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CREDIT OPINION
8 November 2022

Update

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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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First International Bank of Israel Ltd.

Update to credit analysis

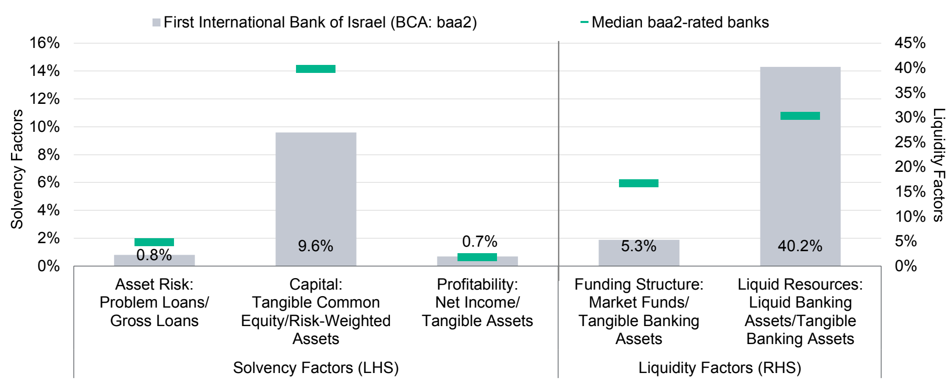
Summary

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 positive), 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 June 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 9.6% as of June 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 and growing exposure to the Israeli property market and potential geopolitical events. FIBI's efficiency remains weaker than peers, but ongoing management measures have successfully reduced costs and increased revenues, resulting in consistent improvement. The bank's profitability will benefit from rising interest rates.

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

Credit strengths

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

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

» 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

» Modest risk-weighted capitalisation and leverage

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

» Concentration in real estate and geopolitical tensions are downside risks

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 from exposure to the property market and modest but adequate capitalisation.

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 the credit risk profile.

Factors that could lead to a downgrade

» Downward pressure could be exerted on FIBI's ratings 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.

» There could also be negative rating pressure 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]

	06-22[2]	12-21[2]	12-20[2]	12-19[2]	12-18[2]	CAGR/Avg.[3]
Total Assets (ILS Million)	192,026.0	180,470.0	167,778.0	141,110.0	134,120.0	10.8[4]
Total Assets (USD Million)	54,830.9	58,119.6	52,254.3	40,854.1	35,892.2	12.9[4]
Tangible Common Equity (ILS Million)	9,829.0	9,620.0	8,804.0	8,252.0	7,863.0	6.6[4]
Tangible Common Equity (USD Million)	2,806.6	3,098.1	2,742.0	2,389.1	2,104.2	8.6[4]
Problem Loans / Gross Loans (%)	0.5	0.7	0.9	1.1	0.8	0.8[5]
Tangible Common Equity / Risk Weighted Assets (%)	9.6	10.5	10.3	10.0	9.8	10.0[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	5.7	7.0	7.9	10.4	8.1	7.8[5]
Net Interest Margin (%)	1.8	1.6	1.7	1.9	1.9	1.8[5]
PPI / Average RWA (%)	2.2	2.2	1.9	1.9	1.8	2.0[6]
Net Income / Tangible Assets (%)	0.7	0.8	0.5	0.7	0.6	0.7[5]
Cost / Income Ratio (%)	55.6	56.7	60.4	62.4	65.0	60.0[5]
Market Funds / Tangible Banking Assets (%)	5.4	5.3	4.5	2.8	2.8	4.2[5]
Liquid Banking Assets / Tangible Banking Assets (%)	37.0	40.2	42.0	34.0	33.2	37.3[5]
Gross Loans / Due to Customers (%)	69.6	66.7	65.4	74.6	76.2	70.5[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 8.3% market share and total consolidated assets of NIS192 billion (around $55 billion) as of June 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 activity.

The bank's common stock trades on the Tel Aviv Stock Exchange (ticker: FIBI). As of June 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.

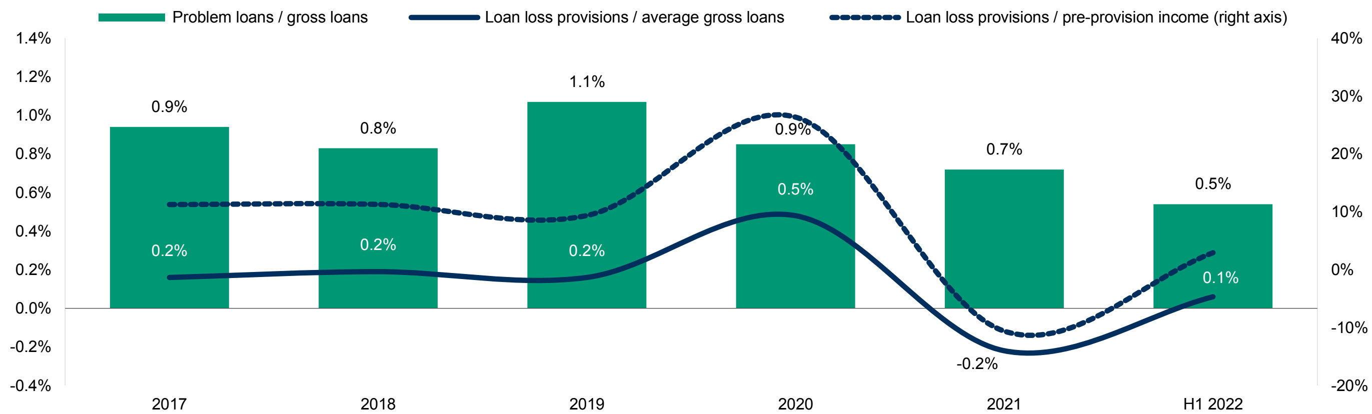
Detailed credit considerations

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 and regulatory oversight. These characteristics have translated into low credit costs through past economic cycles, and 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 a high 24% growth in gross loans between the end of 2020 and June 2022, there is also some unseasoned risk in the bank's portfolio.

Problem loans were 0.5% of gross loans as of June 2022, lower than their pre-pandemic level (end-2019: 1.1%, see Exhibit 3), a reflection of strong lending growth and limited defaults. We expect higher problem loan formation going forward as gradually rising interest rates challenge some borrowers and as the bank's newly originated loans season. However, we expect the bank's asset quality to remain strong overall, supported by Israel's robust economic activity, with the country posting one of the strongest growth rates globally in 2022 and growth remaining robust in 2023, and a tight labour market. Borrowers' servicing ability will also be more moderately affected given higher but more contained inflationary pressures compared to other developed countries, despite ongoing monetary tightening.

Exhibit 3
Problem loans are below their pre-pandemic level and the bank has demonstrated strong asset quality performance over time
Evolution of problem loans ratio and credit costs



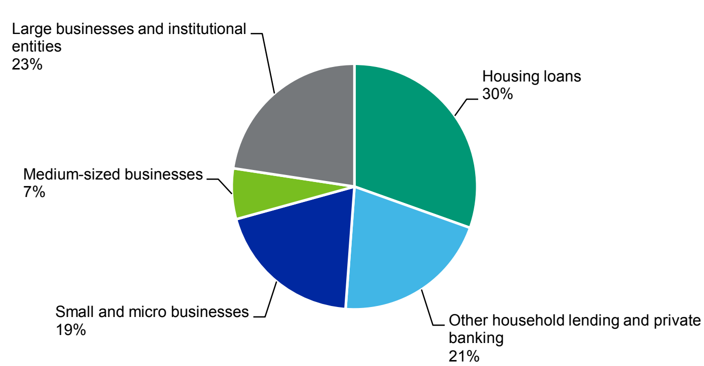
Source: Moody's Investors Service

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

The initial application of the US Current Expected Credit Loss (CECL) standard from 1 January 2022 has not led to significant additional impairments on implementation, and we do not expect it to lead to higher ongoing provisions, given the significant general provisions required for housing loans under the previous standard[2].

Strong asset quality is a reflection of the bank's loan book structure and underwriting standards. FIBI's loan book is diversified, with relatively low risk residential mortgages accounting for 30% of total loans, while medium and large businesses (including institutional entities) for 30% as of June 2022 (see Exhibit 4). Other retail and consumer loans were 21% 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
Loan book breakdown as of June 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 reports

Borrower concentrations are moderate, after declining in recent years, with no individual exposure exceeding 15% of the bank's capital as of June 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 14% of total lending as of June 2022, render its asset quality susceptible to developments in the Israeli property market.

House prices in Israel have risen at a rapid rate, growing by 18% year-over-year as of June 2022, the highest pace since 2010, increasing the risk of correction. Although, ongoing demand from a growing population and a structurally limited supply of new housing units provides some price support. A jump in interest rates and a rise in unemployment would also increase credit risk in the mortgage book, however this is not our central expectation. For housing loans, risks are mitigated by the low overall level of household debt in the economy, macroprudential measures[3], which enforce tight underwriting standards and high capital buffers against mortgages.

We see higher risk in financing of the construction and real estate sector and the bank's exposure, although lower than most of its domestic peers, grew by a high 35% year-over-year as of June 2022 because of strong demand. Credit secured by residential property accounted for 43% of the bank's total credit risk[4] to the construction and real estate sectors as of June 2022, while credit secured by commercial property accounted for 26%. A significant part, around 28%, of the exposure to the sector was for the acquisition of land for construction, and therefore could be more vulnerable to changes in input costs and real estate prices. Although, the bank's real estate exposure mainly involves the funding of closed residential construction projects[5] where risk is mitigated by close oversight and more conservative underwriting criteria[6].

Because of the significant lending growth in the construction and real estate sector, the BoI requested banks to increase their monitoring of borrowers, and FIBI reviews on a quarterly basis its group-based provisions, to capture any changes in the level of risk inherent in this part of the portfolio, and borrower-specific provisions. The BoI has also requested additional capital in the form of higher risk-weighting (150% risk-weight compared to the current 100%) for new and outstanding loans for land acquisition[7] with a loan-to-value exceeding 80%. This will increase FIBI's risk-weighted assets. The BoI will allow banks to spread the impact of the regulation on regulatory capital over four quarters, beginning from the third quarter of 2022.

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

Adequate but 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 mortgage lending. 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 quarter as stronger internal capital generation from strengthened profitability balances the resumption of profit distributions as well as ongoing, but more moderate, credit growth.

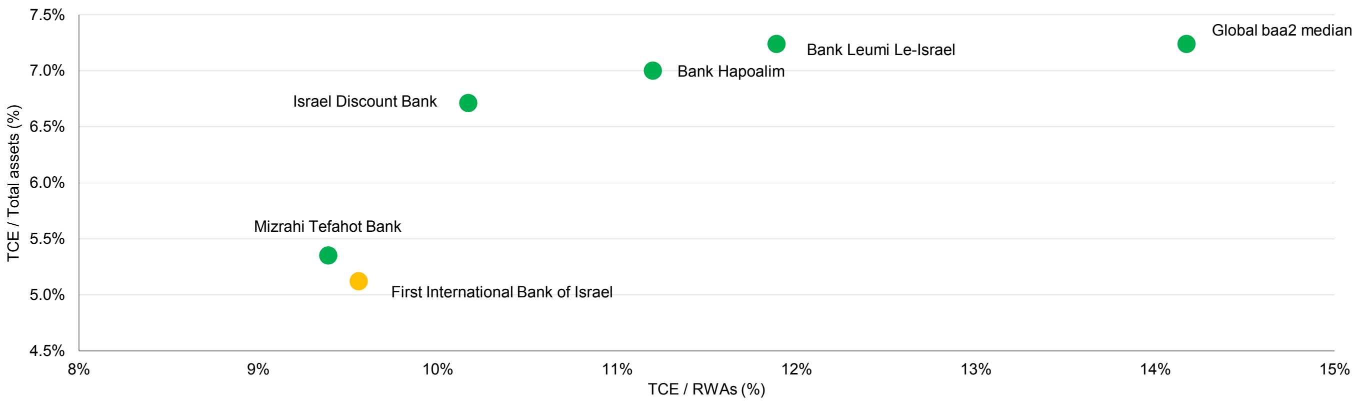
FIBI's TCE/RWAs ratio was 9.6% as of June 2022, below the median level of similarly-rated international peers (see Exhibit 5). However, the BoI maintains a conservative approach to risk-weighting that results in higher loss-absorption buffers than capital ratios show. Israeli banks use the standardised approach to risk-weighting. Mortgages are further risk-weighted according to loan-to-value, 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 5.1% as of June 2022, 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[8].

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 June 2022



Source: Moody's Investors Service

FIBI reported a Common Equity Tier 1 (CET1) capital ratio of 10.1% as of June 2022, above the 9.3% minimum regulatory requirement. The bank's CET1 ratio dropped from 11.5% as of the end of 2021 because of exceptionally strong credit growth (11% in the first six months of 2022) and profit distributions. In both Q1 and Q2 of 2022 FIBI paid dividends amounting to 50% of net profits, in line with its dividend policy[9]. Stronger internal capital generation owing to strengthened profitability and more moderate ongoing credit growth will support stable regulatory capital levels going forward.

Moderate profitability, which will 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 rising interest rates will widen net interest margins for FIBI, strengthening its profitability.

FIBI reported net profits equivalent to 0.72% of tangible assets in the first six months of 2022, compared to an average of 0.62% during 2017 to 2019, 0.49% in 2020 and 0.84% in 2021. Profitability was supported by low credit costs, as mentioned above, and strong revenue growth owing to exceptionally strong loan growth and higher CPI benefiting returns from the bank's net long CPI position (deriving mainly from CPI-linked mortgages).

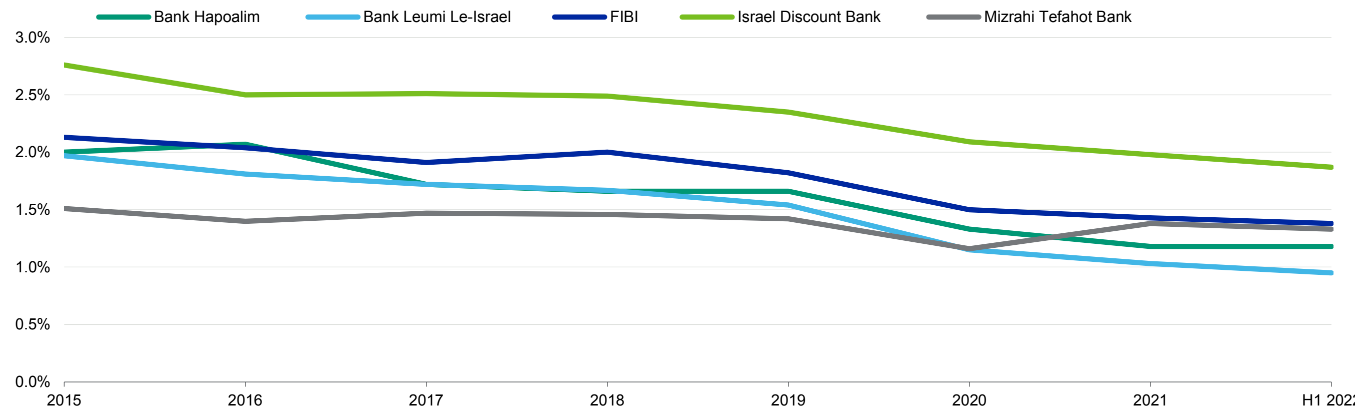
FIBI's strong presence in niche markets, which include capital markets activity and teachers, armed forces and religious segments, coupled with high customer satisfaction, have resulted in consistent credit and revenue growth in recent years, with a compound annual growth rate of 9% for loans and 7% for revenues for the period 2015-2021. These trends persisted in 2022, with a growth of 11% for loans and 6% for revenues, year-over-year.

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 and have improved the bank's operating expenses to assets ratio to 1.4% in the first six months of 2022 from 2.1% in 2015 (see Exhibit 6). Combined with consistent revenue growth, these efficiency initiatives have driven the bank's cost-to-income ratio to 56% in the first six months of 2022 from above 75% in 2015.

Exhibit 6

FIBI has managed to reduce its relatively high operating cost base

Operating expenses / total assets



Moody's adjusted figures. Figures also exclude provisions related to US investigations into tax evasion schemes and other litigation costs

Source: Moody's Investors Service

Over the coming quarters we expect ongoing profitability to strengthen as higher interest rates improve the bank's net interest margin, while the bank's earnings continue to benefit from higher CPI. Higher interest rates will allow the bank to unlock value from its large low-cost core deposit base, with non-interest bearing deposits accounting for 42% of total deposits as of June 2022. FIBI indicated that its net interest income would potentially gain NIS643 million (around $180 million) annually based on a 1% parallel increase in interest rates, which is equivalent to 0.3% of assets. These benefits will outweigh moderation in loan growth, which we expect will remain robust given strong economic activity in Israel, higher operating costs due to inflation and an uptick in provision expenses.

Over time, competition by providers of financial services in Israel will likely intensify, however, as Israeli authorities continue to implement measures to promote competition and lower the cost of banking services for households and small businesses. A digital-only bank, the first new bank to be licensed in Israel in over four decades, has started official operations this year. Also, as part of its consumer-related reforms, the BoI has started publishing the interest rates on deposits and household loans by bank, and has requested that banks provide potential mortgage borrowers with three uniform mortgage loan compositions[10] to allow customers to more easily compare costs between banks.

Stable mostly retail deposit-based funding structure and comfortable liquidity

FIBI benefits from a sound funding profile 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 69% as of June 2022, improved from 74% as of the end of 2019, following a significant inflow of deposits.

Further, 58% of total deposits from the public were relatively granular household and small business deposits (excluding private banking deposits). However, our assessment of FIBI's funding structure also considers that 21% of total deposits from the public as of June 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 shocks in Israel.

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 June 2022.

The bank also maintains a comfortable level of liquidity, with a liquid assets to total assets ratio of 37% as of June 2022. The bank's liquid assets portfolio is also conservatively structured, with 29% of total assets held in cash and deposits with banks, and 8% invested in securities of which 72% is made up of A1-rated Israeli government securities. FIBI reported a healthy Liquidity Coverage Ratio of 125% as of June 2022.

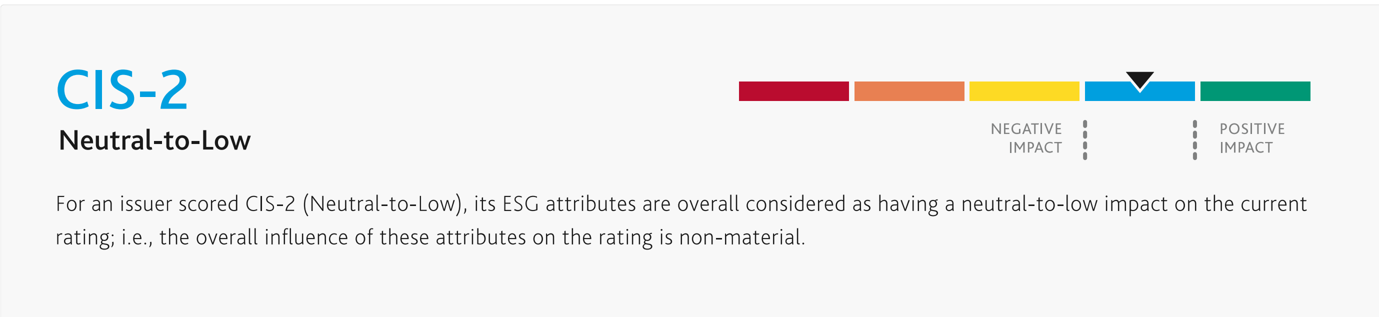
Source of facts and figures cited in this report

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 7
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 8
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 9

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	0.8%	aa3	↔	baa1	Sector concentration	
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	9.6%	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	5.3%	a1	↔	a2	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	40.2%	a1	↓↓	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 10

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 The new standard was implemented from 1 January 2022. The cumulative first-day effect of the change, a deduction of NIS44 million net of tax equivalent to 0.04% of risk-weighted assets, in calculating provisions was taken against the balance of retained earnings. However, the impact on supervisory capital can be phased-in over four years. Banks are allowed to add any decrease from the standard's implementation back to Common Equity Tier 1 capital at a rate of 75% on 1 January of the first year of implementation, 50% in the second year and 25% in the third year, with full effect from the fourth year. Under the previous standard, Israeli banks were mandated to maintain minimum general loan-loss provisions equivalent to 0.35% of gross loans for outstanding housing loans.

3 The measures include loan-to-value limits of 75% for first-time homeowners and 70% for the rest but for non-investment purposes, a monthly repayment cap at 50% of a borrower's month salary, a limit on the variable-rate part of the mortgage at two-thirds of the loan and a repayment capability test in case interest rates rise by five percentage points. 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 On- and off-balance sheet exposures.

5 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.

6 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.

7 The regulation relates to land acquired for 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.

8 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.

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

10 Mortgages in Israeli consist of a combination of various tracks. For example, parts of the loan can be fixed rate, linked to the BoI's prime rate or be variable rate, and then can be linked to the CPI index or be unindexed.

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