

**Rating Action: Moody's upgrades First International Bank of Israel's long-term ratings to A2; outlook stable**

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19 Dec 2019

Paris, December 19, 2019 -- Moody's Investors Service ("Moody's") has today upgraded First International Bank of Israel's (FIBI) local- and foreign-currency long-term deposit ratings to A2 from A3 and changed the outlook on these to stable from positive. At the same time, Moody's upgraded the bank's short-term deposit ratings to Prime-1 from Prime-2, its long-term Counterparty Risk Ratings to A1 from A2, its long-term Counterparty Risk Assessment (CRA) to A1(cr) from A2(cr), and its standalone Baseline Credit Assessment (BCA) and Adjusted BCA to baa2 from baa3. The short-term Counterparty Risk Ratings and CRA were affirmed at Prime-1 and Prime-1(cr) respectively.

The rating action reflects the improvement in FIBI's solvency, leading to a financial profile now commensurate with a baa2 BCA.

A full list of affected ratings can be found at the end of this press release.

**RATINGS RATIONALE**

**BCA**

The upgrade of FIBI's BCA to baa2 reflects the improvement in the bank's solvency. Asset risk has stabilised at low levels in recent years, partly reflecting Israel's solid economic growth, robust wage growth, low unemployment and strong business confidence. As of September 2019, the bank's non-performing loans (NPLs)-to-gross loans ratio stood at 1%, while decreased single name credit concentrations is reducing the scope for earnings volatility and asset quality deterioration.

In recent years, FIBI has strengthened its capital adequacy, with its CET1 ratio standing at 10.8% as of September 2019 compared to 10.5% as at December 2018 and 9.8% as at December 2015, which provides the bank some capacity to absorb unexpected future losses. FIBI's tight underwriting, combined with the 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.

Moody's 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 62.9% in the first nine months of 2019 from 76.4% in 2015, with its return on assets also improving to 0.7% from 0.4% over the same period.

The baa2 BCA also reflects FIBI's sound liquidity, supported by a large and stable customer deposit base, which comfortably funds its loan portfolio, with the bank's gross loans-to-deposits ratio standing at 76% as of end-September 2019. The bank is a net lender in the interbank market and maintains a ratio of liquid assets to total assets of around 33%.

Moody's does not have any particular governance concern for FIBI and does not apply any corporate behaviour adjustment to the bank. Nonetheless, corporate governance remains a key credit consideration and will continue to be monitored on an ongoing basis.

**LT ratings**

The upgrade of the long-term ratings captures Moody's continued assessment of a very high likelihood of government support from the government of Israel (A1 positive) in the event of need.

**Outlook**

FIBI's long-term deposit ratings carry a stable outlook, with the bank's improved solvency balanced against vulnerabilities relating to the property market, now consistent with a baa2 BCA.

What could change the rating up/down

Further improvements in profitability, combined with stronger capital adequacy, could exert upward rating pressure on FIBI's BCA, and in turn on the long-term ratings.

Negative pressure could be exerted on the ratings if a deterioration in the operating conditions leads to a weakening of asset quality and profitability, or if Moody's considers that the government's ability and/or capacity to provide support has materially changed.

#### LIST OF AFFECTED RATINGS

Issuer: First International Bank of Israel

..Upgrades:

...Long-term Counterparty Risk Ratings, upgraded to A1 from A2

...Long-term Bank Deposits, upgraded to A2 from A3, outlook changed to Stable from Positive

...Short-term Bank Deposits, upgraded to P-1 from P-2

...Long-term Counterparty Risk Assessment, upgraded to A1(cr) from A2(cr)

...Baseline Credit Assessment, upgraded to baa2 from baa3

...Adjusted Baseline Credit Assessment, upgraded to baa2 from baa3

..Affirmations:

...Short-term Counterparty Risk Ratings, affirmed P-1

...Short-term Counterparty Risk Assessment, affirmed P-1(cr)

..Outlook Action:

...Outlook changed to Stable from Positive

#### PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in November 2019. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

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