

## CREDIT OPINION

6 August 2024

Update



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### RATINGS

#### First International Bank of Israel Ltd.

Domicile	Tel Aviv, Israel
Long Term CRR	A2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Withdrawn
Type	Senior Unsecured - Fgn Curr
Outlook	Not Assigned
Long Term Deposit	A3
Type	LT Bank Deposits - Fgn Curr
Outlook	Negative

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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## First International Bank of Israel Ltd.

### Update to credit analysis

#### Summary

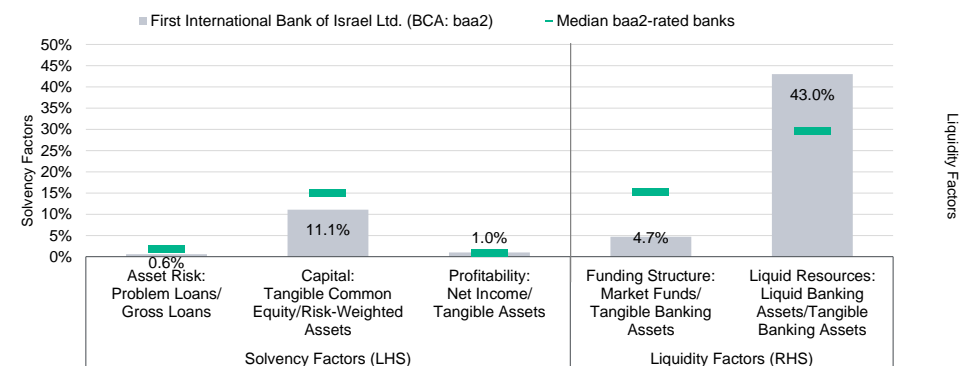
[First International Bank of Israel Ltd.](#) (FIBI)'s A3 long-term deposit ratings reflect (1) the bank's baa2 Baseline Credit Assessment (BCA); and (2) two notches of rating uplift based on our assessment of a very high likelihood of support from the [Government of Israel](#) (A2 negative), in case of need.

FIBI's baa2 BCA reflects the bank's strong asset quality, stable retail deposits, comfortable liquidity and strong presence in niche segments.

Persistent geopolitical risks are captured in the BCA and the negative rating outlook. The BCA also reflects downside risks from significant exposure to the Israeli property market. The bank's risk-weighted capital buffers are adequate but modest compared similarly-rated international peers, although metrics have been consistently stable and reflect the Bank of Israel's (BoI) conservative risk weights.

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 Ratings

## Credit strengths

- » Strong asset quality driven by a relatively low-risk loan book structure
- » Stable mostly retail deposit-based funding and comfortable liquidity
- » Strong presence in niche segments
- » Very high likelihood of government support, in case of need

## Credit challenges

- » Given the crystallisation of geopolitical risks, asset quality will likely deteriorate
- » Concentration in real estate
- » Modest risk-weighted capitalisation and leverage

## Outlook

The negative outlook on the long-term deposit ratings captures both the negative outlook on the Government of Israel's rating and the potential for a significantly more negative impact on the economy in the event of an escalation in the ongoing conflict.

## Factors that could lead to an upgrade

- » There is a limited scope for an upgrade of the bank's deposit ratings given the negative outlook. We could stabilise the outlook on the bank's ratings in case the outlook on the sovereign rating changes to stable and/or downside risks to the economy and the bank subside.

## Factors that could lead to a downgrade

- » The deposit ratings could be downgraded if both the sovereign rating and the standalone BCA is downgraded.
- » The bank's BCA could be downgraded in case of a prolonged and wider conflict that could have a significant impact on the standalone fundamentals, or if the bank's performance proves more volatile than in previous conflicts and economic crises.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 2

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

	03-24 <sup>2</sup>	12-23 <sup>2</sup>	12-22 <sup>2</sup>	12-21 <sup>2</sup>	12-20 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total Assets (ILS Million)	225,941.0	221,593.0	195,955.0	180,470.0	167,778.0	9.6 <sup>4</sup>
Total Assets (USD Million)	61,670.2	61,538.2	55,534.9	58,119.6	52,254.3	5.2 <sup>4</sup>
Tangible Common Equity (ILS Million)	12,116.0	11,806.0	10,436.0	9,620.0	8,804.0	10.3 <sup>4</sup>
Tangible Common Equity (USD Million)	3,307.0	3,278.6	2,957.6	3,098.1	2,742.0	5.9 <sup>4</sup>
Problem Loans / Gross Loans (%)	0.6	0.6	0.5	0.7	0.9	0.7 <sup>5</sup>
Tangible Common Equity / Risk Weighted Assets (%)	11.1	10.6	9.9	10.5	10.3	10.5 <sup>6</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	5.1	5.4	4.9	7.0	7.9	6.0 <sup>5</sup>
Net Interest Margin (%)	2.0	2.4	2.0	1.6	1.7	2.0 <sup>5</sup>
PPI / Average RWA (%)	3.1	3.5	2.7	2.2	1.9	2.7 <sup>6</sup>
Net Income / Tangible Assets (%)	1.1	1.0	0.9	0.8	0.5	0.9 <sup>5</sup>
Cost / Income Ratio (%)	45.4	42.8	49.8	56.7	60.4	51.0 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	4.0	4.7	4.9	5.3	4.5	4.7 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	45.2	43.0	37.1	40.2	42.0	41.5 <sup>5</sup>
Gross Loans / Due to Customers (%)	59.7	62.7	70.0	66.7	65.4	64.9 <sup>5</sup>

[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 Ratings and company filings

## Profile

FIBI is the fifth-largest banking group in Israel by assets with a 9.0% market share and total consolidated assets of NIS226 billion (around \$62 billion) as of March 2024. 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 March 2024, FIBI Holdings Ltd. held a 48.3% stake in FIBI, with the Bino-Liberman Group in turn, owning 51.6% of the shares in FIBI Holdings Ltd.

## 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 8 April 2024. 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.

## Detailed credit considerations

### Strong asset quality will likely deteriorate

FIBI's asset quality will deteriorate from current strong levels because of the economic impact of the ongoing military conflict. The bank proactively provisioned against downside scenarios. Additionally to risks from geopolitical tensions and similarly to other Israeli banks, the bank's exposure concentration to [Israel's property market](#) is also a downside risk for its asset quality.

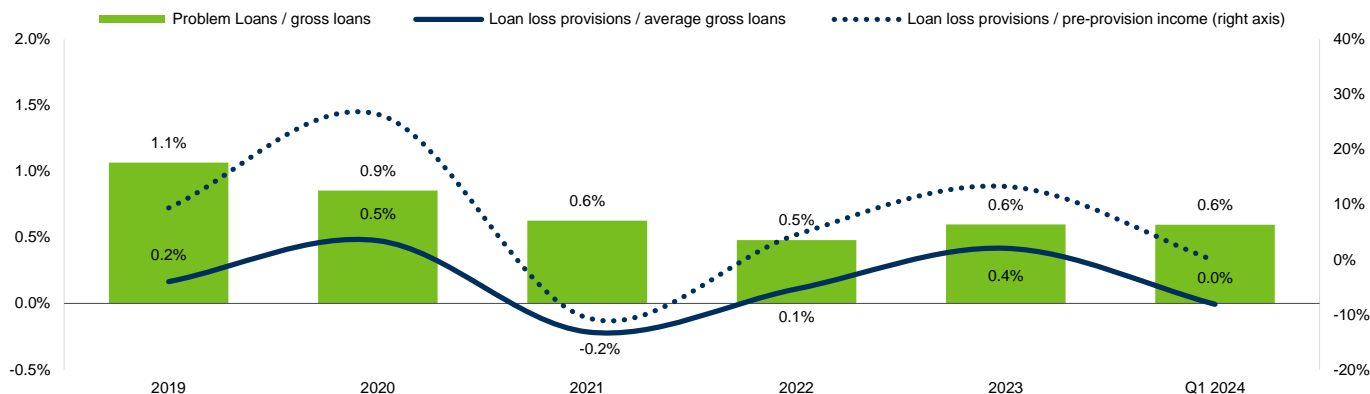
However, our assessment of the bank's asset risk also reflects the relatively low risk structure of the bank's loan book, limited single-borrower concentrations (with no exposures exceeding 15% of its capital as of March 2024) and conservative underwriting standards along with close regulatory oversight. These characteristics have translated into low credit costs over past economic cycles, which were lower than most of its domestic peers. The average cost of risk in the period 2006-2019 (before the pandemic) was 0.21%.

Problem loans were stable at 0.6% of gross loans as of March 2024 (see Exhibit 3) and lower than domestic peers. Credit costs (loan loss provision expenses to average gross loans) were flat in the first three months of 2024. In 2023, credit costs increased to 0.4%

driven by group provisions booked in the last two quarters of 2023 to reflect the uncertainty around the implications of the conflict on the economy and the bank's asset quality.

Exhibit 3

**Problem loans remained stable in the first quarter of 2024, and the bank has demonstrated strong asset quality performance over time**  
Evolution of problem loans ratio and credit costs



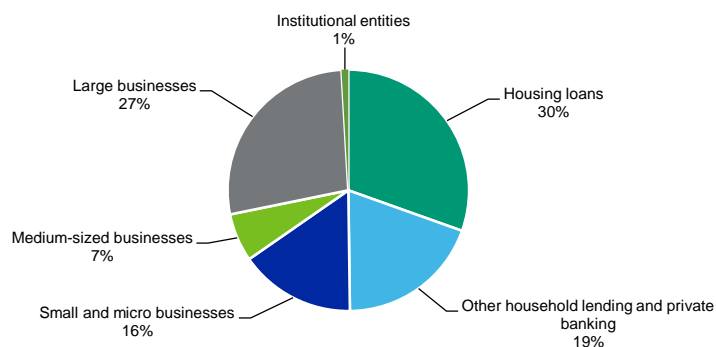
In 2022, Israeli banks implemented the US current expected credit losses (CECL) standard. Before this, we defined problem loans as impaired loans and loans in arrears of 90 days or more. Accruing loans previously classified as impaired were not included in non-accurring debts under the new standard. 2021 problem loans ratio reflects the restated figures under the new standard.

Source: Moody's Ratings

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 (see Exhibit 4), with 68% of outstanding credit granted at an original loan-to-value of up to 60% and 88% at a debt-income ratio of up to 35%. Medium and large businesses (including institutional entities) accounted for 34% as of March 2024. Other retail and consumer loans were 19% 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. Following a 15% growth in 2022 that drives some unseasoned risk, loan growth moderated to 2% in 2023 and turned negative in the first three months of 2024.

Exhibit 4

**FIBI's loan book is relatively diversified by customer type**  
Loan book breakdown as of March 2024 (supervisory segments)



Source: Bank's financial statements

Sector concentration to real estate is high, although lower than domestic peers. Lending to the construction and real estate sector made up 15% of FIBI's gross loans as of March 2024. Growth in the bank's exposure moderated to 4% in 2023 and 1% year-over-year as of March 2024, following double digit growth in 2022 because of strong demand. Most of the exposure to the sector is towards residential projects (45% of total credit risk as of March 2024) where risk is mitigated by close oversight of closed residential construction.

### Modest risk-weighted capitalisation and leverage

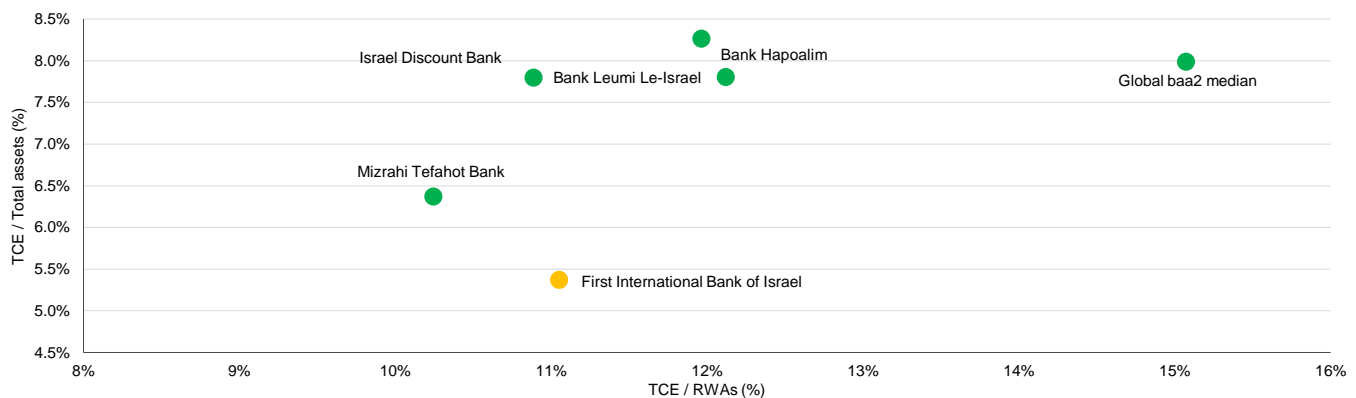
FIBI's risk-weighted capitalisation and leverage are adequate, but modest. Although risk-weighted capital metrics are below global peers, the bank's loss-absorption buffers are supported by conservative regulatory risk-weights that result in higher loss-absorption buffers. Mortgages that are risk-weighted according to their loan-to-value, have an average risk weight of over 50% in Israel, which is higher than the 35% risk weight normally used in the standardised approach. The bank's capital ratios are also significantly more stable compared to banks globally that use a model based approach in calculating credit risk-weighted assets (RWAs).

FIBI's tangible common equity (TCE)/RWAs ratio was 11.1% as of March 2024, below the global peer median (see Exhibit 5). The bank's TCE-to-total assets ratio was 5.4%, broadly at the same level as its 5.3% Basel III leverage ratio that was above the 4.5% minimum regulatory requirement that applied at that time. The bank's tighter leverage ratios compared to peers are in part driven by its high liquidity buffers, with a high share of cash and equivalents.

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 March 2024



Source: Moody's Ratings

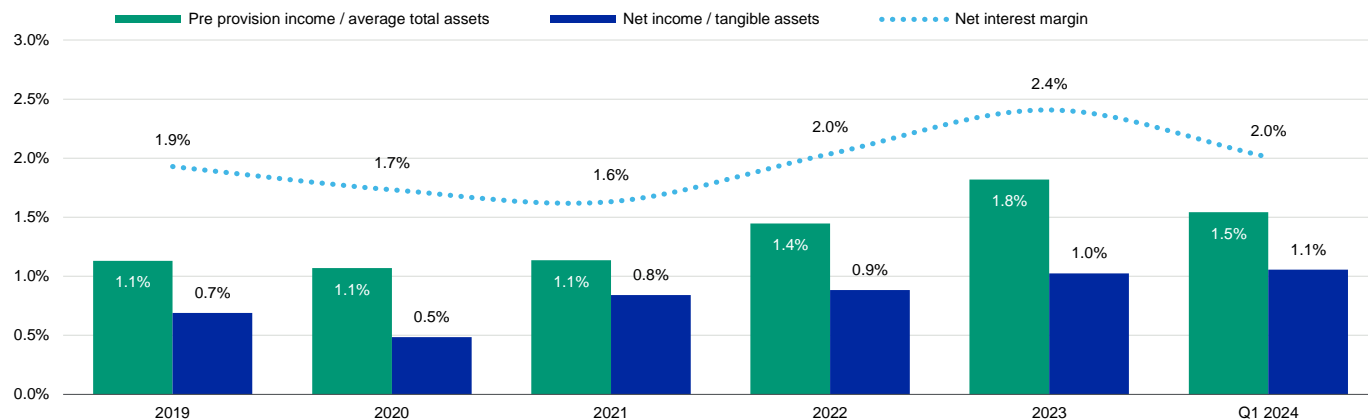
FIBI reported a Common Equity Tier 1 (CET1) capital ratio of 11.8% as of March 2024, up from 10.4% as of end-2022 and well above the 9.2% minimum regulatory requirement that applied at that time. Similarly to other periods of high volatility and in line with the Bol's guidance, FIBI adjusted down its dividend and distributed earnings below its dividend distribution policy of up to 50% of its annual net income in the last two quarters of 2023, building up its capital buffers. We expect capital levels to decline slightly in the coming quarters because of lower earnings retention, which will be partly compensated by subdued lending growth. FIBI has demonstrated its ability to maintain steady capital ratios over time and typically higher buffers to regulatory requirements compared to Israeli peers.

### Moderate profitability, which will decline from recent high levels

FIBI's recurring profitability is moderate but stable, supported by the bank's strong presence in niche markets (see Profile section), which coupled with high customer satisfaction have resulted in consistent credit and revenue growth in recent years. Continued cost-reduction initiatives have driven significant operating [efficiency gains](#) for FIBI and closed the gap with peers, paving the way for higher sustainable profitability and strengthening its ability to adapt and resist [growing competition](#) and its resiliency at times of stress. The bank's cost-to-income ratio improved to 46% in the first three months of 2024, from 51% in 2022 and levels exceeding 60% in prior years.

FIBI reported net profits equivalent to 1.1% of tangible assets in the first three months of 2024 and 1.0% in 2023, well above historical levels (see Exhibit 6) on the back of resilient net interest income and the aforementioned trends. In the coming quarters, profitability will decline from these exceptionally high levels because of modest credit growth, support measures to customers affected by the conflict and higher bank taxes for 2024 and 2025. Still overall high interest rates, with the Bol's research department [expecting](#) that the policy rate will be 4.25% in the first quarter of 2025 compared to 4.5% currently, will be supportive of a healthy net interest margin and robust revenues.

Exhibit 6

**FIBI's profitability is moderate, but has benefitted from an expanding net interest margin**

Source: Moody's Ratings

The bank's net interest margin narrowed to 2.0% in the first three months of 2024, from 2.4% in 2023, at the same level as 2022, driven by the customer shift to higher-yielding deposit accounts, with the bank's non-interest bearing deposits accounting for 23% of total deposits as of March 2024 compared to 33% at end-2022. Margins are still higher, however, than the 2021 level because rate hikes allowed the bank to unlock the value from its low-cost core deposit base.

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

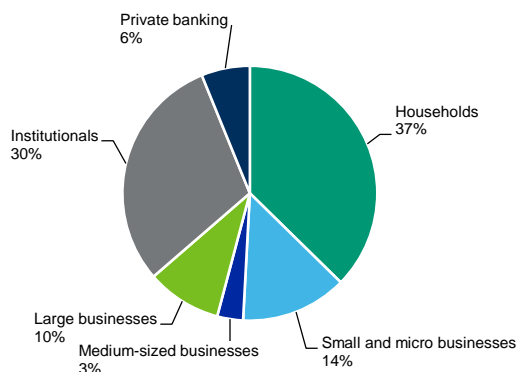
FIBI benefits from a sound funding structure supported by a large and stable customer deposit base in Israel, which comfortably funds its loan portfolio, helped by Israel's strong savings culture. FIBI's net loans-to-deposits ratio stood at 59% as of March 2024.

Further, 51% 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 30% of total deposits from the public as of March 2024 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 and confidence-sensitivity is mitigated by sufficient liquidity. FIBI's deposit base has also 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 March 2024



Source: Bank's financial statements

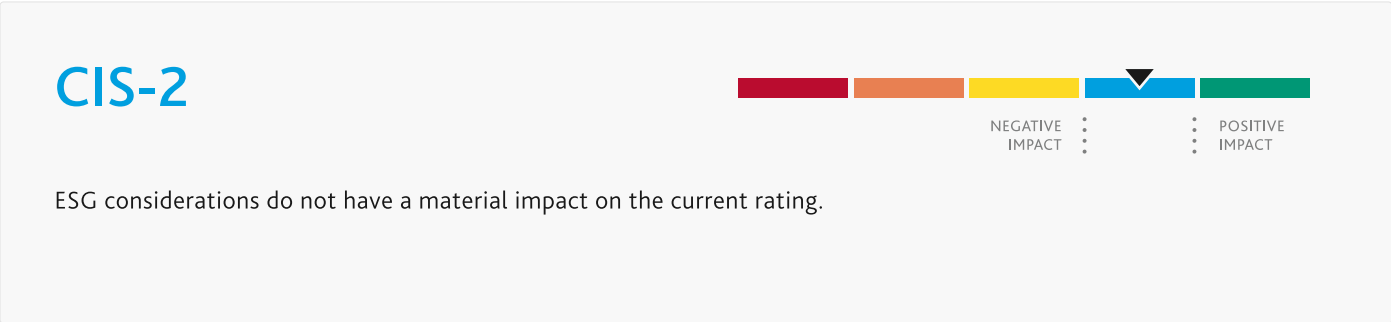
The bank is a net lender in the interbank market and has a low reliance on potentially more confidence-sensitive market funding at just 4% of tangible banking assets as of March 2024.

The bank also maintains high liquidity, with a liquid assets to total assets ratio of 45% as of March 2024. The bank's liquid assets portfolio is also conservatively structured, with 34% of total assets held in cash and deposits with banks, and 12% invested in securities of which 56% is made up of Israeli government securities. FIBI reported a healthy liquidity coverage ratio of 161% as of March 2024. Our assigned liquidity score considers a more normalised, but still high level of liquidity.

ESG considerations

First International Bank of Israel Ltd.'s ESG credit impact score is CIS-2

Exhibit 8  
ESG credit impact score



Source: Moody's Ratings

FIBI's **CIS-2** indicates that ESG factors are not material to the current ratings because a high level of government support mitigates the impact from ESG risks, which have lately increased (especially social risks) because of the military conflict and the high customer relations risks in Israel.

Exhibit 9  
ESG issuer profile scores



Source: Moody's Ratings

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, related to societal and demographic trends as well as from customer relations. The current military conflict may cause a severe disruption of the economy and impact the bank's financial performance, depending on its duration and scale. However, a relatively young and growing population in Israel affords business opportunities for the bank. Further, FIBI faces high customer relations risk because of the considerable focus on consumer protection in Israel, exposing banks to potential fines from regulators and litigation from customers. High cyber and personal data risks are mitigated by a sound IT framework.

## Governance

FIBI faces 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 A3 deposit ratings incorporate two 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 supporting systemically important banks in case of need.

## 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

### Rating Factors

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	0.6%	aa3	↓↓	baa2	Sector concentration	Expected trend
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	11.1%	baa3	↓	ba1	Expected trend	
Profitability						
Net Income / Tangible Assets	1.0%	baa3	↓	ba1	Expected trend	
Combined Solvency Score		baa1		baa3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	4.7%	a1	↓	a3	Deposit quality	Expected trend
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	43.0%	a2	↓	a3	Expected trend	
Combined Liquidity Score		a1		a3		
Financial Profile				baa2		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				A2		
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	2	A2	A2
Counterparty Risk Assessment	1	0	baa1 (cr)	2	A2(cr)	
Deposits	0	0	baa2	2	A3	A3

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

Source: Moody's Ratings

## Ratings

Exhibit 11

Category	Moody's Rating
FIRST INTERNATIONAL BANK OF ISRAEL LTD.	
Outlook	Negative
Counterparty Risk Rating	A2/P-1
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A2(cr)/P-1(cr)

Source: Moody's Ratings

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