Bank of Israel

The Banking Supervision Department

The Economic Unit

Israel's Banking System

First Half of 2025

Jerusalem

August 2025

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INTRODUCTION

This review describes the main developments in the Israeli banking system during the first half of 2025. These developments were influenced by, among other factors, the security situation and geopolitical uncertainty. The State of Israel has been in a state of war for nearly two years, which included Operation Rising Lion against Iran, which took place toward the end of the period being reviewed. Economic activity recovered after the downturn during Operation Rising Lion, as Israel's risk premium stabilized at a lower level relative to the period prior to the operation, although it remained higher than its level on the eve of the war. Alongside these developments, high geopolitical uncertainty continued. The Monetary Committee left the interest rate unchanged at 4.5 percent in all of its decisions during the first half of 2025, and the inflation rate continued to be slightly above the inflation target during the reviewed period. Finally, the shekel appreciated during the reviewed period, mainly against the dollar.

Israel's banking system continued to maintain its resilience during the first half of 2025. Capital and liquidity ratios remained at a high level, which is explained by, among other factors, the high profitability of the banking system. The high profitability of the banking system in the first half of 2025 stemmed mainly from the continued expansion in net interest income, against the backdrop of the macroeconomic environment, and from an increase in fee income, with these trends partially offset by a rise in expenses for credit losses, which were particularly low during the corresponding period last year. Despite the increase in net profit, a slight decline was recorded in return on equity, which is explained by the growth in shareholders' equity. The annual growth rate of the credit portfolio was higher during the reviewed period than in 2024, while there was some deterioration in the quality of the portfolio of credit to households (excluding housing loans) and to micro and small businesses.

The Common Equity Tier 1 capital ratio of the banking system remained at a high level during the first half of 2025, and is estimated at approximately 11.6 percent. This reflects the banking system's resilience to shocks and its ability to continue supporting the economy amid prolonged uncertainty. High profitability during the year continued to contribute to the strengthening of capital ratios. However, profit distributions and the continued growth in risk-weighted assets acted to erode capital ratios.

Bank credit to the public increased in the first half of 2025 at an annualized rate of approximately 9.3 percent, a higher growth rate than in 2024, when the growth rate was approximately 8.8 percent. Business credit, particularly in the construction industry, continued to lead the growth in the credit portfolio, while the growth rate of housing credit remained stable and the growth rate of fixed-term consumer credit moderated slightly. Trends in the quality of the credit portfolio were mixed: a slight deterioration was recorded in the quality of the consumer credit portfolio and in credit to micro and small businesses, as noted above, while stability was observed in the quality indicators of the housing credit portfolio and in credit to large businesses.

The upward trend in the public's deposits continued, and this rate stood at 6.2 percent on an annualized basis. The share of the public's funds held in interest-bearing deposits, which began to rise in the second half of 2022, when the Bank of Israel raised its interest rate, continued to increase during the reviewed period, though at a more moderate pace, reaching approximately 78 percent. This occurred against the backdrop of the interest rate level. The reallocation of public deposits continued: during the period, relative stability was recorded in current account balances and bank deposits of private customers, alongside a significant increase in investments in shekel money market funds. This trend, which began in the second half of 2024, points to a change in the composition of the low-risk assets held by households, which are characterized by higher potential returns and higher liquidity relative to bank deposits. The pass-through rate of the Bank of Israel's interest rate to deposit rates remained stable. Relative to other countries, the pass-through of the Bank of Israel interest rate to household fixed-rate deposits remains high.

Uncertainty in the economy remains high, and the banking system is required to maintain financial resilience that will enable it to cope with additional challenges that may arise. The Banking Supervision Department continues to closely monitor developments, with particular emphasis on the economic implications of the uncertain environment. At the beginning of the year, against the backdrop of the economic challenges and the continued high profitability of banks in Israel, the Banking Supervision Department formulated a financial relief framework[1] that was adopted by the banking system. Under the framework, a total of NIS 3 billion will be allocated over a period of two years to a range of relief measures and financial rebates directly to the accounts of private customers and micro and small businesses. The formulation of the framework was carried out in parallel to structural measures that the Banking Supervision Department continues to advance in order to enhance fairness, competition, and innovation. These serve to strengthen customers' bargaining power and increase public trust in the banking system, and it is intended to serve as a bridge until structural measures to enhance competition in the banking system become fully ready.

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[1] For further details, see: 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/

BUSINESS RESULTS OF THE BANKING SYSTEM

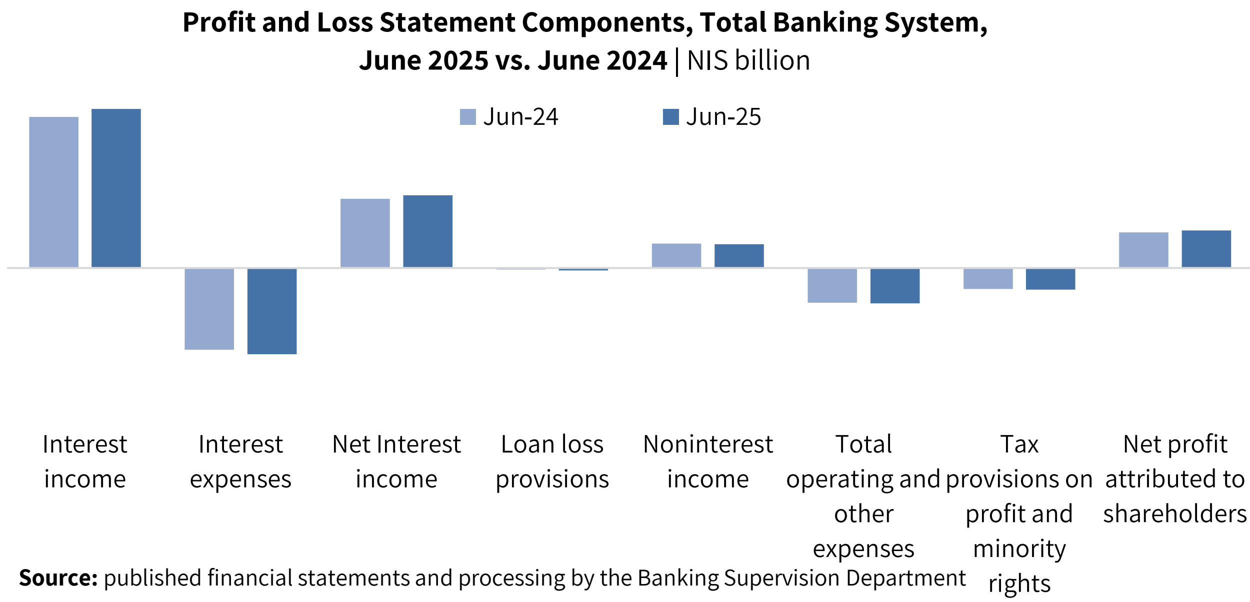
Profitability of the Banking System

The net profit[2] of the banking system in the first half of 2025 was NIS 16.2 billion, an increase of approximately 5.5 percent relative to the corresponding period last year when net profit totaled NIS 15.3 billion (Figure 1, Table 2). The high profitability of the banking system stems mainly from the continued increase in net interest income (against the backdrop of continued growth in total assets, particularly credit to the public) and in fee income (an increase of 11.9 percent compared to the first half of 2024; Table 2), which were partially offset by a rise in credit loss provisions, following particularly low provisions recorded in the corresponding period last year (Figure 1).

Despite the increase in net profit, the banking system's return on equity for the first half of 2025 stood at 15.9 percent, which is lower than the return of 16.9 percent in the corresponding period last year (Figure 2). The decline in return on equity primarily reflected growth in Common Equity Tier 1 capital, against the backdrop of the high profitability exhibited by the banking system and the decline in bond yields in the available-for-sale portfolio (which increases equity and erodes return on equity). In contrast, this erosion was partially offset by the banking system's return to dividend distributions at rates similar to those prevailing prior to the war that began with the terrorist attack on October 7, 2023 (for further details, see the section on capital adequacy and leverage). The inflation environment continued to contribute to the high profitability of the banking system (1.8 percentage points in the first half of 2024 and 1.6 percentage points in the first half of 2025; Figure 2).

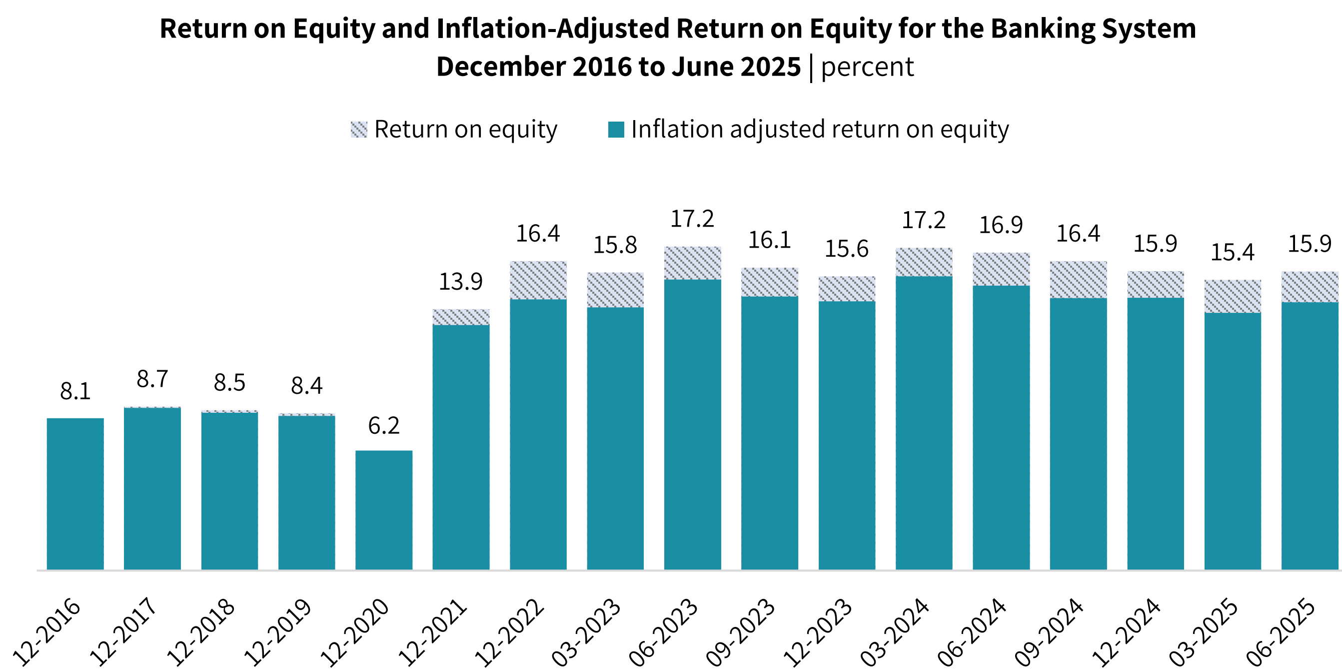
[2] Net profit attributed to the shareholders of the banking corporations.

Figure 1: During the first half of 2025, net profit of the banking system increased, deriving mainly from growth in net interest income



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

Figure 2: The Return on Equity in the first half of 2025 is similar to its level in previous periods



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

Amid heightened geopolitical uncertainty, the challenges posed to economic activity and the high profitability of banks in Israel, the Bank of Israel formulated guidelines for a "financial relief" framework that was adopted by the banking system. Under the framework, which began during the second quarter of 2025 and is expected to continue until the end of the first quarter of 2027, the banking system will allocate a total of NIS 3 billion to finance various relief measures for its retail sector customers.[3] In the second quarter of 2025, the banking system provided relief measures totaling NIS 295 million.

Development of Income and Expense Items in the Profit and Loss Statement

Net interest income increased during the first half of 2025 by 5.1 percent compared to the corresponding period last year, and totaled approximately NIS 31.4 billion (Figure 1).

Interest income increased during the first half of 2025 by approximately 5.2 percent and, as of June 2025, was approximately NIS 68.5 billion (compared to approximately NIS 65.1 billion in June 2024).

Interest expenses also increased, but at a slightly higher rate (5.4 percent), reaching NIS 37.1 billion in June 2025, against the backdrop of the continued shift of current account balances into interest-bearing deposits (for further details, see the chapter on the main developments in balance-sheet and off-balance-sheet activity).

The banking system is characterized by an excess of interest-earning assets over interest-bearing liabilities (Figure 3).[4] In the first half of 2025, the excess of interest-earning assets over interest-bearing liabilities stabilized—that is, it did not increase despite the increase in credit to the public and the public's deposits. This stabilization resulted from the continued shift of current

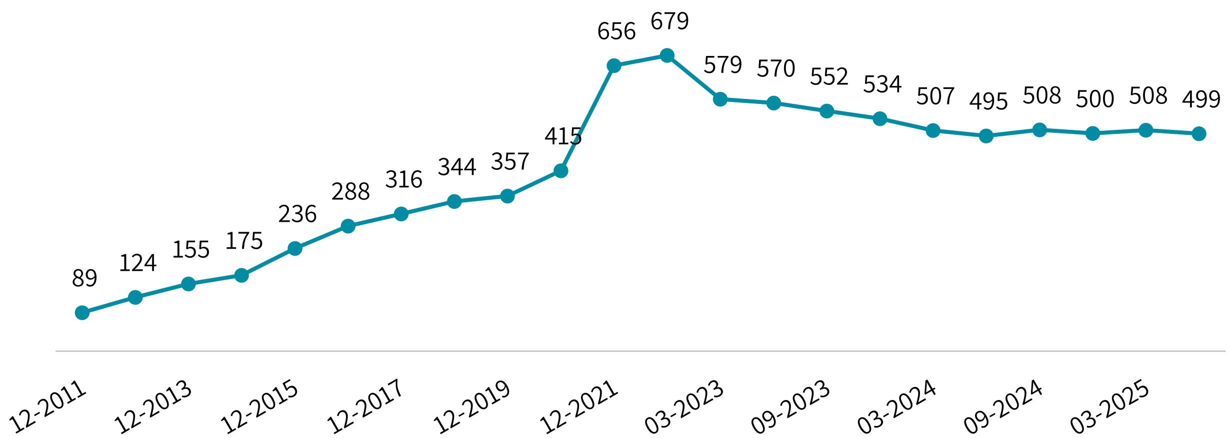
[3] For further details, see the following press release.

[4] This gap is primarily explained by the total noninterest-bearing credit balances in current accounts. As of June 2025, these balances were at about NIS 482 billion (about 22 percent of the public's total deposits, of which about NIS 230 billion belong to private individuals (for further details, see the section on the balance sheet).

account balances to interest-bearing deposits (mainly by commercial entities), such that interest-earning assets and liabilities expanded at similar rates.

Figure 3: In 2025:H1, there was continued stabilization in the gap between interest-earning assets and interest-bearing liabilities, as interest-earning assets and liabilities expanded at similar rates

Spread between interest-bearing assets and interest-bearing liabilities total banking system, 2011 to June 2025 | NIS billion



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

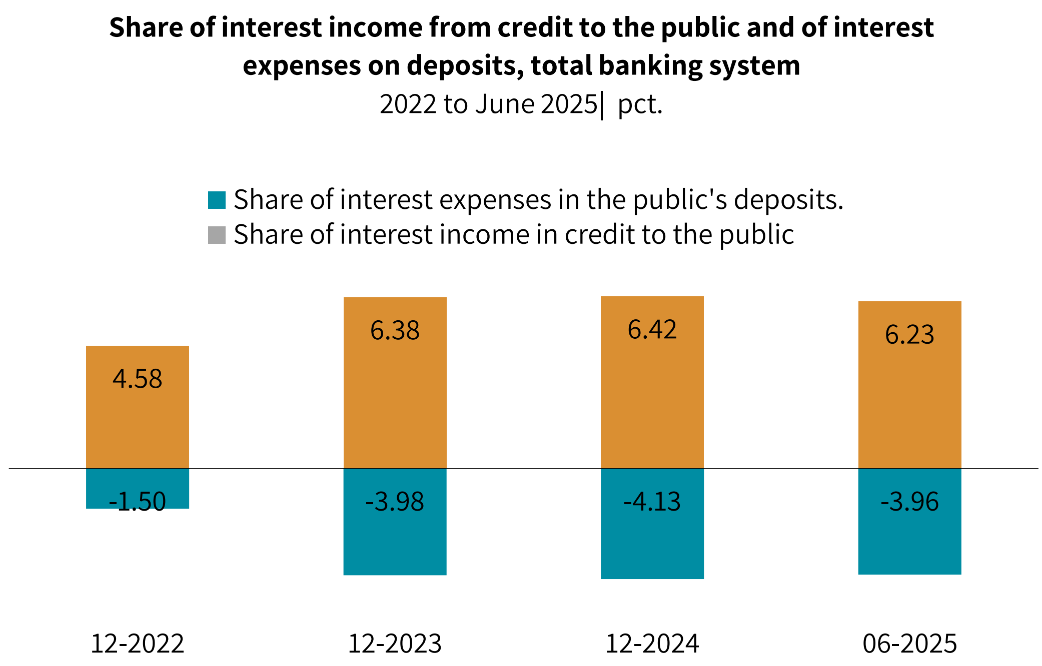
During the first half of 2025, a similar decline was recorded both in the rate of interest income from credit to the public and in the rate of interest expenses on the public's deposits (Figure 4, Table 4), which is in line with developments in the yield curves in the market. As a result, the interest rate spread,[5] which reflects the banks' profitability from their core activities (extending credit and accepting deposits), remained unchanged relative to December 2024 at approximately 2.27 percent (Figure 5). An analysis of the interest rate spread that includes current account balances (the vast majority of which do not bear interest but serve, in part, as a source of credit) shows that the interest rate spread declined (by 0.13 percentage points relative

[5] According to the gap between the rate of income from credit and the rate of expense on interest-bearing deposits. It is the practice to calculate the interest rate spread such that, on the public deposits side, it includes only interest-bearing deposits.

to December 2024), against the backdrop of growth in the public’s interest-bearing deposits (mainly commercial entities) alongside a slight decrease in current account balances.

During the first half of 2025, there was an increase in net interest income, stemming mainly from growth in total assets, and particularly the expansion of credit to the public. The price effect was negative on both the asset and liability sides, but was stronger on the liability side. Therefore, although a decline occurred on both sides, the decline in prices on the liability side was more significant, thereby creating a positive (though moderate) net effect on interest income (Table 3).[6]

<u>Figure 4: In 2025:H1, there was a decrease in the share of interest income out of total credit from the public and in the share of interest expense out of total interest on deposits</u>

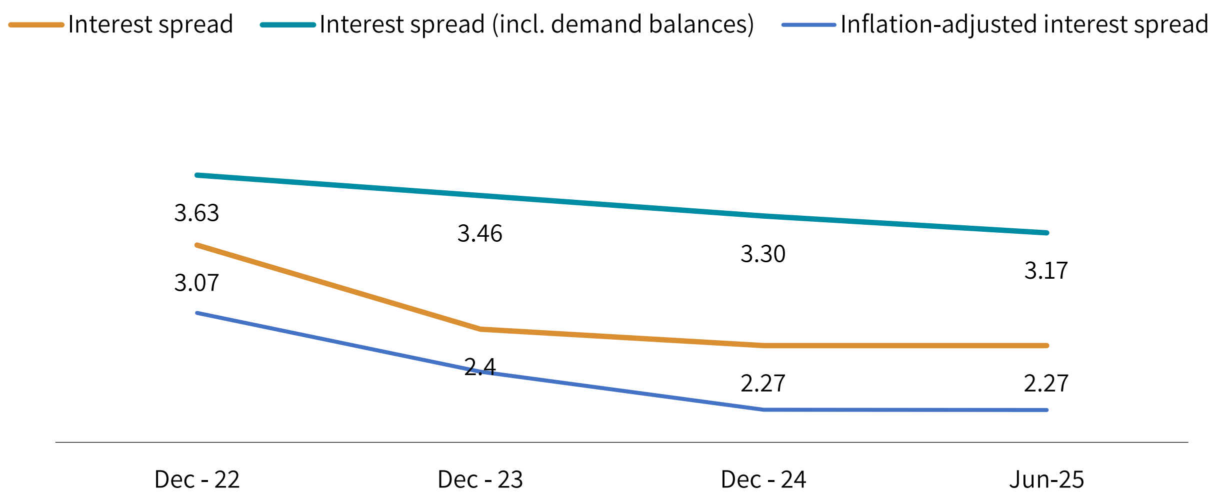


Source: published financial statements and processing by the Banking Supervision Department

[6] The analysis is based on decomposing the change in interest income and expenses into two components: a quantity effect (a change in total assets and liabilities) and a price effect (a change in interest rates). This approach makes it possible to identify the relative contribution of each factor to the overall change, distinguishing between structural effects (such as expansion of activity) and market effects (such as changes in interest rate conditions).

<u>Figure 5: The interest rate spread (both including and excluding inflation effects) remained unchanged during the first half of 2025. In contrast, the interest rate spread including current account balances continued to decline throughout the first half of 2025, against the backdrop of growth in public deposits alongside a reduction in current account balances</u>

Interest rate spread (credit to public and public's deposits), total banking system
2022–June 2025 | pct.



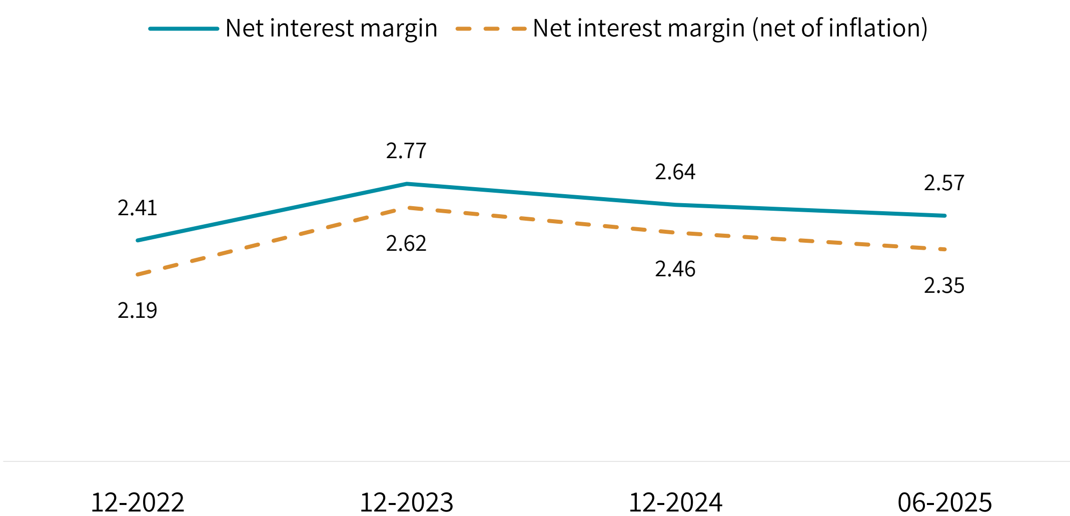
Source: published financial statements and processing by the Banking Supervision Department.

The net interest margin (NIM)[7], a metric reflecting the banking system's ability to generate profits from total interest-earning assets, showed a slight decline and was 2.57 percent at the end of the first half of 2025, compared to 2.64 percent at the end of 2024 (Figure 6). The decline in the net interest margin during the first half of 2025 is explained mainly by a more moderate increase in financing income relative to the growth in interest-earning assets. Excluding the effect of the CPI, the financial margin eroded to a somewhat greater extent.

[7] Net total financing income (from interest and not from interest) relative to total interest-producing assets.

Figure 6: During the first half of 2025, the net interest margin declined slightly, reflecting a more moderate increase in financing income relative to the growth in interest-earning assets

Net interest margin*, total banking system
December 2022–June 2025| pct.



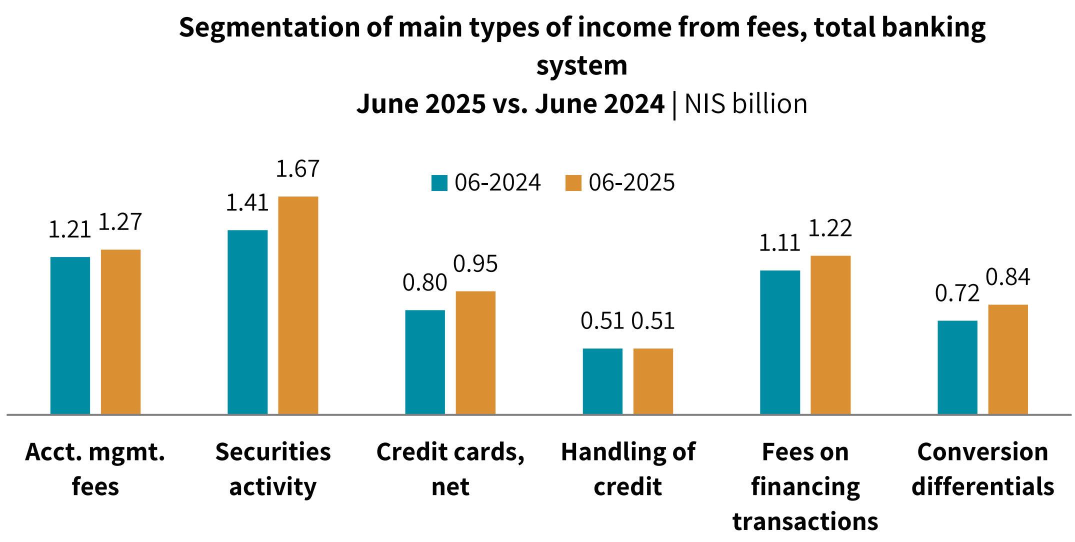
* Ratio of interest income to non-interest income within total interest-earning assets.
source: published financial statements and processing by the Banking Supervision Department

Loan loss provisions in the first half of 2025 were NIS 1.1 billion (Figure 1, Table 2), reflecting an increase of approximately NIS 500 million, or about 83 percent, relative to the corresponding period last year. This increase was driven by higher group provisions related to the economic and security environment, as well as the recognition of specific income items that reduced expenses in the corresponding period last year.

Noninterest income in the first half of 2025 declined by approximately 3.5 percent relative to the corresponding period last year, reaching NIS 10.2 billion (Figure 1, Table 2). The decrease in this item resulted from a decline in noninterest financing income and other income, partially offset by an increase in fee income, as described below.

Fee income rose markedly during the first half of 2025, increasing by approximately 11.9 percent relative to the corresponding period last year to NIS 7.4 billion (Table 2). The increase resulted from a rise in the volume of financial activity by households and businesses during the period being reviewed, as reflected in expanded use of banking services, including securities trading, foreign currency transactions, and credit card usage. Part of the increase in account management fees was attributable to the expiration of assistance and relief frameworks granted to customers in 2024 (Figure 7). In this context, it should be noted that in July 2025 the Banking Supervision Department announced a reform of fees charged to households and small businesses for payment account management services and debit cards.[8] Under this reform, the Banking Supervision Department is promoting an update of the pricing method for routine payment transactions and establishing a new "payment account management" service, along with setting a maximum price that can be charged for this service. In addition, it is advancing the establishment of a maximum regulated fee that can be charged for debit card usage.

Figure 7: During the first half of 2025, fee income increased, with the majority of the rise attributable to higher fees from securities activity and credit card fees



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

[8] For further details, see the following press release [Hebrew].

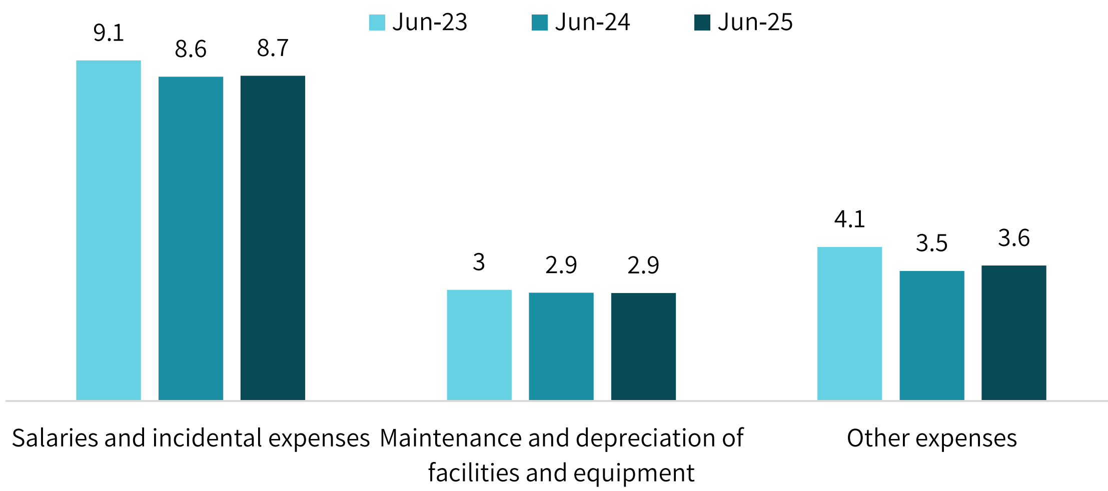
Other income totaled NIS 324 million in the first half of 2025, compared with approximately NIS 1.1 billion in the corresponding period last year. This decline reflects the impact of one-time revenues from asset sales by a small number of banking corporations during the corresponding period last year.

Operating and other expenses amounted to approximately NIS 15.2 billion in the first half of 2025, a moderate increase of 1.1 percent compared with the corresponding period last year. Part of this increase is explained by a slight rise in salaries and related expenses (Figure 8).

Provision for taxes on income and minority interests totaled NIS 9.3 billion in the first half of 2025 (an increase of 2.3 percent relative to the corresponding period last year). It should be noted that in March 2024, the Special Payment for Achieving Budget Targets Law was enacted. This law imposes a special levy on banks based on their profits, in an amount equal to 6 percent of the profits generated from their activity in Israel (since it was enacted partway through the year, the rate applied in 2024 was 4.5 percent). The law applies to the years 2024–25 and establishes an annual cap of NIS 1.2 billion and NIS 1.3 billion for 2024 and 2025, respectively.

Figure 8: The continued contraction in salary and related expenses, as well as other expenses, contributed to a decline in operating and other expenses during the first half of 2025

Breakdown of Main Operating and Other Expense Items[1], Total Banking System, June 2023 - June 2025 | NIS billion



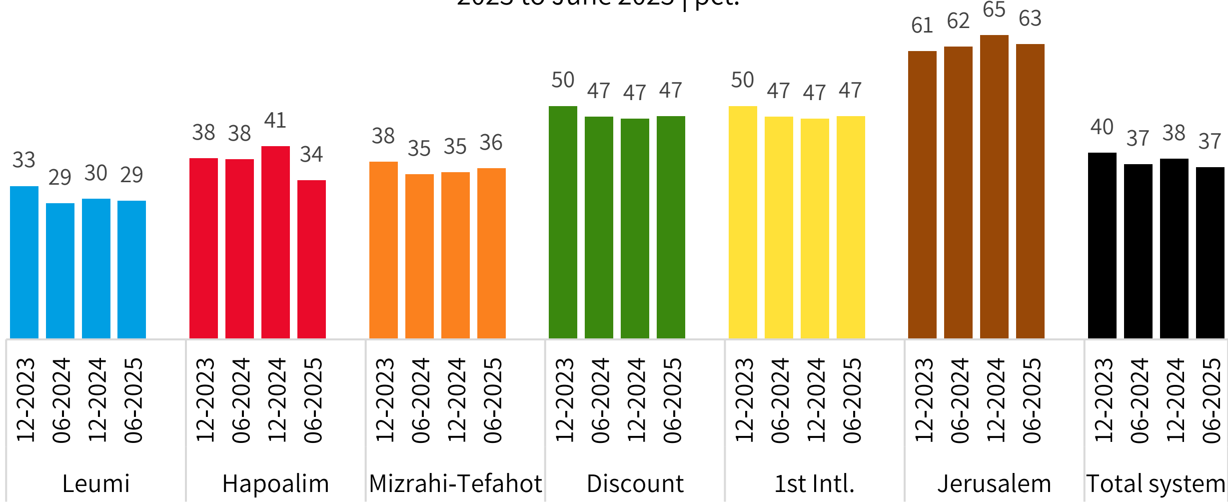
1 Does not include sections that make up less than 0.5 percent of total operating and other expenses such as impairment, goodwill, etc.
Source: published financial statements and processing by the Banking Supervision Department

The operating efficiency ratio remained stable for most banks and remains low by historical standards (it should be noted that a lower ratio indicates higher efficiency). This reflects the continued high level of revenues alongside a slight decline in operating and other expenses (Figure 9, Table 5). Against the backdrop of the decrease in operating and other expenses and the growth in the average balance of assets, the cost per output unit declined to approximately 1.1 as of June 2025 (Figure 10).

Figure 9: The operating efficiency ratio remained stable at most banks and remains low by historical standards

Operating efficiency ratio,[1] total banking system

2023 to June 2025 | pct.



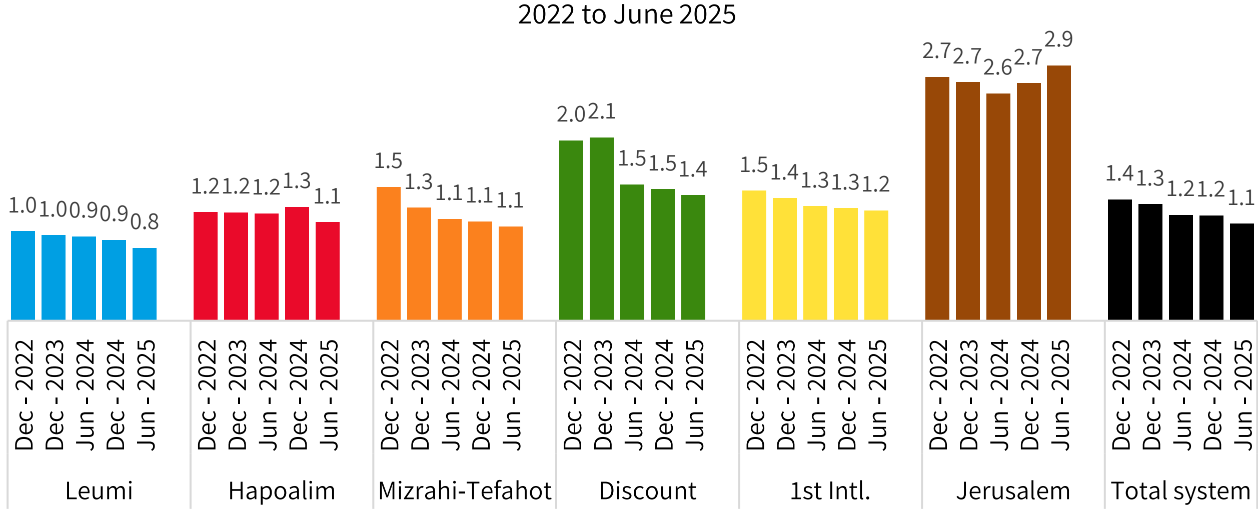
1)The ratio of total operating and other expenditure and average balance of assets (average cost)

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

Figure 10: The cost per unit of output continues to decline

Unit output cost,[1] total banking system

2022 to June 2025



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

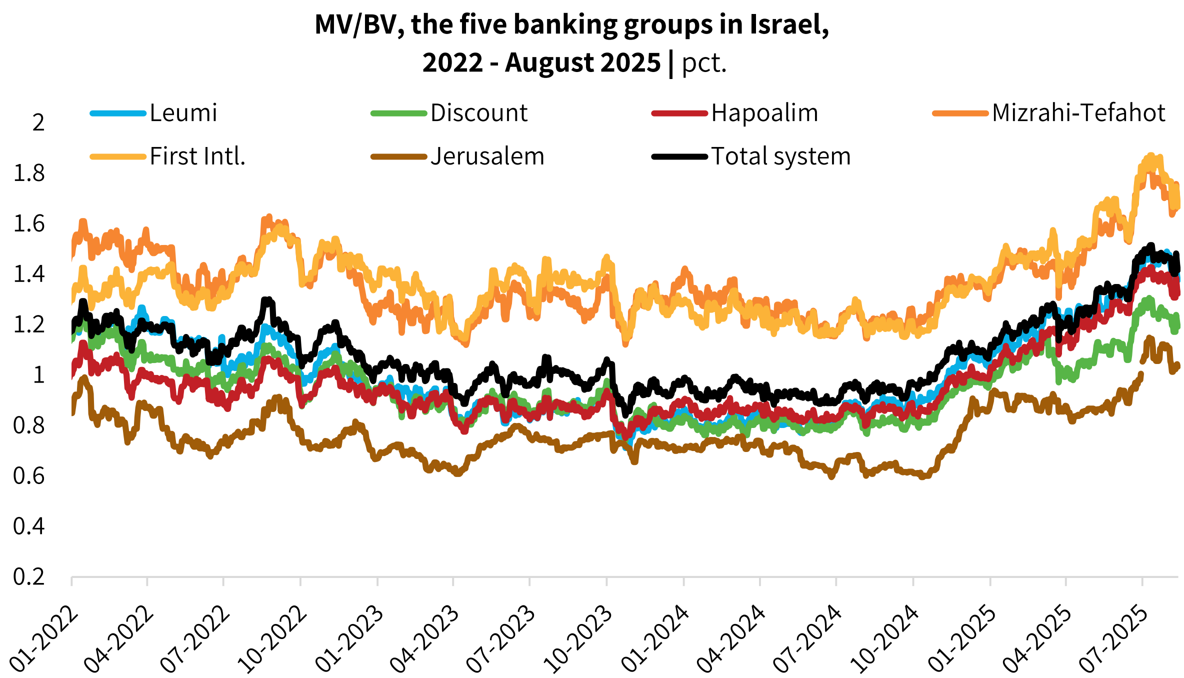
Source: published financial statements, reports to the Banking Supervision Department, and processing by the Banking Supervision Department

MV/BV ANALYSIS OF THE BANKS' RESULTS

The MV/BV (Market Value to Book Value) ratio is a financial metric that reflects the gap between how investors value a company in the market and the book value of its shareholders' equity. A ratio above 1 indicates that the market values the bank above its recorded book value, signaling investor confidence in its growth potential and profitability. In contrast, a ratio below 1 may reflect investor concerns and sometimes an assessment that the bank is undervalued due to risks or operational weaknesses.

In the first half of 2025, the MV/BV ratio of Israeli banks continued on the upward trend that began in the fourth quarter of 2024 (Figure 11). During Operation Rising Lion, the ratio rose sharply, in line with a broader market-wide increase. However, following the conclusion of the operation, the ratio moderated and even declined somewhat. The increase recorded in the first half of 2025 across the entire banking system—driven by a sharp rise in market value (MV)—brought the MV/BV ratio to a historic high. The aggregate ratio for the banking system surpassed the 1.5 threshold, and all banks recorded ratios above 1. The strengthening of the ratio indicates growing investor confidence in the banks' future growth potential, likely supported by their high profitability during this period, the prevailing macroeconomic environment, and the resilience of the banking system amid ongoing domestic and security-related uncertainty. This combination has supported higher valuations of bank shares.

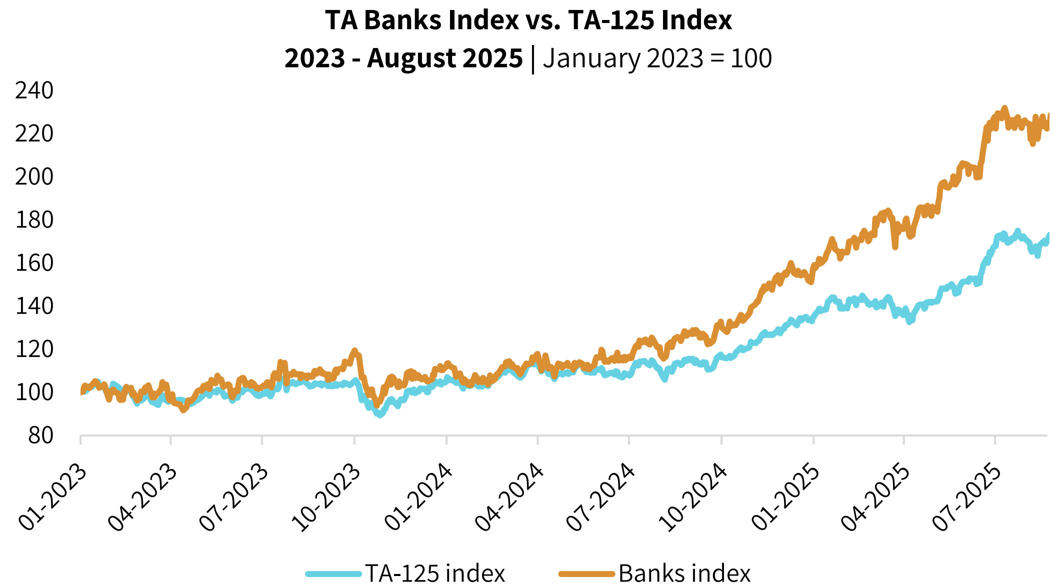
Figure 11: The MV/BV ratio increased to record levels, reflecting investors' confidence in the banks' future growth potential



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

The increase in the banks' market value (MV) reflects, to some extent, the broader market trend. As in the case of the Bank Index, the TA-125 Index has been on an upward trajectory since the fourth quarter of 2024. This was possibly due to the decline in the economy's risk premium, which intensified during Operation Rising Lion. Despite the similarity in overall trends, the Bank Index recorded a faster rate of increase than the general market. In the first half of 2025, the Bank Index rose by 44 percent, compared to a 38 percent increase in the TA-125 Index (Figure 12). The difference in rates of growth may be explained by the banks' high profitability, driven both by efficiency improvements and by the supportive macroeconomic environment during the first half of 2025.

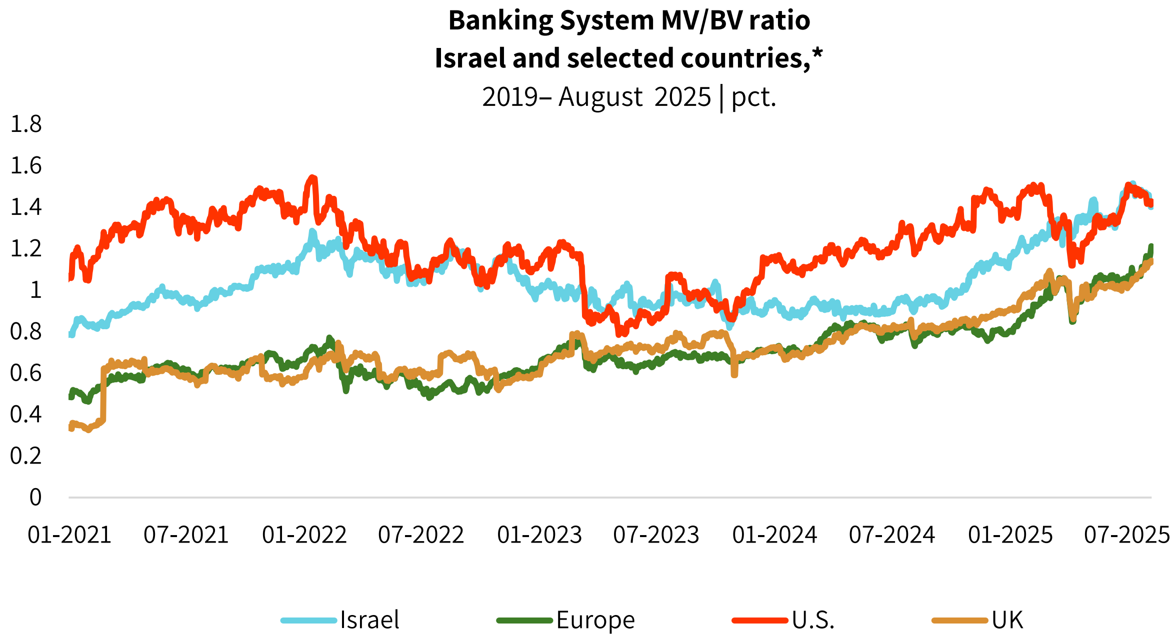
<u>Figure 12: The Bank Shares Index is rising at a faster pace than the broader market is</u>



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

In the UK and across Europe more broadly, the upward trend in banks' MV/BV ratios continued, reaching new record levels. In contrast, the US experienced mixed trends during the first half of the year. In the first quarter, there was a sharp decline in the MV/BV ratio, likely driven by statements made by the US President regarding potential changes in trade policy. This decline also affected banks in Europe and the UK, leading to short-term declines there as well. In the second quarter, however, the trend in the US reversed, and the ratio resumed its upward trajectory—similar to the trend observed during the same period in Europe and Israel (Figure 13).

Figure 13: The impact of the publication of US trade policy on MV/BV ratios, alongside the continued increase in the ratio in the UK and Europe



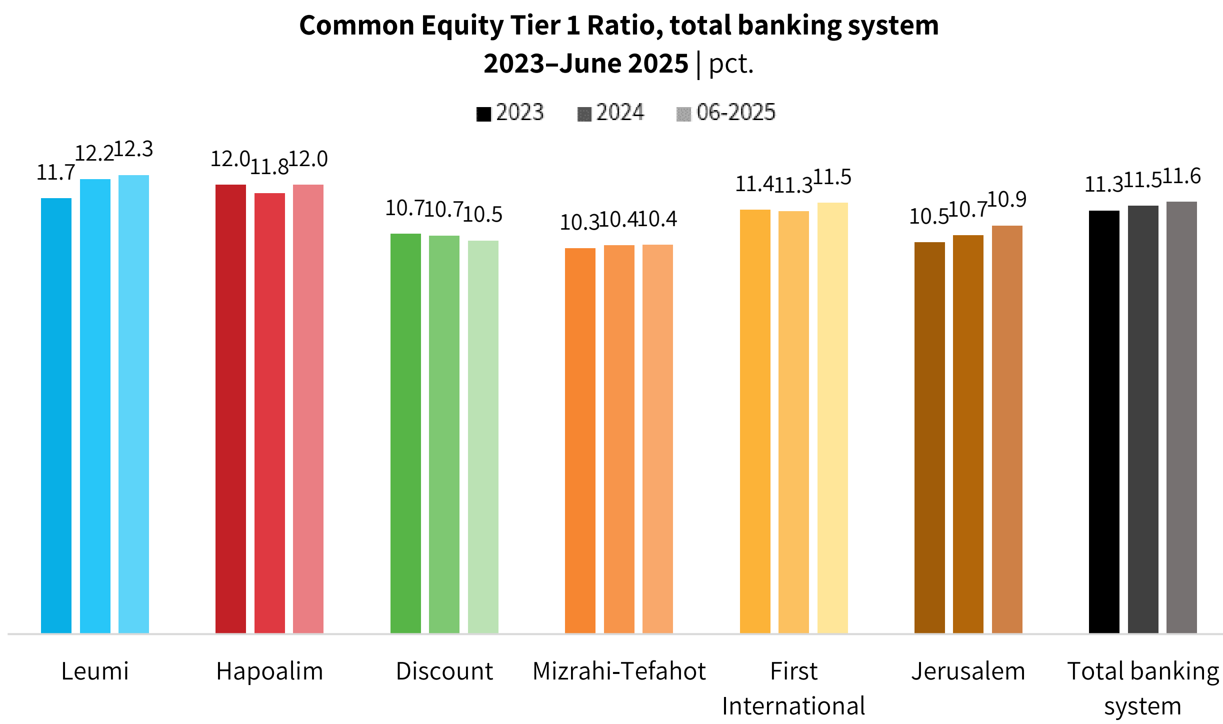
*Israel - TA Banks Index, UK - FTSE 350 Banks Index, Europe - MSCI Europe Banks Index, USA - KBW Bank Index.
Source: Bloomberg, Tel Aviv Stock Exchange, public financial statements, and processing by the Banking Supervision Department

CAPITAL ADEQUACY AND LEVERAGE

In the first half of 2025, the banking system's Common Equity Tier 1 capital ratio remained high and above regulatory requirements, standing at 11.6 percent as compared to 11.5 percent at the end of 2024 and 11.3 percent in 2023 (Figure 14). These elevated levels reflect the financial strength of Israeli banks and their ability to support economic activity and cope with prolonged crisis events. The banks' profitability continues to grow and to contribute to capital accumulation. At the same time, dividend distributions and growth in risk-weighted assets are exerting downward pressure on capital ratios. Nevertheless, the total capital ratio remained high and stable, estimated at approximately 14.4 percent as compared to 14.3 percent in 2024.

The Banking Supervision Department is currently in the process of reviewing regulatory changes and directives concerning the calculation of risk-weighted assets, as well as capital and leverage requirements. The objective is to improve alignment between the supervisory capital requirements applied to Israeli banking corporations and the recommendations of the Basel Committee, as well as internationally accepted practices. This process is expected to strengthen the banking system's capital framework and enhance its resilience to potential shocks.

<u>Figure 14: The Common Equity Tier 1 ratio remained stable and above regulatory requirements</u>

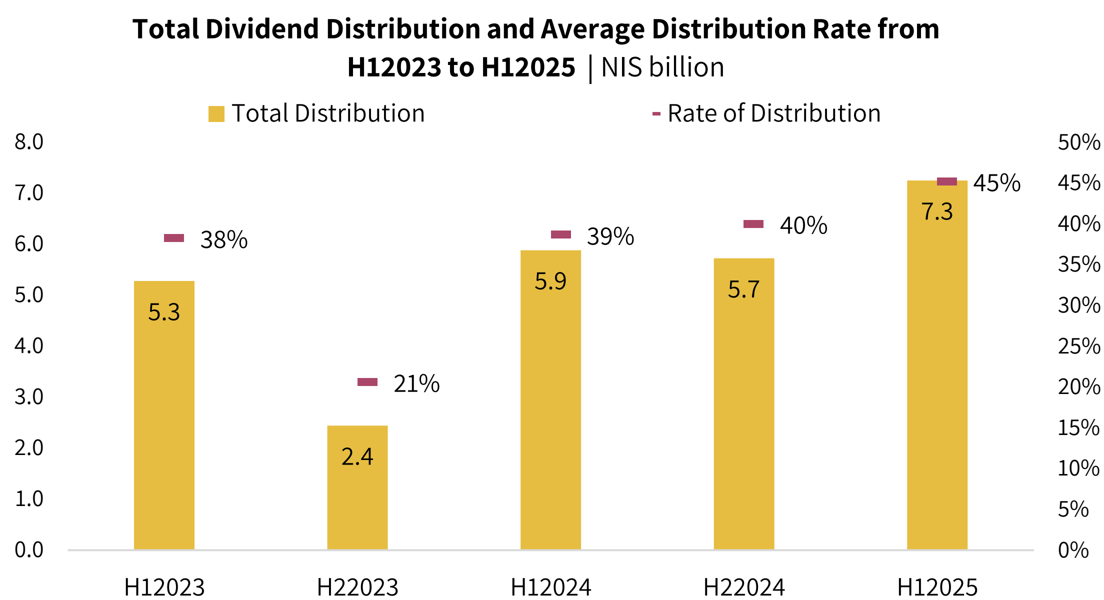


Source: published financial statements and processing by the Banking Supervision Department

In the first half of 2025, Common Equity Tier 1 capital in the banking system increased by approximately 11.5 percent (in annualized terms), reaching about NIS 210 billion (Table 6). This growth rate is slightly lower than the average rate over the past two years, which stood at approximately 12.2 percent. High profitability continued to support acceleration in capital growth, with net profit totaling NIS 16.2 billion in the first half of 2025, as compared to NIS 15.3 billion in the first half of 2024. In addition, conservative payout ratios contributed to maintaining capital stability, despite significant dividend distributions over the past two years (Figure 15).

In the second quarter of 2025, banks returned to payout rates consistent with their stated policies, and some banks updated their policies and increased their payout ratio to 50 percent. It should be noted that, in line with the banks' distribution policies, approximately half of them also conduct share buybacks alongside dividend distributions. The return to a regular distribution routine was made possible by the capital buffers accumulated in recent years, supported by, among other factors, strong profitability and less than full distributions in previous quarters. Accordingly, in the second quarter, the five banking groups declared dividend distributions totaling NIS 4.2 billion, to be paid during the third quarter of the year, which represents approximately 50 percent of second-quarter profits. It should also be noted that more than 87 percent of bank shares are held by the general public[9]. As such, the general public are the primary beneficiaries of these substantial profit distributions—whether through direct holdings of bank shares or indirectly through pension and provident funds invested in bank shares, which also benefit from the banks' profit distributions.

Figure 15: Despite relatively conservative payout ratios, banks distributed substantial dividends over the past year and a half



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

[9] Anyone not defined as a controlling shareholder and who needs to obtain a permit from the Bank of Israel.

The decline in bond yields led to an increase in accumulated other comprehensive income, both through fair value adjustments of available-for-sale bonds and through a reduction in net liabilities for employee benefits (due to an increase in the plan's assets).

Risk-Weighted Assets

Total risk-weighted assets increased by 9.8 percent during the first half of 2025 (Table 6), slightly lower than the rate of 11 percent in 2024, which was influenced by, among other factors, the downgrades in Israel's sovereign credit rating during 2024.[10]

Credit risk-weighted assets, which accounted for 91 percent of total risk-weighted assets as of mid-2025, grew by approximately 9.5 percent in the first half of 2025, which was slower than in 2024. This increase is attributed to, among other factors, changes in the composition of the credit portfolio and a slowdown in the household sector. Net of the impact of the sovereign rating downgrades, the growth rate of credit risk-weighted assets in the first half of 2025 (13.8 percent) was higher than in 2024 (10.75 percent). It can also be seen that credit risk-weighted assets increased threefold as a result of the rating downgrades[11] since the end of 2023.

In addition, market risk-weighted assets (which account for approximately 1.3 percent of total risk-weighted assets) grew at more than twice the rate observed in 2024.[12] Most of the increase stemmed from interest rate risk, foreign currency risk, and foreign currency options exposures (for further details, see the section on market risk).

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[10] On Friday, February 9, 2024, Moody's announced a downgrade of Israel's sovereign credit rating from A1 to A2, with a negative outlook.
On Thursday, April 18, 2024, S&P announced a downgrade of Israel's sovereign credit rating from AA- to A+, with a negative outlook.
On Monday, August 12, 2024, Fitch announced a downgrade of Israel's sovereign credit rating from A+ to A, with a negative outlook.

[11] Excluding the impact of these rating downgrades, the growth rate of credit risk-weighted assets in the first half of 2025 was 13.8 percent, compared to an estimated 10.75 percent in 2024 and 4.61 percent in 2023.

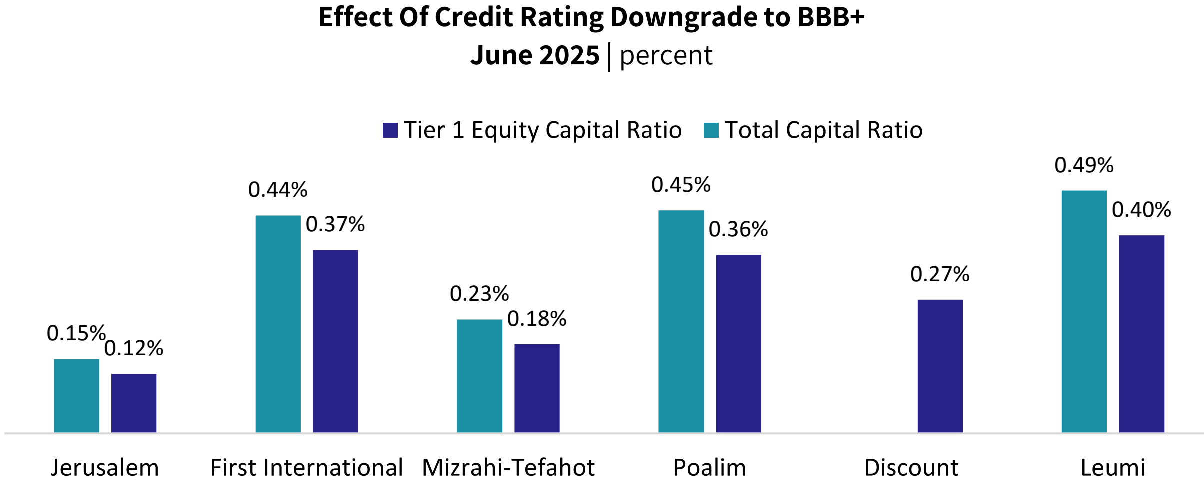
[12] In the first half of 2025, market risk-weighted assets grew by approximately 39 percent, as compared to 17 percent in 2024.

During the first half of 2025, the three major international rating agencies—Fitch, S&P, and Moody's—affirmed Israel's credit rating with a negative outlook. In light of the prevailing security situation, the possibility of further escalation with Iran,[13] and ongoing political instability, they are closely monitoring developments and the potential for further rating actions is under review. This follows the downgrades during 2024 and their impact on higher capital requirements for banks' exposures to the government of Israel, and to Israeli public sector entities, institutional bodies, and banks. Most banks in the system[14] use S&P as the sole external rating agency for a country in the measurement of capital adequacy. Therefore, downgrades by the other rating agencies are not expected to have a direct impact on capital. At present, only a downgrade by S&P to BBB+—two notches below Israel's current rating—would be expected to have a direct effect on the banks' capital allocation. In such a scenario, banks' capital ratios could decline by up to 0.4 percent (Figure 16).

[13] On June 13, Israel launched a military operation in Iran (Operation Rising Lion), which lasted approximately 12 days. Its economic implications are not yet known.

[14] With the exception of Bank Leumi, which uses the most conservative (i.e., lowest) credit rating among the three rating agencies (Fitch, S&P, and Moody's), all other banks rely solely on S&P's rating for capital adequacy purposes. Accordingly, Bank Leumi is also exposed to potential additional downgrades by Fitch (to BBB+) and Moody's (to Baa1), should such downgrades occur, which would lead to an increase in the bank's credit risk-weighted assets. (When there are three ratings, the two best are taken and the risk weight is determined according to the lower of the two.)

Figure 16: A sovereign rating downgrade to BBB+ would reduce banks' Tier 1 capital ratio by up to 0.4 percent[15]



Discount Bank did not disclose the effect of rating on total capital.
The data for Leumi are as of January 31, 2024

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

Total Capital and Leverage

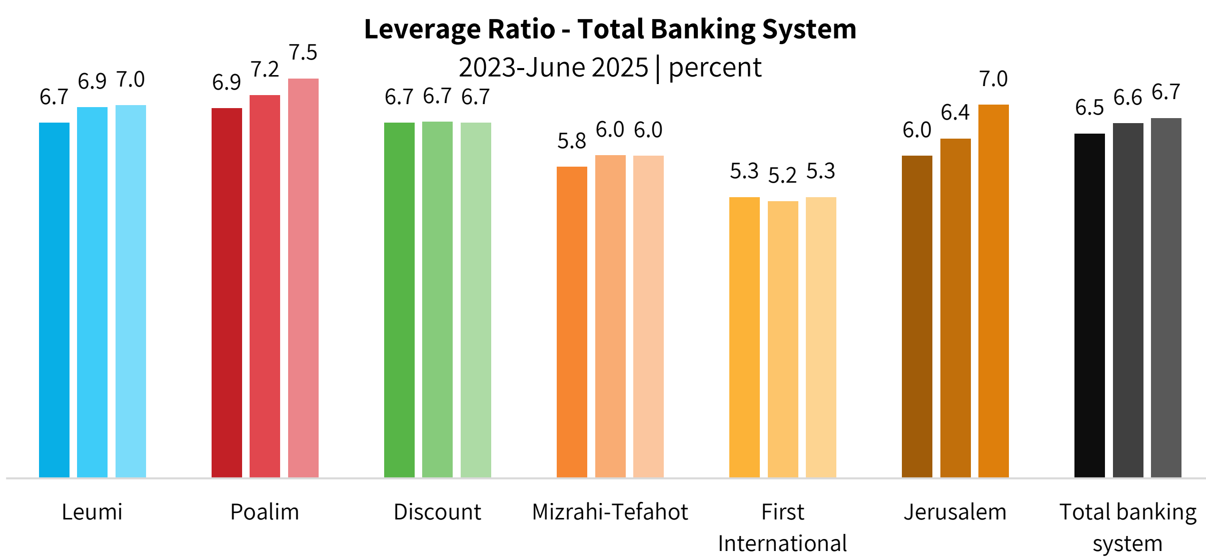
As in the case of the Common Equity Tier 1 capital ratio, the total capital ratio remained stable at a high level during the first half of 2025, estimated at approximately 14.4 percent, compared to 14.3 percent at the end of 2024. This stability was maintained despite the continued growth in risk-weighted assets and is explained by a similar rate of increase in Tier 2 capital. The increase in total Tier 2 capital resulted mainly from the issuance of contingent convertible (COCO)totaling NIS 3.84 billion and from a continued increase in the group allowance (9.63 percent), although the rate moderated slightly compared to previous years (10.2 percent and 16.8 percent in the first half of 2024 and the first half of 2023, respectively).[16]

[15] Data was taken from a financial report for 2024. Bank Leumi did not report the effects; Discount Bank reported a Tier 1 capital ratio only.

[16] It should be noted that minority interests also contributed to the increase in capital, with the main growth due to Discount Bank, which rose by 80 percent, primarily due to the appreciation of the shekel.

The leverage ratio also remained stable at a high level and above regulatory requirements. The banking system's leverage ratio stood at 6.7 percent, compared to 6.6 percent at the end of 2024 (Figure 17). The slight improvement in the leverage ratio reflects a higher growth rate in Tier 1 capital (11.5 percent) relative to total exposures (8.3 percent). In addition, during the first half of 2025, a moderate increase of 7.6 percent[17] was recorded in on-balance-sheet exposures across the banking system, compared with 7.4 percent in 2024. These exposures account for approximately 86 percent of total system exposures and therefore have a more significant impact on the overall growth rate of total exposures.

Figure 17: The leverage ratio remains high and stable across the banking system



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

[17] With the exception of Bank of Jerusalem, which recorded a 4.6 percent decline following a securitization transaction carried out on June 24, 2025. In that transaction, the bank sold 90 percent of its rights and obligations in a residential mortgage loan portfolio, with a total amount of approximately NIS 470 million, to a special purpose vehicle.

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

The aggregate balance sheet of the banking system stood at NIS 2,865 billion at the end of the first half of 2025, reflecting an annualized growth rate of 11.8 percent compared to December 2024 (Figure 18), with most of the increase occurring in the second quarter of the year. This growth rate is higher[18] than in the previous two years (an average annual growth rate of 6.5 percent during 2023–24). Developments in the financial markets—including rising equity indices (in Israel and globally), declining government bond yields, and an appreciation of the shekel—affected the development of the banks' balance sheets. In this context, developments in the financial market led to a significant increase in derivatives activity[19], resulting in growth in both assets (24 percent during the first half of 2025—approximately NIS 39 billion) and liabilities (33 percent during the first half of 2025—approximately NIS 48 billion) due to derivative instruments, and mainly in the unindexed shekel segment and in euro-denominated activity.

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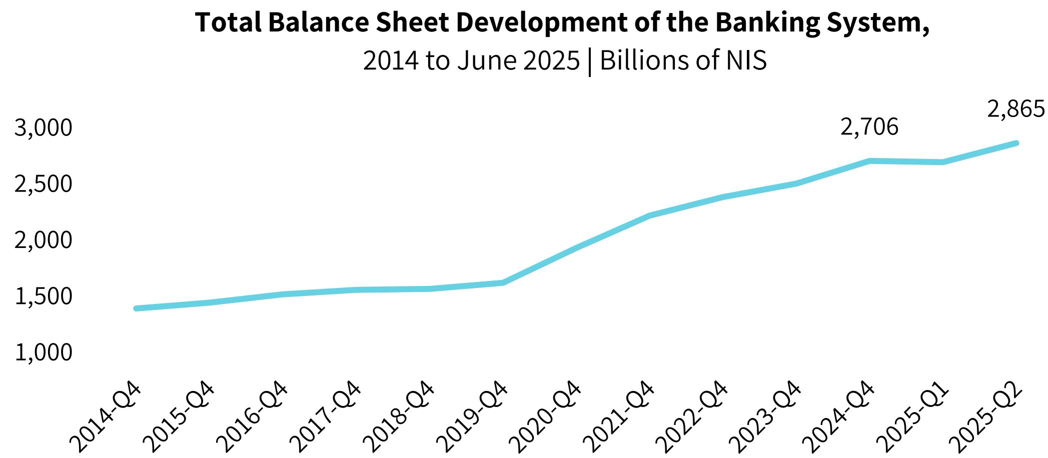
[18] After neutralizing the effect of the exchange rate, the balance sheet grew by an annual rate of 14.3 percent.

[19] Despite the high rates of growth, the total volume of activity due to derivatives is relatively low: 3.8 percent of risk-weighted assets and 4.3 percent of total liabilities, as of June 2025.

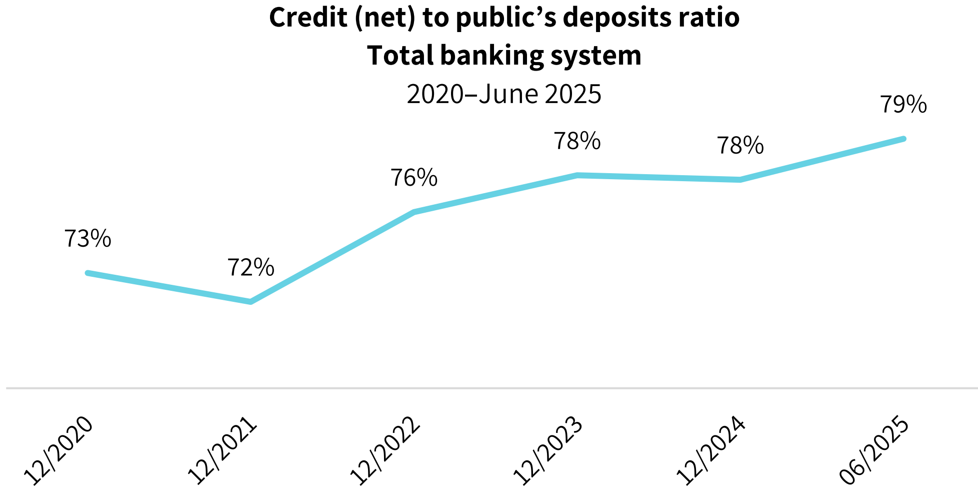
<u>Figure 18: In the first half of 2025, the total balance sheet of the banking system increased, with most of the growth occurring in the second quarter of the year</u>



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

On the asset side, credit to the public grew by approximately 11.3 percent during the reviewed period. On the liabilities side, the public's deposits increased by approximately 6.2 percent, and both items were central to developments in the banks' balance sheets. This trend is consistent with the traditional business model of most Israeli banks, which is primarily based on obtaining deposits from customers and extending credit to the public. Accordingly, the loan-to-deposit ratio continued to edge upward, reflecting the faster rate of growth in credit to the public relative to deposits of the public. As of the end of the first half of 2025, the ratio stood at 79 percent, as compared to 78 percent at the end of 2024 (Figure 19).

Figure 19: Growth in the ratio of net credit to deposits due to a faster increase in credit to the public



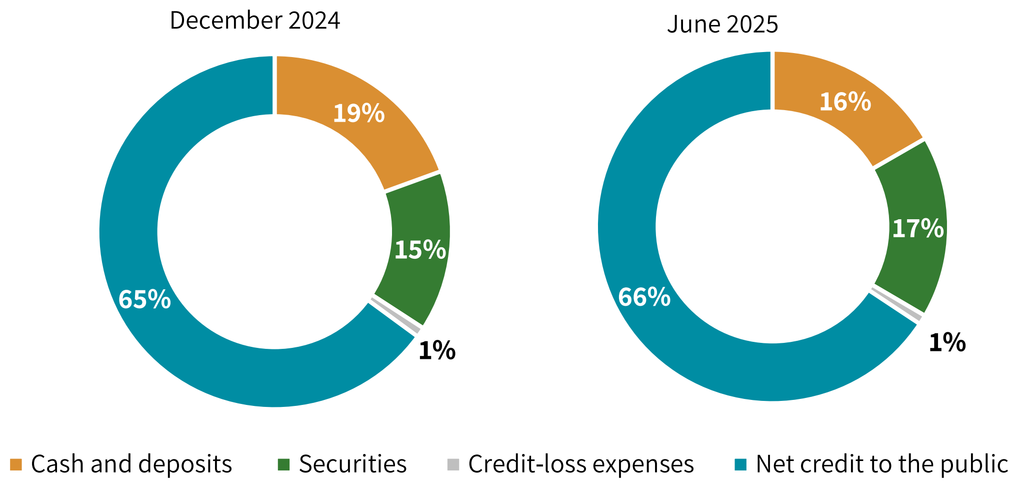
Source: published financial statements and processing by the Banking Supervision Department

Main Developments on the Assets Side

In the first half of 2025, banks' **net credit to the public**—representing approximately 66 percent of total assets—grew by about 11.3 percent, reaching approximately NIS 1,786 billion as of June 2025 (Table 8, Figure 20). This rate is slightly lower than in the corresponding period last year, during which credit to the public increased by 16 percent (Figure 21; for further details, see the section on credit).

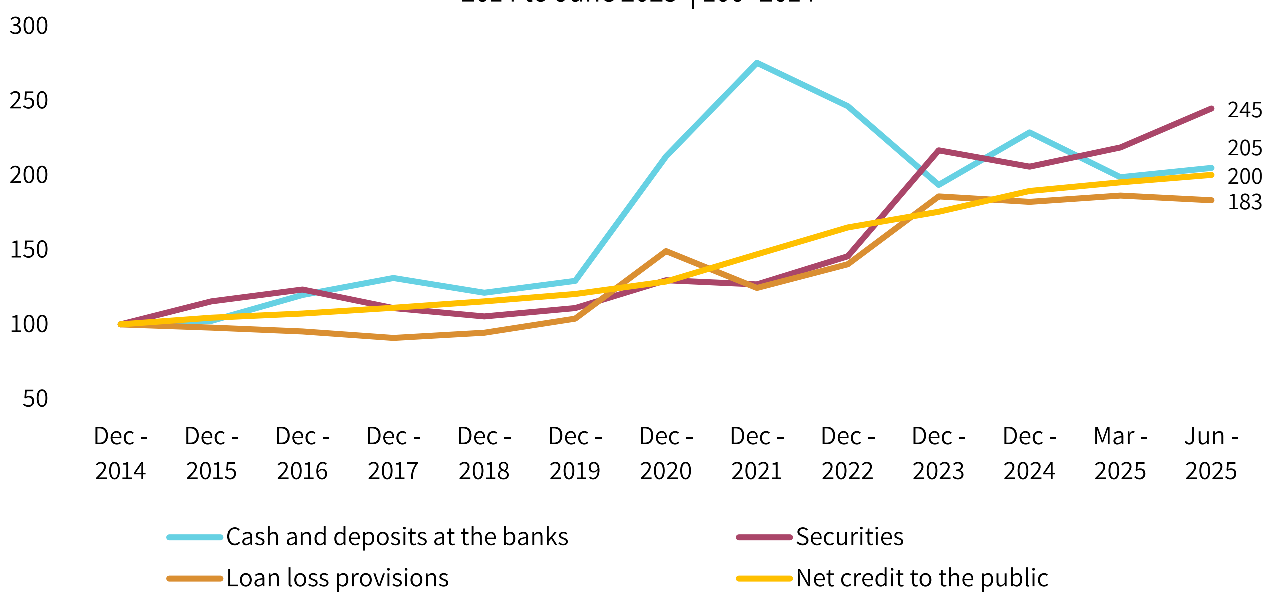
Figures 20-21: Growth in the securities portfolio alongside a decline in banks' cash and deposits

Distribution of assets, total banking system
2024 vs. June 2025 | pct.



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

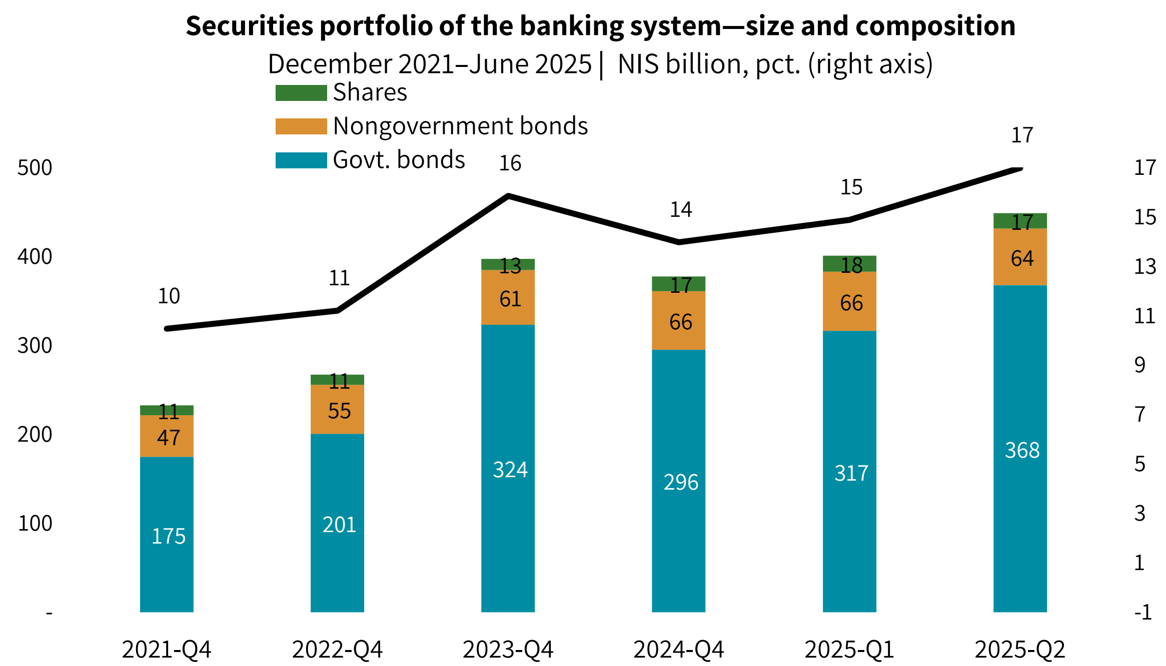
Trends in the Main Balance Sheet Items, Total Banking System
2014 to June 2025 | 100=2014



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

The securities portfolio, which accounts for approximately 17 percent of the banks' total assets, expanded significantly by about 37.8 percent (NIS 71.3 billion) in the first half of 2025 (Figure 22, in annualized terms). An analysis of the portfolio's components shows that while holdings of equities and non-government bonds remained relatively stable, the growth in the securities portfolio was driven by a roughly 24 percent increase in government bond holdings. Most of this increase was recorded in Israeli government bonds[20] in the unindexed shekel segment and in US government bonds. The rise in domestic government bond holdings reflects increased government issuance to meet higher public expenditure. This increase follows the decline recorded in this item during 2024, which reflected a reduction in holdings of *Makam* against the backdrop of growth in monetary deposits during that period.

Figure 22: Marked growth in the securities portfolio, driven by an increase in banks' holdings of Israeli and US government bonds

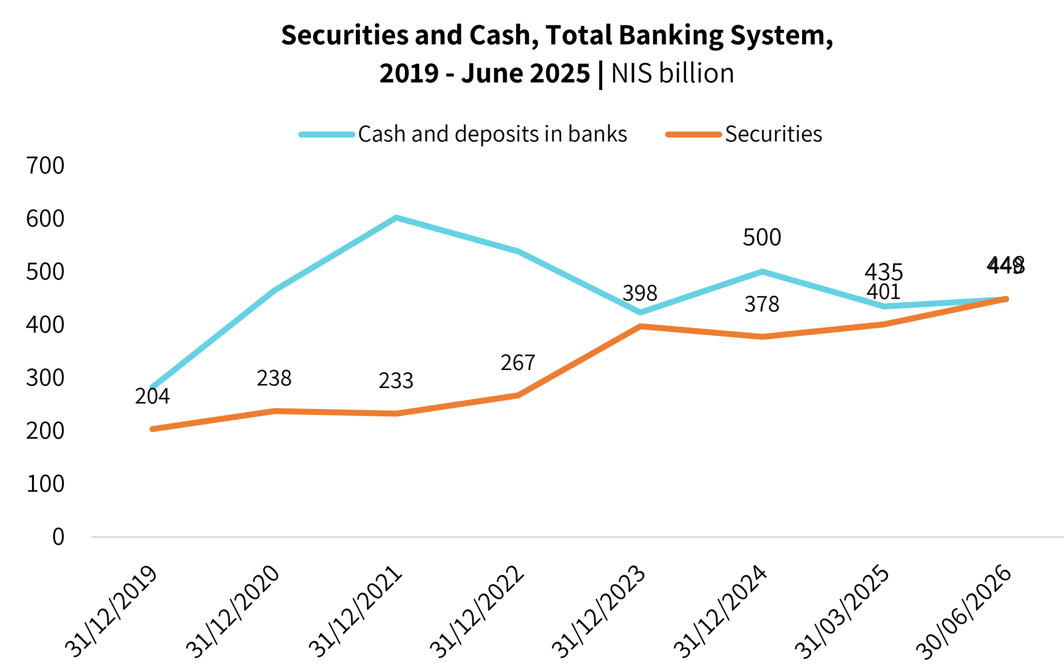


Source: published financial statements and processing by the Banking Supervision Department

[20] This item also includes *Makam (central bank bills)*.

The item **cash and deposits with banks**, which accounted for 17 percent of total bank assets as of June 2025, declined by approximately 20 percent in the first half of 2025 (in annualized terms). This is explained by the fact that at the beginning of 2025, the Bank of Israel significantly reduced its absorption of liquidity through monetary deposits, against the backdrop of record-high tax collections during this period—particularly in the first quarter (Figure 23). After the first quarter, the volume of monetary deposits remained largely unchanged. In addition, monetary loans extended during the COVID-19 period were repaid, further contributing to the decline in this item (for further details, see the chapter on liquidity).

Figure 23: A decline in the cash and deposits item at banks, occurring in the first quarter of the year against the backdrop of reduced liquidity absorption through monetary deposits



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

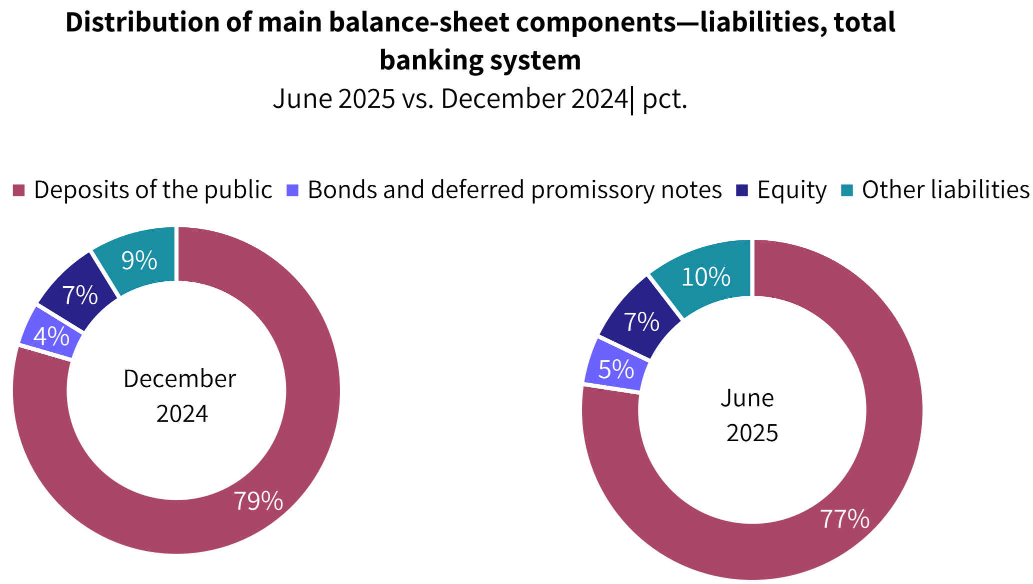
Main Developments on the Liabilities Side

In the first half of 2025, the upward trend continued in **deposits of the public**, with growth of approximately 6.2 percent (in annualized terms). As of June 2025, public deposits totaled about NIS 2.2 trillion. This rate is faster than in the corresponding period last year, when the rate stood at 2 percent. At the same time, the relative share of the public's deposits within total liabilities declined slightly to approximately 77 percent, as compared to 80 percent at the end of 2024 (Figure 24).

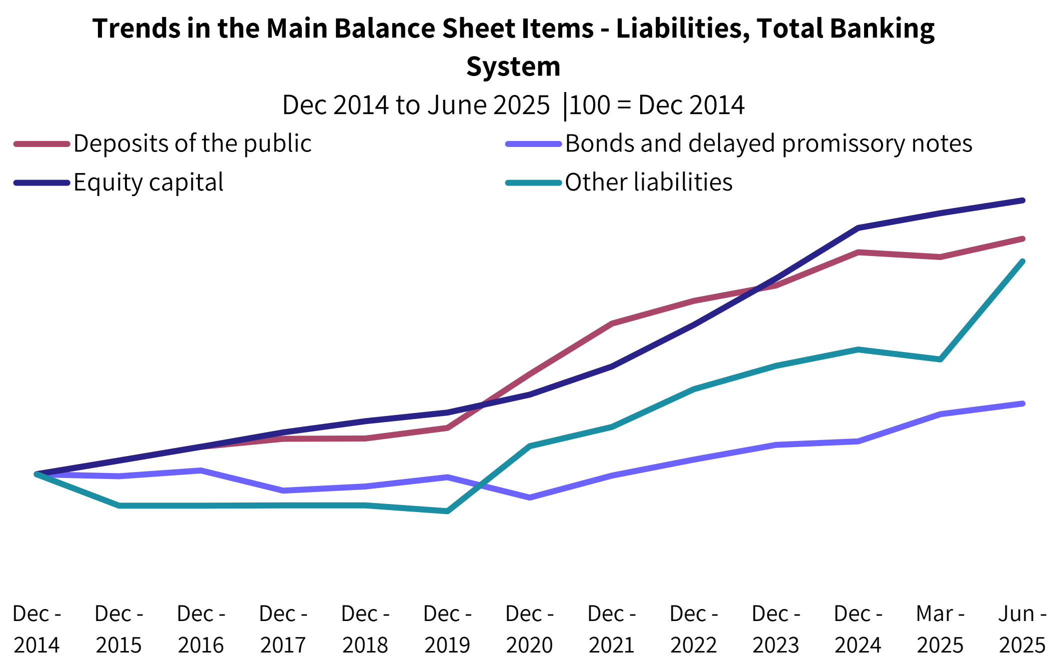
During 2025, the banks raised approximately NIS 28 billion through issuance of **bonds and subordinated notes**, compared to NIS 7 billion in the corresponding period last year. The higher level of issuance led to an increase of about 31 percent in bonds and subordinated notes (which account for approximately 11 percent of total liabilities, as compared to a 1 percent decline in the corresponding period last year). By the end of the period being reviewed, this item stood at NIS 134 billion (Figure 25).

Shareholders' equity grew by approximately 12 percent in the first half of 2025 (in annualized terms), reaching about NIS 213 billion, which represents 7 percent of total liabilities (Figure 24). Despite the high profitability recorded in the most recent quarter, the pace of equity growth moderated (a growth rate of about 12 percent, as compared to 25 percent in the corresponding period last year), reflecting the increase in profit distribution rates (Figure 25; for further details, see the section on capital).

Figure 24-25: An increase in the share of bonds and deferred promissory notes out of total liabilities, at the expense of a decline in the share of public deposits



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

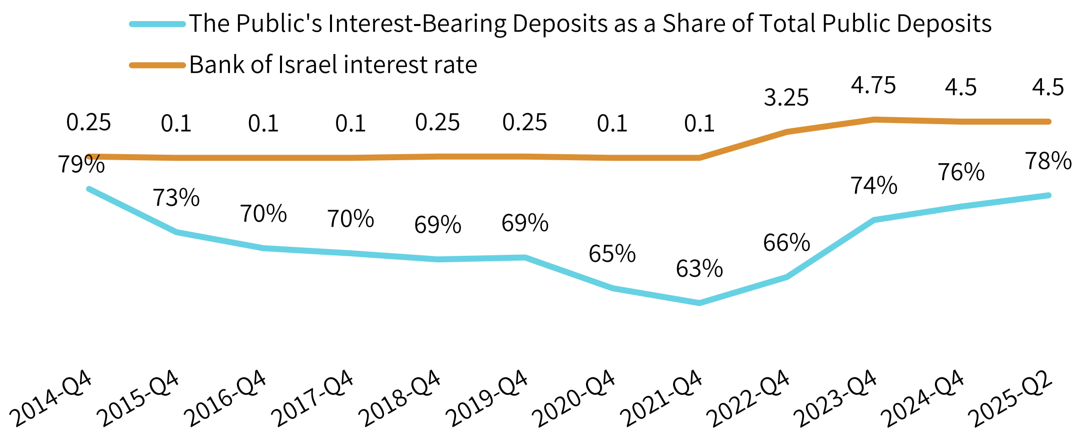


SOURCE: Based on financial statements and processing by the Banking Supervision Department.

The share of interest-bearing deposits within total public deposits, as of the end of the first half of 2025, increased to 77.8 percent as compared to 76.2 percent at the end of 2024. Most of the increase was due to deposits of commercial and institutional customers (Figure 26).

Figure 26: An increase in the share of interest-bearing deposits

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



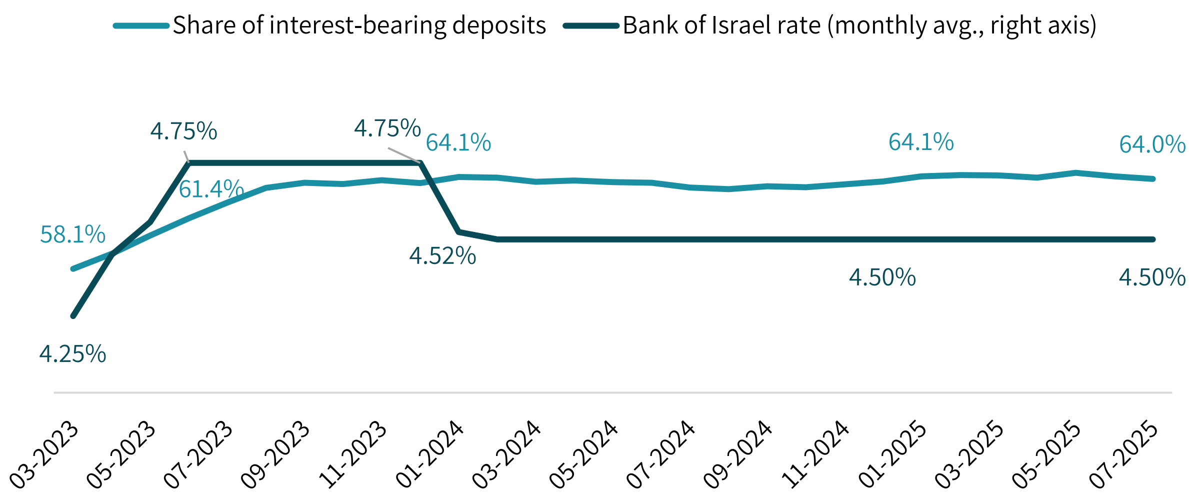
Source: published financial statements and processing by the Banking Supervision Department

Individual Deposits

During the first seven months of 2025, the share of interest-bearing household deposits (time deposits and short-term demand deposits) fluctuated only marginally and overall, increased slightly from 63.8 percent to 64 percent (Figure 27). This stability likely reflects the unchanged Bank of Israel interest rate policy during this period.

Figure 27: The share of interest-bearing household deposits remained almost unchanged, against the backdrop of stability in the Bank of Israel interest rate

Share of individuals' interest-bearing deposits (households and private banking) in nonindexed domestic currency and Bank of Israel rate,
March 2023– July 2025 | pct.



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

During this period, there were only minor changes in households' current account balances and interest-bearing deposits (an increase of approximately NIS 1 billion and NIS 5 billion, respectively). This contrasts with a significant rise in the accumulation of shekel-denominated money market funds (an increase of NIS 21 billion; Figure 28).[21] This trend, which began in the second half of 2024, brought total household holdings in money market funds to NIS 119 billion[22] and increased the share of shekel money market funds within households' conservative

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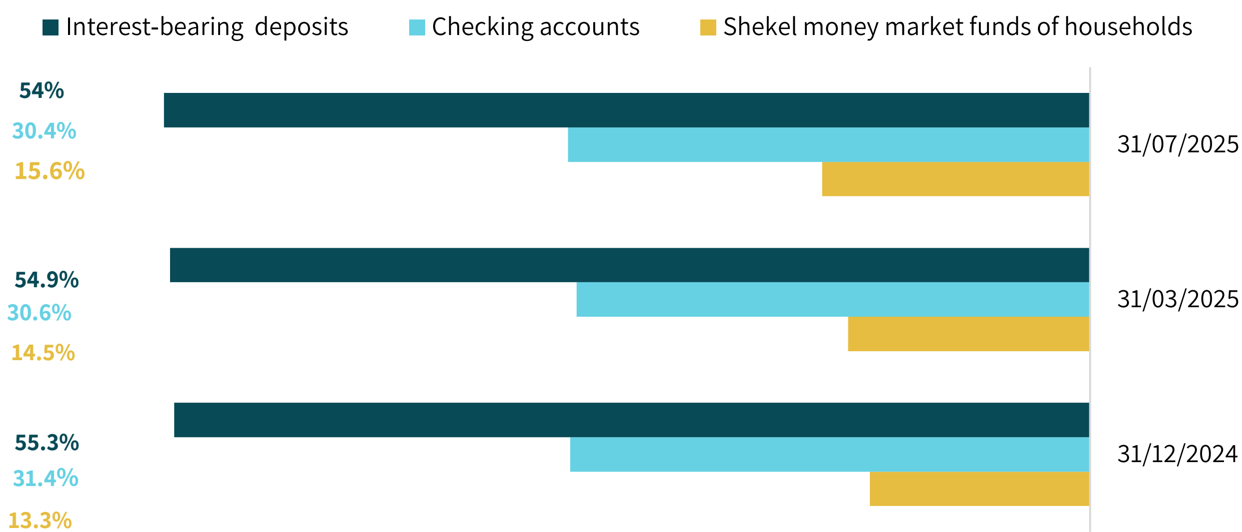
[21] Shekel money market funds serve as a savings alternative for households in place of interest-bearing bank deposits. A money market fund is a mutual fund that functions as an investment vehicle for various short- to medium-term horizons. The fund can invest the managed assets in instruments that are considered relatively low risk, such as short-term central bank bills (*Makam*), large bank deposits, and high-rated bonds. Money market funds are therefore exposed primarily to low-risk assets, offer high liquidity, generally charge relatively low management fees, and are taxed on real (inflation-adjusted) gains.

[22] The data on the holdings of money market funds are derived from the securities system, which receives reports from the banks; it is not a direct reporting source with respect to the funds themselves. Some money market funds cannot be identified

shekel assets (from 13.3 percent in December 2024 to 15.6 percent in July 2025; Figure 28). This development may reflect the relative attractiveness of the potential returns offered by money market funds relative to those offered on household bank deposits, alongside the liquidity advantage for customers. Nevertheless, their share remains relatively small compared to the amount held directly within the banking system (current accounts and interest-bearing deposits).

Figure 28: Despite the increase in assets accumulated in shekel money market funds, their share of private customers' balances in low-risk assets remains relatively small

Total Funds in Checking Accounts, Interest-bearing Deposits and Money Market Funds Within Total Funds of Private Customers
Total Banking System
December 2024 - July 2025 | NIS billions, percent



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

in the system (by specialization), and therefore household holdings of money market funds may be understated. As of July 2025, the total accumulated assets in shekel money market funds stood at approximately NIS 150 billion.

Only minor changes were recorded in transaction volumes of deposits or the interest rates paid on them. The cumulative passthrough of the Bank of Israel interst rate to household deposits[23] has remained stable since the beginning of 2025 and stood at 67 percent as of July, similar to its level in December 2024. The passthrough to deposit rates in the business sector also remained broadly unchanged, averaging approximately 90 percent, thereby maintaining the gap relative to household deposit rates (for further details, see Israel's Banking System 2023 Box 3.1: "Analysis of Deposit Performance in the Household Sector").

The passthrough for household deposits is higher for fixed-rate deposits with maturities longer than one month (above 75 percent of deposits). These deposits account for most of the transaction volume (approximately 85 percent in an average month), which is similar to the distribution of transactions observed since the second half of 2024. Passthrough is lower for variable-rate deposits, particularly deposits with maturities shorter than one month (34 percent for daily deposits as of July 2025). However, transaction volumes for variable-rate deposits are concentrated mainly in these short maturities (about 80 percent of transaction volume in an average month in 2025 was concentrated in deposits shorter than one month, roughly half of which are daily deposits).

Relative to other countries,[24] the ratio between fixed deposit rates for households and the Bank of Israel interest rate has remained stable and is relatively high compared with reference

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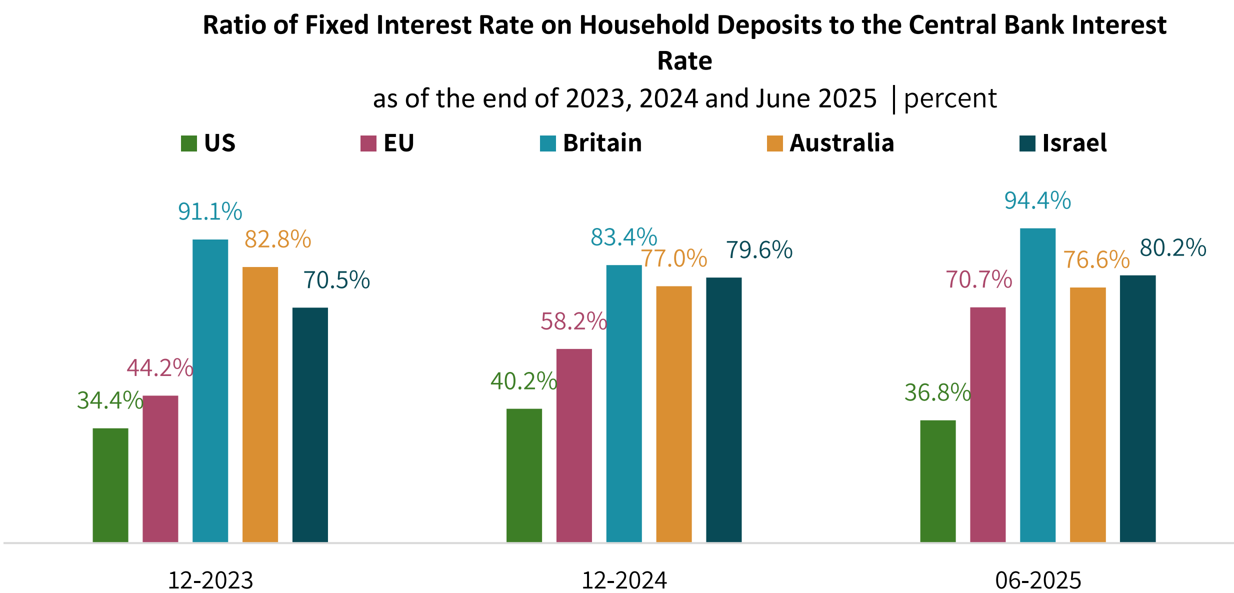
[23] The passthrough rate is the proportion of the change in the Bank of Israel interest rate that banks have transmitted to the interest paid on deposits. The passthrough rate reflects the sensitivity of deposit rates in different segments to the Bank of Israel interest rate. It is calculated as the cumulative change in deposit rates in a given month compared to deposit 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's interest rate over the same period. It should be noted that in January 2024 the Bank of Israel reduced the interest rate once, and it has since remained at 4.5 percent. As the rate has remained unchanged since then, the calculation presented in this box incorporates the rate cut into the cumulative calculation for the sake of convenience and simplicity. Excluding the rate cut, the passthrough rate for the data as of January 2025 would have been lower by 3 percentage points.

[24] The characteristics of household deposits may differ across countries. Unlike in previous reviews, the comparison here relates to the ratio between the interest rates themselves rather than to the passthrough rate, due to differing interest rate paths across countries.

With respect to the comparison presented here, we refer to deposits with the following characteristics:
(1) Israel – the average interest rate on newly placed household deposits (including private banking) at a fixed, non-indexed rate;
(2) United States – the average interest rate on newly placed public deposits at a fixed rate for a 12-month term;
(3) European Union – the average interest rate on newly placed household deposits;

countries (around 80 percent). In all the reference countries, there were declines in central bank interest rates. In Europe and Australia, household deposit rates declined by less than the reduction in central bank rates (indicating lower passthrough, but along a downward interest rate path). In the United Kingdom, household deposit rates even rose slightly, despite several rate cuts by the central bank (Figure 29).[25]

Figure 29: In the second quarter of 2024, the interest rate passthrough in Israel increased slightly and is still high relative to the rest of the world



SOURCE:
US: Federal Reserve Economic Data, Interest rate - IOBR (Interest on Reserve Balances)
ECB: ECB Data, Statistical Data Warehouse - ECB; Interest rate - Deposit facility rate.
Britain: BOE data; Interest rate - BOE Base Rate.
Australia: RBA data; RBA Official Cash Rate

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(4) United Kingdom – the average interest rate on newly placed household deposits, without early withdrawal options, including financial institutions providing mortgages that do not rely on current account products; (5) Australia – retail term deposits up to $10,000 at the five largest banks in Australia.

[25] The comparison refers to the period up to June 2025, given the availability of data on household deposits, and does not include central bank interest rate cuts implemented after that date.

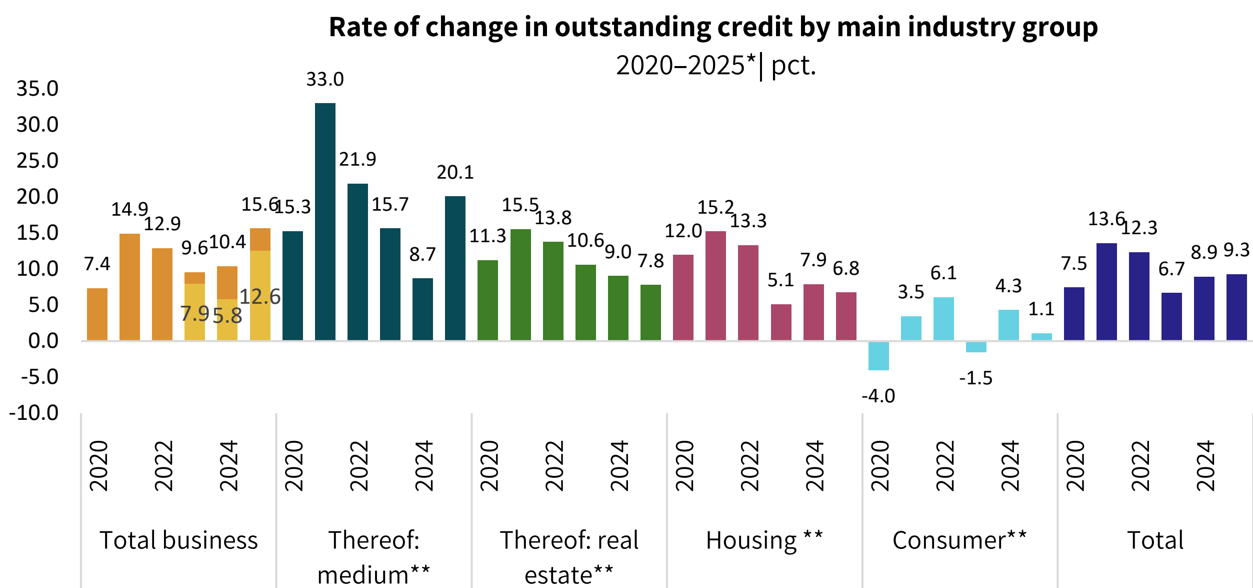
Main Developments in Off-Balance Sheet Activity

In the first half of 2025, total off-balance sheet exposure grew by 11.6 percent. During this period, all components of the off-balance sheet liabilities increased (Table 10), but the three main items contributing to the growth were: (1) irrevocable commitments to extend approved but not yet granted credit (with a growth rate of 9.2 percent, which is lower than in previous years, though it represents a relatively large share of off-balance sheet activity–27 percent); (2) unused overdraft facilities and other credit lines, which grew by approximately 18 percent; and (3) commitments to issue guarantees, which also increased by 18 percent.

The Credit Portfolio and Credit Risk

The credit portfolio of the banking system continued to grow in the first half of 2025, at an annual rate[26] of 9.3 percent, compared to 8.8 percent in 2024.[27] Business credit led the portfolio growth, with a growth rate of 15.6 percent. Within business credit, the financial services sector and the construction sector stood out, growing by 39.2 percent and 20.1 percent, respectively. Excluding the financial services industry (which accounts for approximately 20 percent of total business credit), business credit grew by about 12.6 percent (Figure 30). A slight moderation was recorded in the growth of household credit, in both housing credit and consumer credit.[28]

Figure 30: An increase in the growth rate of credit, driven by business credit, particularly in the construction industry

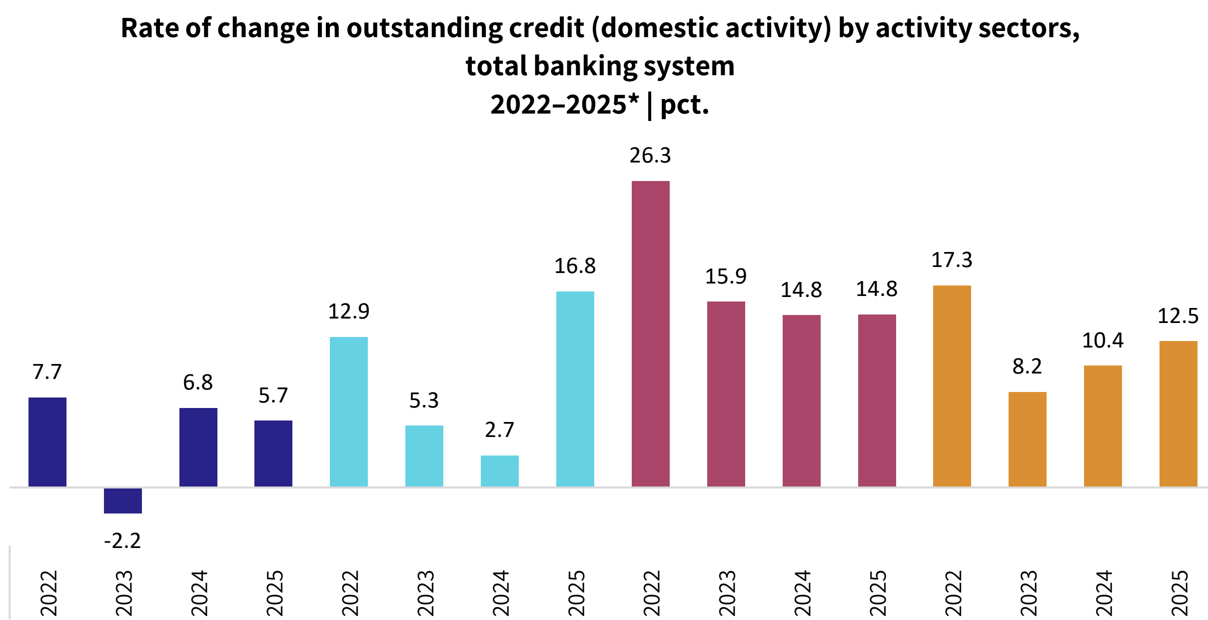


* annualized.
** not including borrowers' activity abroad in this sector.
Source: published financial statements, reports to the Banking Supervision Department, and processing by the Banking Supervision Department

[26] All growth rates in this chapter are presented in annual terms, unless stated otherwise.
[27] General note for this chapter: In light of progress in the process of separating Cal, Bank Discount classifies Cal's on-balance-sheet activity as "discontinued operation" as of the current quarter. This classification includes the restatement of comparative figures. The main impact is reflected in consumer credit and its credit quality indicators, as described in the relevant sections of the chapter.
[28] The rate of change in consumer credit is not fully comparable to previous years, since starting in June 2025 Discount Bank is reporting Cal as "discontinued operations," resulting in changes to the consumer credit portfolio; see footnote 2.

Growth in the business credit in the first half of 2025 was led by the large and medium-sized business segments, which grew by 14.8 percent and 16.8 percent, respectively. These growth rates are higher than in the corresponding period last year, when credit to large businesses grew by approximately 10.8 percent, while credit to medium-sized businesses declined by approximately 4.1 percent. With respect to micro and small businesses, there was somewhat of a moderation in the growth rate of credit (Figure 31).

Figure 31: Stability in credit to large businesses, growth in credit to medium-sized businesses, alongside a slowdown in credit to small and micro businesses



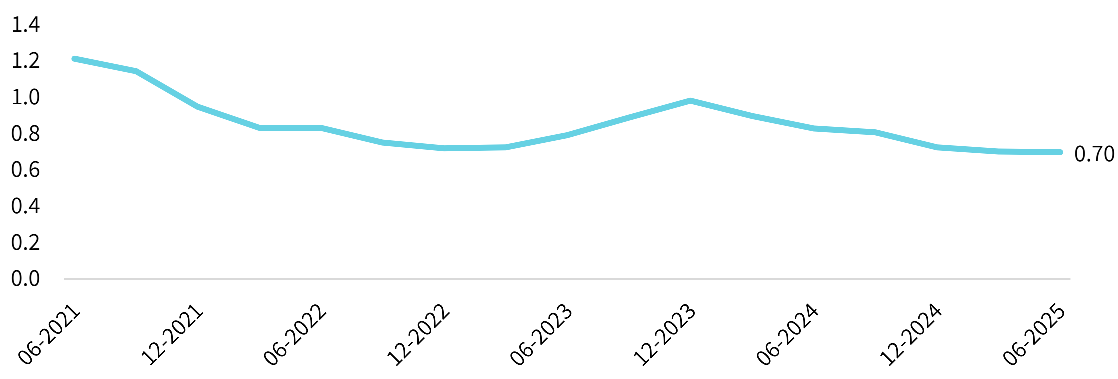
* annualized.
Source: published financial statements, reports to the Banking Supervision Department, and processing by the Banking Supervision Department

The findings of the Bank of Israel's Credit Officers Survey for the second quarter of 2025[29] point to expectations of an increase in demand for business credit in the next quarter (particularly in the micro and small business segment), except in the real estate sector, where a decline is expected. In addition, an increase is anticipated in housing credit and consumer credit. Survey respondents reported a narrowing of spreads, partly as a result of competition. The survey also indicates that as a result of Operation Rising Lion, demand for household credit declined in the second quarter.

In the first half of 2025, there were mixed trends in the credit quality indicators of the overall credit portfolio in the banking system. There was a decline in the nonperforming loan (NPL) ratio; yet in contrast, a slight erosion was recorded in the allowance buffer as a result of write-offs (Figures 32 and 33). The majority of credit loss provisions during the reviewed period were attributable to the group allowance and automatic write-offs.

Figures 32 - 33: There was a slowdown in the share of nonperforming loans out of the total credit portfolio, alongside slight erosion in the allowance buffer

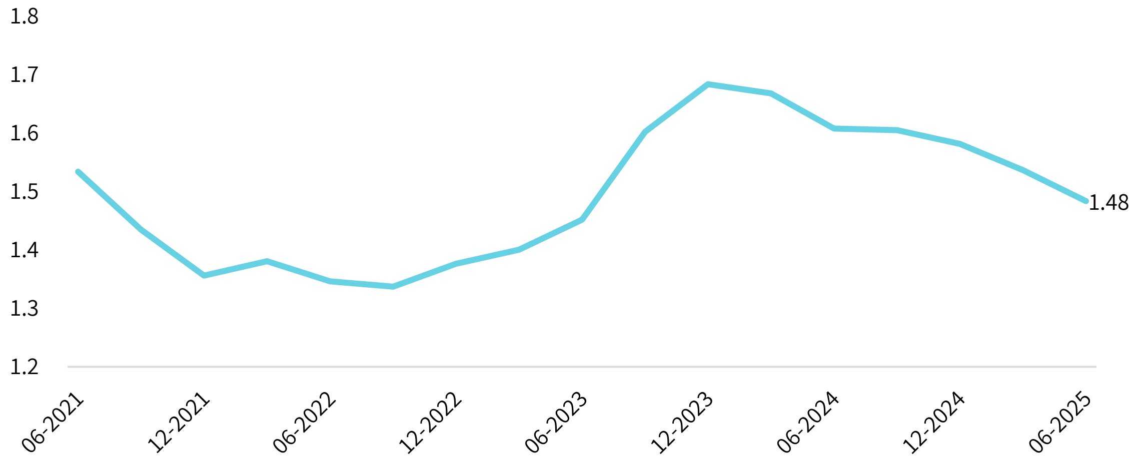
Noninterest-Bearing Credit or Credit More Than 90 Days in Arrears (estimated NPL) as a Share of Total Credit to the Public, Total Banking System, June 2021 - June 2025 | percent



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

[29] For further details on the findings of the Survey of Credit Officers in the second quarter of 2025, see the following press release [Hebrew].

Credit Loss Allowances as a Share of Total Credit to the Public, Total Banking System , June 2021 - June 2025 | percent



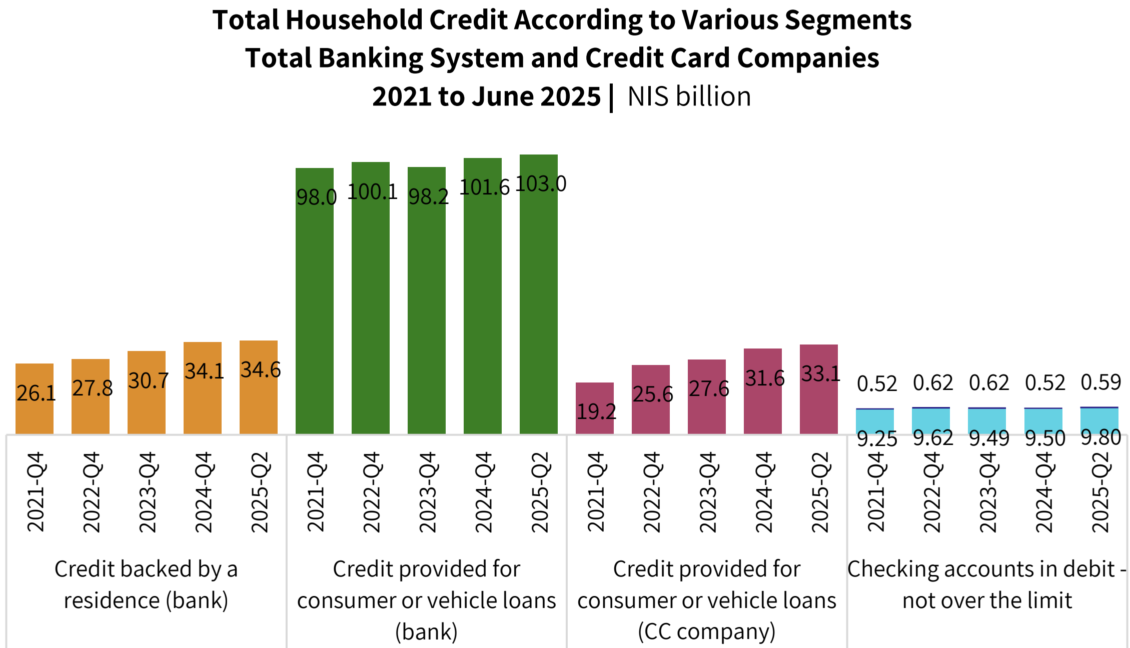
SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

Households

During the first half of 2025, there was a slight increase in total consumer credit of the banking system. Both consumer credit from credit card companies and bank-based consumer credit grew by NIS 3 billion (Figure 34), reflecting a faster growth rate among credit card companies relative to the banks. Growth in housing-secured credit ("any purpose") moderated relative to 2024. The expansion in this type of credit is attributable to, among other factors, the temporary easing of the loan-to-value (LTV) cap by a regulatory directive.[30] Between January and July 2025, housing-secured credit was provided with total amount of approximately NIS 4.3 billion, of which about 32 percent was granted under the relief framework (as compared to 30 percent in the corresponding period in 2024). Overdraft balances (negative current account balances) remained broadly unchanged during the period under review.

[30] According to the temporary directive, Proper Conduct of Banking Business Directive No. 251, a banking corporation may approve a housing loan that is not intended for the purchase of a 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 amount does not exceed NIS 200,000. These relief measures have been extended until the end of 2025. For further details, see the following link [Hebrew].

Figure 34: Moderate growth continued in the various segments of consumer credit



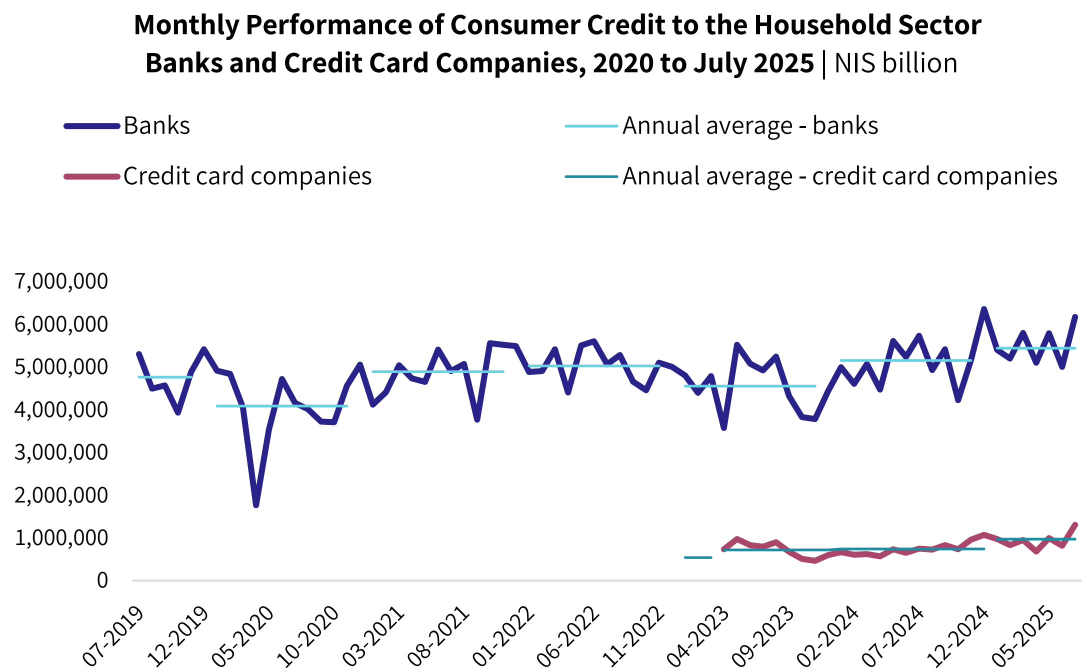
SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

The level of monthly allocations of household credit in the first half of 2025 was high relative to recent years, with respect to both the banks and the credit card companies. There was a temporary decline in allocations in June, as a result of Operation "Rising Lion" (Figure 35).

The average loan amount in household consumer credit has remained stable in recent years and, as of June 2025, was approximately NIS 41,000. In contrast, the repayment period for consumer credit has been on an upward trend and currently stands at 5.7 years, compared to 5 years in 2021. The lengthening of the repayment period may reflect an effort to ease the debt burden.[31]

[31] For further details, see Box 4.2: Heterogeneity in the change in households' debt burden due the increase in the Bank of Israel interest rate in the Bank of Israel Report 2023.

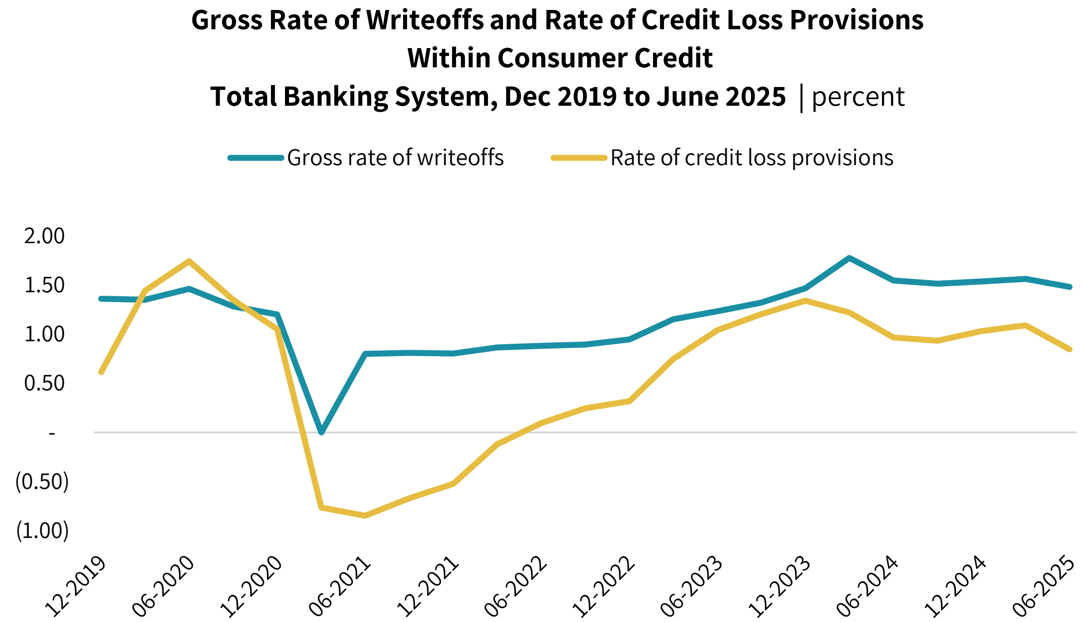
Figure 35: An increase in performance in 2025:H1



SOURCE: Based of financial statements, reports to the Banking Supervision Department and processing by the Banking Supervision Department.

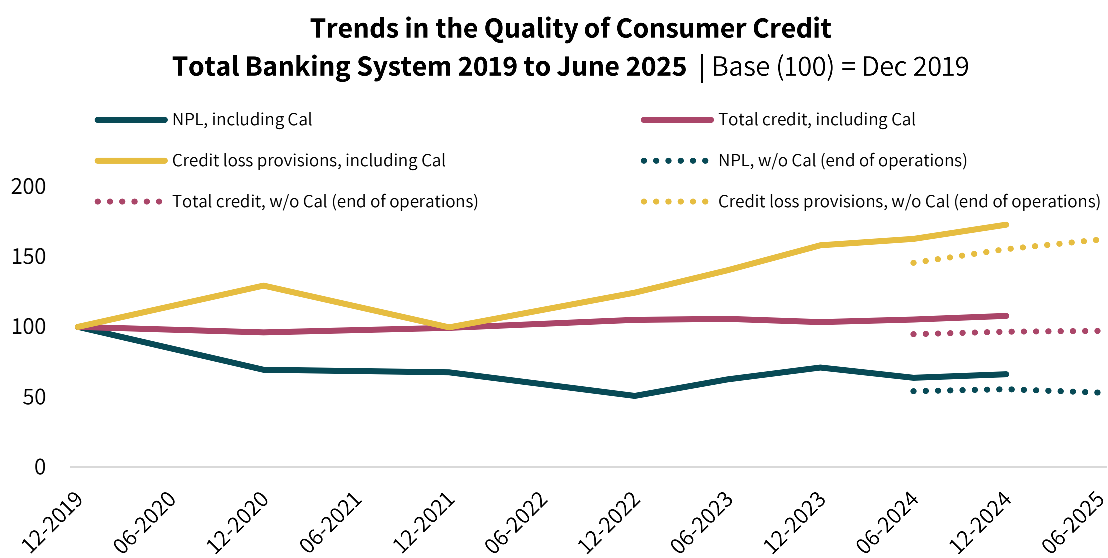
There was a slight improvement in the gross write-off rate; however, this rate—alongside the provision rate for credit losses in consumer credit—remains elevated (Figure 36). Accordingly, total loan loss allowances also increased, despite the stability in NPL balances and overall credit balances (Figure 37). These two trends reflect continued uncertainty in the economic environment, alongside the ongoing expansion of household credit.

Figure 36: Gross rate of write-offs and credit loss provisions remain high



SOURCE: Based oan financial statements, reports to the Banking Supervision Department and processing by the Banking Supervision Department.

Figure 37: The allowance balance grew faster than the balance of nonperforming loans and than the credit balance



SOURCE: Based on financial statements, reports to the Banking Supervision Department and processing by the Banking Supervision Department.

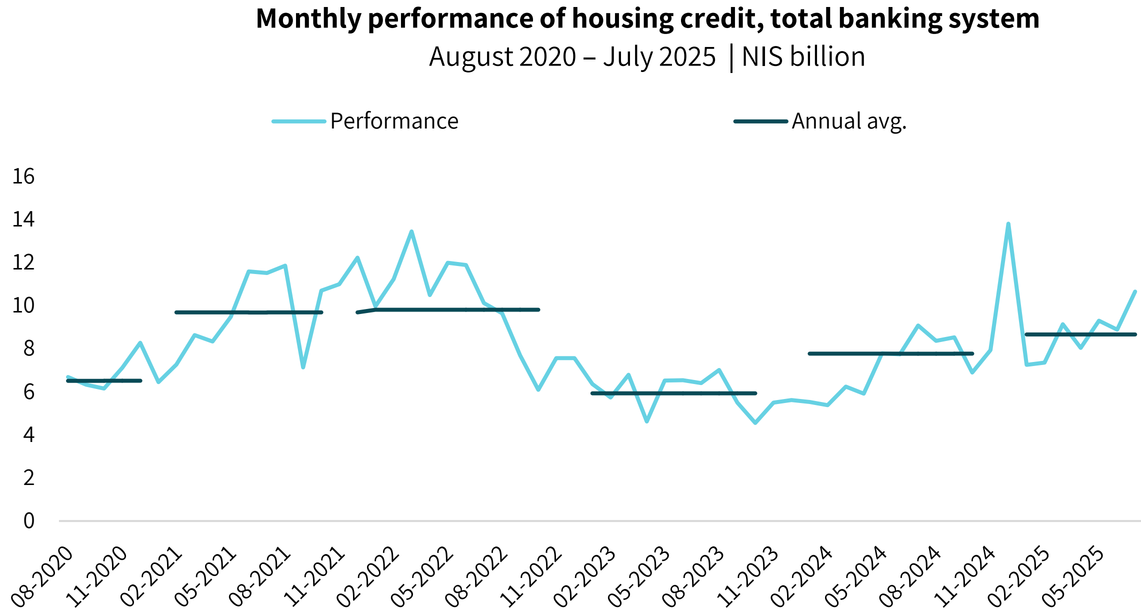
Housing Credit

Total housing credit in the banking system increased by approximately 8.3 percent during the first seven months of 2025, reaching NIS 619 billion as of July 2025, compared to 5.5 percent in the corresponding period last year. A high level of mortgage was provided since March. July stood out with a notable increase, alongside somewhat of a slowdown in June, partly due to Operation Rising Lion which led to postponement of June's allocations to some extent (Figure 38).

There was also an increase in credit provided in the form of "bullet" and "balloon" loans[32] in 2025 (Figure 39). These loans are primarily granted as bridge loans;[33] however, the growth observed since the end of 2023 is attributed to developer-subsidized loans, that is, 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, which were promoted by developers as part of incentive campaigns to encourage home purchases.[34] On April 6, 2025, a temporary directive[35] came into effect aimed at balancing 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. The directive limits to the execution rate of "bullet" and "balloon" loans subsidized by the developer.[36] And indeed, in recent months, the share of these loans within total housing credit allocations appears to be declining.

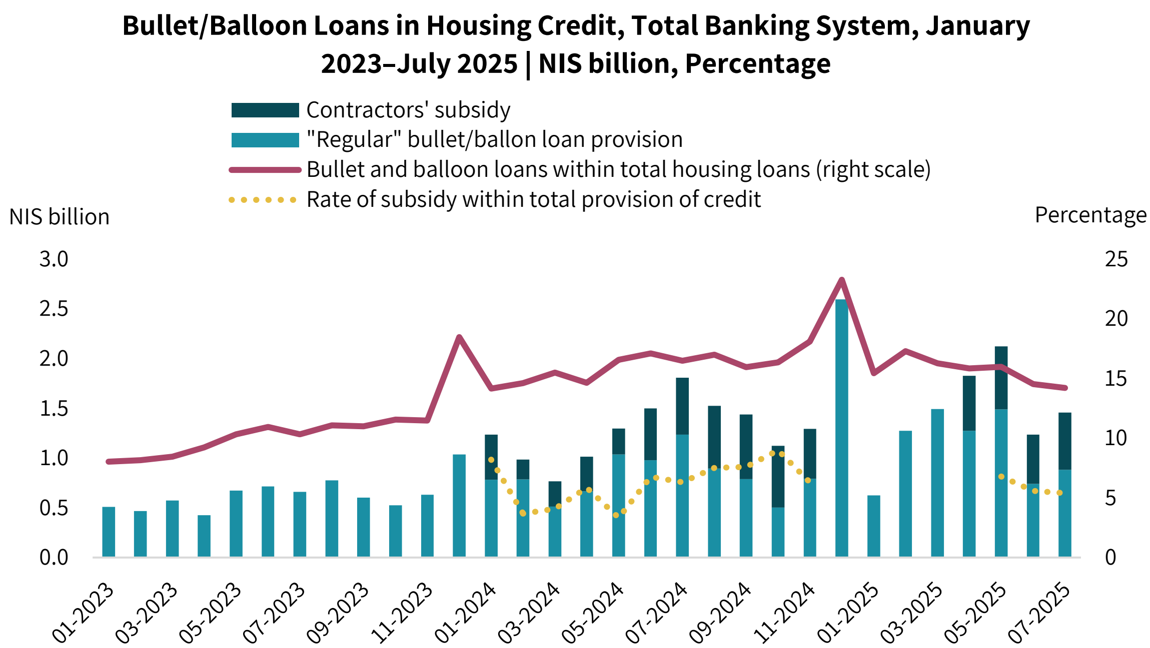
[32] Loans in which the principal—and in some cases also the interest—is repaid on the final maturity date of the loan.
[33] Loans intended to resolve or bridge a cash-flow gap—for example, a borrower seeking to purchase a replacement home because he needs time to sell his existing property.
[34] For further details, see Box 5.2 in Israel's Banking System 2024.
[35] For additional information, see Circular 2816 regarding Revision of Directive 203—Measurement and Capital Adequacy – Credit Risk – the Standardized Approach, and Directive 329—Limitations on Issuing Housing Loans. This directive is in effect until the end of 2026.
[36] This rate will not exceed 10 percent of total quarterly housing loan executions, excluding housing loans not intended for the purchase of land rights and loans issued with an agreement in principle prior to the restriction going into effect.

Figure 38: High performance in credit for residential purposes in 2025



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

Figure 39: High performance in bullet and balloon credit as well

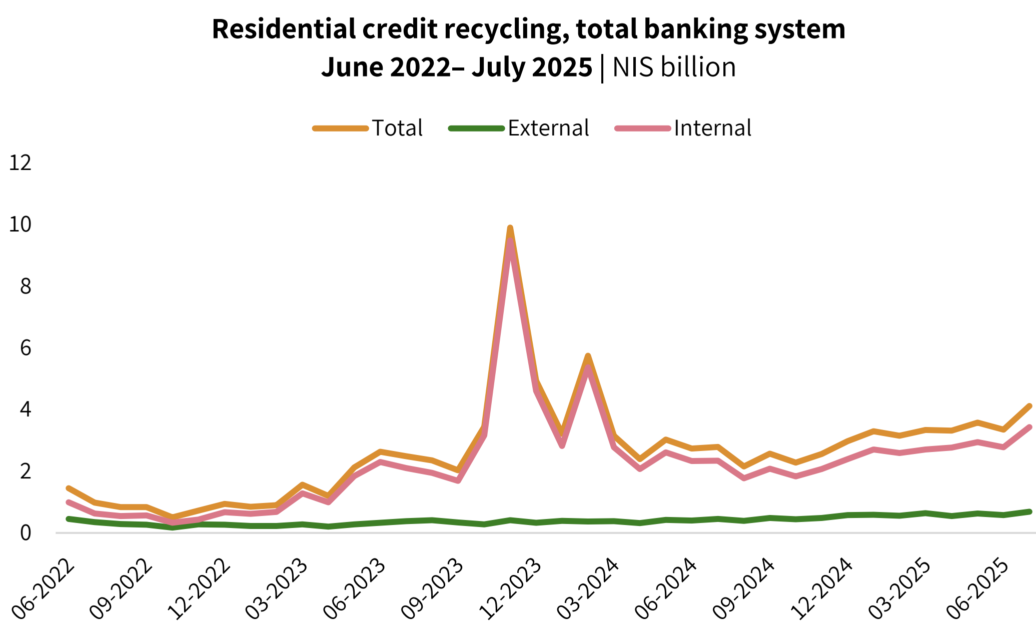


SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

Refinancing of Housing Credit

The upward trend in the volume of internal refinancing since mid-2024 continued during the first seven months of 2025 (Figure 40). The increase in refinancing activity is explained by, among other factors, borrowers' efforts to improve their loan terms and reduce the overall cost of the loan (for example, in the prime-linked track, where spreads offered to borrowers have improved; or in five-year adjustable-rate tracks, where reference rates have increased). It may also reflect adjustments in loan composition in anticipation of expected interest rate cuts, which is in line with, among other things, the forecasts of the Bank of Israel. At the same time, some of the refinancing activity may also reflect the need of borrowers to reduce their monthly repayment burden by extending the terms of their loan.

Figure 40: in the past year, there has been an increase in restructurings

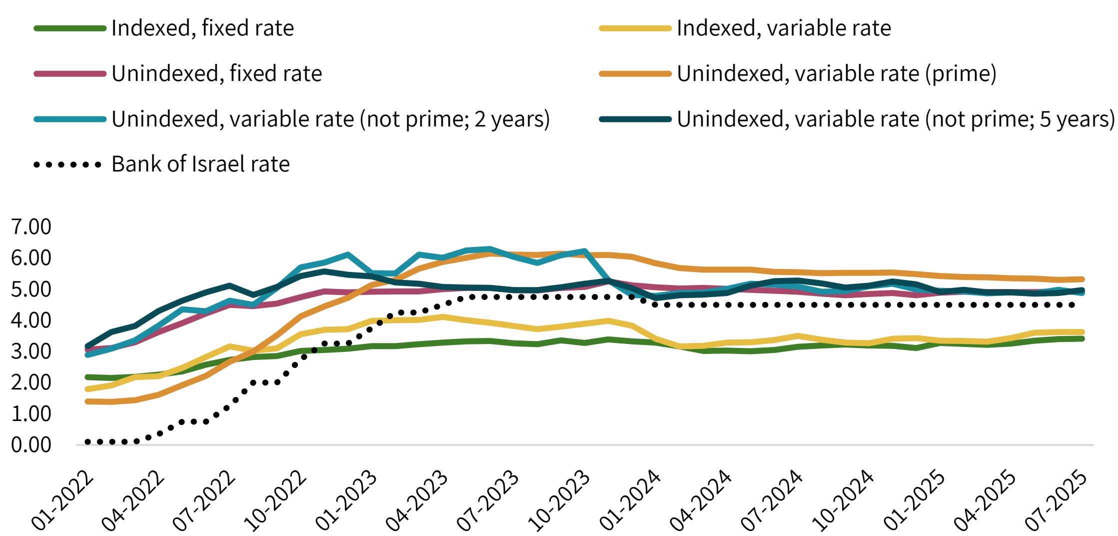


Source: published financial statements, reports to the Banking Supervision Department, and processing by the Banking Supervision Department

During the first seven months of 2025, interest rates across the various mortgage tracks remained stable (Figure 41). Despite this stability in rates, a shift occurred in the distribution of mortgage track. The share of the prime-linked track increased and currently stands at approximately 10 percent, and the share of unindexed variable-rate tracks (excluding indexation to the prime rate) has also continued to rise, particularly for initial rate fixation up to two years (Figure 42). This shift has taken place due to the expectations of interest rate cuts and borrowers' efforts to adjust their loan composition accordingly.

Figure 41: Stability in the various interest rate tracks, a slight increase in CPI-indexed variable rate interest

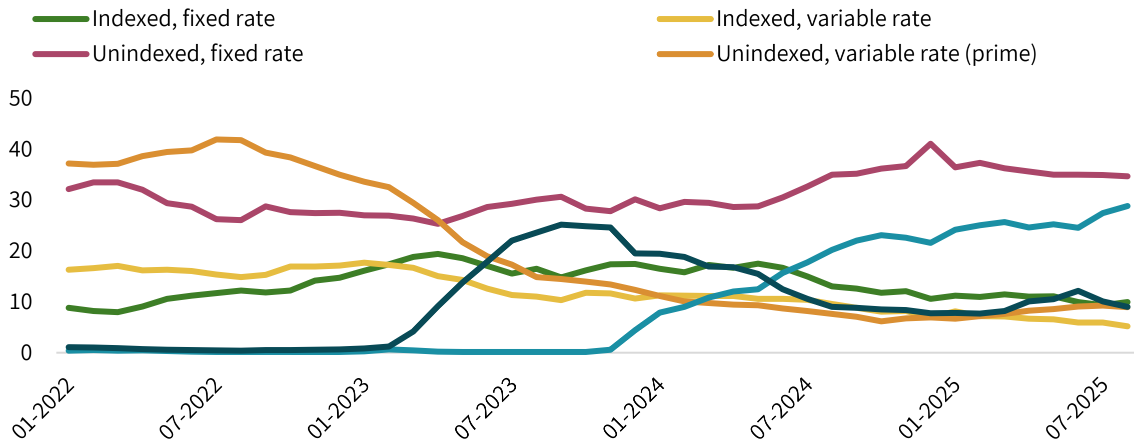
Interest Rate on Residential Loans by Interest and Indexation Track, Total Banking System, January 2022– July 2025 | percent



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

Figure 42: Increase in the share of unindexed variable-rate loans up to 2 years, alongside a decline in unindexed variable-rate up to 5 years

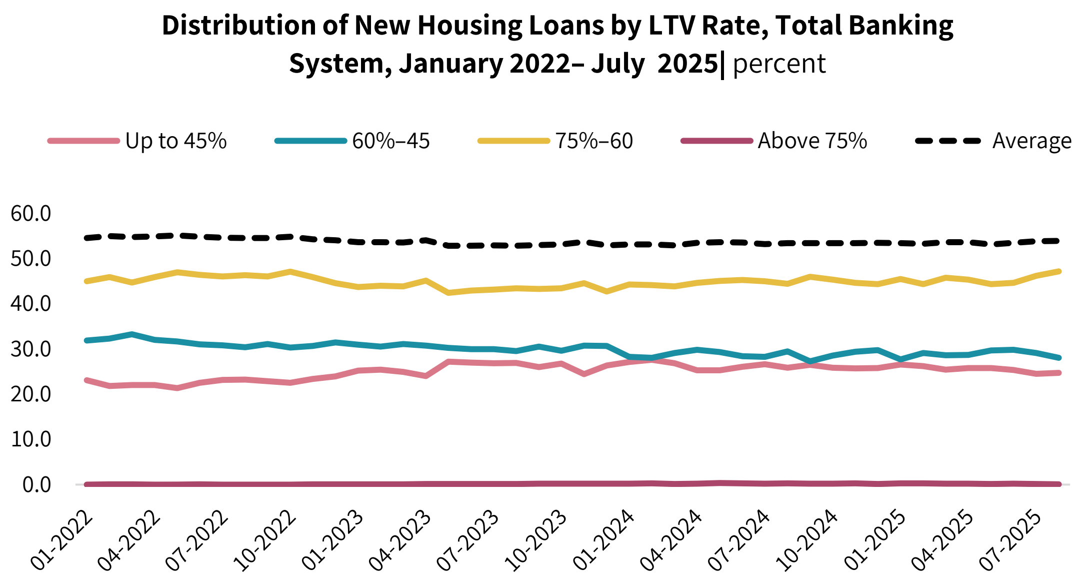
Distribution of Interest Rate Tracks as a Share of All New Residential Borrowing, Total Banking System, January 2022– July 2025 | percent



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

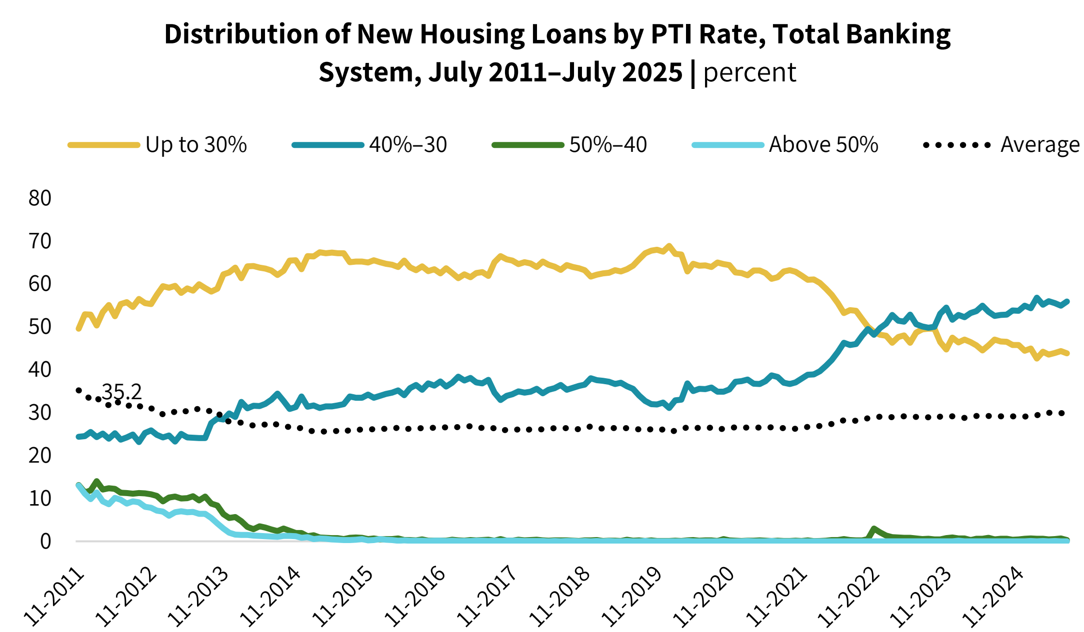
There was a slight increase in housing credit allocations at higher loan-to-value (LTV) ratios; however, the average LTV remained broadly unchanged. In July, the average LTV stood at 53.9 percent, as compared to 53.5 percent at the end of 2024 (Figure 43). Similarly, the average payment-to-income (PTI) ratio remained largely stable. In July, the average PTI stood at 29.8 percent, as compared to 29.1 percent at the end of 2024 (Figure 44). The share of high-risk loans (defined as loans with an LTV ratio above 60 percent and a PTI ratio above 30 percent) remained unchanged (Figure 45). At the same time, a slight increase was observed in the NPL ratio in housing credit in recent months, for both loans granted for residential purposes and those secured by residential property (Figure 46).

Figure 43: Slight increase seen in the most recent data in the distribution of returns by LTV rate



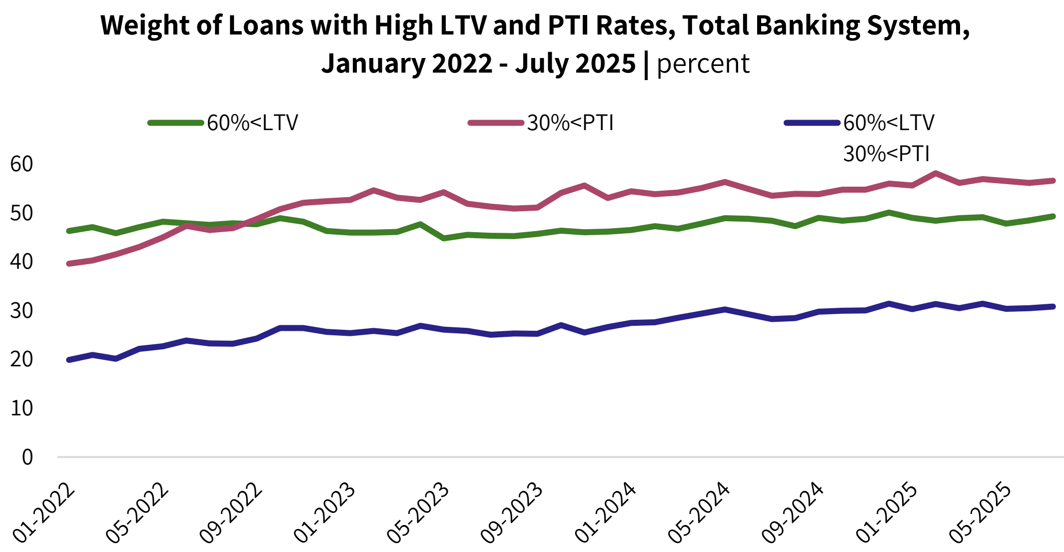
SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

Figure 44: Relative stability in distribution of performance by payment to income ratio



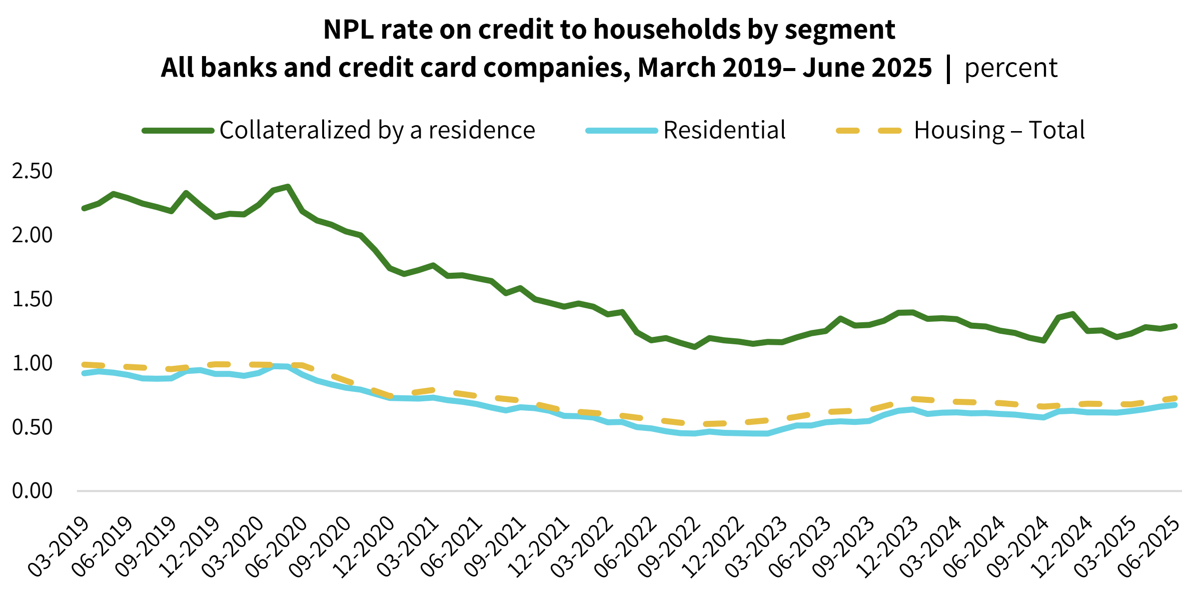
SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

Figure 45: The share of loans with high LTV and PTI was unchanged in 2025, and remains high



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

Figure 46: Slight increase in the share of NPL in housing credit, alongside a decline in consumer credit at banks



** 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.

Business credit

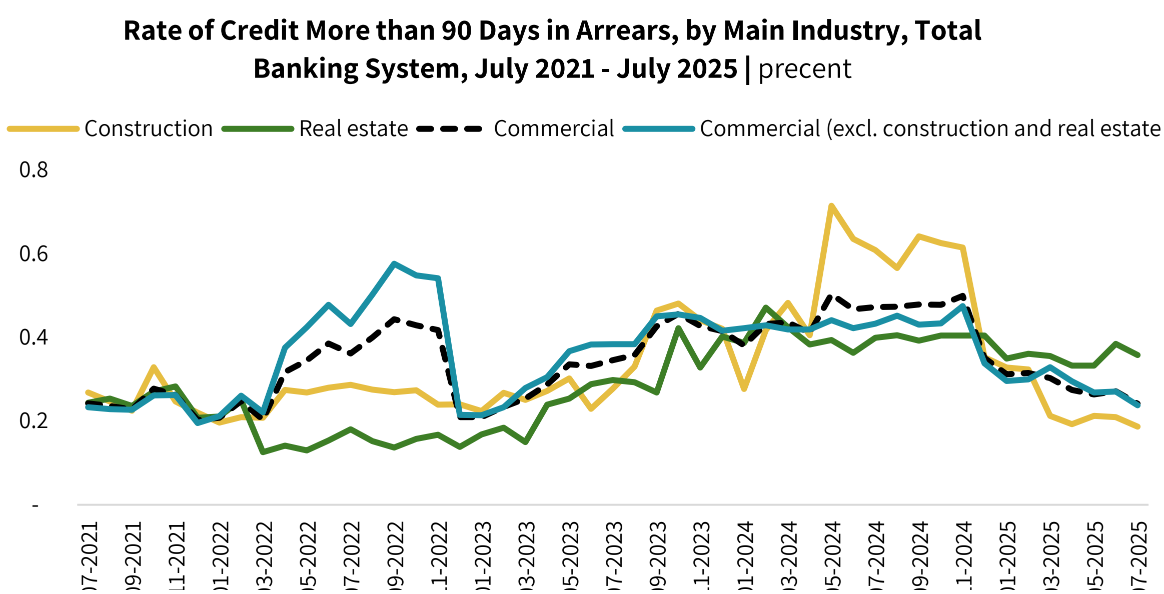
Industries of the Economy

Most of the growth in the credit portfolio originated in business credit, particularly in the construction and financial services industries (Table 11).

A mixed trend was observed in the quality of the business credit portfolio. There was an improvement in the delinquency rate for total business credit, and in the construction sector in particular. However, in the real estate sector, the delinquency rate remained stable during the first half of the year and even increased in June (Figure 47).

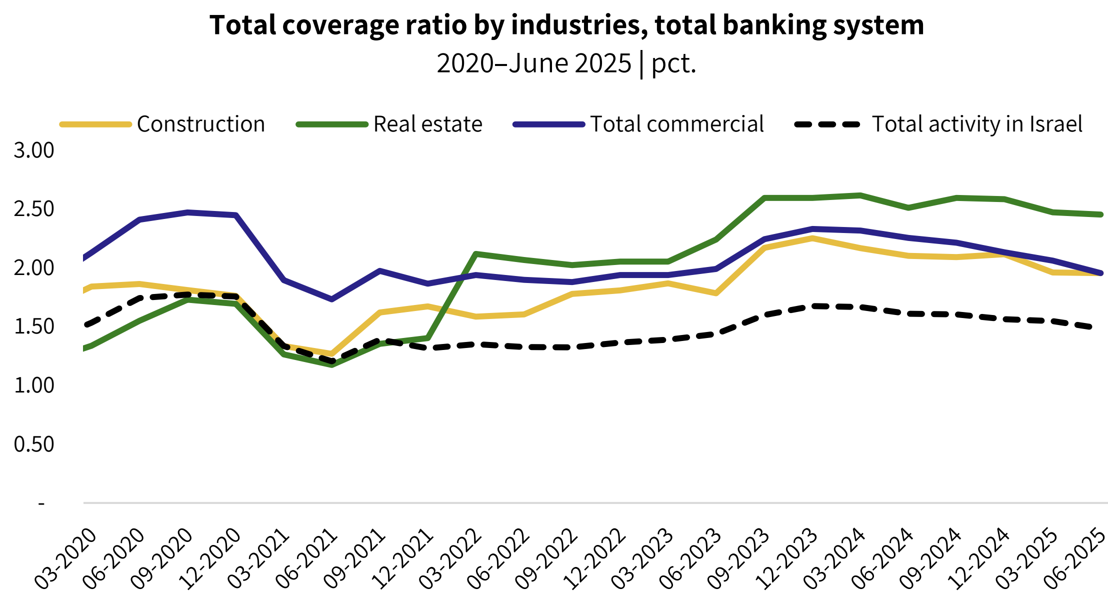
The coverage ratio (reflecting the ratio between total credit loss allowances and total credit outstanding) remained broadly unchanged, while the ratio in the real estate industry was the highest among the industries (Figure 48). The NPL ratio for the overall commercial portfolio declined—led by the construction industry—while in the real estate industry it remained unchanged.

Figure 47: A decline in the share of credit more than 90 days in arrears in major industries, except for the real estate industry



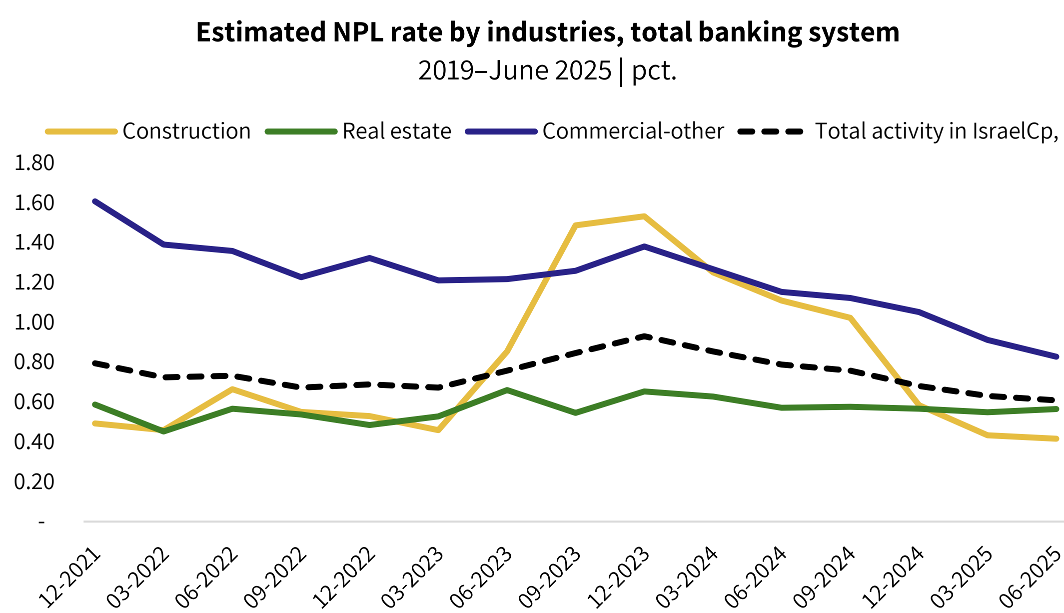
SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

Figure 48: The share of credit loss allowances was essentially unchanged



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

Figure 49: A decline in the share of nonperforming loans, except for real estate, which is stable



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

Construction and Real Estate

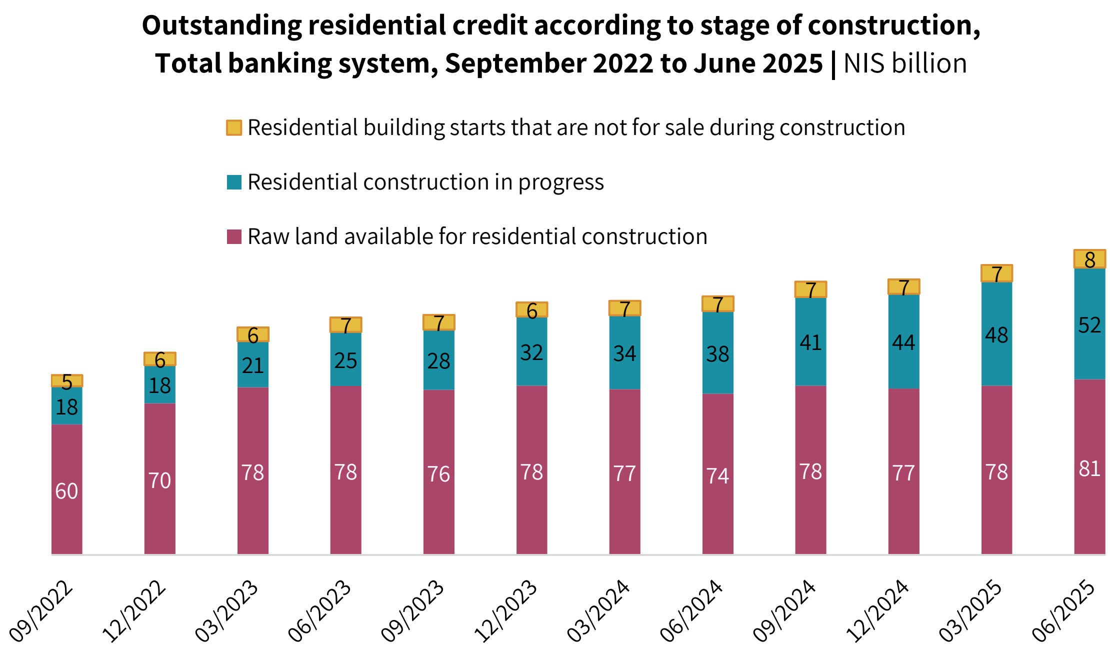
Construction Credit

Outstanding on-balance sheet credit for land available for residential construction increased by approximately 11 percent during the first half of 2025, reaching NIS 81 billion as of June 2025, compared with a decline of 9.5 percent in the corresponding period in 2024. Credit for financing residential construction grew by approximately 37 percent in the first half of the year, similar to the growth rate in the corresponding period last year (Figure 50),and stood at approximately NIS 60 billion in June 2025.

Real estate credit

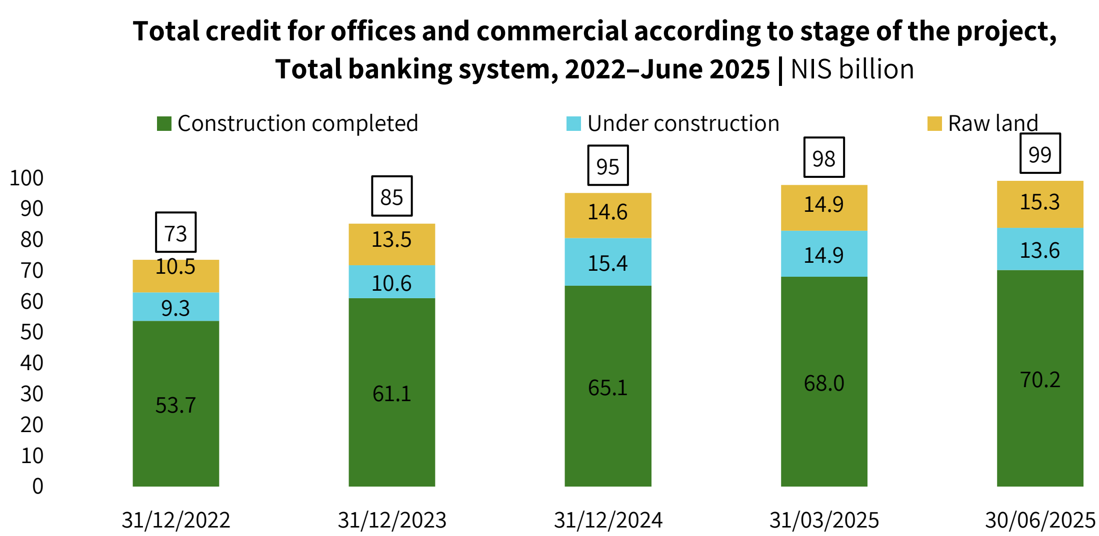
During the first half of 2025, growth moderated in credit for commercial real estate (offices and commercial properties). In June 2025, the outstanding balance stood at NIS 99 billion, compared with NIS 95 billion in December 2024. This reflects a growth rate of 4 percent, as compared to approximately 6 percent in the corresponding period last year. Credit for completed real estate projects constitutes the main component of total real estate credit (Figure 51).

Figure 50: Balance-sheet credit in the construction industry continued to increase in the first half of the current year



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

Figure 51: A slowdown in the growth of credit for offices and trade



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

In the first half of 2025, the share of credit extended at high loan-to-value (LTV) ratios (above 75 percent) remained unchanged, as did the share of projects in which there is a gap between construction progress and sales.[37] Due to financing campaigns[38], most notably the "20–80" scheme, which involves a significant deferral of payments to the developer, and in light of rising construction costs (both raw materials and labor), developers have had to increase bank credit for their projects. This may explain the relatively high growth rate of such credit during the first half of 2025 (approximately 26 percent in credit for projects under construction, as compared to increases of 11.5 percent and 15 percent in credit for land financing and completed projects, respectively). Accordingly, the share of credit extended to projects with low absorption capacity increased (from 4 percent in December 2024 to 9 percent in June 2025). This increase may be pointing to somewhat of a deterioration in developers' financial conditions.

On April 6, 2025, a temporary directive[39] came into effect which was aimed at balancing the mitigation of the rising level of risk associated with financing campaigns and the continued controlled use of this tool in the housing market. The directive limits the share of sales involving significant deferrals of payments to developers. According to the temporary directive:

- Credit provided under a construction financing agreement for a residential project, in which more than 25 percent of the sale contracts include a deferral of payment until the delivery date[40] (non-linear payment structure), will be assigned a 150 percent risk weight (instead of 100 percent). This limitation applies starting from the effective date.
- Notwithstanding the above, credit under construction financing agreements for existing projects in which more than 25 percent of the apartment sale contracts include a deferral

[37] A gap between the rate of progress in construction and the rate of sales may indicate that the developer is experiencing difficulty in selling apartments. The larger this gap, the greater the implied difficulty in marketing and selling units.
[38] For further details, see Box 5.2 in the Annual Review for 2024.
[39] For additional information, see Circular 2816 regarding Revision of Directive 203—Measurement and Capital Adequacy – Credit Risk – the Standardized Approach, and Directive 329—Limitations on Issuing Housing Loans. This directive is in effect until the end of 2026.
[40] "Significant portion of the sale price" – total proceeds which, under the purchase agreement, the purchaser is entitled to defer until the delivery date exceed 40 percent of the home's sale price as specified in the agreement.

of payment until delivery will be assigned a 150 percent risk weight only if the share of such contracts increases by 5 percentage points or more relative to the share upon the effective date.

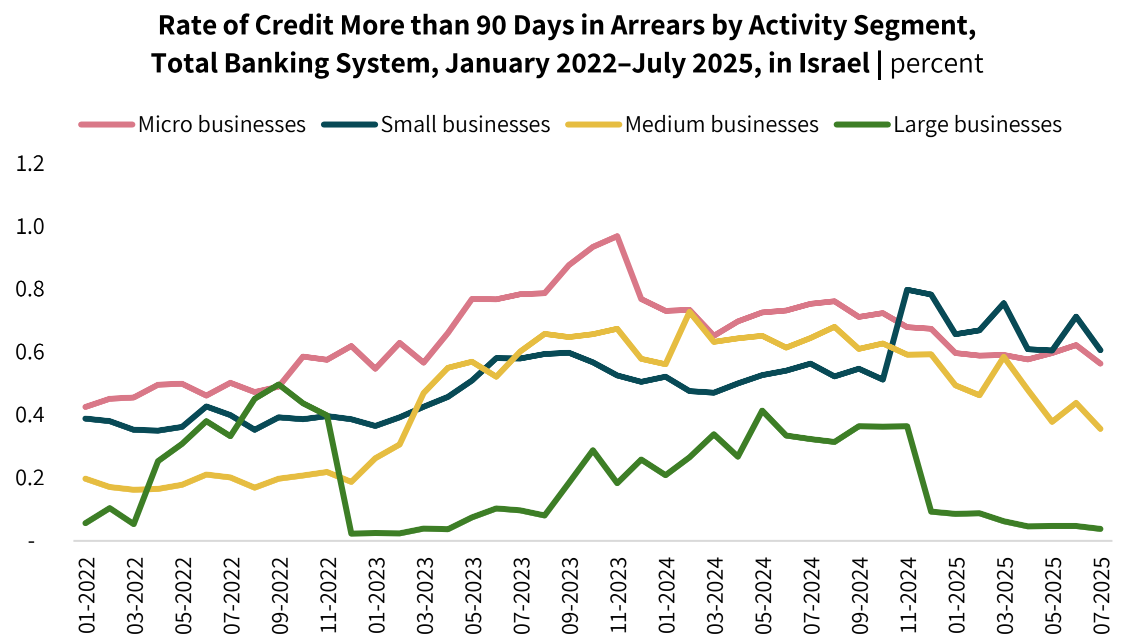
Supervisory *activity Segments*

Growth in business credit was led by the large and medium-sized business segments, while credit to micro and small businesses recorded a slight slowdown in portfolio growth.

During the first half of 2025, a mixed trend was observed in credit quality across business segments. The delinquency rate in the micro and small business segments remained high while in the small business segment, it increased at the end of 2024 and has since stabilized at a high level. In contrast, the medium-sized and large business segments recorded an improvement in delinquency rates (Figure 52). In addition, a slight decline was recorded in the NPL ratio across all business segments; however, the NPL ratio in the micro and small business segments remained the highest (Figure 53). Accordingly, the majority of loan loss provisions was recorded in the micro and small business segments (Figure 55).

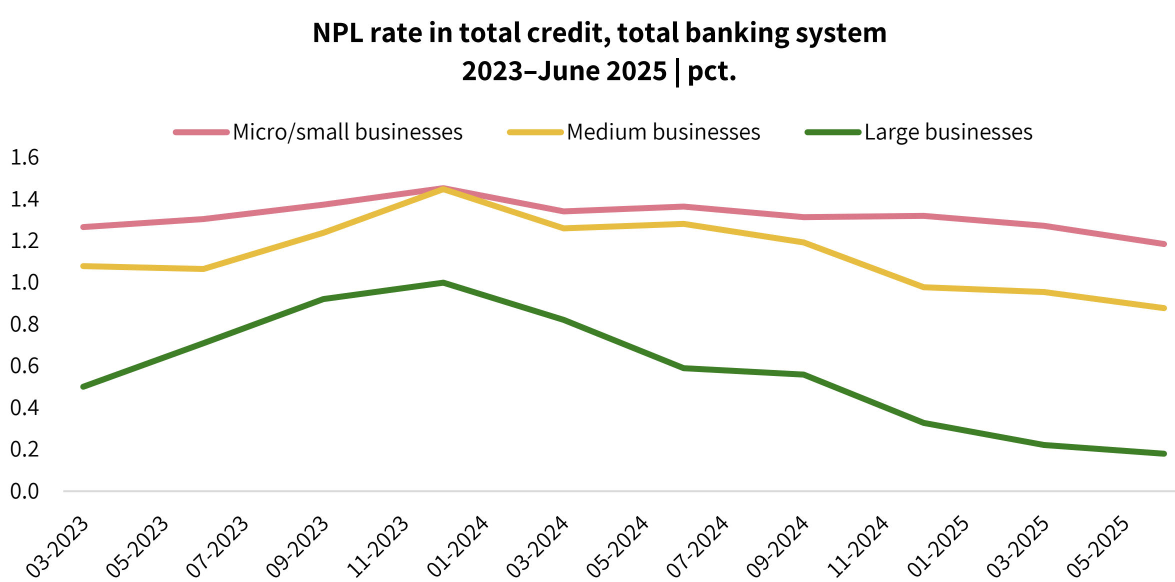
A slight decline was observed in the overall coverage ratio (credit loss allowances relative to total outstanding credit) for micro, small, and medium-sized businesses, while for large businesses it remained stable (Figure 54). The NPL coverage ratio (credit loss allowances relative to nonperforming loans) remained broadly unchanged, except in the large business segment, where the ratio increased, reflecting a decline in the volume of nonperforming loans (Figure 56).

Figure 52: The share of credit in arrears for micro and small businesses remains high, alongside a decline for the medium and large business segments



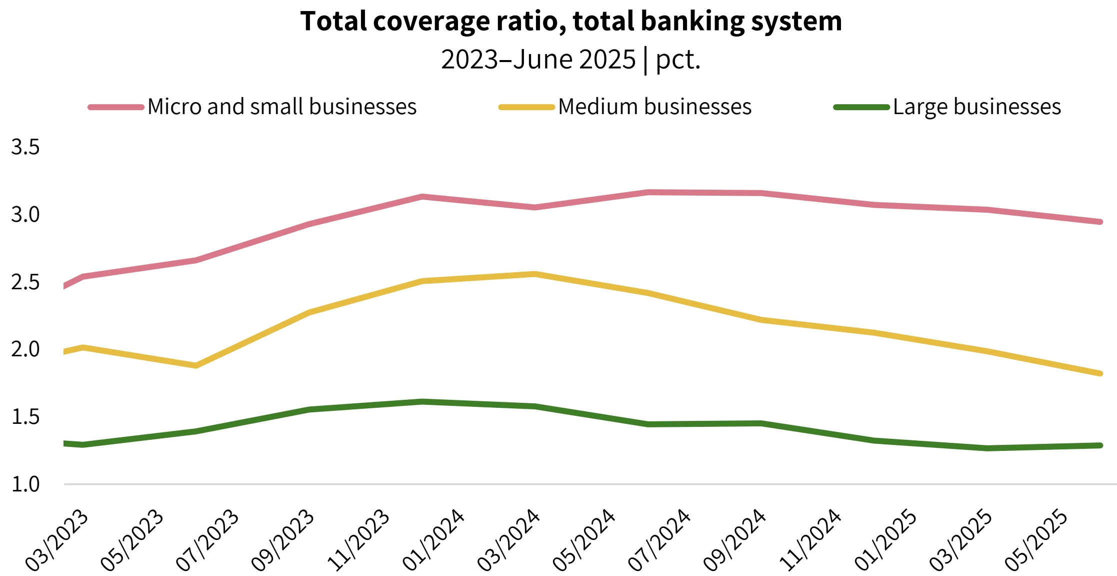
SOURCE: Based on published financial statements and reports to the Banking Supervision Department.

Figure 53: A decline in NPL rates



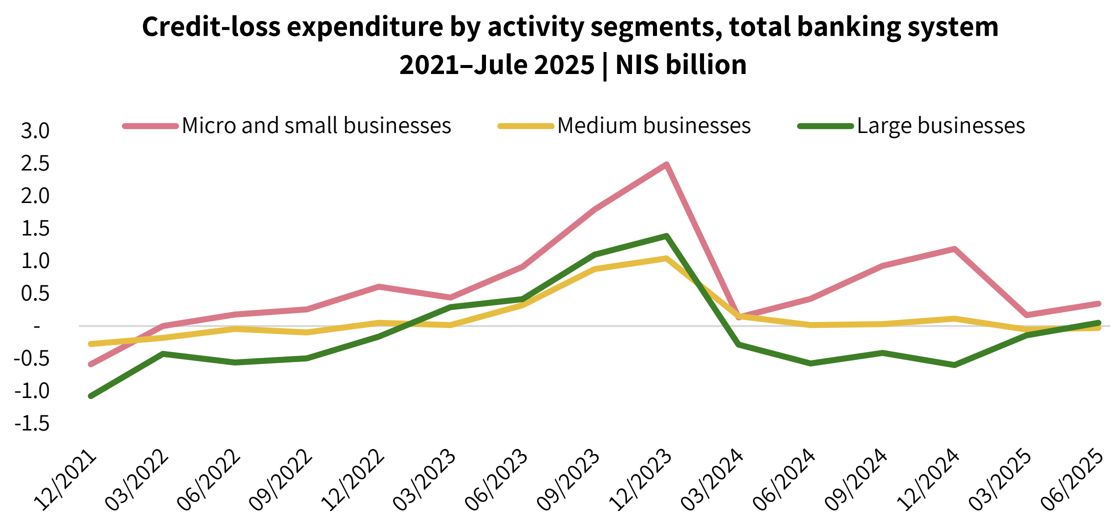
Source: published financial statements, reports to the Banking Supervision Department, and processing by the Banking Supervision Department

<u>Figure 54: Coverage ratios among small and micro businesses remain high, with a slight decline in the coverage ratio in micro, small, and medium businesses, alongside stability in large businesses</u>



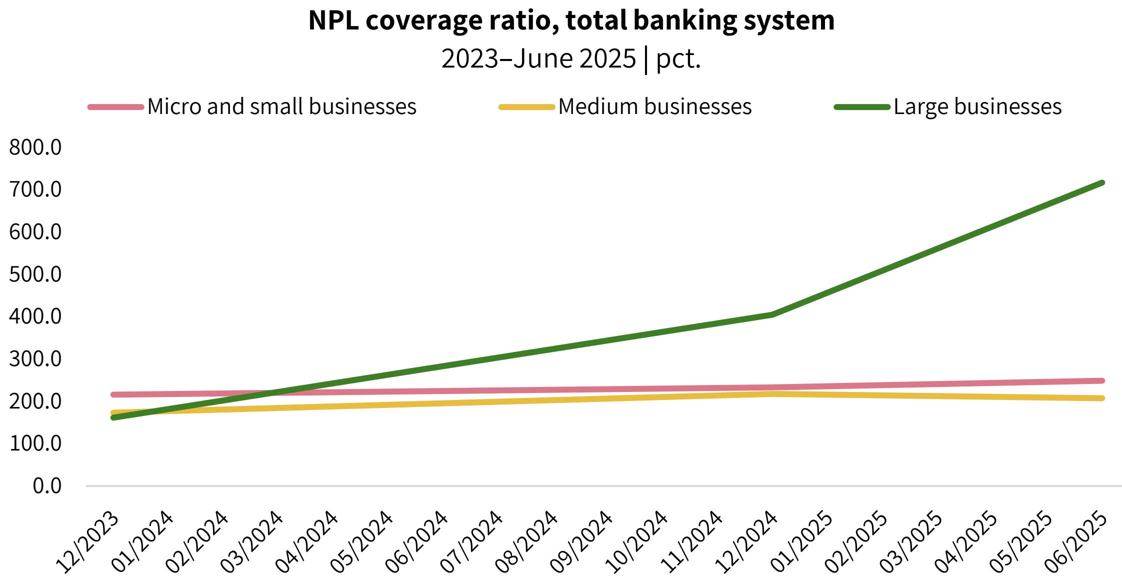
Source: published financial statements, reports to the Banking Supervision Department, and processing by the Banking Supervision Department

<u>Figure 55: The provision for credit losses was recorded mainly for micro and small businesses</u>



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

Figure 56: An increase in the coverage ratio among large businesses, in view of the decline in scope of NPL



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

Liquidity Risk

During the first seven months of 2025, there were declines in various liquidity indicators of the banking system, although they remained well above the minimum regulatory thresholds set by the Supervisor of Banks. At the beginning of the year, the public's deposits declined slightly, despite the growth in the banks' balance sheets, due to particularly high government tax revenues. In the second quarter, banking corporations increased their holdings of *Makam*, as well as domestic and foreign government bonds. A significant increase was recorded in wholesale financial deposits - which are considered more volatile - across all maturities. This trend indicates a growing reliance by banking corporations on possibly less stable funding sources.

As part of liquidity risk management under the Basel III framework, banks are required to comply with two standard liquidity ratios. The first is the Liquidity Coverage Ratio (LCR)[41], which is used to evaluate whether banks are maintaining a sufficient liquidity buffer to withstand a severe stress scenario lasting 30 calendar days. The second is the Net Stable Funding Ratio (NSFR)[42], which evaluates whether banks are maintaining a stable funding profile relative to the composition of their on-balance sheet assets and off-balance sheet activities. Compliance with this ratio indicates that sufficient stable funding sources are available to meet funding needs

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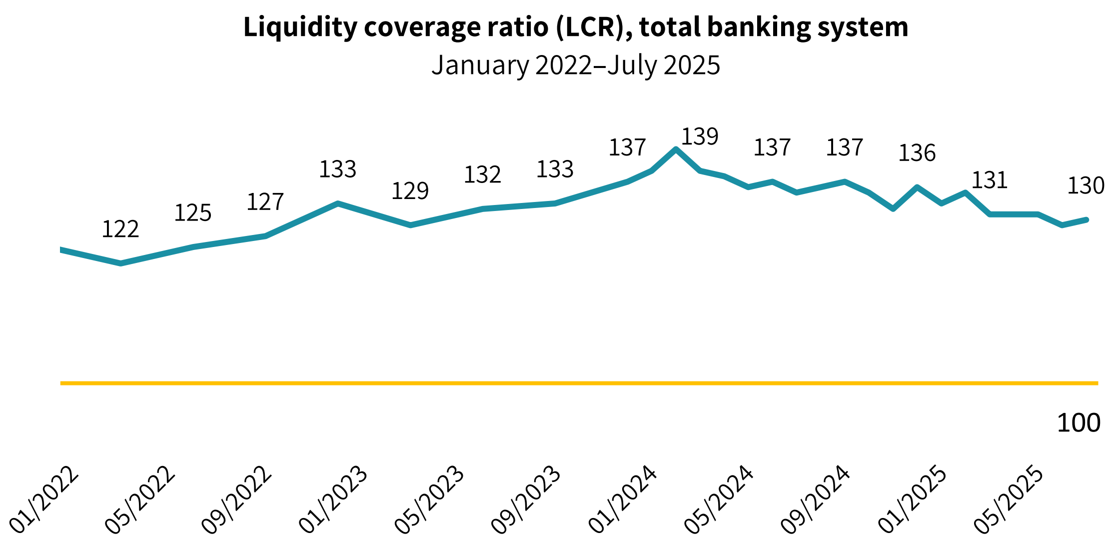
[41] The Liquidity Coverage Ratio indicator, developed by the Basel Committee to enhance the short-term resilience of banking corporations' liquidity profiles, shows the quantity of quality liquid assets that corporations should hold in order to weather a major extreme scenario lasting thirty calendar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

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

over a one-year forward-looking horizon. Meeting both ratios simultaneously mitigates the liquidity risk arising from unexpected changes in cash flows.

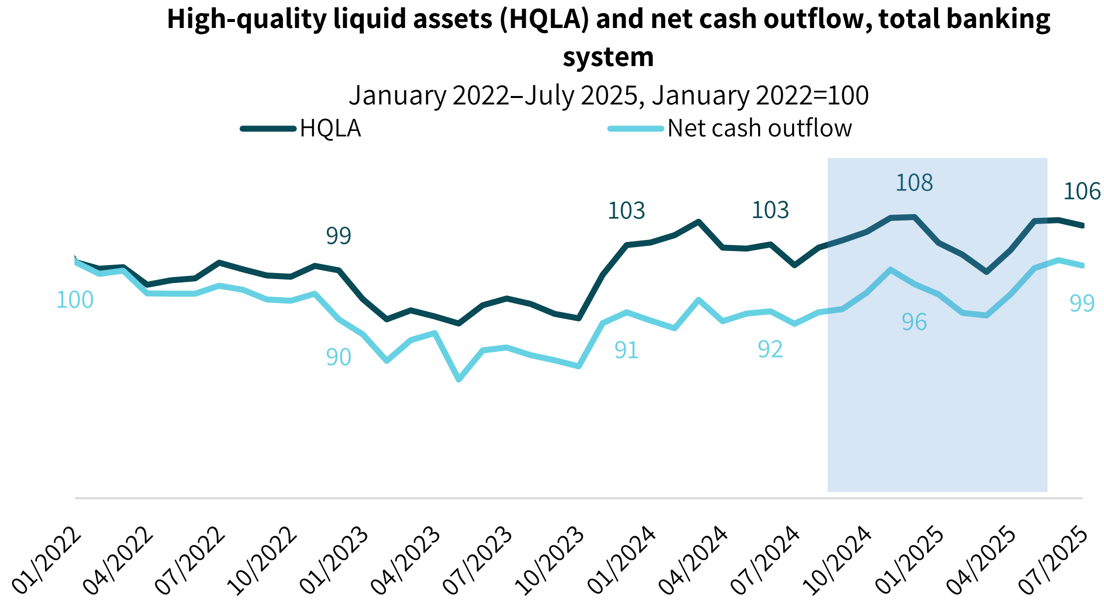
During 2025, the banking system's Liquidity Coverage Ratio eroded, reaching 130 percent as of July 2025, compared to 136 percent at the end of 2024. The ratio remains significantly above the minimum requirement of 100 percent set by the Supervisor of Banks. Almost all banking corporations recorded a decline in their LCR, though all remained above the regulatory minimum (Figure 57). The decline in the LCR relative to the end of 2024 stemmed from a reduction in the stock of high-quality liquid assets (HQLA) alongside an increase in projected net cash outflows over a 30-day horizon (Figure 58). Most of the decline occurred in the first quarter of 2025, driven by a particularly sharp reduction in HQLA compared with a more moderate decline in projected net cash outflows (a decrease of 34.5 percent versus 22 percent, in annual terms). In the second quarter (including July), HQLA increased by 13.7 percent, while projected net cash outflows grew at a faster pace of 15.9 percent. As a result, the LCR continued to decline, albeit at a slower pace.

Figure 57: In 2025 the erosion in Liquidity Coverage Ratio for the banking system continued



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

<u>Figure 58: From the end of 2024, the liquidity buffer has contracted slightly, against a slight increase in net outflows expected for 30 days</u>

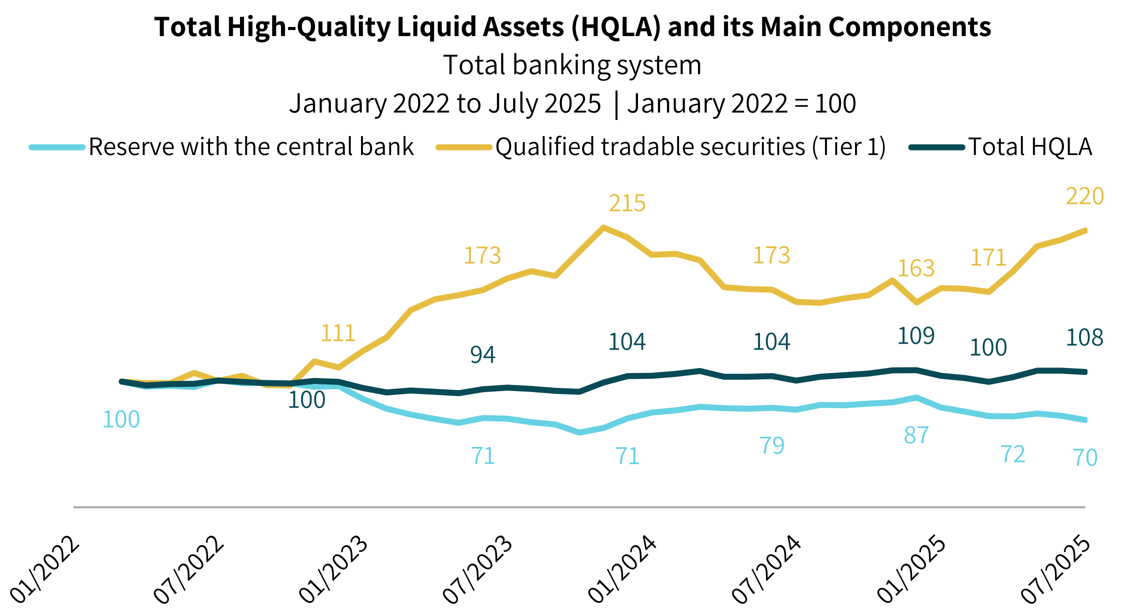


Source: reports to the Banking Supervision Department and processing by the Banking Supervision Department.

As noted above, the stock of High-Quality Liquid Assets (HQLA) declined slightly during 2025 (Figure 58). During the first seven months of the year, HQLA decreased by approximately NIS 8 billion (a decline of about 2 percent). In the first quarter of 2025—particularly in January and February—there was a sharp increase in government tax receipts, which contributed to a 3.5 percent decline in the public's deposits in the banking system. The decrease in the public's deposits was reflected in a reduction of approximately NIS 63 billion in reserves held at the Bank of Israel. In the second quarter (including July), the public's deposits resumed their growth. However, banks increased their holdings of government bonds and *Makam*, and monetary loans taken by the banking system during the COVID-19 crisis were repaid. As a result, reserves held at the Bank of Israel declined by an additional NIS 13 billion (for a total decline of NIS 76 billion since the beginning of 2025; Figure 59).

The decline in total HQLA[43] resulting from the reduction in reserves at the Bank of Israel was almost entirely offset—primarily during the second quarter—by an increase of approximately NIS 60 billion in eligible marketable securities with a zero-percent risk weight. This increase stemmed from the aforementioned rise in holdings of *Makam* and domestic and foreign government bonds, with nearly half of the growth in this category attributable to increased holdings of foreign government bonds.

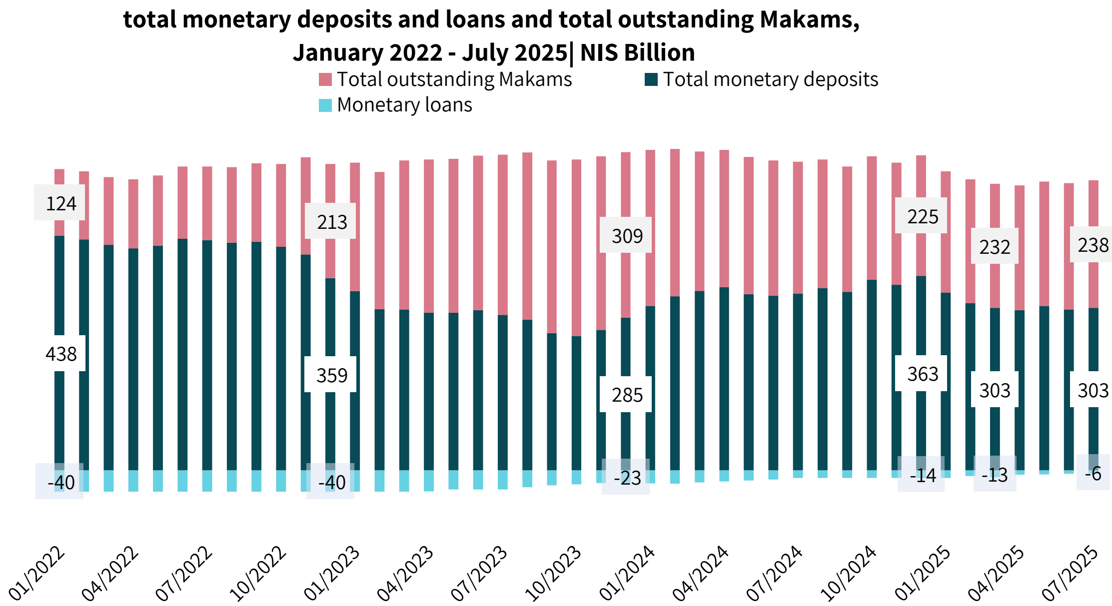
Figure 59: Beginning from the end of 2024, the banks hold more Makam and domestic and foreign government bonds, at the expense of central bank reserves



1) As defined in Proper Conduct of Banking Business Directive 221.
Source: reports to the Banking Supervision Department and processing by the Banking Supervision Department

[43] This decline relates to the inventory of high-quality assets in Israeli currency and foreign currency.

Figure 60: Marked contraction in monetary deposits, in contrast to slight growth in Makam

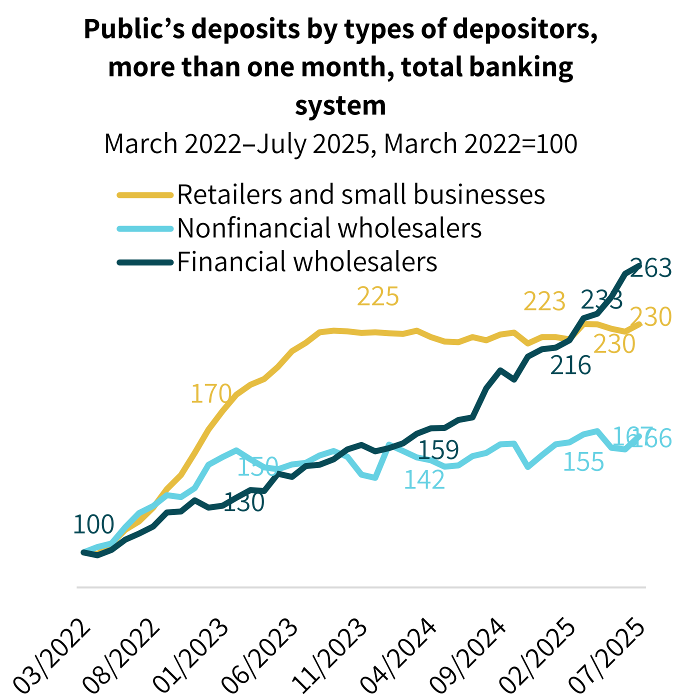


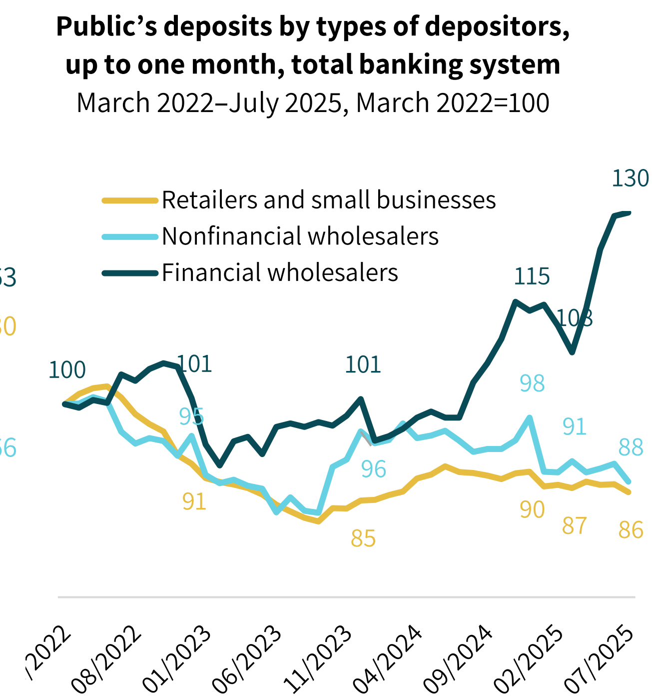
Source: The information and Statistics Department at the Bank of Israel.

Since the end of 2024, total deposits of the public across all maturities have increased by 5.8 percent, which was slightly offset by a modest annualized decline of approximately 0.6 percent in the public's deposits with maturities of up to one month. Against the backdrop of the decline in the stock of High-Quality Liquid Assets (HQLA), projected net cash outflows over a 30-day horizon increased by 5.6 percent during the first seven months of 2025. The increase in net cash outflows stemmed from a decline in deposits from retail and non-financial wholesale customers (down 6 percent and 17 percent, respectively), which are subject to lower withdrawal coefficients, alongside a 23 percent increase in financial wholesale deposits, which are fully factored, since they are considered more volatile (Figure 61). These developments led to an increase in the share of financial wholesale deposits within total public deposits with maturities of up to one month—from 29 percent at the end of 2024 to 33 percent as of July 2025 (Figure 62).

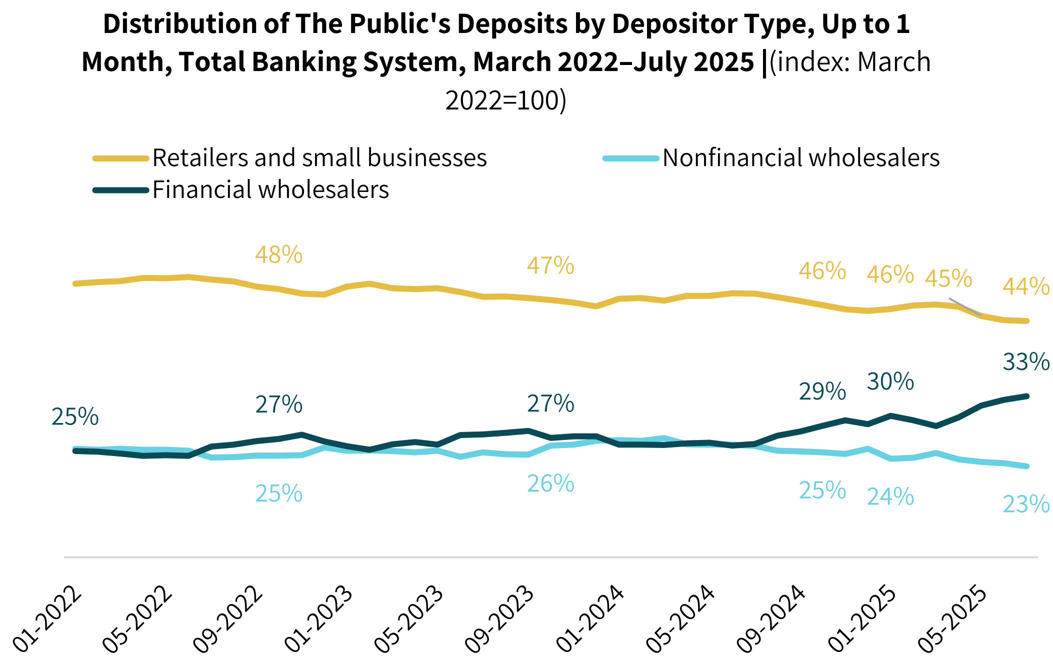
A similar pattern was observed in deposits with maturities of over one month. Financial wholesale deposits increased markedly (by 38 percent), compared with more moderate growth since the beginning of 2025 in retail and nonfinancial wholesale deposits (6 percent and 12 percent, respectively).

<u>Figures 61: Acceleration in trend of growth in wholesale financial deposits for all ranges</u>





<u>Figure 62: Growth in wholesale financial deposits led to growth in their share in public deposits up to 1 month, at the expense of other activity segments</u>

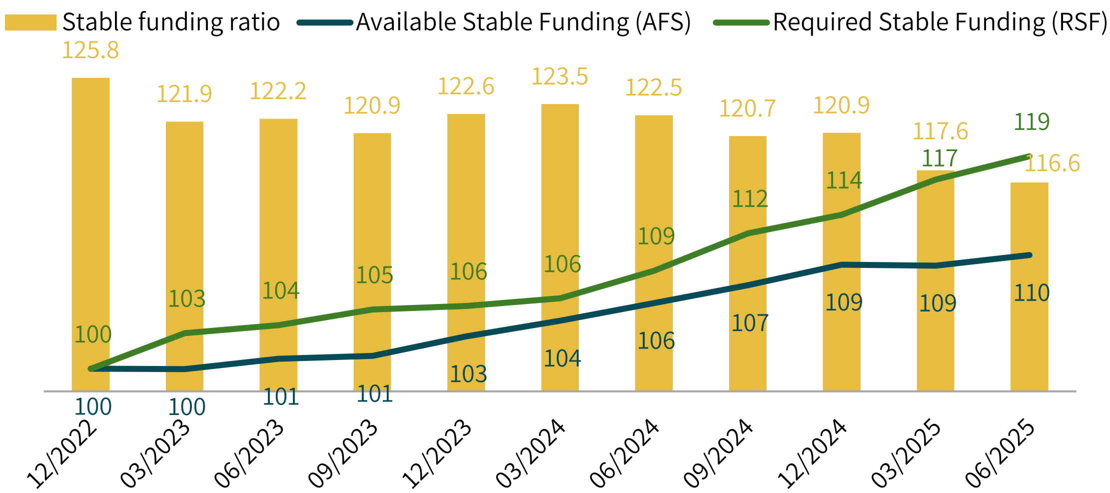


Source: Based on published financial statements and reports to the Banking Supervision Department.

The Net Stable Funding Ratio (NSFR) declined in the first half of 2025 to 116.6 percent, as compared to 120.9 percent at the end of 2024 - a trend that began after the first quarter of 2024 (Figure 63). The decline in the first quarter stemmed from a faster increase in required stable funding, driven by credit growth (5.5 percent), compared with a slight decrease (0.2 percent) in available stable funding items, such as deposits with maturities exceeding one year. In the second quarter, deposits with maturities of over one year increased by 19.2 percent (approximately NIS 13 billion). However, since this increase was driven solely by less stable sources (financial wholesale deposits), it resulted in a slower rise in available stable funding relative to the continued growth in required stable funding. Required stable funding continued to expand due to growth in assets, primarily in credit (1.7 percent and 3.6 percent, respectively).

Figure 63: The Net Stable Funding Ratio deteriorated steadily, in view of the growth in credit and wholesale deposits

Total Available Stable Funding (ASF) and Total Required Stable Funding (RSF)[a], Total Banking System, 2022-June 2025 | precent, 2022 = 100



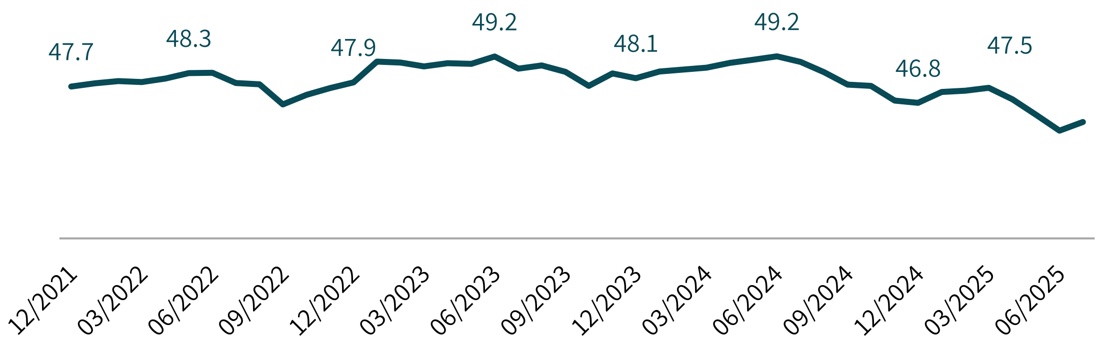
1) As defined in Proper Conduct of Banking Business Directive 222.
Source: published financial statements and processing by the Banking Supervision Department

The Core Funding Ratio (CFR)[44]—which is used to evaluate the quality of a bank's funding sources, namely the share of stable liabilities within total liabilities—also eroded during the first seven months of 2025, declining to 45.9 percent. Since the beginning of 2025, stable liabilities increased by 4.7 percent, particularly in the case of deposits from wholesale customers with maturities exceeding one year, as well as bonds and subordinated notes. However, this increase was partly offset by a decline in retail and small business deposits, thus moderating the pace of growth in stable liabilities. At the same time, total liabilities grew at a faster rate (8.3 percent; Figure 64), contributing to the decline in the CFR.

[44] According to the European Banking Authority (EBA) definition, the Core Funding Ratio (CFR) is composed of the following two components: in the numerator – total stable liabilities: total retail deposits, wholesale deposits with maturities exceeding one year, and bonds and subordinated notes; in the denominator – total liabilities.

Figure 64: The Core Funding Ratio declined slightly and reflects a deterioration in the quality of sources on which the corporations rely

Core Funding Ratio (CFR),[1] total banking system
December 2021–July 2025| pct.



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

Market Risk

During the first half of 2025, market and interest rate risk in the banking system remained elevated, reflecting a combination of geopolitical, economic, and monetary factors. The ongoing war since October 2023 and tensions with Iran have created an environment of uncertainty. Nevertheless, domestic financial markets demonstrated relative resilience: the shekel appreciated, Tel Aviv equity indices recorded gains, and the risk premium declined. However, inflation in Israel remained above the target range. On the international front, changes in US tariff policy, the beginning of an interest rate cutting cycle by major central banks, volatility in global bond markets, and exchange rate fluctuations had a direct impact on Israeli banks. These developments underscore the challenges facing the banking system and the critical importance of effective market and interest rate risk management in maintaining financial stability.[45]

a. Exposure to Interest Rate Risk[46]

Under the Net Interest Income (NII) approach—which measures the impact of interest rate changes on expected earnings over a 12-month horizon—the effect of a parallel interest rate decline scenario[47] remained stable during the first half of 2025 as compared to the end of 2024. The potential loss as a share of total income[48] under this scenario **remained relatively stable** compared to 2024 (Figure 65) across all banks. This stability in the potential loss ratio reflected both the relative stability in the absolute potential loss (NIS 3.1 billion as of mid-2025,

[45] In this context, it is worth noting that in May 2025, the S&P rating agency revised the outlook for several Israeli banks from negative to stable. This move reflects the relative resilience of domestic banks in the face of challenging macroeconomic conditions.

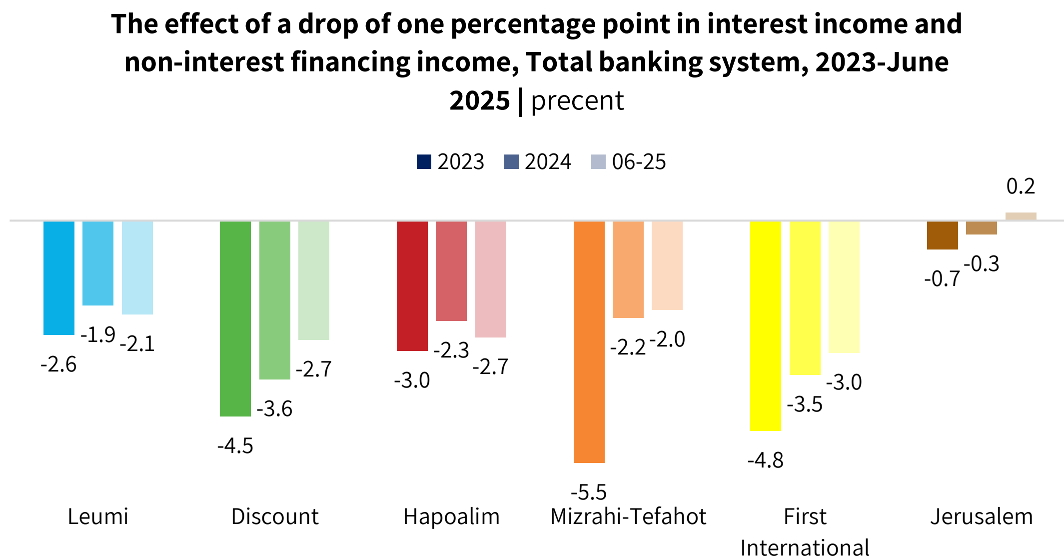
[46] Interest-rate risk (without the credit-risk spread) is the risk to the banks' profits as a result of fluctuations in interest rates, which affect the existing positions of each of the banks. When interest rates change, the present value and timing of future cash flows change with them. These, in turn, lead to changes in the fundamental value of the bank's assets, liabilities, and off-balance sheet items and thus affect the bank's economic value. Changes in interest rates also affect the bank's profits through their effect on income and expenses that are sensitive to the interest rate, thus affecting net interest income (NII). Excessive interest-rate risk may pose a threat to the bank's capital base and/or its future profits unless it is managed appropriately.

[47] Parallel scenarios are scenarios in which market interest rates increase or decrease by the same magnitude and at the same time across all maturities. These scenarios are designed to evaluate the impact of a general rise or decline in interest rates on a bank's balance sheet, its income and expenses, and the level of risk it carries.

[48] Interest income and non-interest financing income.

as compared to NIS 3.3 billion at the end of 2024) and continued profitability (estimated interest and non-interest income for 2025 amounted to NIS 142 billion, as compared to NIS 139 billion for all of 2024; see Chapter 3 of this review for further details).

Figure 65: Stability in the rate of sensitivity to changes in income as a result of a scenario of an interest rate reduction in parallel

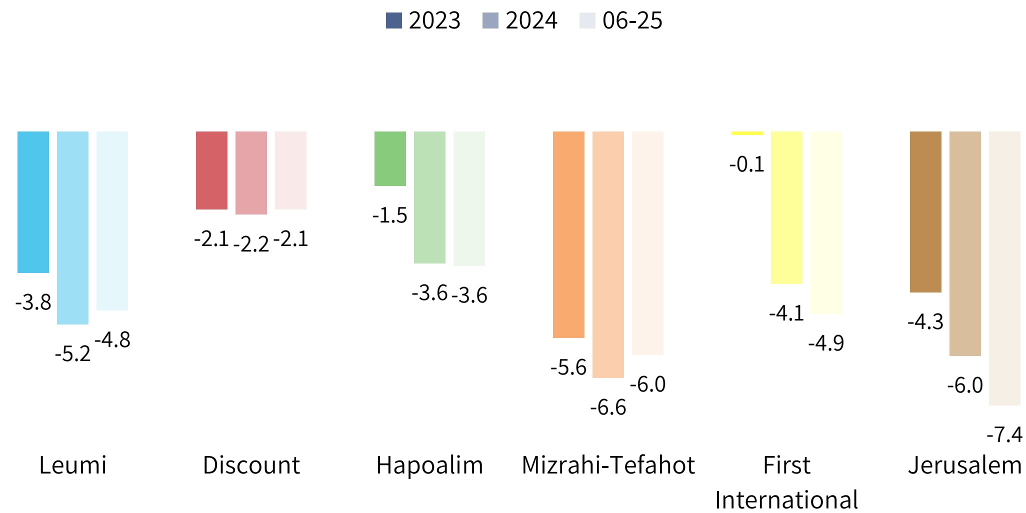


Source: Based on published financial statements and reports to the Banking Supervision Department.

The Economic Value of Equity (EVE) approach, which is used to assess interest rate risk over a horizon longer than one year, examines the impact of various interest rate shock scenarios on the fair value of a banking corporation's assets, liabilities, and off-balance sheet positions. **As of the first half of 2025, the banking system's sensitivity to a parallel upward shock of one percentage point remained stable (Figure 66).** This stability was maintained despite an acceleration in credit growth and an expansion of the banks' securities portfolios, both of which would typically increase this sensitivity. This was due to, among other things, the offsetting effect of bond issuances by banks during the year (for further details, see the section on the balance sheet).

Figure 66: Stability in the sensitivity of the banking system to scenarios of parallel change scenarios

Effect of a parallel increase of one percentage point on the fair value relative to capital
Total banking system, 2023–June 2025 | percentage points



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

b. Indexation Base Risk

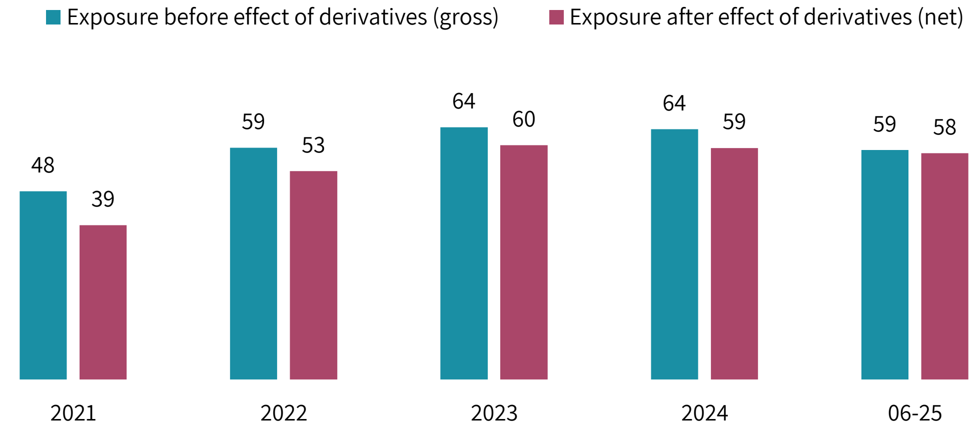
During the first half of 2025, the banking system's exposure[49] **to the CPI moderated**, declining by approximately 6 percent during the period under review, to NIS 123 billion, as compared to NIS 127 billion at the end of 2024 (Figure 67). The decrease in exposure was due to the year over year growth in CPI-indexed liabilities[50], at a rate of 22 percent during the period under review as compared to an average of 5 percent in 2023–24. The increase was driven primarily by issuance of bonds and subordinated liabilities (NIS 8.6 billion), as well as growth in CPI-indexed deposits of the public (NIS 9.4 billion). Accordingly, the ratio of CPI exposure to Common Equity Tier 1 capital declined by 6 percentage points relative to the end of 2024, to

[49] Total exposure is calculated as the difference between CPI-indexed assets and liabilities.
[50] The rate of increase in CPI-indexed assets remained stable at 10 percent during the first half of 2025.

approximately 59 percent. However, the net exposure (after the effect of derivatives) remained stable at 58 percent—slightly lower than at the end of 2024 (59 percent; Figure 68).

Figures 67 and 68: The share of net exposure relative to equity remains stable.

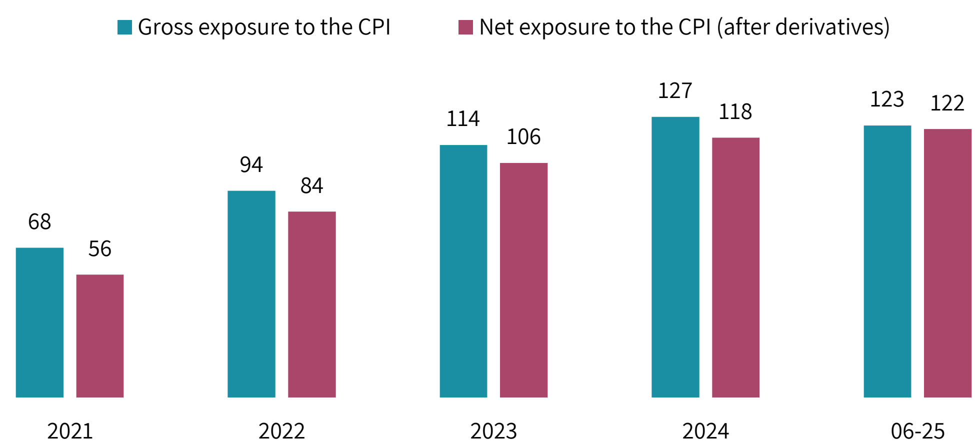
Exposure[1] to CPI relative to Tier 1 equity, total system, 2021–June 2025| pct.



1) Difference between assets and liabilities

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

Exposure[1] to the CPI, Totbal banking system, 2021– June 2025 | NIS billion



1) Gap between assets and liabilities

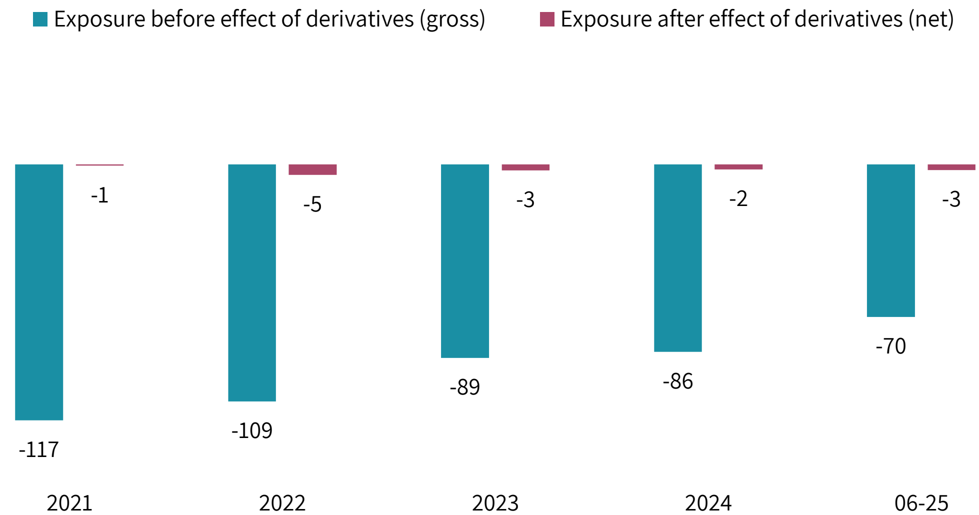
Source: published financial statements and processing by the Banking Supervision Department *c. Foreign Exchange*

In the foreign exchange segment, the banking system has a significant excess of liabilities over assets (approximately NIS 147 billion). During the period under review, total exposure[51] declined by 28 percent relative to the end of 2024 (a decrease of NIS 23 billion). This reduction primarily reflected faster growth in foreign-currency-denominated assets relative to foreign-currency-denominated liabilities, particularly in the securities portfolio, which expanded by 38 percent during the first half of 2025 (NIS 30.2 billion).[52] A scenario involving a depreciation of the shekel against foreign currencies could result in substantial losses for the banks, given that such a development would increase the value of their foreign currency liabilities and reduce their equity. Therefore, banks hedge their foreign currency exposure through derivatives activity, resulting in a very low net exposure (after the effect of derivatives) of approximately NIS -5.4 billion.[53] This is reflected in the ratio of net foreign currency exposure to Common Equity Tier 1 capital, which remained relatively stable at 3 percent as of mid-2025, as compared to 2 percent at the end of 2024 (Figure 69).

[51] Total exposure is calculated as the difference between assets and liabilities that are denominated in foreign currency.
[52] The main part of the increase (NIS 26.5 billion) is due the increase in US bonds held by Bank Hapoalim (NIS 10.7 billion) and Mizrahi-Tephahot (NIS billion)
[53] The scope of exposure remained stable relative to 2023 (NIS -4.8 billion).

Figure 69: Stability in the share of net exposure to foreign currencies during the first half of 2025

Exposure[1] to exchange rate relative to Tier 1 equity, total system,
2021–June 2025| pct.



1) Difference between assets and liabilities
Source: published financial statements and processing by the Banking Supervision Department

d. Derivatives Activity

The derivatives portfolio[54] includes both trading and nontrading activity. Nontrading activity is intended to hedge foreign exchange risk and interest rate risk in the banking portfolio that arises from the bank's regular financial intermediation activities. Trading activity (which accounted for approximately 91 percent of the nominal amount of derivatives activity as of the end of the first half of 2025) includes derivatives transactions conducted for short-term profit generation, as well as the provision of services to clients seeking to hedge their real economic activity (for example, interest rate contracts and foreign currency purchases for business clients) or to trade financial instruments themselves with the bank as counterparty (for example, equity derivatives

[54] Derivatives are financial instruments whose value is derived from another asset, known as the "underlying asset." There are two main types of derivatives: options and futures contracts. These instruments enable buyers or sellers to hedge their investments against price increases or decreases in a specific asset, but they can also serve as a leveraged substitute for direct investment in the underlying asset.

with institutional investors or short sales by other financial sector clients). In this context, banks benefit as market makers from bid-ask spreads in derivatives and foreign exchange instruments. This year, the volume of derivatives activity continued to grow, reaching a nominal amount[55] of NIS 5,721 billion as of the first half of 2025, as compared to NIS 5,254 billion at the end of 2024. However, the nominal value of derivatives does not reflect the actual level of risk, since it does not account for market fluctuations, counterparty obligations, or credit risk. Instead, total credit risk exposure[56] (on the asset side) and net liabilities[57] provide a more accurate picture of risk exposure. Accordingly, credit risk exposure from derivatives increased by 2 percent during the first half of 2025 (approximately NIS 4.3 billion), reaching NIS 13.4 billion. On the liabilities side, net liabilities arising from derivatives doubled (with more than half of the increase attributable to higher net liabilities to institutional investors), reaching NIS 26 billion as of mid-2025.

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[55] The nominal amount refers to the underlying reference value on which a derivative contract is based. It is used to calculate payments or obligations arising from the contract, but it is not exchanged between the parties.

[56] The on-balance sheet assets arising from derivative instruments is presented after deducting credit risk related to financial instruments and cash collateral received, as well as net off-balance sheet exposure due to derivatives.

[57] The on-balance sheet liabilities are presented net of financial instruments and pledged cash collateral.

Table 1

Table 1
Principal banking system indices, 2015–June 2025

	Common Equity Tier 1 capital ratio[a] (percent)	Leverage ratio[b] (percent)	ROE (percent)	Efficiency ratio[c]	Liquidity coverage ratio[d] (percent)	Rate of change in balance-sheet credit to the public (percent)	Ratio of bank credit to the public to GDP (percent)	Ratio of credit to deposits (percent)	Annual loan loss provision to total credit to the public[e] (percent)	Herfindahl-Hirschman Concentration Index (HHI)[f]	Average yield spread between bonds of the banks and government bonds[g] (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	0.221	0.9	0.69
2016	10.69	6.53	8.1	66.89	138	2.61	77.63	0.81	0.10	0.214	0.8	0.83
2017	10.90	6.67	8.7	65.09	126	3.54	77.06	0.81	0.14	0.213	0.7	0.91
2018	10.77	6.76	8.5	64.52	129	3.81	76.36	0.84	0.22	0.223	0.9	0.97
2019	11.16	6.91	8.4	61.54	126	4.26	75.28	0.84	0.29	0.221	0.6	0.69
2020	11.11	6.22	6.2	58.30	137	7.46	81.30	0.75	0.68	0.220	0.6	0.90
2021	10.86	5.83	13.9	54.93	125	13.62	82.77	0.73	-0.25	0.222	0.7	1.16
2022	10.86	6.06	16.5	45.95	133	12.34	83.35	0.77	0.10	0.221	0.9	1.02
2023	11.33	6.45	15.6	39.65	137	6.67	83.82	0.79	0.50	0.222	0.9	0.96
2024	11.42	6.65	15.9	38.31	136	8.81	85.45	0.79	0.14	0.223	0.6	1.11
Jun-25	11.56	6.74	15.9	36.55	129	5.56		0.81	0.12	0.224		1.49

[a] Calculated in accordance with Proper Conduct of Banking Business Directive 201 and 202.

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

[c] The ratio between total operating and other expenses nd 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

[e] 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.

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

[g] Average for December of that year.

[h] In calculating the MV/BV ratio, the book value (BV) of the five major banks is calculated with a delay of one quarter after the market value (MV).

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

Table 2
Main items in consolidated profit and loss statements, total banking system, June 2024 - June 2025
(NIS millon, at current prices)

	Bank Leumi				Bank Hapoalim				Mizrahi-Tefahot Bank				Discount Bank			
	Jun-25	Jun-24	Dec-24	Rate of change relative to corresponding period of previous	Jun-25	Jun-24	Dec-24	Rate of change relative to corresponding period of previous	Jun-25	Jun-24	Dec-24	Rate of change relative to corresponding period of previous	Jun-25	Jun-24	Dec-24	Rate of change relative to corresponding period of previous
Interest income	19,264	18,619	37,462	3.46	18,263	17,201	35,495	6.17	13,378	12,816	25,798	4.39	11,028	10,261	21,127	7.47
Interest expenses	10,707	10,474	20,953	2.22	9,192	9,003	18,545	2.10	7,486	6,911	13,984	8.32	5,953	5,325	11,198	11.79
Net interest income	**8,557**	**8,145**	**16,509**	5.06	**9,071**	**8,198**	**16,950**	10.65	**5,892**	**5,905**	**11,814**	-0.22	**5,075**	**4,936**	**9,929**	2.82
Loan loss provisions	278	204	713	36.27	564	-63	693	995.24	159	284	519	-44.01	112	233	442	-51.93
Net interest income after loan loss provisions	**8,279**	**7,941**	**15,796**	4.26	**8,507**	**8,261**	**16,257**	2.98	**5,733**	**5,621**	**11,295**	1.99	**4,963**	**4,703**	**9,487**	5.53
Noninterest income	**2,814**	**3,893**	**6,599**	-27.72	**3,064**	**2,624**	**5,010**	16.77	**1,445**	**1,528**	**2,907**	-5.43	**1,664**	**1,551**	**3,302**	7.29
of which: Noninterest financing income	703	1,180	1,820	-40.42	822	594	959	38.38	185	371	574	-50.13	553	610	1,363	-9.34
of which: Stocks[a]	187	393	275	-52.42	202	223	242	-9.42	106	49	94	116.33	50	138	142	-63.77
	-309	-188	-491	39.16	218	-384	-799	156.77	-8	11	-25	-172.73	17	0	142	-
	-3,299	2,698	2,494	-222.28	-2,763	2,106	1,191	-231.20	-1,341	1,057	342	-226.87	-3,065	1,814	1,006	-268.96
	4,122	-1,723	-848	339.23	3,308	-1,508	-40	319.36	1,428	-746	108	291.42	3,551	-1,343	9	364.41
of which: Fees	2,035	1,845	3,823	10.30	2,205	1,991	3,980	10.75	1,123	1,018	2,060	10.31	[d] 1,044	1,772	3,693	[c] 11.18
Total operating and other expenses	**3,341**	**3,476**	**6,904**	-3.88	**4,102**	**4,139**	**9,007**	-0.89	**2,662**	**2,607**	**5,222**	2.11	**3,195**	**3,069**	**6,204**	4.11
of which: salaries and related expenses	1,841	1,953	3,796	-5.73	2,280	2,228	4,486	2.33	1,734	1,724	3,431	0.58	1,755	1,717	3,459	2.21
Pre-tax profit	**7,752**	**8,358**	**15,491**	-7.25	**7,469**	**6,746**	**12,260**	10.72	**4,516**	**4,542**	**8,980**	-0.57	**3,432**	**3,185**	**6,585**	7.76
Provision for tax on profits	2,915	2,843	5,422	0.00	2,527	2,559	4,559	-1.25	1,674	1,728	3,326	-3.13	1,316	1,232	2,538	6.82
After-tax profit	**4,837**	**5,515**	**10,069**	-12.29	**4,942**	**4,187**	**7,701**	18.03	**2,842**	**2,814**	**5,654**	1.00	**2,116**	**1,953**	**4,047**	8.35
Net profit attributed to shareholders	**5,013**	**5,054**	**9,798**	-0.81	**4,966**	**4,176**	**7,635**	18.92	**2,743**	**2,724**	**5,455**	0.70	**2,151**	**2,095**	**4,281**	2.67
Total pre-tax ROE (percent)	**24.43**	**29.77**	**26.72**		**24.86**	**25.09**	**22.17**		**27.99**	**31.68**	**30.45**		**21.22**	**21.89**	**21.84**	
Total after-tax ROE (percent)	**15.80**	**18.00**	**16.90**		**16.53**	**15.53**	**13.80**		**17.00**	**19.00**	**18.50**		**13.30**	**14.40**	**14.20**	
Total ROA (percent)	**1.30**	**1.40**	**1.30**		**1.38**	**1.24**	**1.11**		**1.10**	**1.20**	**1.18**		**0.96**	**1.05**	**1.05**	

Table 2 (cont.)

(continued)

Main items in consolidated profit and loss statements, total banking system, June 2024 - June 2025

(NIS millon, at current prices)

	First International				Bank of Jerusalem				Total banking system			
	Jun-25	Jun-24	Dec-24	Rate of change relative to corresponding period of previous year	Jun-25	Jun-24	Dec-24	Rate of change relative to corresponding period of previous year	Jun-25	Jun-24	Dec-24	Rate of change relative to corresponding period of previous year
Interest income	5,822	5,455	11,097	6.73	756	747	1,487	1.19	68,511	65,099	132,466	5.24
Interest expenses	3,378	3,119	6,357	8.30	399	392	784	1.76	37,115	35,224	71,821	5.37
Net interest income	2,444	2,336	4,740	4.62	357	355	704	0.56	31,396	29,875	60,646	5.09
Loan loss provisions	-27	-73	-16	63.01	17	36	80	-52.63	1,103	621	2,431	77.60
Net interest income after loan loss provisions	2,471	2,409	4,756	2.57	340	319	624	6.59	30,293	29,254	58,215	3.55
Noninterest income	1,065	884	2,006	20.48	150	98	211	53.53	10,202	10,578	20,035	-3.55
of which: Noninterest financing income	205	147	432	39.46	40	24	49	66.80	2,508	2,926	5,197	-14.28
of which: Stocks[a]	107	53	70	101.89	8	3	4	175.00	660	859	827	-23.18
	-53	-3	70	-1,666.67	5	-2	4	309.09	-130	-566	-1,331	76.97
	-605	577	265	195.37	-15	5	3	-433.33	-11,088	8,257	5,301	-234.29
	756	-480	-66	257.50	23	-6	-2	481.67	13,188	-5,806	-839	327.14
of which: Fees	859	727	1,553	18.16	104	66	155	56.50	[d] 7,505	7,529	15,264	[5] 13.95
Total operating and other expenses	1,585	1,463	2,977	8.34	318	281	591	12.94	15,203	15,035	30,905	1.11
of which: salaries and related expenses	902	882	1,739	2.27	143	125	260	14.76	8,655	8,629	17,171	0.31
Pre-tax profit	1,951	1,830	3,785	6.61	172	135	244	27.27	25,292	24,796	47,345	2.00
Provision for tax on profits	770	643	1,383	19.75	56	46	84	23.74	9,258	9,051	17,312	2.30
After-tax profit	1,181	1,187	2,402	-0.51	116	90	161	29.06	16,034	15,746	30,034	1.83
Net profit attributed to shareholders	1,167	1,178	2,371	-0.93	111	87	155	28.21	16,151	15,314	29,695	5.47
Total pre-tax ROE (percent)	**28.59**	**29.83**	**30.33**		**22.10**	**19.87**	**17.55**		**24.88**	**27.35**	**25.35**	
Total after-tax ROE (percent)	**17.10**	**19.20**	**19.00**		**14.57**	**12.70**	**11.10**		**15.89**	**16.89**	**15.90**	
Total ROA (percent)	**0.91**	**1.05**	**1.02**		**0.67**	**0.82**	**0.70**		**1.18**	**1.23**	**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.

[d] The data for June 2025 do not include CAL's activity as part of the Discount Group.

[e] The rate of change refers to data excluding CAL's activity in both reporting periods (the data for fees in June 2024, excluding CAL's activity, amount to NIS 939 million).

SOURCE: Banking Supervision Department based on published financial statements.

Table 3

Table 3
The effect of quantity[a] and price[b] on interest income and expenses, total banking system, June 2024 - June 2025
NIS million

Jun-25	Quantity effect			Price effect			Net change		
	Assets side	Liabilities side	Net quantity effect	Assets side	Liabilities side	Net price effect	Assets side	Liabilities side	Contribution to net interest income
Credit to the public (assets) / deposits of the public (liablities) in Israel	4,037	2,524	1,513	-1,229	-1,385	156	2,808	1,139	1,669
Credit to the public (assets) / deposits of the public (liabilities) abroad	427	262	165	-372	-360	-12	55	-98	153
Total credit to the public / deposits of the public	4,464	2,786	1,678	-1,601	-1,745	144	2,863	1,041	1,822
Other interest-bearing assets / liabilities in Israel	483	573	-90	287	277	10	770	850	-80
Other interest-bearing assets / liabilities abroad	-99	-5	-94	-122	5	-127	-221	0	-221
Total other interest-bearing assets / liabilities	384	568	-184	165	282	-117	549	850	-301
Total interest income / expenses	4,848	3,354	1,495	-1,436	-1,463	26	3,412	1,891	1,521
Jun-24	Quantity effect			Price effect			Net change		
	Assets side	Liabilities side	Net quantity effect	Assets side	Liabilities side	Net price effect	Assets side	Liabilities side	Contribution to net interest income
Credit to the public (assets) / deposits of the public (liablities) in Israel	2,401	3,864	-1,463	-184	2,553	-2,737	2,217	6,417	-4,200
Credit to the public (assets) / deposits of the public (liabilities) abroad	329	224	105	285	295	-10	614	519	95
Total credit to the public / deposits of the public	2,730	4,088	-1,358	102	2,848	-2,747	2,831	6,936	-4,105
Other interest-bearing assets / liabilities in Israel	1,091	-210	1,300	1,597	211	1,386	2,687	2	2,686
Other interest-bearing assets / liabilities abroad	106	-15	121	130	13	117	236	-2	238
Total other interest-bearing assets / liabilities	1,197	-225	1,421	1,727	224	1,503	2,923	0	2,924
Total interest income / expenses	3,927	3,863	63	1,828	3,072	-1,244	5,755	6,936	-1,181

[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 1,000.
[b] The price effect is calculated as the change in price (current year versus previous year) multiplied by the balance-sheet balance for the same period in the previous year, divided by 1,000.
SOURCE: Banking Supervision Department based on published financial statements.

Table 4

Table 4

Average balances, interest income and expense rates, and interest rate gap in respect of assets and liabilities, total banking system, June 2024 to June 2025 (NIS million, percent in annual terms)

June 2025								
	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	1,666,704	51,895	6.23	Deposits of the public	1,636,006	-32,400	-3.96	2.27
Deposits at banks	37,304	740	3.97	Deposits from banks	22,451	-344	-3.06	0.90
Deposits at central banks	339,714	7,515	4.42	Deposits from central banks	10,212	-88	-1.72	2.70
Bonds	384,048	7,992	4.16	Bonds	127,252	-2,877	-4.52	-0.36
Other assets[a]	17,530	368	4.20	Other liabilities[a]	58,287	-1,406	-4.82	-0.63
Total interest-bearing assets	**2,445,300**	**68,511**	**5.60**	**Total interest-bearing liabilities**	**1,854,208**	**-37,115**	**-4.00**	**1.60**
Net yield on interest-bearing assets (net interest margin)[b]	**2,445,300**	**31,396**	**2.57**					

June 2024								
	Assets				Liabilities			
	Average yearly balance (NIS million)	Interest income (NIS million)	Income rate (%)		Average yearly balance (NIS million)	Interest expenses (NIS million)	Expense rate (%)	Interest rate gap
Credit to the public	1,524,061	49,032	6.43	Deposits of the public	1,493,970	-31,359	-4.20	2.24
Deposits at banks	30,836	612	3.97	Deposits from banks	24,911	-393	-3.16	0.82
Deposits at central banks	352,424	7,923	4.50	Deposits from central banks	20,606	-83	-0.81	3.69
Bonds	358,414	7,155	3.99	Bonds	114,191	-2,581	-4.52	-0.53
Other assets[a]	16,641	376	4.52	Other liabilities[a]	32,332	-808	-5.00	-0.48
Total interest-bearing assets	2,282,376	65,099	5.70	**Total interest-bearing liabilities**	1,686,010	-35,224	-4.18	1.53
Net yield on interest-bearing assets (net interest margin)[b]	**2,282,376**	**29,875**	**2.62**					

[a] Other liabilities and assets also include credit to the government and government deposits, and securities loaned or borrowed in repurchase agreements, among other things.
[b] The net interest margin is the ratio between net interest income and total interest-bearing assets. The margin is shown in percent and calculated using annual data.
SOURCE: Banking Supervision Department based on published financial statements.

Table 5

Table 5
Unit output cost[a] and efficiency ratio[b] of the total banking system, 2021 - June 2025
(percent)

	Year	Leumi	Hapoalim	Mizrahi-Tefahot	Discount	First International	Bank of Jerusalem	**Total banking system**
Unit output cost	**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	1.37
	2023	0.96	1.22	1.27	2.06	1.38	2.68	1.31
	2024	0.91	1.28	1.12	1.48	1.27	2.67	1.19
	Jun-25	0.82	1.11	1.06	1.41	1.24	2.87	1.09
Efficiency ratio	**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	45.6
	2023	32.6	38.5	37.7	49.6	43.5	61.2	39.6
	2024	29.9	41.0	35.5	46.9	44.1	64.6	38.3
	Jun-25	29.4	33.8	36.3	47.4	45.2	62.7	36.5

[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).
SOURCE: Based on published financial statements.

Table 6

Table 6
Distribution of capital and capital ratios in the banking system, December 2024 to June 2025

	Leumi		Hapoalim		Discount		Mizrahi-Tefahot		First Int'l.		Bank of Jerusalem		Total banking system	
	December 2024	June 2025	December 2024	June 2025	December 2024	June 2025	December 2024	June 2025	December 2024	June 2025	December 2024	June 2025	December 2024	June 2025
							(NIS million)							
Tier 1 capital[a,b]	61,255	65,051	58,165	62,025	32,315	33,527	31,963	33,591	13,666	14,471	1,487	1,588	198,851	210,253
Tier 2 capital[b]	13,372	13,642	14,627	15,871	8,908	9,380	9,097	9,158	2,714	2,689	370	377	49,088	51,117
Capital base	74,627	78,693	72,792	77,896	41,223	42,907	41,060	42,749	16,380	17,160	1,856	1,965	247,938	261,370
Credit risk	460,765	485,011	454,175	475,091	274,535	286,915	282,287	296,409	107,387	111,000	12,463	12,927	1,591,612	1,667,353
Market risks	7,332	7,924	4,407	5,088	5,706	7,319	1,675	2,245	979	1,410	24	93	20,123	24,079
Operational risk	35,182	36,728	34,181	36,014	22,925	24,238	23,402	24,003	12,477	13,038	1,442	1,515	129,609	135,536
Total weighted items	503,279	529,663	492,763	516,193	303,166	318,472	307,364	322,657	120,843	125,448	13,929	14,534	1,741,344	1,826,967
							(Percent)							
Tier 1 capital ratio	**12.2**	**12.3**	**11.8**	**12.0**	**10.7**	**10.5**	**10.4**	**10.4**	**11.3**	**11.5**	**10.7**	**10.9**	**11.5**	**11.6**
Total capital adequacy ratio	**14.8**	**14.9**	**14.8**	**15.1**	**13.6**	**13.5**	**13.4**	**13.3**	**13.6**	**13.7**	**13.3**	**13.5**	**14.3**	**14.4**
Minimum required Tier 1 capital ratio	10.2	10.2	10.2	10.2	9.2	9.2	9.6	9.6	9.2	9.2	9.5	9.5		
Minimum required total capital ratio[c]	13.5	13.5	13.5	13.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5		

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

[b] After deductions.

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

Table 7

Table 7

Distribution of exposures and the leverage ratio in the total banking system, December 2024 to June 2025

	Leumi		Hapoalim		Discount		Mizrahi Tefahot		First Int'l		Bank of Jerusalem		Total banking system	
	December 2024	June 2025	December 2024	June 2025	December 2024	June 2025	December 2024	June 2025	December 2024	June 2025	December 2024	June 2025	December 2024	June 2025
	(NIS milion)													
Tier 1 capital	61,255	65,051	58,165	62,025	32,315	33,527	31,963	33,591	13,666	14,471	1,487	1,588	198,851	210,253
Balance sheet exposures	727,247	767,115	679,293	687,478	424,722	439,830	473,493	499,081	245,350	253,733	22,541	22,019	2,572,646	2,669,256
Derivative Exposure	57,679	60,302	30,200	28,627	12,740	13,178	9,377	8,034	4,864	6,643	21	5	114,881	116,789
Securities Financing Exposure	20,611	22,174	21,697	30,085	5,158	5,108	6,326	7,062	70	1,033	0	0	53,862	65,462
Off-balance sheet exposure	77,421	82,706	79,645	82,565	41,751	45,703	40,402	42,452	13,478	13,487	825	704	253,522	267,617
Total exposures	882,958	932,297	810,835	828,755	484,371	503,819	529,598	556,629	263,762	274,896	23,387	22,729	2,994,911	3,119,125
	(Percent)													
Leverage ratio	**6.9**	**7.0**	**7.2**	**7.5**	**6.7**	**6.7**	**6.0**	**6.0**	**5.2**	**5.3**	**6.4**	**7.0**	**6.6**	**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		

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

Table 8

Table 8
Total balance sheet of the Israeli banking system[a],
June 2024- June 2025

	In current prices (NIS million)			Rate of change relative to corresponding period of previous year (Percent)	Rate of change in the first six months of 2025 (Percent)	Distribution (Percent)		
	June 2025	June 2024	December 2024			June 2025	June 2024	December 2024
Assets								
Cash and deposits at banks	447,923	450,679	500,331	-0.61	-10.47	15.63	17.74	18.49
Securities	449,160	366,752	377,775	22.47	18.90	15.68	14.43	13.96
Securities borrowed or bought under reverse repurchase agreements	15,282	3,974	8,245	284.55	85.35	0.53	0.16	0.30
Credit to the public	**1,786,676**	**1,600,892**	**1,692,511**	11.61	5.56	**62.36**	**63.00**	**62.55**
Allowance for credit losses	23,494	23,094	23,360	1.74	0.58	0.82	0.91	0.86
Net credit to the public	1,763,182	1,577,799	1,669,151	11.75	5.63	61.54	62.09	61.69
Credit to governments	8,309	9,140	8,559	-9.09	-2.92	0.29	0.36	0.32
Investments in subsidiary and affiliated companies	28,479	27,295	28,872	4.34	-1.36	0.99	1.07	1.07
Premises and equipment	13,978	12,822	13,827	9.01	1.09	0.49	0.50	0.51
Intangible assets	475	498	498	-4.62	-4.62	0.02	0.02	0.02
Assets in respect of derivative instruments	107,998	67,036	69,043	61.11	56.42	3.77	2.64	2.55
Other assets	30,291	25,150	29,348	20.44	3.21	1.06	0.99	1.08
Total assets	**2,865,077**	**2,541,143**	**2,705,649**	12.75	5.89	**100.00**	**100.00**	**100.00**
Liabilities and Equity								
Deposits of the public	**2,218,059**	**2,032,288**	**2,150,953**	9.14	3.12	**77.42**	**79.98**	**79.50**
Deposits from banks	47,731	42,435	39,135	12.48	21.97	1.67	1.67	1.45
Deposits from governments	3,270	3,958	3,764	-17.38	-13.12	0.11	0.16	0.14
Securities lent or sold under repurchase agreements	56,105	26,927	46,455	108.36	20.77	1.96	1.06	1.72
Bonds and subordinated notes	134,325	114,177	116,311	17.65	15.49	4.69	4.49	4.30
Liabilities in respect of derivative instruments	113,480	59,113	65,334	91.97	73.69	3.96	2.33	2.41
Other liabilities	78,848	71,709	82,490	9.96	-4.42	2.75	2.82	3.05
Total liabilities	**2,651,818**	**2,350,607**	**2,504,442**	12.81	5.88	**92.56**	**92.50**	**92.56**
Minority interest	3,803	2,795	3,657	36.06	3.99	0.13	0.11	0.14
Shareholders equity	209,456	187,741	197,550	11.57	6.03	7.31	7.39	7.30
Total equity	213,259	190,536	201,207	11.93	5.99	7.44	7.50	7.44
Total liabilities and equity	**2,865,077**	**2,541,143**	**2,705,649**	12.75	5.89	**100.00**	**100.00**	**100.00**

[a] On a consolidated basis.

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

Table 9

Table 9

Total securities portfolio of the banking system, December 2024 and June 2025

		Bank Leumi				Bank Hapoalim				Mizrahi-Tefahot				Discount Bank			
		December 2024		June 2025		December 2024		June 2025		December 2024		June 2025		December 2024		June 2025	
		Book value	Distribution	Book value	Distribution	Book value	Distribution	Book value	Distribution	Book value	Distribution	Book value	Distribution	Book value	Distribution	Book value	Distribution
		(NIS million)	(Percent)	(NIS million)	(Percent)	(NIS million)	(Percent)	(NIS million)	(Percent)	(NIS million)	(Percent)	(NIS million)	(Percent)	(NIS million)	(Percent)	(NIS million)	(Percent)
	Of the Israeli government	65,385	53	78,727	55	80,145	66	97,003	65	23,245	82	26,136	66	45,801	68	53,559	70
	Of foreign governments	17,862	14	25,120	18	21,119	17	33,059	22	1,961	7	10,180	26	8,039	12	8,472	11
	Of Israeli financial institutions	237	0	463	0	732	1	758	1	799	3	996	3	132	0	114	0
Securities	Of foreign financial institutions	10,079	8	9,123	6	13,173	11	12,228	8	138	0	74	0	637	1	596	1
	Asset-backed or mortgage-backed securities[a]	17,749	14	16,954	12	0	0	0	0	56	0	53	0	8,347	12	8,801	11
	Other - Israeli	1,159	1	1,233	1	0	0	0	0	1,200	4	1,072	3	171	0	182	0
	Other - foreign	4,441	4	4,103	3	1,802	1	1,764	1	194	1	168	0	2,238	3	2,662	3
	Stocks	7,189	6	6,926	5	4,867	4	5,443	4	898	3	1,025	3	2,262	3	2,229	3
	Total securities, all types	**124,101**	100	**142,649**	100	**121,838**	100	**150,255**	100	**28,491**	100	**39,704**	100	**67,627**	100	**76,615**	100

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

		First International				Bank of Jerusalem				Total Banking System			
		December 2024		June 2025		December 2024		June 2025		December 2024		June 2025	
		Book value	Distribution	Book value	Distribution	Book value	Distribution	Book value	Distribution	Book value	Distribution	Book value	Distribution
		(NIS million)	(Percent)	(NIS million)	(Percent)	(NIS million)	(Percent)	(NIS million)	(Percent)	(NIS million)	(Percent)	(NIS million)	(Percent)
	Of the Israeli government	21,559	63	22,517	60	919	69	2,012	80	237,054	63	279,954	62
	Of foreign governments	9,483	28	11,225	30	80	6	87	3	58,544	15	88,143	20
	Of Israeli financial institutions	1,466	4	1,673	4	71	5	69	3	3,437	1	4,073	1
Securities	Of foreign financial institutions	396	1	404	1	0	0	0	0	24,423	6	22,425	5
	Asset-backed or mortgage-backed securities[a]	0	0	0	0	0	0	0	0	26,152	7	25,808	6
	Other - Israeli	248	1	232	1	156	12	173	7	2,934	1	2,892	1
	Other - foreign	24	0	5	0	0	0	0	0	8,699	2	8,702	2
	Stocks	1,220	4	1,376	4	96	7	164	7	16,532	4	17,163	4
	Total securities, all types	**34,396**	100	**37,432**	100	**1,322**	100	**2,505**	100	**377,775**	100	**449,160**	100

[a] Mortgage-backed securities (MBS) issued by US government agencies (FNMA, FHLMC and GNMA) are included in the "Asset-backed or mortgage-backed" item whether there is a government guarantee for them or not.

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

Table 10

Table 10
Transactions in off-balance-sheet financial instruments where the par value reflects credit risk, total banking system, June 2024– June 2025

	End of year balance			Rate of change relative to corresponding period of previous year	Rate of change in the first six months of 2025	Distribution		
	Jun-24	Dec-24	Jun-25			Jun-24	Dec-24	Jun-25
	(NIS million)			(Percent)		(Percent)		
Documentary credit	4,550	4,411	4,614	1.4	4.6	1%	1%	1%
Credit guarantees	25,601	27,304	29,710	16.1	8.8	3%	3%	3%
Guarantees for home purchases	105,693	115,481	116,706	10.4	1.1	14%	14%	13%
Other guarantees and liabilities	106,218	114,286	120,221	13.2	5.2	14%	14%	14%
Unutilized credit card facilities	102,223	107,775	113,939	11.5	5.7	13%	13%	13%
Unutilized CLA and other credit facilities in demand accounts	100,195	107,556	117,443	17.2	9.2	13%	13%	13%
Irrevocable commitments to provide credit that has not yet been extended	211,833	222,679	233,031	10.0	4.6	28%	27%	27%
Commitments to issue guarantees	110,512	123,669	135,084	22.2	9.2	14%	15%	16%
Total	**766,825**	**823,159**	**870,749**	**13.6**	**5.8**	**100%**	**100%**	**100%**

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

Table 11

Table 11

Outstanding credit to the public, by principal industry, total banking system, December 2024 - June 2025[a]

	Total balance of credit risk[b]					Balance-sheet credit[c] (debts)				
	Balance		Distribution of credit to the public		Change in credit	Balance		Distribution of credit to the public		Change in credit
	Dec-24	Jun-25	Dec-24	Jun-25	Jun-25	Dec-24	Jun-25	Dec-24	Jun-25	Jun-25
	(NIS million)		(Percent)		(Percent)[d]	(NIS million)		(Percent)		(Percent)
Borrower activity in Israel	2,192,314	2,307,833	91.1	91.7	5.3	1,577,451	1,669,967	93.2	93.5	5.9
Business sector	1,290,040	1,374,084	53.6	54.6	6.5	811,262	881,765	47.9	49.4	8.7
Construction and real estate	544,266	583,625	22.6	23.2	7.2	322,293	347,289	19.0	19.4	7.8
ich: Construction	400,149	434,914	16.6	17.3	8.7	201,963	222,260	11.9	12.4	10.0
Real estate	144,117	148,711	6.0	5.9	3.2	120,330	125,029	7.1	7.0	3.9
Financial services	244,707	264,596	10.2	10.5	8.1	146,898	175,657	8.7	9.8	19.6
Other business services	246,732	263,862	10.3	10.5	6.9	342,071	358,819	20.2	20.1	4.9
Private individuals	902,274	933,749	37.5	37.1	3.5	766,188	788,202	45.3	44.1	2.9
:h: Housing loans	674,698	701,213	28.0	27.9	3.9	628,404	649,657	37.1	36.4	3.4
Private individuals - other	227,576	232,536	9.5	9.2	2.2	137,785	138,545	8.1	7.8	0.6
Borrowers' activity abroad	213,221	208,600	8.9	8.3	-2.2	115,060	116,709	6.8	6.5	1.4
Total	2,405,534	2,516,433	100.0	100.0	4.6	1,692,511	1,786,676	100.0	100.0	5.6

[a] The figures differ from the 2024 annual review due to the separation of CAL's operations from Discount, which is reflected in the reports starting from the second quarter of 2025.

[b] Includes balance-sheet and non-balance-sheet credit risk.

[c] Includes credit to the public, excludes bonds and securities borrowed or purchased under reverse repurchase agreements.

[d] In non-annual terms

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