022=100)



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

Starting from the last quarter of 2023, the Bank of Israel increased the quantity of monetary deposits at the expense of Makam issuances.

Figure 5.36 Total Monetary Deposits and Loans, and Total MAKAM Balances, January 2022–January 2025 (NIS billion)

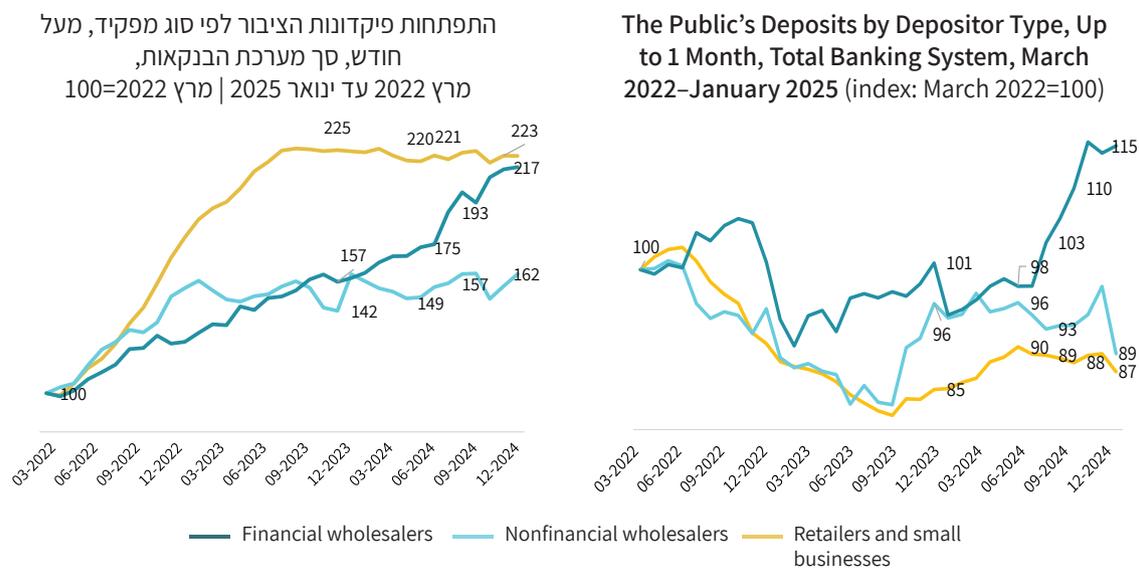


SOURCE: Bank of Israel Information and Statistics Department.

The public’s deposits constitute the majority of liabilities in the banking system. **The growth in the public’s deposits in 2024 was primarily reflected in deposits from institutional investors (see Figure 5.37),** with a notable increase in deposits for periods of longer than one month, with an annual increase of 36.9 percent compared to a 13.6 percent increase in deposits with maturities of shorter than one month. A similar trend was observed in commercial deposits, although with more moderate growth rates. In contrast, the opposite trend was observed among retail and small business deposits: deposits for periods of up to one month increased by 5.3 percent in 2024 (mainly in the first half of the year), while deposits for longer periods declined by 1.2 percent. This trend began at the end of 2023. In the first two months of 2025, there was an overall decline in the public’s deposits, particularly in deposits of up to one month and those of the business sector.

There was an increase in deposits with terms of up to one month, mostly of institutional investors

Figure 5.37



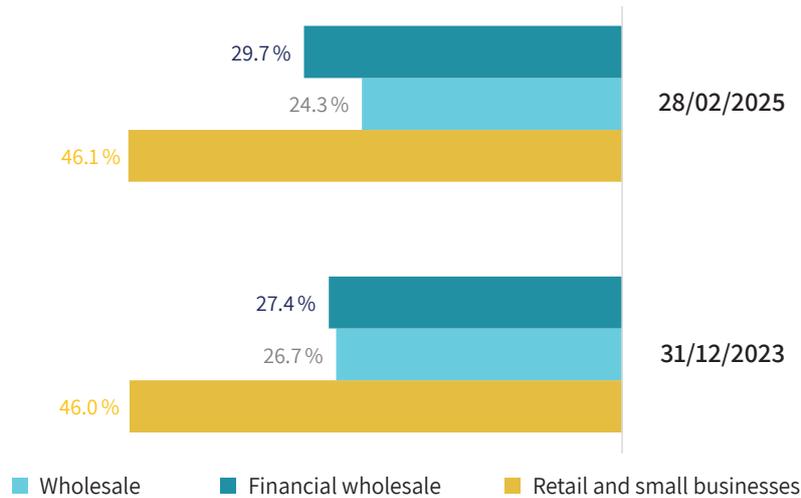
SOURCE: Based on published financial statements.

As of February 2025, the majority of the public’s total deposits (approximately NIS 2.1 trillion) are locked in for periods of up to one month (about 64 percent on average over the past two years). According to the Banking Supervision Department’s regulations,⁴⁴ the deposits of institutional investors are not considered to be a stable source for managing a bank’s liquidity risk, since they tend to be large and highly volatile. Therefore, they are weighted conservatively within the liquidity ratio. **Starting from the third quarter of 2024, there has been a moderate increase in the share of institutional deposits within total deposits with terms of up to one month**—from 27 percent at the end of 2023 to 30 percent in February 2025 (see Figure 5.38).

⁴⁴ Proper Conduct of Banking Business Directive no. 221 – Liquidity Coverage Ratio and 342 – Liquidity Risk.

There was an increase in the share of deposits belonging to institutional investors with a term of up to one month.

Figure 5.38 Breakdown of the public's deposits of up to one month, by type of depositor, December 2023, February 2025 | percent

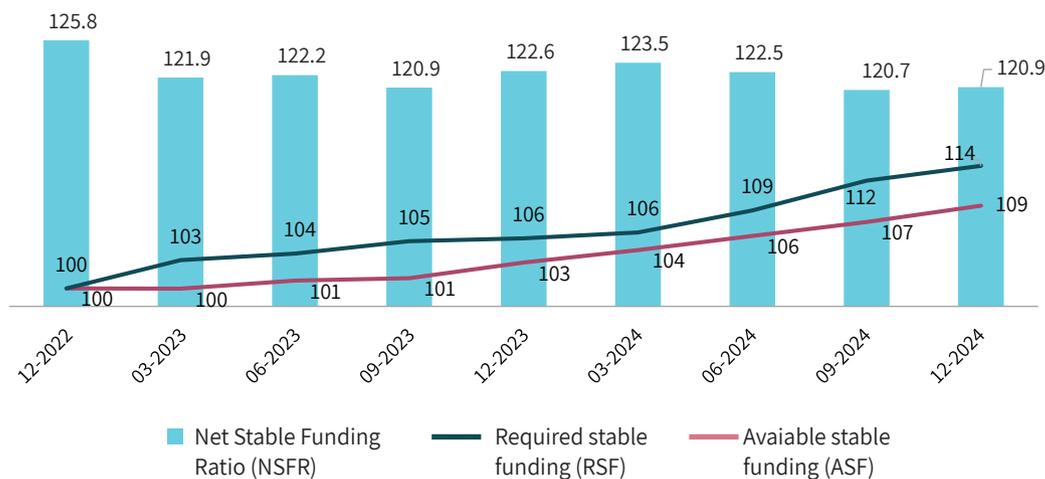


SOURCE: Based on published financial statements and processing by the Banking Supervision Department.

During 2024, the Net Stable Funding Ratio (NSFR) declined, ending the year at 120.9 percent, which is lower than its level in December 2023, when it was 122.6 percent (see Figure 5.39). The decrease in the ratio relative to December 2023 resulted from a faster increase in required stable funding items (7.7 percent in 2024) relative to the growth in available stable funding items (6.2 percent). This was mainly due to a more rapid increase in outstanding credit compared to a more moderate increase in stable liabilities with maturities of over one year (primarily deposits). It should be noted that the banking system's NSFR remains above the minimum regulatory requirement set by the Banking Supervision Department, which is 100 percent.

There was a decline in the Net Stable Funding Ratio against the backdrop of moderate growth in deposits with a term of over one year.

Figure 5.39 Total Available Stable Funding (ASF) and Total Required Stable Funding (RSF)^a, Total Banking System, December 2022–December 2024 (index: December 2022=100)



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

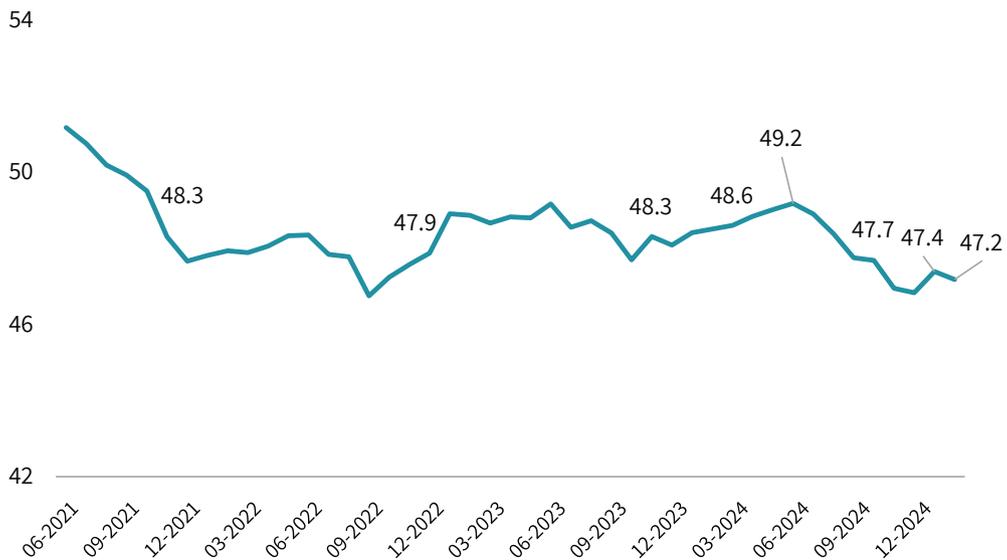
SOURCE: Based on published financial statements.

The Core Funding Ratio (CFR)⁴⁵ is intended to assess the quality of the funding sources on which a bank relies—that is, the proportion of stable liabilities within total liabilities. In 2024, the ratio declined due to a faster increase in total liabilities compared to the increase in stable liabilities (an annual increase of 9.7 percent versus 4.4 percent; see Figure 5.40). The increase in stable liabilities was driven by growth in retail and small business deposits, as well as a slight increase in institutional deposits with maturities of over one year. At the beginning of 2025, the ratio showed a slight improvement, despite a decline in retail and small business deposits. This decrease was offset by an increase in bonds and Subordinated Debt Instruments.

⁴⁵ According to the definition of the European Banking Authority (EBA), the CFR is composed of two components: in the numerator—total stable liabilities, which is composed of total retail deposits, total wholesale deposits for a period of over one year and bonds and Subordinated Debt Instruments; while in the denominator—total liabilities.

The Core Funding Ratio fell somewhat due to a relatively moderate increase in stable liabilities.

Figure 5.40 Core Financing Ratio (CFR)^a, Total Banking System, June February 2025 (percent)



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

SOURCE: Based on reports to the Banking Supervision Department.

4. Market Risk

In 2024, the global financial markets experienced impressive growth, mainly due to relative stability in inflation rates and significant interest rate cuts, which led to broad economic recovery and positive trends in major stock indices. This occurred despite geopolitical tensions that affected some markets.

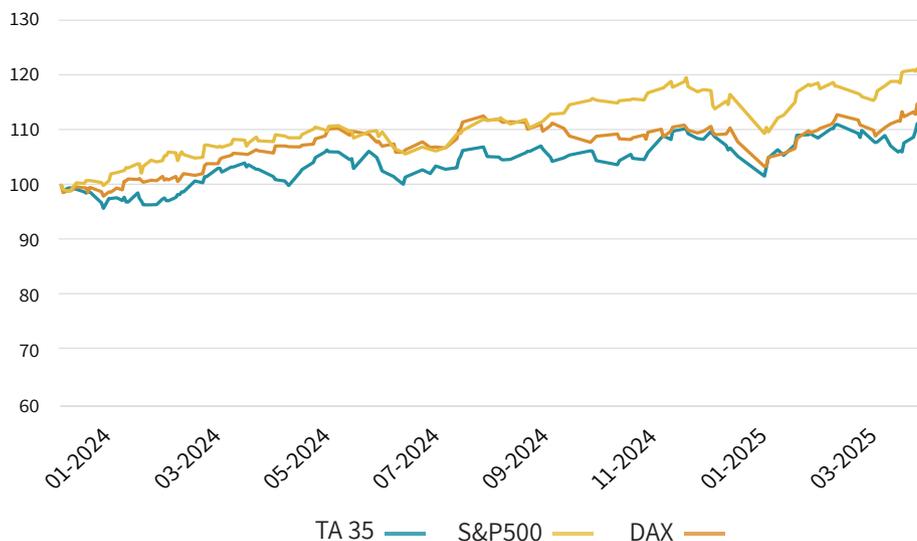
In Israel, the continued warfare and domestic political uncertainty were reflected, among other things, in the downgrade of Israel's credit rating⁴⁶, and as a result, also that of many Israeli companies, including Israeli banks.⁴⁷ Nevertheless, the level of economic activity improved slightly over the course of the year. In addition, the relatively stable monetary policy of the Bank of Israel⁴⁸ helped moderate the inflation rate and contributed to increases in domestic equity indices, particularly the bank stock index (for further details, see Chapter 3.4 of this survey). The market and interest rate risk indices of Israeli banks, which were affected by developments in financial markets, indicate an increase in risk levels during 2024. The year 2025 is expected to be a challenging one for financial markets, with monetary policy changes in response to shifts in inflation and concerns over a slowdown in economic activity. This is alongside geopolitical tensions that may affect market stability and create significant volatility (Figure 5.41), highlighting the major challenges inherent in market and interest rate risk, and the importance of managing them.

⁴⁶ On February 9, 2024, Moody's announced a downgrade of Israel's credit rating to A2 with a negative outlook, and on September 27, 2024, it announced two additional downgrades to a rating of Baa1 with a negative outlook. S&P announced on April 18, 2024, a downgrade of Israel's long-term credit rating to A+ with a negative outlook, and on October 1, 2024, it announced a further downgrade to a rating of A with a negative outlook. On August 12, 2024, Fitch announced a downgrade of Israel's credit rating to A- with a negative outlook. In this context, during 2025, all three rating agencies affirmed Israel's credit rating and maintained the negative outlook.

⁴⁷ Israel's credit rating directly affects the credit rating of Israeli banks, and therefore, a downgrade of Israel's credit rating technically leads to a downgrade of the banks' credit ratings as well.

⁴⁸ Relative to the outliers of the fourth quarter of 2023, which were affected by the start of the Swords of Iron War. For further details, see: [The National Accounts: Third Estimate for the Fourth Quarter of 2024](#), Central Bureau of Statistics [Hebrew].

Volatility in equity indices

Figure 5.41 Leading share indexes January 2024–April 2025, January 2024 = 100

Source: Based on Bloomberg and the Tel Aviv Stock Exchange.

a. Exposure to Interest Rate Risk⁴⁹

According to the Net Interest Income approach, which examines the impact of changes in interest rates on expected profits over a twelve-month horizon, the effect of a parallel interest rate⁵⁰ decrease scenario declined during 2024 relative to the end of 2023. The potential loss as a percentage of total revenue under this scenario⁵¹ decreased relative to 2023 (Figure 5.42) across all banks. The decline in the loss ratio stems from both a reduction in the total potential loss—NIS 3.4 billion at the end of 2024, compared to NIS 4.8 billion at the end of 2023—and an increase in profitability (interest and noninterest income for 2024 amounted to NIS 139 billion, compared to NIS 127 billion in all of 2023; for further details, see Chapter 3 of this review). The decrease in total potential loss is due to, among other factors, the continued shift of funds from noninterest-bearing current accounts to other investment channels and adjustments in the banks' internal models for estimating the impact of such changes.

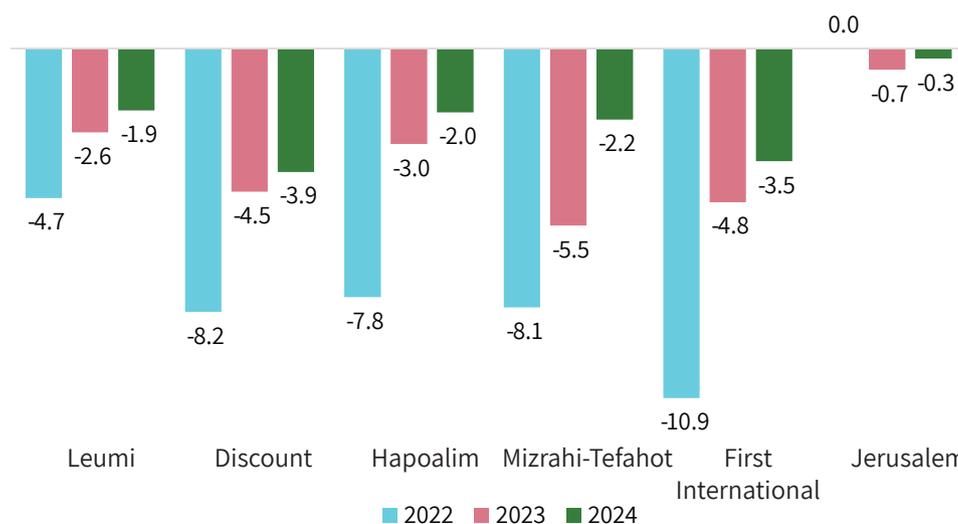
⁴⁹ Interest rate risk (excluding credit spread risk) is the threat to the banks' capital and profits as a result of movements in interest rates that affect the existing positions of each bank. When interest rates change, the present value and timing of future cash flows also change. These, in turn, alter the underlying value of assets, liabilities, and off-balance-sheet items, thereby changing the bank's economic value. Changes in interest rates also impact the profits of the banking corporations by altering interest-sensitive revenue and expenses, thus affecting net interest income (NII). Excessive interest rate risk can pose a serious threat to a banking corporation's capital base and/or future profitability if not properly managed.

⁵⁰ Parallel scenarios are those in which market interest rates rise or fall by the same rate and at the same time. These scenarios are designed to assess the impact of a general increase or decrease in interest rates on the bank's balance sheet, income and expenses, and the level of risk it bears.

⁵¹ Interest income includes both interest revenues and non-interest financing income.

There was a decline in the sensitivity to changes in revenues as a result of possible changes in the interest rate.

Figure 5.42 The effect of a drop of one percentage point in interest income and non-interest financing income All banks, 2022–24 | percent



Source: Based on published financial statements.

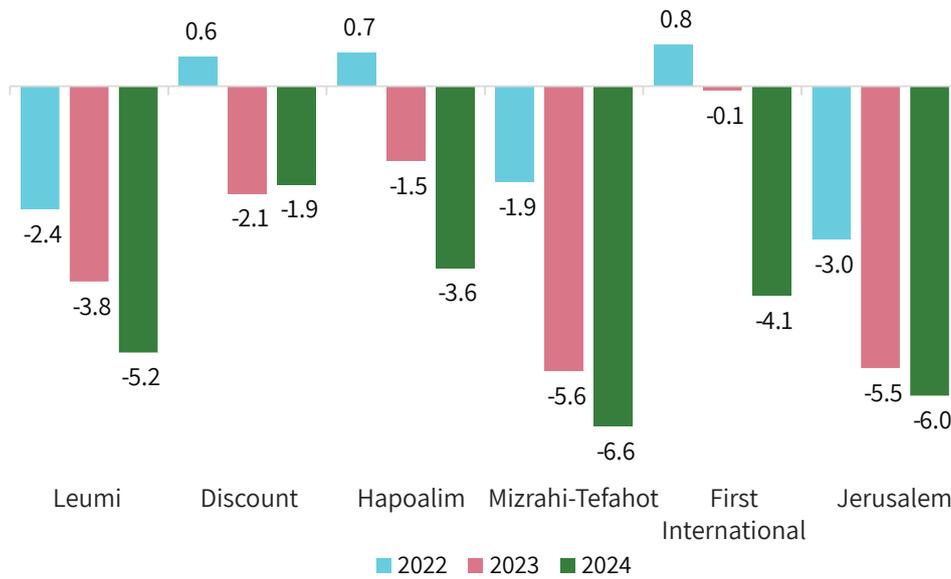
The Economic Value of Equity approach, used to estimate interest rate risk over a horizon of longer than one year, examines the impact of various interest rate scenarios on the economic value of the banking corporation's assets, liabilities, and off-balance sheet positions. **As of the end of 2024, there was an increase in the banking system's exposure to a scenario involving a parallel 1-percentage point increase in interest rates (Figure 5.43).** The rise in sensitivity to such scenarios in recent years stems from, among other factors, developments in the banks' balance sheets, which is reflected in a lengthening of asset duration⁵² and a shortening of liability duration (Figure 5.44), alongside adjustments made to internal models⁵³ used to estimate sensitivity to different scenarios.

⁵² For further details on developments in the securities portfolio, see Chapter 2 of this review.

⁵³ These models include the effect of the spread of the public's on-demand deposits across periods, the effect of assumptions with regard to early redemption of housing loans and the effect of other behavioral assumptions.

There was an increase in the sensitivity of the banking system to parallel change scenarios.

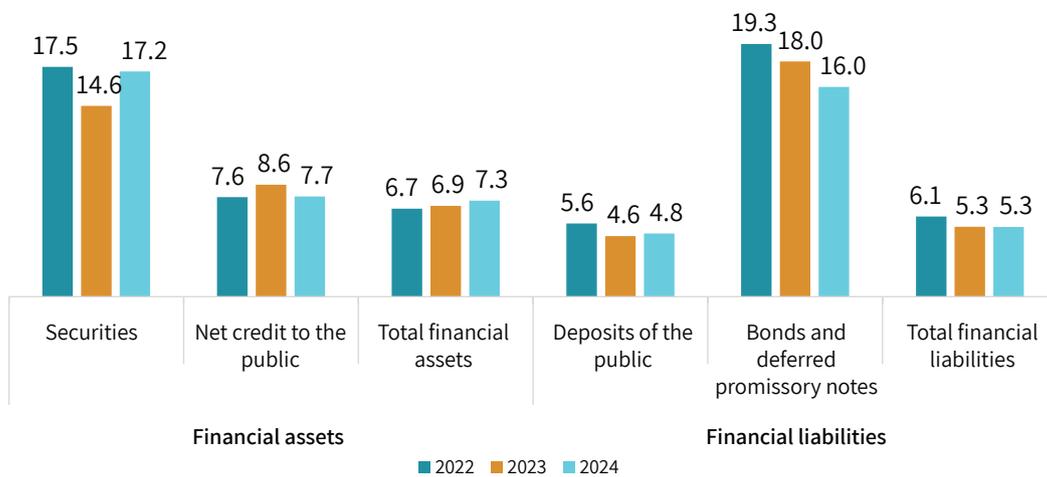
Figure 5.43 Effect of a parallel increase of one percentage point on the fair value relative to capital All banks, 2022–24 | percentage points



SOURCE: Based on published financial statements.

In recent years, there has been a lengthening of asset duration and a shortening of liability duration.

Figure 5.44 Duration of main financial assets and liabilities, All banks, 2022–24 | years



SOURCE: Based on published financial statements.

b. Indexation Base Risk

The Israeli banking system is characterized by a unique exposure to the CPI. This exposure is reflected in a surplus of CPI-indexed assets over CPI-indexed liabilities and directly affects the banks' profits. During periods of inflation, the value of assets rises faster than that of liabilities, while during periods of deflation (negative inflation), the value of assets erodes more quickly than that of liabilities. The management of CPI exposure is carried out using various financial instruments, including derivatives, to balance assets and liabilities.

In 2024, the banking system's exposure to the CPI continued to grow. The total exposure⁵⁴ to the index increased by about 13 percent over the course of 2024, reaching NIS 127 billion. However, the ratio of CPI exposure to Common Equity Tier 1 Capital remained relatively stable compared to the end of 2023, standing at approximately 64 percent partly due to a similar growth rate in capital. In addition, the net exposure ratio (after the effect of derivatives) stood at 59 percent, the same level as at the end of 2023.

Despite the increase in total exposure to the CPI, the rate of exposure relative to Common Equity Tier 1 Capital remained stable.

Figure 5.45 Exposure^a to the CPI, All banks, 2020–2024 | NIS billion

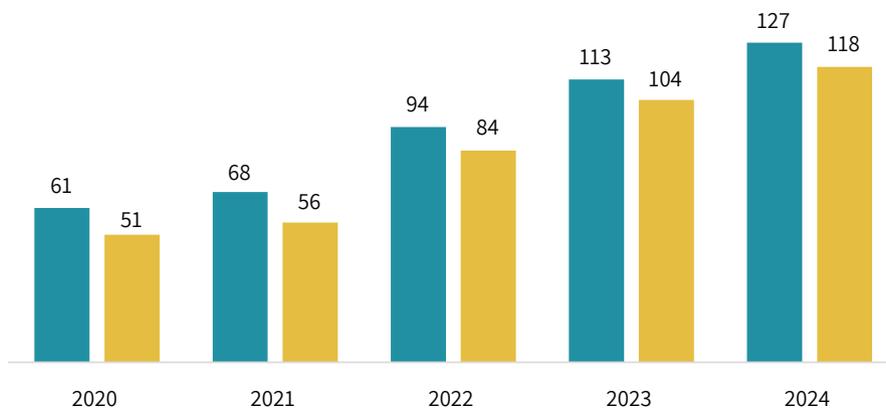
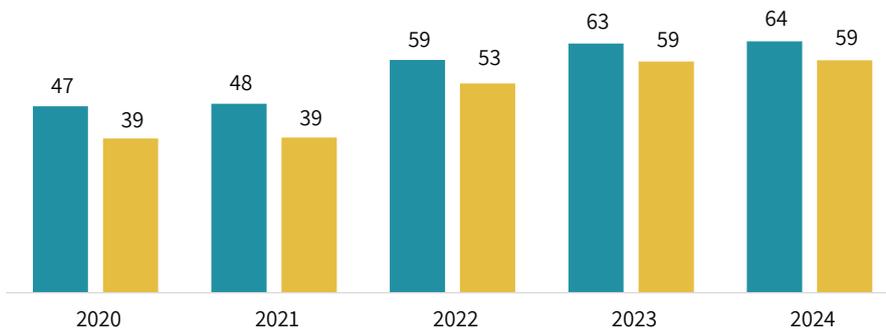


Figure 5.46 Exposure^a to the CPI Relative to Tier 1 Capital, Total Banking System, 2020–2024 (percent)



a Gap between assets and liabilities

SOURCE: Based on published financial statements.

■ Exposure after the effect of derivatives (net)

■ Exposure before the effect of derivatives (gross)

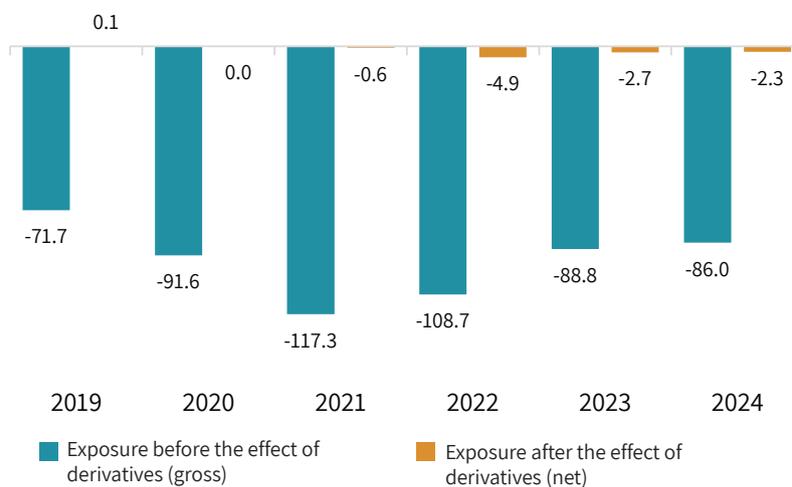
⁵⁴ Total exposure is calculated as the difference between CPI-indexed assets and CPI-indexed liabilities.

c. Foreign Currency

In the foreign currency segment, the banking system has a considerable excess of liabilities over assets (about NIS 170 billion). Most of the exposure is to the US dollar, so a scenario of the weakening of the shekel vis-à-vis foreign currencies is liable to cause notable losses to the banks (as in such a case the weakening of the shekel will lead to increases in the banks' liabilities and to a contraction of their capital). Therefore, the banks hedge the foreign currency exposure by derivatives activity, so that the net exposure (after the effect of derivatives) is very low (approximately NIS 4.7 billion). This is seen in the ratio of net exposure of the exchange rate to Tier 1 Capital, which declined slightly during 2024, to 2.6 percent, compared to 2.7 percent at the end of 2023 (Figure 5.47). This is in view of the continued growth in capital (for an expanded discussion see Chapter 4 of this review) and a slight decline in total exposure compared to 2023 (NIS 4.8 billion).

Text

Figure 5.47 Exposure^a to the Exchange Rate Relative to Tier 1 Capital, Total Banking System, 2019–2024 (percent)



a Difference between assets and liabilities.

SOURCE: Based on published financial statements.

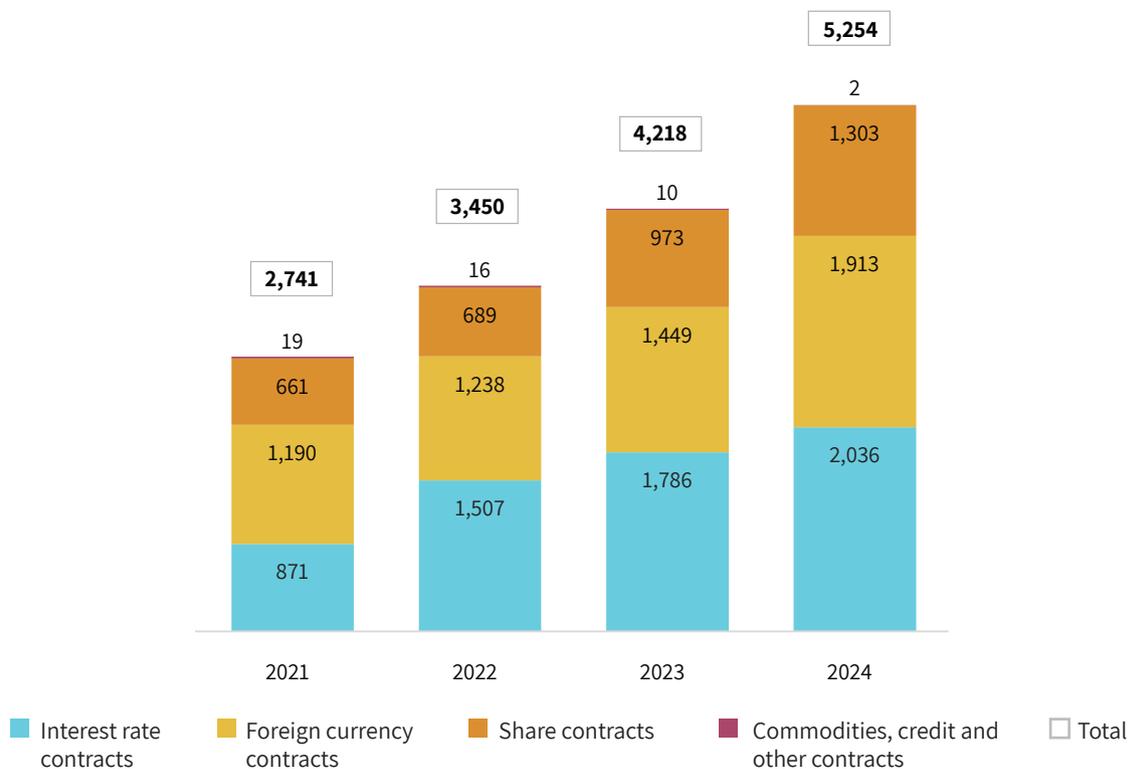
d. Derivatives Activity

The derivatives portfolio includes activity for trading and not for trading. The goal of the activity that is not for trading is to hedge against foreign currency risks and interest rate risks in the banking portfolio that were created in the regular activity of financial intermediation. The for-trading activity (which makes up about 90 percent of the notional value of the activity as of the end of 2024) includes activity in derivative instruments for the purpose of generating short-term profits as well as for providing a service to the bank's customers who are interested in hedging their real

activity (such as interest rate contracts and purchasing foreign currency for business customers) or trading financial instruments on their own, with the bank as counterparty (for example, institutional investors' equity derivatives or short selling by other customers from the financial sector (speculators)). Within this framework, the banks benefit, as market makers, from spreads on the purchase and sale of derivative financial instruments and foreign currency. There were several developments this year that testify to an increase in the risk level in banking system activity in derivative instruments, even though Israeli banks' activity in derivative instruments is considered conservative. This year, the increase in in scope of derivative activity continued— notational amount of NIS 5,254 billion as of the end of 2024, compared to NIS 4,218 billion at the end of 2023 (Figure 5.48). However, the total credit risk of the banking system as of the end of 2024 was approximately NIS 110 billion (compared to NIS 89 billion at the end of 2023, Figure 5.49), where a third of total credit risk is attributed to activity against institutional investors.

Text

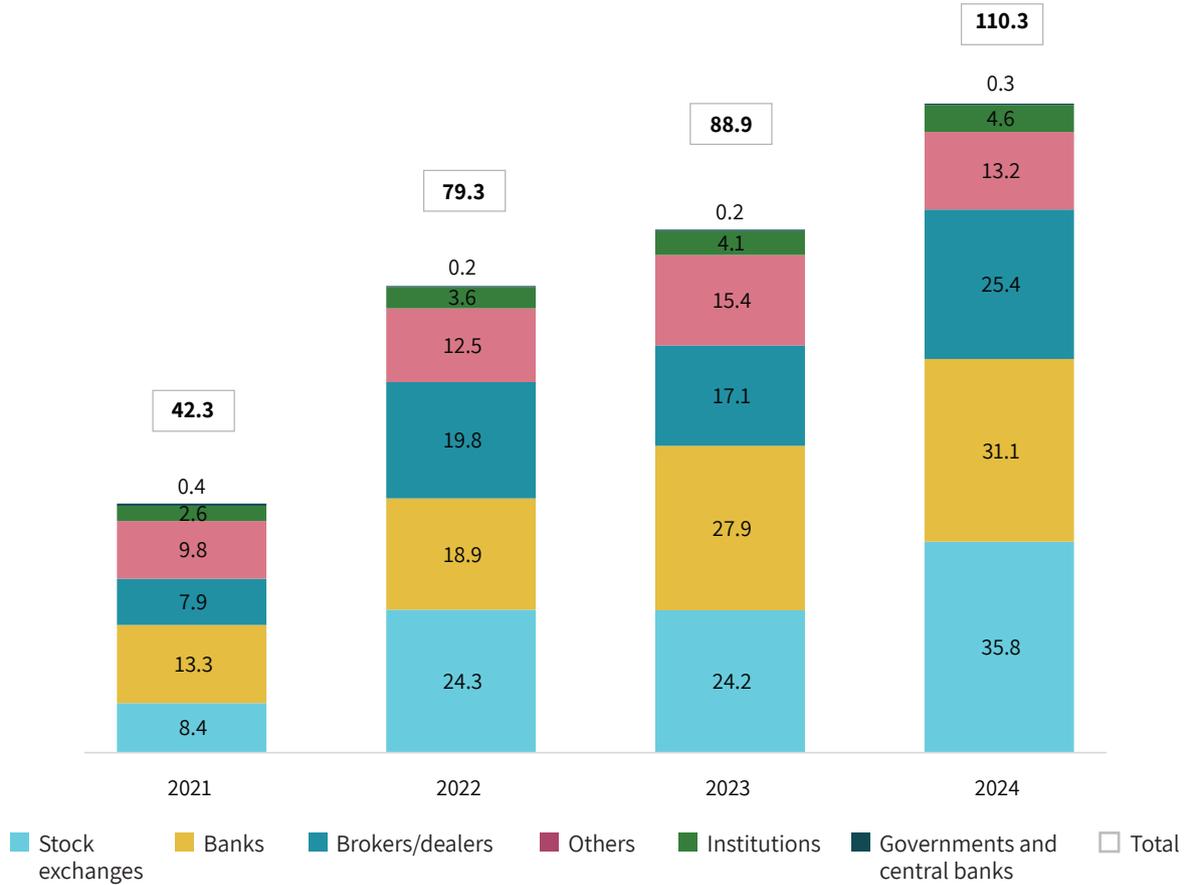
Figure 5.48 Nominal amount of derivative instruments, All banks, 2021–24 | NIS billion



SOURCE: Based on published financial statements.

Text

Figure 5.49 Total credit risk due to derivative instruments, Total Banking System, 2021-2024 | NIS billion



SOURCE: Based on published financial statements.

5. The Credit Card Companies

a. The operating environment of the credit card companies

The operating environment of the credit card companies in Israel has undergone significant changes in recent years, driven by both regulatory developments and competitive and technological shifts in the financial sector.

Three credit card companies operate in Israel, Isracard, Max, and Cal. These companies issue and clearing five brands of local and international credit cards: Visa, Mastercard, American Express, Diners, and Isracard. In addition, two other clearing companies operate in the market—Tranzilla and Cardcom. These companies received clearing licenses in 2017 and 2018, respectively.

Separation of the credit card companies from the banking system

On January 31, 2017, the Increasing Competition and Reducing Concentration in the Banking Sector in Israel Law, enacted following the recommendations of the Strum Committee, went into effect. Under the law, Isracard and Max (formerly Leumi Card) were separated from Bank Hapoalim and Bank Leumi, respectively, in view of their classification as “large banks.”⁵⁵ At that time, Discount Bank, which controls Cal, was not required to sell its holdings, due to its smaller market share.

In December 2022, the implementation committee published its recommendation to require Bank Discount to sell Cal. This recommendation was formalized in regulations approved by the Knesset in January 2023, which stipulate that Discount Bank must sell its holdings in Cal within three years, or within four years if it opts for an IPO. In July 2024, the proposed law was approved, extending the timeline for the company’s sale by fifteen months (until May 2027 or under certain circumstances until May 2028). At the time of writing, Cal had not yet been sold, although Discount Bank has begun preparing for the sale during the past year.

Isracard, which was previously separated from Bank Hapoalim and has been a public company since April 2019, recently signed an agreement with the Delek Group for the sale of controlling interest in the company. Completion of the agreement is subject to several conditions, including approval by the Banking Supervision Department.⁵⁶ MAX is controlled by Clal Insurance Enterprises Holdings Ltd.

Regulation of clearing activity

In addition to the three main credit card companies, two other companies Tranzilla and Cardcom, operate in the clearing market, providing clearing services to businesses. In July 2024, Tranzilla received a permanent clearing license, allowing the company to process payment card transactions without restrictions. This marks another step in opening up the clearing market to competition,

⁵⁵ Banks that hold more than 20 percent of the assets in the banking system.

⁵⁶ This follows the interest shown by the Harel company in purchasing it last year. However, the transaction was blocked by the Competition Authority. For further details, see Chapter 1.2 in Israel’s Banking System 2023.

which was previously dominated by the credit card companies.⁵⁷ It is also worth noting that under the Payment Services Law, which came into effect in June 2024, the Israel Securities Authority was designated as the regulator for new clearing. For existing clearing companies, a transition period of up to 18 months was set, during which the Bank of Israel will continue to supervise them until the full transfer of oversight to the Israel Securities Authority.

Promoting a phased framework for granting banking corporation licenses to non-bank entities

As part of infrastructure efforts to promote competition in the banking system, the Governor of the Bank of Israel and the Minister of Finance appointed a joint task force in November 2024 to formulate a framework for granting banking corporation licenses to nonbank entities.

The goal of this framework is to enhance competition in retail banking services by removing barriers with the goal of enabling new players to enter the system (for further details, see Box 1.1 in Israel's Banking System Review 2023). As noted in the task force's interim report,⁵⁸ credit card companies are considered to be key candidates to receive a banking license under this framework, which may represent a valuable opportunity for them to expand their activities in the credit market. Additionally, the license would allow them to offer new banking products and services, such as accepting public deposits, thereby enabling them to deliver new value propositions to a broader customer base.

b. Capital

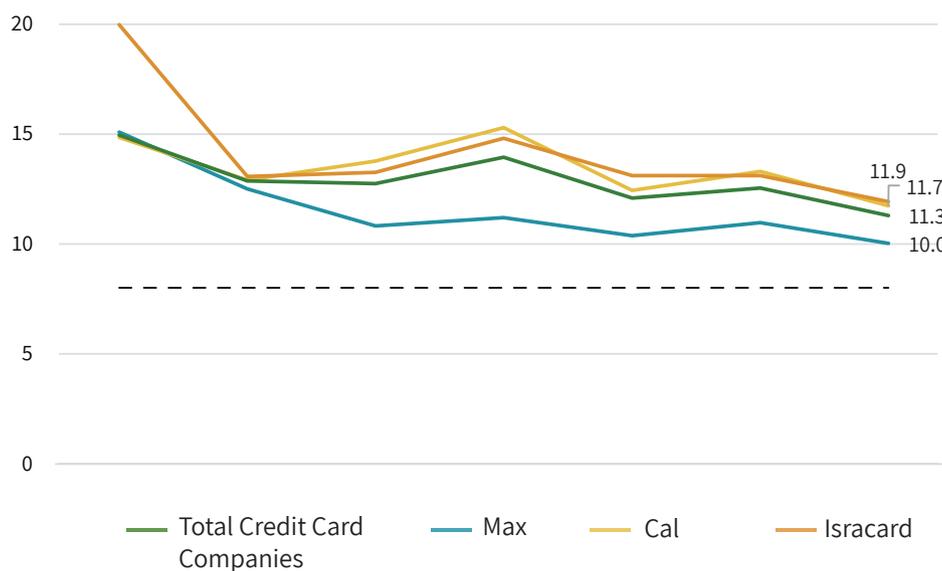
The credit card companies' Tier 1 capital ratio stood at 11.3 percent in 2024, which is significantly higher than the required regulatory minimum (8 percent). Relative to 2023, this represents a decline in the ratio, which then stood at 12.5 percent (Figure 5.50). The decline characterized all companies, due to a faster growth in risk-weighted assets relative to the growth rate of Tier 1 capital.

⁵⁷ Bank of Israel press release: The Bank of Israel has granted a permanent clearing license to Tranzilla Ltd.

⁵⁸ The Taskforce to Examine Ways of Increasing Competition in the Banking System in the Retail Sector.

The Tier 1 equity capital ratio fell last year, although it remained at a high level relative to the regulatory minimum.

Figure 5.50 Tier 1 Capital Ratio, Credit Card Companies, 2018–2024 (percent)



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

c. Credit Card Activity

The activity of credit card companies focuses on two main sectors: issuing and clearing (for further details on activity in these sectors, see Chapter 5 of Israel's Banking System 2023). The issuing sector has two components: the issuance of debit cards for customers of banks with which the company has entered into agreements; and issuing nonbank cards, either in cooperation with customer clubs or through direct marketing to the customer. It should be noted that credit card companies share their revenues from card issuance with the entities with which they have agreements (whether as part of joint issuance agreements with the banks or other agreements with customer clubs). For cards issued exclusively by the company directly to the customer, the company does not share the revenues with other entities and can allocate part of those revenues to offer attractive benefits to customers. In addition to operating and issuing debit cards, credit card companies offer additional value propositions to customers in the issuing sector (mainly private individuals), in the form of interest-bearing credit and other financial products. The clearing sector includes clearing services for businesses with which the company operates. Similarly, and in addition to clearing services, credit card companies offer value propositions to customers in this sector (businesses) in the form of interest-bearing credit, voucher discounting, early payment of installments, etc. Below we will discuss developments and trends in the activity of bank and nonbank credit cards over the past year.

As of the end of 2024, there were 11.4 million active payment cards⁵⁹ in Israel, 63 percent of which are bank-issued. In contrast, the growth rate of nonbank cards is higher than that of bank cards (see Figures 5.51 and 5.52). The volume of transactions⁶⁰ conducted with payment cards in 2024 was approximately NIS 560 billion, with 71 percent of the transactions made using bank-issued debit cards. Similarly, while bank-issued debit cards still represent the majority of the total transaction volume, the growth rate of transactions with nonbank cards is higher (see Figures 5.53 and 5.54).

The number of nonbank credit cards continues to grow at a faster pace than that of bank-issued credit cards.

Figure 5.51

Number of bank and non-bank credit cards, all credit card companies, December 2017–December 2024 | millions

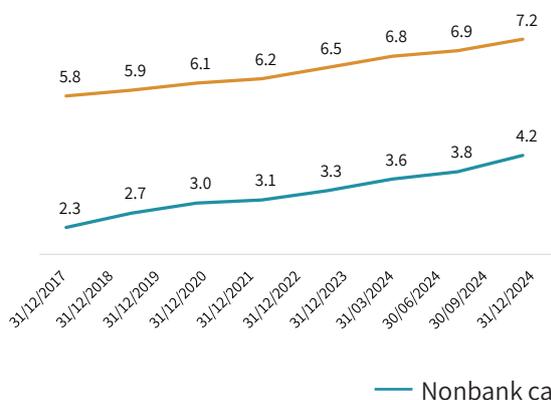
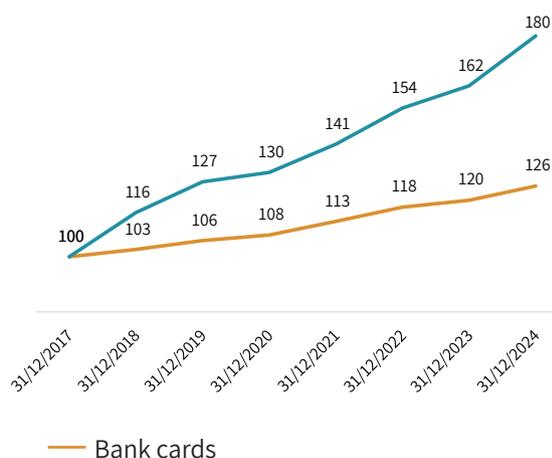


Figure 5.52

Index of number of bank and non-bank credit cards, all credit card companies December 2017–December 2024 | percent



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

⁵⁹ Cards that were valid at the end of the survey period and on which at least one transaction was carried out during the fourth quarter.

⁶⁰ The volume of transactions in Israel and abroad, with a bank guarantee, credit card companies and others.

The picture is similar for transactions volumes: Most of the transactions are carried out using bank-issued payment cards; however, the rate of growth for nonbank payment cards is higher.

Figure 5.53

Bank and non-bank credit card transactions, all credit card companies
December 2017–December 2024 | NIS billion



Figure 5.54

Index of number of bank and non-bank credit cards, all credit card companies
December 2017–December 2024 | NIS billion



— Nonbank cards — Bank cards

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

An analysis of additional characteristics of the activity patterns of bank versus non-bank cards shows that bank cards lead in terms of the average number of transactions per card, as well as the average monthly spending per card. However, starting in 2020, there has been a reversal in the trend regarding the average transaction amount per card, with non-bank cards exceeding bank-issued cards (see Figure 5.55, 5.56 and 5.57).

Average transaction amount per card, monthly average amount and average number of transactions.

Figure 5.55

Average monthly transaction, by type of card
2017-24 | NIS



Figure 5.56

Average monthly number of transactions
per card, by type of card
2017-24 | NIS

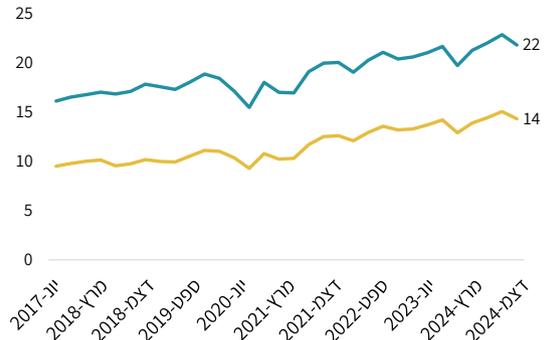
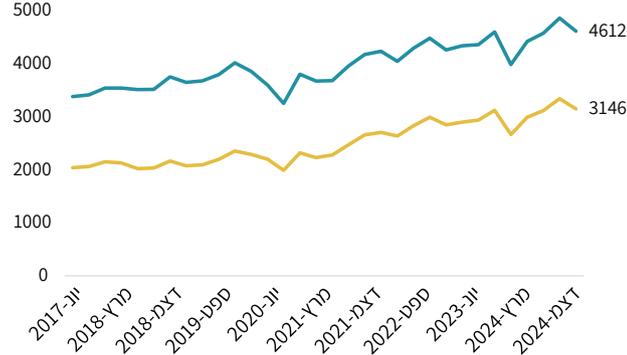


Figure 5.57

Average monthly debit per card, by type of
card 2017-24 | NIS



— Nonbank cards — Bank cards

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

d. Profitability

The net profit of credit card companies in 2024 was NIS 840 million, which represents a decrease of about 9 percent relative to 2023 (NIS 920 million, see Figure 5.58). It should be noted that the source of the decline in profitability was the “Other” category, which recorded a one-time large profit in one of the companies last year. Excluding the “Other” category, the profitability of the credit card companies’ core sectors grew over the past year (by approximately 13 percent). In 2024, the net profit of the companies in the clearing sector (including related products, as mentioned above), which accounts for about 60 percent of the companies’ net profit, grew by approximately 19 percent and amounted to about half a billion shekels. The net profit of the companies in 2024 in the issuing sector, which accounts for about one-third of their net profit, grew by 5 percent and amounted to approximately NIS 280 million.

In examining the companies’ revenues, the main revenue component remains income from credit card transactions. This component accounts for 67 percent and reflects the companies’ income from core credit card activity. The next largest component is net interest income, which accounts for about 32 percent and reflects the companies’ income from interest-bearing credit activity. It is worth noting that the share of net interest income within company revenues has been on an upward trend in recent years (31 percent in 2023, 26 percent in 2022, and 24 percent in 2021). In 2024, the growth of revenue from overseas transactions was particularly noticeable, likely due to the impact of the war. On the expense side, a decrease in loan loss provisions was evident relative to 2023, following high expenses in 2023, improved credit quality, and adjustments made by the companies to expenses in response to the operating environment. The return on equity for the credit card companies in 2024 stood at 11 percent, compared to 13.2 percent in 2023 (see Figure 5.59).

There was a decline in the profitability of the credit card companies, primarily due to the recording of a one-time profit in the previous year.

Figure 5.58

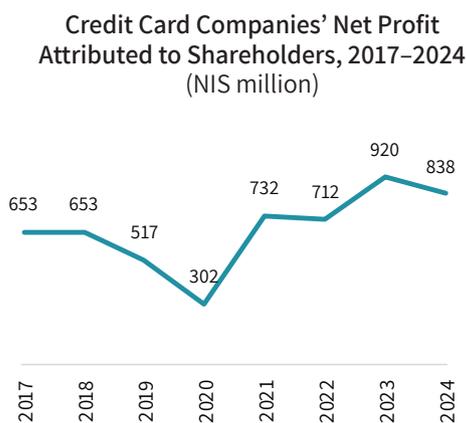
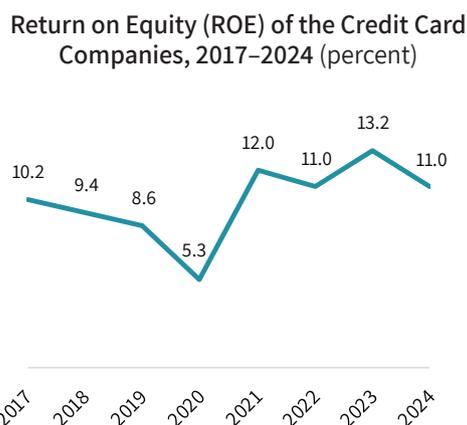


Figure 5.59



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

e. Credit

In 2024, the credit portfolio of the credit card companies amounted to approximately NIS 31 billion, representing an increase of about 8.6 percent relative to 2023.⁶¹ Growth was recorded both in credit to individuals, which grew by around 7 percent, and in commercial credit, which grew by approximately 18 percent.

The geopolitical challenges, high interest rate and credit rating downgrades of the State of Israel in 2024 had a partial impact on credit card companies. They presented a mixed trend in credit portfolio quality indicators, which was reflected in a decrease in loan loss provisions and an improvement in ratios of problematic credit, alongside a decline in coverage ratios.

Credit to individuals

At the end of the year, the portfolio of credit to individuals provided by credit card companies amounted to approximately NIS 26 billion, reflecting an increase of about NIS 1.7 billion (an increase of about 7 percent compared to 2023; see Figure 5.60). This portfolio accounts for about 84 percent of the companies' total credit portfolio and includes a variety of interest-bearing credit products, in particular other consumer credit, revolving credit,⁶² and loans secured by a vehicle.

⁶¹ Interest-bearing credit to individuals includes loans, revolving credit, credit for vehicle purchases, and credit transactions with variable interest rates. This type of credit does not include regular transactions and installment transactions at the expense of the business. Interest-bearing credit to businesses includes, among other things, short-term loans, long-term loans, and autonomous guarantees.

⁶² When using a deferred debit card, there is a predetermined credit limit. On the monthly due date, the cardholder can repay part of the total amount charged for the transactions and defer the unpaid balance to the next month. For postponing the repayment to subsequent months (i.e., "revolving the credit") the customer will pay interest. See the guide for customers on this topic on [the Bank of Israel website](#) [Hebrew]

As of the end of 2024, consumer credit accounted for the largest share (about 60 percent) of the portfolio of credit to individuals. Revolving credit accounted for about 22 percent, and credit secured by a vehicle for about 18 percent. The main source of portfolio growth in 2024 was a sharp increase in credit secured by a vehicle, which is consistent with the environment of uncertainty and the lower risk characteristics of vehicle loans compared to other consumer loans (since they are backed by collateral). In addition, this trend corresponds to the development of the market for vehicle credit provided by nonbank institutions (for more information, see Spotlight D in the Financial Stability Report).⁶³ Vehicle-secured credit registered a sharp increase of about 51 percent, a particularly high growth rate relative to its share of the portfolio. Revolving credit grew at a relatively moderate rate of about 5 percent, while consumer credit declined by around 1 percent, totaling approximately NIS 15.5 billion.

It is worth noting that the growth rate of the credit card companies' portfolio of credit to individuals in recent years has been significantly higher than the growth in the banking system, which stood at only about 2 percent in 2024 (for further details, see Chapter 2 of this survey). This is reflected in the credit card companies' share of total consumer credit provided by both the credit card companies and the banking system. At the end of 2024, the credit card companies' share stood at about 20 percent, compared to just 13 percent in 2020.

Credit quality

In 2024, there was improvement in some credit quality indicators for credit card company credit to individuals. The rate of problematic credit within total credit decreased by 0.17 percentage points to around 5.6 percent at year-end, compared to 5.8 percent in 2023 (see Figure 5.61). This decline occurred despite an increase in the absolute amount of problematic credit (NIS 1.44 billion compared to NIS 1.39 billion at the end of 2023), since the total credit portfolio grew at a faster rate. The rate of loan loss provisions also declined, to 2.35 percent of the credit balance in 2024, compared to 3.1 percent in 2023. This decrease resulted from both a reduction in total loan loss provisions and continued growth in credit activity (see Figure 5.61). Compared to the banks' consumer credit portfolios, the credit quality indicators for the credit card companies' consumer credit point to a higher risk level. For example, the nonaccruing loan rate (equivalent to NPL in banking credit) for the credit card companies was about 1.6 percent, compared to 0.8 percent in the banks (see Figure 5.19 in Chapter 5.2 of this review).

The coverage ratio for problematic credit decreased⁶⁴ but remained relatively high, at 0.77 compared to 0.81 in 2023. This resulted from a 2-percent drop in the credit loss allowance which totaled NIS 1.11 billion alongside an increase in problematic credit. The overall coverage ratio also declined, reaching 4.3 percent as compared to 4.7 percent at the end of the previous year.

The improvement in these indicators stemmed from several key factors. First, in the same period in 2023, shortly after the outbreak of the Swords of Iron war, particularly high provisions were decided on due to the prevailing uncertainty at the time. This trend led to higher expenses that year and contributed to the year-over-year decline. Although the war continued during 2024, its

⁶³ [Financial Stability Report for the Second Half of 2024](#).

⁶⁴ The coverage ratio for problematic credit: Total allowance for credit losses/Total problematic credit.

intensity decreased in the second half of the year, and the relative stabilization of the security and economic situation allowed the companies to assess risk more accurately, resulting in reduced credit loss provisions. Second, 2024 saw an increase in actual write-offs, which also contributed to lower provisions. Additionally, it should be noted that a significant one-time expense was recorded in 2023 due to the transition to the CECL method, such that the comparison to 2024 data is also affected by that outlier event (see Chapter 5.5 of Israel's Banking System 2023).

Commercial credit

The main commercial credit products offered by credit card companies include loans to businesses and commercial clients of various terms, which make up the bulk of the portfolio, as well as voucher discounting. In 2024, the commercial credit portfolio of the credit card companies grew by about 18 percent to approximately NIS 5 billion, compared to NIS 4.2 billion in 2023 (see Figure 5.60). However, and despite the continued high rate of growth, the portfolio still accounts for a very small market share (less than 1 percent) of total commercial credit in the banking system (including the credit card companies).

Credit quality

The quality indicators for commercial credit showed improvement in 2024. The rate of problematic credit within total commercial credit fell from 4 percent in 2023 to 3 percent in 2024. The rate of loan loss provisions also declined, to 0.92 percent as compared to 2.16 percent in the previous year. This was due to a reduction in loan loss provisions alongside an increase in total commercial credit. As in the case of credit to individuals, the improvement in these indicators can be attributed to an increase in write-offs during the year as well as lower combat intensity, which reduced risk in the business environment.

Alongside growth in the credit portfolio, there was a drop in the portfolio risk, as seen in the improvement in credit quality indicators.

Figure 5.60

Consumer and Commercial Credit, Credit Card Companies, 2017–2024 (NIS billion)

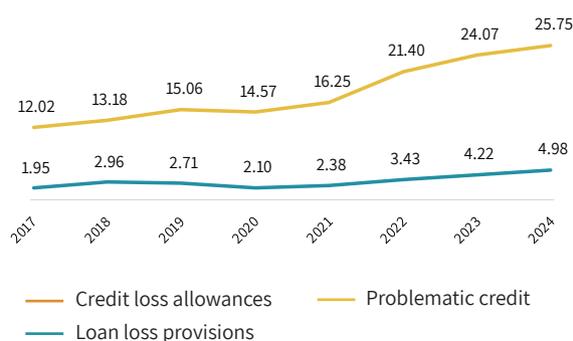
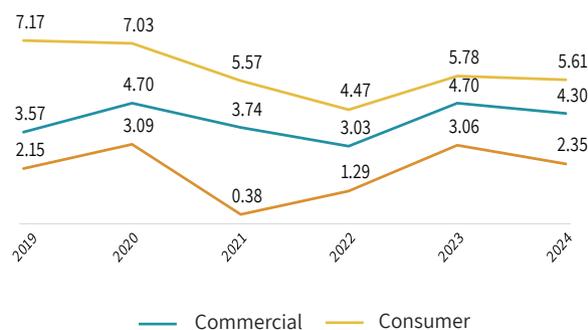


Figure 5.61

Problematic Credit, Loan Loss Provisions, and Outstanding Credit Loss Allowances, as a Share of Total Credit to Private Individuals, 2019–2024 (percent)



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

6. Information Technology Risk

Information technology serves as the foundation of the banking corporations' business operations. They increasingly rely on technology to meet the various challenges in today's competitive market, while using a forward-looking approach.

Technology exposes the banking corporation to a wide variety of risks due to breaches of confidentiality, failures in the integrity of information assets, incompatibility or unavailability of information assets, or the inability to modify the information technology infrastructure in a timely and cost-effective manner as business and environmental demands change. These risks are referred to as "information technology risks."

Information technology risks can pose a significant threat to the stability of the banking corporation and may even threaten its existence. Accordingly, the Banking Supervision Department considers proper management of information technology risk to be a fundamental component in achieving the banking corporation's strategic, corporate, and operational goals. Therefore, the banking corporation is expected to adequately protect its information assets and to nurture an organizational culture that promotes the management of the information technology risks to which it is exposed.

Information technology risks are part of the broader family of operational risks and include information security risks such as cyber risk (see Chapter 5.7 of this survey). Consequently, the management of information technology risks must comply with the Banking Supervision Department's Proper Conduct of Banking Business directives, which address risk management and in particular operational risk management. At the same time, their unique characteristics require dedicated and tailored risk management that includes, among other things, a focus on managing information security risk, including cyber risk. For this reason, the Banking Supervision Department recently issued a dedicated Proper Conduct of Banking Business directive regarding this issue.

Operational Resilience

Technological failure events

In accordance with Proper Conduct of Banking Business Directive no. 366 regarding the reporting of technological failure events and cyber events, banking corporations are required to report any technological failure event that the corporation defines as significant to the Banking Supervision Department, based on its risk assessment.

In 2024, there was an increase in the number of reports of significant technological failure events received from banking corporations. In addition, and for the first time, a systemic technological failure event occurred (a failure involving the CrowdStrike company), which affected several banking corporations. The most prominent source of failure in 2024 originated in the supply chain.

Alongside the increase in reports to the Banking Supervision Department of significant technological failure events, there was a decrease in the total number of incidents classified by banking corporations as critical but, though not necessarily subject to reporting under Directive no. 366.

All of this indicates that there has been improvement in the way banking corporations handle critical malfunctions, but in contrast, the number of events with broader impact is rising. This trend points to an increase in technological risk and underscores the importance of operational resilience in dealing with future technological failure events.

The ongoing Swords of Iron War

The Swords of Iron War has had an effect on technological risk, due to, among other reasons, the mobilization of reservists, which led to delays in technological projects. At the same time, many corporations invested in strengthening their technological infrastructure in order to cope with increased digital activity, cyberattacks, and failure events.

The need to strengthen technological infrastructure

The need to strengthen infrastructure arises for various reasons, including an increased volume of activity, especially in digital channels; the need to retain additional types of information in order to improve resilience against cyberattacks and major technological failure events; and enhancement of the ability to investigate incidents. Strengthening of infrastructure is reflected in activities such as:

- Adding new databases and expanding existing ones.
- Adding communication lines.
- Adding remote access users.
- Introducing new controls and enhancing existing ones.
- Expanding the information stored in logs.
- Expanding to an Active-Active configuration.
- Extending development and business adaptations to enable additional digital activity.

Quantum Computing

Quantum computing is currently one of the most talked-about topics in the world of technology. It is an emerging technology that has not yet reached practical maturity, but it is already beginning to make its way into various industries. It is estimated that quantum computers will achieve practical maturity within the next decade, and their existence will create opportunities to solve existing problems. However, this also entails new risks, the most obvious of which is the assumption that these computers will be able to break widely used asymmetric encryption algorithms and weaken

current encryption systems. The problem is even more serious, given that attackers can already collect encrypted information today, store it, and decrypt it once quantum computers come into use (for further details, see Box 5.4 of this survey).

Public cloud

In recent years, there has been a growing trend of systems migrating to a public cloud in various services. This trend stems from the various advantages that this model offers. However, public cloud computing also involves risks and challenges, including dependency on the cloud provider, information protection, implementation of proper controls, and privacy protection.

An analysis of data from the banking system indicates that system migration to the cloud is proceeding gradually, with most banking systems still operating on-premises.

Artificial intelligence

Artificial intelligence is expected to bring about a profound transformation in the banking system in coming years.

In 2024, the banking system began limited activity in the field of artificial intelligence, primarily through proof-of-concept (POC) initiatives in areas related to internal processes, such as monitoring of money laundering, cyber threats, and fraud; analyzing customer service calls for various purposes; and scanning mortgage documents. Early initiatives also began to use AI solutions in customer-facing service processes.

In the future, the integration of AI technologies is expected to enhance analytical capabilities, strengthen decision-making, reduce costs, and improve service quality. At the same time, AI is expected to enable personalized banking products, streamline internal processes, and promote competition in the market.

However, alongside these opportunities, AI involves various risks (including model risk, cyber and information security risk, privacy protection, legal risk, compliance and fairness, regulatory risk, operational risk, reputational risk, and strategic risk).

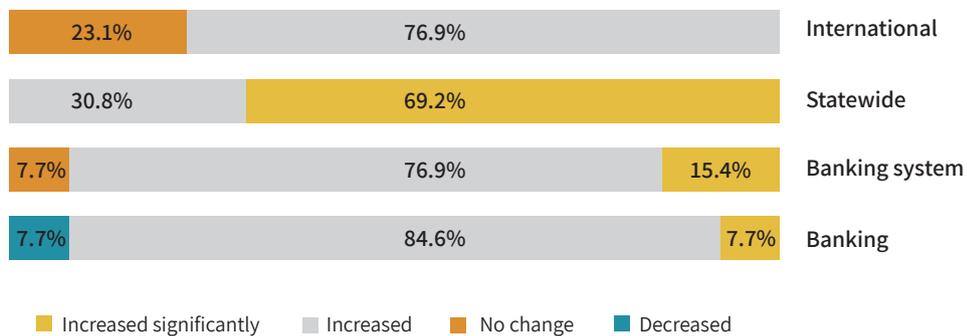
It is expected that in coming years, the use of AI will expand globally and of course also in the banking system, due to its inherent advantages, however, the associated challenges must also be addressed.

7. Cyber Risk

In 2024, the cyber threat remained high both in Israel and worldwide. Globally, there was an increase in the scale of hostile cyber activity, partly against the backdrop of growing geopolitical tensions. According to a report by Check Point, there was a sharp rise in the number of attacks on organizations worldwide, with a weekly average of 1,673 attacks per organization — a 44 percent increase compared to 2023. The financial sector also recorded an annual increase of 30 percent in the average number of attacks, with a weekly average of 1,510 attacks. An analysis conducted by ENISA found that 9 percent of all reported incidents targeted the financial sector, ranking third among the sectors. In Israel, the fighting on multiple fronts also impacted the cyber domain. According to the National Cyber Directorate, it became increasingly common this year for Iran, Hezbollah, and other actors to initiate cyber activities in support of combat efforts. As a result, Israel’s financial system also faced increased hostile activity that included attacks intended to disrupt the normal functioning of financial institutions. Among other things, there were particularly large-scale Distributed Denial of Service (DDoS) attacks. According to a report by Microsoft, attacks worldwide were characterized by a high level of sophistication and complexity. Findings from a survey conducted by the Banking Supervision Department among cybersecurity officers in the banking system support this trend. Most respondents reported an increase in cyber risk in 2024 compared to 2023 at the national level, the international level, and even within the banking system and the banking corporations themselves (Figure 5.62).

There has been an increase in cyber risk in all the various cyber domains.

Figure 5.62 Results of the Banking Supervision Department survey among Chief Information Security Officers in the banking system—“Have there been developments in the various cyber spheres?” (Share of respondents who chose the options as noted)



SOURCE: Survey among Chief Information Security Officers in the banking system

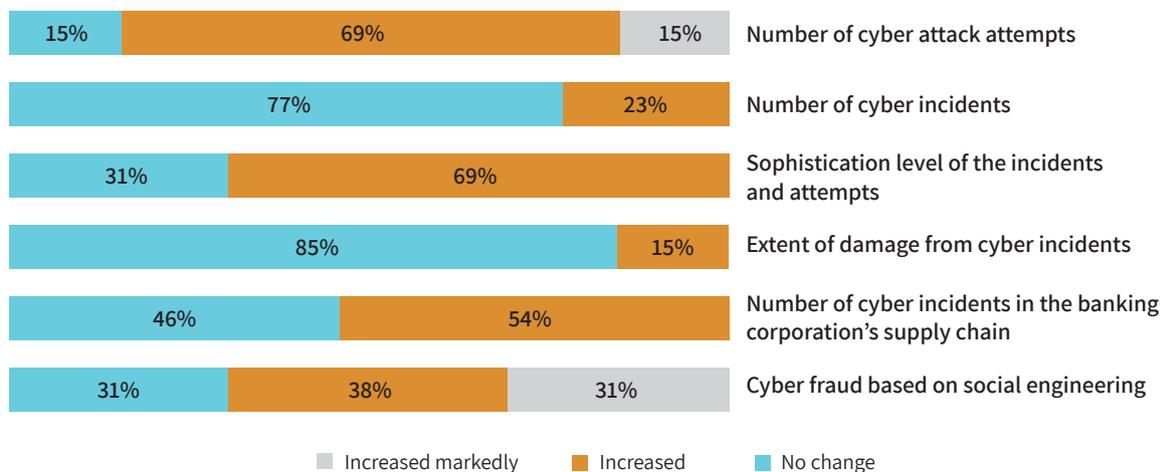
In addition, the banking system had to cope with a wide range of fraud attempts, particularly the growing phenomenon of phishing. According to data from the National Cyber Directorate, the agency handled 4,491 harmful phishing attacks targeted the general public or organizations – an increase of about 80 percent compared to 2023. It was also noted that phishing messages have become more sophisticated and difficult to detect, partly due to the use of generative artificial intelligence (Gen AI) tools, which enable message content to be more precisely tailored to the target audience, giving them a more convincing appearance.

Findings from a survey conducted by the Banking Supervision Department among cybersecurity officers in the banking system also indicate an increase in cyber fraud based on social engineering (Figure 5.62; for further details, see Box 6.2 in this survey).

However, in 2024, no major cybersecurity or information security incidents were recorded in the banking system. This year, the Banking Supervision Department oversaw the handling of 31 cyber incidents (including suspected cases) in the banking system, compared to 21 in 2023. According to the survey conducted among cybersecurity officers in the banking system, most believe that the number of attempted attacks, the sophistication of incidents, and the number of cyber events in the supply chain have all increased relative to 2023. Nonetheless, there was no significant increase in the actual number of reported incidents or in the extent of the damage caused (Figure 5.63).

There was an increase in attempted attacks, in their sophistication and in supply chain incidents, though there was no significant increase in attacks or actual damage.

Figure 5.63 Response to the question “Have there been developments in the following areas?” Share of respondents who chose each of the responses shown



Source: Survey carried out by the Banking Supervision Department among cyber security officers in the banking system.

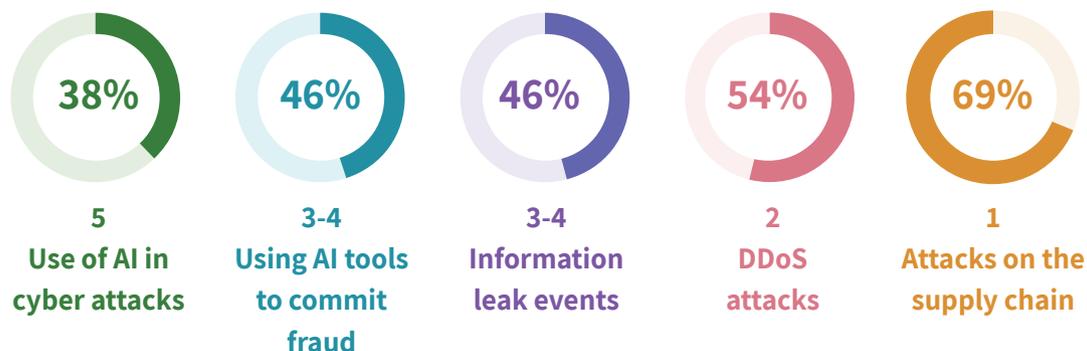
The assessment is that the level of cyber risk will remain high in 2025, and the trends that have characterized recent years are likely to continue. Based on attack patterns observed in recent years, an increase is anticipated in both the volume of attacks and their sophistication. Attackers are expected to continue exploiting known and unknown vulnerabilities, focusing on supply chain, launching large-scale Distributed Denial of Service (DDoS) attacks, and conducting sophisticated cybercrime and fraud operations. The shift of organizations to the cloud is expanding the attack surface, while developments and improvements in artificial intelligence are increasing the threat complexity and introducing new challenges in protecting sensitive information.

Findings from the survey conducted by the Banking Supervision Department among cybersecurity officers in the banking system also indicate that the threat level is expected to remain high, with recent trends persisting. The cybersecurity officers anticipate that most incidents will involve supply chain attacks, DDoS attacks, data leaks, and the use of AI tools to perpetrate fraud and facilitate cyberattacks (Figure 5.64).

In this context, a report by the S&P rating agency suggests that cyber risk may become a more significant differentiating factor in banks' credit ratings. According to the report, this is due to both the systemic nature of the threat stemming from the high connectivity and significant technological dependence of the banking sector and its potential to impact individual institutions. S&P anticipates that in the coming years, banks will need to continuously increase their spending to cope with cyberattacks, which are becoming increasingly sophisticated.

Most events are expected to focus on supply chain attacks, DDoS attacks, and financial fraud based on social engineering.

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



Looking ahead, organizations in Israel and around the world are expected to face increasing challenges in the field of cybersecurity. This reality underscores the need for proactive preparedness

in the banking system in response to cyber events and their consequences, while defending against advanced and determined attackers and continuously adapting defense mechanisms to emerging threats. This preparedness must combine efforts for prevention and early detection of incidents with the development of rapid response and recovery capabilities. The goal is to enable banking corporations to return to normal operations as quickly as possible and minimize potential damage.

In this context, the Banking Supervision Department encourages banking corporations to continue strengthening their cybersecurity posture by reducing their risk profile and exposure to attacks; maintaining flexibility and adaptability; carrying out ongoing monitoring and assessment of threats and opportunities; and adjusting defense efforts as needed. Since complete prevention of cyber threats is not possible, banking corporations are expected to consistently develop and refine their detection, response, and incident management capabilities to ensure the continuous and secure provision of services, thereby preserving their organizational resilience and the trust of the public.

Box 5.1

Macprudential stress test for the banking system for 2023

- As in past years, and as is the practice in other countries as well, the Banking Supervision Department conducted a macroeconomic stress test for the banking system based on a uniform scenario. The stress test was conducted during 2024 and was based on December 2023 as the starting point for the scenario. The purpose of the stress test is to test the resilience of banking corporations under various crisis conditions and to identify their points of vulnerability. It is important to emphasize that these scenarios do not constitute any kind of forecast, but are intended to test the resilience of banking corporations in a macroeconomic crisis environment.
- The source of the shock in the 2023 stress test scenario is the intensification of the Swords of Iron War and its transformation at the beginning of 2024 into a regional conflict that leads to a sharp increase in uncertainty and a steep decline in domestic economic activity. To deal with the effects of the war, the government adopts an expansionary fiscal policy, and the country's risk premium rises, which is reflected in a sharp downgrade of the country's credit rating. The Bank of Israel raises the monetary interest rate, but with the initial signs of moderation in inflation and stabilization in the risk premium, it begins to lower rates in order to support economic activity.
- The expansion of the war leads to a severe slowdown in the construction industry and to bankruptcies of contractors, which were already contending with high financing costs and low liquidity ratios prior to the crisis. Accordingly, and as part of the scenario, the collapse of a large group of borrowers in the construction and real estate industry was examined, along with the resulting credit losses.
- The results of this year's stress test indicate that despite the downturn in the business results of the banking system, it remains stable even under this extreme scenario. No banking corporation falls below the minimum capital level required by the Banking Supervision Department (a Tier 1 equity capital ratio of 6.5 percent), partly due to the relatively high capital ratios at the starting point.
- Nevertheless, the macroeconomic shock scenario is expected to significantly impair the profitability of the banking system and will lead to losses in the first year of the scenario. Negative profitability in the banking system has a number of implications, and will raise various types of risk, including reputational risk and liquidity risk.
- As in past scenarios, credit losses are the main source of the impact on capital ratios, with high provision rates recorded across all industries during the scenario, relative to both previous scenarios and past crises. However, as a result of the high interest rate and inflation environments, net interest income contributes to the profitability of the banking system later in the scenario.

As in past years, and as is the practice in other countries as well, the Banking Supervision Department conducted a macroeconomic stress test for the banking system based on a uniform scenario.^{1,2} The purpose of the stress test is to assess the ability of banking corporations and the banking system as a whole to cope with a stress scenario. The process helps identify the various points of vulnerability in the banking corporations and the banking system as a whole and serves as a tool for assessing the system's soundness and resilience, with the goal of ensuring an adequate capital level in accordance with these vulnerabilities and risks.

The test is carried out by the banking corporations themselves³ using a range of accepted models and methodologies, while employing data that is as granular as possible (bottom-up), and also by the Banking Supervision Department using a uniform and consistent methodology (top-down).

The stress test was developed in collaboration with the Bank of Israel's Research Department. This test does not constitute a forecast but rather is intended to test the resilience of the banking corporations in a macroeconomic crisis environment. The stress test covers a three-year period; is based on the available data and the most up-to-date forecasts at the time of its formulation (end of 2023); and includes two macroeconomic scenarios (Figure 5.65):

Baseline scenario—This scenario reflects the expected convergence path of the economy and is based on assessments by the Bank of Israel's Research Department, macroeconomic forecasts by international institutions regarding global developments, and additional assessments of the economic outlook in Israel and globally.

Stress scenario—This scenario is based on the escalation of the Swords of Iron War and its transformation at the beginning of 2024 into a regional conflict. The intensification of the war leads to a sharp rise in uncertainty and a sharp decline in domestic economic activity, with GDP contracting and unemployment rising. The government adopts an expansionary fiscal policy and the country's risk premium rises, as reflected in a sharp downgrade of the country's credit rating. The Bank of Israel raises the monetary interest rate, but with the first signs that inflation is abating and the risk premium is stabilizing, it begins cutting interest rates in support of economic activity.

The high default rates among individuals and businesses, mainly in the construction and real estate industry, directly impact the banking system whose profitability is also eroded due to a narrower credit-deposit spread than in the past. Most of the economic impact is felt

¹ The test is based on a uniform scenario with the goal of testing whether the banks can—by maintaining sufficient capital—absorb the losses created in an extreme macroeconomic event without endangering their stability and the money of depositors.

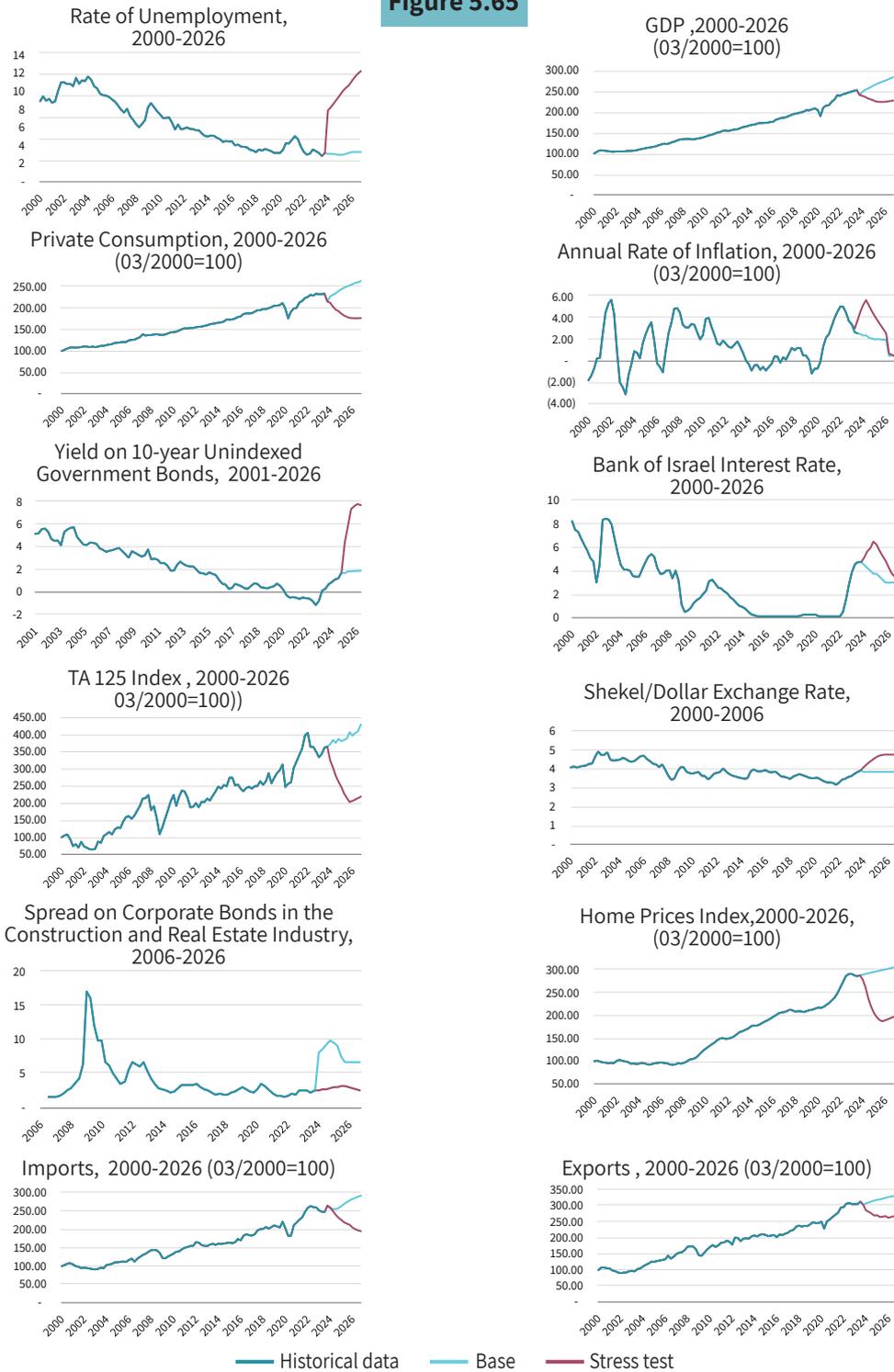
² The Banking Supervision Department has been carrying out the stress test since 2012.

³ The five banking groups and Bank of Jerusalem.

in the first year of the scenario, but it continues at a high level until the end of the second year, after which there is a mild recovery and a positive, though negligible, rate of growth. The focal point of the shock in the stress scenario is purely domestic and has no implications for the global economy, such that the trajectories of macroeconomic variables abroad (GDP, interest rate, inflation, and share indices) develop in line with the forecasts available at the time of the scenario's construction and are unaffected by the scenario's narrative. Therefore, the impact of these variables is the same as in the baseline scenario.

Text

Figure 5.65



המקור: נתונים היסטוריים – הלמ"ס, הבורסה לניירות ערך בת"א, עיבודי בנק ישראל. נתונים על תרחיש הבסיס ותרחיש הקיצון – בנק ישראל

The Banking Supervision Department conducted the stress scenario based on various assumptions designed to allow an assessment of the scenario's impact on each bank and to assist in identifying the vulnerabilities of individual banks and the banking system as a whole. Among these assumptions: a dynamic balance sheet (i.e., changes in the credit portfolio and public deposits in accordance with the scenario's progression);⁴ banks are allowed to raise additional capital during the scenario; and the possibility that bank managements might take action in response to the crisis is not taken into account.

This year, in contrast to previous ones, the macroeconomic shock in the stress scenario is prolonged and persistent, with its effects felt throughout the entire period, although some indicators show partial recovery toward the end of the scenario. **The results of the stress test reflect the direct impact of the scenario on capital, profitability, the credit portfolio, and the securities portfolio, but do not include an assessment of bank liquidity, indirect effects, or adverse impact on investor confidence.**

The scenario's narrative this year includes a severe downturn in the construction industry, leading to bankruptcies of contractors. Accordingly, the scenario examines the collapse of a large group of borrowers in the construction and real estate industry, which significantly increases credit losses in the industry during the first year of the scenario (2024). In addition, the rise in the risk premium and market uncertainty in the scenario leads credit rating agencies to downgrade the country's credit rating by three notches all at once in the second quarter of 2024.⁵ As part of the scenario, the impact of this downgrade on the banking system's risk-weighted assets is examined, and accordingly, its impact on capital ratios.

Results

The results of this year's stress test indicate that the banking system remains stable even under an extreme scenario, despite significant credit losses, relative to both past crises and previous scenarios. Nevertheless, a macroeconomic shock scenario as described is expected to significantly impact the banking system's profitability and may lead to negative profitability in the first year of the scenario. Negative profitability in the banking system, despite the stability in other indicators and particularly in capital ratios, may have broad implications, especially an increase in reputational and liquidity risk in the system. As noted, these are not examined within the framework of the macroeconomic stress scenario.

⁴ Until 2020, the stress tests were carried out under the assumption of a static balance sheet, such that the banks' balance sheets remain unchanged during the course of the scenario, with respect to both total credit and total deposits of the public. The transition to a scenario under the assumption of a dynamic balance sheet was based on the understanding that stress events also have implications for the banks' balance sheets, which creates additional risk not estimated under the assumption of a static balance sheet (in which the balance sheet remains fixed during the course of the scenario). This assumption has opposing effects, since it works to increase interest income due to the increase in total credit while in contrast the increase in credit works to increase risk assets, which constitutes one of the main factors adversely affecting the Tier I Equity Capital Ratio during the scenario. As in the case of the macroeconomic scenarios, the path of growth in credit and deposits in the scenarios does not constitute a forecast but rather is only hypothetical.

⁵ The lowering of Israel's credit rating will directly influence the credit rating of the banks, which may raise the banks' costs of raising capital.

In this context, it is worth mentioning that as a result of the Banking Supervision Department's adoption of lessons learned by regulators worldwide from the bank failures in the US during the first half of 2023⁶, the Department plans to conduct a short-term liquidity stress test during 2025 in order to assess the system's ability to withstand a short-term liquidity scenario and to identify its risk focal points in this context.⁷

The extreme scenario for 2023 was significantly more severe with respect to most parameters than previous scenarios. Nevertheless, the banking system in Israel remains stable and has sufficient capital to withstand this scenario, despite its major impact, with not a single banking corporation falling below the minimum capital level required by the Banking Supervision Department (a Tier 1 Equity Capital ratio of 6.5 percent). The average Tier 1 Equity Capital ratio in the system decreased by 0.8 percentage points in the extreme scenario—from a rate of 11.4 percent at the beginning of the scenario to 10.6 percent at the end of the scenario's first year (2024) (see Figure 5.66). The high capital levels observed at the beginning of the scenario are due to, among other things, the policy implemented by the Banking Supervision Department in recent years to strengthen the banks' capital and the conservative dividend distribution policy it implemented during the Swords of Iron War. The impact on the Tier 1 Equity Capital ratio was similar to that in previous scenarios⁸, but smaller than in last year's stress test. As for individual banks, the differences between the banks increased significantly by the end of the first year of the scenario, with the gap between the maximum and minimum points reaching 3.7 percentage points, though this gap narrowed as the scenario progressed. The differences between the banks are due to the capital levels at the starting point, the composition of the asset portfolio, and the quality of the credit portfolio.

⁶ For further details, see the box: "Lessons of bank failures in the US in March–May 2023", in Israel's Banking System 2023.

⁷ This test is based on the methodology published by the IMF with adjustments according to the Israeli banking system: Macroprudential Liquidity Stress Testing in FSAPs for Systemically Important Financial Systems.

⁸ In comparison to scenarios used during the years 2017–20, when there was a drop of 0.5 to 0.9 percentage points.

None of the banks drop below the minimum capital level required by the Banking Supervision Department in a stress scenario.

Figure 5.66 Tier 1 Equity Capital Ratio in the system during the stress scenario | percent



SOURCE: Banking Supervision Department.

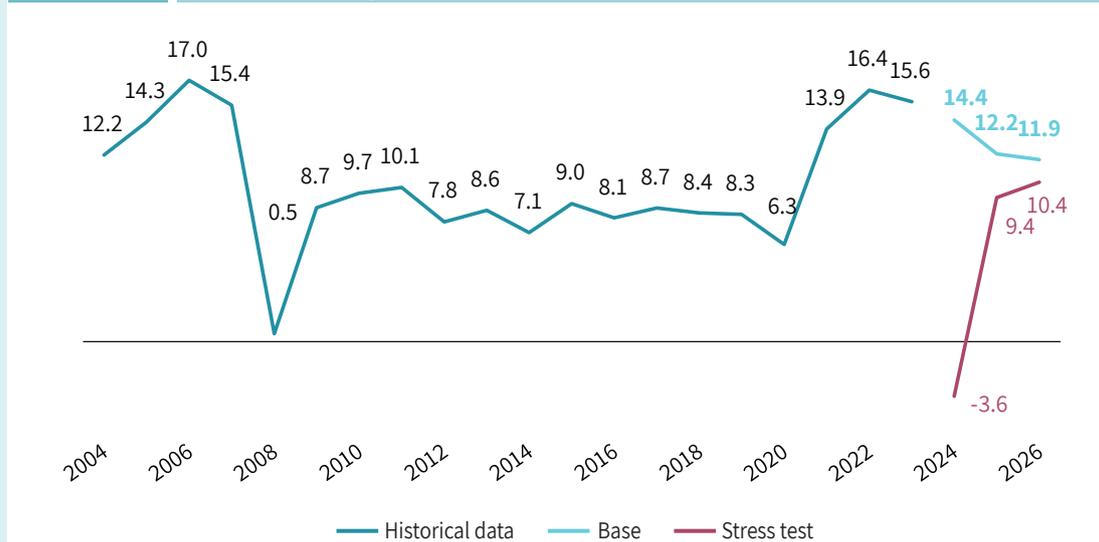
The effects of the scenario on the banking system's securities portfolio were minor compared to the 2022 scenario. There was an increase of about 61 percent in the securities portfolio of the banking system (approximately NIS 324 billion) during 2023, which significantly increases its share within the banking system's asset portfolio. In contrast, most of the growth in the securities portfolio resulted from increased holdings of government bonds and especially Makam, which led to a shortening of the portfolio's duration⁹ (for further details, see Israel's Banking System 2023). This shortening of duration meant that changes in market yield had a weaker effect on the valuation of securities, resulting in lower losses during the scenario. Furthermore, the domestic nature of the scenario meant that some of these losses were offset by gains in foreign securities (though this effect was relatively minor since the banking system's exposure to foreign securities was low and even declined during 2023). Therefore, the losses in the available-for-sale securities portfolio (which makes up the bulk of the banking system's securities portfolio) resulting from the rise in bond yields during the scenario had a reduced impact on the erosion of equity capital by way of the total profit component. In addition, the decline in the value of the available-for-sale portfolio was fully offset by the impact of employee benefit liabilities (which serve as a kind of "hedge" on the available-for-sale portfolio). Consequently, the main impact on the securities portfolio occurred during the first year of the scenario by way of the trading portfolio, due to the rise in market yields. This impact directly affected the banking system's profitability, but most of these losses were offset during the recovery beginning in the third year of the scenario.

⁹ Average duration—the weighted average of the time to maturity of the bond's principal and interest payments. Duration is a measure of the sensitivity to changes in the interest rate.

At the peak of the scenario, the banking system suffers a notable adverse impact on its profitability, with all banking corporations posting a loss in at least one quarter, and most of them ending the first year with a negative return on equity of -3.6 percent (Figure 5.67). This decline in profitability is due both to the extent of credit losses during the scenario and the manner in which those losses are distributed, with most of the losses recognized in the first year of the scenario (2024).¹⁰ The Israeli banking system is characterized by an excess of interest-earning assets over interest-bearing liabilities (see Chapter 3 of this review), and although this excess narrows over the course of the scenario, the rise in inflation and in interest rates increases the banking system's net interest income, thereby mitigating the impact on profitability and capital ratios. This increase in net interest income remains significant even under conservative assumptions of a narrowing of the credit-deposit spread and a continued shift of funds from noninterest-bearing channels to long-term, interest-bearing deposits. As a result, the profitability of the banking system in 2025–26 increases, with return on equity in these years reaching around 10 percent, a level similar to the system's average in the years prior to the beginning of interest rate increases in 2022.

There is a notable reduction in the return on equity during the scenario's first year (2024).

Figure 5.67 Return on Equity (ROE) according to the stress scenario; All banks 2004 to 2026 | percent



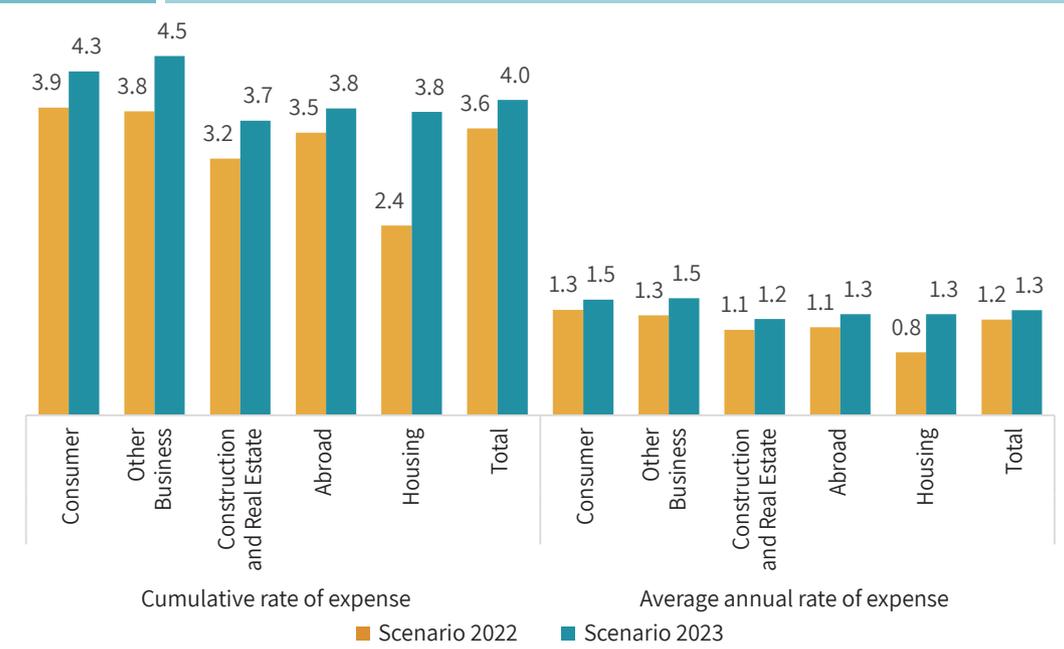
SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

¹⁰ According to the CECL standard, the credit loss allowance is calculated based on the expected loss over the life of the credit, using forward-looking information that reflects reasonable forecasts of future economic events. In order to estimate credit losses in accordance with the CECL standard, several adjustments were made to the models and scenario assumptions. The central assumption in the methodology is the "perfect foresight" assumption regarding the development of macroeconomic variables throughout all the years of the scenario. This is similar to the stress tests conducted by the BOE and the EBA. The implication of this assumption, along with CECL's forward-looking approach, is that most credit losses are estimated across all economic sectors in the first year of the scenario (2024).

Against the backdrop of the Swords of Iron War and the Banking Supervision Department's requirements to increase the total credit loss allowance due to the deterioration in macroeconomic conditions, the banking system began the 2023 stress scenario with a relatively high allowance level compared to previous years (1.22 percent in 2021 and 2022 as compared to 1.52 percent in 2023). Despite this "buffer," and given the disadvantageous macroeconomic parameters, the credit losses recorded by the banking system during the scenario were high across all sectors of activity. The economic slowdown, rise in unemployment, and increases in the Bank of Israel's interest rate and in the inflation rate placed a burden on borrowers, including the business sector and mortgage takers, resulting in a significant rise in credit losses in the business credit portfolio and the housing credit portfolio, along with nonnegligible losses in other sectors. The average loan loss provision rate during the scenario was 1.3 percent, which is higher compared to previous years and relative to actual expenses during the Swords of Iron War (see Figure 5.68). The main losses in the scenario derive from the business portfolio: 21 percent in the construction and real estate credit portfolio and 32 percent in other business credit where the industry's share of provisions was greater than its share of the banking credit portfolio (see Figure 5.69). Additional losses in the construction and real estate credit portfolio stemmed from the collapse of a large borrower group that had been extended significant credit by most banking corporations, thus raising the loan loss provision rate in this industry to historic highs. The increase in interest and inflation rates, together with a significant increase in unemployment and a drop in the housing price index, led to higher provisions compared to previous years in the housing credit portfolio. The average provision rate in the housing portfolio was approximately 1.3 percent, accounting for about 33 percent of total loan loss provisions. However, the provisions share was lower than the housing portfolio's share in total bank credit prior to the scenario, due to the lower risk level implicit in housing credit relative to other sectors. In the consumer credit portfolio, the average loan loss provision rate was 1.5 percent, though its share of total provisions was relatively low due to its smaller share of the total credit portfolio.

There were high provision rates observed in all industries with respect to both the previous scenario and the provision rate during the Swords of Iron War.

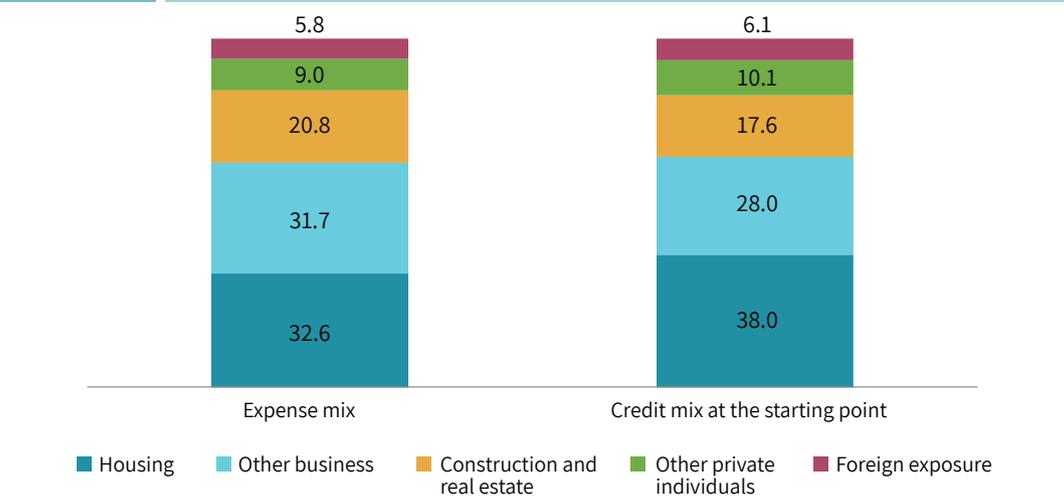
Figure 5.68 Average and cumulative credit loss expense Scenario 2023 vs Scenario 2022



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

The share of business credit within total losses is high relative to its weight in the total credit portfolio, while the weight of housing credit within total losses is lower than its weight in the total credit portfolio.

Figure 5.69 Breakdown of credit losses by main industries in the stress scenario vs. breakdown of the credit portfolio | percent



SOURCE: Based on reports to the Banking Supervision Department.

Box 5.2

Promotional campaigns by developers for the purchase of homes and the actions taken in response by the Banking Supervision Department

- In 2024, the slowdown in the growth of balance-sheet credit for the purchase of land extended for residential use continued (a decrease of about 1.6 percent relative to 2023). In contrast, there was a significant increase in balance-sheet credit earmarked for the financing of residential construction (an increase of 37 percent compared to 2023). The year 2024 also saw a peak in the inventory of unsold apartments. Nevertheless, there was no significant change in the share of total exposure to projects in which the execution rate is higher than the rate of sales.
- At the same time, 2024 was characterized by a notable increase in home sales, among other things due to promotional campaigns offered by developers to buyers, against the backdrop of a slowdown in demand for homes that intensified in 2023, as well as a slowdown in construction progress. The promotional campaigns enabled developers to cope with the slowdown in demand and to stimulate market activity.
- The promotional campaigns usually enable the buyer to defer a significant portion of the sale price until the occupancy date (“nonlinear payment”), as well as “bullet” and “balloon” housing loans, in which the developer pays all or part of the interest payments at the time the loan is extended or during its term, according to the agreement with the bank that extends the housing loan.
- Data obtained by the Banking Supervision Department indicate that in a significant proportion of the projects financed by the banking system, the bank sets a threshold for the developer, as part of the financing agreement, with regard to the permissible share of sales that involve significant payment deferrals. As of October 2024, the share of homes sold through these campaigns within the inventory of bank-financed projects was approximately 28 percent. However, in projects where a significant portion of the total homes were sold during 2024, the proportion of sales through these campaigns is higher.
- For homes sold through promotional campaigns involving significant payment deferrals, the longer the time gap between the purchase date and the deal’s completion, the greater is the uncertainty regarding the interest rate that will apply at the time the deal is completed and the buyer’s ability to complete the purchase. In addition, campaigns involving significant payment deferrals require increased project financing, they increase developers’ financing expenses, and they increase credit risk for the banks.

- The Banking Supervision Department continuously monitors housing market developments, particularly the various financing mechanisms offered in the market. In light of market developments and increasing risk, the Banking Supervision Department initially issued a dedicated reporting requirement to the banks concerning the financing provided for projects that include promotional campaigns. Subsequently, the Department issued specific instructions to the banks regarding careful risk management in financing projects that involve promotional campaigns, including guidelines for the banking system outlined in a letter from the Deputy Supervisor of Banks on the matter.¹

Subsequently and in view of the increase in risk, a temporary directive came into effect on April 6, 2025, which was formulated following discussions held on the matter. Its purpose is to balance the need to reduce the growing risk from the use of promotional campaigns against the continued and controlled use of this tool in the housing market.

Developments in credit to the construction industry

In 2024, there was a marked increase in home sales through promotional campaigns offered by developers to homebuyers. This rise in home purchase incentives occurred against the backdrop of a slowdown in the volume of home sales (Figure 5.70), which intensified in 2023 and was reflected in, among other things, a temporary decline in home prices in 2023 (approximately 1.4 percent, Figure 5.71).²

As noted, 2024 saw a partial recovery in the volume of home sales, due in part to the home purchase promotional campaigns. In fact, there was an increase in the sale of new homes compared to the low recorded in 2023 (approximately 46,000 in 2024 versus about 29,000 in 2023).³ In 2024, there was also an increase in the prices of new homes (approximately 4.4 percent) and in overall home prices (approximately 7.3 percent)⁴ along with a rise in the volume of mortgage issuance (an increase of approximately 31 percent compared to 2023).⁵ This increase in mortgage issuance was at a lower rate than the increase in sales in 2024, due in part to transactions that include a significant deferral of payments.

¹ Letter number [4.149.16051](https://www.boi.org.il/en/economic-roles/supervision-and-regulation/letters/?number=202422) dated October 15, 2024
<https://www.boi.org.il/en/economic-roles/supervision-and-regulation/letters/?number=202422>

² For further details, see Chapter 5.2 in this survey.

³ See [Press Release from the CBS – Homes in real estate transactions – totals for 2024](#). [Hebrew]

⁴ An increase in current prices, according to the CBS data for November-December 2024, relative to the same period in the previous year.

⁵ For further details, see the chapter on credit in this review.

In 2024, there was a recovery in the number of home purchases, following a slowdown that deepened in 2023.

Figures 5.70

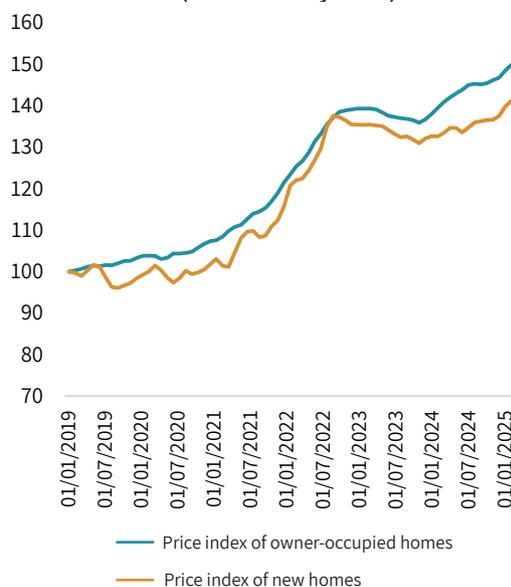
Transactions by type of seller, January 2019 to February 2025 | Number of homes



Source: CBS

Figures 5.71

Price index of owner-occupied homes and new homes, January 2019 – January 2025, Index (100=January 2019)



Below is a description of the developments in bank credit to the residential construction industry according to main activity categories, and the impact of home purchase promotional campaigns.⁶

Credit for land purchase

In 2024, the slowdown in the growth of balance-sheet credit for land purchase extended for residential purposes, which began in 2023, continued. As of December 31, 2024, the balance-sheet credit for these lands totaled approximately NIS 77 billion for the five main banking groups—a decrease of about 1.6 percent compared to December 31, 2023 (Figure 5.72). This decline is attributed to, among other things, the slowdown in home sales, which intensified in 2023 and led developers to offer promotional campaigns to buyers. The decline is also linked to the increased cost of land purchase financing due to the relatively high

⁶ For further details, see Box 5.1: Development of Credit in the Construction and Real-Estate Industry, [Israel's Banking System 2023](#)

interest rate environment, which continued to prevail in 2024, as well as regulatory steps taken by the Banking Supervision Department in recent years, particularly the requirement for additional capital allocation in the case of highly leveraged land purchases⁷. The decline in credit for the purchase of land designated for residential use was also affected by the Swords of Iron War in general, and by the labor shortage in the industry in particular, due to the halt in the entry of Palestinian workers into Israel. This halt led to rising labor costs in the industry and a slowdown in project execution.

Credit for financing of residential construction loan projects

Credit for residential construction is divided into credit for projects in which the homes are intended for sale (usually under the construction loan project method), and credit for projects in which the homes are not intended for sale (such as homes in land-for-units deals not designated for sale by the developer, self-builds, urban renewal, real estate purchasing groups, etc.). This box focuses on residential construction loan projects in the former category.

Construction loan projects – Financing of construction projects is typically carried out using the “construction loan project” method. In this method, the bank provides the developer with credit for a specific project via a dedicated account opened for that purpose. All buyer payments are deposited into this account, and all project-related expenses are paid from it.

Before financing begins, the bank and the developer sign a financing agreement that outlines the financing terms, the method of monitoring project execution, the required collateral and the conditions for execution. The financing terms include prerequisites for starting the financing of the project, such as obtaining a building permit, depositing of the developer’s equity, and reaching the required level of presales.

At the same time, an appraiser is appointed to supervise the construction of the specific project. The supervisor prepares a detailed preliminary report (“zero report”), which includes a broad engineering and financial overview of the planned project, including a detailed forecast of expected costs and revenues. Credit for construction financing is provided according to the construction’s progress and is based on periodic reports from the construction supervisor.

In contrast to the decline in credit for the purchase of land designated for residential use, 2024 saw a 30 percent increase in balance-sheet credit to finance residential construction—from NIS 37.5 billion at the end of 2023 to approximately NIS 49 billion at the end of 2024. This followed a significant increase of about 65 percent in this type of credit during 2023.

⁷ Circular from the Banking Supervision Department [C-06-2709](#) regarding the updating of Directive 203 – Measurement and Capital Adequacy - The Standardized Approach – Credit Risk dated May 22, 2022 [Hebrew].

This increase is attributed to, among other things, a peak in the inventory of unsold apartments⁸ (Figure 5.73,—about 75,000 apartments as of January 2025)⁹,—which compelled developers to increase their use of balance-sheet credit to fund construction. This peak in homes inventory resulted from, among other things, the slowdown in home purchases, which prompted developers to offer home purchase promotional campaigns. These campaigns contributed to the sharp increase in new home sales in 2024 relative to the low recorded in 2023 (as previously noted). In many cases, these campaigns allowed buyers to significantly defer payments for the homes they had purchased, forcing developers to substantially increase their use of balance sheet credit to fund construction. It should be noted that in 2024, there was no significant change in the overall share of exposure in the five main banking groups to projects in which the execution rate exceeds the sales rate¹⁰, nor in the share of exposure to projects in which the gap between the execution rate and the sales rate is high (20 percent or more).

Balance-sheet credit for the financing of residential construction projects grew while credit for land purchase remained unchanged.

Figure 5.72 Outstanding residential credit according to stage of construction, Five banking groups, December 2022 to December 2024 | NIS billion



Source: Based on reports to the Banking Supervision Department.

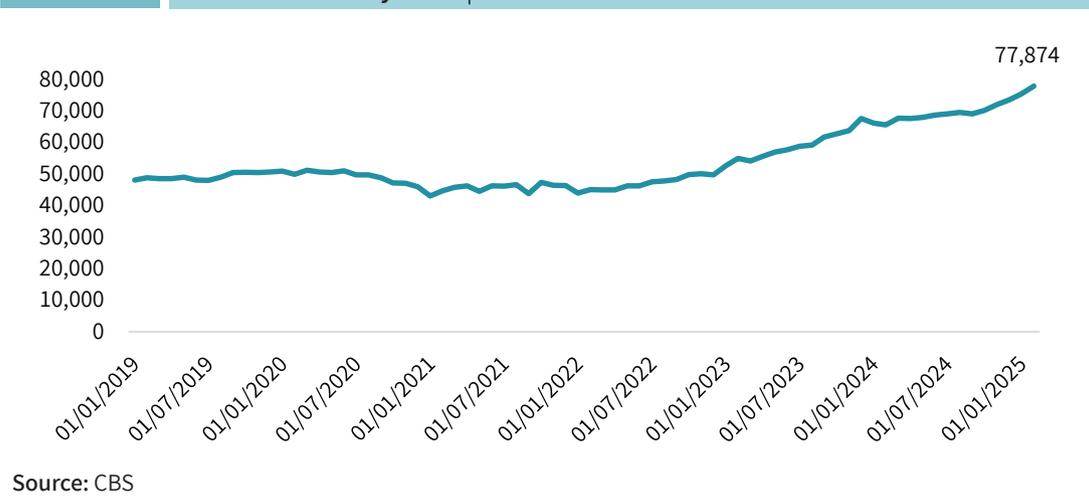
⁸ A home enters the inventory of unsold homes at the moment there is a building permit and even before the bank begins its actual financing of the project. Therefore, some of the unsold inventory is essentially homes whose construction has not yet begun and therefore they may not be suited to satisfying the demand of buyers.

⁹ Based on seasonally adjusted CBS figures. For further details see CBS Press Release – [Apartments in real estate transactions – Summary of 2024](#) [Hebrew].

¹⁰ The gap between the engineering execution rate and the rate of sales is used as a measure of the level of risk in a construction project.

The inventory of unsold new homes reached a peak in 2024.

Figure 5.73 Inventory of new dwellings still for sale (seasonally adjusted), January 2019 to February 2025 | Units



A description of the main types of campaigns

The housing market offers a variety of campaigns aimed at encouraging home purchases. The main **types are as follows:**

- **House purchases involving significant deferral of payments¹¹** – In these purchases, the buyer typically pays up to 20 percent of the property's value upon signing the purchase agreement, with the remaining payments deferred until close to the occupancy date. Since the buyer makes the initial payment solely from personal equity in these transactions¹² and is not required to obtain a supplementary housing loan, no bank underwriting is performed to assess the buyer's ability to complete the transaction. In the past, such purchases were mainly used to help the developer meet the project's presale targets, thus allowing the project to enter the stage of construction loan.
- **Developer-subsidized loans** – Upon signing the purchase agreement with the developer, the buyer pays a small down payment from personal equity and begins the underwriting process for a “bullet” or “balloon” loan, subsidized by the developer (a housing loan extended to the buyer in which the interest is capitalized and paid by the

¹¹ Not including financing of homes in which the initial payment is less than 7 percent and therefore Sale Law guarantees are not issued for them.

¹² According to Proper Conduct of Banking Business Directive no. 329 on “Limitations on issuing housing loans”, the maximum rate of financing is 75 percent, except in the case of loans for purchases within discount programs.

developer either at the time the loan is extended or subsequently). The bank issuing the loan is not necessarily the bank financing the project. Under this payment structure, the developer receives a significant portion of the home's price in advance, with the rest paid close to delivery. The loan principal is fully repaid at the final maturity date of the housing loan, usually after 2–3 years. At that point, the buyer must repay the loan from personal sources or refinance it through an alternative housing loan.

Additional types of campaigns

- The developer adds complementary products to the home purchase at their own expense, such as a premium kitchen package or a vehicle, in order to increase the appeal of the deal without reducing the home price.
- The developer enters into an agreement with a mortgage bank and offers buyers long-term housing loans at a reduced interest rate. The developer covers the cost of this benefit in coordination with the mortgage bank.

This review will not address these additional types of campaigns.

In all the campaigns described, there may also be purchases that include exemption from indexation to the Construction Inputs Index (hereinafter – the Index).¹³

¹³ The Sale (Homes) (Amendment – Indexation of Home Price to Index) Law, 5782-2022, introduced a change into the structure of linkage to the Construction Inputs Index for apartment buyers in a project. Thus, the amount that can be indexed to the Construction Inputs Index in developer sale agreements should not exceed 40 percent of the total consideration (20 percent of the apartment price will not be linked to the Index at all, and no more than half of any additional payment can be linked to the Index).

Chronological description of the receipts received by the developer in the various types of campaigns:

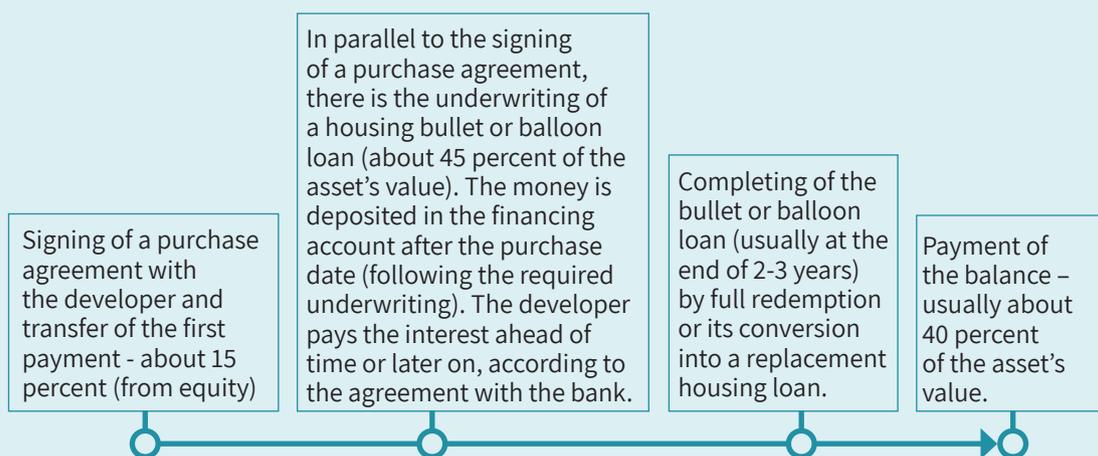
Description of the payment schedule in the linear model:



Description of the payment schedule in purchases that include a significant deferral of payments:



Description of the payment schedule with developer-subsidized loans:



Key advantages and risks for each party in the transaction compared to a linear payment model

Transactions that include significant deferral of payments offer both advantages and risks for all entities involved in the project. **For the developer**, these campaigns help boost sales, especially during the presale stage, and help to avoid stagnation in the housing market—particularly given the strong buyer response to such offers. However, this payment model creates a cash flow gap between the pace of construction and the flow of receipts from buyers, which leads to increased need for credit and higher financing costs for the developer. **For the buyer**, deferred payments make it possible to avoid simultaneous payments for a mortgage and for rent and provide additional time to accumulate the equity needed to complete the purchase. However, deferral increases uncertainty (with respect to the terms of the housing loan the buyer will need near the occupancy date, including both the interest rate and the loan amount¹⁴, and the buyer's ability to complete the transaction). **The lending bank** benefits from higher financing income due to greater utilization of credit lines, but this also entails higher credit risk and requires larger capital allocations for the project.

In the case of **developer-subsidized loans**, there are also advantages and risks, though they differ somewhat. For the developer, these deals promote sales and accelerate cash inflows, which reduce their credit needs. In contrast, the developer must cover the interest expenses for the subsidized housing loans.¹⁵ For the buyer, payment deferral helps avoid overlapping mortgage and rent payments and allows more time to accumulate equity in order to complete the transaction. In addition, the early underwriting process that the buyer undergoes when receiving the developer-subsidized housing loan provides an indication of the buyer's future ability to complete the purchase. However, if the buyer is required to convert the “bullet” (or “balloon”) loan at the end of the term into a housing loan, there is uncertainty regarding the terms of that future loan. The lending bank, in this case, benefits from reduced credit risk in the project and is also required to allocate less capital for the project.

Sales data for promotional campaigns

Promotional campaigns for home purchases contributed to the increase in new home sales in 2024. The Banking Supervision Department obtained data on sales in residential construction projects financed by the banking system in order to assess the risks implicit in this activity. The data indicates that in a significant proportion of bank-financed projects, the financing agreement includes a threshold set by the lending bank for the proportion of sales that can be implemented with significant payment deferral (Figure 5.74). Overall, the share

¹⁴ Particularly when the price is indexed to the Construction Inputs Index.

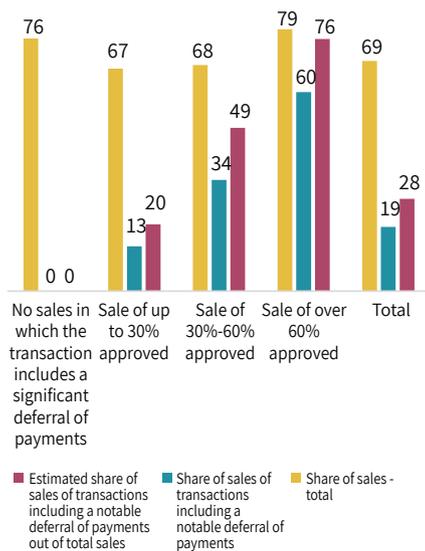
¹⁵ There may be a situation in which the financing expenses of the developer in this type of campaign will be higher than in a linear payment model, even though the rate of interest on these housing loans is lower than that on credit paid by the developer to finance the construction.

of homes sold through promotional campaigns involving a substantial payment deferral was about 28 percent of the inventory in bank-financed projects (Figure 5.75). However, it is worth noting that in projects where a significant proportion of the total homes were sold during 2024, a higher proportion of sales involved a substantial payment deferral (Figure 5.75).¹⁶ Since receipts from these campaigns are lower than in other payment methods, projects with a high volume of such transactions are characterized by higher utilization of balance-sheet credit.

Most of the construction loan projects restrict the sales that include a significant deferral of payments.

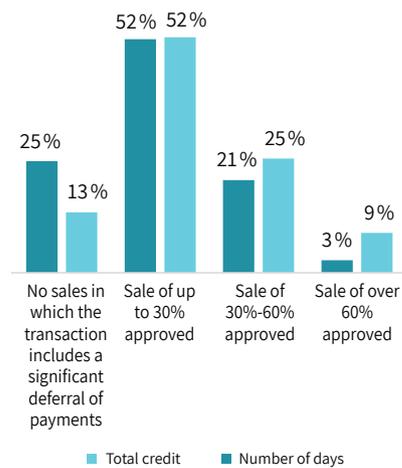
Figures 5.74

Breakdown of number of developers and balance-sheet credit according to approved rates of sale in the case of transactions that include a significant deferral of payments,* Five banking groups, October 2024 | percent



Figures 5.75

Proportion of sales – Total, transactions that include a significant deferral of payments and the estimated proportion of homes sold in these campaigns within total homes sold so far; breakdown by category* Five banking groups, October 2024 | percent



* The accompanying bank limits the developer in the share of sales allowed among transactions that include a notable deferral of payments.

Source: Based on reports to the Banking Supervision Department.

¹⁶ This relates to the total sales that include a significant deferral of payments in the inventory of projects financed by the banks as of October 2024.

Actions taken by the Banking Supervision Department in the area of promotional campaigns

- In December 2023, the Banking Supervision Department identified a significant increase in "bullet" and "balloon" loans in housing credit and conducted an inquiry among the banks on the matter.¹⁷ The inquiry revealed that the increase in such loans stemmed from the marketing of developer-subsidized loans, as described above. The marketing of these loans began in response to slow sales of homes, partly due to the interest rate environment and the security situation following the outbreak of the Swords of Iron War in October 2023.
- The Banking Supervision Department emphasized to the banks that when executing transactions involving developer-subsidized loans, the bank providing the housing loans must carry out full underwriting regarding the buyer's ability to complete the entire transaction (and not settle for examining the buyer's ability to meet only the partial payment for the home transferred to the developer under the developer-subsidized loans scheme), and must fully reflect the expected future repayments by the borrower when the loan is converted into an alternative (full) housing loan.
- With the continuation of the developer-subsidized loan promotional programs in 2024, the Banking Supervision Department required the banks to submit monthly reports on developer-subsidized loans, as well as retrospective reports starting from December 2023, the month in which the beginning of this trend in the housing market was recognized. The Banking Supervision Department closely monitored developments in this type of credit and held frequent discussions of the matter. At the same time, the purview was expanded to include transactions involving significant deferral of payments, such that they are not currently reflected in housing credit but will be in a few years, as the occupancy dates approach.
- In October 2024, the Banking Supervision Department distributed a letter to the banking corporations that required them to conduct a data-based analysis of the impact of developments in the construction and real estate industry on risks related to exposures (credit to developers and housing credit), and of the effect of these developments on the adequacy of controls and policies that are part of their credit risk management.¹⁸ Banks were also required to ensure that credit loss allowances appropriately reflect the increased risk and to adjust their quantitative and qualitative disclosures to the public as part of the board of directors and management reports. Simultaneously, the Banking Supervision Department issued a reporting requirement to banking corporations regarding the volume of home sales in transactions involving

¹⁷ For further details, see the chapter on credit in this survey.

¹⁸ Letter number 4.149.16051 dated October 15, 2024
<https://www.boi.org.il/en/economic-roles/supervision-and-regulation/letters/?number=202422>

significant deferral of payments in projects financed by the banking system.¹⁹

- Subsequent to the requirements set out in the aforementioned letter, and after it became clear that the trend of home sales through promotional campaigns is ongoing, the Banking Supervision Department began formulating a regulatory measure aimed at mitigating the credit risk to the construction and housing industry that is the result of these campaigns, given the current macroeconomic conditions. The intention is to reduce home purchases by buyers whose ability to complete the transaction is in doubt.
- On April 6, 2025, a temporary directive²⁰ came into effect that is intended to balance the need to reduce the growing risk from the use of promotional campaigns against the continued controlled use of this tool in the housing market. According to the directive:
 - » Credit under a construction loan project agreement for residential construction in which more than 25 percent of the home sale contracts include a significant portion of the payment being deferred until delivery²¹ (nonlinear payment) will be risk-weighted at 150 percent (instead of 100 percent); this limitation will apply from the effective date.
 - » Notwithstanding the above, credit under construction loan project agreements in existing projects where more than 20 percent of the home sale contracts include significant payment deferral to the occupancy date will be risk-weighted at 150 percent only if this percentage exceeds the rate on the effective date by five percentage points or more.
 - » The execution rate of "bullet" and "balloon" loans subsidized by the developer²² must not exceed 10 percent of total quarterly housing loan executions, excluding housing loans not intended for the purchase of land rights.
- The temporary directive will remain in effect until the end of 2026. The Banking Supervision Department continues to monitor developments in residential construction credit and housing credit in order to ensure that credit risk in these industries is monitored and managed according to accepted and proper risk management practices.

¹⁹ The last available report is for October 2024.

²⁰ For further details see Circular 2816 regarding the updating of Directive 203 – The Standardized Approach – Credit Risk and Directive 329 – Restrictions on Issuing Housing Loans. [Hebrew]

²¹ “A significant proportion of the sale price” – The total receipts that the buyer is allowed, according to the purchase agreement, to defer to the date of occupancy exceeds 40 percent of the sale price of the apartment included in the purchase agreement.

²² In this context, “developer-subsidized bullet or balloon loans” – Loans in which the developer pays the interest payments, in full or in part, whether on the day the loan is extended or during the term of the loan.

Box 5.3

The importance of quality of anti-money laundering regime in the context of correspondent relationships

- The banking system plays a central role in financial intermediation, the payments market, and domestic and international trade.
- Banks fulfill this role in part through correspondent banks, which enable them to conduct banking activities, including making payments to and from countries where they do not have a physical presence.
- Correspondent relationships are vital to the stability of the banking corporation and the functioning of the Israeli economy, and an adverse impact on these relationships could disrupt money transfers to and from the economy and in turn domestic economic activity.
- The intensification of the global fight against money laundering and terrorism financing, as well as the expansion of the use of economic sanctions, has led to stricter requirements being imposed directly on banks under the laws in effect in their areas of operation. Banks that do not operate as required are exposed to significant fines and sanctions.
- This situation has led to a global trend in which correspondent banks are tightening their requirements regarding the establishment of correspondent relationships, including by reducing their correspondent activity due to potential realization of compliance risk or due to high compliance costs.
- Various global examples of reduction correspondent relationships highlight the importance that correspondent banks attribute to the quality of anti-money laundering and counter-terrorism financing risk management in the domestic banking system, and the significance of correspondent relationships in maintaining normal economic activity.
- In the context of the Israeli banking system, with the imposition of sanctions due to the Russia-Ukraine war and in light of the realization of the risks that could materialize from damage to correspondent relationships to the extent that a banking corporation act contrary to sanctions regimes, the Supervisor of Banks found it necessary to clarify to the banking corporations their legal obligations regarding risk management related to the circumvention of sanctions regimes.
- Maintaining an effective anti-money laundering regime, in accordance with international standards, is essential for ensuring the proper management and normal/regular operations of banking corporations in Israel. This effort is necessary in order to preserve the normal/regular functioning of the economy as a whole and to maintain

proper relations with the global economy, with the ultimate goal of ensuring the proper functioning of the Israeli economy.

What are correspondent relationships?

The banking system plays a central role in financial intermediation, the payments market, and trade—both domestic and international. Fulfilling this role requires infrastructure for executing international payment transfers and access to foreign currency. However, since the geographic reach of each banking corporation is limited, a single banking corporation without an international presence will find it difficult to support cross-border banking activity.

The solution to this challenge lies in correspondent banks, which enable other banks to make payments in countries where they do not have a physical presence. When a local banking corporation without branches or subsidiaries in foreign countries wishes to transfer funds to a bank located in a foreign country, it must enter into a correspondent agreement with a bank operating in that foreign country. These are bilateral agreements between two banks, where one bank is the “correspondent bank,” providing banking services to the other bank, which is the “respondent bank.” This arrangement gives respondent banks access to banking systems in foreign countries. In other words, the correspondent bank acts as a kind of “agent” for the respondent bank in conducting transactions with banks in the foreign country on the respondent’s behalf. Among the main banking services provided by a correspondent bank are the execution of fund transfers and foreign currency transactions.

Thus, to enable international transfers and thereby support, among other things, international trade and the financial inclusion of customers of the Israeli banking system, each banking corporation in Israel maintains numerous correspondent relationships with foreign banks across various jurisdictions. This is done to provide access both to different foreign currencies and to enable bank transfers in different territories.

In light of the above, correspondent relationships are necessary to maintain the stability of individual banking corporations, the overall banking system, and the proper functioning of the Israeli economy. Any damage to correspondent activity could disrupt a banking corporation’s ability to function as a financial intermediary, by impeding international money transfers and disrupting domestic financial activity, which may adversely affect trade and even lead to financial exclusion. A reduction in the scope of correspondent relationships will increase the risk to financial stability, financial inclusion, and economic growth.

Developments in anti-money laundering, counter-terrorist financing, and sanctions regimes worldwide and their impact on correspondent relationships

In general, correspondent banking can expose financial institutions to material risks, particularly in the areas of anti-money laundering (AML), counter-terrorist financing (CFT), and sanctions regime, due in part to the scope and complexity of correspondent relationships. These relationships may facilitate the concealment of illicit sources of funds in ways that hinder authorities from tracking and preventing illegal activities.

The international standards established by the Financial Action Task Force (FATF)¹ set out principles for risk management in the context of correspondent banking. These include, among other things, a requirement that, in addition to standard due diligence procedures and when establishing correspondent relationships between banking corporations, the correspondent bank must collect sufficient information about the respondent bank in order to fully understand the nature of its business activities. This includes information about the respondent bank's reputation and the quality of supervision to which it is subject. As part of this process, the correspondent bank must determine whether the respondent bank has been investigated or subjected to financial penalties for violations related to anti-money laundering, and assess the respondent bank's policies and procedures concerning AML and CFT.²

These principles have also been incorporated into Israeli law. As part of Proper Conduct of Banking Business Directive 411 – “Management of Anti-Money Laundering and Countering Financing of Terrorism Risks,” specific obligations have been established regarding the management of correspondent accounts. These obligations address both with respect to the “know your customer” (KYC) process and the ongoing monitoring of such accounts. Among these obligations are requirements aimed at ascertaining and understanding the nature of the respondent banks' business, taking into account, among other things, the respondent bank's reputation—particularly in relation to the quality of its AML/CFT risk management—and the quality of the supervision and regulation applied to the respondent bank in these areas.³

For several years now, we have been witness to an escalation in the global fight against money laundering and terrorist financing, as well as an increase in the use of international sanctions—particularly economic sanctions—as a legal tool for enforcement and international deterrence that is used for various purposes. Therefore, there is an increased

¹ The FATF is an international taskforce responsible for the development and advancement of global policy and international cooperation in combatting against money laundering, financing of terror and the financing of proliferation of weapons of mass destruction.

² See Recommendation 13 of [the FATF recommendation on correspondent banking](#).

³ See Proper Conduct of Banking Business Directive 411: [Management of Anti-Money Laundering and Countering Financing of Terrorism Risks](#).

burden in the requirements imposed directly on banks by the applicable law in their areas of operation. Banks that fail to operate as required are exposed to compliance risks and to serious fines and sanctions.

For example, in 2019, UniCredit Bank was required to pay a \$1.3 billion fine to US authorities to conclude an investigation into violations of US sanctions related to activity involving Iran. The investigation revealed deficiencies in the bank's policies and procedures for screening according to sanctions lists, as well as inadequate oversight of its subsidiaries.⁴ The fine was part of a settlement agreement with US authorities to conclude the investigation and avoid further legal proceedings. Similarly, SwedBank Latvia fined \$3.43 million by US authorities in connection with bank transfers to Crimea conducted via American correspondent banks.⁵ Another example is the \$8.9 billion fine imposed on the French correspondent bank BNP Paribas -French correspondent bank -in 2014 for violating sanctions against Sudan, Cuba, and Iran.⁶ Research on the topic/subject suggests that this case marked a turning point in correspondent relationships, as it led to a reassessment of the cost of compliance among correspondent banks.⁷

Due to concerns among banking corporations about the realization of compliance risk related to AML/CFT and sanctions regime violations, **a global trend has emerged in which correspondent banks are reducing their correspondent activity to avoid such risks.** Among other things, correspondent banks may condition their business relationships on compliance with specific standards in AML/CFT or sanctions regimes and may even require respondent banks to operate in accordance with foreign regulation in order to avoid compromise the correspondent bank. Additionally, and as part of the due diligence procedures carried out by correspondent banks, significant emphasis is placed on the reputation of the individual bank in relation to the quality of its AML regime and sanctions implementation, as well as the reputation of the country in which the financial institution operates. Damage to reputation may harm correspondent relationships, either through increased costs for correspondent services or by a decision to terminate the correspondent relationship with an individual bank or with all financial institutions in that country. These trends have strengthened the reputational risk faced by banking corporations.

⁴ US Department of Justice, [UniCredit Bank AG Agrees to Plead Guilty for Illegally Processing Transactions in Violation of Iranian Sanctions](#).

⁵ US Department of Commerce, [Settlement Agreement between the U.S. Department of the Treasury's Office of Foreign Assets Control and Swedbank AS \(Latvia\)](#)

⁶ US Department of Justice, [BNP Paribas Agrees to Plead Guilty and to Pay \\$8.9 Billion for Illegally Processing Financial Transactions for Countries Subject to U.S. Economic Sanctions](#)

⁷ Borchert, Lea, et al. How the withdrawal of global correspondent banks hurts Emerging Europe No. 6/2021. ZEW policy brief, 2021.

The phenomenon of de-risking and its consequences – examples from around the world

The reduction in the scope of business relationships due to concerns over high compliance costs is known as “de-risking.” This is an unintended consequence of the global fight against money laundering and terrorist financing, and, as noted above, it is expressed in correspondent relationships.

A paper by the International Monetary Fund that reviews the reduction in scope of correspondent relationships explains that the reduction from such relationships may lead to disruption in the provision of financial services, such as financing and support for trade activity and international money transfers. It may also result in financial exclusion of customers. To the extent that the reduction of relationships is more substantial will raise the risk of disconnection from the global financial system.⁸

Trends in the reduction from correspondent relationships have been observed in various regions around the world, including the Caribbean, African countries, North Africa and the Middle East, Eastern Europe, and others. In the Caribbean, the reduction was linked to a decline in the risk appetite of correspondent banks, due to extraterritorial activity in some Caribbean countries and concerns regarding the quality of supervision and regulatory frameworks in those countries—particularly in managing AML/CFT risks and high-risk customer activities. These factors led to a significant decrease in the volume of international transfers and an increase in their cost, heightening concerns about disruption to international trade in the Caribbean countries, whose economies—being island nations—are heavily dependent on trade, tourism, and other services. Assessments of the impacts of continued reduction of correspondent relationships estimated a negative impact of between 1 percent and 6 percent of GDP, (depending on the severity of the reduction of relationships).⁹

In several African countries, relationships were reduced due to cost-benefit considerations and weaknesses in managing AML/CFT risks. This led to a significant rise in the cost of conducting international transfers and even to a serious decline in access to US dollars, which, in turn, could severely result in significant damage in financial and macroeconomic activity. North African and Middle Eastern countries experienced reduction in correspondent relationships due to weak AML/CFT regimes and the existence of sanctions regimes, which increased the cost of doing business with those countries.¹⁰

In Eastern Europe, the decline in scope of correspondent relationships was linked to a decline in export growth (a 6 to 8 percentage point decline compared to countries that did

⁸ Erbenova, Mrs Michaela, et al. *The withdrawal of correspondent banking relationships: a case for policy action*. International Monetary Fund, 2016.

⁹ Alleyne, Mr Trevor Serge Coleridge, et al. *Loss of correspondent banking relationships in the Caribbean: trends, impact, and policy options*. International Monetary Fund, 2017.

¹⁰ Erbenove, *The withdrawal of correspondent banking relationships*.

not experience a reduction in correspondent relationships) and to a reduction in access to US dollars. In 2019, 26% of banks in the region reported significant difficulty in accessing dollars, which impaired their ability to conduct international payment transfers.¹¹

In these cases, one of the main steps taken to reduce the impact of diminished correspondent relationships was the strengthening of anti-money laundering regimes—both at the national level and within banking corporations.

The importance of an effective anti-money laundering regime in Israel and in the banking corporations

International experience highlights the significant importance of maintaining an effective anti-money laundering (AML) regime and complying with international standards in preserving the reputation of the State of Israel and that of local banking corporations, particularly in the context of correspondent banking relationships and Israel's ability to maintain stable trade relations with other economies.

This reputation is not to be taken for granted. In the early 2000s, Israel was included on the FATF's "blacklist" of countries, which led foreign financial institutions to impose significant restrictions on doing business with Israel. As a result, Israel launched a comprehensive process to improve its AML regime and was removed from the blacklist in 2002. In 2012, Israel began proceedings to join as a member of the FATF, and in 2016, the organization granted Israel observer status. At the end of 2018, Israel was accepted as a full member of the FATF, following its successful completion of a comprehensive international review of its AML and CFT regime. Moreover, the report issued found that Israel is one of the leading countries globally in combating money laundering and terrorist financing. This recognition is strategically important, since it improves Israel's cooperation with other countries in the financial, economic, and intelligence domains.¹²

In recent years, challenges facing the financial system have intensified, including the expansion of requirements related to cross-border activity (with some Israeli banking corporations having been sanctioned by US authorities), and the increasing use of sanctions as a tool of international enforcement. These developments have heightened tensions between customer service provision and risk management.

In the context of the Israeli banking system, these challenges became particularly evident with the imposition of sanctions as a result of the Russia-Ukraine war (see Box 7.4 in Israel's Banking System 2022 on "The Activity of the Banking Supervision Department with Regard

¹¹ Ibid., Borchet.

¹² Israel as member of the FATF organization, Israel Money Laundering and Terror Financing Prohibition Authority.

to the Russia-Ukraine War”) and later with the imposition of sanctions on Israeli citizens. In light of the expanding use of sanctions regimes, and to ensure that Israeli banking corporations are not misused in order to circumvent these regimes—given the risks noted above—the Supervisor of Banks found it necessary to clarify the legal obligations of banking corporations regarding risk management. In a letter to the banking system dated June 8, 2022, the Supervisor clarified that banking corporations must establish policies and procedures regarding the use of international and foreign national sanctions lists, and regarding engagement or transactions with parties on such lists. The letter further clarified that if a banking corporation adopts a sanctions policy as part of its risk management framework, and subsequently refuses to approve a transaction or enter into an agreement in accordance with that policy, such refusal will not be considered as an “unreasonable refusal” under Section 2 of the Banking (Service to the Customer) Law, 1981.¹³ This decision was primarily motivated by the importance of maintaining the relationships between Israeli banking corporations and foreign financial institutions that are subject to international sanctions—including, directly or indirectly, correspondent banks.

These developments highlight the importance of maintaining a high-quality AML regime that meets international standards. This is essential to ensuring sound governance and the normal operations of Israel’s banking corporations, preserving the stable functioning of the broader economy, maintaining healthy relationships with the global economy, and ultimately, the proper functioning of the Israeli economy.

¹³ Letter from the Supervisor of Banks dated June 8, 2022: [Risks of Entering into Agreements with Entities Listed on International Sanctions Lists and National Sanctions Lists of Foreign Countries\(E\)](#)

Box 5.4

The opportunities and risks implicit in quantum computing

- A quantum computer is a new generation of technology that has not yet reached practical maturity. Nevertheless, the new technology and its implications have already begun to make their way into various disciplines, including the financial world.
- A quantum computer operates according to principles that differ from those of classical computers currently in use. These principles can provide solutions to unsolvable challenges in various fields such as complex simulations, route optimization, and scientific problems.
- The financial system faces numerous problems that cannot be solved with a regular computer within a reasonable time frame. However, the characteristics of quantum computing make it possible to do so.
- Alongside its advantages, quantum computing—at certain levels of power—can be used to break asymmetric encryption algorithms, which are in wide use, and to weaken existing encryptions.
- This box presents information about quantum computing and its potential uses in the financial world, its current state in Israel and worldwide, the cyber challenges of the quantum computing era, and the preparations needed to mitigate the risk.

Background

A quantum computer is a new generation of technology that has not yet reached practical maturity. It is based on the principles of quantum physics and is characterized by immense computing power and significantly higher data processing speeds than existing computers, including supercomputers.¹ Theoretically, it is 158 million times faster than the most advanced supercomputer in existence today, and its operation requires professionals dedicated to the field (for example, in software, architecture, etc.). As a result, quantum computing makes it possible to work with large and complex data sets at high speed and delivers performance that is unattainable with current computing technologies.

The processing results of a quantum computer represent a probabilistic distribution of possible outcomes. In a regular computer, the basic unit of information is a "bit," where each bit can be in one of two states: 0 or 1. In contrast, the basic unit of information in a quantum computer is called a qubit (a quantum bit). Each qubit can be in state 0, 1, or any other intermediate state. A qubit is not described as a number but as a matrix of all possible

¹ A supercomputer has a powerful computing capacity that can reach billions of calculations per second and is the most powerful computer in existence today in science and industry for the solution of the most complex computational problems.

states and on which the computer performs parallel processing (according to the defined algorithm).

In existing computers, operations are performed on an input of bits, and the final result is a certain number of bits. In contrast, operations in a quantum computer are carried out on an input of qubits, and the final result is obtained as a graph or a distribution vector in space, describing all possible outcomes and thus enabling the construction of more accurate assessments or forecasts.

Conventional computers perform the required tasks using software written for them. However, when prediction or estimation is needed based on multiple variables—some of which are random—a problem arises. The difficulty conventional computers face in handling complex calculations involving a large number of variables, especially when some are random, stems from their need to check each possibility separately. This process may be time-consuming and highly inefficient. In such cases, quantum computers may be more efficient, since they are capable of examining multiple possibilities simultaneously and obtaining results much faster. It should be noted, however, that the quantum computer is not a replacement for the existing computer but rather is intended to address problems that require computational power not currently available or programs that cannot be executed within a reasonable time frame (which is the scientific definition of quantum supremacy).

Although quantum computing has not yet reached practical maturity, the new technology and its implications have already begun to make their way into various industries. The business world is currently grappling with the need to understand this technology, assess its potential, identify unique use cases, and decide on a potential long-term strategy.

The current situation

The quantum computing industry is already attracting significant investment. Several leading companies in the field include IBM, Google, and Quantum Machines, an Israeli company.

In Israel:

Currently, there are three quantum computers in Israel with relatively low capabilities. They are intended mainly for research, education, and software testing. In addition, the Israel Innovation Authority and the Ministry of Defense are funding and directing numerous initiatives to advance quantum computing, including the building of a quantum computer and the funding of startups developing hardware and software. Israeli universities are conducting extensive research in quantum science and technology, including quantum computing.

Worldwide:

Google and IBM frequently announce progress in developing improved quantum computers, although quantum supremacy has not yet been achieved. Many organizations are working on developing support systems and applications for various sectors (health, finance, modeling, and others).

Potential uses in the financial sector

The financial system faces many problems that cannot be solved by a conventional computer within a reasonable time frame, while the characteristics of a quantum computer would make this possible. The adoption of quantum computing by the financial sector offers enormous potential advantages, such as more in-depth analysis or new and faster trading possibilities.

Algorithms and models for calculating statistical probabilities, such as credit underwriting, and derivative pricing are examples of financial processes that involve extensive mathematical computations and become increasingly complex and resource-intensive as the number of variables and data points grows. At a certain point, people are forced to settle for less-than-optimal solutions because the complexity of the problem exceeds the capabilities of current technologies and methods.

One potential application of quantum computing in the financial sector is accurate market simulation and the ability to predict how a change in the price of a product will affect the cost of other assets. Quantum computers will be extremely useful in running simulations to forecast future markets, predict option prices, or assess risks and uncertainties in financial models.

Additional areas in which quantum computing may be highly beneficial include trading and portfolio optimization. Portfolio managers must consider market volatility, client preferences, regulations, and other constraints. Currently, there are limitations in computational simulations and transaction costs under various scenarios.

In addition, quantum computing will assist in data protection and cybersecurity solutions by enabling rapid data processing and quick response to network anomalies.

Cyber risks stemming from quantum computing capabilities

Alongside its advantages, quantum computing—at certain levels of power—could be used to break asymmetric encryption algorithms, which are widely used, and weaken existing encryption methods. Evidence of the potential to break asymmetric encryption can be seen in Shor's algorithm, which can efficiently factor large numbers and therefore has the capability to break encryption paradigms and methods, including a variety of approaches to protecting sensitive data and privacy. This means that to be quantum-secure, all current applications and components of operating systems using algorithms that are not quantum-safe will need to be replaced and/or updated.

These algorithms are, among other things, the foundation for digital signatures and encrypted Internet communication. As a result, once sufficiently powerful quantum computers become available, the security and confidentiality of financial transactions and sensitive data processed by financial institutions may be at risk. This threat includes the exposure of encrypted information as well as the undermining of the authenticity of digital signatures and the integrity of the signed data.

Until recently, experts and analysts in the field of information systems believed that the feasibility of a quantum computer powerful enough to pose such risks was still decades away. However, since 2022, and in light of advances in the construction of stronger and more stable quantum computers, timelines have been shortening. Today, leading professionals, including analysts and international bodies, estimate that the risks of encryption breaches in the quantum computing era may materialize within the coming decade.

As early as 2016, the US National Institute of Standards and Technology (NIST) began a global standardization process for post-quantum cryptography (PQC). This process involves selecting cryptographic algorithms capable of functioning with existing network and communication protocols to protect sensitive information from decryption threats in the quantum computing era. At the same time, research initiatives involving quantum key distribution (QKD) technology are being tested. These initiatives seek to create secure communication channels for distributing encryption keys.

The most immediate and tangible risk from the existence of quantum decryption capabilities is their potential for immediately converting long-term valuable data—information that needs to remain encrypted for years—into data that is quickly decipherable. This risk is also referred to as "Harvest now, Decrypt later" and relates to the possibility of encrypted data being stolen during current cyber incidents and stored by attackers until such time as decryption becomes feasible. Extensive research is being conducted in Israel and around the world to provide defensive solutions for encryption and data protection in the post-quantum era.

The banking system's preparedness for the quantum computing era

Preparing to address the risks of the quantum computing era is a concern for regulators around the world, including financial regulators, although most preparations are still in the early stages. Over the past year, two major calls were issued by government bodies urging organizations under their supervision to begin a phased approach to preparing for Post-Quantum Cryptography:

1. A joint communication by CISA, NIST, and the NSA in the United States, dated August 21, 2023.
2. A communication by MAS, the financial regulator in Singapore, dated February 20, 2024.

In light of these developments, a letter was sent in January 2025 to the banking system², outlining the initial preparations required to address information security and cyber risks related to quantum computing, especially the risks of encryption breaches in the quantum computing era. The letter included requirements in three areas:

1. Raising awareness within the banking corporation, ongoing monitoring of developments in quantum computing, and assessing the associated cyber risks.
2. Mapping and managing encrypted information assets as part of the requirement to map information assets included in Proper Conduct of Banking Business Directive no. 364.
3. The development of skills and capabilities to address cyber risks related to quantum computing (in accordance with developments in the field).

It is worth noting that following the issuance of this letter, the European Union Agency for Law Enforcement Cooperation (Europol) published an urgent warning³ to the financial sector on February 7, 2025. The warning stated that the development of quantum computing poses a threat to financial information security and that critical systems must be protected against quantum computing threats. The agency also called for global cooperation among countries and organizations to develop and implement new encryption solutions.

² [Letter on Preparations in the Banking System to Deal with Cyber Risks Stemming from Quantum Computing Capabilities](#) [Hebrew]

³ [Call for action: Urgent plan needed to transition to post-quantum cryptography together.](#)

CHAPTER 6

CHAPTER 6 BANKING SUPERVISION DEPARTMENT ACTIVITY

The economic developments during 2024 were heavily influenced by the war and the economic measures adopted in its wake. Accordingly, the Banking Supervision Department continued this year to focus on strengthening the resilience of the banking system and improving its preparedness for economic crises. The Banking Supervision Department also continued to work to strengthen the financial position of households and enhance competition within the banking system.

1. THE VISION AND STRATEGIC OBJECTIVES OF THE BANKING SUPERVISION DEPARTMENT

The Banking Supervision Department's vision is "to promote the public good by ensuring the stability and fairness of the banking system by means of professional, innovative, and transparent supervision." The objectives of the Banking Supervision Department are derived from the wording of the law and from strategic goals that were formulated to support and assist it in achieving its vision. The law stipulates that the Banking Supervision Department must act to further the benefit of the public and the economy by achieving three main objectives: maintaining the ability of banking corporations to meet their obligations; ensuring the proper functioning of banking corporations and safeguarding their customers' interests; and supporting the stability of the financial system. At the beginning of 2024, a process was carried out to formulate the Banking Supervision Department's strategy for the coming years. The process included an analysis of developments in the economic, technological, and regulatory environment.

The following supervisory strategic goals were adopted in accordance with the goals of the Bank of Israel:

- Stability—maintaining the stability of supervised entities, their uninterrupted functioning, and the safety of depositors' funds, both in routine times and in emergencies;
- Fairness—instilling a culture of fairness toward customers and providing optimal and inclusive service levels.

Additional supporting goals:

- Encouraging competition in the financial system;
- Strengthening the effectiveness of the Banking Supervision Department.

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

Regulatory Activity

Adjustments to Proper Conduct of Banking Business directives in order to address the effects of the Swords of Iron war (temporary order)

To assist the banking system and its customers in coping with the challenges of the situation, the Banking Supervision Department formulated a series of relief measures and adjustments to the directives of the Supervisor of Banks as part of a temporary order. The relief measures were published in Chapter 6 of Israel's Banking System 2023. During 2024, most of the relief measures expired in view of the, at least partial, return to economic routine. The remaining relief measures concern housing credit and the provision of credit, as described below:

Housing credit

The maximum financing rate for a housing loan secured by a residential property not intended for purchase ("loan for any purpose") was relaxed. In addition, exemptions were provided from various restrictions when adding a secure room (Mamad) in cases where the Home Front Command relaxed planning requirements.

Providing of credit

In view of the difficulty encountered by borrowers in presenting updated financial statements, banks were allowed to continue extending credit based on the most recent statements available.

Framework for relief of the credit and fee burden

About a week after the outbreak of the war and with the goal of assisting banking system customers in coping with the consequences of the Swords of Iron War, the Bank of Israel announced the creation of a comprehensive framework to ease the credit and fee burden on customers. The framework was adopted by all the banks.

The framework allows customers who were directly affected by the war to defer payments—without interest or fees—on mortgage, consumer, and business loans, and to receive exemptions from most fees associated with the ongoing management of current accounts and from interest on overdraft balances in personal and business accounts up to set limits, for a period of three months from when they join, according to the framework's terms. Other customers are allowed to defer loan and mortgage payments for three months without penalties, with the deferred payments bearing interest not exceeding the rate stipulated in the loan agreement.

The framework was extended and expanded given the continuation of the war and its spread to additional fronts, and the criteria for eligibility were updated accordingly. At the end of 2024, the Banking Supervision Department announced an additional extension of the framework until March 2025.

In view of the security situation and the escalation of fighting in the North, an additional framework was created for business owners operating in the northern region (over 300 localities), which was intended to provide them with cash flow relief in light of the war's escalation and as part of the economic recovery process in preparation for a return to routine.

Information and transparency

Special Payment to Achieve the Budgetary Goals (Temporary Order – Swords of Iron) Law

In accordance with the stipulations of the law, the Supervisor of Banks is required to submit a semiannual report that includes, among other things, data on interest rates for credit and deposits and the fees charged by banks to customers after the law came into effect, compared to prior to the law. Accordingly, a reporting format was developed, and in 2024 the Banking Supervision Department submitted two reports to the Finance Committee.

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

Enforcement and supervision

The aim of the Banking Supervision Department is to identify and assess the risks inherent in various banking activities and oversee the compliance with laws and directives; to monitor the performance of management, control, and corporate governance systems; and to detect violations and eliminate shortcomings. The findings are used to identify emerging risks and trends and address them, to assess the performance of supervised entities, and to identify needs related to regulation and enforcement. All of these efforts are intended to strengthen the stability of the banking system and ensure its proper functioning.

Following is a description of prudential monitoring by the Banking Supervision Department in 2024 and the steps that were taken:

- 1. Refreshing the supervisory methodology for assessing a bank's risk profile:** In 2024, the Banking Supervision Department validated and updated the methodology of the Supervisory Review and Evaluation Process (SREP), based on lessons learned from the 2023 SREP cycle and in light of developments in the economic, regulatory, and technological environment. This process provided further proof that the Banking Supervision Department's SREP methodology is aligned with the Basel guidelines and best practices of leading supervisory authorities worldwide. Several revisions were made to the methodology in order to improve and refine risk profile assessment capabilities.
- 2. Work plans of banking corporations and credit card companies:** As in previous years, the Banking Supervision Department reviewed the work plans of the banking corporations and credit card companies at the beginning of the year. The purpose of this process is to understand the key initiatives and goals outlined in the work plans and the risks that stem from them. This also ensures that the goals align with the strategic plans of the banking corporations and that the risks do not exceed the supervisory risk appetite. Based on this review, the Banking Supervision Department considered whether to update its own supervisory work plan for 2024 so that it more closely aligns with the banks' plans and provided guidance for strengthening risk management and control processes when necessary.
- 3. Developments in the financing of the construction and real estate industry:** In 2024, the Banking Supervision Department closely monitored developments in the financing of the construction and real estate industry. The monitoring focused on the increased use of marketing campaigns by contractors, including contractor-subsidized balloon loans and non-linear payment schemes (e.g., "80-20" deals). In October 2024, the Banking Supervision Department issued a letter to the banking corporations requiring them to perform a data-supported analysis of the impact of these developments on risk in both the construction and real estate industry and in the housing loan portfolio. The analysis also included an

evaluation of the adequacy of controls and guidelines in the banks' credit policies. The banks were asked to include in their analysis recommendations for appropriate measures, including the setting of limits if needed. Additionally, the banks were asked to ensure that their credit loss allowances reflect the increased risk and to adjust both quantitative and qualitative disclosures to the public in the reports of the board of directors and of management. Following these steps and after reviewing the response of the banking system, the Banking Supervision Department deemed it appropriate to issue a temporary order concerning these matters (for further details, see the chapter on prudential regulation, Section 1).

4. **Business continuity:** The Swords of Iron War meant that 2024 was a challenging year in terms of business continuity, due in part to intensified fighting, potential threat scenarios, and large-scale reserve mobilization. During the year, the Banking Supervision Department worked to ensure the continued provision of essential banking services to the population. It also participated in national situation assessments and provided guidance to the banking system accordingly. Additionally, the department encouraged the preparedness of the banking system in facing further challenges and scenarios, such as blackout events and communication outages.
5. **Supervision of credit card companies and new banks:** The Banking Supervision Department views credit card companies and new banks as potential drivers of competition. Alongside prudential supervision, which includes continuous monitoring and assessment, the Department is continually considering how to remove barriers to entry. Credit card companies are undergoing a process of change with regard to ownership structure, requiring close monitoring of corporate governance issues. Additionally, the companies are developing their business models and expanding their income sources through new products in the evolving payments ecosystem. The department monitors and reviews these developments while adopting a facilitating approach. With respect to new banks, the department continued to closely monitor business developments and risk indicators using a risk-based approach in order to support continued growth and optimal service to customers.
6. **Monitoring and control of credit risk to large businesses:** In 2024, the Banking Supervision Department conducted an assessment of the monitoring and control processes related to the risk of credit to large businesses provided by the banking corporations and their alignment with relevant supervisory directives. The review focused on core processes including ongoing monitoring procedures, risk measurement at both the borrower and portfolio levels, watchlist and classification management, and the functioning of credit control units within the banks. At the conclusion of the review, the department issued letters to the banks summarizing the findings and including guidelines for improvements in procedures, controls, and supporting IT infrastructure.
7. **Banks' capital planning:** Amid the heightened uncertainty following the outbreak of the Swords of Iron War, the Department carried out a comprehensive review of the capital planning of banking corporations in order to ensure the existence of adequate capital buffers. Banks were instructed to review their dividend distribution policies and stock buyback programs

in light of the war's implications, increased geopolitical risk, the downgrade of Israel's credit rating, and other possible scenarios.

8. **Measuring capital adequacy with emphasis on risk-weighted credit assets:** In 2024, the Banking Supervision Department conducted a system-wide review of capital adequacy measurement, focusing on the measurement of risk-weighted credit assets and based on audit reports by external auditors assigned by the Department. At the end of the process, letters were sent to the banks containing detailed guidance, bullet points, and recommendations for improving processes, controls, and IT infrastructure. In light of the importance of capital adequacy to banking stability, banks are required to conduct a special audit in this area at least once every three years.
9. **Anti-money laundering and counter-terrorism financing:** In 2024, the department conducted a series of audits in various areas, such as the adequacy of reports submitted to the Israel Money Laundering and Terror Financing Prohibition Authority, reporting on transfers via correspondent accounts, and the overall framework for preventing terrorism financing. These audits examined the quality of banks' control and risk management systems, the compliance with relevant regulations, and the adequacy of policies and procedures. The reviews focused on client identification processes, "Know Your Customer" procedures, customer risk ratings, monitoring systems, detection and reporting of suspicious activity, and the quality of technological tools supporting bank compliance and oversight.
10. **Strengthening cybersecurity in the banking system:** In 2024, the Banking Supervision Department continued its efforts to enhance cybersecurity in the Israeli banking system. As part of its strategy to promote cyber resilience, the department remained actively involved in a multiyear national cybersecurity program to advance a national cybersecurity solution that is accessible to the financial sector, including the upgrade of the financial CERT.¹ This program, approved in 2022 by the Governor of the Bank of Israel, the Supervisor of Banks, the Head of the National Cyber Directorate, and other financial and cybersecurity regulators, is being implemented under the Department's ongoing supervision. Activities include in-depth reviews of risk and performance indicators in cybersecurity, implementation of multi-layered defense guidelines across the banks, and cybersecurity oversight of new banking entities during their formation. These efforts are part of a broader supervisory strategy aimed at reinforcing the banking system's resilience and public trust in the face of evolving cyber threats.
11. **Risk aspects of housing credit:** In 2024, the housing sector experienced an increase in demand, resulting in a significant rise in the outstanding balance of housing loans in the banking system. Inflation and interest rate hikes led to a notable increase in borrowers' monthly payments, while household incomes did not rise accordingly. At the same time, housing loan refinancing increased, in part as a way to adjust payment-to-income ratios. The Department reviewed

¹ The financial CERT (Computer Emergency Response Team) is intended to address cyber threats unique to the financial sector and to serve as a complementary protective layer, but one that does not diminish the responsibility of banking corporations, while expanding defense capabilities that cannot be implemented independently at the level of a single banking corporation, or alternatively, should be applied at the national level in order to strengthen the entire economic system.

selected aspects of underwriting and monitoring related to housing loan refinancing, including asset valuation practices, additional housing credit underwriting during refinancing, and how disposable income is calculated. The department will continue to examine this issue in 2025.

12. **Model risk management:** In 2024, the Department conducted examinations in the area of model risk management in a number of areas, including housing loans that have been a key area of supervisory focus in recent years. These examinations included comprehensive evaluations of models used for underwriting, behavioral scoring, pricing, and prepayment. The goal is to strengthen the resilience and stability of supervised entities, reduce information gaps, and enhance risk management by improving models and the processes that rely on them. These improvements are critical both for customers—in order to tailor loan terms to their needs and expand access to credit—and for the banking system, in order to maintain stability and control exposure to risk.
13. **Market and liquidity risk management:** In light of changes in interest rate trends and the collapse of several US banks in 2023 due to the realization of interest rate and liquidity risk (see Box 5.2 in Israel's Banking System 2023), the Department worked to improve the monitoring of interest rate risk and enhance public disclosure in the banks' reporting of their exposure. In the case of liquidity, the Department focused on improving disclosure in public reporting and began reviewing emergency preparedness. It also examined nostro activity that involves investment risk.
14. **Banking corporation activity in financial derivatives:** In 2024, the Department conducted a systemic review of the banking corporations' activity in financial derivatives. This included a quantitative analysis of trading data and a qualitative review of monitoring, control, and reporting procedures associated with the risks of such activity. Following the review, the banks received guidance and bullet points designed to improve their monitoring and reporting processes. The Department also strengthened ongoing monitoring of this issue by the Banking Supervision Department.
15. **Concentration of deposits:** Given the increase in the proportion of institutional deposits relative to the proportion of retail and wholesale deposits, there has been an increase in the level of concentration in deposits in recent years at some of the banking corporations and similarly there has been an increase in large deposits. As a result, an examination was carried out in 2024 of liquidity management policy, with emphasis on the management of concentration of sources and the corresponding monitoring and reporting processes. At the conclusion of the process, the banks were instructed to expand monitoring and reporting in this area, including by means of restrictions and indicators.
16. **Control of reporting to the Public:** In the area of reporting to the public, the Banking Supervision Department completed a series of examinations in the banking system to ensure that developments in the quality of the banking corporations' credit portfolios are properly reflected in their credit loss allowances. The Department acted to ensure that the implications of the Swords of Iron War and the measures taken by banking corporations for the benefit of the public were fully represented in their financial reports. In light of the high level of uncertainty

in the economic environment during this period, the Department also worked to ensure that credit loss allowances remain conservative and to strengthen banking system controls over the measurement of investment in equities, with the goal of ensuring early identification of losses from declines in the value of such investments.

17. **Supervision of Israeli bank branches abroad:** In 2024, the Banking Supervision Department increased its level of supervision of the foreign branches of Israeli banking corporations, with emphasis on licensing and corporate governance, strategy and business models, and risk analysis, particularly in the area of compliance and regulatory risk. The department also strengthened its ties with relevant foreign regulators, including a delegation that held a series of meetings with supervisory authorities in the US. During the visit, Banking Supervision Department representatives also met with the management of the foreign branches.
18. **Supervision of foreign bank branches in Israel:** Following the outbreak of the Swords of Iron War, the Banking Supervision Department increased its monitoring of the activities of foreign bank branches in Israel. The department was updated on how these branches addressed the geopolitical developments in Israel, such as changes in risk appetite and exposure to transactions with Israeli entities, and with the banking system in particular, as well as how compliance issues were being handled.
19. **Examination of supervision and group-level control of non-financial investment subsidiaries:** In 2024, against the background of significant growth in nonfinancial investment activity in some banking corporations and changes in corporate governance and organizational structures, the Banking Supervision Department conducted a review of these companies. The review examined risk exposure and management processes, including corporate governance, group-level supervision and control, and compliance and regulatory issues. Following the review, the Department sent letters to the relevant banking corporations that included guidelines, bullet points, and recommendations with the goal of improving management and control processes.
20. **Management of the CrowdStrike event:** On July 19, 2024, CrowdStrike (a global cybersecurity firm providing endpoint protection) released a faulty update that led to system crashes on Microsoft-operated devices in many countries. This event affected many organizations worldwide, including the banking system. After it was confirmed that the event was not a cyberattack, the problem was addressed on the technical level within the banking system and under close supervision. Only a few supervised entities were significantly impacted. In most cases, essential services (branch systems, websites, apps, ATMs, etc.) were completely shut down but returned to full functionality within a few hours. The department conducted a learning process and developed systemic insights to improve preparedness for future technological failure events, with emphasis on early detection and rapid response capabilities.
21. **EOL/EOS risk management processes:** The Banking Supervision Department conducted an examination to review the banks' management of risks associated with EOL (End of Life)

and EOS (End of Support).² The examination reviewed processes for identifying components approaching EOL/EOS, while assessing the risks of continued use of such components, and implementing controls to mitigate these risks.

22. **Data governance:** In light of the importance of information and developments in this area, the Department conducted assessments within several banking corporations in order to evaluate their preparedness and capabilities for forward-looking data retrieval. The goal was to gain supervisory insight into the level and maturity of data-related initiatives and to assess the need for localized or system-wide supervisory actions.
23. **Review of reporting on material technological failure events:** Nearly three years after the main update to Proper Conduct of Banking Business Directive No. 3663, the Department conducted a system-wide assessment of the banking system, in addition to improving the precision of the directive's requirements and their implementation within the banking corporations. The aim is to define criteria for identifying material technological failures that align with the directive's goals and the corporation's characteristics, ensure proper internal processes for rapid and effective detection of such events, and establish control, investigation, and learning mechanisms.
24. **Quantum computing:** The process to prepare for risks in the era of quantum computing, which is characterized by immense computing power and faster data processing than current computers, has become a key concern for regulators worldwide. In the past year, two significant calls from government agencies urged supervised organizations to begin phased preparations to deal with Post-Quantum Cryptography. In 2024, the Banking Supervision Department launched a preliminary review of the issue, and in January 2025, the Supervisor of Banks issued a letter outlining the initial preparations that are needed to address the information security and cyber risks associated with quantum computing, and in particular, encryption breach risks. The letter included requirements in three areas: raising awareness and ongoing monitoring of quantum computing developments and associated cyber risks; mapping of encrypted information assets as part of the asset-mapping requirement included in Directive 364; and preparing to develop capabilities that will address quantum-related cyber threats.
25. **Information and reporting:** In recent years, the Banking Supervision Department has examined global developments in regulatory reporting. As part of this review and in response to evolving information needs, the Department has invested resources in developing capabilities and methodologies for collecting, analyzing, and deriving insights from big data.

² Every technological product has a lifecycle defined by its manufacturer or supplier. There are two key points in time to consider in this context: End of Life (EOL), which is the point at which the product's development and sale are discontinued, and End of Support (EOS), which is the point at which support services for the product, including technical support, security updates, and customer service, are terminated. The risks associated with EOL/EOS include, among other things, functional limitations, maintenance difficulties, incompatibility with other systems, high operational costs, and increased potential for information security vulnerabilities.

³ Proper Conduct of Banking Business Directive No. 366 addresses, among other topics, reporting to the Banking Supervision Department in the event of a material technological failure in a banking corporation. The purpose of the directive is to identify systemic and material technological risks that may affect the stability of an individual banking corporation and for which the Banking Supervision Department must be informed as soon as possible once the event is identified as significant.

This includes analyses of banking in the Arab sector, such as access to banking services, use of digital banking channels, access to mortgages, and issues of pricing discrimination. Due to the importance of understanding all aspects of the mortgage process and analyzing the life cycle of loans, the Department significantly expanded data collection on mortgages and conducted in-depth analyses on topics such as late payments, additional credit on existing housing loans, ongoing mortgage data tracking, the mortgage advisor landscape, and increased attention to contractor-sold apartments.

Advanced tools were developed in order to analyze branch deployment, including branch and ATM availability, services provided at branches, and branch closures. A process to update the reporting directive in this area is nearing completion.

In addition, the abundance of information and the need to identify trends, anomalies, and events within an optimal time frame has led to the development and implementation of a smart alert system that uses advanced models (ML) to generate smart warnings based on quantitative and textual information received by the Bank Supervision Department shortly after the information is received. As part of this effort, models are being developed for anomaly detection and trend identification.

Sanctions

Financial sanctions for violation of anti-money laundering laws

As part of audit processes conducted by the Banking Supervision Department and the control procedures put in place by banking corporations concerning the prohibition of money laundering and terrorist financing, several cases were identified in which the banking corporations violated the Prohibition of Money Laundering (obligations of identification, reporting, and record-keeping by banking corporations for the prevention of money laundering and terrorist financing) Order – 5761-2001 (hereinafter: "the Order") or violations of Proper Conduct of Banking Business Directive no. 411—Management of Anti-Money Laundering and Countering Financing of Terrorism Risks (hereinafter: "the Directive").

In light of the above, during 2024 the Sanctions Committee for Banking Corporations, which was established by power of the Prohibition of Money Laundering Law, 5760-2000, and the Supervisor of Banks decided to impose monetary sanctions on five banking corporations: NIS 3.3 million on Bank Leumi, NIS 2.85 million on Bank of Jerusalem, NIS 2.4 million on Discount Bank, NIS 1.65 million on Citibank, and NIS 200,000 on HSBC.

Prudential regulation

One of the main tools for strengthening the stability of the banking system and ensuring its proper functioning is the issuance of directives on the management and limitation of financial risks (hereinafter: prudential regulation). The Banking Supervision Department adopts internationally

accepted standards for prudential regulation, in particular those established by the Basel Committee and the FATF (with regard to anti-money laundering and counter-terrorism financing). Below are the main areas in which the Banking Supervision Department has taken action in this area:

1. **An increase in credit risk in the construction and real estate industry and in the housing market:** During 2024, the Banking Supervision Department monitored developments in the housing market, especially the increased use of financing packages offered as part of various promotional campaigns initiated by contractors. These promotions primarily include deals in which the buyer can defer a significant portion of the price of a home until the time of delivery ("non-linear payment"), as well as "bullet" or "balloon" housing loans, in which a bullet or balloon loan is provided to the borrower, and the contractor pays the interest, in whole or in part, either when the loan is provided or during its term.

In light of the upward trend of risk characteristics in the housing market (for further details, see Box 5.2 of this survey and the above discussion in this chapter), the Banking Supervision Department has published temporary directives (amendments to Proper Conduct of Banking Business Directives 203 and 329). These directives, which will remain in effect until the end of 2026, include additional guidelines intended to reduce the risk to all parties involved in the market by strengthening risk management, monitoring capabilities, and consumer protection.

These measures strike a balance between curbing the growing risk arising from the use of such financing mechanisms and the continued controlled use of this tool in the housing market. The main measure is an additional capital allocation for residential construction projects in which the proportion of contracts that defer a significant portion of the sale price until delivery (i.e. a non-linear payment schedule) exceeds 25 percent, while establishing a transitional provision for existing projects. In addition, a limit was set on the proportion of deals that offer a "bullet" or "balloon" loan subsidized by the contractor, such that it does not exceed 10 percent of total residential sales in a calendar quarter (for further details, see Box 5.2 in this review, which discusses the campaigns used by contractors to encourage home purchases).

2. **Mortgagerefinancing, delinquencies, and early redemption:** In 2024, the Banking Supervision Department issued a new reporting directive on mortgage refinancing, delinquencies, and early redemption. The directive will facilitate the tracking of individual mortgages over time, a better understanding of developing risks, in-depth analyses, and publications required for the purpose of rating mortgage portfolios and enhancing the securitization market.
3. **New directive on model risk management:** In August 2024, the Banking Supervision Department published a new Proper Conduct of Banking Business Directive (no. 369) concerning model risk management. Models are used to manage the operations of banking corporations and of the various risks to which they are exposed. In general, a "model" is a quantitative method that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions in order to process input data and thus produce output. The use of models by banking corporations is essential and beneficial, but it also involves risks, primarily due to the potential for errors in the model or its misuse. The directive was issued to

strengthen the management of model risk in the banking system and is based on the regulations adopted by US regulators (the OCC and the Fed), which are considered to be leaders in the field. The directive requires that banking corporations use effective model risk management by establishing comprehensive corporate governance processes for risk management. It also presents an updated approach to model validation and control processes, on both an ongoing and periodic basis. The directive also addresses AI-based models and applies the model risk management requirements to such models while addressing their unique characteristics. The directive is set to take effect one year from its publication in order to give banking corporations time to prepare. Transition arrangements have also been established for applying the requirements to models already in use before the directive's publication.

4. **Adoption of Basel guidelines on large exposures:** In February 2025, the Banking Supervision Department published a Proper Conduct of Banking Business Directive based on the Basel guideline for large exposures. This followed a survey to assess the quantitative impact of the new directive, with focus on its implications for concentration levels in the banking system. The directive will take effect on January 1, 2026, with transitional arrangements for exceptional cases that arise in the initial stages of implementation, and will replace an existing directive on the subject.
5. **Industry credit limits:** In light of the Swords of Iron War and in order to fill the credit needs of the economy, in October 2024, Proper Conduct of Banking Business Directive 315, on Industry Indebtedness Limitation, was amended. Thus, the exemption of the construction and real estate industry was extended by two more years until December 31, 2027. In addition, a new exemption was added which establishes that the industry exposure limit for financial services and insurance services will be assessed separately for Israel and abroad, with the combined limit (Israel and abroad) not to exceed 25 percent. This exemption will also remain in effect until December 31, 2027.
6. **Leverage ratio:** The revised Basel guideline on the leverage ratio was translated in preparation for discussion with the banking system. As part of the directive's adoption, leverage ratio levels and their composition are being reviewed. Accordingly, the relief measure, which was instituted during the COVID-19 period and which was designated as a temporary order as part of the leverage ratio directive, was extended.
7. **Measurement and capital adequacy – operational risk:** In accordance with the policy of adopting internationally accepted standards for banking supervision, the Banking Supervision Department published an update to the directive on Measurement and Capital Adequacy – Operational Risk in June 2024. The revised directive changes the method for calculating risk-weighted assets in the case of operational risk. Under the new method, the calculation will be based on two main components: the business indicator component – an estimate based on elements from the banking corporation's financial statements; and the internal loss multiplier – an estimate based on the banking corporation's history of operational losses. The directive will come into effect on January 1, 2026.

8. Management of anti-money laundering and counter-terrorism financing risk:

8.1 In 2024, several revisions were made to Proper Conduct of Banking Business Directive no. 411 – Management of Anti-Money Laundering and Counter-Terrorism Financing Risks (herein: "the Directive"). Below is a summary of the main topics focused on in these revisions:

8.1.1 In September 2024, Appendix B.6 was added to the Directive as a temporary order until January 31, 2025. It permits banking corporations to verify a service recipient's identity using an ID card that does not contain biometric identifiers and does not display an expiration date, even if the ID card has expired. The revision was in response to operational difficulties following the gradual expiration of these ID cards starting in August 2024 and was intended to facilitate the banking system's financial interactions with its customers. The update was coordinated with the Population and Immigration Authority.

8.1.2 In December 2024, the temporary order in Appendix B.5 of the Directive was extended again (having already been extended twice in 2024, each time by six months), thus allowing a bank account to be opened using an immigrant certificate within 90 days of its issuance instead of using an ID card, until the end of 2025. This update was also coordinated with the Population and Immigration Authority and was designed to facilitate banking interactions for new immigrants from Russia amid the ongoing Russia-Ukraine war.

8.2 Following the enactment of the Regulation of the Payment Services and Payment Initiation Occupation, 5783-2023, the Banking Supervision Department published a supervisory letter in June 2024 concerning the interaction of banking corporations with payment service providers. The letter stated that when opening and managing multi-beneficiary accounts for such clients, as required by law, the banking corporation can rely on a monthly declaration regarding the beneficiaries in the account, provided it receives a written commitment from the payment service provider to provide the full list of beneficiaries upon request by the bank. The letter further noted that once the anti-money laundering order applicable to payment companies comes into force, the Banking Supervision Department will work to provide regulatory relief in managing accounts used for their operations.

8.3 In March 2024, several revisions were made to the Q&A file on the implementation of the Anti-Money Laundering order and the Directive. These included the alignment of terms in the file with the Payment Services Law – 5779-2019, and the addition of new questions based on recent issues raised by the banking system. The revision was also prompted by the expiration of certain ID cards and the enactment of the Criminal Information and Rehabilitation of Offenders Law, 5779-2019. Additionally, the revision included references to the digital submission of corporate documents and the removal of questions that are no longer relevant due to the passage of time since the implementation of the Anti-Money Laundering Order or because they have since been incorporated into the Directive.

9. **Securitization:** The Banking Supervision Department is a participant, along with other Bank of Israel representatives, in a joint team led by the Ministry of Justice to promote the adoption of a securitization law in Israel. The law is intended to remove legal and tax barriers and provide certainty to the market with the goal of facilitating securitization transactions. In such transactions, investors can purchase notes backed by loans from a special-purpose vehicle (SPV), without being exposed to the credit risk of the original lender. The regulation of securitization in Israel has been in progress for nearly two decades. In 2024, significant progress was made toward drafting the securitization law and other related legislative amendments. The Banking Supervision Department will continue to support the advancement of this legislation in 2025 (see also Box 4.3, "Development of the Securitization Market in Israel (in view of the submission of the proposed bill)," in the Bank of Israel Annual Report for 2024).
10. **Information technology risk management:** The technological environment in which the banking system operates is rapidly evolving, and reliance on the information technology infrastructure within banking corporations—as well as the complexity of that information—has significantly increased in recent years. Many banking corporations are undergoing a process of digital transformation, characterized by the adoption of new technologies and the novel use of existing ones. While digital transformation offers many advantages, it also exposes banking corporations to a variety of IT-related risks. These risks are a subset of the operational risks faced by banks and include, among others, information security risks, the most critical of which is cyber risk.

In 2024, the Banking Supervision Department published a new Proper Conduct of Banking Business directive⁴ intended to align the existing risk management regulatory framework with the evolving technological environment, emerging threats, and international regulatory standards. The directive establishes principles for appropriate and effective IT risk management in order to minimize events in which technological risk materializes and affects the confidentiality, integrity, or availability of information assets. It is based on current international regulations.

The directive serves as a uniform foundation for managing all technology-related risks in a technology-neutral manner while providing banking corporations with the flexibility to manage risks according to developing technologies, evolving threats, and their specific risk profiles. This directive will also serve as the basis for future supervisory directives on specialized IT topics, as they are issued.

11. **A "bank with identified defects" and a "failing bank":** In 2024, the working group established by the Banking Supervision Department in the previous year continued advancing legislative amendments that incorporate international frameworks for handling failing banking corporations and reflect global banking developments, lessons from the 2023 international

⁴ Proper Conduct of Banking Business Directive no. 364 – "Management of Information Technology Risk, Information Security and Cyber Protection".

banking crisis, and recent legislative amendments in Israel. At the beginning of 2025, the team began discussions with relevant government agencies and ministries to anchor the proposed amendments in law.

- 12. Reporting of embezzlement by employees and position holders:** In October 2024, the Banking Supervision Department published a revision of Proper Conduct of Banking Business Directive no. 351 on “Fraud and Embezzlement by Employees”. The revision is aimed at establishing a standardized approach within the banking system to optimally fulfill the reporting obligation to the Banking Supervision Department under Section 8D1 of the Banking Ordinance. These reports form the basis of the annual report that the Supervisor of Banks is required to submit to the Finance Committee of the Knesset.

International supervision

Strengthening working relations with foreign financial supervisory authorities under the home-host framework:

The Banking Supervision Department maintains direct communication channels with financial supervisory authorities in countries where Israeli banks have cross-border operations or where foreign banks that operate in Israel are located. This direct communication is in line with the Basel Committee's recommendations, which call for cooperation between supervisory authorities in home countries and host countries when dealing with banks engaged in cross-border activity.

Over the years, the Banking Supervision Department has signed several memoranda of understanding with these authorities. In recent years, it has also worked to implement the principles set out in the memorandums and has added an additional layer of oversight in the case of foreign branch activities. This layer complements the periodic meetings held between the parties and includes information exchanges and the receipt of audit and evaluation reports authored by the foreign authorities.

4. THE MAIN ACTIVITIES TO INTEGRATE A CULTURE OF FAIRNESS TOWARD CUSTOMERS THAT IS INCLUSIVE AND IMPACTFUL

1. **“Revolving credit”:** In the area of consumer fairness, the Banking Supervision Department has completed its review of the marketing of "revolving credit" cards. Consumer credit services, including revolving credit, have been a supervisory focus in recent years. Following the audit processes, the credit card companies and banks marketing revolving credit cards were instructed to implement changes in the sale and management of this service. These changes are intended to improve the sales process, increase transparency regarding the service's terms, promote its responsible use, and enhance post-enrollment service management (for further details, see Box 6.4 in this review, which discusses the service, its characteristics, and the Banking Supervision Department's requirements of supervised entities).
2. **Checking accounts and deposits:** As part of its ongoing efforts to enhance fairness toward customers in the banking system, the Banking Supervision Department has advanced several initiatives with the following objectives: strengthening comparability and providing tools to customers, removing barriers to switching that exist both inside and outside the system, and facilitating the entry of new entities. In August 2024, a letter was sent by the Supervisor of Banks requesting that banks examine and describe their customer-related activities, particularly in areas such as negative balances in current accounts, encouraging transfers from current account balances to interest-earning savings products, and appropriate transmission of the Bank of Israel's interest rate. An interdivisional team was established within the Banking Supervision Department to examine these issues from economic and consumer perspectives.
3. **Financial relief plan for banking system customers:** The current geopolitical uncertainty poses challenges that tend to slow economic activity, and given the high level of profitability of Israeli banks, the Bank of Israel developed a financial relief plan that was adopted by the banks. Under this plan, the banking system will allocate a cumulative amount of NIS 3 billion—NIS 1.5 billion each year—from 2025:Q2 through 2027:Q1.5 The plan includes various relief measures and direct financial benefits for millions of retail banking customers, as follows:
 - Providing interest or benefits for positive balances in current accounts and demonstrable improvements in interest rates on short-term deposits.
 - Reducing interest rates on overdraft balances.
 - Waiving or significantly reducing fees for specific population groups.
 - Partial or full exemption for a limited period from monthly repayments or reduction of interest rates on existing credit for the duration of the plan.

In addition, and as part of the plan's drafting, it was agreed that the banks would promote the development of an automatic sweep mechanism for use in transferring funds above a predefined minimum balance from current accounts to interest-earning short-term deposit products (Sweep Account). This financial tool allows a commercial bank to offer customers a service in which they define a desired minimum balance in their current account, and any

⁵ See the following press release: <https://www.boi.org.il/en/communication-and-publications/press-releases/the-bank-of-israel-announces-the-formulation-and-implementation-of-a-nis-3-billion-financial-relief-plan-for-customers-of-the-banking-system/>

surplus is automatically transferred to an interest-earning deposit and returned if the account falls below the specified balance.

The Banking Supervision Department will closely monitor the plan's implementation, including the publication of the scope and composition of benefits provided by each bank, which will be disclosed in their financial statements based on a reporting format to be defined by the department.

4. **Consumer and prudential aspects of fraud:** During the year, the Banking Supervision Department began formulating a supervisory policy on fraud and addressing various related issues. The need for such a policy arose from the recognition that responsibility for fraud management lies partially with the Department, and in view of the expectation that the prevalence of fraud and its impact on customers, the general public, and the financial system will increase in coming years. Fraud was examined from a broad perspective, and recommendations were developed for the department's future work in this area, based on international best practices across various aspects of financial fraud, including compensation policy. This work will encompass all areas of overlap between fraud and the department's responsibilities— both consumer-related and prudential.
5. **Handling of public enquiries by the Banking Supervision Department in 2024:**⁶ The Consumer Enquiries and Inspections Unit in the Banking Supervision Department handles public enquiries related to the operations of banks and credit card companies. This unit operates on the level of the individual consumer and on a broader systemic level, with the goal of identifying systemic problems in individual banking corporations or the system as a whole and ensuring their resolution. In cases where public inquiries highlight regulatory gaps, the unit also makes recommendations for consumer regulatory amendments, public information campaigns, and guidance for the banking system.

In 2024, the unit handled approximately 9,750 requests for information and complaints from the public. Additionally, its call center responded to over 10,000 phone inquiries. The following is a breakdown of how these enquiries and complaints were addressed:

- 5.1 **Direct handling:** The unit directly handled approximately 6,550 inquiries, including about 1,000 complaints and 5,550 requests for information.
- 5.2 **Handling via complaint resolution processes in the banking corporation:** Approximately 3,200 complaints received by the department were forwarded to public complaint officers in banks and credit card companies for direct response, in accordance with the principles set out in Proper Conduct of Banking Business Directive 308A regarding complaint handling.

Direct handling of complaints by the Banking Supervision Department included the review of complaints according to the relevant legislation and determining appropriate remedies, such as validating the complaint, reaching settlements, debt waivers, etc. In 2024, approximately NIS 3.1 million was refunded to customers following direct handling of individual enquiries.

⁶ Reviews of public inquiries handled by the Banking Supervision Department and consumer protection measures—which include the department's actions in investigating complaints and issuing rulings, as well as enforcement efforts and the correction of systemic deficiencies in the banking system—are published on the Bank of Israel's website.

- 6. Public complaint handling within the banking system in 2024:** The Banking Supervision Department views the existence of public complaint officers in banks and credit card companies as essential to supporting quick and effective resolution of customer complaints.⁷ In 2024, public complaint officers at the banks and credit card companies handled approximately 35,200 requests and complaints from the public. A total of approximately NIS 9.8 million was refunded to the public as part of this process. About 77 percent of complaints were addressed within 30 days.

Sanctions

Consumer oversight and handling of significant system-wide defects

Handling public enquiries provides opportunities to correct defects and deficiencies, to address existing problems on a systemic level, and to draw conclusions, all of which can contribute to a significant improvement in the service provided by banking corporations to their customers. In addition, the Banking Supervision Department carries out proactive inspections and enforcement audits aimed at strengthening the banks' compliance. In cases where serious deficiencies are identified through the investigation of public enquiries and enforcement examinations, the Banking Supervision Department instructs the banks to correct them, including, among other things, financial compensation to affected groups of customers.

In this context, approximately NIS 8 million was returned to customers in 2024 at the time of writing. The main issues addressed were deficiencies in the process of setting up authorization for account debits, in the management of dormant accounts, and in the compensation of customers for misuse of their accounts, as well as improper fee collection.

In addition to system-wide compensation, the Banking Supervision Department—when appropriate—carries out periodic examinations of the banks to ensure that they are operating in accordance with consumer regulations. When a significant deficiency is identified, a financial sanction is imposed on the banking corporation or a letter is sent that mandates the correction of the problem.

Following is a description of service-related audits carried out by the Banking Supervision Department in 2024 and the steps taken as a result:

- 1. Audit of human availability at the call center:** The Banking Supervision Department ascertained whether it is possible to talk to a human at the start of the service menu for account inquiries, troubleshooting, and termination of service, as required by the Banking Law.⁸ The audit revealed deficiencies at Isracard in obtaining a human response at the call center when requesting service termination. As a result, the company was fined NIS 50,000.

⁷ The activities of public complaint offices within the banking corporations are anchored in Proper Conduct of Banking Business Directive 308A – Handling of Public Complaints. This directive was written in accordance with international principles that support the handling of customer complaints by financial institutions. In accordance with supervisory requirements, every banking corporation has appointed a public complaints officer (ombudsman) responsible for resolving disputes efficiently, within defined timeframes, and at no cost. This role goes beyond providing individual responses to customers and includes drawing conclusions in order to improve processes, systems, and the overall functioning of the banking corporation.

⁸ The Banking (Service to the Customer) Law, 5741-1981.

2. **Audit of response times at the call center:** The Banking Supervision Department checked whether there are violations in terms of response time at the call center in the case of account inquiries, troubleshooting, and termination of service. The audit revealed a violation at Isracard which was in violation of the Banking Law.⁹ As a result, the company was fined NIS 250,000.
3. **Audit of online credit card cancellation:** The audit checked whether customers could quickly and easily cancel a credit card online, without the need to phone the banking corporation, which may involve inconvenience or delays in processing the request. The audit found that some banking corporations found it problematic to allow online credit card cancellation. In light of these findings, the Banking Supervision Department clarified its position to the banking system which states that, according to the Payment Services Law¹⁰ and the position of the Attorney General as expressed in a class action lawsuit,¹¹ it is not permissible to prevent a customer from submitting a cancellation request for a debit card online. As a result, the corporations were required to allow customers to conveniently cancel credit cards online, without conditioning it on contact with a representative, even if the customer does not want a replacement card.
4. **Audit of customer entry into bank branches:** The audit examined whether banks allow customers to enter branches even when the customer has not scheduled an appointment in advance, in accordance with Banking Supervision Department guidelines.¹² The inspection revealed a serious violation at Bank Hapoalim, and as a result, the bank was fined NIS 1 million. The supervisory position is that there is no objection to a banking corporation operating an appointment scheduling system, which is an efficient and useful tool for managing customer flow, and it is even appropriate that corporations promote such systems. However, banking corporations must allow free entry to customers who choose not to use such a system.
5. **Additional sanctions:** In addition to the aforementioned sanctions, the Banking Supervision Department imposed consumer-related sanctions in the following cases: Bank Leumi was fined NIS 1 million, and Isracard was fined NIS 900,000 for two violations related to reporting of collections to the Enforcement and Collection Authority and a delay in reporting debt settlements, in violation of Directive no. 450 regarding debt collection procedures. Similar sanctions for comparable violations have been imposed in previous years on additional corporations (see details at the following link: <https://www.boi.org.il/en/economic-roles/supervision-and-regulation/financial-sanctions/>).

⁹ The Banking (Service to the Customer) Law, 5741-1981.

¹⁰ Payment Services Law, 5779-2019.

¹¹ Class Action 48640-11-19 Cohen Halala Bar vs. Israel Credit Cards Ltd.

¹² Proper Conduct of Banking Business no. 401 – Opening Days of Banking Corporations' Offices.

Consumer-related regulation

- 1. Publication of interest rates on deposits and credit balances in accounts – new Proper Conduct of Banking Business directive (no. 447):** To encourage competition for deposits in the banking system, while at the same time increasing transparency and the simplified publication of interest rates on deposits and account credit balances, a new Proper Conduct of Banking Business Directive was issued. The directive is intended to help customers compare the various value offerings of different banking corporations in this area and to improve the efficiency and usability of the information presented. It establishes uniform rules and structure for presenting this information to the public. According to the directive, a banking corporation will make the interest rates on standard types of deposits available to the public (based on a mapping conducted by the Banking Supervision Department regarding the types of products available in the market). Additionally, and separately, the bank will present the interest rates on any other deposits it offers. The directive also requires that customers be provided with a search tool that allows them to obtain concise information on types of deposits that are tailored to their needs.
- 2. Publication of Directive 447A on the consolidated presentation of information on money market funds and *Makam*:** As an extension of Directive 447 and in order to mandate customer exposure to existing and new money market funds and to *Makam*, and also to enhance comparison capabilities and competition in the financial system, a new directive was drafted by the Banking Supervision Department in collaboration with the Israel Securities Authority. Its goal is to make information about money market funds and *Makam* more accessible to bank customers. The directive was published on April 9, 2025.
- 3. Activity of a banking corporation in a closed system:** In 2011, an amendment was made to the Anti-Money Laundering Order which regulates the activity in a closed system, thus relaxing some of the identification and verification requirements when opening an account. This allows customers to more easily deposit funds or purchase participation units in a banking corporation that is not the host of their regular banking activity. The basic condition of a closed system is that the funds or units be returned to the original account at the end of the deposit term. However, in order to promote competition in the banking system, especially among private customers, and in order to improve product accessibility and process efficiency, the revised directive allows that the funds remain with the receiving bank for an additional deposit period, conditional on the customer's request to do so. In addition, guidelines were added on how to contact a customer if it is not possible to return the funds because the original account has been closed.

It is also worth noting that with the development of a payment initiation interface, it is now possible to make the process even easier for customers. The interface allows the receiving bank to initiate the transfer of funds from the original account to a new deposit, requiring only the customer's approval of the transaction, instead of manually entering transfer details. This also reduces the risk of error.

4. **Call for public comments on remuneration models in the public's securities activity:**¹³
An interministerial team, including the Bank of Israel, the Israel Securities Authority, and the Budget Department of the Ministry of Finance, issued a public call for comments regarding potential changes in the fee and remuneration structure in the public's securities trading. This initiative is aimed at increasing transparency, promoting competition, and improving services for customers active in the capital market. This is another step toward achieving price transparency, a competitive environment, and an accessible capital market.

5. **Reform of mortgage refinancing processes:** On April 1, 2025, the revision of Directive 451 went into effect, introducing new guidelines aimed at improving mortgage refinancing processes and easing the burden on borrowers. The revision allows borrowers to notify the bank of their intention to make an early loan repayment either online or by phone, and to receive the necessary information and documentation through commonly used channels, including online, according to their preference.

Furthermore, when refinancing a loan through another bank, the borrower can choose to notify the original bank directly or via the new bank. The borrower will not be required to visit the original branch to obtain the necessary documents. These documents will be transferred by the original bank directly to the new bank, regardless of the notification method. The banking corporations will handle the required inter-bank processes and the actions to complete the refinancing.

6. **Revision of the Banking (Service to the Customer) (Fees) Rules, 2024:** Several revisions were made to the rules governing fees for the benefit of banking system customers:

- 6.1 Fee for a "bank guarantee secured by a specific deposit": The fee structure was changed from a percentage-based mechanism to a fixed amount in shekels. For residential lease agreements (up to NIS 50,000), the fee will be lower than the standard fee for a bank guarantee backed by a deposit, due to the greater simplicity of the operation and a desire to ease the burden on renters.

- 6.2 Service track changes: A new clause allows banking corporations to activate a customer's request to join or cancel a service track before the first of the following month, provided a reasonable and fair method for calculating the prorated charge for partial months is adopted and publicized.

- 6.3 Online banking channel benefits: Appendix 5 of the fee schedule was expanded to include additional services offered through digital banking channels.

7. **Disclosure of service costs in securities activity:** In June 2023, as part of the Economic Plan Law, an amendment to Section 5a of the Banking (Service to the Customer) Law, 1981 was published. The amendment mandates monthly rather than semiannual customer notifications regarding fees and interest rates charged to their accounts. Directive 414 was amended to maintain the required frequency of information disclosure based on the revised law, including a requirement to present comparative data to customers.

¹³ <https://www.boi.org.il/en/communication-and-publications/press-releases/12-11-2024-en/>

- 8. Update to the Banking (Service to the Customer) Fees Rules 1981:** A revision of the fee rules was published, adding Section 14 to the full fee schedule regarding payment apps. This will allow banking corporations to charge fees for the following services: “receiving payments,” “executing a payment order,” and “subscription fee for a special service.” Charging these fees will be permitted for entities providing payment services, given the costs involved in offering these services. This change accompanies the going into effect of the Payment Services and Payment Initiation Law, which creates interoperability between payment apps and is expected to encourage the entry of new players into the market. The entry of these new players depends on their business models and their revenue from these services. This will help to support technological innovation and development in financial services for customers.

Fees can only be charged to users who receive or transfer payments totaling over NIS 25,000 annually. Preliminary analyses by the Banking Supervision Department indicate that the vast majority of customers do not reach this threshold and will continue to receive the service free of charge. A banking corporation that wishes to update this annual activity threshold may do so only two years after adding these services to the list of permitted chargeable fees and it must obtain the Supervisor of Banks' approval. The amendment took effect on January 1, 2025.

- 9. Implementation of regulations regarding checks without cover (exemptions from the law):** As part of efforts to ease the burden on populations affected by the Swords of Iron War, the Minister of Justice published regulations concerning checks without cover (exemptions from the law) on October 26, 2023. On April 2, 2024, the Supervisor of Banks sent a letter to banking corporations clarifying how to implement the regulations. The letter clarified that a bank's ability to identify a customer account as that of a reservist—based on reserve duty grants deposited into the account during the relevant period—will be considered sufficient evidence of reserve service, even in the case of carrying out a different activity.

Licensing

- 1. Public call for feedback on the criteria to be considered when assessing requests to close permanent bank branches:** An amendment to the Banking (Licensing) Law, 5741-1981, which went into effect on August 16, 2016, stipulated that closing a permanent bank branch requires approval from the Supervisor of Banks. Since then, the Supervisor has closely reviewed branch closure requests in order to minimize potential inconvenience to customers.

On July 25, 2024, another amendment to the law went into effect, which stipulated, among other things, that the Supervisor's decision regarding a request to close a permanent branch must be made after consultation with the Licensing Committee. The Supervisor must also report to the Knesset's Finance Committee on the implementation of the law and the policies of the Supervisor and the Licensing Committee regarding such requests. In this context, a public call was published explaining the full set of criteria considered by the Banking Supervision Department when evaluating such requests, and the public was invited to respond and submit feedback.

- 2. Revision of the general permit for providing certain banking services:** In June 2024, the Banking Supervision Department published a revised general permit for providing certain

banking services, thus replacing the 2002 version. The revised permit allows banks to offer services outside the branch, subject to a policy describing, among other things, the types of banking services to be offered, their cost, and the conditions under which they will be provided and the procedures and workflows to implement the policy. The banking services will be delivered according to the customer's needs, risk profile and financial literacy, and in coordination with the customer. This is subject to the risk management procedures adapted to the various products and customer types at the bank's discretion and in accordance with its resources and legal obligations, including the principle of equity.

The updated permit expands the types of customers eligible to receive banking services outside the branch, while adapting the services to their characteristics and needs. This enables banks to provide all customers with basic banking services outside the branch and to provide all banking services to customers who face objective difficulties in accessing branches. This is in addition to the previously existing option of providing such services outside the branch to high net worth clients only.

Information and transparency

1. **Publication of the Banking Supervision Department's service charter for handling public inquiries:** At the beginning of 2025, the Banking Supervision Department published a service charter, outlining the department's roles, powers, complaint handling process, methods of contact, and the expected timeline for responses and handling of inquiries and complaints. The department's vision in this context is to serve as the voice of banking system customers and as a point of contact for resolving disputes between customers and banking corporations, as part of the oversight of corporate conduct. The goal is to provide appropriate remedies to customers and to improve fairness and performance in the Israeli banking system.

Link to the charter: <https://e-umb.boi.gov.il/media/fthfhql3/202506.pdf>

2. **Interest rates – expansion of comparative information:** Since 2022, the Banking Supervision Department has been publishing tools to compare the interest rates offered by banks on loans and deposits, thus assisting customers to compare terms and giving them greater bargaining power. This year, as part of the analysis and evaluation of the transmission mechanism, and in light of the importance of transparency and empowering the customer, the information has been expanded to include actual interest rates paid on checking account balances. Monthly information on deposits has also been refined and expanded.
3. **Public transparency – launch of a bank comparison tool:** The Banking Supervision Department launched an advanced tool that enables easy and accessible comparison between banks according to various metrics, including customer satisfaction with services (such as call centers, branch service, websites, and mobile apps), perceived fairness, branch and ATM distribution, fee plans, securities fees, and interest rates. The tool, developed in collaboration with the National Digital Agency, is intended to help banking customers make clear comparisons between the services and products offered by different banks, work toward improving conditions, and make informed decisions following market research. The enhanced accessibility of comparative information on the Bank of Israel website earned the Bank of Israel an international award from Central Banking magazine.

4. **Awareness campaigns to combat financial fraud:** The Banking Supervision Department places great importance on preventing digital financial fraud committed against bank customers. In recent years, large-scale awareness campaigns have been carried out during "Digital Fraud Awareness Week," with the goal of assisting the public in recognizing common types of fraud and teaching them how to protect themselves. Given the importance of the issue and in order to continue raising awareness, the department has advanced two nationwide awareness campaigns during 2024. These efforts were part of the Financial Education Forum led by the department, which includes the Association of Banks, banking institutions, and credit card companies. The campaigns were conducted in cooperation with the Israel Police, the Ministry of Welfare and Social Affairs, and the Ministry of Aliyah and Integration. Activities included lectures in dozens of cities and towns, online webinars attended by thousands of individuals, media campaigns, and a dedicated website with educational materials. All lectures were conducted in Arabic and Russian as well.
5. **Periodic report to the Knesset Finance Committee on compliance with regulations on human response times:** In July 2024, the Banking Supervision Department submitted a periodic report to the Knesset Finance Committee on the compliance of banking corporations with the regulations regarding wait time for receiving a professional human response. The report includes comparative data on response times across different banks as well as general statistics for the reporting period.
6. **Periodic report on common banking service fees for households, 2023:** The Banking Supervision Department submitted a periodic report to the Knesset Finance Committee on the prices of common banking services for households for 2023. The report is based on actual revenue data reported by the banking corporations and credit card companies based on the fees collected during the reporting year.

5. THE MAIN ACTIVITIES TO CREATE A MORE COMPETITIVE AND ADVANCED FINANCIAL SYSTEM FOR THE BENEFIT OF CUSTOMERS

Licensing

1. **Advancement of a tiered framework for granting banking corporation licenses to nonbank entities and credit card companies:** As part of the Bank of Israel's efforts to promote competition in the banking system, the Supervisor of Banks established a working group in early 2024 to develop and implement a framework for granting banking corporation licenses to nonbank entities. The group's tasks included identifying existing barriers, formulating a plan to remove them, proposing necessary legislative amendments and Proper Conduct of Banking Business directives, adjusting reporting requirements, and addressing additional issues required to implement the framework.

Following a public call in February 2024 to promote a tiered and proportionate licensing and regulatory framework for nonbank entities seeking a banking corporation license and after hearings with about twenty social and business organizations, as well as consultations with financial regulators and relevant government ministries, a preliminary report was published in October 2024.

A joint inter-ministerial working group was subsequently established, led by the Supervisor of Banks and the Budget Director at the Ministry of Finance. Its members included the directors of the Capital Market Authority, the Israel Securities Authority, and the Competition Authority, the Deputy Attorney General (Financial Law), and two representatives from the Bank of Israel. The team's goal is to promote legislation and recommendations to support the entry of new players into the banking system, thereby enhancing competition. The joint team's interim report was published for public comment in March 2025. It includes recommendations for relaxing regulatory and legal requirements with the goal of encouraging nonbank entities and other entrepreneurs—such as nonfinancial corporations and holding companies controlling institutional investors—to apply to the Bank of Israel for a banking license for their subsidiaries. The report recommends various exemptions that would require legislative and regulatory amendments, such as: the option to offer partial banking services, allowing flexible business models, expanding permissible activities for small banks (subject to certain conditions and conflict of interest safeguards), regulatory easing, and a 10-year exemption from executive pay limits. A guiding principle in this process is that accepting deposits and extending credit requires a banking license, and any such entity will be subject to the supervision of the Bank of Israel.

2. **The process to create the Esh Israel Bank (in formation) Ltd. continues:** On December 25, 2022, Esh Israel Bank (in formation) Ltd. was granted a banking license conditional on meeting specific milestones, and the bank began a limited internal pilot program. Since then, the Bank of Israel has closely monitored the bank's progress. In the final quarter of 2024, the bank announced that it had met the conditions for activating the banking license and had more than 30 customers. The bank subsequently received a letter from the Supervisor of Banks to change its status and remove the "in formation" label from its name. However, the bank is still officially classified as a "banking corporation in formation," and its license remains time-limited. By the

end of 2025, the bank is expected to complete preparations to have these restrictions lifted and to transition to a fully licensed permanent bank.

3. **Granting control permits in banking corporations:** The Bank of Israel has published its policy and general conditions for granting a permit to control a banking corporation, a systemically important payment service provider, and their holding companies (herein: a “banking corporation”). According to the policy, a control permit will be limited to a maximum of 10 percent of any type of means of control in a banking corporation, provided it has a controlling shareholder and is not publicly traded. However, in the case of small banks with a controlling shareholder that are not publicly listed, the control permit allows up to 20 percent ownership of profit-sharing rights (dividend rights) for up to ten years, with all other rights limited to 10 percent. The aim of this policy is to minimize the influence of control permit holders over the business direction of banking corporations, especially those without a controlling shareholder.

International supervision

Strengthening working relationships, transparency, and trust between the Banking Supervision Department and foreign stakeholders: Over the past year, the Banking Supervision Department has worked to further strengthen its relationships with foreign stakeholders, such as international organizations, rating agencies, and foreign investors. This was reflected in ongoing dialogue and open, honest communication channels for sharing information and opinions. The need for enhanced collaboration arose from the severe challenges faced by the Israeli public and the economy following the October 2023 terror attack and the Swords of Iron War. This effort is also in line with the Department's transparency policy that has been implemented in recent years. During meetings with international officials, the Banking Supervision Department made it a priority to transparently present relevant and material information that can assist in understanding its policy responses to the crisis, including both prudential and consumer-related issues, its preparedness for various scenarios, and any other information that can help them to understand the economy's situation and to increase confidence in the department's work and in the domestic economy.

Table 6.1: Table of sanctions¹⁴ – 2024

February 12	Bank Hapoalim failed to comply with the supervisory directive requiring the admission of customers into a branch and the providing of professional service during operating hours, even without a prior appointment. As a result, a financial sanction of NIS 1,000,000 was imposed.
February 12	Bank Leumi did not comply with the supervisory directive regarding debt collection and was fined NIS 1,000,000 for two violations.
February 12	Isracard failed to comply with the legal requirement to provide a human response at its call center within six minutes for services related to issue resolution, account inquiries, and service termination. A financial sanction of NIS 250,000 was imposed.
October 29	As part of routine examinations conducted by the Banking Supervision Department among banking corporations and credit card companies, it was found that Isracard had not met its obligations. Accordingly, a financial sanction of NIS 900,000 was imposed for noncompliance with debt collection regulations, and an additional NIS 50,000 fine was imposed due to difficulties in obtaining a human response at the call center when requesting service termination.

Table 6.2: Table of reporting¹⁵ - 2024

Date	To	Name of report
January 28	Finance Committee	Periodic report on the prices of common banking services for households, first half of 2023.
June 30	Finance Committee	Report submitted to the Finance Committee in accordance with the Special Payment Law for Achieving Budget Targets.
July 31	Finance Committee	Report to the Knesset Finance Committee on compliance of banking corporations with the regulations regarding wait times for receiving a professional human response.
July 31	Finance Committee	Periodic report on the prices of common banking services for households, 2023.
September 4	Finance Committee	Submitted to the Finance Committee pursuant to Section 33a of the Economic Program Law (Amendments to Legislation for the Implementation of Economic Policy for the Budget Years 2023 and 2024) – 2023
December 31	Finance Committee	Report to the Finance Committee in accordance with the Special Payment Law for Achieving Budget Targets.

¹⁴ <https://www.boi.org.il/en/economic-roles/supervision-and-regulation/financial-sanctions/>

¹⁵ <https://www.boi.org.il/en/economic-roles/supervision-and-regulation/report-to-the-knesset-economics-committee/>

Box 6.1

Transparency in money market products as a tool for strengthening customer bargaining power and yield

- The Banking Supervision Department provides customers with access to information on interest rates for deposits and positive balances in checking accounts via the "Equalizer" platform. Use of this data strengthens the customer's bargaining power.
- According to the data published in the "Equalizer" regarding interest rates on deposits for various terms, there is wide variation among banks in the actual interest rates paid to customers.
- Proper Conduct of Banking Business directives issued by the Banking Supervision Department require banking corporations to present customers with consolidated information and data on deposits, money market funds, and *Makam*.

Background

In recent years, the Bank of Israel has promoted numerous consumer-oriented reforms aimed at increasing information transparency and empowering customers by providing tools for comparing a range of value propositions. As part of this effort, a variety of steps have been taken to enhance transparency, increase access to personal and comparative information for customers, and encourage proactive behavior.

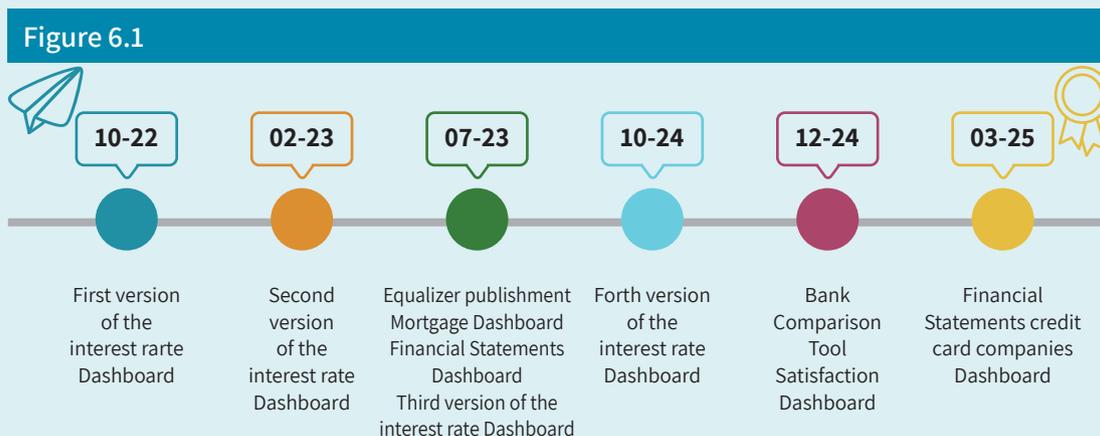
- In 2016, the "Banking ID" tool was launched, providing customers with a consolidated summary of all their assets and liabilities.
- In 2022, in response to changes in the interest rate and inflation environment, and particularly due to a significant increase in the Bank of Israel's interest rate, the Banking Supervision Department decided to publish household deposit interest rates on the Bank of Israel website.¹ Since then, the department has expanded and refined its comparison tools and the data it publishes, with the aim of improving the public's ability to compare products, respond to emerging needs, and bridge knowledge gaps.
- In 2025, a requirement was introduced for banking corporations to publish consolidated information on their websites for the benefit of the public regarding deposits, money market funds, and *Makam*. The directive establishes uniform rules and a clear, standardized format for presenting the various products. This publication is based on a Proper Conduct of Banking Business directive previously issued by the Banking Supervision Department concerning interest rates on deposits and positive balances.²

¹ This includes interest rates on credit. Here we focus on deposits.

² Box 6.4: Transparency and Accessibility of Interest Rate Information, Israel's Banking System 2023.

Publication of the banks' interest rates on the Bank of Israel website

The Bank of Israel provides access to this data by means of a new toolbox called the "Equalizer" that is located on its website.³ The toolbox presents interest rates on financial products such as deposits and loans, Makam, overdrafts in current accounts, positive balances in checking accounts, housing credit, etc. The tool also includes a dashboard that makes it possible to compare between banks, as well as guides on various topics to help customers navigate the banking system such as revolving credit, saving and investment options, the credit data registry, etc.



Publishing comparative information on the website strengthens the customer's position by narrowing the information gap between him and the bank, thereby serving as a tool to enhance competition. It provides easy and convenient access to information and facilitates market surveys. The purpose of publishing this information is to help the general public negotiate with the banks and reduce switching barriers.

The publishing of comparative data through the Bank of Israel is a unique phenomenon internationally. In other Western countries, it is not common for central banks to make such data accessible. Instead, financial product comparisons are typically provided by private companies specializing in the field that operate dedicated websites. These companies obtain information through agreements with banks and financial institutions, as well as from data published by government bodies and other sources. These sites offer tools for comparing products such as bank accounts, credit cards and loans, and provide detailed information on terms, interest rates, and fees. Additionally, they offer direct links to various investment or credit platforms, thereby helping consumers choose suitable products and complete the process. The comparative information and data published by the Bank of Israel cover a wide range of topics. **On March 13, 2025, the international magazine "Central Banking"**

³ The Bank of Israel's Equalizer site.

announced that it had chosen the Bank of Israel as the winner in the communication category for 2025, in recognition of its initiatives in recent years to make banking information more accessible to the public.⁴

Interest rates on the most popular deposits

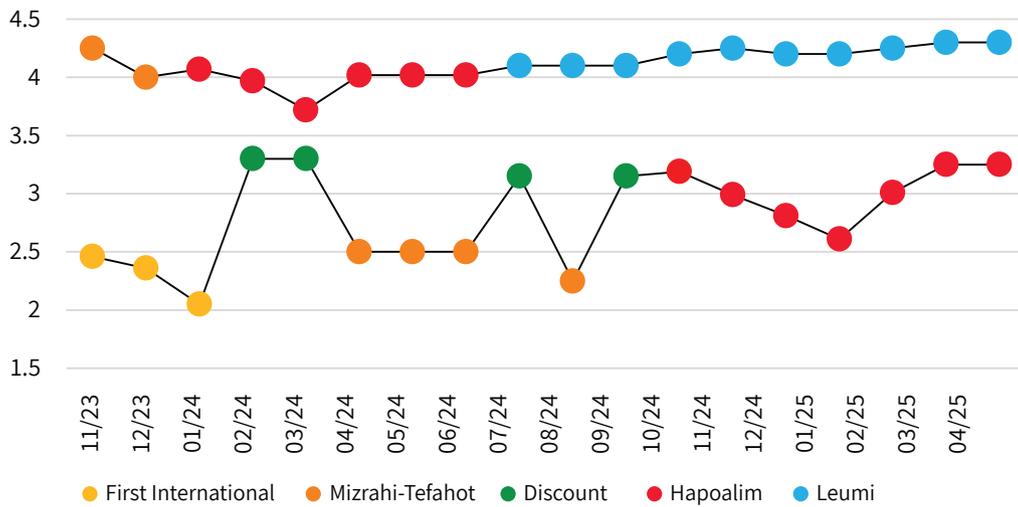
In 2024, households in Israel opened an average of approximately 545,000 bank deposits each month in the unindexed shekel segment, with a monthly average amount of around NIS 41 billion. The Banking Supervision Department regularly reviews and analyzes the interest rate data on deposits published by the banks. The following charts present the maximum median and minimum median interest rates offered by each of the five largest banks for deposit types with a high volume of monthly transactions (Figures 6-2.1 and 6-3.1). The color of each data point indicates which bank offered the maximum or minimum rate in a given month. There is significant variation across the banks in the interest rates paid to customers. It can be seen that there is high turnover among the banks for one-year fixed-rate deposits and monthly variable-rate deposits. In other words, there is monthly variation in the banks that offer the highest or lowest rates. On average, the gaps between the maximum and minimum interest rates for monthly variable-rate deposits were wider during the period shown.

The five largest banks accounted for more than 90 percent of the total placed in one-year fixed-rate deposits and more than 80 percent of the total placed in monthly variable-rate deposits. The dashboard presents interest rate data from all of the banks. An examination of the median interest rates across the entire banking system (Figures 7-2.2 and 7-3.2) shows that the highest interest rates for short-term variable-rate deposits (up to one month) were usually offered by the smaller banks. Correspondingly, the gap between the maximum and minimum rates widened. For one-year fixed-rate deposits, the high turnover among banks remained.

⁴ Press Release, [The Bank of Israel has won a prize from Central Banking magazine for 2025](#).

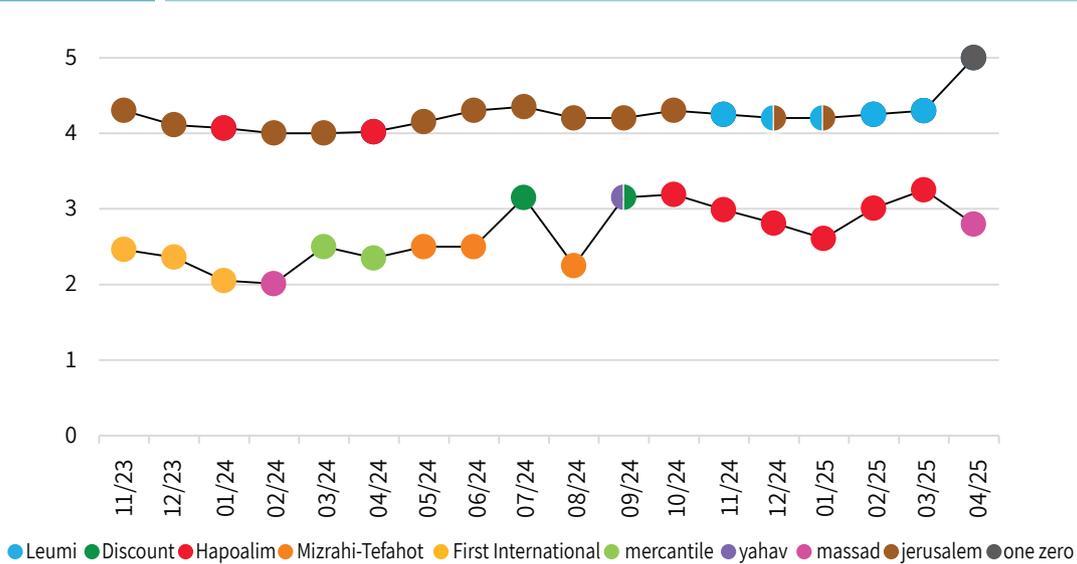
There was high turnover among the banks with respect to which one offers the highest interest rate on one-year fixed rate deposits.

Figure 6.2.1 One-year fixed-interest deposits at maximum median interest rate vs. minimum median interest rate; five large banking groups November 2023 to April 2025 | percent



Source: Based on reports to the Banking Supervision Department.

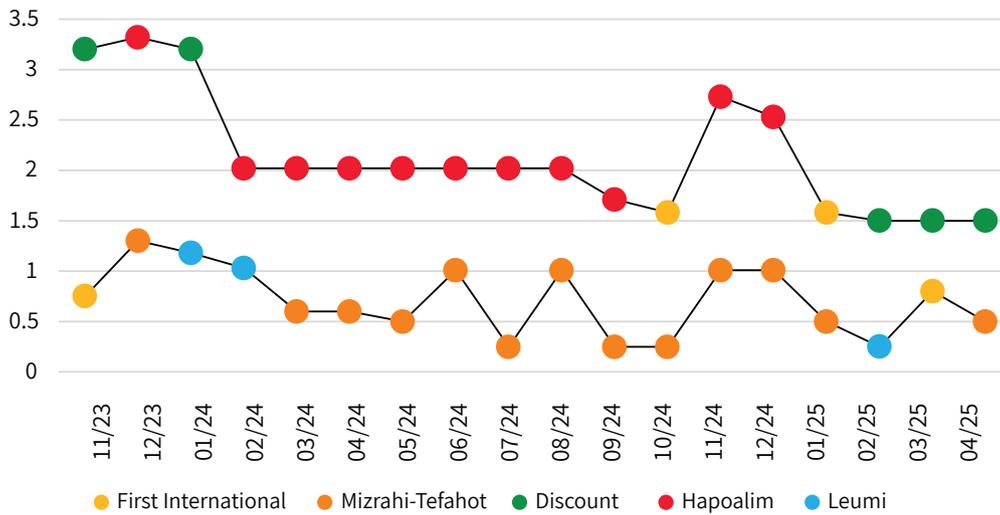
Figure 6.2.2 One-year fixed-interest deposits at maximum median interest rate vs. minimum median interest rate; five large banking groups November 2023 to April 2025 | percent



Source: Based on reports to the Banking Supervision Department.

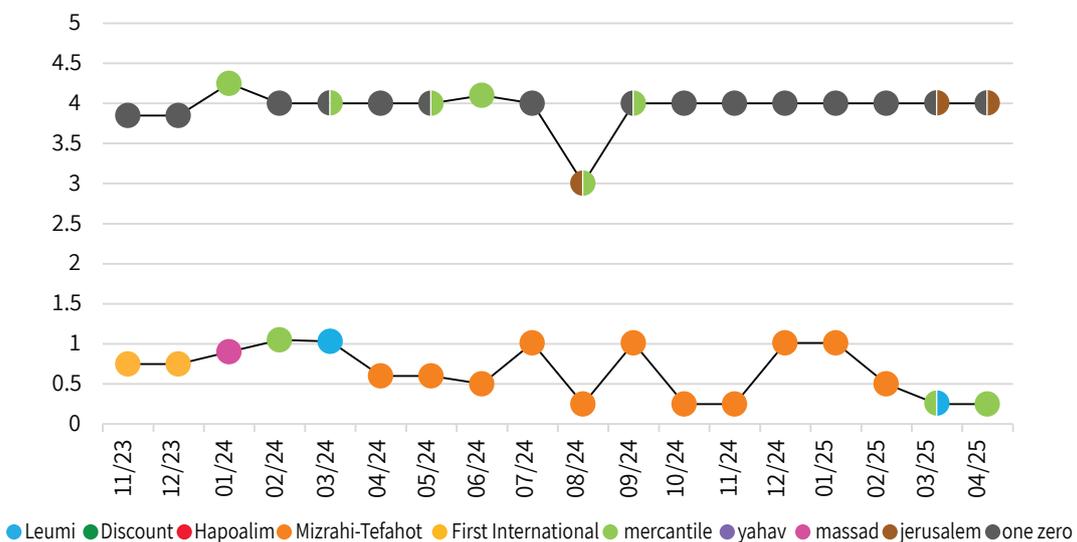
There was high variation in interest rates on monthly variable-interest rate deposits.

Figure 6.3.1 Monthly deposit at variable rate, highest median interest rate compared to lowest median interest rate, 5 largest banks, November 2023–April 2025 | percent



Source: Based on reports to the Banking Supervision Department.

Figure 6.3.2 Monthly deposit at variable rate, highest median interest rate compared to lowest median interest rate, total banking system, November 2023–April 2025 | percent



Source: Based on reports to the Banking Supervision Department.

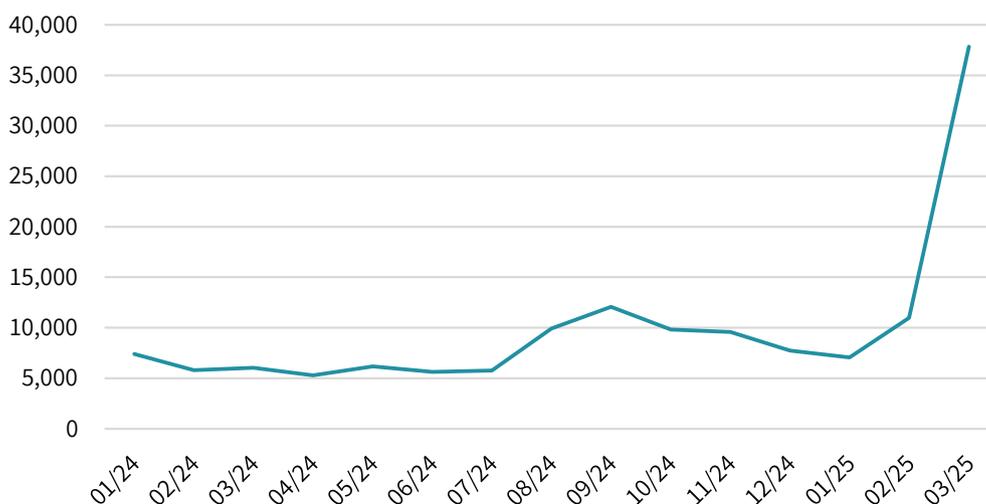
Use of comparison tools on the site

Using the Google Analytics tool, the Banking Supervision Department monitors usage statistics of various comparison tools in order to assess the extent of public engagement and identify opportunities to improve visibility. Data on page views, and user engagement to the "Interest Rate Dashboard" on the Bank of Israel's Equalizer website indicate that only a small portion of depositors use the bank's comparison tool to check interest rates to improve the terms offered to them (Figure 6.4). However, the economic press makes use of this data, and their analysis appears on financial websites, such that there are additional consumers of the information who are not reflected in website traffic statistics. In March 2025, the Bank of Israel launched a public campaign to encourage customers to transfer their money from current accounts to investment tracks that yield higher returns. As shown in Figure 6.4, the number of visits to the dashboard rose significantly that month. The effectiveness of the campaign led the Bank of Israel to conclude that continuous effort is needed in order to enhance awareness of the comparison tools on the site. In parallel, the Bank of Israel convenes a roundtable of experts to gather ideas for improving the tools. A comprehensive survey was also conducted to learn about customers' user experience on the comparison platform. The Bank of Israel continues working to enrich the comparison tools and make them clearer and more accessible to customers. Over the past year, a new version of the "Interest Rate Dashboard" was launched, which expands and refines the information on deposits across different terms, adds data on interest rates on positive balances in current accounts, and improves the update process for published data. In addition, a new dashboard was launched showing the results of customer satisfaction surveys regarding service quality covering areas such as call centers, branch service, websites, mobile apps, perceptions of fairness, and others. An advanced tool was also introduced that facilitates easy and accessible comparisons between banks in areas such as customer satisfaction, branch and ATM distribution, fee tracks, securities-related fees, and interest rates.

There was a significant increase in the number of entries to the Dashboard in March 2025

Figure 6.4

Number of monthly users of the interest rate dashboard – deposits and credit, January 2024 to March 2025



Source: Google Analytics for the Bank of Israel site.

Greater access to money market products by means of the banks' digital channels

It is customary in the investment world to refer to conservative investment channels that are liquid, short-term, and low-risk as a single reference group due to their shared characteristics. The products included in this group are shekel deposits, daily money market funds⁵, and Makam⁶, which will hereinafter be collectively referred to as "money market products." It is customary to distinguish between deposits, which are financial products offered to the public by the banks, and money market funds and Makam, which are part of the capital market products traded on the stock exchange and can be purchased through banks that are members of the stock exchange.

⁵ A money market fund, as defined in the Joint Investment Trust Law, 5754-1994, invests in short-term conservative investment channels. Units can be purchased or redeemed on any trading day.

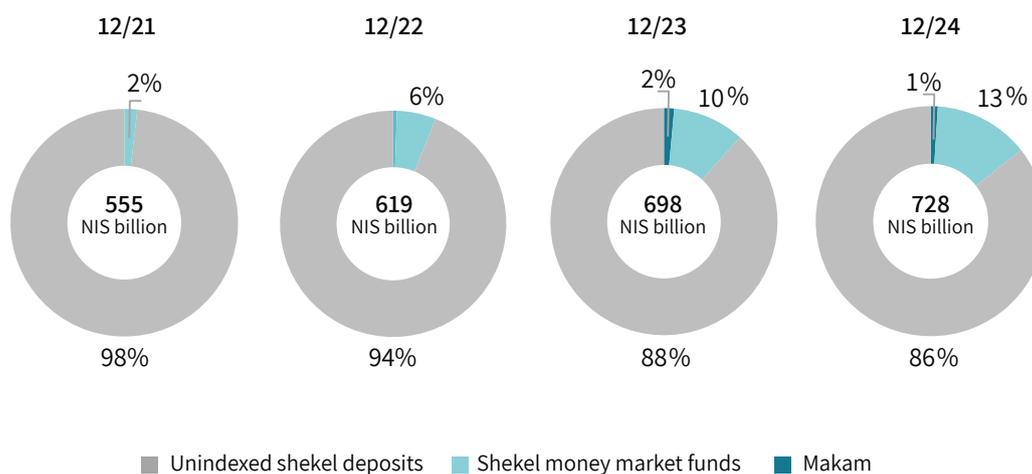
⁶ *Makam* is a short-term bond issued by the Bank of Israel with a maturity of up to one year. It is issued at a discount, such that at the end of the term the face value of the security is paid out.

In the graph below, which appeared in the Statistical Bulletin 2024 published by the Information and Statistics Department of the Bank of Israel⁷, the market shares of the three aforementioned investment channels can be seen over time. One of the prominent trends in recent years is the growth in the volume of investment in money market funds. As of the end of 2024, 14 percent of total conservative household investments were in money market funds and Makam, while most of the money is invested in bank deposits. This is compared to the end of 2021, when only 2 percent was invested in money market funds and *Makam*.

Total household investment in money market funds has grown over the years.

Figure 6.5

Breakdown of household investment in conservative shekel-denominated channels



Source: Statistical Bulletin 2024 published by the Bank of Israel Information and Statistics Department.

Information about the various types of deposits and the interest rates offered by a banking corporation is made accessible to its customers in a format set out in Proper Conduct of Banking Business Directive no. 447: "Publication of Interest Rates on Deposits and Positive Balances in Accounts," which came into effect in April 2025. The directive establishes uniform structure and rules for presenting information on interest rates on deposits and positive balances in accounts. It also includes instructions for the consolidated publication of interest rates for popular types of deposits and requires banking corporations to provide customers with a search mechanism that enables them to find information on types of deposits and the corresponding interest rates.⁸

⁷ Statistical Bulletin 2024 published by the Information and Statistics Department at the Bank of Israel – A selection of short-term conservative investment channels among households in Israel.

⁸ For further details, see footnote 2.

Table 1 | Appendix 1 – Interest rates on popular types of shekel deposits and on positive account balances

Product type (by period)	Interest type	Indexation type	Range of amount for deposit	Options for early withdrawal from the deposit	Renewal terms		Withdrawal points		Average interest rate (nominal annual) ^a	Interest rate on a common deposit (nominal annual) ^b
					Option for automatic renewal at the end of the deposit term	Number of automatic renewal period options	Option for withdrawal dates	Frequency of withdrawal dates		
Daily deposit	Variable /Fixed interest rate			Exists - No early withdrawal fee/Exists - with early withdrawal fee + details on thr fee mechanism/ No early withdrawal option	Exists/ Doesn't exist					
Weekly deposit										
Monthly deposit										
3-month deposit										
6-month deposit										
1-year deposit		Not linked/ Linked to the Consumer Price Index							Exists/ Doesn't exist	
2-year deposit										
3-year deposit										

Account Balance	Interest type	How to Join and Conditions for Receiving Interest	Nominal Annual Interest Rate
	Variable/Fixed interest rate		

Notes:

- ^a The offered interest rate: The banking corporation shall detail in this column the minimum interest rate that the banking corporation pays for each type of deposit.
- ^b The interest rate on a common deposit: Act in accordance with due disclosure rules and present the required information in the column. In cases where the minimum interest rate actually applies to only a few deposits of that type, the banking corporation shall detail in the information published to the public on the interest rates on deposits, the interest rate on a common deposit, in addition to the offered interest rate. Note that in cases in which the conditions set in the due disclosure rules do not exist, keep this column empty.

Recently, there have been developments in money market funds. In July 2024, the Knesset plenary approved Amendment 31 to the Joint Investment Trust Law, 5754-1994, as well as an indirect amendment to the Regulation of Investment Advice, Investment Marketing and Portfolio Management Law, 5755-1995. These amendments allow for the launch of a new type of money market fund in Israel (known as a "fixed-term fund"), thereby expanding the range of investment channels available to the public. According to the legislative amendments, the money in fixed-term money market funds is invested and managed by the fund manager for a defined period, which is indicated in the fund's name. Unit holdings in such a fund are renewed at the end of each period (unlike daily money market funds), unless the customer has issued a redemption order. For this type of fund, it is possible to present an expected net return, after deducting the management fees charged by the fund managers.

As a complement to Proper Conduct of Banking Business Directive 447 and in line with the format established regarding deposits, a new directive 447A "Publication of consolidated information on money market funds and Makam" was published on April 9, 2025.⁹ This is part of the Bank of Israel's efforts to encourage competition in the banking system and increase transparency while simplifying the publication of information in a way that helps customers compare various value propositions and improves the efficiency and usability of the information presented. This directive makes available consolidated information that banking corporations present to the public regarding money market funds (daily money market fund and fixed-term funds) and Makam, alongside the information already published on deposits, as specified in Directive no. 447: "Publication of interest rates on deposits and on positive balances in accounts." As part of the new directive, rules were established for consolidated publication of money market products in a uniform format, along with a requirement to provide information about the various characteristics of the different products. The consolidated publication includes specific data tables regarding money market funds and Makam (see below). Moreover, and in order to support decision-making processes and strengthen a customer's ability to compare the various value propositions involving money market products, banking corporations are required to offer customers a preliminary filtering tool based on the desired investment period and currency. The directive is expected to take effect on October 9, 2025.

⁹ Publishing of consolidated information on money market funds and Makam.

Table 2 | Foreign currency money market funds

Product type (by period)	Fund name and identifying number for purchase	The closest date for executing the following transactions: Purchase of units ^b / automatic renewal of the fund ^c holding (date and time)	Expected net rate of return (nominal annual) ^d (This figure will be published when it is reported by the fund manager and shall be updated several days before the set period)	Option for automatic renewal at the end of the deposit term	Is the fund exposed to foreign currency or denominated in foreign currency	Currency type	Fund management fees
Daily money market funds		Available for purchase every trading day		Available for redemption every trading day			
Money market funds - up to 1 month				Renews automatically, until customer submits a redemption notice			Fund management fees are deducted from the expected return.
Money market funds - 1-3 months				Renews automatically, until customer submits a redemption notice			Fund management fees are deducted from the expected return.
Money market funds - 3-6 months				Renews automatically, until customer submits a redemption notice			Fund management fees are deducted from the expected return.
Money market funds - 6-12 months				Renews automatically, until customer submits a redemption notice			Fund management fees are deducted from the expected return.

Notes:

- ^a NOTE: The information provided is in line with reports by the fund managers.
- ^b On this date, instructions to purchase units that were given by the customer for opening a first position in the fund by the customer or for adding to an existing investment will be executed. Orders are to be given up to the designated time on the date presented.
- ^c Note that for customers that are invested in the fund and have not given a redemption date prior to the current date, the investment will reinvest automatically.
- ^d Expected rate of return: The net expected rate of return is the figure reported by the fund managers and reflects their estimate of the fund's return. This estimate is not guaranteed and is correct as of the date it is presented, and it is in line with the reporting by the fund manager. The estimate is before accounting for capital gains taxes and bank fees (for banks permitted to charge them), and they are presented net of fund management fees and custodian fees. Renewing money market funds (money market funds with set dates) that do not report an expected return are not presented.

Table 3 | Appendix 2 – Makam^a

Makam series (name and symbol)	Makam number	Closing price (in NIS 0.01)	Change (%)	Number of days to maturity	Maturity date	Yield to maturity ^b	Turnover in thousands of NIS	Time of final transaction	Base price

Notes::

a The makam series is presented in the table by ascending number of days remaining to Makam maturity. That is, the makam with the closest maturity date will appear first, and accordingly then the rest.

b The yield presented is gross, and does not include purchase or sale fees or capital gains taxes.

The Banking Supervision Department believes that making consolidated information about the three conservative investment vehicles more accessible, as mentioned, will contribute to the power of the customers and their ability to make informed decisions, with the goal of improving the monetary value of the investment decision. The Banking Supervision Department is monitoring the implementation of the aforementioned directives and will ensure that they indeed are assisting customers in accessing information during the decision-making process.

Box 6.2

Consumer aspects of financial frauds and scams, and supervisory measures to protect consumers

- Fraud is a rapidly expanding global phenomenon that affects financial systems, consumers of financial services, and the general public. Acts of fraud and deception, though sometimes carried out using the infrastructure and technological tools provided by financial institutions for their customers, are not necessarily directed against the financial system or its clients, but rather against individuals, organizations, businesses, or government entities in general.
- Best-practice approaches used in various countries to reduce fraud and protect the public typically rely on three pillars: raising public awareness and empowering customers; reducing fraud and blocking scams through improved controls, identification, monitoring, and response to fraud incidents; and enhancing enforcement.
- In recent years, Israel like other countries has seen a noticeable rise in fraud targeted against financial system customers. This affects all types of customers, but there is a clear focus on populations with low financial and digital literacy, such as the elderly and immigrants, mainly from former Soviet Union countries.
- The Banking Supervision Department has designated the “reduction and prevention of fraud” as one of its central goals in coming years. Additionally, it works to ensure that consumers who fall victim to fraud receive the protection provided by law. Its activities focus on two stages: the preventive stage before the fraud occurs, and the post-fraud stage assisting the customer who has become a victim.
- The Banking Supervision Department initiates awareness-raising activities. These include launching “Digital Fraud Awareness Week” as part of the Financial Education Forum, in collaboration with the Israel Police, with the goal of increasing public awareness of financial fraud and providing customers with tools to recognize, handle, and prevent fraud in real time. The department also dedicated its 2024 annual professional conference to the topic of financial fraud.
- Fraud is a complex and widespread phenomenon that requires a multidisciplinary response and cooperation among various stakeholders. Each entity, within its area of responsibility and based on the needs it identifies, acts to reduce and prevent fraud. This complexity underscores the importance of designating and appointing a national coordinating body to establish a national strategy for addressing the various aspects of the phenomenon and monitor progress on the issue. Currently, no such coordinating entity exists in Israel.
- The Banking Supervision Department participates in a joint team aimed at advancing cross-sectoral solutions, removing existing barriers, and promoting cooperation

among all relevant stakeholders in the area of fraud. The team includes representatives from the Ministry of Communication and the Israel Police.

- The Banking Supervision Department works to remove regulatory barriers in order to allow supervised entities to store and share information for the purpose of identifying and preventing fraud and misuse of accounts or payment vehicles, subject to legal provisions.
- The Bank of Israel and the Banking Supervision Department assist the Ministry of Justice in expanding protection provided to customers in fraud incidents.
- The Banking Supervision Department conducts regular audits and enforcement checks to ensure that supervised entities are developing tools for early fraud detection and monitoring, drawing lessons from past fraud events to prevent similar incidents in the future, and compensating customers who have fallen victim to fraud, in accordance with the law.

What is financial fraud?

Fraud is a rapidly expanding global phenomenon that affects financial systems, consumers of financial services, and the general public. Acts of fraud and scams, though sometimes carried out using the infrastructure and technological tools provided by financial institutions to their customers, are not necessarily directed against the financial system or its clients, but rather against individuals, organizations, businesses, or government entities in general.

Fraud refers to any act of deception or misleading of another party. A fraudulent act can take many forms and can be carried out using a wide range of methods and channels, making it a broad term that encompasses various types of offenses involving trickery or impersonation, often involving pressure or manipulation of the victim while hiding the identity of the perpetrator. Financial fraud, though lacking a universally accepted definition, is a specific type of fraud aimed at gaining access to the victim's financial assets (an individual or some another entity) through deception or deceit. A scam is also a specific form of fraud in which the victim is persuaded to voluntarily take an action—such as sharing information or transferring money based on the belief that the party carrying out the fraud is legitimate.

The phenomenon of frauds and scams is characterized by high level of complexity, a broad range of types, and sophisticated methods. These traits make it difficult to identify, monitor, and prevent. Fraud can be committed through various methods and channels, including online trading, dating websites, social media, digital advertising platforms, text messages, and phone calls. These are often carried out using specific typologies that exploit the vulnerabilities of an individual or system—such as romantic scams, investment fraud, impersonation of legitimate entities, etc. In some cases, fraud is perpetrated by actors from the world of organized crime. One of the key challenges in addressing fraud is the lack of consistency and the absence

of a unified methodology for classifying and reporting fraud cases. For example, when classification is carried out by or for financial institutions, greater weight is often given to the identity of the party initiating the payment (Who—whether it is the customer himself or a third party) and the payment method through which the fraud was committed (What—payment cards, bank accounts, digital wallets, etc.). When classification is carried out by or for law enforcement agencies, telecom companies, or tech companies, greater emphasis is placed on the module used for the fraud and its typology.

From a financial perspective, it is common to distinguish between the following types of fraud:

Authorized payment fraud – a situation in which an authorized party (the customer) initiates and executes the payment transaction. This type of fraud occurs as a result of manipulation by the perpetrator, leading the payer to make a payment or instruct the payment service provider to carry it out. The payer acts in good faith, believing that the recipient is a legitimate party. This type of fraud is also referred to as a "scam" (see above).

Unauthorized payment fraud – a situation in which an unauthorized party initiates and executes the payment transaction. This includes loss, theft, or misappropriation of payment card data or login credentials for a bank account. Such data may be obtained through social engineering techniques (e.g., phishing or smishing), malicious code used on commerce websites, or by means of any other method.

Best-practice approaches around the world for reducing fraud¹

A comparative analysis was conducted by the Banking Supervision Department in order to identify the best practices adopted by policymakers and financial and consumer regulators worldwide for reducing frauds and scams and protecting the general public and financial system customers. It found that despite significant variation in the tools used across countries, these can generally be categorized into three distinct categories:

1. **Raising public awareness and empowering the customer through improved financial education** – Based on the understanding that the customer is the "first line of defense" against fraud, it is essential to ensure that customers are aware of this and are equipped with the appropriate knowledge and tools to detect fraud in real time and better protect themselves. Awareness and training initiatives are typically the result of collaboration between public and private sector entities. For example, in France, Italy, and Germany, such initiatives are led by central banks and financial regulators, while in Japan and Singapore, law enforcement agencies or other government bodies and

¹ <https://www.bis.org/bcbs/publ/d558.htm>

private organizations promote them. In other countries, such as Canada, the initiatives are driven by the banks themselves in collaboration with professional associations and various government authorities.

2. **Reducing fraud and blocking scams through improved controls, detection, monitoring, and response by all stakeholders.** These include telecommunications companies, technology firms, financial institutions and law enforcement agencies. Measures in this area often involve a national-level coordinating body (a government ministry or designated entity) tasked with fostering collaboration among all relevant stakeholders both inside and outside the country. These partnerships are based on the understanding that fraud should be stopped at its point of origin, and that certain sectors may be weak links in the fraud execution chain. Examples of such collaboration include the establishment of data repositories and information sharing between financial players and regulators, and among financial entities themselves (as in Hong Kong and Japan). This kind of cooperation makes it possible to block fraudulent calls, identify scam messages or websites, simplify fraud reporting, and assist customers in identifying legitimate transactions. In Singapore, for instance, the local police and the country's four major banks operate an Anti-Scam Center (ASC) that uses digital automation technology to identify and alert customers in real time about fraud attempts via SMS messages. Another example is Australia's National Anti-Scam Center (NASC), established in July 2023, which aims to combat fraud through government collaboration, customer empowerment, improved fraud reporting mechanisms, enhanced information exchange between stakeholders, and support for law enforcement.
3. **Enhancing enforcement by strengthening law enforcement authorities** – This includes the development of information collection and sharing systems, improved reporting mechanisms, and harsher penalties for fraud perpetrators. A prime example of this can be found in the United Kingdom, where enhanced enforcement is a central part of the Home Office's strategic plan to reduce fraud and protect the public.² The strategy's recommendations seek to pursue and prosecute fraudsters and include four key components: (a) Strengthening existing law enforcement agencies responsible for handling fraud through budget allocation and the development of digital capabilities, as well as establishing a dedicated National Fraud Squad with over 400 professionals and investigators, which will take a proactive, intelligence-based approach focused on fraud and organized crime; (b) Establishing a UK Intelligence Community (UKIC) to aid in detecting and disrupting fraud schemes and promote cooperation with international stakeholders; (c) Developing a reporting system to make it easier for fraud victims to report scams and for law enforcement to act on those reports; (d) Removing legal barriers that prevent prosecution and conviction of fraud perpetrators.

² <https://www.google.com/search?q=best+practice+comperative+review&sourceid=chrome&ie=UTF-8&q=best+practice+comperative+review&safe=active>

Another key finding of the survey was the importance of defining and appointing a national coordinating body to develop a national strategy for addressing the various aspects of fraud and to monitor progress in tackling the issue. This coordinating body typically sets objectives and formulates an action plan to achieve them. It is also responsible for fostering cooperation among all relevant stakeholders at both the national and international levels. For example, in the UK, the coordinating body is a government ministry (the Home Office), while in Singapore and Australia it is a dedicated center established specifically to combat fraud.

Financial fraud in Israel

In Israel, as in other countries, there has recently been a noticeable increase in fraud that targets customers of the financial system. This involves all types of customers, though there is a clear focus on vulnerable populations, such as those with low financial and digital literacy, the elderly, and immigrants, mainly from former Soviet Union countries.

A survey of the banking system conducted by the Banking Supervision Department indicates that the system anticipates a continued upward trend in fraud during 2025, with the fraud schemes that were common in 2024 expected to persist into 2025. In addition, the banking system expects a rise in the use of AI in the perpetuation of fraud during 2025, especially for purposes of impersonation using audio and visual deepfakes.

In 2024, the most common fraud patterns in the financial sector included scams targeting Russian-speaking customers, immigrants from the former Soviet Union, the creation of fake cryptocurrency investment platforms, and the luring of clients to invest in them through false promises of quick profits. These frauds were typically carried out via social engineering tactics, such as obtaining personal or financial information through SMS messages prompting the customer to access a fake website that is masquerading as a known brand or financial institution and perform what appears to be a legitimate transaction (phishing), or through phone calls in which the perpetrator impersonates a legitimate authority such as a bank or government agency representative (vishing). In addition, the past year saw an increase in fraud incidents involving hijacking of customers' mobile phone lines in order to obtain personal information. These hijackings were carried out via fraudulent SIM swapping or by using remote access software to control mobile devices.

Financial fraud is a complex and far-reaching phenomenon that requires a multidisciplinary response and collaboration among various stakeholders. Each entity currently operates within its area of responsibility and based on the needs it identifies to reduce and prevent fraud. These stakeholders typically include law enforcement agencies, government ministries, telecom companies, financial regulators, payment system supervisors, tech companies, and others. Currently, Israel does not have a designated national coordinating entity to address fraud.

Measures taken by the Banking Supervision Department and supervised entities to protect consumers and to prevent and reduce fraud

The Banking Supervision Department has designated the reduction and prevention of fraud in the banking system as one of its central goals in coming years. Additionally, it works to ensure that consumers who fall victim to fraud receive the protection granted by law. The department's activities focus on two stages: the preventive stage—before the fraud occurs, and the post-incident stage—assisting customers who have become victims of fraud.

Banking corporations and credit card companies are also taking proactive measures to protect their customers, minimize harm, and reduce the phenomenon. These measures include the use of security systems to monitor and detect incidents as early as possible; upgrading and adapting control systems; establishing procedures and structured work processes; learning lessons from incidents; employee training; and raising customer awareness.

Raising public awareness

The Banking Supervision Department has initiated activities to raise awareness of fraud. Among them is “Digital Fraud Awareness Week,” as part of the activities of the Financial Education Forum, organized by the department in collaboration with the Association of Banks in Israel, the banks, the credit card companies and the Israel Police. This initiative consisted of two phases during 2024 and sought to increase public awareness of financial fraud and provide customers with tools to identify, deal with, and prevent fraud in real time.

As part of these activities, approximately 100 lectures were delivered in dozens of cities and towns across the country, along with five online webinars conducted in Hebrew, Arabic, and Russian. Thousands attended these lectures. The awareness campaign was accompanied by a public outreach effort inviting people to attend the sessions. A dedicated website was also launched, offering relevant materials for public use.³

In addition, the Department dedicated its annual professional conference to the theme of financial fraud. The conference featured presentations by experts, including the Governor of the Bank of Israel, the Supervisor of Banks, and representatives from academia, law enforcement, the National Cyber Directorate, and the financial system. Topics addressed included the national importance of tackling fraud, the challenges of preventing financial fraud, and the responsibility for compensating customers in fraud incidents. The conference was attended by hundreds of senior figures in Israel's financial industry and received wide public attention.

³ [Activity of the Banking Supervision Department in banking consumerism on the Bank of Israel site](#) [Hebrew]

Interministerial cooperation to reduce and prevent fraud

Addressing fraud is a complex task that requires coordinated effort, allocation of resources, and the removal of legal, regulatory, and technological barriers. In light of these challenges, and following actions already underway, a dedicated, multi-agency task force was established to address fraud, including the implementation of solutions to specific challenges such as blocking access to phishing websites, preventing SIM swap fraud, and countering smishing and vishing attacks.

The team includes relevant representatives from the Banking Supervision Department, the Ministry of Communication and the Israel Police. It works to advance cross-sectoral solutions, remove existing barriers, and promote collaboration among all involved parties. In addition, a steering committee was established, comprised of the Supervisor of Banks, the Director General of the Ministry of Communication, and the Head of the Investigations and Intelligence Division of the Israel Police. The committee is led by the Deputy Supervisor of Banks and Head of the Technology, Innovation, and Cyber Division. It convenes quarterly to review progress and discuss and decide on key issues.

Legislation and regulation

Banking corporations are legally obligated to prevent and reduce fraud and to compensate customers who fall victim to fraud. These duties are embedded in various laws and Proper Conduct of Banking Business directives. For example:

- Directive 472 – “Merchant acquirers and acquiring payment card transactions” – It establishes the obligations of banking corporations in circumstances where in the course of merchant transaction processing, a significant concern arises that the merchant’s activity involves customer fraud, deception, or the exertion of undue influence on customers.
- The Payment Services Law, 5779-2019. It defines the circumstances under which banking corporations are to compensate customers for misuse of their means of payment.
- Directive 367 – “E-banking”, which includes requirements to monitor in real time unusual activity in a customer’s account, learn from fraud events, and adopt measures to prevent future incidents.

To allow banking corporations to store and share data for the purpose of identifying and preventing fraud or misuse of accounts and payment methods (subject to legal provisions), the Banking Supervision Department is working to update Directive 367.

In addition, and in order to prevent and reduce customer fraud by way of businesses, the Bank of Israel and the Banking Supervision Department supported the Ministry of Justice

in promoting a legislative amendment aimed at protecting consumers from merchants who commit major violations. The amendment empowers the Commissioner for Consumer Protection and Fair Trade to designate a business as a “severe violator” and to instruct credit card companies to cease providing settlement services, thereby preventing further customer harm.

To assist customers who fall victim to fraud, the Bank of Israel and the Banking Supervision Department are promoting an amendment to the Payment Services Law, 5779-2019, in order to expand protection and remuneration for customers scammed by impersonators of banks or government entities. This is also intended to clarify the division of liability between the customer and the payment service provider. The department is also advancing regulation that would require banking corporations to establish a 24/7 call center for customers who have fallen victim to fraud or suspect that a fraud attempt has been made.

Supervision and enforcement

In 2024, the Banking Supervision Department reviewed the activities of some supervised entities in order to verify compliance with the law. This included examining the ways in which acquiring banking corporations monitor and address merchants suspected of defrauding cardholders. The review examined the implementation of regulations requiring companies to monitor merchant activity based on defined criteria and to terminate relationships with merchants when there is significant concern of fraud, deception, or undue influence.

The Department also conducted audits of several banking corporations to verify that they are developing tools for early fraud detection and monitoring, tracking evolving fraud methods domestically and internationally, and learning from past incidents to prevent recurrence.

Beyond these measures, the Banking Supervision Department provides ongoing assistance to banking customers who have fallen victim to fraud through their bank accounts or payment vehicles and did not receive satisfactory support from the financial institutions. In some cases, the Department found that the banks acted improperly and instructed them to remunerate fraud victims. In other cases, the banks voluntarily credited customers beyond their legal obligations. In the past two years, customers of the banking system have received a total of approximately NIS 3.4 million in remuneration.

In conclusion, financial fraud is a complex and wide-ranging phenomenon that must be dealt with using a multidisciplinary approach and creating collaboration among various stakeholders. It is expected to persist in coming years. The Banking Supervision Department has integrated this issue into its strategic plan and will continue promoting measures to prevent fraud and assist affected customers.

Proper Conduct of Banking Business Directives and Instructions to the Supervised Entities

Following are examples of Proper Conduct of Banking Business directives and instructions to the supervised entities regarding auditing processes carried out in the banking system with the goal of dealing with financial fraud:

1. **Management of fraud risk** – The banking corporations are to adopt a strategy and policy to deal with fraud.
2. **Monitoring unusual activity** – The banking corporation are to install an automated mechanism for the identification and monitoring of unusual activity in the accounts of their customers and in particular activities at a high risk level in order to identify suspicious activity in real time.
3. **Monitoring the development of fraud perpetration methods** – Banking corporations must continuously monitor the development of fraud perpetration methods both in Israel and globally. They should assess the need to update their monitoring and control mechanisms accordingly and draw conclusions in order to prevent recurrence of incidents in the future. For this purpose, they should utilize information from internal and external sources, including the Israel Police and other security agencies.
4. **Alerting customers to unusual activity** – Banking corporations are required to notify their customers of any unusual activity detected in their accounts.
5. **Increasing awareness among customers** – The banking corporation are to provide guidance to their customers so as to enable them to identify fraud in real time and to better protect themselves.
6. **Suspending a transaction or obtaining customer confirmation** – When unusual activity is detected in a customer's account, the banking corporation must immediately consider taking measures, such as suspending the transaction or obtaining confirmation from the customer.
7. **Enhancing security measures** – The banking corporations must work to continuously improve the security of payment vehicles and bank accounts.
8. **Documentation of fraud incidents** – Banking corporations must classify and document fraud incidents in order to enable tracking of the fraud pattern, the service or product used in the scheme, and the damage caused to both the bank and the customer.
9. **Customer remuneration policy** – Banking corporations are required to establish a consistent and formal policy for remunerating customers, subject to their legal obligations.
10. **Measuring harm caused by fraud** – The banking corporations are to measure fraud and the harm it causes to their customers and not only that to the banking corporation itself.

Advice and Tips to Customers

Following are a number of tips to help protect yourself from fraud:

1. **Protect your privacy** – Information sent to you via SMS by your bank or credit card company, such as a verification code for completing a transaction, transfer of funds, or accessing of sensitive financial data, is personal and should not be shared with anyone. Banks and credit card companies will never proactively contact you to request confidential information.
2. **Avoid clicking on links** – Adopt a general approach of suspicion and caution. Do not click on links sent via SMS or email. When in doubt – don't! It's better to ignore a message than to click on an unsecured link.
3. **Never hand over your credit card** – Banks and credit card companies will never send a courier to collect your credit card.
4. **Your bank speaks Hebrew** – If you receive a phone call from someone claiming to be a representative of a bank or credit card company or a police officer who is not speaking Hebrew, ask them to speak in Hebrew. In any case, do not share personal or financial information.
5. **Use strong passwords and biometric identification** – Choose a password that includes a mix of letters, numbers, and special characters, or switch to biometric authentication.
6. **Access your account cautiously** – Do not access your bank account through a link sent via SMS or email.
7. **Do not install remote access software** – Many scams occur after remote access software is installed on a customer's computer or mobile device. Avoid installing such software.
8. **Talk to those you trust** – In the event of a suspicious call or message, consult with family members, bank staff, or credit card company representatives who you know.
9. **If you mistakenly share information** – Immediately contact your bank and credit card company, report the incident, and file a complaint with the police. Provide the bank, credit card company, and police with full details of the fraud—every detail matters!

If you identify an unfamiliar transaction:

- ✓ Immediately notify your credit card company and bank.
- ✓ A delay in reporting to the bank or credit card company may result in personal liability for the damage.
- ✓ Know that you are protected from any losses that occur after reporting the incident.
- ✓ Compensation for damages incurred before the report will be provided according to the conditions outlined in Sections 24 and 29 of the Payment Services Law.

Box 6.3

The reform in the banking system to enhance competition and transparency for customers

- The consumer reform in the mortgage sector came into effect in 2022, with the goal of improving transparency and increasing competition in the housing credit market in Israel. The reform includes important measures to simplify and shorten the process of obtaining housing loan offers from the banks. It is also intended to make information more accessible, so that customers can compare offers more easily.
- Customers seeking a housing loan can use a number of tools to improve the terms they receive. First, it is advisable to submit applications to several banks and compare the various offers. It is also recommended to use the loan calculators available on the websites of the various banks in order to fully understand the terms and costs of the loan. Finally, negotiating helps to achieve better terms.
- Upon the completion of the regulatory process, the Banking Supervision Department put into place measures to monitor implementation, in order to ensure that the reform was integrated into the banking system. This oversight revealed a high level of compliance by the banks, and in cases where deficiencies were identified, the Banking Supervision Department instructed that they be corrected.
- Although the new structure of approval in principle is intended to help customers in comparing offers, this comparison was very limited. Those who tend to compare banks are typically of higher socioeconomic status or are younger.
- The forecast overall interest rate (also known as IRR) is a primary tool for assessing the risks inherent in a loan. It is the annual effective interest rate that the borrower is expected to pay over the life of the loan, reflecting the anticipated development¹ of macroeconomic variables in the market, given the chosen loan composition.² The standardized compositions represent the different risk levels of housing loans, and alongside the IRR, are intended to assist in comparing the various offers. The gap between the IRR and the weighted interest rate represents the impact of macroeconomic variables on the loan.
- The Banking Supervision Department will continue to monitor the implementation of the reform and will seek to promote increased competition in the mortgage sector within the banking system.

¹ The macro forecasts can change from time to time and therefore they will also influence the forecast payments. It should be recalled that forecasts by their nature are not always realized.

² The types of interest rates that were chosen.

Background

Obtaining a housing loan is a major economic decision for a household, given that it involves a long-term financial commitment that will impact the household's cash flow, consumption, and savings over time. Accordingly, it requires financial planning that takes into account the household's needs and unexpected changes in income or expenses in the future. The consumer reform in the mortgage market came into effect on August 31, 2022³, with the aim of improving transparency and increasing competition in the housing credit market in Israel. The reform was intended to streamline the loan-taking process or the refinancing of an existing loan by introducing various tools. These tools enable borrowers to make more informed decisions, to easily compare different offers, to improve their bargaining power, and ultimately to secure better loan terms.

As part of the reform, banks were required to:

- Provide customers with an "approval in principle" form (a preliminary approval) in a standardized format that facilitates comparison.
- Present a number of loan compositions: in addition to the offer provided to customers, the bank was required to add three offers based on standardized compositions (identical across all the banks), created according to the guidelines of the Bank of Israel.
- Allow online requests for approval in principle, and respond to the housing loan request within 5–7 business days, thereby significantly shortening the time frame that was customary in the past.⁴
- Make detailed information accessible on their websites, including simulation calculators for examining different loan compositions, information on existing loan types and their details, and tools for assessing the viability of refinancing an existing loan.

Consumer examinations conducted to evaluate the reform's implementation

The successful implementation of the reform and its impact on the banking system required close monitoring of the banks and ensuring that they indeed offer customers the same loan compositions and provide standardized approvals within shortened timeframes that can be used for comparison purposes. To ensure that the banking system had implemented the reform, the Banking Supervision Department conducted a broad consumer examination on the subject. The goal of the examination was to ensure the banking system's compliance

³ Update of Proper Conduct of Banking Business Directive no. 451 – Procedures for extending housing loans. For further details see also <https://mash-boi.org.il/english/>

⁴ This offer is valid for 24 business days, such that the customer has sufficient time to make arrangements for taking the loan and providing the documents required for underwriting.

with Proper Conduct of Banking Business Directive no. 451 on “Procedures for extending housing loans”, which regulates the mortgage reform through binding regulation. During the examination, relevant documents were reviewed and sampling was conducted on data taken from the banking system and from the banks’ websites.

Main issues in the implementation of the reform

- 1. Complying with the required response time for a loan request:** The reform requires banks to allow online submission of a request for approval in principle, with the goal of streamlining the process and making it more accessible. Once a request is submitted, the bank must respond within 5–7 business days. As part of the examination, a check was made of the banks' compliance with this time limit, as stipulated in Directive 451. The examination checked the causes and extent of delays in responding to loan requests. The review revealed deviations caused by system-related or human factors. Correcting the identified deficiencies was intended to enable customers to receive housing loan offers in a timely manner, thus allowing them to proceed with pricing and obtaining the loan.
- 2. Reliability of the information presented in the approval in principle:** One of the main components of the reform is the requirement that banks provide customers with a standardized approval in principle (preliminary approval) form. This approval includes three standardized loan compositions defined by the Bank of Israel, alongside an additional composition tailored to the customer’s needs. The presentation of standardized compositions is intended to enhance customers’ ability to compare housing loan offers from different banks and thus strengthen their bargaining power. Variables presented in the preliminary approval include: the forecast overall interest rate, total expected payments, the amount of the first monthly payment, and the highest expected monthly payment. This information illustrates the borrower’s expected financial commitments. As part of the examination, the reliability of the information in the approval in principle was examined, as well as whether it matched the results produced by the loan calculators on the bank’s website.
- 3. Reliability of information on the bank's website and the accuracy of loan calculators:** The reform requires banks to make detailed information accessible on their websites. This is intended to help customers better understand the offered housing loan terms, the potential risks, and the implications for future payments, thus facilitating more informed financial decisions. The examination checked whether the information on bank websites was reliable and complied with supervisory requirements, and whether the loan calculators allowed simulations for evaluating different loan compositions. Following the examination, several banks updated the forecast interest rate for housing loans according to the frequency required by supervisory guidelines.

The examination found that, overall, the banks had acted to implement the mortgage reform. However, specific deficiencies were identified in several banks, including delays in responding to loan requests, inconsistencies between the data in the preliminary approval and the bank’s calculator, and weaknesses in the calculators that prevented simulations of various loan structures. As a result of the audit, the banks in which deficiencies were identified were required to correct them in order to fully comply with the reform.

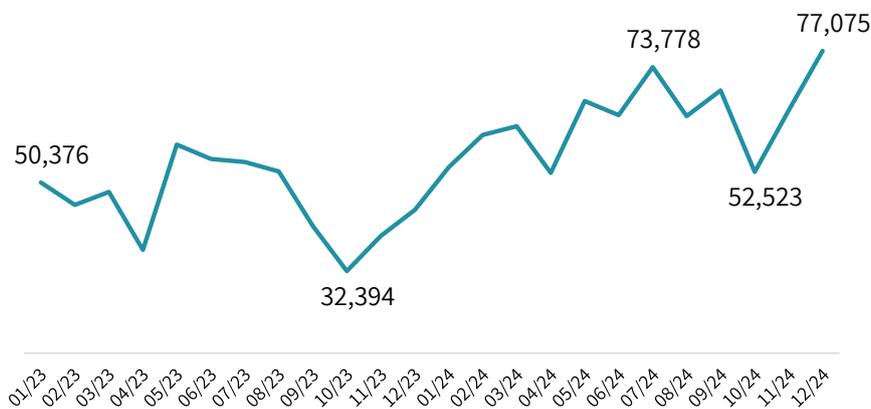
Data on approvals in principle provided to customers

Although the number of approvals in principle granted to customers is on an upward trend (Figure 6.6), a high proportion of these approvals do not lead to actual housing loans. During 2023–24, only about 27 percent of all preliminary approvals led to actual housing loans. This the result of, among other things, the fact that a customer obtains an average of two approvals in principle per bank, and that out of all customers who received approvals in principle in 2023–24, only about 46 percent ultimately obtained a housing loan. These findings indicate that many customers use the approval in principle to examine market conditions at different points in time, not necessarily with the intention of taking out a loan shortly after receiving the approval. Among those who did take out a housing loan, over 98 percent chose the fourth composition, the one that was tailored to their needs.⁵

Total approvals in principle is on an upward trend.

Figure 6.6

Number of approvals in principle issued monthly , All banks, January 2023 to December 2024 | units



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

⁵ It should be noted that the purpose of the standardized baskets is to simplify comparison between different offers and loan compositions which reflect varying levels of risk, as will be further discussed below. At the time the reform came into effect, Composition 2 represented the most common mix, but over time it changed in response to the high interest rate environment.

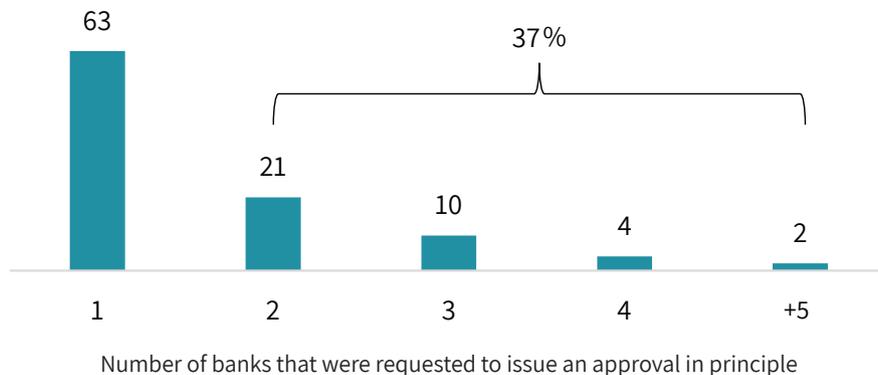
Comparison of approvals in principle across banks

During 2024⁶, customers carried out comparisons among the banks for approximately 37 percent of the housing loans taken out (meaning that a preliminary approval was obtained from more than one bank for these loans). In most cases, the comparison involved up to three banks (Figure 6.7).⁷

37 percent of customers compare terms; however, the majority do not.

Figure 6.7

Breakdown of loans by number of banks from which the borrower requested an approval in principle; All banks, loans approved during 2024 | percent



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

⁶ We chose to focus on 2024, given the upswing in both housing loans and approvals in principle.

⁷ The number of banks approached by customers was measured as a function of the number of preliminary approvals identified at different banks within a three-month time window. This window was used because a preliminary approval is valid for 24 business days, and given that macroeconomic conditions can change significantly over longer periods, thus affecting interest rate "anchors". In some cases, customers or their representative may be familiar with the market, and if they believe the bank's offer is sufficiently competitive, they may choose to forgo further comparison shopping.

The young populations or those with a stronger socioeconomic status tend to do more comparison of preliminary approvals.

Figure 6.8

Proportion of borrowers who shopped around by age group
All banks, loans issued in 2024 | percent

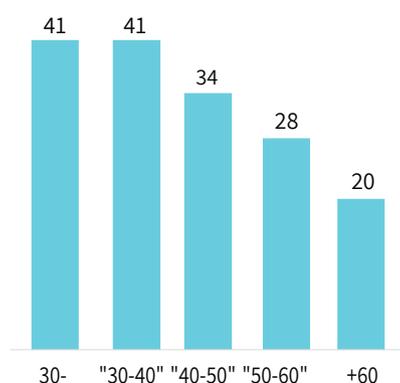
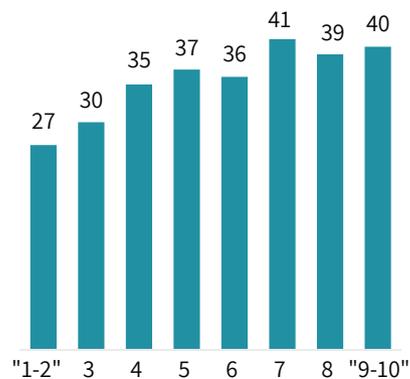


Figure 6.9

Proportion of borrowers who shopped around by socioeconomic status, All banks, loans issued during 2024 | percent



Source: Based on reports to the Banking Supervision Department.

Other borrower characteristics that have a significant impact on the likelihood of engaging in comparison shopping:

1. The higher the borrower's socioeconomic status is⁸, the greater the likelihood that he will engage in comparison shopping (Figure 6.8). It is possible that the financial literacy of this group allows them to take advantage of the tools made available through the reform and to compare between the banks.
2. The older the borrower⁹, the less likely he will be to engage in comparison shopping (Figure 6.9). The younger population also tends to make greater use of the banks' online services.¹⁰ Since the reform required banks to allow online submission of requests for preliminary approval, the digital literacy of younger customers may assist them in the process of comparing banks. Additionally, younger people may be more exposed to campaigns related to the reform and to information about wise consumer behavior, thus increasing their awareness of comparison shopping and its benefits.

⁸ The socioeconomic status assigned to each loan was determined based on the locality of the financed property (and, in the absence of data on the financed property, was based on the collateralized property), according to the definitions of the Central Bureau of Statistics (CBS). Rankings 1-2 and 9-10 for socioeconomic status were merged due to the small number of observations.

⁹ The borrower's age was defined as that of the youngest primary borrower on the loan on the date the loan was issued.

¹⁰ For further details, see the section on access to financial services in this review.

The forecast overall interest rate (IRR) as a tool for comparing banks

One of the key components of the approval in principle form is the forecast overall interest rate (IRR), which reflects the annual effective interest rate the borrower is expected to pay over the life of the loan. This rate affects the total payments the borrower is expected to make on the loan and is therefore intended to serve as one of the benchmarks for comparing offers from different banks. It helps illustrate the risk embedded in the loan composition and its effect on the monthly repayment. This rate, calculated using a methodology specified by the Bank of Israel, may differ from the nominal interest rate at the time the loan is taken out, since it reflects the anticipated development¹¹ of macroeconomic variables in the market (such as the Bank of Israel interest rate, inflation, and government bond yields) according to the chosen loan composition.¹² It enables borrowers to understand their level of exposure to macroeconomic variables that affect monthly repayments. The standardized compositions represent different risk levels for housing loans and, together with the IRR, are intended to help borrowers compare the terms offered in different loan proposals. The first composition is a “risk-free” basket (meaning macroeconomic variables do not affect it over the life of the loan), while the second and third baskets include various types of risks (interest rate risk, inflation risk, etc.). **The presentation of these compositions does not constitute a recommendation for any particular one.**

Except for the first basket, there is a gap between the weighted interest rate and the IRR (Table 6.3). This gap illustrates the impact of macroeconomic variables on the loan and underscores the importance of presenting the weighted interest rate alongside the IRR to the customer. This allows the IRR to serve as a significant factor in the borrower’s decision-making process, both when comparing between the banks and when selecting the optimal loan composition (basket). For example, the greater the proportion of the loan that is indexed to the CPI, the lower the weighted interest rate will be (interest rates for CPI-indexed tracks are lower because they do not include the bank’s inflation risk premium).¹³ However, macroeconomic variables have a greater impact on the loan (and on the monthly repayment) throughout the loan period. These changes are factored into the IRR calculation and are thus reflected in its presentation. Conversely, the greater the proportion of the loan that is not exposed to macroeconomic risk, the smaller the gap between the weighted interest rate and the IRR.

¹¹ It should be noted that macroeconomic forecasts can change from time to time, thereby affecting the forecasted payments. It should be recalled that forecasts, by their nature, are not always realized.

¹² The composition refers to the types of interest rates selected.

¹³ In CPI-indexed tracks, the principal is linked to the CPI and is adjusted accordingly. This affects the amount of the monthly repayment. In unindexed tracks, changes in the CPI do not affect the principal, meaning the lending bank “absorbs” the erosion in money value. As a result, interest rates in indexed tracks tend to be lower than those in unindexed tracks.

Table 6.3 | The difference between the forecast overall interest rate (IRR) and the weighted interest rate

		Weighted interest rate ¹⁴	Expected overall interest rate (IRR) ¹⁵
Offered basket 1: 100 percent fixed, unindexed		4.9	4.9
Offered basket 2: 1/3 fixed, unindexed; 1/3 prime; 1/3 variable indexed.		4.1	5.7
Offered basket 3: ½ fixed, unindexed; ½ prime		5.3	5.4
Basket 4 (modified to the customer's needs) ¹⁶ 98 percent of loans provided	The most common composition – 34 percent of loans provided:	4.9	5.6
	Variable, unindexed + fixed, unindexed	4.5	5.8

One of the goals of the Banking Supervision Department is to enhance competition within the banking system. Such competition can help customers obtain better terms and improved service, especially in the mortgage sector.¹⁷ Monitoring and enforcement of the measures set out in the directive ensure that the reform is being implemented correctly.

It is important that before taking a loan, customers use the approval in principle to compare offers from different banks in order to improve the terms offered to them. Customers should also make use of the loan calculators available on bank websites before taking a loan, and should examine how the monthly repayment evolves over the entire life of the loan—not just the first monthly payment—in order to understand the full risks implicit in the loan.

¹⁴ Calculated according to the average interest rate on every track making up the basket, according to the data of the Bank of Israel on the “Equator” website (data is for January 2025). <https://www.boi.org.il/en/information-and-service-to-the-public/interest-rates-and-early-repayment-fees/interest-rate-comparisons-housing-loans/>

¹⁵ Calculated according to an IRR calculator based on the adjacent column. Such calculators can be found on the sites of the commercial banks and are based on the instructions of the Bank of Israel for calculating IRR.

¹⁶ The presented data are for loans for residential purposes only that were provided during 2024.

¹⁷ As can also be seen in Box 4.1: Developments in the pricing of mortgages in Israel in the [Bank of Israel Annual Report 2024](#).

Additionally, upon receiving preliminary approval, the public is invited to visit the "Equator" website¹⁸ to compare the interest rates offered by the banks with the average market rates.¹⁹

The Banking Supervision Department will continue to monitor the implementation of the reform and will continue working to promote increased competition in the banking system.

¹⁸ <https://www.boi.org.il/en/information-and-service-to-the-public/interest-rates-and-early-repayment-fees/interest-rate-comparisons-housing-loans/>

¹⁹ There may be gaps between months given the macroeconomic changes that have an immediate effect on interest rates in the market.

Box 6.4

Service in the Banking System

- The Banking Supervision Department attributes great importance to the quality of service and support provided to customers. This issue is a focus of supervisory activity, and in this context, several significant steps have been taken in recent years with the aim of improving the quality and availability of service and support for banking system customers.
- Promoting the quality of service within the banking system is a central component of the Banking Supervision Department's activity. A variety of supervisory tools are used to make progress in this area, including regulation, customer satisfaction surveys, supervisory guidance letters, examinations and consumer surveys, handling of public enquiries, and professional support for relevant discussions in the Knesset (parliament).
- Proper Conduct of Banking Business Directive no. 501 – Management of Customer Service and Support Array (hereinafter – “Directive 501”) was published in 2023. This directive sets out guidelines for providing service and support to banking system customers through various service channels and establishes obligations in the areas of corporate governance and the management of work processes within banking corporations. These include obligations to publish a service charter and actual response and handling times. The aim is to promote an organizational culture that emphasizes the quality and availability of customer service and support, such that they lead to professional and efficient responses to customer needs over time.
- In recent years, the Banking Supervision Department has conducted two annual customer service surveys among individual customers and small business owners, with the goal of assessing customer perceptions of the quality of services received from the bank where they maintain their accounts. The use of this supervisory tool enables the promotion and strengthening of fairness and competition in the field of customer service by obtaining an objective picture from the perspective of banking system customers concerning the service they receive. Based on the findings, it is possible to draw conclusions about strengths and weaknesses in service, and about areas that can be improved in each banking corporation. Publishing the survey results serves as an incentive for banks to improve their service quality, in addition to supporting supervisory activities and policy decisions.
- Findings from the 2024 surveys indicate that customer satisfaction with digital services remains high. Satisfaction with face-to-face services has improved but still lags behind digital service satisfaction. The willingness to recommend one's bank remained unchanged, standing at 57 percent in the individual customer survey and 51 percent in the small business survey. Overall, the satisfaction of small business owners is lower than

that of private customers.

- The monitoring of the implementation of Directive 501 and the findings from the 2024 customer satisfaction survey indicate a noticeable shift in the banking system's perception of customer service. Indications of change and improvement are visible. From a systemic perspective, there has been an expansion of service channels offered to customers and there is greater availability of banking services. The various measures taken by the Banking Supervision Department in the area of customer service and support have contributed positively to their advancement and development, as well as to the encouragement of competition among the different players in the banking system.
- The Banking Supervision Department intends to continue ensuring that the banking system works to improve the quality of customer service and support by using a variety of supervisory tools, including the continued assessment of public opinion through customer satisfaction surveys.

Introduction

One of the main objectives of the Banking Supervision Department is to promote and instill a culture of fairness within the Israeli banking system, in order that it act in the public interest while strengthening public trust in the banking system.

As part of achieving this objective, the Banking Supervision Department has emphasized the promotion of fairness in the banking system in recent years. This has included policies aligned with the department's approach to fairness and enhancing protection for banking customers as part of its ongoing supervisory activities. These efforts have involved a variety of supervisory tools, including regulation and the publication of a dedicated Proper Conduct of Banking Business Directive on the subject, conducting in-depth surveys to assess customer satisfaction with the banking system, specific supervisory guidance letters, consumer-oriented examinations and inspections, handling of public enquiries, and professional support for relevant discussions in the Knesset, among others.

In recent years, significant changes have occurred in the way financial services—and banking services in particular—are consumed. Against the backdrop of technological developments, direct service channels and digital services have expanded, while the number of bank branches has been reduced as part of the banking system's streamlining efforts. In light of these changes, and as part of the ongoing activity of the Banking Supervision Department, there has been a growing need to expand regulation in the areas of fairness and quality of service, in order to promote desired improvements. This box presents the main actions taken by the Banking Supervision Department to improve customer service within the banking system, with the aim of advancing the main goals of supervisory involvement in this area.

Main goals of the Banking Supervision Department regarding service and customer support



Regulation of customer service and support

In recent years, the Banking Supervision Department has advanced a variety of targeted measures aimed at promoting broadly based improvements in service throughout the banking system, using a variety of supervisory tools at its disposal. In light of the importance attributed by the Banking Supervision Department to providing high-quality, professional, and accessible service to all banking system customers, it was decided to publish a dedicated Proper Conduct of Banking Business Directive focused on customer service and support.

The publication of Directive 501 marks the first stage in a planned broadly-based effort aimed at establishing guidelines in the areas of consumer protection and banking fairness,¹ including the adoption of OECD and FCA principles on fairness toward customers. The goal is to expand the normative infrastructure in these areas. Directive 501 anchors the supervisory policies and expectations in the area of customer service and support by adopting international guidelines. It regulates the overarching framework of duties and guidelines to which banking corporations must adhere when providing service and support through various service channels.

Directive 501 also establishes obligations in the area of corporate governance and the management of banking corporations' work processes, including requirements to publish a service charter and actual handling and response times. According to the approach and policy underlying Directive 501, providing appropriate service to customers is a central component of fair conduct, and the quality and professionalism of the service are among the main factors influencing customers' sense of fairness and their satisfaction with the banking corporation. Accordingly, the existence of efficient, accessible, clear, and fair service and support systems contributes to effective and responsible communication between banking corporations and their customers. Furthermore, a business environment and organizational culture that enable customers to receive the information and services they need—in a timely

¹ A comprehensive review of international developments in this context, including the OECD and FCA guidelines on fairness toward customers and how these have been implemented by the Banking Supervision Department in Israel, appears in Box 6.5: International Developments in Customer Protection and their Adoption in Israeli Regulation in Israel's Banking System in 2023.

manner and in a way that helps them understand the products and services offered by the banking corporation and their available options throughout the engagement process—helps customers make informed decisions about their financial assets and obligations. Therefore, the expectation is that the highest level of service will be offered and that service and support systems will be put in place which ensure appropriate customer service, based on a proactive approach that adopts a service and support strategy and policy in which the customer and their needs are at the center of the banking corporation's considerations. This includes a continual, dynamic, and ongoing effort to improve compliance with the principles established in the directive for providing customer service and support, while exercising judgment and prioritizing issues based on their significance to customers in general, with particular attention to individual and small business customers. All of this is aimed at ensuring that service and support systems adequately meet customers' needs.

Most of the provisions in Directive 501 came into effect on June 26, 2024, and it is evident that the directive's publication—which includes, among other things, obligations in the area of corporate governance—has made a significant and positive contribution to changing the banking system's approach to the quality and availability of customer service. This area has become a significant variable in the approach to the consumer and a driver of competition, even from the perspective of the banking corporations themselves, as described below.

Support for the implementation of consumer regulation and oversight

Due to the importance attributed by the Banking Supervision Department to the issue of service in general, and Directive 501 in particular, and given the directive's broad impact on the service and support systems of the banking corporations, the Banking Supervision Department conducted a process to oversee implementation within the banking corporations. As part of this process, periodic status reports were submitted on the progress made by the banking corporations in achieving the required interim outcomes. From the reports submitted to the Banking Supervision Department, it emerged that there have been positive changes in the importance banking corporations attribute to service quality—including at the level of boards of directors and senior management—and that there has been a significant increase in the willingness of banking corporations to take action to improve the quality and availability of customer service and support provided to customers. This is reflected in, among other things, the strategies and policies that the banking corporations were required to adopt. For example, in preparation for the directive's publication and its coming into force, there was extensive activity across the entire banking system to achieve a "quantum leap" in the area of service, by means of significant improvements and adjustments relative to the situation prior to the directive's publication. These changes included, among others, expanding service channels, extending operating hours at call centers, improving availability in call centers and in branches, upgrading information systems and expanding direct service channels, and establishing dedicated service and customer experience units.

In addition, and as part of its supervisory activities, the Banking Supervision Department conducts ongoing consumer examinations to ensure compliance with Directive 501, and with the principles of providing customer service and support in particular. These examinations are carried out across all service channels, including call centers, branches, and digital channels. Furthermore, special emphasis is placed on handling public complaints related to service quality, as well as identifying and addressing systemic issues that arise from these complaints.

It appears that the publication of the directive, along with the support for its implementation and the promotion of enforcement processes, has contributed to improving service within the banking system. It has sparked competition over customer service availability and quality and initiated broad based, in-depth processes that will support continued improvements in service across the banking system.² The Banking Supervision Department continues to examine how the directive is being implemented and will carry on conducting consumer service audits. The department's expectation is that continued implementation of the directive's requirements, particularly those concerning corporate governance and the continuous application of the principle of providing service and support in accordance with the needs and materiality of the consumer will support a trend of improvement in the service and support offered by the banking system.

Satisfaction Surveys

In recent years, the Banking Supervision Department has conducted customer service surveys³ with the aim of ascertaining customers' perceptions regarding the quality of services they receive from the bank where they maintain their account, in comparison to other banks. The purpose of conducting these surveys and publishing their findings is to strengthen fairness and competition in the field of customer service. This is done by obtaining a status overview from the perspective of banking system customers regarding the service provided to them and, based on the survey findings, highlighting areas in need of improvement, thus giving banks an incentive to enhance the service they provide to their customers. These surveys, as noted, serve as an important supervisory tool for assessing and measuring the impact of regulation, examinations, and consumer oversight on the availability and quality of service in the banking system in practice.

The published survey findings are informative for both the Banking Supervision Department and the banking corporations with respect to the strengths and weaknesses of each bank in the service it provides. They serve as a complementary tool to supervisory activities and policymaking.

² For further details, see Box 6.3: "The reform in the banking system to enhance competition and transparency for customers in this survey" in this review.

³ [Press Release for 2018 Survey](#), [Press Release for 2019 Survey](#), [Press Release for 2021 Survey](#), [Press Release for 2022 Survey](#), and [Press Release for 2023 Survey](#).

Professional background for conducting the surveys

In 2018, the UK Competition and Markets Authority (CMA) published two satisfaction surveys on banking services: one for individual customers and one for small businesses. Since then, the surveys have included four questions: willingness to recommend the bank, willingness to recommend digital services, willingness to recommend overdraft services, and satisfaction with branch services. The survey is conducted among 17 banking institutions across the UK. The results are published twice annually, and each bank is required to prominently display a list of the top five banks in the survey and its own ranking (if not among the top five) in its branches. Additionally, the bank must make the information accessible on its website or mobile app.

In Israel, similar but more broadly based surveys have been published since 2019. They include questions related to a variety of banking service channels, including telephone service, digital service, ATM service, credit card company service, etc.

In view of the importance attributed by the Bank of Israel to the survey results, the sample size was expanded in 2024 to 4,000 respondents per year, conducted in two waves of 2,000 respondents each. As a result of the expanded sample, it became possible to present findings on smaller banks and additional services, since the increased sample size enabled the generation of statistically significant results.

In December, the Banking Supervision Department launched a dedicated dashboard⁴ allowing users to easily and conveniently examine changes in customer satisfaction across various segments of the banking system. In addition, a digital tool was published on the Bank of Israel's Equalizer website⁵, allowing for simple comparisons between banks based on various variables: public satisfaction, branch and ATM deployment, fees, and interest rates. The tool also presents information from the satisfaction surveys, with the aim of improving banking services and enabling Israeli consumers to make informed decisions when choosing the bank that best suits their needs. The tool is also available in Arabic and English (see Box 6.1 in this review).

Survey findings

The most recent household survey was published in early February 2025. According to the survey findings, satisfaction with digital services remains high among individual customers (above 90 percent). Satisfaction with telephone service rose to 75 percent (up from 72 percent in the previous survey), and satisfaction with in-branch service increased to 78 percent (up from 75 percent previously). The perception of fairness in the banking system rose significantly to 61 percent (from 54 percent in the previous survey). However, willingness

⁴ Dashboard for the survey of satisfaction with the quality of banking and credit card company service. [Hebrew]

⁵ Bank Comparison Dashboard: https://www.boi.org.il/en/economic-roles/supervision-and-regulation/comparison_banks/

to recommend the bank to a friend or family member remained essentially unchanged at 57 percent.

It is worth noting that in a survey published in the UK in August 2024, the percentage of respondents who would recommend their bank stood at 63 percent, those recommending digital services at 73 percent, and those recommending branch service at 64 percent.

Household Survey Findings 2024

Figure 6.10 Recommending the bank

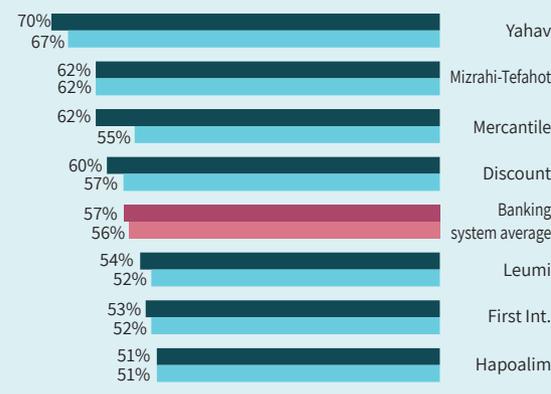


Figure 6.11 Satisfaction with the app

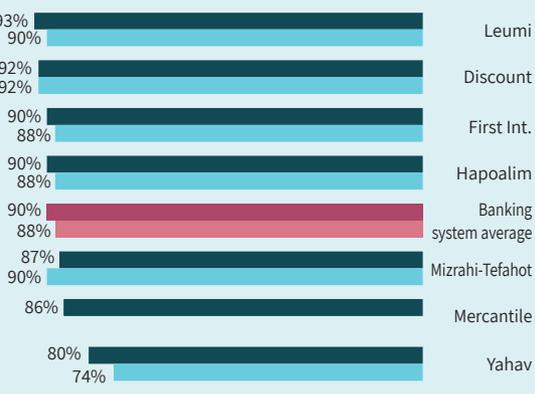


Figure 6.12 Satisfaction with the help desk

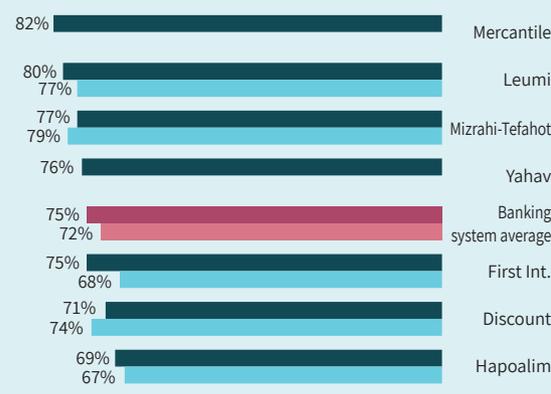
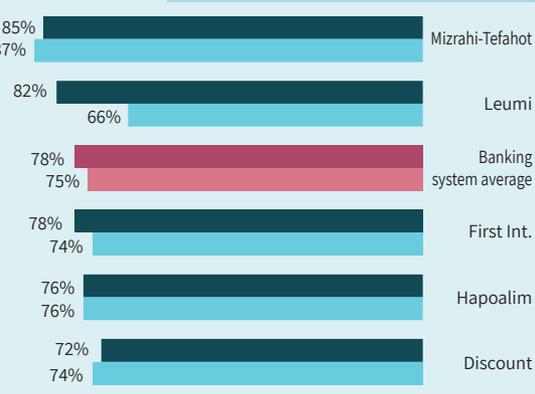


Figure 6.13 Satisfaction with service in the branch



2024 ■ 2023 ■

Source: Rusinek Institute.

In March 2025, the results of an online survey among small and micro businesses were published. The survey is based on a random, representative sample of business owners employing up to 20 workers.

The distribution of respondents was as follows: 77 percent work alone (no employees); 18 percent have 2–5 employees; 3 percent have 6–9 employees; and 1 percent have 10–20 employees.

The survey findings indicate that, in general, business owners' satisfaction is lower than that of individual customers. In the small business survey, satisfaction with digital services remains relatively high (over 83 percent). There was an increase in satisfaction with telephone service (70 percent as compared to 64 percent in the previous survey) and with in-branch service (69 percent as compared to 62 percent in the previous survey). The perception of fairness in the banking system, examined for the first time among small business owners, stands at just 55 percent. Willingness to recommend the bank to another business owner rose slightly, but remains at 51 percent.

It is worth noting that in a small business survey published in the UK in August 2024, the percentage of respondents who would recommend their bank was 62 percent, the percentage recommending digital services was 67 percent, and the percentage recommending in-branch service was 52 percent.

Results of the Small Business Survey 2024

Figure 6.14 Recommending the bank

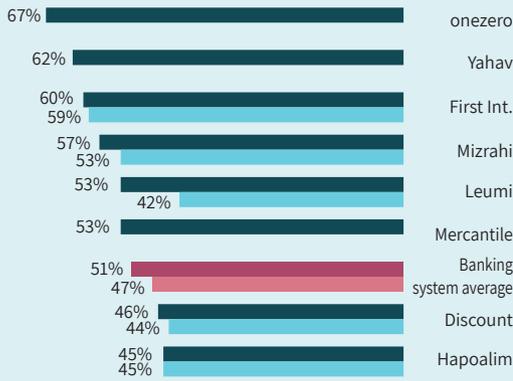


Figure 6.15 Satisfaction with the app - Small Buseiness

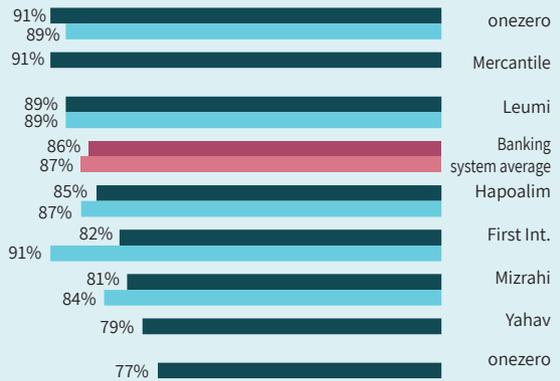


Figure 6.16 Satisfaction with the help desk

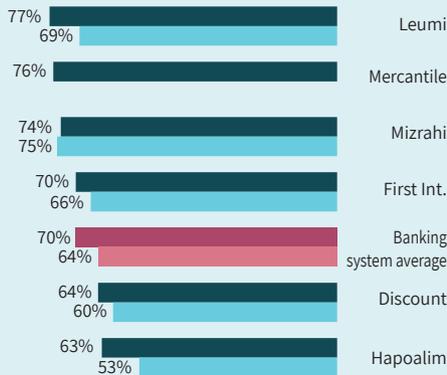
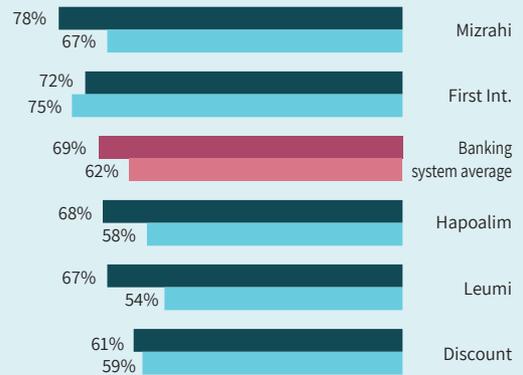


Figure 6.17 Satisfaction with service in the branch



2024 ■ 2023 ■

Source: Rusinek Institute.

The survey findings are presented to relevant parties within the banks with the goal of ensuring that the necessary lessons are learned.

As an **interim summary** of the Banking Supervision Department's activities in recent years in the area of customer service quality and availability in the banking system, it can be said that establishing a binding normative framework for customer service and support, publishing public satisfaction survey results, clearly broadcasting supervisory expectations, and providing individual feedback to the banking system have made a significant contribution to the initiation of deep-rooted processes toward improved service in the banking system. They have also given practical validation to the importance of this issue for the benefit of the public and in encouraging competition. From a system-wide perspective, there has been a noticeable expansion in the service channels offered to customers and in the availability of banking services, along with efforts aimed at further promoting and developing the area of customer service and support. The Banking Supervision Department will continue to monitor and ensure that the banking system operates in accordance with its expectations and improves service quality and conduct with respect to fairness, service, and support. This will be accomplished using a variety of supervisory tools, including ongoing assessment of public sentiment through customer satisfaction surveys.

Box 6.5

Steps taken by the Banking Supervision Department to regulate the prices of banking services in securities

- Customer activity in securities is a significant focus of activity in the Israeli economy. The banking system plays an important role in this activity by providing the infrastructure for brokerage services in securities trading on behalf of customers.
- This box reviews customer activity in the banking system in securities and its characteristics, offers several tips for customer behavior, and describes the regulatory framework applied to banks in the pricing of banking services in securities. This includes, among other things, the compensation models used for customer trading, while also addressing compensation models in the nonbank sector.
- We will describe the main regulatory developments in securities activity promoted by the Banking Supervision Department over the years to achieve the goal of fairness, by means of increasing transparency in service pricing and strengthening the power and position of the customer.
- The box also describes a recent Call for Comments with respect to compensation mechanisms for services provided in securities trading.

Introduction

One of the strategic goals set by the Banking Supervision Department is to establish a culture of fairness in bank-customer relations (for further details, see Box 6.4; Proper Conduct of Banking Business Directive 501). In this context, emphasis is also placed on the conduct of the banking system in securities activity by individual customers and small businesses, including aspects of fairness in the mechanisms for setting fees and prices for the services provided to customers. This is in light of the fact that for customers active in securities trading, it is a significant field of activity, in which the banking system plays an important role in providing the infrastructure for brokerage services in securities trading.

This box reviews customer activity in the banking system in securities and its characteristics, offers several tips for customer management, and outlines the regulatory framework applied to banks in the area of pricing of securities activity, which establishes, among other things, the compensation models used for customer activity. Compensation models in the nonbank sector will also be addressed. In addition, we will describe the main developments in regulation in the area of securities activity—in compensation mechanisms and disclosure requirements—promoted by the Banking Supervision Department over the years to achieve the goal of fairness, by means of increasing transparency in service pricing and strengthening the power and position of the customer. The box will also describe a

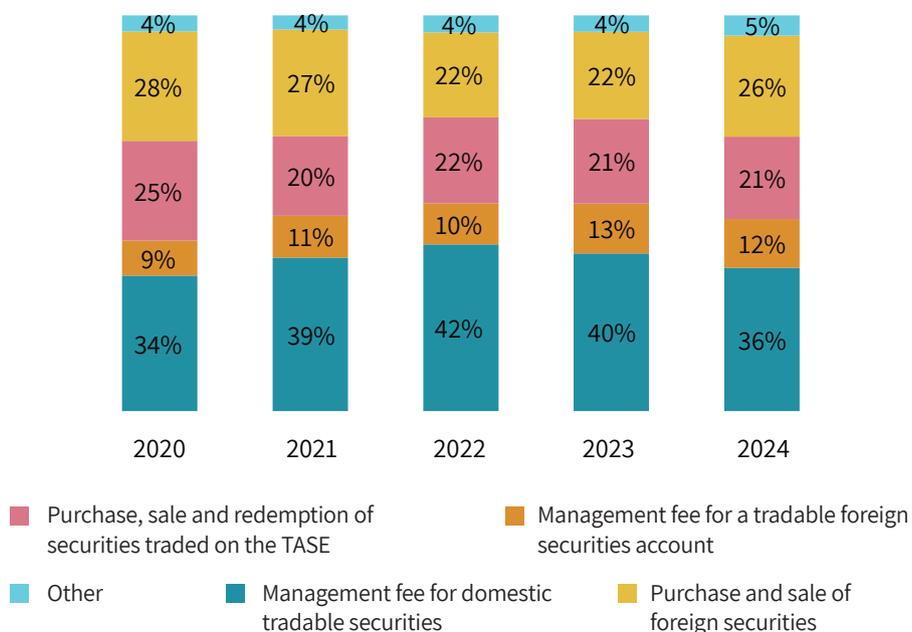
recent Call for Comments regarding the compensation mechanisms for services provided in securities trading.

Customer activity in securities and its characteristics

In 2024, the banking system’s income from fees for securities trading collected from individual customers totaled NIS 1.56 billion, representing an increase of approximately 14.7 percent in income as compared to 2023. The increase stems from a rise in public activity in securities, such that in 2024, there was a 22 percent increase in the total value of securities portfolios held at banks, as well as a 4.2 percent increase in total trading volumes on the stock exchange (including banks and nonbank exchange members). Trading volumes this year reached a total of NIS 1.97 trillion, compared to NIS 1.89 trillion in 2023 (Figure 6.19). The increase occurred across almost all types of securities.

The revenues from securities collected from households and private banking can be divided between buying, selling and redemption fees and, at the same time, management fees for securities accounts.

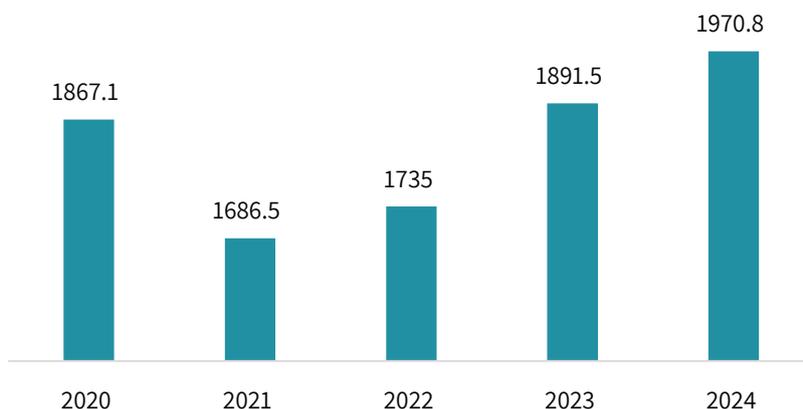
Figure 6.18 Breakdown of revenue from securities by type of fee; households and private banking | percent



Source: Based on published financial statements.

In 2024, there was an increase in trading volumes on the stock exchange relative to previous years.

Figure 6.19 Annual trading volume in securities, fixed prices, 2020 - 2024 | NIS billion



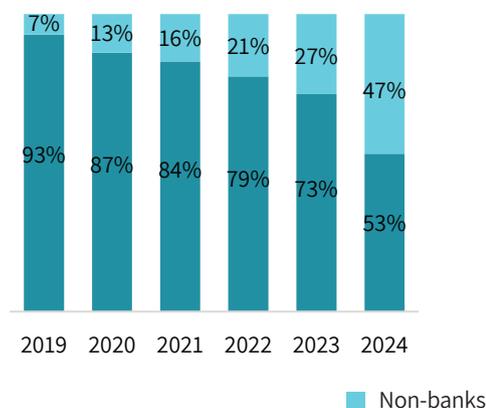
Source: TASE including transactions on the exchange and outside the exchange. Includes shares, government bonds, non-government bonds and Makam.

According to data from the Tel Aviv Stock Exchange (hereinafter: the TASE), the majority of securities accounts are held at banks. Thus, approximately 70 percent of all accounts with balances of up to NIS 5 million are at the banks, with the remainder held at nonbank exchange members, which reflects the dominance of banks in the market. However, in recent years, we have observed the beginning of a trend toward opening trading accounts with nonbank entities. This trend is a result of changes in customer behavior patterns since the COVID-19 pandemic, shifting customer preferences, and various business developments. It is also supported by technological improvements that have made it easier to, among other things, open a securities account with nonbank TASE members. Of all new accounts opened in the past year, 47 percent were opened with nonbank members, compared to only 7 percent in 2019 (see Figure 6.20 and 6.21). To complete the picture, it should be noted that a small number of securities accounts are managed by independent brokers who are not exchange members and who allow their clients to trade on platforms that operate directly with foreign stock exchanges.

In recent years, there has been an increase in the proportion of nonbank accounts.

Figure 6.20

Proportion of accounts in bank and non-banks, 2019–24 | percent

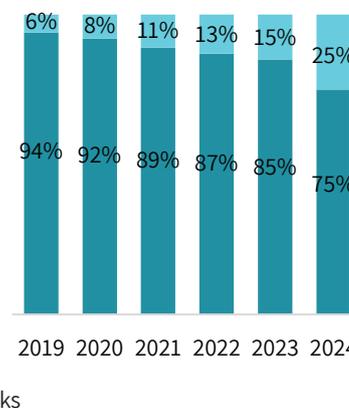


The data include only accounts in which there was some activity on the TASE and whose trading volume is up to NIS 5 million annually.

Source: TASE

Figure 6.21

Proportion of new accounts opened at banks and non-banks, 2019–2024 | percent



The data include only accounts in which there was some activity on the TASE.

The regulatory framework that applies to the banks with respect to the pricing of banking services in securities activity

For banks, there is a broad and comprehensive regulatory framework consisting of primary and secondary legislation, including Proper Conduct of Banking Business directives regarding risk management and capital adequacy, corporate governance, and regulation of bank-customer relations. This includes disclosure requirements regarding transactions and periodic reporting, the quality of banking services, etc. This body of laws and guidelines establishes a strict and rigorous supervisory framework for the banks.

In the area of banking service pricing, there is an explicit, clear, and binding regulatory framework regarding the types of fees and the permissible fee mechanisms. Section 9i of the Banking (Service to the Customer) Law, 5741-1981, grants the Governor of the Bank of Israel the authority, after consultation with the Advisory Committee, to establish a list of services for which a banking corporation is permitted to charge fees, and the method of calculating the fees that may be charged for these services to individual customers and small businesses.¹ Accordingly, the Governor has exercised this authority and issued the Banking (Service to the Customer) (Fees) Rules, 5768-2008, (hereinafter: the “Fees Rules”),

¹ A small business is defined in the Banking (Customer Service) (Fees) Rules, 5768–2008.

which include a list of services for which a banking corporation can charge fees, as described in the first addendum to the Fees Rules (hereinafter: “the full fee schedule”). The rates for the various services are determined by each banking corporation according to its discretion and are published as part of its fee schedule.

Part 4 of the full fee schedule in the Fees Rules, which is entitled “Securities,” describes the banking services in securities, the types of fees that a banking corporation is permitted to charge for these services, and the method of their collection. Accordingly, there are two main types of fees that customer can be charged by banking corporations for securities activity:

- a. **Purchase, sale, and redemption fees** – These fees are charged for executing a transaction in the capital market² according to asset type, such as Israeli vs. foreign securities³, ETFs, index funds, and Maof options. The fee mechanism is set as a percentage of the transaction value, alongside a minimum and maximum fee that are fixed amounts. Fees vary according to the type of asset involved in the transaction.
- b. **Securities account management fees** – These are charged for managing a securities account, which includes custodial and operating costs resulting from capital market trading.^{4,5} The securities account management fee is charged for the customer’s holdings in various types of securities, ETFs, and index funds, excluding money market funds and Makam. The fee mechanism is calculated as a percentage of the value of the securities in the customer’s securities account, subject to a maximum shekel amount, charged quarterly or at time of sale. In cases where banks also provide customers with investment advisory services in securities (since there is no explicit fee for this service, as described above), its cost, among other things, is included in the securities account management fee.

An examination by the Israel Securities Authority (ISA) found that in recent years there has been a decline in the proportion of customers receiving investment advisory services⁶,

² This fee reflects, among other things, the operating costs involved in creating a technological infrastructure that enables buying and selling, including for the following activities: clearing of the security or ETF/index fund through the stock exchange clearing house, registration of securities with the exchange member, and provision of information directly related to the executed transaction, such as security identification, quantity, price, information security, oversight and proper management, etc.

³ In the case of foreign securities, there are additional payments and expenses to cover the bank’s payments to foreign brokers and custodians.

⁴ Including for the following activities: documentation and registration of securities holdings in a manner that ensures the customer’s ownership rights, monitoring stock exchange and company announcements, and handling corporate actions (such as stock splits, mergers, etc.), processing dividend and interest payments, providing daily valuation presentation and data availability for the customer, maintaining cybersecurity systems and an electronic voting system for the end user, tax-related activities, data access, reporting and confirmations, and other operations related to foreign securities.

⁵ For further details on custodial services in Israel’s capital market, see the final recommendations in the report of the Interministerial Committee on the Regulation of Custodial Services in the Israeli Capital Market.

⁶ According to Israel Securities Authority reports on “The activity of advisory systems in the banks,” advisory services are provided in the banks to only about 323,000 advisory accounts. The entry threshold for receiving investment advice varies across the banks and ranges from NIS 50,000 to NIS 500,000, with an increase in recent years in the minimum asset value required to obtain advisory services at a bank.

and that this trend aligns with a general downward trend in advisory services among the banks. The ISA notes that, in general, most investment advisory services are provided almost exclusively by the banking system, despite there not being a legal barrier preventing nonbank or non-exchange member entities from obtaining an investment advisory license.⁷

It should be noted that the Fees Rules do not permit banks to charge customers a direct fee for advisory services. As a result, there is no direct financial incentive for banks to offer investment advisory services. In addition, providing advisory services without charging an explicit and transparent fee makes it difficult to position the advisory service as a distinct value proposition for investors. Moreover, this may delay the launch of alternative advisory service models tailored to customer needs (such as one-time advice, digital or hybrid advice), which could be priced accordingly. It is also likely that this constitutes a major entry barrier for potential new players who cannot subsidize this activity through fees linked to other services and who may struggle to compete with banks by charging an explicit fee for advisory services when banks do not charge such a fee directly. Furthermore, the current revenue model, in which there is no specific and separate advisory fee, leads to most customers being unaware that payment for the advisory component is embedded in the securities account management fee, even if they do not actually use the service. This increases the lack of transparency for the customer and raises concerns about potential cross-subsidization between customers who receive advisory services and those who do not. Additionally, the lack of transparency prevents all customers from having the option to choose or negotiate.

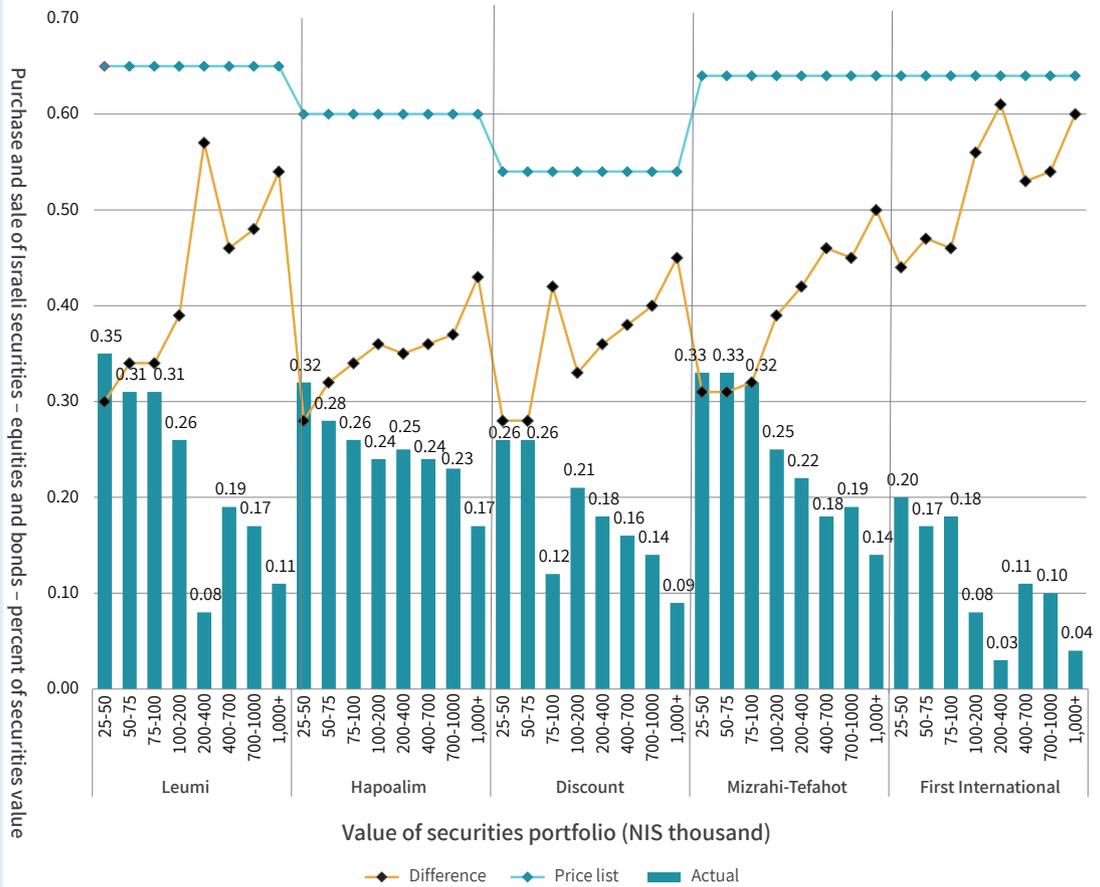
Comparison of fees for securities activities in practice and the fee lists published by the banks

With regard to the pricing of banking services, it should be noted that there are significant gaps between the fee rates published in the banking corporation's official fee schedule and the actual prices charged to customers for the two main services involved in managing a securities account. In general, there is a positive correlation between the value of the securities portfolio and the discount granted to the customer; in other words, the larger is the portfolio, the lower will be the actual fee rate. The existing gaps between the listed rate and the actual rate charged make it difficult for customers to estimate the cost of managing a securities portfolio, thus hindering their ability to compare between market players. As mentioned above, the inclusion of advisory costs within the securities account management fee obscures the actual price charged for the service. Below are the relevant data of the Banking Supervision Department:

⁷ According to the Israel Securities Authority report on "The activity of advisory services in the banks – 2023," about 93% of all licensed investment advisors are employed by nine banks.

There is a connection between the size of a securities account and the purchase and sale fees and there are additional explanatory variables, such as number of trades carried out by the customer.

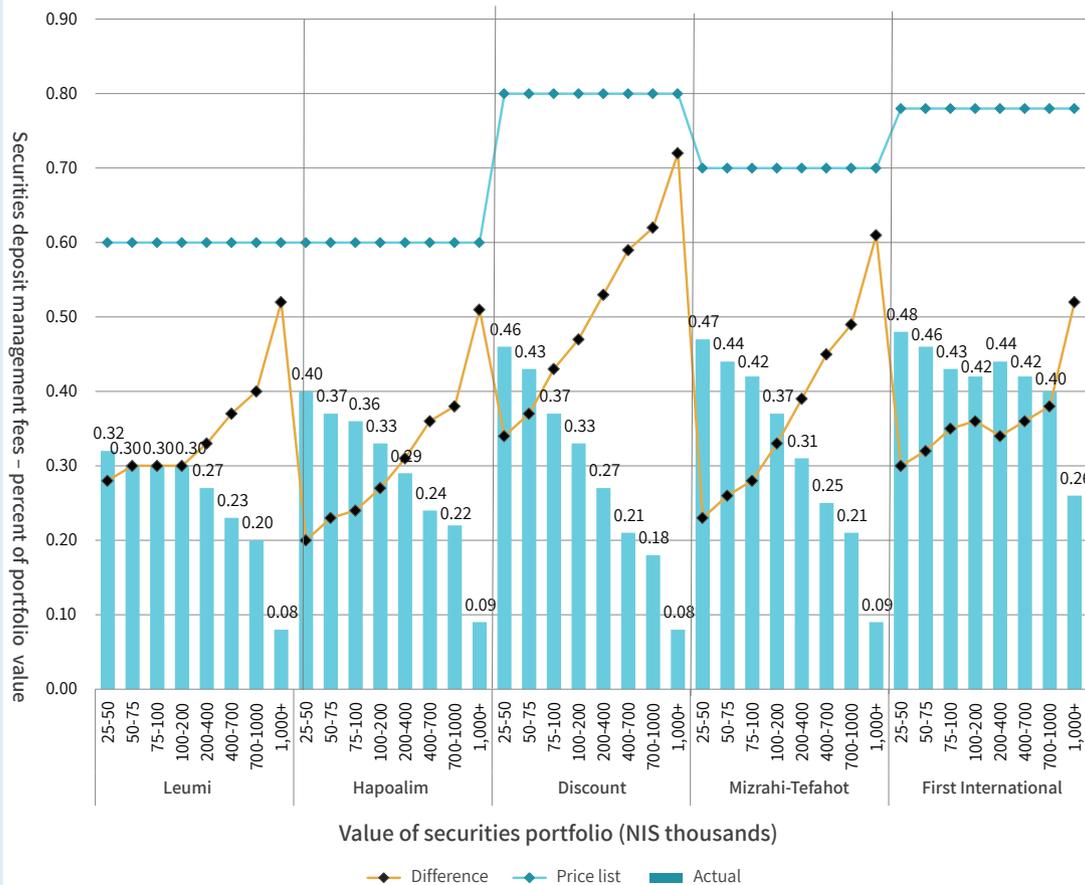
Figure 6.22 Comparison of fees for purchase, sale and redemption of Israeli securities – shares and bonds for the five banking groups by portfolio value categories, actual vs price list, 2024 | percent



Source: Reports to the Banking Supervision Department

The securities account management fee in practice declines as the value of the securities account increases.*

Figure 6.23 Comparison of Israeli management fees – shares and bonds for the five large banks by portfolio value, actual vs. price list, 2024 | percent



* Although the rate of management fees for a securities account declines as the value of the securities increases, the larger the value of the securities account, the less is paid by the customer in nominal terms.

Source: Reports to the Banking Supervision Department.

Tips to the customer in carrying out securities activity:

- It is recommended using the “Trading Fee Calculator” on the TASE website, which compares the rates of different service providers and the actual prices charged, in order to make an informed and wise choice.
- Note that in your discussions with the service provider the size of your portfolio may influence the terms offered.
- Read the quarterly report sent to you by the banks regarding your securities activity. The report includes information about the portfolio’s return, the assets it contains, the transactions performed, and the fees paid.

Key developments in the regulation of securities trading regarding compensation mechanisms and disclosure requirements:

In addition to the framework described above, which clearly and uniformly defines the fee models, there have been developments over the years in the regulation applied to the banks, with the goal of increasing the transparency of service pricing and strengthening the power and position of the customer. Following are the main developments:

- Guidelines and amendments to the Fees Rules, stemming from the report of the working group for promoting competition in the banking sector. The key elements include: enhancing transparency and simplifying the fee collection mechanisms for buying, selling and redemption, as well as for securities account management; setting a regulated price of NIS 5 for transferring a securities account to outside the banking system; defining a timeframe for executing a customer instruction to transfer a securities portfolio; and imposing an obligation on banks to present customers with the range of service prices in practice.
- Since 2018, as part of the law to change the structure of the TASE, the Banking Supervision Department has worked with the TASE to ensure the accuracy of the service prices presented to the public on the TASE's fee calculator, and it also publishes this information in the semiannual fee report submitted to the Knesset, which includes a link to the calculator.⁸
- In 2020, and in light of rapid technological developments in the financial sector, a requirement was added for banks to allow customers to submit an online request to transfer a securities portfolio.
- In 2022, the new Proper Conduct of Banking Business Directive no. 460 – “Presentation of Activity Data in Securities Deposits” came into effect, requiring banks for the first time to present customers with information about the return in their securities account and additional data on the performance of the account, with the goal of supporting informed decision-making regarding the optimal investment channel relative to alternative investment options.

It should be noted that, unlike the regulatory framework applied to banks as described above, brokerage carried out by nonbank exchange members is subject only to the TASE's bylaws⁹, and some of their activities are not supervised or regulated. This includes the definition of chargeable service types, the fee collection mechanisms, and the rules governing the transfer of securities portfolios from one entity to another. Accordingly, each defines for itself the types of services offered¹⁰, the collection mechanisms used, and their pricing.

⁸ [The TASE trading fees](#) [Hebrew]

⁹ Banks are also subject to the Exchange's bylaws since they are exchange members; however, as noted, they are also subject to a large number of specific regulatory requirements.

¹⁰ In general, investment houses do not provide advisory services to their clients.

The differences in the range of services and activities between banks and nonbank exchange members makes it difficult for customers to compare the actual cost between service providers. Moreover, given that the fees themselves differ in their characteristics, frequency of collection, and calculation methods (some are fixed, some are percentage-based, some are ongoing throughout the asset's holding period, and some are trading-based), investors face uncertainty with respect to the expected cost of services, which impairs their ability to easily compare between different entities and products. Although the TASE's fee calculator improves price accessibility for customers, it does not fully reflect the total cost of managing a securities portfolio according to the customer's activity level and portfolio value.

It should be noted that a draft bill entitled the Broker-Dealer Law was recently published for public comment. It will establish regulatory requirements for brokerage activity by nonbank entities under the supervision of the Israel Securities Authority.¹¹ This draft bill is intended to address the identified issues.

Call for public comment – compensation models in securities activity of the public

Following recent professional discussions held by the Banking Supervision Department in light of identified challenges, as well as meetings with external stakeholders, the Bank of Israel has begun promoting an amendment to the Fees Rules. As part of a consultation process with the Israel Securities Authority, and in line with the Authority's intention to examine aspects of compensation under its jurisdiction, it was decided in February 2024 to establish an interministerial working group comprised of the Bank of Israel, the Israel Securities Authority, and the Budget Department at the Ministry of Finance. The goal of the working group is to conduct an in-depth review of compensation models in the capital market and of banking fees, analyze the various compensation components, promote competition among market participants, and develop a comprehensive and forward-looking solution that will serve the interests of all customers and market players.

On November 12, 2024, the working group published a "Call for Comments" which outlines the main problems and challenges in the current fee mechanisms, with respect to both the fees charged directly to investors, the distribution fees collected by mutual fund distributors from mutual fund managers, and the costs charged by financial asset creators (costs charged by mutual fund managers). All of the aforementioned affect investor behavior and the various forms of interaction between market players.

The working group invited the public to share their views and submit proposals for modifying the mechanisms described. In particular, the working group sought public input on the following issues: With respect to the securities account management fee mechanism, the public was asked whether the fee should be calculated as a fixed shekel amount or as

¹¹ Draft Securities (Regulation of Broker-Dealer Activity) Law 2024 – [link](#). [Hebrew]

a percentage of the value of the securities, and whether a tiered fee structure based on portfolio size would be appropriate.

Regarding investment advisory services, the working group requested the public's views on whether there are barriers preventing customers from accessing advisory services, whether it is appropriate to allow banks to charge customers a direct fee for investment advice, and, if so, what the appropriate fee model should be.

The team is currently compiling public responses and formulating its recommendations.¹² The Banking Supervision Department will continue to monitor customer activity in the area of securities, including compensation mechanisms and pricing of services, for the benefit of the banking system's customers.

¹² In parallel, the interim recommendations of the Committee to Reduce Regulatory Arbitrage in Investment and Saving Vehicles were published. They have implications for certain aspects of the issues mentioned in the Call for Comment.

Box 6.6

Information technology, information security, and cybersecurity risk in a banking corporation

- In recent years, several international regulators, including APRA in Australia, EBA in Europe, and MAS in Singapore, have issued updated regulations for managing information technology (IT) risks.
- Information technology is now the foundation of the business operations and development of banking corporations and is defined as an enabling factor in the financial sector. However, the rapid changes in the technological environment and the increasing reliance on IT may raise the risk to the stability of banking corporations.
- Accordingly, the Banking Supervision Department decided on principle-based regulation that is suited to both existing and future IT risks, including those associated with quantum computing. This was accomplished by means of Proper Conduct of Banking Business Directive no. 364 – “Management of Information Technology, Information Security, and Cybersecurity Risks” (hereinafter: “the directive”).
- The directive requires banking corporations to implement a comprehensive process to identify and map all business activities and information assets, including those managed by third parties. It also introduces, for the first time, the concept of “operational resilience” and requires the implementation of information assets in a way that will help the banking corporation identify risks that may impair its operational resilience.
- The directive emphasizes the role of the human factor in mitigating IT risks and calls for the introduction of training programs. In addition, it expands on the monitoring of IT systems and mandates the establishment of policies and procedures for identifying emerging issues and anomalies.
- The Banking Supervision Department has determined an 18-month time period for preparation, during which banking corporations are required to conduct a gap-mapping survey and formulate a work plan to close the identified gaps. The Banking Supervision Department will closely monitor the progress of the banking corporations in implementing the directive, which will go into effect in May 2026.
- The Banking Supervision Department’s expectation is that the implementation of the new directive will promote sound and effective IT management within banking corporations and reduce the occurrence of technological risk events.

In recent years, several international regulators have issued updated regulations for the management of information technology (IT) risks, including the Australian regulator (APRA), which has published regulations on information security; the European regulator (EBA), which has issued guidelines on ICT and security risk management; and the Singaporean

regulator (MAS), which has published technology risk management guidelines. These regulations are based on the widely accepted classification framework that defines IT risks as including, among others, information security risks, with cyber risk being the main and most significant of these (see Figure 6.24 below).

Information technology is now the foundation of the business operations and development of banking corporations and is defined as an enabling factor in the financial sector. The technological environment in which the banking system operates is evolving rapidly, and the reliance on the IT infrastructure within banking corporations, as well as its complexity, have been increasing in recent years. Consequently, IT risks may constitute, among other things, a significant risk to the stability of the banking corporation, potentially even threatening its continued existence.

IT risks share many common aspects. Therefore, in line with international regulation and based on a forward-looking perspective, the Banking Supervision Department has determined that regulating various types of IT risks across multiple Proper Conduct of Banking Business directives—most of which are rule-based, as has been the practice until now—is no longer appropriate in the current technological environment. Instead, the Banking Supervision Department has decided that a unified, principle-based regulatory framework is required, one that is suitable for all types of IT risk. This framework will serve as a consistent foundation for managing all technological risks in a technology-neutral manner, while providing the banking corporation with flexibility to manage risk in accordance with evolving technologies and changing threats, including the corporation’s own specific threat landscape.

A principle-based directive places increased responsibility on banking corporations, requiring them to exercise the required level of caution and to continually improve their existing risk management framework to align with the dynamic technological environment in which they operate, as well as with the continually evolving threat landscape.

Accordingly, the Banking Supervision Department has decided to issue a new unified directive¹, which replaces the three existing directives that currently serve as the foundation for the management of IT risks.² This directive was written so that the principles it outlines will also apply to new IT risks that may arise in the future as a result of technological progress, such as those associated with quantum computing.

At the same time, specific aspects of certain types of IT risk will continue to receive specific regulatory attention. For example, unique aspects of information security risk—including cyber risk—are addressed in designated chapters and provisions within the directive.

¹ [Directive 364: “Management of IT, information security and cybersecurity risk”](#). [Hebrew]

² Directive 357: Information Technology Management, Directive 361: Cyber Defense Management, and Directive 363: Supply Chain Cyber Risk Management.

Likewise, issues related to risks stemming from cloud computing are addressed in a separate Proper Conduct of Banking Business directive.

The directive requires banking corporations to implement a comprehensive process to identify and outline all business activities, the processes that support them, and, for the first time, the bank's information assets, including those managed by third parties, whether on the corporation's premises or outside them. Banks must classify these information assets in terms of criticality and sensitivity, assess the IT risks affecting them and define and implement the necessary measures, including appropriate controls or process adjustments needed to mitigate the identified IT risks.

The directive requires the banking corporation to manage the risks arising from information assets managed by third parties—whether on or off its premises—according to the criticality and sensitivity of the asset itself, regardless of the materiality of the third party or the materiality of the activity conducted through the third party. This requirement updates the current regulatory approach, which links IT risk management to the materiality of the third party, rather than to the information asset's criticality and sensitivity.

The directive also introduces, for the first time, the definition of “operational resilience” in banking corporations. It requires that the implementation, use, and protection of information assets be carried out in a way that enables the banking corporation to identify and detect risks that may impair its operational resilience, enhance its ability to handle disruptions or failures, and streamline the flow of information and reporting to relevant parties, thus enabling effective decision-making during such disruptions or failures.

The directive emphasizes the human factor in preventing information technology risks and requires the implementation of training programs for new technologies and products, training for new employees, periodic training to refresh the knowledge of current employees, and programs for training and raising awareness on information security topics.

The directive expands on the monitoring of the IT system and addresses the policies, procedures, and measures that the banking corporation must establish in order to identify emerging issues and anomalies, with the goal of preventing them from developing into information security incidents and for the first time, also to prevent them from developing into technological failure incidents.

The directive and the terms defined within it will serve in the future as a unified basis for various supervisory guidelines on IT matters, including Proper Conduct of Banking Business directives on specific IT topics, should such directives be published.

The Banking Supervision Department attributes great importance to laying a solid and appropriate foundation for implementing the directive, which will help banking corporations prepare for the challenges arising from the rapid and frequent changes in the technological environment and from their growing reliance on information technology. Accordingly,

and due to the directive's complexity and its critical role in a banking corporation's risk management processes, the Banking Supervision Department has set an implementation period of 18 months. During this period, banking corporations are required to take a number of steps, including conducting a gap analysis based on the directive's requirements and establishing an appropriate work plan to close those gaps. This work plan must be completed by the effective date of the directive. In addition, they are required to allocate adequate resources for this purpose.

The Banking Supervision Department will continue to closely monitor the progress of banking corporations in implementing the directive and will assess their expected compliance by its effective date.

The Banking Supervision Department's expectation is that the implementation of the new directive will promote sound and effective information technology management in banking corporations and reduce incidents where technological risks materialize and impair the confidentiality, integrity, or availability of information assets, while providing the banking corporation with the flexibility to manage risk in accordance with evolving technologies, changing threats, and its own specific threat profile.

Figure 6.24 – Taxonomy structure



Box: 6.7

Opening and management of bank accounts for financial entities

- In recent years, the Banking Supervision Department has worked to promote fairness, innovation, and competition in the financial system by, among other things, regulating the activities of banking corporations in their interaction with nonbank financial entities (including financial service providers and payment companies) and by removing barriers to their entry into the financial system.
- In addition to regulatory measures, additional oversight and supervisory measures have been adopted in order to facilitate the operations of financial entities within the banking system. In addition, reporting obligations have been imposed on banking corporations regarding the opening and management of accounts for financial entities, with the goal of strengthening monitoring and supervision of these accounts.
- The activity of financial service providers is still considered to be high-risk with respect to money laundering and terrorism financing, and this concern has resulted in increased requirements for due diligence and in-depth knowledge of customers when opening and managing their accounts. This is in addition to enhanced monitoring of activities in their accounts.
- Banking corporations' reports to the Banking Supervision Department indicate that most refusals to open accounts for financial entities stem from considerations of money laundering risk management or from the financial entity's lack of cooperation in providing required information. This is in addition to delays, usually due to the required submission of additional documents or requests for clarifications.
- The Banking Supervision Department uses additional tools to examine the management of accounts of financial entities, including handling individual inquiries received from the public and examining broader issues regarding the management of accounts of financial entities that may arise from these inquiries.
- The Banking Supervision Department will continue to actively follow the conduct of banking corporations in relation to financial service providers and identify barriers in providing services to these customers, while balancing the promotion of service and fairness with the need to manage the risks involved in this activity.

Background

The Banking Supervision Department attributes great importance to promoting financial innovation in Israel. Accordingly, the Banking Supervision Department has in recent years taken a series of steps aimed at encouraging competition and innovation in the Israeli financial system; easing the challenges faced by financial entities, including in their dealings

with the banking system; removing barriers; and encouraging the entry of new players into the fields of banking and payments.

In general, in order to carry out their activities, financial entities, including financial service providers¹ and payment companies², must maintain a checking account with a banking corporation. However, over the years, gaps in the regulation of nonbank financial entities³, along with the obligations of risk management in the context of anti-money laundering and counter-terrorism financing imposed on the banking system, have led to **tension** in the opening of accounts for these entities.

With the definition of licensing and supervisory obligations incumbent upon nonbank financial service providers in Israel, particularly with respect to anti-money laundering, several regulatory measures were adopted with regard to the activity of banking corporations in their interaction with financial service providers. These steps include facilitations requirements for nonbank financial service providers in managing accounts for financial entities, and regulating the requirements—including consumer-related ones—that apply to banking corporations in opening and managing accounts, as described below.

It should also be noted that despite the regulation of licensing and supervisory obligations incumbent on these entities, the financial services sector is still considered to be high-risk in the context of money laundering and terror financing. Accordingly, the activity of financial service providers was assessed in the 2021 National Risk Assessment to be high-risk in terms of money laundering and terrorism financing, partly because the sector is particularly vulnerable to criminal activity and money laundering.⁴ In this context, it is also worth mentioning the explanatory notes to the legislative draft Anti-Money Laundering (Granting supervisory authority over regulated financial service providers to the Israel Money Laundering and Terror Financing Prohibition Authority) Law, 5782-2022, which stated, among other things, that despite the high risk of money laundering in the financial service providers sector, the scope of auditing in the context of anti-money laundering and terrorism financing is insufficient. This situation presents a challenge to other financial entities, such as banking corporations, in managing risk as part of their financial interactions with financial service providers.

¹ A license holder according to the Control of Financial Services (Regulated Financial Services) Law, 5776-2016.

² A payments company is defined in the Regulation of Payment and Payment Initiation Services Law, 5783-2023.

³ For further details, see the recommendations in the 2015 report of the Committee to Examine the Regulation of Currency Service Providers, which proposed the establishment of a regulator that would supervise currency service providers and credit service providers, which were not under supervision at that time.

⁴ According to the document “Validation of the National Risk Assessment in the Area of Anti-Money Laundering – Enforcement Bodies” published by the Israel Money Laundering and Terror Financing Prohibition Authority in November 2021, the financial services sector is particularly vulnerable to criminal activity and money laundering. It also notes that activity related to the providing of financial services is still involved in a large number of cases that come to light. The threat level posed by unlicensed financial service providers and those operating in areas of heightened money laundering risk is rated as high (5), and the risk level posed by financial service providers who have completed the licensing process and do not operate in high-risk areas is rated as high (4.5). The rating scale ranges from 1 to 5, where 1 indicates low risk and 5 indicates high risk.

Therefore, alongside regulatory measures, the Banking Supervision Department also conducts monitoring activities aimed at examining the manner in which accounts are opened and managed for these entities, alongside the quality of risk management required in providing these services.

Regulatory and monitoring measures regarding the provision of banking services to financial entities

With the commencement of regulation of financial service providers⁵ and the application of the anti-money laundering regime⁶ to these companies, the Banking Supervision Department published a letter⁷ in April 2018 requiring the formulation of a policy for opening and managing accounts for financial service providers in the five banking corporations. At a later stage, and to make it easier for these entities to work with the banking system, the Banking Supervision Department published a follow-up letter in May 2021 entitled “The activity of banking corporations with licensed Financial Service Providers”.⁸ The letter required each of the five banking corporations to update its policy on this matter, with an emphasis on the amount of information required from a regulated financial entity for risk management purposes. In addition, and to make it easier for financial entities to open and manage bank accounts, the Banking Supervision Department in 2021 relaxed the obligation imposed on banks to register beneficiaries and holders of the controlling interest in the accounts of regulated financial service providers that hold a license from the Capital Market Authority and are subject to the Anti-Money Laundering and Terrorism Financing Order⁹ (for further details, see Box 3.7 in Israel’s Banking System 2021 entitled “Activities of the Banking Supervision Department regarding compliance and money laundering”).

In addition to the regulatory measures, the Banking Supervision Department took steps to identify problems encountered by financial service providers in opening accounts. In this context, starting in June 2023, banking corporations are required to report to the Banking Supervision Department regarding accounts held by financial service providers according to Reporting Directive 825: “Reporting Exposure to Compliance Risks (Semi-annual).”¹⁰ The report includes, among other things, data on the number of accounts belonging to financial service providers, the number of requests to open an account by financial service providers, the number of approvals and refusals of such requests, and a breakdown of the reasons for refusal.

⁵ The Control of Financial Services (Regulated Financial Services) Law, 5776-2016.

⁶ Anti-Money Laundering Order (Duties of Identification, Reporting and Record-Keeping by Providers of Financial Asset Services and Providers of Credit Services for the Prevention of Money Laundering and Terrorist Financing), 2018.

⁷ Letter entitled “**Banking corporations’ activities vis-à-vis customers that are regulated financial service providers and offering coordinators**,” dated April 15, 2018.

⁸ Letter entitled “[The Activity of Banking Corporations with Licensed Financial Service Providers](#),” dated May 23, 2021.

⁹ See Appendix A2 and A3 of Proper Conduct of Banking Business Directive 411 – [Management of Anti-Money Laundering and Countering Financing of Terrorism Risks](#).

¹⁰ Table 6 and 7 in Reporting Directive 825 – [Report on Exposure to Compliance Risk](#) [Hebrew]

In May 2023, the Banking (Service to the Customer) Law, 5741-1981, was amended to include Section 2e, which stipulates that if a banking corporation refuses to provide the service listed in Section 2a(2) of the law to a financial entity¹¹—i.e., opening and managing a current account with a positive balance for itself or for its customers—or does not provide such a service within three months from the date of the initial request by the financial entity, the banking corporation must notify the Supervisor of Banks and explain the reasons for the refusal or delay. This obligation took effect in September 2023 with the goal of strengthening oversight and monitoring of account management in the case of financial entities. Additionally, a temporary order was enacted for a period of five years which requires the Supervisor of Banks to report to the Knesset’s Economic Affairs Committee on the implementation of this provision, including the types of reports received and how they were handled.

In light of the above, Proper Conduct of Banking Business Directive 424 – “Opening and Managing Current Accounts with a Positive Balance for Financial Entities”¹² was published in December 2023. It specifies the requirements applicable to banking corporations when opening and managing accounts for nonbank financial service providers. Among other things, and alongside the obligation to report to the Banking Supervision Department on any refusal or delay in providing the service described in Section 2a(2) of the law (a requirement also anchored in Reporting Directive 824 – “Reporting on Account Opening Requests by Financial Entities”)¹³, consumer-related requirements were also established regarding these accounts. These include the obligation to provide written justification in cases where an account opening request by a financial entity is refused or when the account opening is delayed by more than three months.

In June 2024, and in light of the enactment of the Regulation of Engagement in Payment Services and Payment Initiation Law, 5783-2023, the Banking Supervision Department issued a supervisory letter entitled “Interaction of Banking Corporations with Customers Providing Payment Services”.¹⁴ The letter relaxed requirements in the opening and management of multiple-beneficiary accounts on behalf of customers of payment service providers, as required by law. It also stated that upon the coming into effect of the Anti-Money Laundering Order applicable to payment companies, the Banking Supervision Department will act to provide additional exemptions in managing accounts used for their operations.

¹¹ Regarding the aforementioned paragraph, a “financial entity” is defined as one of the following: a license holder according to the Control of Financial Services (Regulated Financial Services) Law, 5776-2016, or a payments company as defined in the Regulation of Payment Services and Payment Initiation Law, 5783-2023.

¹² Proper Conduct of Banking Business Directive 424 – [Opening a Checking Account with a Positive Balance for Financial Bodies](#) [Hebrew]

¹³ Reporting Directive 825 – [Report on Exposure to Compliance Risk](#) [Hebrew]

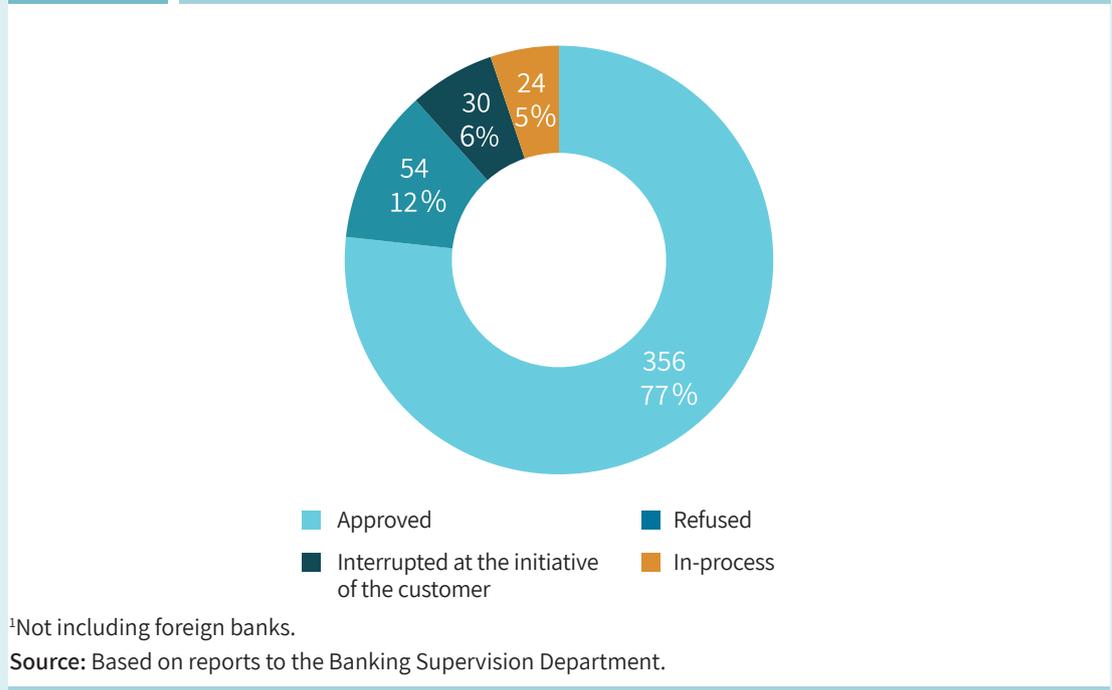
¹⁴ Letter entitled [Interaction of the Banks with Customers who are Payment Service Providers](#), dated June 23, 2024. [Hebrew]

Opening and management of accounts for financial entities

According to data reported to the Banking Supervision Department, as of December 2024 the banking system¹⁵ manages accounts for over 1,800 companies classified as financial service providers.¹⁶ During the years 2023–24, approximately 460 account opening requests were submitted to the banking system, of which 77 percent were approved and 12 percent were denied.¹⁷ (Figure 6.25). These reports also indicate that in most cases, the refusal to open an account stemmed from one of two reasons: a reasonable basis for concern that the activity is linked to money laundering or terrorism financing, or the client’s failure to provide information required to fulfill the provisions of the Anti-Money Laundering Order applicable to banking corporations¹⁸, Proper Conduct of Banking Business Directive 411, or the internal procedures of the banking corporation established pursuant to them.

In 2023–24, 77 percent of the requests to open an account by financial service providers were approved.

Figure 6.25 Breakdown of number of requests to open an account received in 2023–24, by status of request (amount and proportion), total banking system¹ | percent



¹⁵ The entire banking system apart from foreign banks.
¹⁶ For purposes of comparison, according to the Registry of Financial Service Providers maintained by the Capital Market, Insurance and Saving Authority, there are about 1,500 companies providing financial services with a valid license.
¹⁷ The rest were cancelled at the request of the customer or a decision has not yet been made with regard to the request.
¹⁸ Prohibition on Money Laundering (The Banking Corporations’ Requirements regarding Identification, Reporting, and Record-Keeping for the Prevention of Money Laundering and the Financing of Terrorism) Order, 5761–2001.

In this context, it should be noted that in accordance with the provisions of the law, including Proper Conduct of Banking Business Directive no. 411, banking corporations are required, when opening and managing an account, to conduct proper due diligence of the customer on a risk-based approach. As part of managing risk, banking corporations can request information and documentation in order to, among other things, clarify the purpose of opening the account and the expected activity in it. According to Section 50 of Directive 411, a refusal to open and manage an account will be considered reasonable according to the Banking (Service to the Customer) Law in cases where one or more of the following conditions are met: the customer does not provide the required information in accordance with the legal requirements regarding anti-money laundering and the procedures and policies of the banking corporation established according to them, and there is a reasonable basis to suspect that the transaction is related to money laundering or terrorist financing; or if carrying out the “know your customer” procedure would result in a violation of the prohibition set out in Section 12 of the Prohibition of Money Laundering Order that applies to banking corporations.

Based on the individual reports regarding refusals to open accounts received under Section 2(e) of the Banking (Service to the Customer) Law, the Banking Supervision Department found no grounds to intervene in the bank’s decision to refuse to open an account. It also appears that in cases where banking corporations denied a request to open an account, the report included a description of the circumstances, the process of reviewing the request, and the reasons for the decision. This review shows that, in most cases, banks listed several cumulative reasons for the refusal, with the main reasons being concern that the activity of the customer requesting the account was on behalf of another party; the customer’s lack of familiarity with the company’s area of activity; contradictory statements by the customer regarding the company’s activity or the source of the funds; and failure to provide explanations about the source of the funds in the account. In this context, the Banking Supervision Department conducts oversight in relevant cases to ensure that the banking corporations act in accordance with the law.

Regarding delays in providing a response to account opening requests that exceed three months, it appears that in many cases, it is the result of the banking corporation’s request for documents or clarifications due to inconsistencies in the customer’s declaration and a subsequent delay in the customer’s response. In this context, the Banking Supervision Department will investigate and monitor the case to ensure that the banking corporation is acting in accordance with the law.

In addition to its supervisory activity by means of the aforementioned reports, the Banking Supervision Department uses other tools to examine the management of financial entities’ accounts, including handling specific enquiries received from the public and examining broader issues related to the management of accounts for financial entities, which may arise from individual complaints. Based on complaints from the public received by the

Banking Supervision Department, specific deficiencies have come to light concerning the management of accounts for financial entities, such as a blanket refusal to open accounts, unreasonable demands for documents, and complexity and delays in the account opening process. In these cases, the Banking Supervision Department requires the correction of problem, and the complaints were addressed.

If a financial entity encounters problems in the process of opening or managing an account, it can submit a complaint to the Banking Supervision Department, while attaching the response of the banking corporation's public complaints officer.

The Banking Supervision Department will continue to monitor and examine the provision of banking services to nonbank financial entities and to identify obstacles in providing services to these customers. Its goal is to promote customer service, financial innovation, and competition in the banking and payments sectors, alongside effective risk management in all matters related to the providing of services to financial entities.

APPENDICES

APPENDICES

Appendix 1:

Tables

Table 1 | Principal banking system indices, 2015–2024

	Common Equity Tier 1 capital ratio ^a (percent)	Leverage ratio ^b (percent)	"ROE (percent)" ratio ^c	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 deposits (percent)	Annual loan loss provision to total credit to the public (percent)	Herfindahl-Hirschman Index (HHI) ^{e,h}	Average yield spread between bonds of the banks and government bonds ^{f,h} (percentage points)	Ratio of market value to book value ^{g,h} (MV/BV)
2015	9.65	6.34	9.0	66.97	113	4.37	79.26	0.83	0.11	0.2	0.92	0.691986525
2016	10.69	6.53	8.1	66.89	138	2.61	77.63	0.81	0.10	0.2	0.82	0.829808214
2017	10.90	6.67	8.7	65.09	126	3.54	77.06	0.81	0.14	0.2	0.71	0.91023887
2018	10.77	6.76	8.5	64.52	129	3.81	76.36	0.84	0.22	0.2	0.91	0.966566727
2019	11.16	6.91	8.4	61.54	126	4.26	75.28	0.84	0.29	0.2	0.57	0.689773773
2020	11.11	6.22	6.2	58.30	137	7.46	81.30	0.75	0.68	0.2	0.64	0.902380785
2021	10.86	5.83	13.9	54.93	125	13.62	82.77	0.73	-0.25	0.2	0.75	1.159159056
2022	10.86	6.06	16.5	45.95	133	12.34	83.35	0.77	0.10	0.2	0.88	1.02
2023	11.33	6.45	15.6	39.65	137	6.67	83.82	0.79	0.50	0.2	0.87	0.96
2024	11.42	6.65	15.9	39.94	136	8.81	85.45	0.79	0.16	0.2	0.60	1.108867061

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

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

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

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

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

f Average for December of that year.

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

h Calculated for the entire banking system.

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

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

Table 2 | Structure of the Israeli banking system, 2024^a

Bank	Balance sheet data					Direct holdings ^b			Dividends			
	Share of total banking system assets	Share of total bank credit	Number of bank branches ^c	Total assets	Credit to the public	Total deposits by the public	Equity	Holdings by parties at interest ^d	Holdings by institutional investors ^e	Holdings by the public	Dividends distributed	Dividends as a share of net profit
	(Percent)	(Percent)		(NIS million)	(NIS million)	(NIS million)	(Percent)	(Percent)	(NIS million)	(Percent)	(NIS million)	(Percent)
Leumi	29.1	27.1	203	785,551	462,406	618,301	61,663	-	18.6	81.40	2,569	26
Hapoalim	26.7	26.4	225	720,844	450,303	574,285	58,150	0.0	25.9	74.09	2,284	30
Mizrahi-Tefahot	18.0	21.2	150	485,643	362,094	393,383	32,729	41.3	10.2	48.44	1,869	34
Discount	16.2	16.7	186	436,540	285,898	331,999	33,085	-	32.7	67.33	1,153	27
First Int'l	9.2	7.7	181	248,563	131,050	214,755	14,084	48.4	5.1	46.51	989	42
Jerusalem	0.8	0.9	24	22,389	15,661	17,786	1,496	86.7	-	13.34	39	25
Total system	100	100	969	2,699,530	1,707,412	2,150,509	201,207				8,903	30

a Data on the entire banking system are shown on a consolidated basis.

b As of May 2024.

c Regular and fixed branches (excluding partial and mobile ones), at which customer activity takes place, as opposed to performance units and headquarters of the bank itself, which are also defined by the banks as branches.

d "Party at interest" is defined as someone who holds at least 5 percent of the banking corporation's issued share capital or voting power. In addition, reporting on the holdings of parties at interest includes the holdings of the CEO and of directors.

e Holdings of institutional investors above 5 percent of the banking corporation's issued share capital or voting power. Institutional investors are as defined in Regulation 33(f) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

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

Table 3 | Total balance sheet of the Israeli banking system^a, 2022-2024

	In current prices			Rate of change during 2023 (Percent)	Rate of change during 2024 (Percent)	Distribution		
	2022	2023	2024			2022	2023	2024
	(NIS million)					(Percent)		
Assets								
Cash and deposits at banks	538,878	423,143	500,340	-21	18	23	17	19
<i>Of which:</i>								
Cash ^b	505,304	386,604	467,848	-23	21	21	15	17
Deposits at commercial banks	35,532	38,179	34,733	7	-9	1	2	1
Securities	267,341	397,593	377,782	49	-5	11	16	14
<i>Of which:</i>								
Securities provided as collateral to lenders	64,063	60,786	74,444	-5	22	3	2	3
At fair value	213,954	338,035	308,128	58	-9	9	13	11
Securities borrowed or bought under reverse repurchase agreements	5,116	8,790	8,245	72	-6	0	0	0
Credit to the public	1,471,039	1,569,207	1,707,412	7	9	62	63	63
Allowance for credit losses	17,970	23,824	23,843	33	0	1	1	1
Net credit to the public	1,453,070	1,545,383	1,683,569	6	9	61	62	62
<i>Of which:</i>								
Unindexed local currency	1,085,711	1,133,701	1,221,919	4	8	46	45	45
Local currency indexed to the CPI	229,319	252,897	268,914	10	6	10	10	10
Indexed to or denominated in foreign currency	127,066	149,424	187,313	18	25	5	6	7
<i>Of which:</i>								
In dollars	95,206	112,619	145,730	18	29	4	4	5
Nonmonetary items	10,059	9,606	5,774	-5	-40	0	0	0
Credit to governments	7,049	9,589	8,559	36	-11	0	0	0
Investments in subsidiary and affiliated companies	7,445	7,040	6,647	-5	-6	0	0	0
Premises and equipment	12,756	13,722	14,410	8	5	1	1	1
Intangible assets	657	637	640	-3	0	0	0	0
Assets in respect of derivative instruments	68,510	73,679	69,046	8	-6	3	3	3
Other assets	23,606	25,798	30,292	9	17	1	1	1
Total assets	2,384,427	2,505,374	2,699,530	5	8	100	100	100
Liabilities and equity								
Deposits of the public	1,909,015	1,986,173	2,150,509	4	8	80	79	80
<i>Of which:</i>								
Unindexed local currency	1,380,831	1,433,601	1,567,647	4	9	58	57	58

Table 3 (cont.) | Total balance sheet of the Israeli banking system^a, 2022-2024

	In current prices			Rate of change during 2023 (Percent)	Rate of change during 2024 (Percent)	Distribution		
	2022	2023	2024			2022	2023	2024
	(NIS million)					(Percent)		
Local currency indexed to the CPI	55,583	54,905	60,527	10	10	2	2	2
Indexed to or denominated in foreign currency	461,650	481,863	509,149	4	6	19	19	19
<i>Of which:</i>								
Deposits from banks	58,536	50,271	41,756	-14	-17	2	2	2
Deposits from governments	3,910	3,493	3,764	-11	8	0	0	0
Securities lent or sold under repurchase agreements	21,568	32,697	46,455	52	42	1	1	2
Bonds and subordinated notes	107,693	114,705	116,311	7	1	5	5	4
Liabilities in respect of derivative instruments	59,248	72,503	65,334	22	-10	2	3	2
Other liabilities	65,875	66,644	74,194	1	11	3	3	3
<i>Of which:</i>								
Allowance for credit losses in respect of off-balance-sheet credit instruments	2,167	2,440	2,784	13	14	0	0	0
Total liabilities	2,225,844	2,326,487	2,498,323	5	7	93	93	93
Minority interest	2,203	2,625	3,657	19	39	0	0	0
Shareholders equity	156,524	176,262	197,550			7	7	7
Total equity	158,727	178,887	201,207	13	12	7	7	7
Total liabilities and equity	2,384,427	2,505,374	2,699,530	5	8	100	100	100

a On a consolidated basis.

b Including deposits at the Bank of Israel.

SOURCE: Based on published financial statements.

Table 4 | Total securities portfolio of the banking system, December 2023 and December 2024

Securities	Bank Leumi			Bank Hapoalim			Mizrahi-Tefahot					
	31/12/2023		31/12/2024	31/12/2023		31/12/2024	31/12/2023		31/12/2024			
	Book value (NIS million)	Distribution (Percent)	Book value (NIS million)									
Of the Israeli government	95,886	60	65,385	53	84,303	66	80,145	66	19,452	84	23,245	82
Of foreign governments	26,916	17	17,862	14	25,641	20	21,119	17	583	3	1,961	7
Of Israeli financial institutions	481	0	237	0	458	0	732	1	776	3	799	3
Of foreign financial institutions	10,297	6	10,079	8	9,023	7	13,173	11	251	1	138	0
Asset-backed or mortgage-backed securities ^a	15,567	10	17,749	14	0	0	0	0	56	0	56	0
Other - Israeli	982	1	1,159	1	0	0	0	0	1,100	5	1,200	4
Other - foreign	5,002	3	4,441	4	3,264	3	1,802	1	235	1	194	1
Stocks	4,917	3	7,189	6	4,433	3	4,867	4	618	3	898	3
Total securities, all types	160,048	100	124,101	100	127,122	100	121,838	100	23,071	100	28,491	100

^a Mortgage-backed securities (MBS) issued by US government agencies (FNMA, FHLMC and GNMA) are included in the "Asset-backed or mortgage-backed" item whether there is a government SOURCE: Based on published financial statements.

Table 4 (cont.) | Total securities portfolio of the banking system, December 2023 and December 2024

Securities	Discount Bank			First International			Bank of Jerusalem					
	31/12/2023	31/12/2024	31/12/2024	31/12/2023	31/12/2024	31/12/2024	31/12/2023	31/12/2023	31/12/2024			
	Book value (NIS million)	Distribution (Percent)										
Of the Israeli government	39,369	66	45,801	68	14,897	55	21,559	63	698	64	919	69
Of foreign governments	5,423	9	8,039	12	10,407	39	9,483	28	75	7	80	6
Of Israeli financial institutions	99	0	132	0	484	2	1,466	4	75	7	71	5
Of foreign financial institutions	630	1	637	1	509	2	396	1	0	0	0	0
Asset-backed or mortgage-backed securities ^a	9,297	16	8,347	12	0	0	0	0	0	0	0	0
Other - Israeli	287	0	171	0	104	0	248	1	163	15	156	12
Other - foreign	2,160	4	2,238	3	41	0	24	0	0	0	0	0
Stocks	2,003	3	2,269	3	543	2	1,220	4	89	8	96	7
Total securities, all types	59,268	100	67,634	100	26,985	100	34,396	100	1,099	100	1,322	100

^a Mortgage-backed securities (MBS) issued by US government agencies (FNMA, FHLMC and GNMA) are included in the "Asset-backed or mortgage-backed" item whether there is a government SOURCE: Based on published financial statements.

Table 4 (cont.) | Total securities portfolio of the banking system, December 2023 and December 2024

		Total Banking System			
		31/12/2023		31/12/2024	
Securities		Book value	Distribution	Book value	Distribution
		(NIS million)	(Percent)	(NIS million)	(Percent)
Of the Israeli government		254,605	64	237,054	63
Of foreign governments		69,045	17	58,544	15
Of Israeli financial institutions		2,373	1	3,437	1
Of foreign financial institutions		20,710	5	24,423	6
Asset-backed or mortgage-backed securities ^a		24,920	6	26,152	7
Other - Israeli		2,636	1	2,934	1
Other - foreign		10,702	3	8,699	2
Stocks		12,603	3	16,539	4
Total securities, all types		397,593	100	377,782	100

^a Mortgage-backed securities (MBS) issued by US government agencies (FNMA, FHLMC and GNMA) are included in the "Asset-backed or mortgage-backed" item whether there is a government **SOURCE:** Based on published financial statements.

SOURCE: Based on published financial statements.

Table 5 | Transactions in off-balance-sheet financial instruments where the par value reflects credit risk, total banking system, 2022-2024

	End of year balance			Rate of change during 2023	Rate of change during 2024	Distribution		
	2022	2023	2024			2022	2023	2024
	(NIS million)					Percent		
Documentary credit	5,216	2,979	4,411	-42.9	48.1	0.8	0.4	0.5
Credit guarantees	22,671	24,084	27,312	6.2	13.4	3.4	3.3	3.3
Guarantees for home purchases	118,536	105,046	115,481	-11.4	9.9	17.9	14.5	14.0
Other guarantees and liabilities	98,651	99,467	114,286	0.8	14.9	14.9	13.7	13.9
Unutilized credit card facilities	81,795	99,162	108,518	21.2	9.4	12.3	13.7	13.2
Unutilized CLA and other credit facilities in demand accounts	89,669	103,749	107,722	15.7	3.8	13.5	14.3	13.1
Irrevocable commitments to provide credit that has not yet been extended	168,493	189,000	222,679	12.2	17.8	25.4	26.1	27.0
Commitments to issue guarantees	78,582	101,754	123,669	29.5	21.5	11.8	14.0	15.0
Total	663,612	725,241	824,077	9.3	13.6	100.0	100.0	100.0

SOURCE: Based on published financial statements.

Table 6 | Main items in consolidated profit and loss statements, total banking system, December 2022 to December 2024

	Bank Leumi			Bank Hapoalim			Mizrahi-Tefahot Bank					
	2022	2023	2024	Percentage change, December 2024 compared with December 2024	2022	2023	2024	Percentage change, December 2024 compared with December 2024	2022	2023	2024	Percentage change, December 2024 compared with December 2024
Interest income	18,795	33,655	37,462	11.31	19,220	32,971	35,495	7.66	16,195	24,005	25,798	7.47
Interest expenses	5,584	17,658	20,953	18.66	5,753	16,886	18,545	9.82	5,955	12,030	13,984	16.24
Net interest income	13,211	15,997	16,509	3.20	13,467	16,085	16,950	5.38	10,240	11,975	11,814	-1.34
Loan loss provisions	498	2,383	713	-70.08	-34	1,879	693	-63.12	532	1,463	519	-64.52
Net interest income after loan loss provisions	12,713	13,614	15,796	16.03	13,501	14,206	16,257	14.44	9,708	10,512	11,295	7.45
Noninterest income	5,018	5,181	6,599	27.37	4,453	5,297	5,010	-5.42	3,428	2,805	2,907	3.64
of which: Noninterest financing income	1,408	1,279	1,820	42.30	581	1,267	959	-24.31	754	511	574	12.33
of which: Stocks ^a	233	249	275	10.18	210	221	242	9.57	77	83	94	12.54
Bonds ^b	-344	-246	-491	99.59	-137	-569	-779	36.91	38	-138	-25	-81.88
Activity in derivative instruments ^c	7,641	2,926	2,494	-14.76	6,586	4,025	1,191	-70.41	3,815	1,583	342	-78.40
Exchange rate differentials	-7,151	-1,741	-848	-51.29	-5,659	-2,369	-40	-98.31	-3,063	-964	108	-111.20
of which: Fees	3,535	3,737	3,823	2.30	3,705	3,892	3,980	2.26	2,052	2,028	2,060	1.58
Total operating and other expenses	6,835	6,894	6,904	0.15	7,972	8,231	9,007	9.43	6,173	5,569	5,222	-6.23
of which: salaries and related expenses	3,935	3,484	3,796	8.96	4,470	4,577	4,486	-1.99	4,029	3,544	3,431	-3.19
Pre-tax profit	10,896	11,901	15,491	30.17	9,982	11,272	12,260	8.77	6,963	7,748	8,980	15.90
Provision for tax on profits	3,564	3,988	5,422	35.96	3,548	3,930	4,559	16.01	2,356	2,669	3,326	24.62
After-tax profit	7,332	7,913	10,069	27.25	6,434	7,342	7,701	4.89	4,607	5,079	5,654	11.32
Net profit attributed to shareholders	7,709	7,027	9,798	39.43	6,532	7,360	7,635	3.74	4,472	4,910	5,455	11.10
Total pre-tax ROE (percent)	24.03	23.20	26.72		22.55	23.01	22.17		31.30	30.14	30.45	
Total after-tax ROE (percent)	17.00	13.70	16.90		14.75	15.02	13.80		20.10	19.10	18.50	
Total ROA (percent)	1.16	1.00	1.31		1.01	1.09	1.11		1.08	1.13	1.18	

Table 6 (cont.) | Main items in consolidated profit and loss statements, total banking system, December 2022 to December 2024

	Discount Bank			First International			Bank of Jerusalem					
	2022	2023	2024	Percentage change, December 2024 compared with December 2024	2022	2023	2024	Percentage change, December 2024 compared with December 2024	2022	2023	2024	Percentage change, December 2024 compared with December 2024
Interest income	11,700	20,712	22,147	6.93	5,161	9,850	11,097	12.66	907	1,371	1,487	8.50
Interest expenses	3,007	9,776	11,308	15.67	1,358	4,884	6,357	30.16	312	639	784	22.62
Net interest income	8,693	10,936	10,839	-0.89	3,803	4,966	4,740	-4.55	595	732	704	-3.84
Loan loss provisions	407	1,502	702	-53.26	123	502	-16	-103.19	79	133	80	-40.21
Net interest income after loan loss provisions	8,286	9,434	10,137	7.45	3,680	4,464	4,756	6.54	516	598	624	4.26
Noninterest income	4,251	5,138	5,139	0.02	1,611	1,652	2,006	21.43	225	161	211	31.47
of which: Noninterest financing income	417	1,218	1,400	14.94	113	142	432	204.23	77	37	49	31.89
of which: Stocks ^a	117	132	142	7.98	56	61	70	15.81	3	4	4	17.33
Bonds ^b	-8	-255	-37	-85.49	-31	-101	1	-100.99	-4	-1	0	-122.22
Activity in derivative instruments ^c	3,116	2,343	1,006	-57.06	1,616	459	265	-42.27	4	7	3	-62.69
Exchange rate differentials	-2,780	-1,021	9	-100.88	-1,408	-274	-66	-75.91	8	-12	-2	-84.68
of which: Fees	3,404	3,495	3,693	5.67	1,489	1,502	1,553	3.40	117	124	155	25.36
Total operating and other expenses	7,217	7,966	8,329	4.56	2,755	2,877	2,977	3.48	490	546	591	8.18
of which: salaries and related expenses	3,568	3,850	3,880	0.78	1,700	1,766	1,739	-1.53	222	254	260	2.16
Pre-tax profit	5,320	6,606	6,947	5.16	2,536	3,239	3,785	16.86	251	213	244	14.74
Provision for tax on profits	1,806	2,316	2,629	13.51	884	1,090	1,383	26.88	87	76	84	9.57
After-tax profit	3,514	4,290	4,318	0.65	1,652	2,149	2,402	11.77	164	137	161	17.63
Net profit attributed to shareholders	3,495	4,192	4,281	2.12	1,667	2,172	2,371	9.16	163	135	155	14.86
Total pre-tax ROE (percent)	22.98	24.74	23.04		25.25	29.38	30.33		20.71	16.62	17.55	
Total after-tax ROE (percent)	15.10	15.70	14.20		16.60	19.70	19.00		13.80	10.50	11.10	
Total ROA (percent)	0.99	1.08	1.06		0.89	1.00	1.02		0.93	0.66	0.70	

Table 6 (cont.) | Main items in consolidated profit and loss statements, total banking system, December 2022 to December 2024

	Total banking system			Percentage change, December 2024 compared with December 2024
	2022	2023	2024	
Interest income	71,978	122,564	133,486	8.91
Interest expenses	21,969	61,873	71,931	16.26
Net interest income	50,009	60,691	61,556	1.43
Loan loss provisions	1,605	7,862	2,691	-65.78
Net interest income after loan loss provisions	48,404	52,828	58,865	11.43
Noninterest income	18,986	20,234	21,872	8.10
of which: Noninterest financing income	3,350	4,454	5,234	17.51
of which: Stocks ^a	695	749	827	10.37
Bonds ^b	-486	-1,310	-1,331	1.60
Activity in derivative instruments ^c	22,778	11,343	5,301	-53.27
Exchange rate differentials	-20,053	-6,381	-839	-86.85
of which: Fees	14,302	14,778	15,264	3.29
Total operating and other expenses	31,442	32,083	33,030	2.95
of which: salaries and related expenses	17,924	17,475	17,592	0.67
Pre-tax profit	35,948	40,979	47,707	16.42
Provision for tax on profits	12,245	14,069	17,403	23.69
After-tax profit	23,703	26,910	30,305	12.62
Net profit attributed to shareholders	24,038	25,796	29,695	15.11
Total pre-tax ROE (percent)	24.59	24.83	25.54	
Total after-tax ROE (percent)	16.44	15.63	15.90	
Total ROA (percent)	1.05	1.06	1.16	

a Includes the profits/losses from investments in shares available for sale, profits from the sales of shares of affiliated companies, dividends and profits/losses from adjustments to fair value of tradable shares.

b Includes the profits/losses from investments in bonds held to maturity and available for sale and income/expenses realized and not yet realized from adjustments to fair value of tradable bonds.

c Includes derivative instruments not intended for hedging purposes (ALM instruments) and other derivative instruments.

SOURCE: Based on published financial statements.

Table 7 | The effect of quantity^a and price^b on interest income and expenses, total banking system, 2023-24
NIS million

	2024								
	Quantity effect			Price effect			Net change		
	Assets side	Liabilities side	Net quantity effect	Assets side	Liabilities side	Net quantity effect	Assets side	Liabilities side	Contribution to net interest income
Credit to the public (assets) / deposits of the public (liabilities) in Israel	5,211	6,461	-1,250	199	1,915	-1,717	5,409	8,376	-2,966
Credit to the public (assets) / deposits of the public (liabilities) abroad	755	487	268	193	278	-85	948	765	183
Total credit to the public / deposits of the public	5,966	6,948	-982	392	2,193	-1,802	6,357	9,141	-2,783
Other interest-bearing assets / liabilities in Israel	2,281	-533	2,814	2,075	1,446	629	4,356	913	3,443
Other interest-bearing assets / liabilities abroad	38	-	38	171	4	167	209	4	205
Total other interest-bearing assets / liabilities	2,319	-533	2,852	2,246	1,450	796	4,565	917	3,648
Total interest income / expenses	8,285	6,414	1,871	2,637	3,643	-1,006	10,923	10,058	865
	2023								
	Quantity effect			Price effect			Net change		
	Assets side	Liabilities side	Net quantity effect	Assets side	Liabilities side	Net quantity effect	Assets side	Liabilities side	Contribution to net interest income
Credit to the public (assets) / deposits of the public (liabilities) in Israel	7,749	11,332	-3,583	22,604	24,729	-2,125	30,353	36,062	-5,708
Credit to the public (assets) / deposits of the public (liabilities) abroad	413	659	-246	1,764	1,627	137	2,177	2,286	-109
Total credit to the public / deposits of the public	8,162	11,991	-3,829	24,368	26,356	-1,988	32,530	38,348	-5,817
Other interest-bearing assets / liabilities in Israel	-756	1,076	-1,832	17,495	462	17,032	16,739	1,538	15,201
Other interest-bearing assets / liabilities abroad	397	1	396	920	18	902	1,317	19	1,298
Total other interest-bearing assets / liabilities	-359	1,077	-1,436	18,415	480	17,934	18,056	1,557	16,499
Total interest income / expenses	7,803	13,068	-5,265	42,783	26,837	15,946	50,586	39,905	10,682

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

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

SOURCE: Banking Supervision Department based on published financial statements.

Table 8 | Average balances, interest income and expense rates, and interest rate gap in respect of assets and liabilities, total banking system, December 2023 to December 2024 (NIS million, percent in annual terms)

December 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	1,567,092	100,581	6.38	Deposits of the public	1,534,571	-63,663	-4.15	2.27
Deposits at banks	30,590	1,339	10.93	Deposits from banks	26,125	-883	-3.38	1.00
Deposits at central banks	359,553	16,200	3.62	Deposits from central banks	17,539	-173	-0.99	3.52
Bonds	357,317	14,491	3.44	Bonds	114,867	-5,064	-4.41	-0.35
Other assets ^a	18,927	875	4.48	Other liabilities ^a	39,568	-2,148	-5.43	-0.80
Total interest-bearing assets	2,333,479	133,486	5.57	Total interest-bearing liabilities	1,732,669	-71,931	-4.15	1.57
Net yield on interest-bearing assets (net interest margin)^b	2,333,479	61,556	2.64					
December 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	1,475,774	94,224	6.38	Deposits of the public	1,369,049	-54,522	-3.98	2.400
Deposits at banks	34,239	1,318	3.85	Deposits from banks	26,419	-734	-2.78	1.070
Deposits at central banks	321,246	14,354	4.47	Deposits from central banks	29,771	-18	-0.06	4.410
Bonds	342,543	11,951	3.49	Bonds	112,459	-4,444	-3.95	-0.460
Other assets ^a	16,002	717	4.48	Other liabilities ^a	42,371	-2,156	-5.09	-0.609
Total interest-bearing assets	2,189,804	122,564	5.60	Total interest-bearing liabilities	1,580,070	-61,873	-3.92	1.677
Net yield on interest-bearing assets (net interest margin)^b	2,189,804	60,690	2.77					

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

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

SOURCE: Banking Supervision Department based on published financial statements.

Table 9 | Unit output cost^a and efficiency ratio^b of the total banking system, 2020-2024
(percent)

	Year	Leumi	Hapoalim	Mizrahi-Tefahot ^{c,d}	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	1.48
	2022	1.01	1.22	1.50	2.03	1.46	2.74	1.38
	2023	0.96	1.22	1.27	2.06	1.38	2.68	1.33
	2024	0.91	1.28	1.12	2.00	1.27	2.67	1.28
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	54.7
	2022	37.5	44.5	45.2	55.8	50.9	59.8	46.0
	2023	32.6	38.5	37.7	49.6	43.5	61.2	40.1
	2024	29.9	41.0	35.5	52.1	44.1	64.6	39.9

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

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

SOURCE: Based on published financial statements.

Table 10 | Expenses in Respect of Employees^a, Total Banking System, 2008–24,
(reported amounts^b, current prices)

Year	Average number of employee posts ^c	Salaries		Related expenses in respect of employees ^d		Salaries and related expenses	
		Total	Per employee post	Total	Per employee post	Total	Per employee post
		(NIS million)		(NIS million)		(NIS million)	
2008	48,345	9,316	193	5,914	122	15,230	315
2009	48,685	9,989	205	4,517	93	14,506	298
2010	49,458	10,704	216	5,562	112	16,265	329
2011	50,084	11,116	222	6,213	124	17,330	346
2012	49,821	11,284	226	6,647	133	17,931	360
2013	49,445	11,767	238	6,577	133	18,344	371
2014	48,787	11,505	236	5,868	120	17,373	356
2015	47,648	11,964	251	4,966	104	16,929	355
2016	45,810	11,255	246	5,211	114	16,466	359
2017	43,138	11,244	261	5,283	122	16,526	383
2018	40,866	11,474	281	4,928	121	16,402	401
2019	39,793	11,037	277	5,081	128	16,118	405
2020	37,696	10,124	269	5,152	137	15,277	405
2021	37,107	11,974	323	5,509	148	17,483	471
2022	37,115	12,553	338	5,486	148	18,039	486
2023	36,864	11,971	325	5,655	153	17,626	478
2024	36,567	11,932	326	5,792	158	17,724	485
Change from previous year, (percent)							
2008	5.3	-8.0	-12.6	20.9	14.8	1.4	-3.7
2009	0.7	7.2	6.5	-23.6	-24.2	-4.7	-5.4
2010	1.6	7.2	5.5	23.1	21.2	12.1	10.4
2011	1.3	3.9	2.6	11.7	10.3	6.5	5.2
2012	-0.5	1.5	2.0	7.0	7.5	3.5	4.0
2013	-0.8	4.3	5.1	-1.0	-0.3	2.3	3.1
2014	-1.3	-2.2	-0.9	-10.8	-9.6	-5.3	-4.0
2015	-2.3	4.0	6.5	-15.4	-13.4	-2.6	-0.2
2016	-3.9	-5.9	-2.1	4.9	9.1	-2.7	1.2
2017	-5.8	-0.1	6.1	1.4	7.7	0.4	6.6
2018	-5.3	2.0	7.7	-6.7	-1.5	-0.8	4.8
2019	-2.6	-3.8	-1.2	3.1	5.9	-1.7	0.9
2020	-5.3	-8.3	-3.2	1.4	7.0	-5.2	0.0
2021	-1.6	18.3	20.1	6.9	8.6	14.4	16.3
2022	0.0	4.8	4.8	-0.4	-0.4	3.2	3.2
2023	-0.7	-4.6	-4.0	3.1	3.8	-2.3	-1.6
2024	-0.8	-0.3	0.5	2.4	3.3	0.6	1.4

a Beginning in 2017, the data do not include the Isracard group, and include a reclassification of expenses in respect of pension and benefits after the end of employment in accordance with the circular published by the Banking Supervision Department in January 2018 on "Improvement of the presentation of expenses in respect of pension and other benefits upon completion of employment." Beginning in 2018, the data do not include Leumi Card.

b Until 2002, the amounts are adjusted for the effect of inflation based on the CPI reading for December 2003.

c The number of employee posts includes employee posts at subsidiary companies abroad and at consolidated companies, as well as a translation of the cost of overtime and budgets for outside manpower required for adjustment of current manpower and and implementation of projects.

d This item mainly includes severance pay, benefits, advanced training funds, pension, vacation, National Insurance payments and payroll tax, other related expenses, voluntary retirement expenses, and benefits due to the allocation of options to employees.

SOURCE: Based on published financial statements.

Table 11 | Number of employee posts and expenses by annual wage level, total banking system, 2023 and 2024

	2023		2024		Annual rate of change in number of employee posts	Annual rate of change in salary expenses
	Number of employee posts ^a	Salaries and related expenses (NIS million)	Number of employee posts ^a	Salaries and related expenses (NIS million)		
Annual wage level of active employees at offices in Israel (NIS thousand)						
Up to 60	29	580	26	1,411	(9.0)	143.3
60–120	956	101,891	862	82,979	(9.8)	(18.6)
120–240	8,990	1,682,168	8,834	1,640,709	(1.7)	(2.5)
240–360	10,014	3,106,967	10,116	3,088,861	1.0	(0.6)
360–600	12,846	6,176,490	12,703	6,030,576	(1.1)	(2.4)
600–1,000	4,301	3,209,183	4,330	3,112,485	0.7	(3.0)
Above 1,000	743	1,152,871	798	1,314,434	7.5	(14.0)
Wage and associated payment components attributed to active employees at offices in Israel	37,878.69	15,430,150	37,670	15,271,453	(0.6)	(1.0)
<i>of which: Expenses for manpower workers, annual wage levels (NIS thousand)</i>						
Up to 120	123	13,613	54	5,648	(56.2)	(58.5)
Above 120	1,969	912,871	1,664	806,630	(15.5)	(11.6)
Wage and associated payment components not attributed to active employees at offices in Israel		2,500,089		2,847,482		
Bank employees at offices abroad	1,141	972,422	1,110	998,871	(2.7)	2.7
Wage expenses capitalized to assets	(1,983)	(1,140,514)	(2,012)	(1,122,816)	1.5	(1.6)
Total	37,037	17,762,147	36,768	17,994,990	(0.7)	1.3

a The number of employee posts is reported on the basis of the monthly average, as reported in the published annual financial statements.

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

Table 12 | Distribution of capital and capital ratios in the banking system, 2023 to 2024

	Leumi		Hapoalim		Discount		Mizrahi-Tefahot		First Int'l		Bank of Jerusalem		Total banking system	
	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024
	NIS million													
Tier 1 capital ^{a,b}	53,892	61,255	52,641	58,165	28,890	32,315	28,434	31,963	12,292	13,666	1,366	1,487	177,515	198,851
Tier 2 capital ^b	14,141	13,372	13,338	14,627	7,870	8,908	8,366	9,097	3,569	2,714	366	370	47,650	49,088
Capital base	68,033	74,627	65,979	72,792	36,760	41,223	36,800	41,060	15,861	16,380	1,732	1,856	225,165	247,938
Credit risk	426,399	460,765	403,897	454,175	245,154	274,535	252,842	282,287	97,053	107,387	11,742	12,463	1,437,087	1,591,612
Total exposures after conversion to credit	711,900	772,471	689,175	738,881	394,221	440,252	458,835	495,017	215,193	240,764	22,467	23,142	2,491,791	2,710,527
Risk weighted average (RWA) ^c	55	54	55	58	58	59	53	55	42	42	51	53	54	55
Market risks	5,834	7,332	4,245	4,407	4,209	5,706	1,957	1,675	886	979	15	24	17,146	20,123
Operational risk	29,943	35,182	29,710	34,181	20,406	22,925	20,641	23,402	10,360	12,477	1,277	1,442	112,337	129,609
Total weighted items	462,176	503,279	437,852	492,763	269,769	303,166	275,440	307,364	108,299	120,843	13,035	13,929	1,566,571	1,741,344
	Percent													
Tier 1 capital ratio	11.7	12.2	12.0	11.8	10.7	10.7	10.3	10.4	11.4	11.3	10.5	10.7	11.3	11.4
Total capital adequacy ratio	14.7	14.8	15.1	14.8	13.6	13.6	13.4	13.4	14.6	13.6	13.3	13.3	14.4	14.2
Minimum required Tier 1 capital ratio	10.2	10.2	10.2	10.2	9.2	9.2	9.6	9.6	9.2	9.2	9.5	9.5	9.5	9.5
Minimum required total capital ratio ^c	13.5	13.5	13.5	13.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5

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

b After deductions.

c Percent.

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

Table 13 | Distribution of exposures and the leverage ratio in the total banking system, 2023-2024 (NIS million)

	Leumi		Hapoalim		Discount		Mizrahi Tefahot		First Int'l		Bank of Jerusalem		Total banking system	
	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024
Tier 1 capital	53,892	61,255	52,641	58,165	28,890	32,315	28,434	31,963	12,292	13,666	1,366	1,487	177,515	198,851
Balance sheet exposures	682,277	727,247	648,724	679,293	381,827	424,722	442,835	473,493	217,965	245,350	21,980	22,541	2,395,608	2,572,646
Derivative Exposure	42,010	57,679	27,683	30,200	9,448	12,740	8,615	9,377	3,460	4,864	8	21	91,224	114,881
Securities Financing Exposure	15,177	20,611	11,986	21,697	5,008	5,158	2,524	6,326	57	70	0	0	34,752	53,862
Off-balance sheet exposures	70,550	77,421	72,003	79,645	37,910	41,751	33,509	40,402	12,187	13,478	644	825	226,803	253,522
Total exposures	810,014	882,958	760,396	810,835	434,193	484,371	487,483	529,598	233,669	263,762	22,633	23,387	2,748,388	2,994,911
	Percent													
Leverage ratio	6.7	6.9	6.9	7.2	6.7	6.7	5.8	6.0	5.3	5.2	6.0	6.4	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 14 | Balance of credit by major industries^a, segmented by year they were provided, during 2024, (NIS million)

		2024-Q1	2024-Q2	2024-Q3	2024-Q4
Construction and real estate	2024	42,158	70,786	90,747	107,945
	2023	69,747	56,459	50,981	42,759
	2022	39,020	32,280	28,861	25,032
	2021	24,629	22,654	22,211	19,678
	2020	9,340	8,685	8,217	7,252
	More than 5 years prior to the report date	17,946	15,610	14,975	13,815
	Renewing loans	91,326	95,499	96,842	103,116
	Renewed loans converted to fixed term loans	5,311	4,201	4,210	2,696
	Total	299,478	306,173	317,044	322,293
Other commercial	2024	72,407	96,756	129,745	161,440
	2023	90,505	74,919	63,088	56,809
	2022	55,897	49,536	44,541	39,109
	2021	38,807	35,431	32,353	29,801
	2020	21,701	19,981	17,922	15,589
	More than 5 years prior to the report date	36,257	32,893	30,990	26,798
	Renewing loans	128,597	138,759	149,318	155,413
	Renewed loans converted to fixed term loans	4,215	1,978	2,518	2,766
	Total	448,385	450,253	470,475	487,725
Housing	2024	18,475	41,043	68,537	98,764
	2023	70,315	70,211	69,615	68,395
	2022	107,077	104,817	102,425	99,625
	2021	102,562	100,662	98,566	95,988
	2020	64,280	63,243	61,918	60,337
	More than 5 years prior to the report date	225,840	220,291	213,541	205,281
	Renewing loans	-	-18	20	13
	Renewed loans converted to fixed term loans	1	-	-	1
	Total	588,551	600,249	614,622	628,404

^a Borrower activity in Israel

Table 14 (cont.) | Balance of credit by major industriesa, segmented by year they were provided, during 2024, (NIS million)

		2024-Q1	2024-Q2	2024-Q3	2024-Q4
Private - other	2024	25,923	38,878	51,009	61,204
	2023	39,347	33,350	28,635	24,893
	2022	24,131	21,241	18,402	15,999
	2021	12,815	11,164	9,599	8,278
	2020	6,346	5,440	4,756	4,177
	More than 5 years prior to the report date	9,988	9,013	8,080	7,322
	Renewing loans	30,423	30,870	32,011	31,730
	Renewed loans converted to fixed term loans	400	427	471	615
	Total	149,373	150,382	152,963	154,219
Total credit to the public	2024	173,645	269,924	368,784	464,567
	2023	296,913	258,725	234,998	213,298
	2022	244,950	225,450	210,133	193,143
	2021	188,977	179,891	171,455	161,686
	2020	104,679	100,234	94,977	89,456
	More than 5 years prior to the report date	297,220	285,049	274,566	259,195
	Renewing loans	269,654	288,761	304,464	319,787
	Renewed loans converted to fixed term loans	10,378	7,273	7,634	6,577
	Total	1,586,415	1,615,307	1,667,010	1,707,709

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

Table 15 | Credit quality^{a,b} indices by principal segments, total banking system, 2020-2024

Index/Bank	Year	Leumi	Hapoalim	Mizrahi Tefahot	Discount	First Int'l	Bank of Jerusalem	Total banking system
Share of annual loan loss provisions out of total balance sheet credit to the public	2020	0.85	0.63	0.42	0.88	0.50	0.92	0.68
	2021	-0.23	-0.34	-0.10	-0.32	-0.21	-0.48	-0.25
	2022	0.12	-0.02	0.17	0.17	0.10	0.55	0.10
	2023	0.57	0.45	0.44	0.56	0.42	0.87	0.50
	2024	0.15	0.16	0.14	0.25	-0.01	0.51	0.16
Ratio of net writeoffs to total balance sheet credit to the public	2020	0.18	0.09	0.11	0.19	0.10	0.21	0.13
	2021	-0.03	-0.06	0.05	0.03	-0.01	0.15	-0.01
	2022	0.07	-0.02	0.09	0.10	0.02	0.17	0.05
	2023	0.12	0.09	0.09	0.17	0.03	0.53	0.11
	2024	0.10	0.17	0.12	0.24	-0.03	0.45	0.14
Share of balance of credit loss allowances out of total balance sheet credit to the public	2020	1.76	2.00	0.98	1.95	1.38	1.73	1.66
	2021	1.30	1.43	0.77	1.40	1.05	0.93	1.22
	2022	1.28	1.40	0.93	1.31	1.02	1.13	1.22
	2023	1.58	1.69	1.24	1.59	1.36	1.39	1.52
	2024	1.49	1.51	1.14	1.46	1.25	1.41	1.40
Share of troubled credit out of total balance sheet credit to the public	2020	2.87	3.41	1.50	3.90	2.16	2.62	2.83
	2021	1.85	2.26	1.25	2.91	1.68	1.20	1.99
	2022	1.54	1.63	1.27	2.74	1.15	1.15	1.67
	2023	1.78	2.02	1.87	3.43	1.48	1.26	2.11
	2024	1.45	1.78	1.59	2.47	1.34	1.72	1.73
Share of nonaccruing credit ^b or accruing credit more than 90 days in arrears out of the balance of credit to the public	2020	1.43	1.28	1.13	0.96	0.80	1.29	1.19
	2021	1.02	1.00	0.92	0.76	0.67	1.14	0.92
	2022	0.51	0.89	0.87	0.67	0.48	1.02	0.72
	2023	0.88	1.06	1.16	0.95	0.60	1.11	0.98
	2024	0.53	0.62	1.21	0.65	0.53	1.38	0.73
Ratio of allowance for credit losses to non-accruing credit or credit accruing more than 90 days in arrears	2020	132.96	175.97	95.25	220.60	183.94	135.57	152.09
	2021	140.43	165.07	92.38	199.82	167.63	84.07	146.74
	2022	275.79	183.33	115.39	222.08	232.21	111.55	191.34
	2023	198.56	180.24	111.28	189.49	247.64	127.14	171.66
	2024	311.56	281.95	99.32	256.37	260.58	103.46	215.33
Share of nonexecution-rated credit out of total balance sheet credit to the public ^c	2020	6.38	7.81	3.43	8.04	4.75	4.28	6.25
	2021	3.56	5.81	2.58	5.23	4.17	2.46	4.28
	2022	2.42	4.16	3.07	6.10	3.09	0.03	3.67
	2023	3.24	5.31	3.99	7.20	3.14	3.17	4.60
	2024	2.55	4.40	3.64	5.87	2.83	3.33	3.85

a Credit to the public in Israel and abroad

b Beginning January 2022, banks in Israel are implementing a forward looking methodology - CECL (Current Expected Credit Losses) - in which the credit classification has been changed from impaired credit to nonaccruing credit. The indices appearing from before 2022 are based on an estimate of nonaccruing credit. Both components together serve as an estimate of Nonperforming Loans (NPL).

c Credit with a credit rating on the report date that is in line with the credit rating for issuing new credit is in line with the bank's policy. That is, credit that was granted in the past and that wouldn't have been granted in line with conditions existing today. There are data beginning from 2020.

SOURCE: Based on published financial statements.

Table 16 | Credit quality by major sectors, total banking system, 2020 to 2024 (percent)

Index/Bank	Year	Leumi	Hapoalim	Mizrahi Tefahot	Discount	First Int'l	Bank of Jerusalem	Total banking system
Commercial credit								
Share of commercial credit ^a	2020	61.22	56.71	27.10	61.38	46.16	17.91	51.08
	2021	62.09	58.09	26.66	60.46	46.31	15.54	51.66
	2022	61.48	58.60	28.02	59.30	49.63	20.80	51.94
	2023	62.35	59.88	29.12	60.89	51.70	25.60	53.30
	2024	62.12	61.01	30.18	61.29	54.48	29.08	54.02
Loan loss provisions as a share of total commercial credit	2020	1.14	0.68	0.94	1.00	0.81	0.29	0.93
	2021	-0.29	-0.27	-0.12	-0.41	-0.45	0.04	-0.30
	2022	0.10	-0.08	0.39	0.13	0.14	0.43	0.09
	2023	0.58	0.56	0.92	0.63	0.51	0.38	0.62
	2024	0.09	0.05	0.29	0.16	-0.06	0.38	0.10
Nonaccruing credit ^b or credit accruing 90 days or more in arrears as a share of total commercial credit	2020	1.78	1.86	2.16	1.70	1.01	0.32	1.46
	2021	1.23	1.45	1.67	0.96	0.73	0.40	1.20
	2022	0.49	1.17	1.45	0.88	0.53	0.66	0.88
	2023	1.00	1.35	1.60	1.23	0.66	0.61	1.19
	2024	0.52	0.60	1.92	0.72	0.54	1.16	0.76
Loan loss allowance as a share of total housing credit 90 days or more past due	2020	130.93	158.12	95.31	140.08	204.88	222.22	168.57
	2021	141.97	157.61	103.04	180.50	192.53	156.00	155.90
	2022	380.05	186.44	133.91	197.27	262.70	101.03	215.40
	2023	221.79	185.56	157.18	170.60	277.89	115.97	191.46
	2024	402.13	354.95	116.52	262.73	293.81	69.89	270.98
Housing credit								
Share of housing credit ^a	2020	30.07	32.29	63.15	22.16	30.72	71.73	36.91
	2021	29.85	32.18	64.26	24.95	31.55	74.68	37.42
	2022	30.72	32.49	63.42	26.74	30.28	68.35	37.76
	2023	30.65	31.75	62.73	26.26	29.73	64.35	37.19
	2024	31.28	31.09	62.24	25.78	27.77	61.89	36.88
Loan loss provisions as a share of total housing credit	2020	0.19	0.32	0.18	0.16	0.14	0.13	0.21
	2021	-0.14	-0.20	-0.08	0.01	-0.02	-0.01	-0.10
	2022	0.09	0.06	0.05	0.10	0.07	0.09	0.07
	2023	0.17	0.09	0.12	0.11	0.11	0.09	0.12
	2024	0.02	0.03	0.03	-0.02	-0.07	-0.02	0.02
Loan loss provisions as a share of total housing credit	2020	0.19	0.32	0.18	0.16	0.14	0.13	0.21
	2021	-0.14	-0.20	-0.08	0.01	-0.02	-0.01	-0.10
	2022	0.09	0.06	0.05	0.10	0.07	0.09	0.07
	2023	0.17	0.09	0.12	0.11	0.11	0.09	0.12
	2024	0.02	0.03	0.03	-0.02	-0.07	-0.02	0.02

Table 16 (cont.) | Credit quality by major sectors, total banking system, 2020 to 2024 (percent)

Index/Bank	Year	Leumi	Hapoalim	Mizrahi Tefahot	Discount	First Int'l	Bank of Jerusalem	Total banking system
Nonaccruing ^b or accruing credit 90 days or more past due as a share of total housing credit	2020	0.83	0.63	0.75	0.74	0.55	1.64	0.74
	2021	0.61	0.50	0.74	0.49	0.52	1.35	0.62
	2022	0.47	0.45	0.68	0.35	0.41	1.19	0.53
	2023	0.53	0.57	1.04	0.37	0.58	1.35	0.72
	2024	0.47	0.60	0.95	0.43	0.50	1.51	0.68
Loan loss allowance as a share of total housing credit 90 days or more past due	2020	85.25	120.89	80.10	82.17	105.13	43.86	89.45
	2021	77.74	93.67	61.85	97.73	95.21	45.33	75.32
	2022	74.96	90.73	67.87	124.45	104.14	42.24	78.81
	2023	92.15	84.07	53.37	138.22	92.20	43.37	72.06
	2024	98.82	81.33	56.66	108.92	92.90	37.41	72.79
Other private credit								
Share of other private credit	2020	8.71	11.00	9.75	16.46	23.13	10.37	12.01
	2021	8.06	9.73	9.08	14.59	22.14	9.78	10.92
	2022	7.81	8.91	8.55	13.96	20.09	10.85	10.30
	2023	7.00	8.37	8.15	12.85	18.57	10.05	9.51
	2024	6.61	7.91	7.58	12.93	17.75	9.03	9.11
Loan loss provisions as a share of total other private credit	2020	1.03	1.32	0.56	1.43	0.36	7.51	1.06
	2021	-0.16	-1.22	-0.23	-0.55	0.01	-4.94	-0.53
	2022	0.37	0.11	0.37	0.48	0.07	3.68	0.32
	2023	2.18	1.09	1.21	1.20	0.67	7.11	1.36
	2024	1.30	1.46	0.51	1.20	0.23	4.59	1.05
Nonaccruing ^b or accruing credit 90 days or more past due as a share of total other private credit to the public	2020	0.95	2.31	0.38	0.95	0.81	1.16	0.86
	2021	0.91	1.99	0.33	0.38	0.55	0.83	0.83
	2022	0.98	0.74	0.37	0.36	0.46	0.65	0.59
	2023	1.42	0.90	0.54	0.76	0.49	0.81	0.84
	2024	0.95	0.87	0.53	0.76	0.53	1.27	0.75
Ratio of loan loss allowance to total other private credit that is nonaccruing or that is accruing 90 days or more in arrears	2020	323.27	131.20	369.57	340.48	184.88	924.06	303.56
	2021	288.49	90.72	309.76	672.17	260.80	495.96	235.30
	2022	245.64	352.85	517.17	651.59	315.60	927.72	379.19
	2023	226.24	350.79	484.14	383.91	428.70	1038.40	344.87
	2024	338.36	426.35	477.40	391.20	404.03	741.90	404.90

a Including credit in respect of borrowers' activity in Israel and abroad. For housing and private-other, data is presented for credit to the public only in Israel (credit abroad is less than 1 percent of total households - housing and private-other combined).

b As of January 2022, Israeli banks implement the Current Expected Credit Losses (CECL) methodology for estimating allowances for credit losses, a forward-looking methodology in which the credit classification has been changed from impaired credit to nonaccumulating credit. The index readings prior to 2022 are based on an estimate of nonaccruing credit. The two components together make up an estimate of NPL (Nonperforming loans).

SOURCE: Based on published financial statements.

Table 17 | Outstanding credit to the public, by principal industry, total banking system, 2023 and 2024

	Total balance of credit risk ^a				Balance-sheet credit ^b (debts)			
	Balance		Distribution of credit to the public		Balance		Distribution of credit to the public	
	2023	2024	2023	2024	2023	2024	2023	2024
	(NIS million)	(NIS million)	(Percent)	(Percent)	(NIS million)	(NIS million)	(Percent)	(Percent)
Borrower activity in Israel	2,038,146	2,242,576	91.5	91.3	1,465,455	1,586,987	94.3	93.7
Business sector	1,156,273	1,286,745	51.9	52.4	736,507	807,548	47.4	47.7
Agriculture	9,434	9,120	0.4	0.4	7,786	7,399	0.5	0.4
Mining and quarrying	5,631	7,695	0.3	0.3	3,450	4,391	0.2	0.3
Manufacturing	113,356	113,490	5.1	4.6	61,247	62,064	3.9	3.7
Construction and real estate	485,191	544,266	21.8	22.2	296,131	322,292	19.1	19.0
<i>Of which: Construction</i>	354,070	400,149	15.9	16.3	185,776	201,963	12.0	11.9
Real estate	131,120	144,117	5.9	5.9	110,355	120,329	7.1	7.1
Electricity and water supply	46,331	49,889	2.1	2.0	27,715	29,568	1.8	1.7
Commerce	135,250	145,138	6.1	5.9	107,309	112,603	6.9	6.7
Hotels, hospitality and food services	21,766	22,974	1.0	0.9	18,045	18,650	1.2	1.1
Transport and storage	35,493	36,246	1.6	1.5	27,043	26,484	1.7	1.6
Communications and computer services	57,260	59,219	2.6	2.4	13,382	13,415	0.9	0.8
Financial services	191,475	238,819	8.6	9.7	107,617	138,300	6.9	8.2
Other business services	50,244	54,336	2.3	2.2	33,144	35,644	2.1	2.1
Public and community services	40,245	41,639	1.8	1.7	32,596	33,787	2.1	2.0
Private individuals	881,874	955,831	39.6	38.9	729,991	782,389	47.0	46.2
<i>Of which: Housing loans</i>	615,917	674,698	27.7	27.5	582,394	628,404	37.5	37.1
Private individuals - other	265,956	281,133	11.9	11.4	147,597	153,986	9.5	9.1
Borrowers' activity abroad	188,326	213,221	8.5	8.7	88,572	106,171	5.7	6.3
Total	2,226,472	2,455,796	100.0	100.0	1,554,027	1,693,158	100.0	100.0
			10.3				5.7	6.3
								19.9
								9.0

a Includes balance-sheet and non-balance-sheet credit risk.

b Includes credit to the public, excludes bonds and securities borrowed or purchased under reverse repurchase agreements.

SOURCE: Banking Supervision Department based on published financial statements.

Figure 18 | Credit and spreads by supervisory activity segment, household sector^a, total banking system, December 2023 to December 2024

Balance of credit to the end of the reporting period																
Housing				Credit cards				Other consumer				Total				
Dec 2023	Dec 2024	Differ- ence	Rate of change (Percent)	Dec 2023	Dec 2024	Differ- ence	Rate of change (Percent)	Dec 2023	Dec 2024	Differ- ence	Rate of change (Percent)	Dec 2023	Dec 2024	Differ- ence	Rate of change (Percent)	
(NIS million)				(NIS million)				(NIS million)				(NIS million)				
Leumi	130,410	144,387	13,977	10.72	4,468	5,161	693	15.51	25,478	25,509	31	0.12	160,356	175,057	14,701	9.17
Hapoalim	131,134	139,429	8,295	6.33	4,671	5,142	471	10.08	29,798	30,287	489	1.64	165,603	174,858	9,255	5.59
Discount	206,562	225,294	18,732	9.07	4,506	4,970	464	10.30	22,891	23,141	250	1.09	233,959	253,405	19,446	8.31
Mizrahi Tefahot	68,777	72,939	4,162	6.05	18,432	20,632	2,200	11.94	14,343	15,131	788	5.49	101,552	108,702	7,150	7.04
First Int'l	35,450	36,396	946	2.67	3,853	4,437	584	15.16	18,328	18,681	353	1.93	57,631	59,514	1,883	3.27
Bank of Jerusalem	9,834	9,693	-142	(1.44)	-	-	-	-	1,611	1,487	-124	(7.70)	11,445	11,179	-266	(2.32)
Total banking system	582,167	628,138	45,970	7.90	35,930	40,342	4,412	12.28	112,449	114,236	1,787	1.59	730,546	782,715	52,169	7.14
Spread from credit activity (average)																
Housing				Credit cards				Other consumer				Total				
Dec 2023	Dec 2024	Differ- ence	Rate of change (Percent)	Dec 2023	Dec 2024	Differ- ence	Rate of change (Percent)	Dec 2023	Dec 2024	Differ- ence	Rate of change (Percent)	Dec 2023	Dec 2024	Differ- ence	Rate of change (Percent)	
(Percent)				(Percent)				(Percent)				(Percent)				
Leumi	1.08	0.93	-0.15	(13.50)	1.31	1.12	-0.19	(14.37)	4.45	4.13	(0.32)	(7.25)	1.64	1.41	(0.23)	(14.13)
Hapoalim	1.10	1.04	(0.06)	(5.13)	-	-	-	-	4.76	4.27	(0.50)	(10.42)	1.72	1.59	(0.13)	(7.62)
Discount	1.15	1.10	(0.05)	(4.30)	0.94	1.17	0.24	25.60	4.59	3.93	(0.66)	(14.41)	1.49	1.37	(0.11)	(7.65)
Mizrahi Tefahot	1.08	1.05	(0.03)	(2.43)	5.65	6.24	0.59	10.46	4.22	4.23	0.01	0.19	2.30	2.36	0.06	2.47
First Int'l	1.26	1.13	(0.13)	(10.39)	0.41	0.42	0.01	2.17	3.35	2.95	(0.40)	(11.86)	1.90	1.67	(0.23)	(12.02)
Bank of Jerusalem	1.93	1.85	(0.07)	(3.74)	-	-	-	-	8.63	8.31	-0.33	(3.78)	2.89	2.75	-0.14	(4.94)
Total banking system	1.14	1.06	(0.08)	(6.76)	3.04	3.57	0.53	17.57	4.41	4.00	(0.41)	(9.20)	1.74	1.61	(0.13)	(7.63)

^a Doesn't include private banking.
SOURCE: Banking Supervision Department based on published financial statements.

Table 19 | Credit and spreads by supervisory activity segment, business sector^{a,b}, total banking system, December 2023 and December 2024

	Balance of credit to the end of the reporting period															
	Small and micro businesses				Medium businesses				Large businesses				Total business sector			
	Dec 2023	Dec 2024	Difference	Rate of change	Dec 2023	Dec 2024	Difference	Rate of change	Dec 2023	Dec 2024	Difference	Rate of change	Dec 2023	Dec 2024	Difference	Rate of change
(NIS million)	(NIS million)	(NIS million)	(Percent)	(NIS million)	(NIS million)	(NIS million)	(Percent)	(NIS million)	(NIS million)	(NIS million)	(Percent)	(NIS million)	(NIS million)	(NIS million)	(Percent)	
Leumi	66,554	75,044	8,490	12.76	40,038	39,611	-427	(1.07)	142,404	159,390	16,986	11.93	248,996	274,045	25,049	10.06
Hapoalim	56,356	58,454	2,098	3.72	43,245	45,322	2,077	4.80	120,621	137,419	16,798	13.93	220,222	241,195	20,973	9.52
Mizrahi-Tefahot	34,947	39,287	4,340	12.42	12,171	13,831	1,660	13.64	36,286	40,630	4,344	11.97	83,404	93,748	10,344	12.40
Discount	42,203	43,981	1,778	4.21	20,053	20,255	202	1.01	69,230	77,481	8,251	11.92	131,486	141,717	10,231	7.78
First Int'l.	18,093	18,160	67	0.37	7,442	7,342	-100	(1.34)	35,245	44,725	9,480	26.90	60,780	70,227	9,447	15.54
Bank of Jerusalem	2,904	3,345	441	15.18	746	933	188	25.17	-	-	-	-	3,650	4,279	629	17.22
Total banking system	221,057	238,271	17,214	7.79	123,695	127,294	3,600	2.91	403,786	459,645	55,859	13.83	748,538	825,211	76,673	10.24

	Spread from credit activity (average)															
	Small and micro businesses				Medium businesses				Large businesses				Total business sector			
	Dec 2023	Dec 2024	Difference	Rate of change	Dec 2023	Dec 2024	Difference	Rate of change	Dec 2023	Dec 2024	Difference	Rate of change	Dec 2023	Dec 2024	Difference	Rate of change
(NIS million)	(NIS million)	(NIS million)	(Percent)	(NIS million)	(NIS million)	(NIS million)	(Percent)	(NIS million)	(NIS million)	(NIS million)	(Percent)	(NIS million)	(NIS million)	(NIS million)	(Percent)	
Leumi	2.72	2.58	(0.14)	(5.31)	2.25	2.14	(0.11)	(4.73)	1.48	1.75	0.27	18.57	1.94	2.03	0.10	5.00
Hapoalim	3.17	3.14	(0.03)	(1.07)	2.20	2.19	(0.01)	(0.38)	1.60	1.66	0.06	3.77	2.14	2.12	(0.02)	(0.93)
Mizrahi-Tefahot	3.99	3.50	(0.49)	(12.32)	3.16	3.05	(0.11)	(3.48)	2.31	2.32	0.00	0.16	3.16	2.91	(0.25)	(8.04)
Discount	3.60	3.32	(0.28)	(7.72)	2.46	2.37	(0.09)	(3.82)	1.68	1.50	(0.18)	(10.93)	2.43	2.20	(0.24)	(9.71)
First Int'l.	2.82	2.59	(0.23)	(8.10)	2.44	2.42	(0.02)	(0.90)	1.34	1.24	(0.11)	(7.82)	1.97	1.77	(0.19)	(9.90)
Bank of Jerusalem	2.96	2.85	-	-	2.06	2.82	-	-	-	-	-	-	2.73	2.84	0.11	4.05
Total banking system	3.21	3.01	(0.20)	(6.33)	2.37	2.31	(0.06)	(2.44)	1.61	1.69	0.08	4.88	2.22	2.17	(0.05)	(2.40)

a Small and micro businesses - business turnover of less than NIS 50 million; Medium businesses - turnover of NIS 50-250 million; Large businesses - turnover of NIS 250 million or more.

b The data relate to activity in Israel and do not include financial institutions, the financial management segment, "other", or adjustments.

SOURCE: Based on published financial statements.

Table 20 | The development of balance-sheet credit to the construction and real estate industry in Israel

Component	2023–2024			
	Balance of credit to the end of the reporting period			
	31/12/2024		31/12/2023	
	NIS million	Percent	NIS million	Percent
Land	98,235	30%	101,100	34%
Real estate development for construction - residential	50,332	16%	38,438	13%
Real estate development for construction - income-yielding	20,660	6%	15,025	5%
Income-yielding real estate	102,087	32%	95,620	32%
Infrastructures	15,777	5%	12,183	4%
Credit that is not designated to finance a specific asset	36,373	11%	35,161	12%
Total activity of borrowers in Israel	323,465	100%	297,528	100%
Total exposure - including off-balance sheet	544,649		488,705	

Table 21 | Additional data regarding banking system deferrals, as of December 31, 2024

	Loans in deferral				Loans for which the deferral has ended				Total (Loans in deferral and loans for which deferral has ended)			
	Number of loans	Total payments in deferral	Recorded loan balance	Number of loans	Sum of payments deferred	Recorded loan balance	Estimate of share of credit balance that entered into arrears of 30 days or more with the end of the deferral period	Number of loans	Amount of payments	Recorded loan balance		
	Number	NIS million	NIS million	Number	NIS million	NIS million	Percent	Number	NIS million	NIS million		
דיו"ר	18,148	405	11,700	106,979	1,902	65,827	2.59	125,127	2,307	77,527		
צרכני	23,064	190	1,020	176,001	974	8,539	2.63	199,065	1,164	9,559		
עסקים זעירים	8,321	565	1,254	94,620	2,799	17,675	1.50	102,941	3,364	18,929		
עסקים קטנים	668	153	585	12,070	1,340	10,348	0.81	12,738	1,493	10,933		
עסקים בינוניים	45	57	365	2,635	847	9,550	0.69	2,680	904	9,915		
עסקים גדולים	13	55	445	1,129	1,695	14,653	0.02	1,142	1,750	15,098		
סה"כ	50,259	1,425	15,370	393,434	9,558	126,591	1.85	443,693	10,983	141,961		

1.) Recorded loan balance, as of the end of the deferral period – taking into account the repayments made from the end of the deferral period up to the reporting date, the total outstanding balance amounts to approximately NIS 91,440 million.

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

Appendix 2: Directives published by the Supervisor of Banks during 2024¹

January 1

Update to the directive on Management of Anti-Money Laundering and Countering Financing of Terrorism Risks – Proper Conduct of Banking Business Directive 411

The temporary order allowing the opening of an account based on an immigrant certificate within 90 days of its issuance was extended until June 30, 2024.

February 4

Directive regarding adjustments to the Proper Conduct of Banking Business directives to address the COVID-19 crisis (temporary order) – Directive 250

The directive was canceled since it is no longer relevant.

February 4

Directive regarding adjustments to the Proper Conduct of Banking Business directives to address the Swords of Iron War (temporary order) – Directive 251

The purpose of this temporary directive is to provide regulatory relief of several types due to the Swords of Iron War that began on October 7, 2023, with the goal of assisting the banking system and its customers in dealing with the War's challenges and potential economic consequences.

The content of the directive, originally published on October 22, 2023, was updated.

March 3

Directive on the activity of a banking corporation as a broker-dealer – Proper Conduct of Banking Business Directive 461

The implementation date of the directive, originally set for January 19, 2025, was postponed to August 1, 2025.

March 31

Update to the directive on adjustments to the Proper Conduct of Banking Business directives to deal with the Swords of Iron War (temporary order) – Directive 251

The relief measures and the period they are in effect were updated.

March 31

Updates to the FAQ file regarding the implementation of the Management of Anti-Money Laundering and Countering Financing of Terrorism Risks Directive – Proper Conduct of Banking Business Directive 411

The updates include, among other things, adjustments of the file's glossary regarding the Payment Services Law – 5779-2019, and the addition of new questions in light of issues that have arisen in the banking system.

¹ The full and binding text of the regulatory activities appears on the Bank of Israel's site.

April 2**Letter regarding the Swords of Iron War – clarifications on the implementation of the Checks without Cover Regulations (reservations on the application of the law)**

As part of efforts to relax conditions for populations affected by the Swords of Iron War, the Minister of Justice published regulations regarding checks without cover (reservations on the application of the law) on October 26, 2023. On April 2, 2024, a letter was sent by the Supervisor of Banks to the banking corporations that contained clarifications regarding the application of the regulations. The letter stated that a bank's ability to identify a customer's account as that of a reservist soldier, based on reserve duty grants transferred to the account during the relevant period, shall be considered an indicator of service in the reserves for other related actions as well.

May 20**Publication of interest rates on deposits and positive balances in an account – new Proper Conduct of Banking Business Directive No. 447**

The directive seeks to increase transparency for deposits, in order for customers to clearly understand the interest they will receive and will be able to compare rates between banks. It defines a uniform structure for publication and requires offering customers a convenient and user-friendly search mechanism.

May 20**Activity of a Banking Corporation in a Closed System – update to Proper Conduct of Banking Business Directive 417**

The closed system allows a customers to deposit funds in a bank other than the one where they maintain their main account, including easier identification and verification. The update removed the requirement to return funds to the original account after a certain period if the client wishes to leave them in the new bank for an additional term. The development of a payment initiation interface allows the bank holding the deposit to initiate (with the customer's approval) fund transfers from the customer's original account, thus simplifying the process and reducing errors. The update also defined communication channels in case the original account has been closed.

June 17**Update to the directive on Management of Anti-Money Laundering and Countering Financing of Terrorism Risk – Proper Conduct of Banking Business Directive 411**

The temporary order allowing the opening of an account based on an immigrant certificate within 90 days of issuance was extended until December 31, 2024.

June 17**Directive on Principles for Effective Management of Climate-Related Financial Risks – Proper Conduct of Banking Business Directive 345**

The original date for the implementation of the directive (June 12, 2025) was postponed by a year until June 12, 2026.

June 19**Update of the Directive on Measurement and Capital Adequacy for Operational Risk – Proper Conduct of Banking Business Directive 206**

The new Basel Committee directive on capital requirements for operational risk was adopted. The update was accompanied by a revised FAQ file for implementation.

June 23**Supervisory letter regarding banking corporation activity involving customers of payment service providers**

The goal of the letter is to enable banks to provide services and manage their risks with regard to activity involving these customers.

June 30**Update to the directive on adjustments to the Proper Conduct of Banking Business directives to address the Swords of Iron War (temporary order) – Directive 251**

The relief measures and their period of application were updated.

July 16**Update to the General Permit for the Provision of Certain Banking Services**

The update expands the existing permit, thus allowing banks to provide basic banking services outside branch premises to all customers. In the case of customers with objective difficulty in getting to a branch, the banks can provide the full range of services.

July 29**Disclosure of Cost of Securities Services – update to Proper Conduct of Banking Business Directive 414**

In June 2023, under the Economic Plan Law, an amendment to Section 5A of the Banking (Service to the Customer) Law, 5741-1981, was published. It requires monthly (rather than semiannual) notifications to customers regarding fees and interest charged. Accordingly, Directive 414 was updated to regulate the presentation of comparative information to the customer.

Annual Reports to Customers of the Banking Corporations – update to Proper Conduct of Banking Business Directive 425

The directive's language was clarified, and adjustments were made to the abbreviated reports and the detailed reports regarding rates of return for deposits of securities related to portfolio management services.

August 7**Update to the Banking (Service to the Customer) (Fees) (Amendment 1) Rules– 2024**

The rules for fees were updated including a number of changes for the benefit of banking system customers. Key changes include the following:

1. Fee for “a bank guarantee secured by a specific monetary deposit” – The method for charging the customer was changed from percentage-based to fixed amount. In particular, a bank guarantee secured by a deposit for a residential rental agreement (up to NIS 50,000) will be priced lower than the general service fee for such guarantees, due to the greater simplicity of the operation and a desire to ease conditions for renters.
2. In order to provide greater flexibility in providing the service, a new clause was added that allows banks to implement a customer's request to join or cancel a service plan before the first of the month following the notification date, provided that the bank publishes a fair and reasonable mechanism for calculating the fee for a partial month.
3. Benefits in digital banking channels – Appendix 5 of the price schedule was expanded to include additional benefits in service pricing offered for digital banking channels.

August 21**New directive on model risk management – Proper Conduct of Banking Business Directive 369**

Given the extensive use of models in all aspects of banking operations, a new directive was issued to address key aspects of effective model risk management. The directive was accompanied by a FAQ file regarding implementation of the directive.

September 2**Update to the directive on Risk Management – Anti-Money Laundering and Countering Financing of Terrorism – Proper Conduct of Banking Business Directive 411**

Due to operational challenges arising from the gradual expiration of ID cards lacking biometric identifiers and an expiry date, a temporary order was issued to allow banks to verify customer identity using such ID cards. The directive expired on October 1, 2024.

September 18**Update to the directive on Reporting of Fraud and Embezzlement by Employees – Proper Conduct of Banking Business Directive 351**

Based on accumulated experience and in order to establish a consistent procedure across the banking system, the directive and the cases in which it applies were clarified.

September 18**Cancellation of the directive on Business Operations Outside the Offices of a Banking Corporation – Proper Conduct of Banking Business Directive 358**

As part of a periodic review of existing regulations, the directive was canceled since the matter is already regulated under the Banking (Licensing) Law – 5741-1981, and permits issued under its authority.

October 1**Procedures for Extending Housing Loans – postponement of the effective date of Proper Conduct of Banking Business Directive 451**

The effective date of Section 15b1 of Amendment 22 to Directive 451 was postponed.

The new date is April 1, 2025.

The goal of the directive is to improve a borrower's ability to improve the terms of a mortgage and reduce the repayment burden. According to the update, early loan repayment can be initiated online or by phone, and the required documents can be submitted without visiting a branch. As part of the loan refinancing process, the borrower can notify the original bank directly or through the new bank, and documents can be transferred between banks without further involvement of the customer.

October 29**Update to the directive on Industry Indebtedness Limitation – Proper Conduct of Banking Business Directive 315**

Due to the Swords of Iron War, the existing temporary relief for the construction and real estate industry was extended, and a relief with a set time was granted regarding the exposure limit in the financial services and insurance industry, with a distinction made between domestic and foreign operations.

October 30**Update to the directive for adjustments to Proper Conduct of Banking Business directives due to the Swords of Iron War (temporary order) – Directive 251**

The relief measures and the period of their application were updated.

November 6**Banking (Service to the Customer) (Fees) (Amendment 2) Rules, 5784-2024**

Addition of Part 14 to the full price schedule – regarding payment apps.

This chapter allows banking corporations to charge fees for services such as “receiving a payment,” “executing a payment instruction,” and “subscription fees for a special service.”

The fees can be collected by entities providing payment services given the associated service costs. This change coincides with the enactment of the Payment Services and Payment Initiation Law, which enables interoperability between payment apps and is expected to encourage the entry of new players into the market, depending on their business model and revenue from these services. Fees may only be collected from users who process over NIS 25,000 in annual transactions.

Preliminary analysis by the Supervisor of Banks found that most customers do not exceed this threshold and will continue to receive the service for free.

A banking corporation wishing to change the annual activity threshold may do so only two years after these services are added to the list of permissible fees and this will require the Supervisor's approval.

The amendment goes into effect on January 1, 2025.

November 12**Call for public comments on compensation models in securities trading by the public**

A joint team comprising the Bank of Israel, the Israel Securities Authority, and the Budget Department at the Ministry of Finance published a call for public comments on potential changes to the fee and compensation structure in securities trading by the public.

The goal is to increase transparency, promote competition, and improve service for customers operating in the capital market.

November 18**New directive on information technology management, information security, and cybersecurity – Proper Conduct of Banking Business Directive 364**

The directive aligns the current regulatory framework for technological risk management with the evolving technological environment, emerging threats, and international regulatory practices. It replaces three previous directives on the subject.

Its purpose is the effective and prudent management of information technology while minimizing the occurrence of technological risk events.

December 25**Call for public comments regarding criteria considered in reviewing bank branch closure requests**

An amendment to the Banking (Licensing) Law that took effect in August 2016 requires the Supervisor of Banks' approval for the closure of a fixed branch.

On July 25, 2024, a further amendment went into effect, which requires consultation with the Licensing Committee before making a decision and reporting to the Economic Affairs Committee on the implementation of these provisions.

In this context, a call for comments by the public was issued regarding the criteria to be used when reviewing requests to close branches.

December 30**Update to the directive for revisions to Proper Conduct of Banking Business directives due to the Swords of Iron War (temporary order) – Directive 251**

The relief measures and their period of application were updated.

December 30**Publication of a new draft of Directive 447A on collated information on money market funds and Makam**

Pursuant to Directive 447 and in collaboration with the Israel Securities Authority, a directive was formulated to provide customers with accessible information about money market funds and Makam.

The directive was published on April 9, 2025.

December 31**Update to the directive on Management of Anti-Money Laundering and Countering Financing of Terrorism Risks – Proper Conduct of Banking Business Directive 411**

The temporary order allowing account opening based on an immigrant certificate within 90 days of its issuance was extended until December 31, 2025.

Regulatory schedule for January–May 2025**January 1****Update to the directive on limitations on the indebtedness of a borrower and a group of borrowers – Proper Conduct of Banking Business Directive no. 313**

The exemption granted to credit card companies from certain limitations included in the directive was extended, given that an updated directive is expected to come into effect on January 1, 2026. The extension is valid from December 31, 2024 until January 1, 2026, or the early application date of the updated directive—whichever comes first.

February 3**Update of the directive on large exposures – Proper Conduct of Banking Business Directive no. 313**

The Supervisor of Banks has adopted the updated Basel Committee standard (published in April 2014). Measuring and limiting large exposures is intended to protect the stability of banking corporations from losses resulting from the sudden failure of a counterparty or group of related counterparties.

The updated directive replaces the existing one (Limitations on the Indebtedness of a Borrower and a Group of Borrowers) and will take effect on January 1, 2026, although banking corporations can adopt it at an earlier date.

April 6**Update of the directive on capital adequacy measurement – The Standardized Approach – Credit Risk and the directive on Limitation on Issuing Housing Loans – Proper Conduct of Banking Business Directives no. 203 and 329**

In light of the significant increase in home sales by means of contractors' promotional campaigns, a temporary order was issued that applies until the end of 2026.

The campaigns mainly allow the buyer to defer a substantial part of payment until delivery, and “bullet” or “balloon” housing loans in which the contractor pays the interest, in part or in full, either at the time the loan is granted or during its term.

The temporary order defines the conditions under which credit provided as part of these campaigns is considered to be “high-risk credit” for the purpose of calculating risk-weighted assets as part of the evaluation of capital adequacy. It also sets a limit on the proportion of “bullet” and “balloon” loan transactions that are subsidized by the contractor.

April 9**Final publication of the new Directive 447A on collated information on money market funds and Makam**

In order to increase customer exposure to money market funds and Makam, improve product comparability, and enhance competition, a new directive was issued that requires the publication of standardized information about these products, in addition to data on deposits (as per Directive 447).

April 9**Update of the Banking Rules (Service to the Customer) (Fees) (Amendment 2) Rules, 5785-2025**

Addition of Part 15 to the full fee schedule for the aggregation of customer financial data and its analysis.

Following the development of advanced infrastructure for the transfer and receipt of financial product information from various financial institutions, and in order to encourage the development of data aggregation services for the customer and the analysis of that data, it was decided to add a new section to the fee schedule. This section allows banks to charge fees for services that include aggregating and analyzing financial data from different financial institutions. It specifies that this can include data already possessed by the bank providing the service, as long as it includes additional data from other institutions. At this stage, flexibility was provided in service structure and fee collection in order to facilitate market development and a variety of business models. This update took effect on April 9, 2025.

The Banking Supervision Department

