MOODY'S
INVESTORS SERVICE

CREDIT OPINION
23 May 2023

Update

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First International Bank of Israel Ltd.

Update to credit analysis

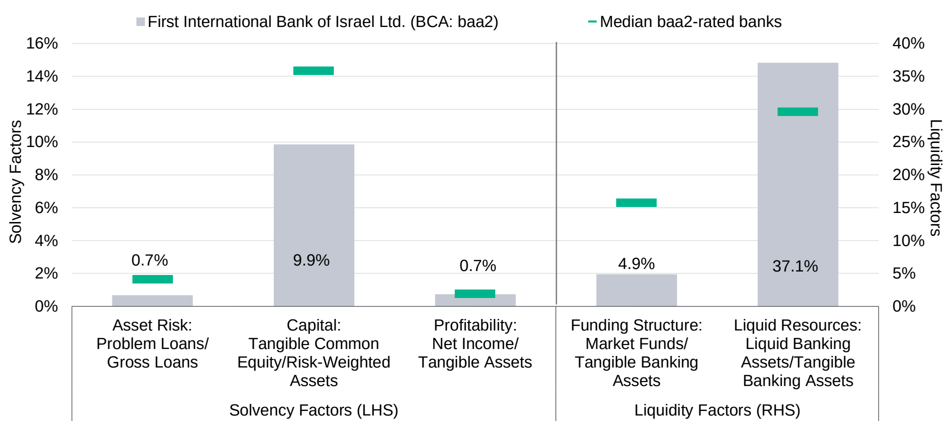
Summary

First International Bank of Israel Ltd. (FIBI)'s A2 long-term deposit ratings reflect (1) the bank's baa2 Baseline Credit Assessment (BCA); and (2) three notches of rating uplift based on our assessment of a very high likelihood of support from the Government of Israel (A1 stable), in case of need.

FIBI's baa2 BCA reflects the bank's (1) strong asset quality, with problem loans (that we define as non-accruing loans and accruing loans that are more than 90 days overdue) at 0.5% of gross loans as of the end of 2022; (2) stable retail deposit funding base and comfortable liquidity; and (3) a strong presence in niche segments that benefit it with consistent business opportunities.

At the same time, the bank's BCA also captures (1) adequate but modest capital buffers with a tangible common equity (TCE)/risk-weighted assets (RWAs) ratio of 9.9% as of the end of 2022, which are below those of similarly-rated international peers, mainly reflecting Bank of Israel's (BoI) conservative risk-weighting on mortgages, as well as, (2) downside risks from a significant exposure to the Israeli property market and potential geopolitical events. Profitability is moderate but has benefited from strong business growth, expanding net interest margins and ongoing operating cost control.

Exhibit 1
Rating Scorecard - Key financial ratios



These are our Banks Methodology scorecard ratios. Asset Risk and Profitability reflect the weaker of either the latest figure or the three-year and latest figure average. Capital is the latest reported figure. Funding Structure and Liquid Resources reflect the latest fiscal year-end figures.
Source: Moody's Investors Service

RATINGS

First International Bank of Israel

Domicile	Israel
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Type	Senior Unsecured - Fgn Curr
Outlook	Not Assigned
Long Term Deposit	A2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Source: Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Credit strengths

» Strong asset quality, driven by a relatively low-risk loan book structure

» Stable mostly retail deposit-based funding structure and comfortable liquidity

» Strong presence in niche segments provides stable business growth

» Very high likelihood of government support, in case of need, underpins the deposit ratings

Credit challenges

» Concentration in real estate and geopolitical tensions are downside risks

» Modest risk-weighted capitalisation and leverage

» Moderate profitability, which will continue to benefit from higher interest rates and continued focus on cost control

Outlook

The stable outlook on the bank's long-term deposit ratings reflects our expectation that the bank's low-risk loan book structure and sound funding profile balance downside risks, like the ones deriving from exposure to the property market

Factors that could lead to an upgrade

» FIBI's ratings could be upgraded following both stronger sovereign creditworthiness and an improvement in the bank's standalone credit profile.

» The bank's standalone BCA could be upgraded following (1) materially stronger capitalisation; and (2) a sustained improvement in the bank's efficiency and profitability without an increase in underlying credit or market risk.

Factors that could lead to a downgrade

» FIBI's ratings could be downgraded if operating conditions deteriorate, for example in case of a real estate price correction, higher unemployment and an economic slowdown, and lead to substantial weakening in asset quality.

» Lower capital levels, an increase in the bank's asset risk profile or any sustained reduction in the bank's recurring earnings power may also put pressure on the ratings.

» FIBI's deposit ratings could also be downgraded if we consider that the government's willingness or capacity to provide support in case of need has materially declined.

Key indicators

Exhibit 2
First International Bank of Israel Ltd. (Consolidated Financials) [1]

	12-22[2]	12-21[2]	12-20[2]	12-19[2]	12-18[2]	CAGR/Avg.[3]
Total Assets (ILS Million)	195,955.0	180,470.0	167,778.0	141,110.0	134,120.0	9.9[4]
Total Assets (USD Million)	55,534.9	58,119.6	52,254.3	40,854.1	35,892.2	11.5[4]
Tangible Common Equity (ILS Million)	10,436.0	9,620.0	8,804.0	8,252.0	7,863.0	7.3[4]
Tangible Common Equity (USD Million)	2,957.6	3,098.1	2,742.0	2,389.1	2,104.2	8.9[4]
Problem Loans / Gross Loans (%)	0.5	0.7	0.9	1.1	0.8	0.8[5]
Tangible Common Equity / Risk Weighted Assets (%)	9.9	10.5	10.3	10.0	9.8	10.1[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	4.9	7.0	7.9	10.4	8.1	7.7[5]
Net Interest Margin (%)	2.0	1.6	1.7	1.9	1.9	1.8[5]
PPI / Average RWA (%)	2.7	2.2	1.9	1.9	1.8	2.1[6]
Net Income / Tangible Assets (%)	0.9	0.8	0.5	0.7	0.6	0.7[5]
Cost / Income Ratio (%)	49.8	56.7	60.4	62.4	65.0	58.9[5]
Market Funds / Tangible Banking Assets (%)	4.9	5.3	4.5	2.8	2.8	4.1[5]
Liquid Banking Assets / Tangible Banking Assets (%)	37.1	40.2	42.0	34.0	33.2	37.3[5]
Gross Loans / Due to Customers (%)	70.0	66.7	65.4	74.6	76.2	70.6[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; LOCAL GAAP. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Investors Service and company filings

Profile

FIBI is the fifth-largest banking group in Israel by assets with an 8.2% market share and total consolidated assets of NIS196 billion (around $56 billion) as of the end of 2022. As a universal bank, FIBI provides banking services to individuals, small businesses, corporations and high net-worth clients. The bank also provides capital market, foreign currency, global trade and corporate finance services.

FIBI maintains a strong market presence in specific niche retail segments in Israel, including the armed forces, teachers and the ultra-orthodox. The bank also has a leading position in capital market services.

The bank's common stock trades on the Tel Aviv Stock Exchange (ticker: FIBI). As of the end of 2022, FIBI Holdings Ltd. held a 48.3% stake in FIBI, with the Bino-Liberman Group in turn, owning 51.9% of the shares in FIBI Holdings Ltd.

Detailed credit considerations

Strong asset quality, driven by a relatively low-risk loan book structure; concentration in real estate and geopolitical tensions are downside risks

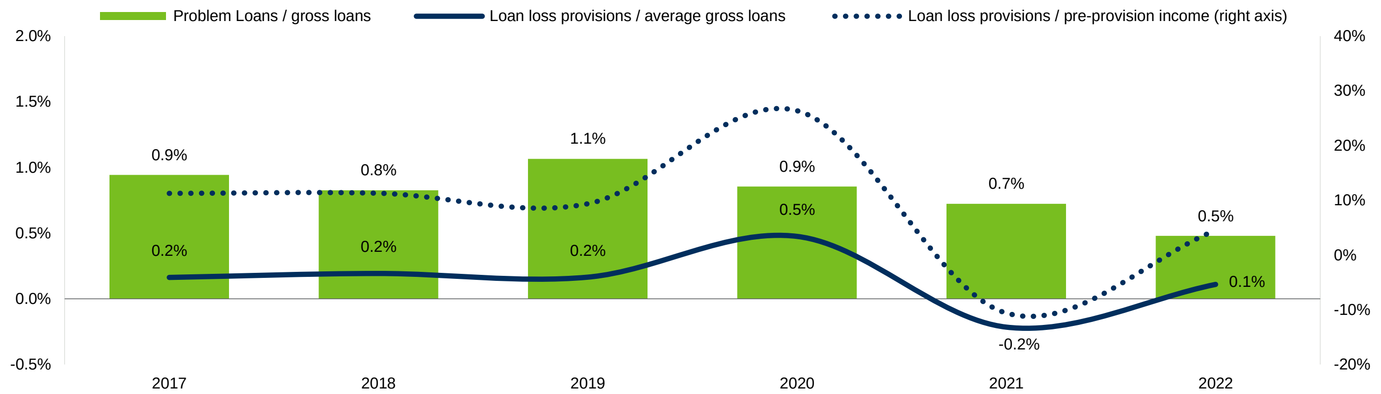
Our assigned baa1 Asset Risk score reflects FIBI's strong asset quality, supported by the relatively low risk structure of the bank's loan book and conservative underwriting standards along with close regulatory oversight. These characteristics have translated into low credit costs over past economic cycles, which were lower than most of its domestic peers. Concentration in Israel's real estate market through lending along with high property prices, and potential geopolitical tensions are downside risks for the bank's asset quality. Following high annual loan growth of 11% in 2021 and 15% in 2022, there is also some unseasoned risk in the bank's portfolio.

Problem loans were a low 0.5% of gross loans as of the end of 2022 (see Exhibit 3), down from 0.7% as of the end of 2021 reflecting the strong lending growth and few borrower defaults. Problem loans remained steady at 0.5% as of March 2023, according to FIBI. We expect higher problem loan formation going forward because of reduced loan affordability as a result of higher interest rates, a more challenging macroeconomic environment and as the bank's newly originated loans begin to season. However, we expect the bank's asset quality to remain strong overall supported by a tight labour market and slower but higher than other advanced markets real GDP growth in 2023 of 2.6%.

Exhibit 3

Problem loans declined further in 2022, and the bank has demonstrated strong asset quality performance over time

Evolution of problem loans ratio and credit costs



In 2022, Israeli banks implemented the US current expected credit losses (CECL) standard. Before the CECL standard implementation we defined problem loans as impaired loans and loans in arrears of 90 days or more. Accruing loans previously classified as impaired were not included in non-accruing debts under the new standard.
Source: Moody's Investors Service

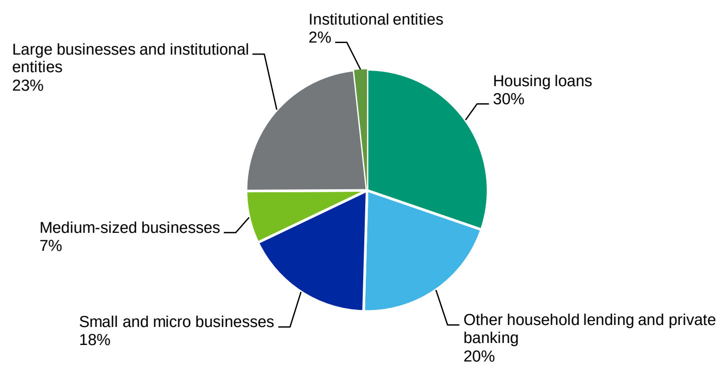
We also expect FIBI's credit costs (loan loss provision expenses to average gross loans) to normalise around their historic average of 0.22%[1], which includes an entire economic cycle, and to remain below the domestic peer average. Following provision charge-backs in 2021 equivalent to 0.2% of gross loans, credit costs increased to 0.1% for 2022, exclusively driven by an increase in group provisions owing to loan growth.

Strong asset quality is a reflection of the bank's loan book structure and underwriting standards. Relatively low risk residential mortgages accounted for 30% of total loans, while medium and large businesses (including institutional entities) for 32% as of the end of 2022 (see Exhibit 4). Other retail and consumer loans were 20% of total, but a significant portion of the unsecured retail portfolio is salary-assigned and the bank's client base is mainly higher-income, wealthier individuals.

Exhibit 4

FIBI's loan book is relatively diversified by customer type

Loan book breakdown as of the end of 2022 (supervisory segments)



Housing loans include housing loans to private individuals whose business activity is classified to small business, equivalent to 1.2% of total credit to the public
Source: Bank's financial statements

Borrower concentrations are moderate, after declining in recent years, with no individual exposure exceeding 15% of the bank's capital as of the end of 2022. However, sector concentration is high. FIBI's significant and growing exposure to residential mortgages and the construction and real estate sector, which made up a further 16% of total lending as of the end of 2022. This concentration renders FIBI's asset quality susceptible to developments in the Israeli property market.

House price growth in Israel peaked at a high 20% year-over-year as of September 2022, increasing the risk of correction. But, any near-term price correction would be limited because of a steady growth in new households from a young and growing population. Additionally, for housing loans, risks are mitigated by (1) banks' full recourse to the borrowers and a strong repayment culture; (2) the low level of housing debt at around 30% of GDP[2]; and (3) macroprudential measures[3] that enforce tight underwriting standards (from the bank's outstanding housing portfolio as of December 2022, 68% of credit was granted at an original loan-to-value of up to 60%; 90% of credit was granted at a debt-income ratio of up to 35%), as well as high capital buffers against mortgages.

We see significantly higher risk in financing of the construction and real estate sector. Higher interest rates and inflation may strain the repayment capacity of some borrowers, particularly if there is also a drop in property prices. The BoI has taken steps to contain these risks.[4] It has also asked banks to allocate more capital towards riskier exposures by risk weighting new and outstanding loans for land acquisition with a loan-to-value exceeding 80% at 150%, up from 100%.[5]

FIBI's exposure, although lower than most of its domestic peers, grew by a high 22% year-over-year as of the end of 2022 because of strong demand. Most of the bank's real estate exposure involved the funding closed residential construction projects where risk is mitigated by close oversight[6] and more conservative underwriting criteria[7]. Credit secured by residential property accounted for 46% of the bank's total credit risk[8] to the construction and real estate sectors as of the end of 2022 while credit secured by commercial property accounted for 26%. A significant part, around 31%, of the exposure to the sector was for the acquisition of land for construction where projects will take several years to complete and there is a risk that they may become uneconomical over time.

Similarly to other Israeli banks, FIBI's asset quality also remains vulnerable to persistent geopolitical events that can compromise business confidence and economic activity.

Modest risk-weighted capitalisation and leverage

We view FIBI's risk-weighted capitalisation and leverage as adequate, but modest compared to global peers. However, FIBI's loss-absorption buffers are supported by relatively conservative regulatory risk-weights, especially on residential mortgages. The bank's capital ratios are also significantly more stable compared to banks globally that use a model-based approach in calculating credit RWAs. We expect the bank's capital ratios to remain broadly stable over the coming quarters as internal capital generation from strengthened profitability balances profit distributions as well as ongoing, but more moderate, credit growth.

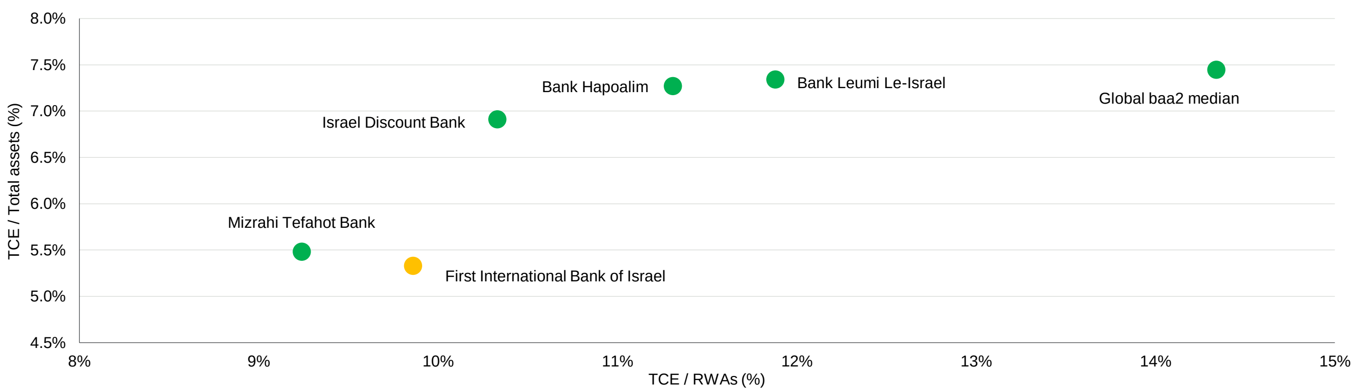
FIBI's TCE/RWAs ratio was 9.9% as of the end of 2022, below the median level of similarly-rated international peers (see Exhibit 5). However, the BoI maintains a conservative approach to risk-weighting that results in higher loss-absorption buffers than capital ratios show. Israeli banks use the standardised approach to risk-weighting. Mortgages are further risk-weighted according to loan-to-value[9], resulting in an average risk weight of over 50% in Israel. This effective mortgage loan risk weight is significantly higher than the risk weights applied by banks in other developed markets that use the internal ratings-based approach and even the 35% risk weight normally used in the standardised approach.

The bank's TCE-to-total assets ratio was 5.3% as of the end of 2022, broadly at the same level as its 5.2% Basel III leverage ratio that was above the 4.5% minimum regulatory requirement that applied at that time[10].

Exhibit 5

FIBI's capitalisation is lower than global peers driven by conservative risk weights

Risk-weighted capitalisation and leverage of Israeli banks and the global median as of the end of 2022



Source: Moody's Investors Service

FIBI reported a Common Equity Tier 1 (CET1) capital ratio of 10.42% as of the end of 2022 and 10.55% as of March 223, above the 9.2% minimum regulatory requirement. The bank's CET1 ratio dropped from 11.46% as of the end of 2021 because of the exceptionally strong credit growth and profit distributions. FIBI paid dividends amounting to 50% of net profits in each quarter of 2022. It approved a dividend distribution of 35% of net profits for Q1 2023, in line with its dividend policy[11], taking into account uncertainty in Israeli and global markets.

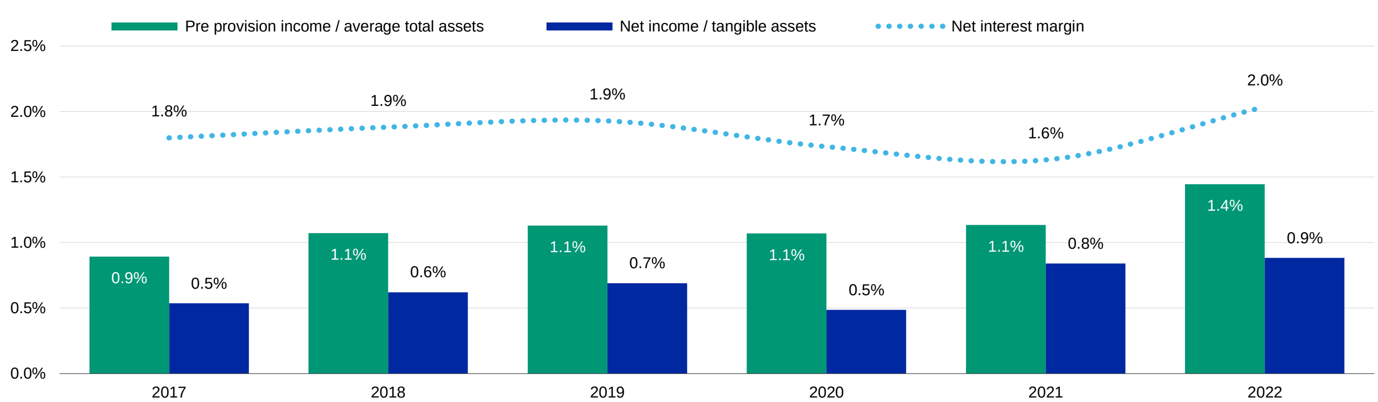
Moderate profitability, which will continue to benefit from higher interest rates and continued focus on cost control; strong presence in niche segments provides stable business growth

FIBI's recurring profitability is moderate but stable, reflecting a relatively high operating cost base but also strong revenue growth, supported by the bank's presence in niche segments. Continued cost-reduction initiatives have driven significant operating efficiency gains for FIBI, paving the way for higher sustainable profitability and strengthening its ability to adapt and resist growing competition and income headwinds. Our assessment also reflects our expectation that the bank's profitability will continue to benefit from higher policy rates that have driven wider net interest margins.

FIBI reported net profits equivalent to 0.9% of tangible assets in 2022, well above historical levels and up from 0.8% in 2021 and 0.5% in 2020 (see Exhibit 6). Profitability was supported by low credit costs, as mentioned above, operating cost control and strong revenue growth owing to strong loan growth, an expanding net interest margin and higher CPI benefiting returns from the bank's net long CPI position (deriving mainly from CPI-linked mortgages).

Exhibit 6

FIBI's profitability is moderate, but stands to benefit from an expanding net interest margin



Source: Moody's Investors Service

Higher interest rates allow the bank to unlock value from its low-cost core deposit base, with demand deposits accounting for 48% of total deposits as of year end 2022, supporting its net interest margin and net interest income, while earnings continue to benefit from high CPI. These benefits will continue to outweigh some moderation in loan growth, shifts of depositors to costlier term deposits, some operating cost inflation and an uptick in provision expenses because of reduced loan affordability.

Additionally, FIBI's strong presence in niche markets, which include capital markets activity and teachers, armed forces and religious segments, coupled with high customer satisfaction, have resulted in consistent credit and revenue growth in recent years. At the same time, management's ongoing initiatives to improve cost efficiency have successfully brought down the bank's high operating cost base, which nevertheless remains higher than most of its domestic peers. Initiatives include reducing headcount, optimising the branch network and reducing real estate space. Combined with consistent revenue growth, these efficiency initiatives have driven the bank's cost-to-income ratio to 50% in 2022, from 57% in 2021 and 60% in 2020.

These trends along with FIBI's ongoing focus on digitalisation position the bank well against intensifying competition and income headwinds. Israeli authorities continue to implement measures to promote competition, including facilitating the establishment of new banks and non-bank competitors, and to lower the cost of banking services for households and small businesses.

Stable mostly retail deposit-based funding structure and comfortable liquidity

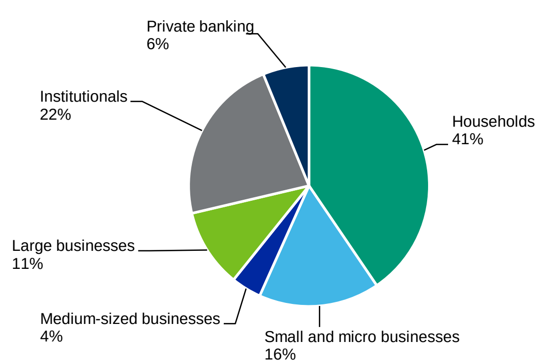
FIBI benefits from a sound funding structure supported by a large and stable customer deposit base in Israel, which comfortably funds its loan portfolio, helped by Israel's strong savings culture. FIBI's net loans-to-deposits ratio stood at 70% as of the end of 2022.

Further, 57% of total deposits from the public were relatively granular household and small business deposits (excluding private banking deposits; see Exhibit 7). However, our assessment of FIBI's funding structure also considers that 22% of total deposits from the public as of the end of 2022 were sourced from institutional and capital markets investors that could be more vulnerable to a loss in depositor confidence. This relatively high share of institutional investor deposits is partly driven by the bank's significant capital market activity. Nevertheless, FIBI's deposit base has proven to be stable during past systemic shocks.

Exhibit 7

Granular household and small business deposits make up the bulk of FIBI's deposit base

Breakdown of deposits by segment as of December 2022



Source: Bank's financial statements

The bank is a net lender in the interbank market and has a low reliance on potentially more confidence-sensitive market funding at just 5% of tangible banking assets as of the end of 2022.

The bank also maintains a comfortable level of liquidity, with a liquid assets to total assets ratio of 37% as of the end of 2022. The bank's liquid assets portfolio is also conservatively structured, with a high 29% of total assets held in cash and deposits with banks, and 8% invested in securities of which 69% is made up of A1-rated Israeli government securities. The overall duration of the bank's portfolio is also relatively short, at 2.4 years as of year-end 2022 and 2 years at end-March 2023. FIBI reported a healthy Liquidity Coverage Ratio of 127% as of the end of 2022 and 131% as of March 2023.

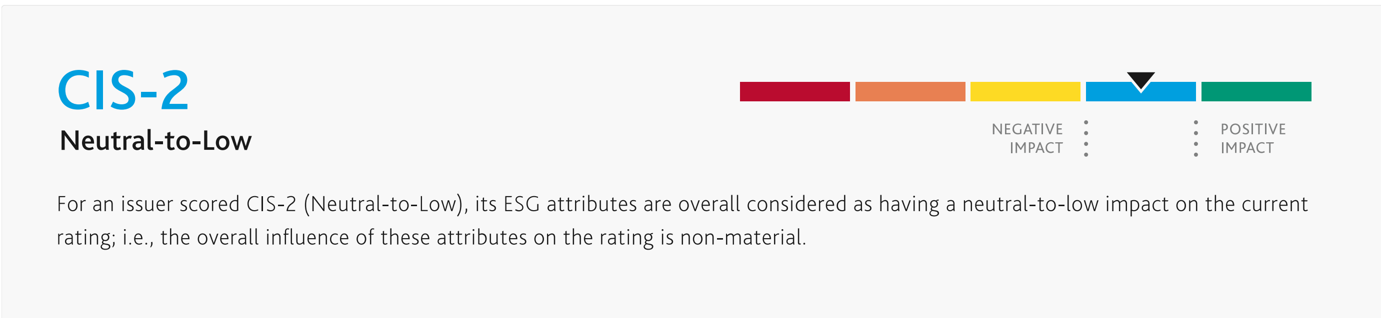
Source of facts and figures cited in this report

Unless noted otherwise, we have sourced data relating to systemwide trends and market shares from the central bank. Bank-specific figures originate from the banks' reports and are based on our own chart of accounts and may be adjusted for analytical purposes. Please refer to Financial Statement Adjustments in the Analysis of Financial Institutions published on 9 August 2018. We do not use the Bank of Israel's exchange rates in converting figures from Israeli shekel into US dollars, so US dollar figures may differ from bank reported figures.

ESG considerations

First International Bank of Israel Ltd.'s ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 8
ESG Credit Impact Score



Source: Moody's Investors Service

FIBI's ESG Credit Impact Score is neutral-to-low (**CIS-2**). This reflects the limited credit impact from environmental and social risk factors on the ratings to date, as well as, neutral-to-low governance risks.

Exhibit 9
ESG Issuer Profile Scores

Source: Moody's Investors Service

Environmental

FIBI faces moderate exposure to environmental risks, mainly because of its portfolio exposure to carbon transition risks as a diversified bank and one of Israel's five largest banks with a significant corporate exposure. In line with its peers, FIBI faces growing business risks and stakeholder pressure to meet broader carbon transition goals. FIBI is engaging in further developing its climate risk and relevant portfolio management capabilities and increasing its green financing.

Social

FIBI faces high social risks from customer relations, similarly to banks globally, and there is a growing focus on consumer protection in Israel. High cyber and personal data risks are mitigated by a sound IT framework. A relatively young and growing population in Israel affords business opportunities for the bank. However, the authorities are taking steps to promote competition and reduce the cost of financial services for households and small business, which will weigh on the bank's profitability. Strict labour laws and strong employee unions in Israel limit staffing flexibility and drive up costs. The bank has reduced employee posts through successive early retirement plans and has been reducing its cost structure, which has allowed it to mitigate these challenges.

Governance

FIBI faces neutral-to-low governance risks, and its risk management, policies and procedures are in line with industry practices and commensurate with its universal banking model, while the bank provides timely and detailed external reporting. Although FIBI is publicly listed, its ownership is dominated by a controlling group of shareholders, but this does not result in incremental governance risks. The large presence of independent directors, and the domestic legal and regulatory framework mitigate associated risks. Furthermore, the bank's financial strategy is conservative, under the oversight of a proactive and hands-on regulator.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Government support considerations

FIBI's A2 deposit ratings incorporate three notches of government support uplift from the bank's baa2 Adjusted BCA because of our expectation of a very high probability of support from the Israeli authorities, in case of need. This assumption is based on FIBI's systemic importance as one of the country's five large banking groups and the Israeli government's long standing practice of injecting capital into systemically important banks in case of need.

Counteparty Risk (CR) Assessment

FIBI's CR Assessment is A1(cr)/P-1(cr)

Prior to government support, the CR Assessment is positioned one notch above the bank's baa2 Adjusted BCA, reflecting our view that its probability of default is lower than that of deposits. Senior obligations represented by the CR Assessment will be more likely preserved to limit contagion, minimise losses and avoid disruption of critical functions. The CR Assessment also benefits from government support uplift, in line with our support assumptions on deposits.

Counteparty Risk Ratings (CRRs)

FIBI's CRRs are A1/P-1

For jurisdictions with a non-operational resolution regime, such as Israel, the starting point for the CRR is one notch above the bank's Adjusted BCA. The CRRs also benefit from three notches of government support uplift.

Methodology and scorecard

About Moody's Bank scorecard

Our Bank Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity

Rating methodology and scorecard factors

Exhibit 10

First International Bank of Israel Ltd.

Macro Factors							
Weighted Macro Profile	**Strong**	**100%**					

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	0.7%	aa2	↓	baa1	Sector concentration	Unseasoned risk
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	9.9%	ba1	↔	ba1	Nominal leverage	
Profitability						
Net Income / Tangible Assets	0.7%	baa3	↔	baa3	Return on assets	
Combined Solvency Score		baa1		baa3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	4.9%	aa3	↓	a2	Deposit quality	Expected trend
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	37.1%	a2	↓	a3	Expected trend	
Combined Liquidity Score		a1		a2		
Financial Profile				baa2		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				A1		
BCA Scorecard-indicated Outcome - Range				baa1 - baa3		
Assigned BCA				baa2		
Affiliate Support notching				0		
Adjusted BCA				baa2		

Instrument Class	**Loss Given Failure notching**	**Additional notching**	**Preliminary Rating Assessment**	**Government Support notching**	**Local Currency Rating**	**Foreign Currency Rating**
Counterparty Risk Rating	1	0	baa1	3	A1	A1
Counterparty Risk Assessment	1	0	baa1 (cr)	3	A1(cr)	
Deposits	0	0	baa2	3	A2	A2

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Investors Service

Ratings

Exhibit 11

Category	Moody's Rating
FIRST INTERNATIONAL BANK OF ISRAEL LTD.	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A1(cr)/P-1(cr)

Source: Moody's Investors Service

Endnotes

1 The cost of risk average is for the period in the run-up to the pandemic of 2006-2018. Credit costs had increased to 0.5% in 2020 from 0.2% in 2019, mainly reflecting group provisions. FIBI reported the second-lowest cost of risk out of the five large Israeli banks, driven entirely by collective provisions.

2 This is based on September 2022 debt figures and GDP from Q4 2021 up to Q3 2022.

3 The measures include loan-to-value limits of 75% for sole dwellings and 70% for the rest but for non-investment purposes, a monthly repayment cap at 50% of a borrower's monthly salary and a limit on the variable-rate part of the mortgage at two-thirds of the loan. Higher risk-weights for the calculation of regulatory capital metrics for mortgages with higher loan-to-value and repayment ratios also encourage tighter underwriting.

4 The regulator has instructed banks to scale up their monitoring of borrowers, improve and expand reporting on their exposure to the sector, and increase their collective provisions against performing exposures.

5 The regulation relates to land acquired for the purpose of development of construction. This excludes agricultural land with no planning horizon or without a request for planning consent; and acquisition of land that is designated for self-use in case of the borrower not being classified in the construction and real estate sector.

6 The closed financing structure mitigates risks because credit is managed in a separate account dedicated to the project that is separate from the rest of the borrower's banking activity and from which the developer cannot withdraw funds without the bank's consent. There is external oversight of construction progress by inspectors approved by the bank, who track the pace of progress on-site and monitor expenditure and income in accordance with the planned budget.

7 According to the BoI, these criteria include minimum levels of equity and pre-sales and the ability of projects to absorb declines in sales prices or rises in the cost of construction without impairing the borrowers' ability to service the debt.

8 On- and off-balance sheet exposures.

9 A 35% risk weight applies for loans with a loan-to-value below 45%, a 50% risk-weight for loans with loan-to-value between 45% and 60%, and a 60% risk-weight for loans with loan-to-value between 60% and 75%. Also, a risk-weight of 100% applies for loans with monthly repayments between 40% and 50% of the disposable income.

10 In November 2020, the authorities lowered the bank's leverage ratio requirement to 4.5%, from 5% previously. This relief has been extended until the end of 2023, and the leverage ratio requirement will return to 5% within two quarters after that date.

11 In accordance with its profit distribution policy, FIBI distributes a dividend at a rate of up to 50% of its annual net income.

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