CREDIT OPINION
5 May 2025

Update

Send Your Feedback

First International Bank of Israel Ltd.

Update to credit analysis

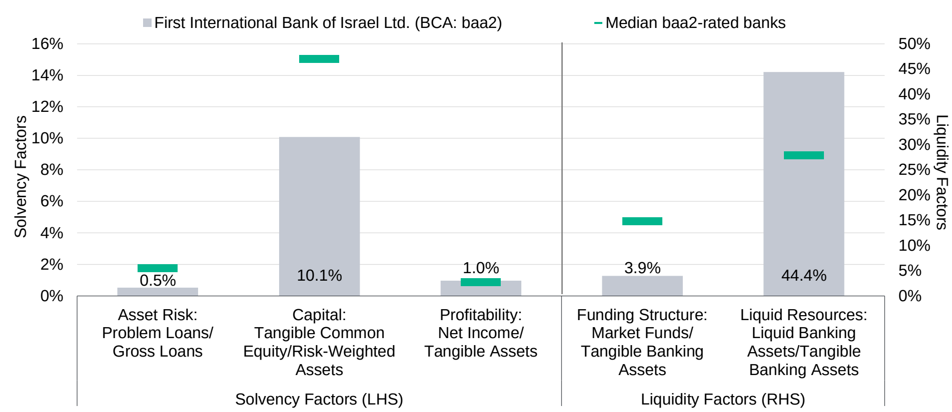
Summary

First International Bank of Israel Ltd. (FIBI)'s Baa1 long-term deposit ratings reflect the bank's baa2 Baseline Credit Assessment (BCA) and one notch of rating uplift based on our assessment of a very high likelihood of support from the Government of Israel (Baa1 negative), in case of need.

FIBI's baa2 BCA reflects the bank's stable retail deposits, comfortable liquidity, strong presence in niche segments and low levels of problem loans and credit losses over past economic cycles.

High 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

RATINGS

First International Bank of Israel Ltd.

Domicile	Tel Aviv, Israel
Long Term CRR	Baa1
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Long Term Debt	Withdrawn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	Baa1
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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Credit strengths

- » Strong asset quality driven by 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

- » High geopolitical risks
- » Sector concentration in real estate
- » Modest risk-weighted capitalisation and leverage

Outlook

The negative outlook on the bank's long-term deposit ratings captures both the negative outlook on the Government of Israel's rating and therefore the potential further weakening of the sovereign's capacity to provide support, together with the risk that the bank's standalone fundamentals may be more severely and sustainably affected because of weaker economic growth and investment climate, and a more adverse impact from the conflict on key sectors and individual borrowers.

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 long-term deposit ratings could be downgraded if the sovereign rating, or if its standalone BCA is downgraded by more than one notch.
- » The bank's BCA could be downgraded in case of a severe escalation of the conflict and/or an adverse and long-term impact on the economy, or if the bank's performance proves more volatile than in previous conflicts and economic crises.

Key indicators

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

	12-24[2]	12-23[2]	12-22[2]	12-21[2]	12-20[2]	CAGR/Avg.[3]
Total Assets (ILS Million)	248,563.0	221,593.0	195,955.0	180,470.0	167,778.0	10.3[4]
Total Assets (USD Million)	68,218.1	61,538.2	55,534.9	58,119.6	52,254.3	6.9[4]
Tangible Common Equity (ILS Million)	13,114.0	11,806.0	10,436.0	9,620.0	8,804.0	10.5[4]
Tangible Common Equity (USD Million)	3,599.1	3,278.6	2,957.6	3,098.1	2,742.0	7.0[4]
Problem Loans / Gross Loans (%)	0.5	0.6	0.5	0.7	0.9	0.6[5]
Tangible Common Equity / Risk Weighted Assets (%)	10.1	10.6	9.9	10.5	10.3	10.3[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	4.7	5.4	4.9	7.0	7.9	6.0[5]
Net Interest Margin (%)	2.0	2.4	2.0	1.6	1.7	2.0[5]
PPI / Average RWA (%)	3.2	3.5	2.7	2.2	1.9	2.7[6]
Net Income / Tangible Assets (%)	1.0	1.0	0.9	0.8	0.5	0.8[5]
Cost / Income Ratio (%)	43.2	42.8	49.8	56.7	60.4	50.6[5]
Market Funds / Tangible Banking Assets (%)	3.9	4.7	4.9	5.3	4.5	4.7[5]
Liquid Banking Assets / Tangible Banking Assets (%)	44.4	43.0	37.1	40.2	42.0	41.3[5]
Gross Loans / Due to Customers (%)	61.0	62.7	70.0	66.7	65.4	65.2[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 Ratings and company filings

Profile

FIBI is the fifth-largest banking group in Israel by assets with a 9.2% market share and total consolidated assets of NIS249 billion (around $68 billion) as of the end of 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 the end of 2024, 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.

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 driven by relatively low-risk loan book structure, but geopolitical tensions and exposure to Israel's property market are risks

FIBI's Asset Risk is underpinned by the relatively low risk structure of its loan book, limited single-borrower concentrations (with no exposures exceeding 15% of its capital as of the end of 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%.

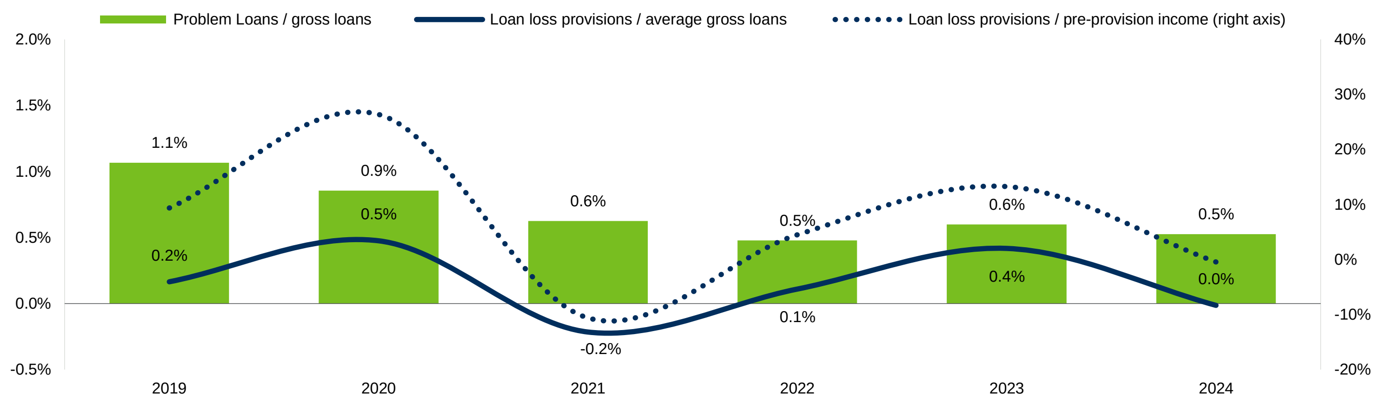
Therefore, in the absence of more adverse geopolitical developments we expect loan quality to remain strong as the Israeli economy recovers. However, heightened geopolitical tensions remain a key source of risk to the economy and the bank's performance. Similarly to other Israeli banks, the bank's exposure concentration to Israel's property market is also a downside risk for its asset quality. These drivers are reflected in our Asset Risk score.

Problem loans (defined as non-accruing loans and accruing loans that are more than 90 days overdue) were 0.5% of gross loans as of the end of 2024 (see Exhibit 3) and lower than domestic peers. The bank also reported loan loss reversals equivalent to 0.01% of average gross loans in 2024, mainly driven by recoveries from previously written off debt as well as a decrease in the collective provision. In 2023, credit costs (loan loss provision expenses to average gross loans) increased to 0.4% driven by group provisions to reflect the uncertainty around the implications of the conflict on the economy and the bank's asset quality.

Exhibit 3

The bank has demonstrated strong asset quality performance over time

Evolution of problem loans ratio and credit costs



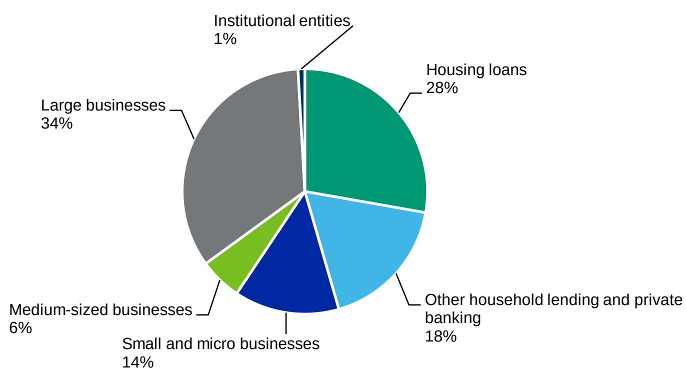
In 2022, Israeli banks implemented the US current expected credit losses (CECL) standard. Before this, we defined problem loans as impaired loans and loans in arrears of 90 days or more. Accruing loans previously classified as impaired were not included in non-accruing debts under the new standard. 2021 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 28% of total loans (see Exhibit 4), with 68% of outstanding credit granted at an original loan-to-value of up to 60% and 87% at a debt-income ratio of up to 35%. Medium and large businesses (including institutional entities) accounted for 41% as of the end of 2024. Other retail and consumer loans were 18% 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. Loan growth, however, picked to 10% in 2024 after moderating to 2% in 2023 (2022: 15%), driving some unseasoned risk.

Exhibit 4

FIBI's loan book is relatively diversified by customer type

Loan book breakdown as of the end of 2024 (supervisory segments)



Figures do not add up to 100% due to rounding
Source: Bank's financial statements

Sector concentration to real estate is high, although lower than domestic peers, which exposes the bank to the risk of weaker activity in the sector, as well as the risk of a sharp property price correction[1] together with reduced ability of borrowers to service their loans. Lending to the construction and real estate sector made up 14% of FIBI's gross loans as of the end of 2024 and the bank's exposure grew by 7% in 2024. Most of the exposure to the sector is towards residential projects (41% of total credit risk as of the end of 2024) where risk is mitigated by close oversight of closed residential construction.

Modest risk-weighted capitalisation and leverage

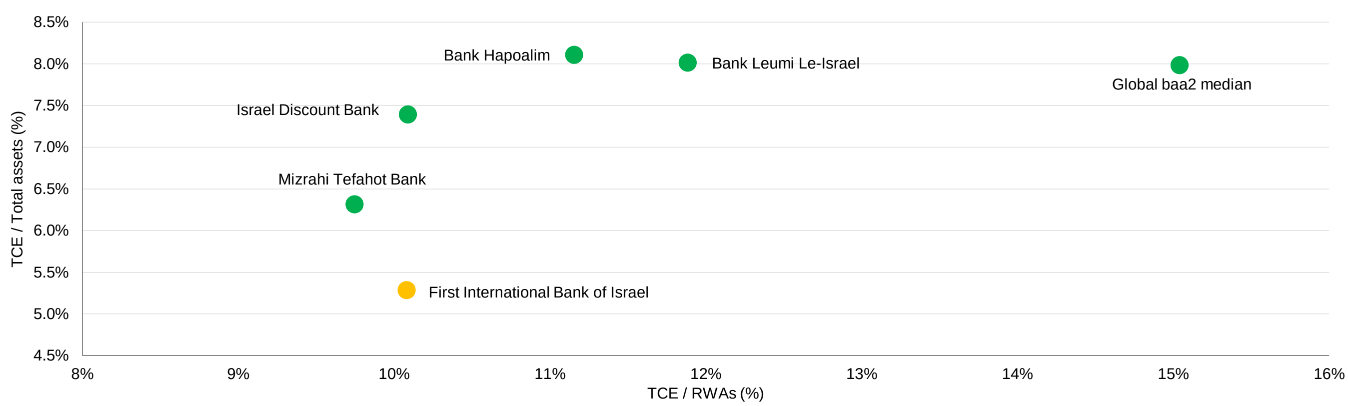
FIBI's risk-weighted capitalisation and leverage are adequate, but modest. Although risk-weighted capital metrics are below global peers, the bank's loss-absorption buffers are supported by conservative regulatory risk-weights that result in higher loss-absorption buffers. Mortgages that are risk-weighted 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 10.1% as of the end of 2024, below the global peer median (see Exhibit 5). The bank's TCE-to-total assets ratio was 5.3%, 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. The bank's tighter leverage ratios compared to peers are in part driven by its high liquidity buffers, with a significant share of cash and equivalents.

Exhibit 5

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

Risk-weighted capitalisation and leverage of Israeli banks and the global median as of the end of 2024



Source: Moody's Ratings

FIBI reported a Common Equity Tier 1 (CET1) capital ratio of 11.3% as of the end of 2024, broadly stable compared to 2023 and up from 10.4% as of end-2022, 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 BoI's guidance to maintain higher buffers during periods of uncertainty, FIBI adjusted down its dividend and distributed earnings below its dividend distribution policy of up to 50% of its annual net income starting from the third quarter of 2023, building up its capital buffers.

We expect FIBI's capital metrics to remain broadly stable, as the bank balances capital generation with credit growth and earnings distributions. FIBI has demonstrated its ability to maintain steady capital ratios over time and typically higher buffers to regulatory requirements compared to Israeli peers.

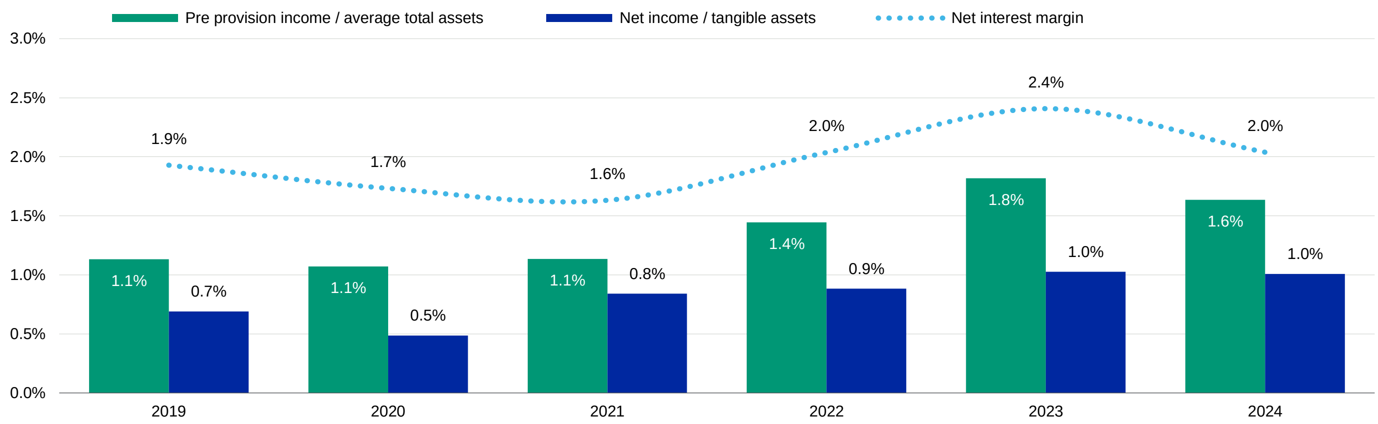
Moderate profitability, which will decline from recent high levels

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 reported cost-to-income ratio improved to 44% in 2024, from 51% in 2022 and levels exceeding 60% in prior years.

FIBI reported net profits equivalent to 1.0% of tangible assets in 2024 and in 2023, well above historical levels (see Exhibit 6) on the back of resilient net interest margins, loan growth and flat credit costs. In the coming quarters, we expect profitability will decline from recent exceptionally high levels. A gradual decline in interest rates and moderating inflation will curb financing income[2], while banks are subject to social and political pressure to forgo some profit[3]. However, we expect net interest margins to remain relatively healthy, while ongoing business growth will support revenue. As the bank has retained collective provisions for more adverse developments, we also expect cost of risk to be contained.

Exhibit 6

FIBI's profitability is moderate, but has benefitted from a wider net interest margin



Source: Moody's Ratings

The bank's net interest margin narrowed to 2.0% in 2024, from 2.4% in 2023, 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 the end of 2024 compared to 33% at end-2022.

Stable mostly retail deposit-based funding structure and comfortable liquidity

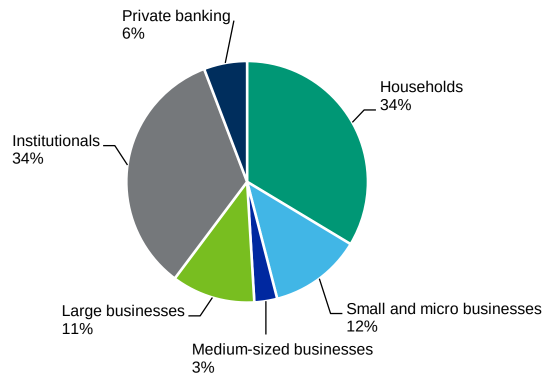
FIBI benefits from a sound funding structure supported by a large and stable customer deposit base in Israel, which comfortably funds its loan portfolio, helped by Israel's strong savings culture. FIBI's net loans-to-deposits ratio stood at 60% as of the end of 2024.

Further, 46% 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 34% of total deposits from the public as of the end of 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 high 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 the end of 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 the end of 2024.

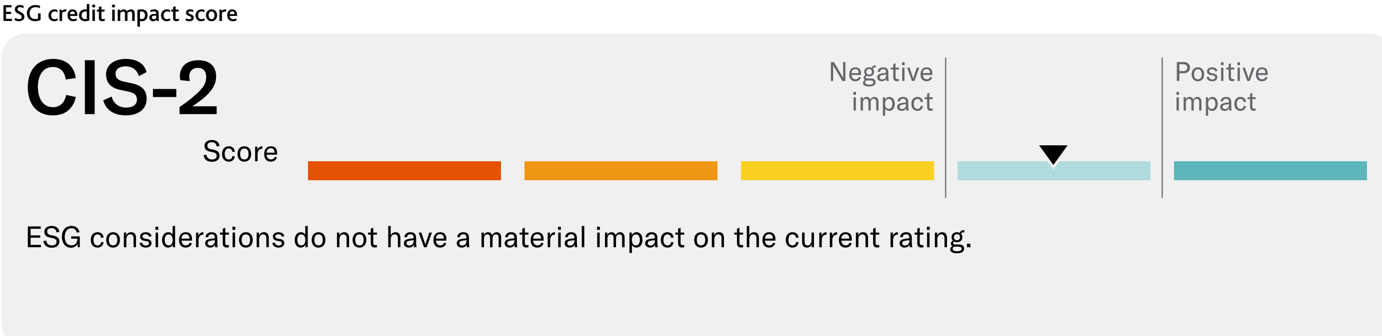
The bank maintains high liquidity, with a liquid assets to total assets ratio of 44% as of the end of 2024. The bank's liquid assets portfolio is conservatively structured, with 31% of total assets held in cash and deposits with banks, and 14% invested in securities of which 63% is made up of Israeli government securities. FIBI reported a healthy liquidity coverage ratio of 165% as of the end of 2024.

ESG considerations

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

Exhibit 8

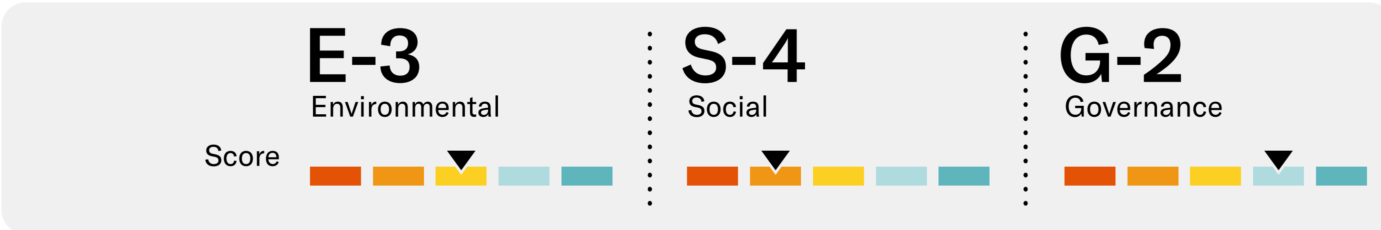
ESG credit impact score



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 Baa1 deposit ratings incorporate one notch 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	**Moderate +**	**100%**				

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	0.5%	a1	↓↓	baa3	Sector concentration	Expected trend
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	10.1%	ba2	↔	ba1	Stress capital resilience	Nominal leverage
Profitability						
Net Income / Tangible Assets	1.0%	baa3	↔	ba1	Expected trend	
Combined Solvency Score		baa2		ba1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	3.9%	a2	↓	baa1	Deposit quality	Expected trend
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	44.4%	a3	↔	a3	Stock of liquid assets	
Combined Liquidity Score		a2		baa1		
Financial Profile		baa1		baa3		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Baa1		
BCA Scorecard-indicated Outcome - Range				baa2 - ba1		
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	0	Baa1	Baa1
Counterparty Risk Assessment	1	0	baa1 (cr)	0	Baa1(cr)	
Deposits	0	0	baa2	1	Baa1	Baa1

[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	Baa1/P-2
Bank Deposits	Baa1/P-2
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	Baa1(cr)/P-2(cr)

Source: Moody's Ratings

Endnotes

1 House prices are at historic highs, following a modest decline in 2023.

2 FIBI has a long CPI position because of CPI-linked mortgages, which is partly offset by CPI-linked liabilities. Therefore the bank benefits when inflation is higher.

3 Under a voluntary financial relief plan announced by the BoI and adopted by the sector, banks will allocate NIS3 billion (around $800 million) over two years to support customers.

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454