



Israeli banking system, October 2023 update

S&P meeting with the Bank of Israel's
Banking Supervision Department

24/10/2023

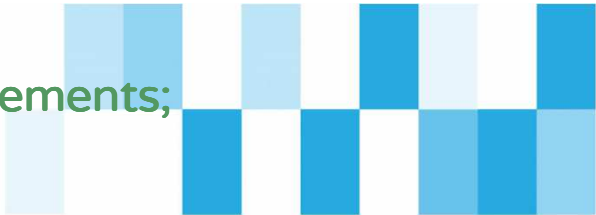


Israeli banks entered the current situation in a strong position

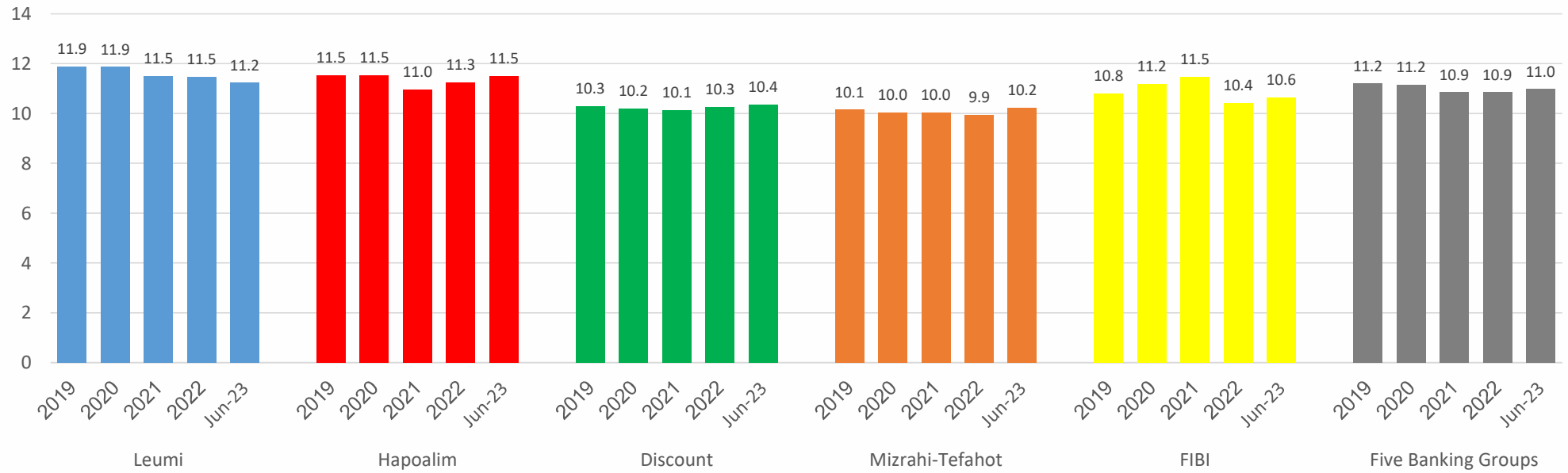
- **Strong and solid capital buffers** - both qualitative and quantitative;
- **Good liquidity profile** with high quality liquid asset reserves and stable funding (deposits from the public as major source of funding);
- **Low level of credit risk** (low NPL in international perspective),
- **Strong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



Capitalization: Banks' capital is well above regulatory requirements; CET1 remained stable as of June 2023



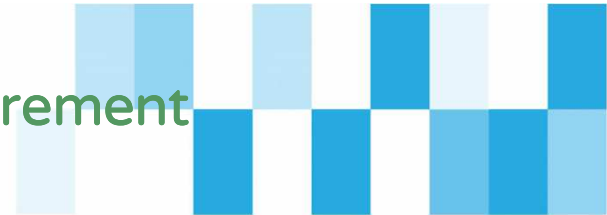
Common Equity Tier 1 Capital Ratios
Total Banking System, 2019 to June 2023



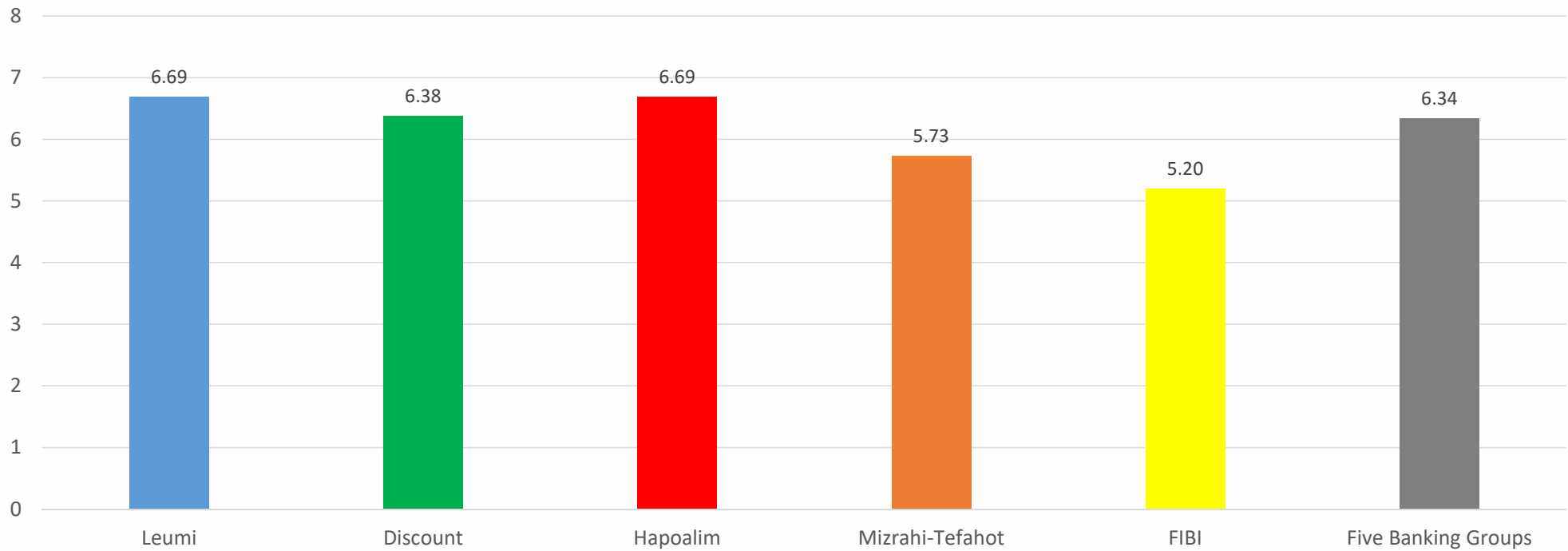
^a In Basel III terms (Common Equity Tier 1 capital ratio) in accordance with the transition directives.
SOURCE: Based on published financial statements and reports to the Banking Supervision Department.



Leverage ratio is well above Basel III minimum requirement

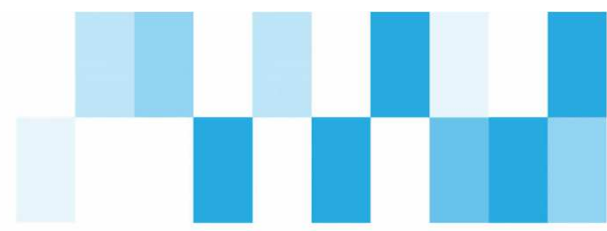


Basel III Leverage Ratio
Five Banking Group, June 2023

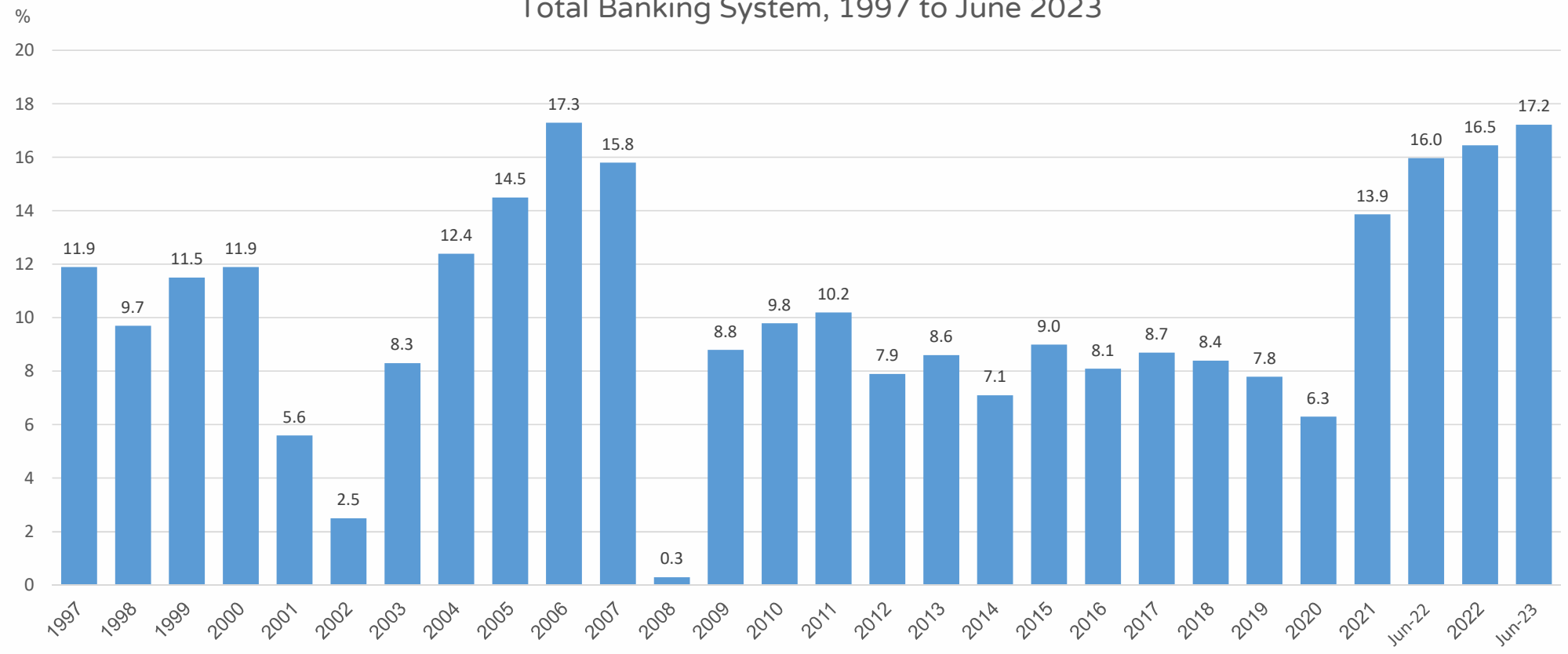




Adequate profitability over time

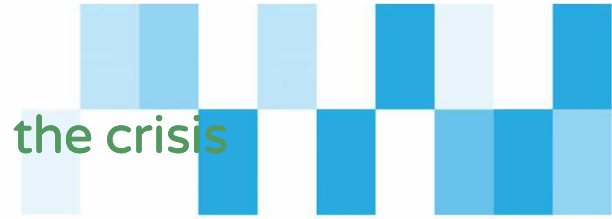


Return on Equity (ROE)
Total Banking System, 1997 to June 2023

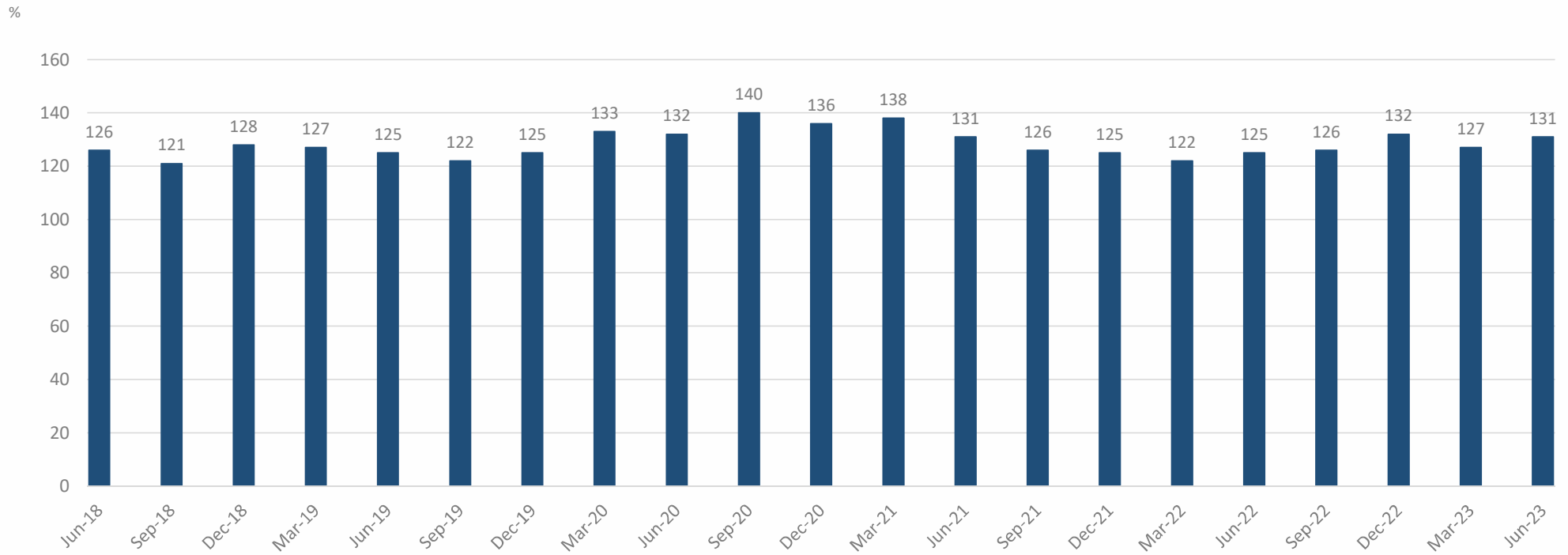




Liquidity Coverage Ratio is adequate and increased during the crisis

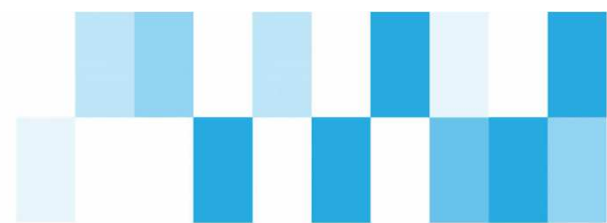


Liquidity Coverage Ratio (Total Activity)
Total Banking System, 2018 to June 2023

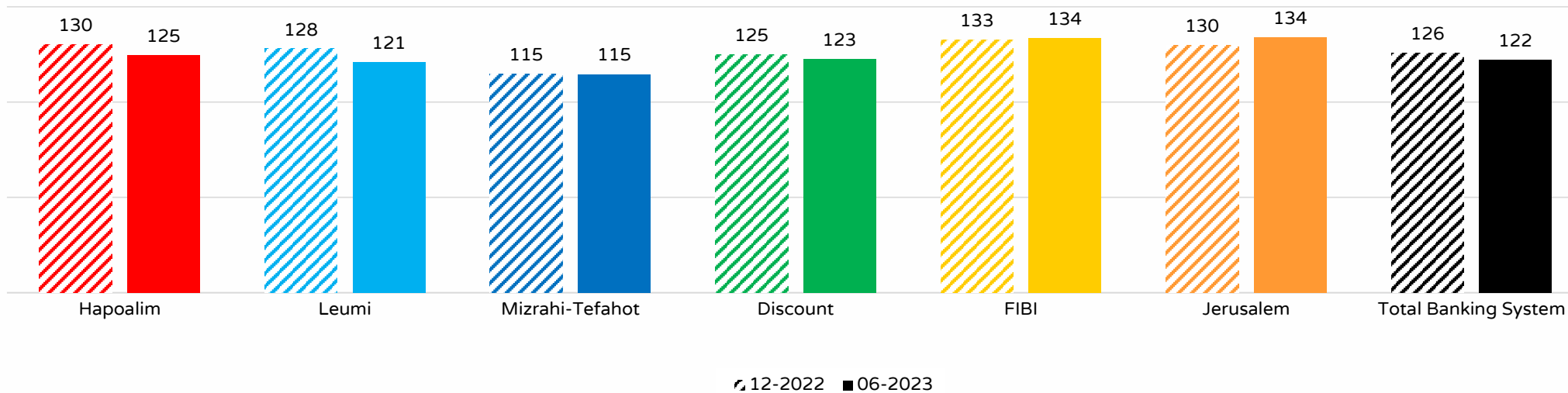




Adequate stable funding ratio



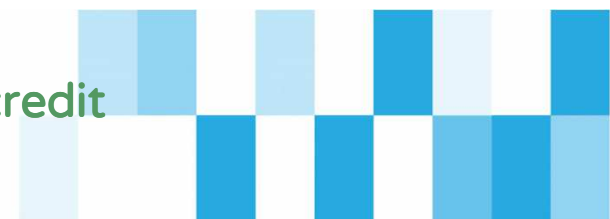
Net stable funding ratio (NSFR)
December 2022 and June 2023



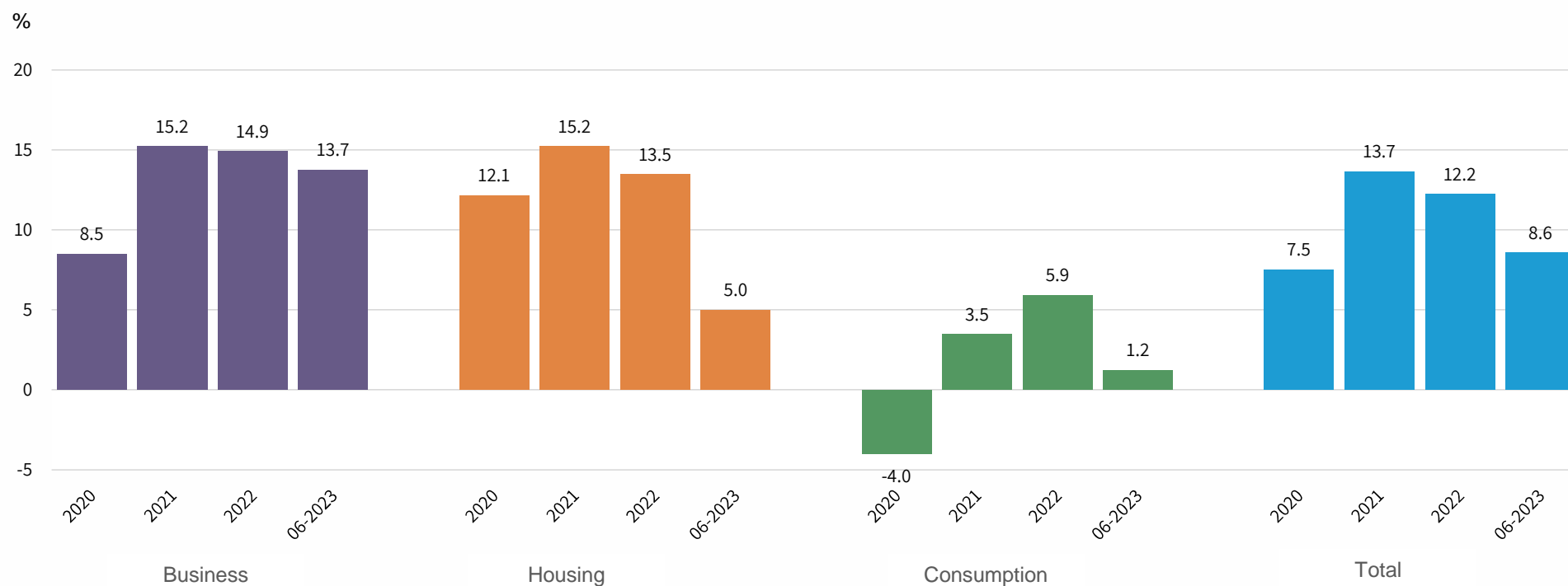
SOURCE: Based on published financial statements and reports to the Banking Supervision Department.



Relatively high levels of growth rate in business and housing credit as of December 2022 and beyond



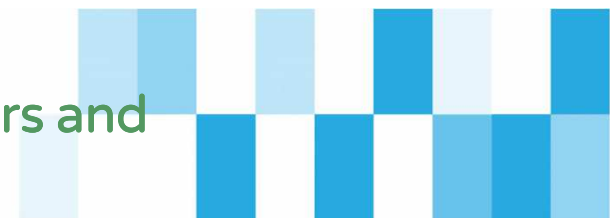
Annual Change in outstanding Balance - Sheet Credit to Principal Sectors
Total Banking System, 2017 to June 2023



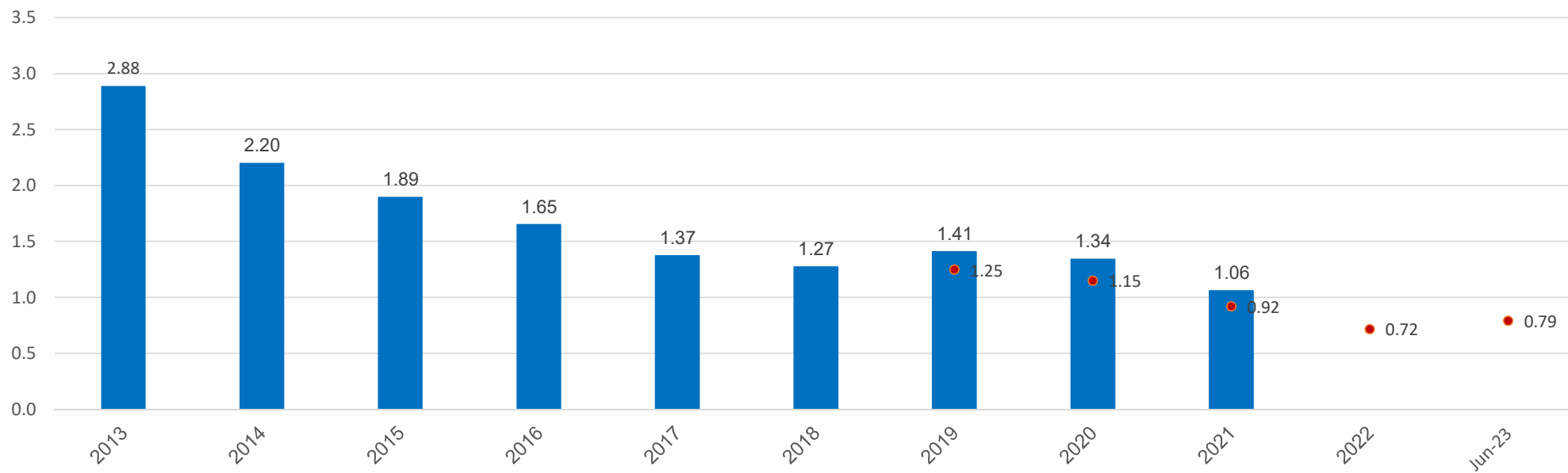
The decrease in the consumer credit in 2018-2019 caused by the selling of the credit card companies.
SOURCE: Based on published financial statements and report to the Banking Supervision Department



Share of NPL remained low and stable in the past four years and during the Covid-19



Share of Non-performing Loans*
Total Banking System, 2013 To June 2023

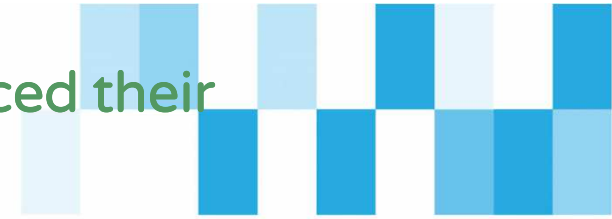


*data until 2018 represent Impaired loans and 90 days or more past due non-impaired loans as a share of total balance-sheet credit to the public. data from 2018 and on represent in addition, non-accrual loans and 90 days or more past due accrual loans.

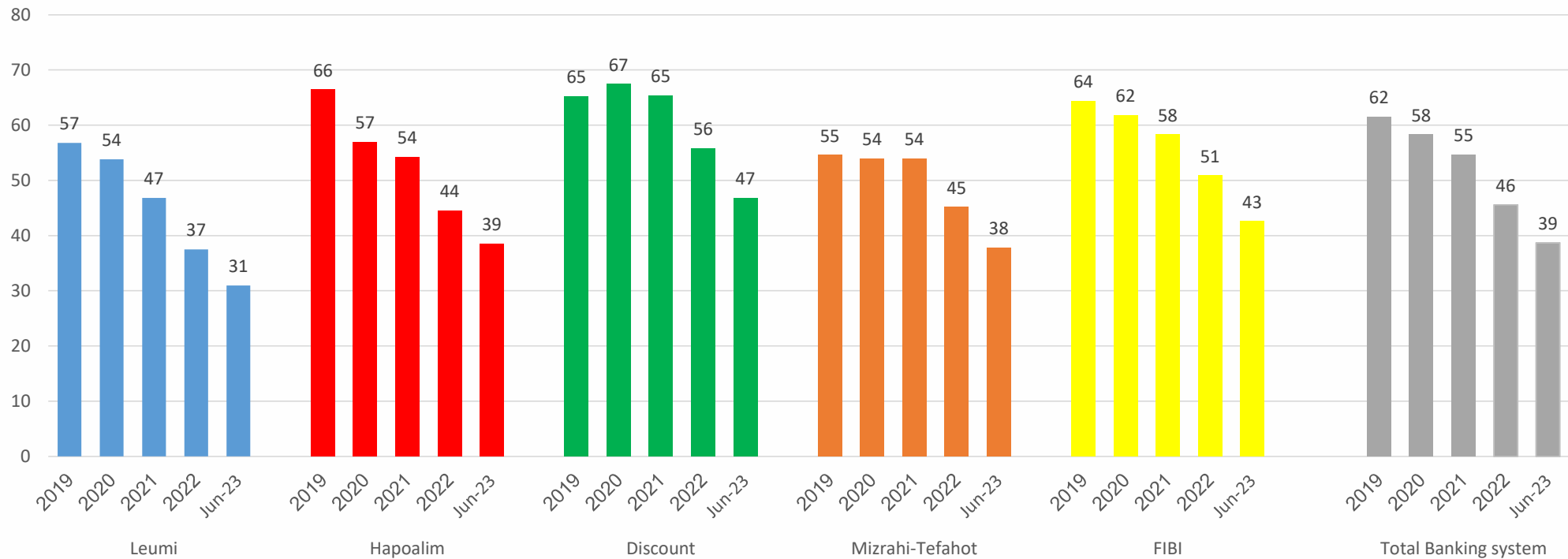
SOURCE: Based on published financial statements and reports to the Banking Supervision Department.



Stringent measures taken by Israeli banks have reduced their historically high operating costs



Efficiency Ratio
Total Banking System, 2019 - June 2023





Recent developments



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' CEO's Forum

Banks' Business Continuity Managers Forum

Banks' Cyber Security Managers Forum

Banks' Public Inquiries' Managers 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 (ex. 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 costumers

- **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 of 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 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, 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**



Stress test and sensitivity analysis

- Each bank conducts a stress tests 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 ratios are high and stable. Liquidity in FX is being monitored.
- **Market risk** - Market volatility and market expectations have 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 stop 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.



תודה THANK YOU شکرا جزیلا