

**Rating Action: Moody's affirms First International Bank of Israel's A3 ratings and changes outlook to positive**

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16 Oct 2018

Limassol, October 16, 2018 -- Moody's Investors Service ("Moody's") has today affirmed First International Bank of Israel's (FIBI) A3 long-term deposit ratings and changed its outlook to positive from stable. At the same time, Moody's affirmed the bank's Prime-2 short-term deposit ratings, its A2/P-1 Counterparty Risk Ratings and its baa3 standalone baseline credit assessment (BCA).

The positive outlook recognises the steady improvement in the bank's financial performance -- and specifically in its asset quality, capitalisation and profitability -- and reflects Moody's expectation that this will continue in the coming quarters. The rating affirmation also reflects FIBI's strong liquidity and very high probability of government support, but also its high cost base and vulnerabilities relating to the Israeli property market and geopolitical situation.

The list of ratings affected by today's rating action is at the end of this press release.

**RATINGS RATIONALE**

**-- POSITIVE OUTLOOK**

The positive outlook reflects Moody's expectation that the improvement in the bank's financial performance of recent years will continue in the coming quarters. As of June 2018, the bank's non-performing loans (NPLs)-to-gross loans ratio had declined to 0.9%, while reduced single name credit concentrations is reducing the scope for earnings volatility and asset quality deterioration. The bank's improved asset quality is also evident by the low loan-loss provisioning requirements, which ranged between 0%-0.2% over the period 2010-H1 2018. Moody's said that it expects low provisioning levels to be maintained into 2019.

In recent years, FIBI has also strengthened its capital adequacy, with its Basel III leverage ratio at 5.6% as of June 2018, which provides the bank some capacity to absorb unexpected future losses. FIBI's tight underwriting, combined with Bank of Israel's macro-prudential limits, provide additional comfort that the bank's solvency will remain resilient to any material increase in interest rates and unemployment, and/or a material decline in property prices.

The rating agency further notes that FIBI has undertaken a number of efficiency initiatives, including the reduction of headcount, optimising the branch network, reducing real estate space and merging some of its smaller bank subsidiaries. As a result of these measures, the bank's cost-to-income ratio improved to 65.8% in H1 2018 from 76.4% in 2015, with its return on assets also improving to 0.6% from 0.4% over the same period.

**-- RATING AFFIRMATION**

According to Moody's, FIBI's ratings -- and specifically the bank's baa3 BCA -- reflect its strong asset quality, as well as a strong retail deposit base and comfortable liquidity, with liquid assets at 34% of total assets and the net loans-to-deposits ratio at 74% as of June 2018. FIBI's core Tier 1 ratio of 10.1% is above the 9.3% minimum regulatory requirement, but below similarly-rated international peers, partly because of Bank of Israel's strict risk weighting classifications. The bank operates in a sound macro-economic environment, as also documented by our "Strong" macro profile for Israel.

The rating agency notes, however, that asset quality remains vulnerable to persistent geopolitical risks, high systemic risks relating to the Israeli property market and some concentrations in its funding base. Similarly, profitability remains affected by weak efficiency, and the high tax rate and low interest rate environment; its H1 2018 cost-to-income ratio of 65.8% remains higher than the 56.9% median of similarly-rated peers despite management's efforts to both reduce costs and increase its revenue sources.

FIBI's A3 deposit ratings continue to benefit from three notches of uplift from the bank's baa3 BCA reflecting Moody's view of a very high probability of support from the Government of Israel (A1 positive) in the event of need.

## WHAT COULD MOVE THE RATING UP/DOWN

FIBI's ratings could be upgraded if the bank can sustain the improvements in its profitability, efficiency and capital, and maintain its solid funding and liquidity, irrespective of any volatility in the operating conditions, either stemming from the geopolitical or macro-economic environment.

The outlook on FIBI's ratings would be revised to stable if there is a reversal from recent improvements in the bank's solvency ratios, and more specifically if any deterioration in operating conditions were to lead to a weakening of the bank's asset quality and profitability metrics.

## LIST OF AFFECTED RATINGS

Issuer: First International Bank of Israel

Affirmations:

...LT Bank Deposits, Affirmed A3, Outlook changed To Positive From Stable

...ST Bank Deposits, Affirmed P-2

...LT Counterparty Risk Ratings, Affirmed A2

...ST Counterparty Risk Ratings, Affirmed P-1

...Adjusted Baseline Credit Assessment, Affirmed baa3

...Baseline Credit Assessment, Affirmed baa3

...LT Counterparty Risk Assessment, Affirmed A2(cr)

...ST Counterparty Risk Assessment, Affirmed P-1(cr)

Outlook Actions:

...Outlook, Changed To Positive From Stable

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in August 2018. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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