



# The Israeli Banking System

## Recent developments

Fitch meeting with the Bank of Israel's  
Banking Supervision Department and Financial Stability Division

08/11/2023



## Israeli banks entered the current situation in a strong position

- **Strong and solid capital buffers** - both qualitative and quantitative;
- **Good liquidity profile** with high quality liquid asset reserves and stable funding (deposits from the public as major source of funding);
- **Low level of credit risk** (low NPL in international perspective);
- **Strong business continuity management** and supervision;
- **Relatively conservative and tightly regulated banking system**;
- **Close and productive on-going dialogue** with banks including close monitoring of risks and developments;
- **High confidence of the public** in Israeli banks.



# Objectives



Maintaining Business Continuity and preserving confidence in the banking institutions

Providing relief and support to costumers

Monitoring financial and operational risks



# Operational deployment of the BSD

## Internally

Dedicated taskforce within the BSD and the BoI

Establishing a Situation Estimate Forum with the Research Department

Increasing the frequency of BSD and BoI management meetings

## Externally

Cooperating with national emergency authorities

Financial supervisors coordination

Cooperation with other relevant authorities

## With banks

Banks CEOs Forum

Banks Business Continuity Managers Forum

Banks Cyber Security Managers Forum

Banks Public Inquiries Managers (Ombudsman) Forum



# Maintaining Business Continuity

- Directive No. 355 “Business Continuity Management“
- Banks Business Continuity Managers Forum
- Working in collaboration with the National Emergency Management Authority (MoD)
- Increasing cash availability in the Bank of Israel and in the banking system
- Bank branch operations have been made more streamlined, allowing for limited operation in conflict areas, mobile bank branches, and service to customers of other banks
- Providing vital information to the public - Banks and the BoI (contact details, locations of open branches, operating hours of branches, call centers, and any other relevant information)
- Banks have been given operational reliefs (excl. 6-minutes law)



# Business Continuity - Enhancing Cyber Security

- **Gathering additional information** from banks to identify new cyber threats to the system
- **Collaborating closely** with the National Cyber Emergency Response Team (CERT)
- **Monitoring cyber security threats**
- **Increasing the frequency of convening the Forum for Banks' Cyber Security Managers**
- **Receiving daily reports** from banks and credit card companies on cyber threats
- **Collaborating with the Israeli police** in its efforts to work with credit card companies



# Providing Relief and Support to Customers

- **Providing assistance to businesses and households that are in financial distress**
- **Setting supervisory expectations** emphasizing the importance of increased sensitivity when dealing with customers and endeavoring to assist them to the full extent possible
- **BSD'S unified voluntary payment deferral programs** – adopted by banks and credit cards companies  
Another program is being outlined for credit card companies:
  - **“First-degree customers”** - payments deferral for at least 3 months or up to an accumulated amount without interest or fees charges
  - **“Second-degree customers”** (all other bank customers) - payments deferral for at least 3 months or up to an accumulated amount without fees charges but with extra interest charges (that will not exceed the contractual interest rate)
- **BSD's public inquiries hotline** has been modified into an emergency format
- **Missing persons' account** inquiries are being handled immediately and with increased sensitivity
- **Dedicated and sensitive handling of the issue of the misuse of credit cards and bank account details of victims of the war**
- **Payment applications** have been expanded re transaction volumes and balances (Paybox)
- **Dealing with restricted bank accounts**
- **Providing solutions for customers receiving social allowances**, especially in areas where branch operations are limited



# Monitoring Financial and Non-financial Risks

- **Ongoing meetings with Banks' CEOs and other senior managers**
- **Enhancing financial and non-financial risk monitoring across portfolios (direct and indirect exposures), and setting up a specialized task force** in conjunction with the Research Department
- **Receiving an ad hoc report (weekly) on financial and non-financial risks** (Directive 889)
- **Stress tests and sensitivity analysis** (next slide)
- **Close dialogue with other stakeholders**
- **Corporate governance** – requiring banks to conduct directorate meetings at the highest level regarding the evolving economic environment
- **Sound capital planning** – banks are required to have a comprehensive and appropriately forward-looking capital planning process to link between capital needs to bank's risk profile
- **Disclosure** - BSD requires banks to ensure that Q3/2023 reports provide adequate disclosure regarding the impact of the war on their activities, financial position, risks and provisioning for loan losses
- **Cyber and IT risks** - banks are required to be on high alert





# Stress Test and Sensitivity Analysis

- Each bank conducts a stress test analysis relying on an in-house underlying scenario
- The BSD works closely with the Research Department and the Capital Market, Insurance and Savings Authority to conduct a system wide, top-down stress test
- Sensitivity and reverse sensitivity analysis are being conducted by the BSD focusing on idiosyncratic shocks
  - Liquidity – cash inflows/outflows (incl. credit lines), market volatility (incl. foreign currency).
  - Credit quality – individual and business portfolios.
  - Capital – market volatility, credit losses, etc.



## Current Risks and Vulnerabilities

The potential effect of the war on economic activity and the financial sector is still uncertain and depends on its scale and duration.

- **Business continuity** - All banks have conducted business continuity assessments and scenario analysis.
- **Liquidity risk** – Liquidity profile is strong with high quality and adequate buffers and relying substantially on on stable retail deposits as a source of funding. Liquidity in NIS and FX is being monitored.
- **Market risk** – capital markets volatility. Market volatility and market expectations have been adjusted to the developments.
- **Capitalization** - Banks have adequate capital buffers. Potential effect of an increase in government bonds' returns on banks' capital, using scenario analysis.
- **Real estate sector** - Elevated risk due to the pause of all construction works, mainly in high-leveraged firms, and due to the slow down in sale of new apartments.
- **Credit risk** - Vulnerable business sectors (tourism, fashion, transportation, restaurants, entertainment, etc.); potential effect of FX on businesses engaged with imports or exports, HH and SMEs.
- **Cyber risk** - No significant events were observed and no concrete threats registered.



## The Real Estate Sector Was Slowing Down Before the Start of the War

- The number of transactions in the months of January-August 2023 was about 33% lower compared to the corresponding months of 2022, and about 46% lower compared to the corresponding months of 2021.
- Average housing price was declining.
- Demand shifted away from the center of Israel.
- However, the level of new constructions remained relatively high.
- Real estate entrepreneurs with bank debt were estimated to have a high degree of endurance to price declines prior to the war.



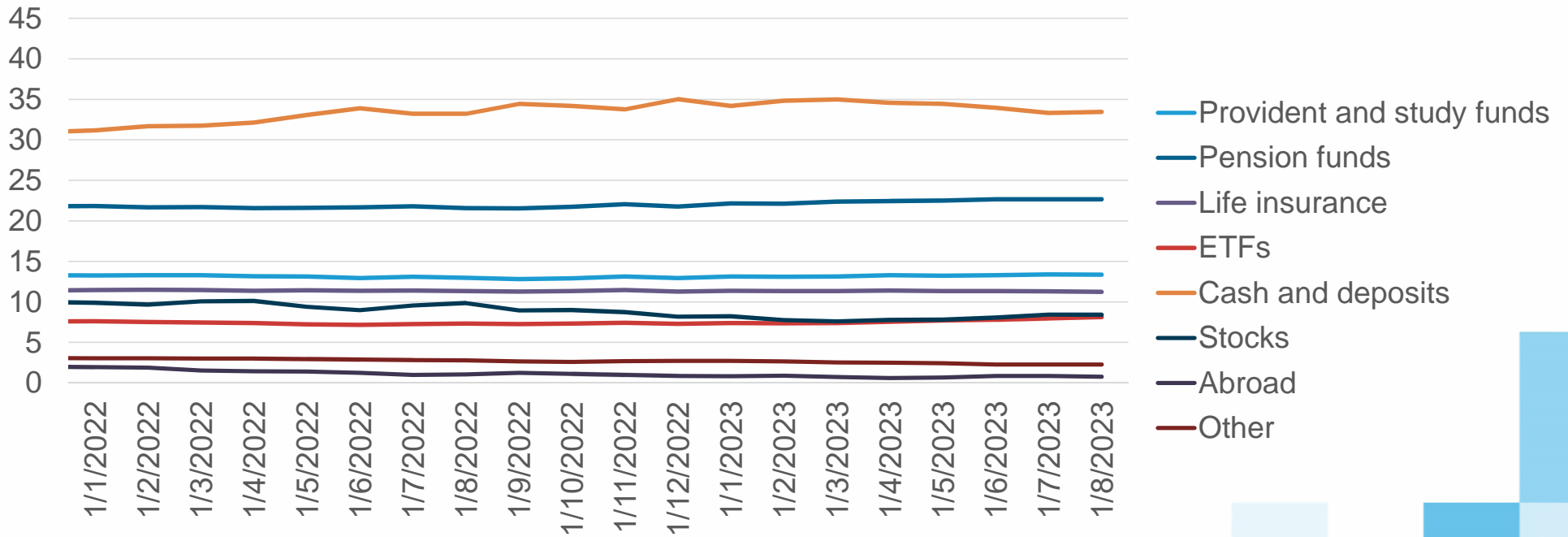
## The Local Real Estate Sector – Currently Working at 20%-30% capacity

- The work at construction sites was shut down completely after the war was launched on Israel, but has renewed somewhat since.
- About a third of workers are non-Israeli Palestinians (either from Gaza or from Judea and Samaria) and are not expected to return before the end of the war. Their participation is more pronounced in construction for housing.
- With the current number of workers, the decrease in the level of new construction is expected to be at 50% compared to the level before the war.
- A significant negative impact on sales is expected, surpassing previous wars/operations.
- Efforts are being made by the government to bring additional foreign workers. These will probably be more expensive but also more productive.
- In contrast to real estate entrepreneurs who have high endurance, construction contractors that get paid for work they have completed - will be significantly hurt.



# Cash Holdings Decreased and Medium-term Deposits Increased, with an Overall Decrease in the Share of Assets the public holds in the Banking System.

**Public assets - distribution by type of asset**  
January 2022 – August 2023

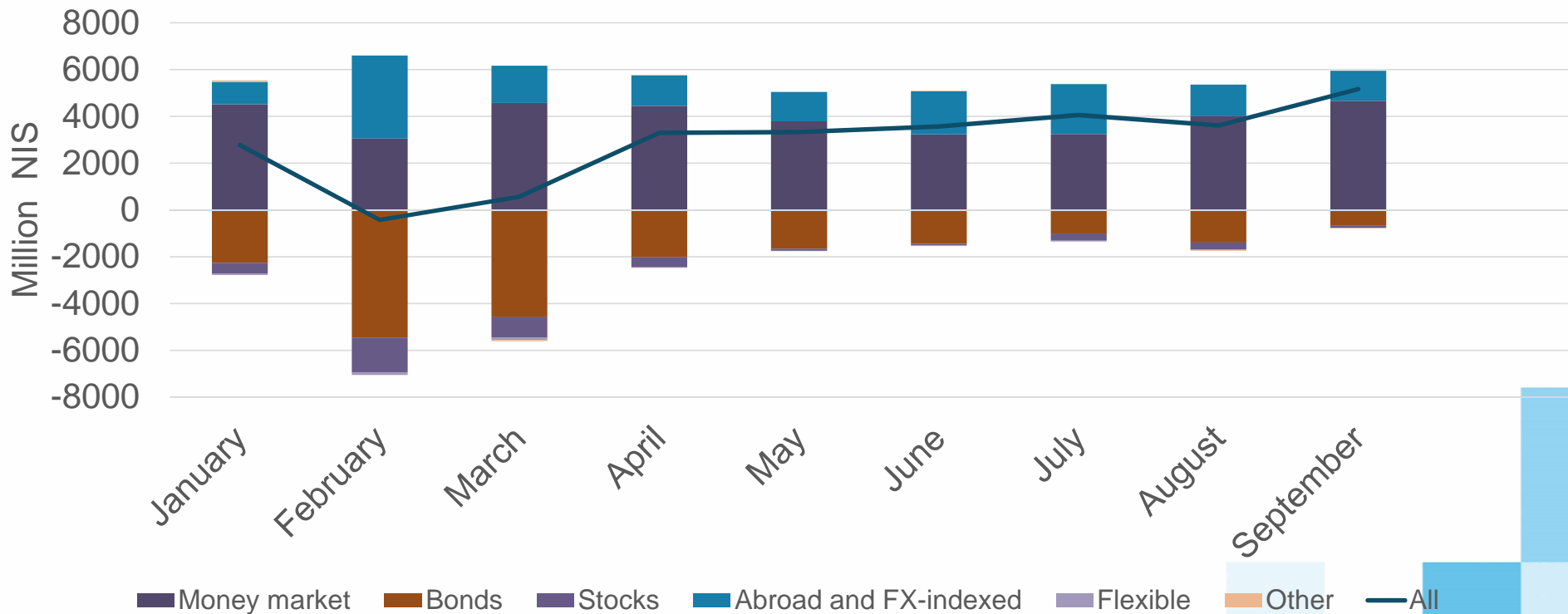




# Foreign Investment and Money Market Funds Were the Main Destination of ETFs Inflows



**Flows into ETFs**  
January 2023 - September 2023





## The Bank of Israel Has Intervened in FX Trade to Support the Shekel

- The Bank of Israel has announced that it is ready to sell up to USD 30 billion of reserves to support the exchange rate. During October the bank sold USD 8.2 billion.
- The depreciation during the first days after the onset of the war was more significant than in previous periods of war/operation. Currently the Shekel is 3.2% depreciated compared to before the war.
- The net exposure of the banking sector to FX is negligible.



## Markets Have Reacted Strongly to the War. In the last few days we are seeing a correction

War/operation	Dates	Financial stress index (max value)	NIS-USD depreciation (max value)	Banking index (min value)	TA 125 index (min value)
Defensive Shield	29/3/2002-10/5/2022	2.5%	5.7%	-14.5%	-9.4%
2006 Lebanon War	12/7/2006-24/9/2006	3%	3.1%	-11.3%	-8.2%
Operation Cast Lead	27/12/2008-27/1/2009	24.4%	1.1%	-2.6%	-1.9%
Operation Protective Edge	8/7/2014-26/8/2014	6.6%	4.4%	-0.3%	-1.3%
Operation Guardian of the Walls	10/5/2023-21/5/2021	0.1%	1.1%	-1.5%	-2.3%
Iron Swords War	7/10/2023-	79.9%	5.6%	-19.8%	-13.5%





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