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CREDIT OPINION
31 October 2023

Update

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RATINGS

Israel Discount Bank Ltd.

Domicile	Tel Aviv, Israel
Long Term CRR	A1 , Possible Downgrade
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	A2 , Possible Downgrade
Type	Senior Unsecured - Fgn Curr
Outlook	Rating(s) Under Review
Long Term Deposit	A2 , Possible Downgrade
Type	LT Bank Deposits - Fgn Curr
Outlook	Rating(s) Under Review

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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Israel Discount Bank Ltd.

Update following initiation of rating review

Summary

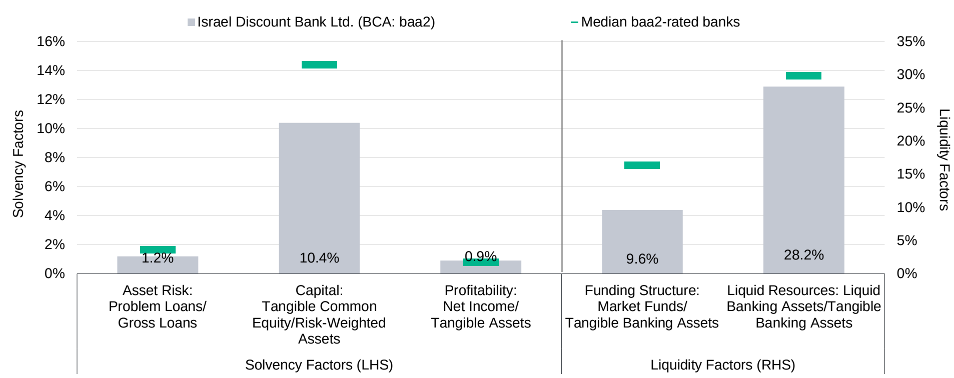
Israel Discount Bank Ltd. (IDB)'s A2 long-term deposit ratings reflect (1) the bank's baa2 Baseline Credit Assessment (BCA); and (2) currently three notches of rating uplift based on our assessment of a very high probability of support from the Government of Israel (A1 review for downgrade), in case of need.

IDB's baa2 BCA reflects (1) its favourable deposit-based funding structure along with comfortable liquidity; (2) currently strong asset quality, with low problem loans; and (3) strengthened recurring profitability supported by efficiency gains and robust business growth potential.

The ongoing military conflict will have an impact on Israel's economy, which will depend on its duration and scale, and therefore on the bank's asset quality and profitability. Profitability, which had been moderate in the past, benefited significantly from higher interest rates and was well above historical levels prior to the conflict.

At the same time, IDB's standalone BCA reflects (1) relatively modest but stable capital buffers, with a tangible common equity (TCE)/risk-weighted assets (RWAs) ratio of 10.4% as of June 2023, below similarly-rated international peers mainly reflecting Bank of Israel's (BoI) more conservative risk-weighting; and (2) additional downside risks from a significant exposure concentration to the property market.

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 deposit-based funding structure and comfortable liquidity

» Asset quality has been strong

» Strengthened profitability, supported by enhanced efficiency and wider margins

» Very high likelihood of government support, in case of need

Credit challenges

» Given the crystallisation of geopolitical risks, asset quality will likely deteriorate and profitability will decline

» Exposure concentration in real estate is also a downside risk

» Modest risk-weighted capitalisation, but moderate leverage

» Operating cost base remains higher relative to peers

Outlook

The bank's ratings are on review for downgrade, reflecting the review for downgrade on the Government of Israel's A1 rating.

Factors that could lead to an upgrade

» Potential for an upgrade of IDB's ratings is limited, as indicated by the review for downgrade. However, the ratings could be confirmed at their current level if Israel's A1 issuer rating were confirmed. This would also depend upon the bank's standalone fundamentals, notably solvency and liquidity, being maintained.

Factors that could lead to a downgrade

» IDB's ratings could be downgraded if the sovereign rating is downgraded, given the significant government support uplift that is incorporated in the bank's ratings.

» IDB's ratings could also be downgraded in case of a prolonged and wider conflict that could have a significant impact on the bank's operating environment and standalone fundamentals, or the bank's performance proves more volatile than in previous conflicts and economic crises.

Key indicators

Exhibit 2
Israel Discount Bank Ltd. (Consolidated Financials) [1]

	06-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[2]	CAGR/Avg.[3]
Total Assets (ILS Million)	391,815.0	376,754.0	335,088.0	293,969.0	259,823.0	12.5[4]
Total Assets (USD Million)	105,583.5	106,774.6	107,913.6	91,556.3	75,223.8	10.2[4]
Tangible Common Equity (ILS Million)	28,188.0	26,051.0	21,068.0	18,189.3	18,127.0	13.4[4]
Tangible Common Equity (USD Million)	7,595.9	7,383.0	6,784.9	5,665.0	5,248.1	11.1[4]
Problem Loans / Gross Loans (%)	0.9	0.7	1.4	1.9	1.2	1.2[5]
Tangible Common Equity / Risk Weighted Assets (%)	10.4	10.3	9.6	9.1	9.6	9.8[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	7.2	5.6	13.1	17.2	11.1	10.8[5]
Net Interest Margin (%)	3.0	2.5	2.1	2.1	2.4	2.4[5]
PPI / Average RWA (%)	3.5	2.5	1.9	1.9	2.0	2.3[6]
Net Income / Tangible Assets (%)	1.3	0.9	0.9	0.5	0.7	0.9[5]
Cost / Income Ratio (%)	45.8	54.7	62.8	61.7	63.0	57.6[5]
Market Funds / Tangible Banking Assets (%)	11.9	9.6	8.0	8.5	6.2	8.8[5]
Liquid Banking Assets / Tangible Banking Assets (%)	27.3	28.2	30.3	29.1	24.6	27.9[5]
Gross Loans / Due to Customers (%)	88.7	84.4	83.8	86.5	92.5	87.2[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 Investors Service and company filings

Profile

IDB is the fourth-largest banking group in Israel by assets with a 16% market share and total consolidated assets of NIS392 billion (around $106 billion) as of June 2023. IDB also had a 15% market share in deposits and 17% in loans as of the same date.

Domestically, IDB provides a full range of banking services out of its 173 branches in Israel as of June 2023. IDB has the largest international operations among Israeli banks, mainly carried out through Israel Discount Bank of New York (IDB New York), its US subsidiary, which focuses on mid-sized companies and private banking. IDB New York operates branches in New York, Florida and California and has representative offices in Latin America and in Israel.

The bank's other key subsidiaries include Mercantile Discount Bank, a niche bank specialising in retail, small and medium-sized and municipal banking, and Israel Credit Cards (ICC), its 71.8% owned credit card company.

IDB is currently the only Israeli bank to consolidate a credit card company, after the two-largest Israeli banks were required to divest their own credit card units. A decision by the Minister of Finance was taken in January 2023 that effectively requires IDB to divest of its controlling stake in ICC.[1] ICC's contribution to IDB's consolidated net profit for 2022 amounted to around 5%.

IDB was incorporated in 1935. The bank's common stock trades on the Tel Aviv Stock Exchange (ticker: DSCT).

Detailed credit considerations

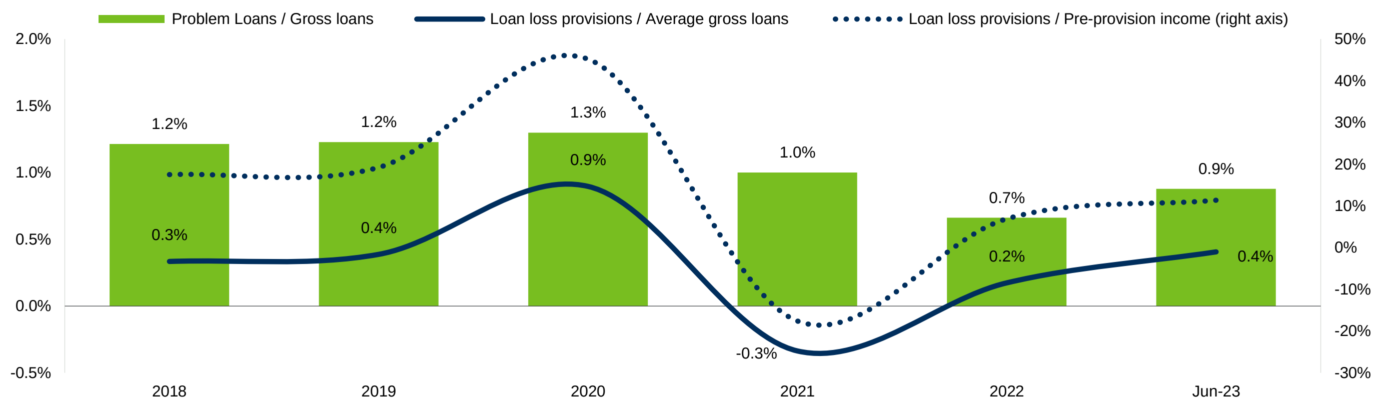
Strong asset quality will likely deteriorate, but will continue to be supported by an increasing focus on residential mortgages

IDB's strong asset quality will likely deteriorate, although the extent of this will depend on the ongoing military conflict's duration and scale, actions by the authorities to mitigate its impact on affected businesses and households and the potential for any lasting economic damage.

Additionally to risks from geopolitical tensions and similarly to other Israeli banks, the bank's significant exposure to Israel's property market through its lending activities along with recent high property prices[2] is also a downside risk for its asset quality. Our assessment also takes into account the bank's higher than peer-average loan growth in recent years (loans grew by a compound annual rate of 10% over the period 2017-2022) that drives some unseasoned risk and its previous through-the-cycle performance that had been relatively weaker than its peers. However, it also considers ongoing reduction in asset risk in IDB's loan portfolio reflecting an increasing share of relatively lower-risk residential mortgages, which is currently lower than peers. These drivers are reflected in our baa3 Asset Risk score.

IDB's problem loans (defined as non-accruing loans and accruing loans that are more than 90 days overdue) to gross loans were a low 0.9% as of June 2023 (see Exhibit 3). Beyond the impact of the conflict, we also expect some problem loan formation because of higher interest rates and as the bank's newly originated loans season. Following a 13% growth in 2022, loan growth moderated to 5% during the first six months of 2023.

Exhibit 3
IDB's asset quality has been strong, with a low level of problem loans and contained credit losses in recent years
Evolution of problem loans and credit costs

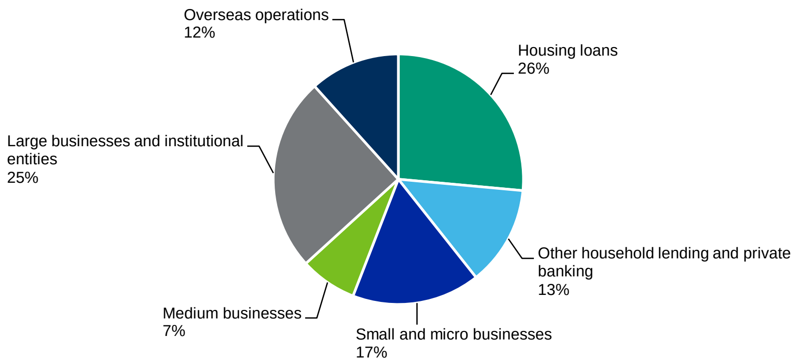


For 2020 and 2021, problem loans were adjusted in this chart to remove a predominantly government-backed exposure that was more than 90 days overdue
Sources: Bank's financial statements; Moody's Investors Service

We also expect IDB's credit costs (loan loss provision expenses to average gross loans) to likely rise above their historic average of 0.47%[3], which includes an entire economic cycle but also a smaller historical proportion of lower-risk housing loans. Following provision charge-backs in 2021 equivalent to 0.3% of gross loans, credit costs increased to 0.2% in 2022 and 0.4% in the first six months of 2023, mainly driven by an increase in group provisions owing to a revision in macroeconomic expectations and strong loan growth. Once IDB no longer consolidates a credit card company, its credits costs will likely be lower and further aligned with the domestic peer average.

Asset risk in IDB's loan portfolio has been reducing, reflecting an increasing share of relatively lower-risk residential mortgages. Housing loans, a key strategic focus for the bank, grew by a high 12% year-over-year and accounted for 26% of the bank's loan book as of June 2023 (see Exhibit 4), compared to 20% as of the end of 2018. Also, in recent years, the bank tightened its credit standards both in retail and business lending, eliminated exposures to holding companies, which had caused an increase in problem loans in the past, and reduced borrower concentrations with no exposure to a borrower group exceeding 15% of its capital as of June 2023.

Exhibit 4
IDB's loan book is fairly diversified by customer type
Loan book breakdown as of June 2023 (supervisory operating segments)



Housing loans include housing loans to small and micro businesses equivalent to 1.6% of total loans
Source: Bank's financial results

However, sector concentration is high. IDB's large and growing exposure to residential mortgages and the construction and real estate sector, which made up a further 16% of total lending as of June 2023, exposes the bank to the risk of a sharp property price correction and a reduced ability of borrowers to service their loans. It is also uncertain what impact the conflict will have on the sector.

For housing loans, risks are mitigated by (1) banks' full recourse to the borrowers and a strong repayment culture; (2) the low level of housing debt at around 34% of GDP[4]; and (3) macroprudential measures[5], which enforce tight underwriting standards and high capital buffers against mortgages.

There is higher risk in financing of the construction and real estate sector. The bank's construction and real estate lending exposure, although lower than most of its domestic peers, grew by a high 14% year-over-year as of June 2023 because of strong demand. Residential projects made up 37% of the total credit risk in the sector as of June 2023. These are mostly closed construction projects where risk is mitigated by close oversight[6]. Income generating properties were 23% credit risk in the sector. A significant part, around 21%, of credit risk in the sector was for the acquisition of land for construction where projects will take several years to complete.

Modest risk-weighted capitalisation, but moderate leverage

IDB's risk-weighted capitalisation is modest compared to global peers, but we view it as adequate relative to its risk profile. IDB's loss-absorption buffers are supported by conservative regulatory risk-weights, especially on residential mortgages, which drive relatively moderate leverage that is in line with the peer median. IDB's capital ratios are also more stable compared to banks globally that use a model-based approach in calculating credit RWAs.

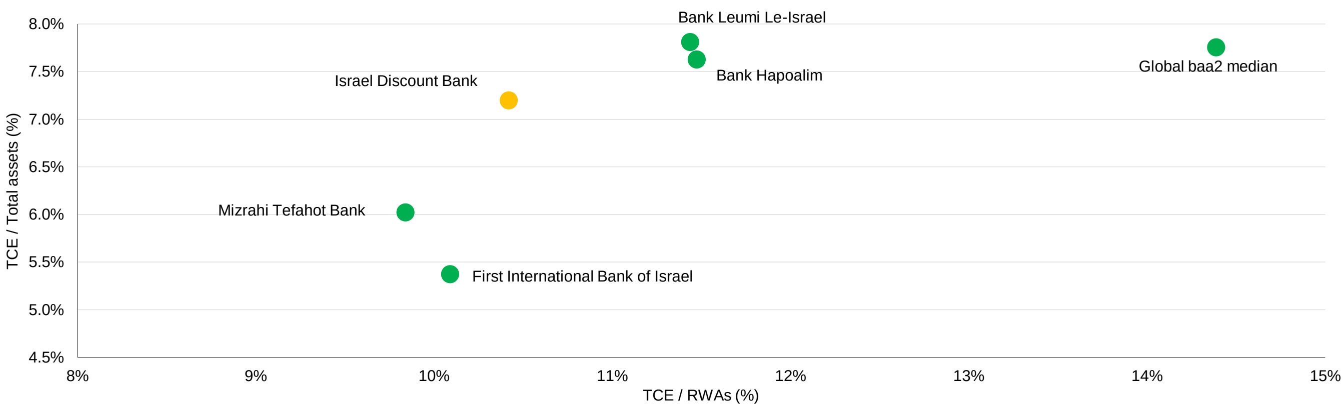
IDB's TCE/RWAs capital ratio was 10.4% as of June 2023, below the level of similarly-rated international peers (see Exhibit 5). However, the BoI maintains a conservative approach to risk-weighting that results in higher loss-absorption buffers than capital ratios show. Israeli banks use the standardised 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 Basel III leverage ratio was 6.4% as of June 2023, above the 4.5% minimum regulatory requirement[7]. Its TCE-to-total assets ratio was 7.2% as of the same period.

Exhibit 5

IDB's risk-weighted capitalisation is lower than global peers driven by conservative risk weights

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



Source: Moody's Investors Service

IDB reported a Common Equity Tier 1 (CET1) ratio of 10.35% as of June 2023, slightly up compared to 10.25% at the end of 2022 and 10.14% at the end of 2021. The reported CET1 ratio substantially exceeded the 9.19% minimum regulatory requirement and also the bank's own internal minimum threshold of 9.75%.[8]

Similarly to other periods of high volatility we also expect the bank to retain more profits while the economic and financial impact of the conflict remains uncertain, which will support its capital metrics and loss absorbing buffers. IDB distributed 30% of profits in the first and second quarters of 2023, compared to 20% up until and including the fourth quarter of 2022. Under the bank's updated dividend policy, IDB may distribute up to 40% of net profits in each quarter.

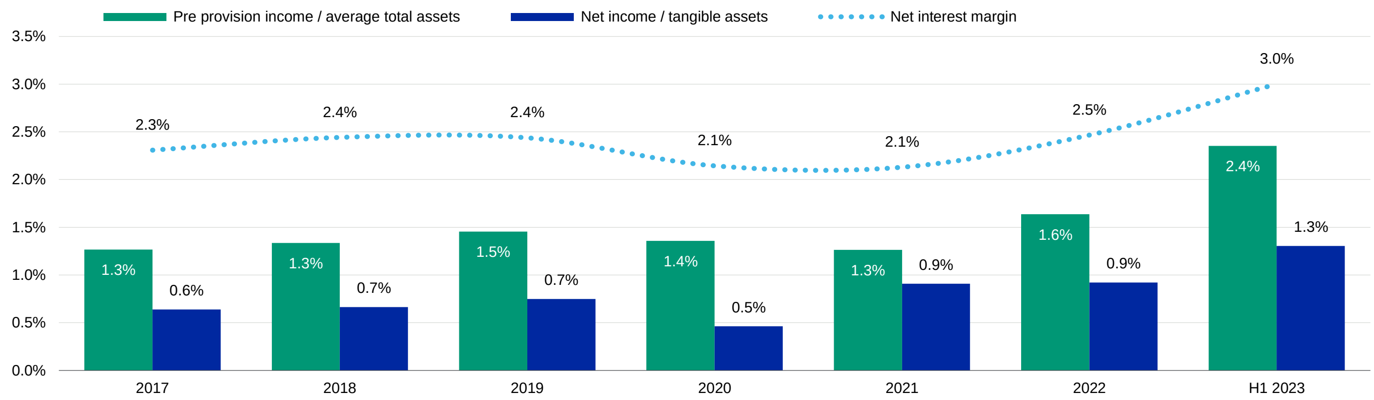
Strengthened profitability, which will decline from recent high levels

Profitability will decline from recent exceptionally high levels because of higher cost of risk, lower credit growth and support measures to customers affected by the conflict.[9]

Our assessment also incorporates IDB's moderate ongoing profitability, which consistently improved in recent years, closing the gap with its domestic peers and strengthening internal capital generation and resiliency at times of stress. IDB's profitability benefitted from the bank's several cost initiatives and a focus on controlling operating expenses, business growth in Israel, and the bank's focus on growing its credit portfolio faster than the banking system. Process improvements at IDB have reduced time to market and a number of digital initiatives can capture a broader share of the population than the bank's current clientele.

IDB reported higher than usual net income equivalent to 1.3% of tangible assets in the first six months of 2023 and 0.9% in 2022, up from an average of 0.7% between 2017 and 2019 (see Exhibit 6). The improvement in bottom-line profits was driven by strong revenue growth because of loan growth, a widening net interest margin and high CPI benefiting returns from the bank's net long CPI position (deriving mainly from CPI-linked mortgages). Profits in 2022 and 2023 also benefited from one-off profits from the sale of properties as part of the relocation of the bank's head offices and operations to a different central location.

Exhibit 6
IDB's profitability is moderate, having steadily improved in recent years



2022 and H1 2023 profits benefited from exceptional items, such as the sale of properties
Source: Moody's Investors Service

The bank's net interest margin widened to 3.0% in the first six months of 2023, from 2.5% in 2022 and 2.1% from in 2021 because of rising policy rates in Israel and the US that have allowed the bank to unlock the value from its low-cost core deposit base. Even before the crisis, we expected limited further upside from higher interest rates because of a gradual shift from current accounts to costlier time deposits.

Operating costs declined to 1.9% of assets in 2022 from over 2.5% before 2018. Although, IDB's cost base remains somewhat higher than its domestic peers whereby operating costs averaged 1.2% of assets for the other four large banks in 2022. The bank also remains committed to expanding its digital offerings by deepening collaboration with third parties and fintechs, strengthening its ability to withstand competition. Israeli authorities continue to implement measures to promote competition, including facilitating the establishment of new banks and non-bank competitors, and to lower the cost of banking services for households and small businesses.

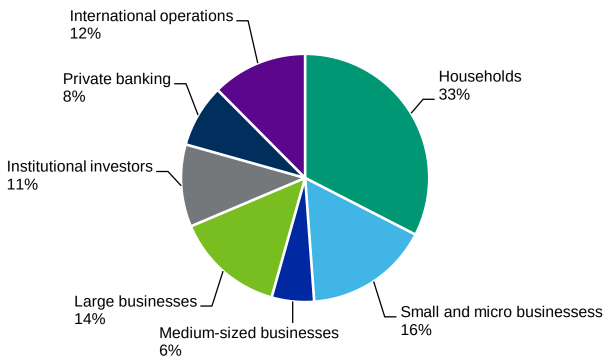
The divestment of ICC will modestly reduce IDB's scale and income diversification. However, the share of ICC profits in IDB's consolidated profits has progressively declined from around 10% in 2017 to around 5% in 2022. There will also be a transition period of three to four years for the divestment and IDB may benefit from the one-off of realising the value of its investment in ICC. Following the divestment of ICC, IDB's cost efficiency will improve and cost of risk will decline, and be further aligned with its domestic peers.

Stable deposit-based funding structure and comfortable liquidity

IDB's credit profile benefits from a stable funding structure that is driven by a domestic deposit base and with low reliance on potentially more confidence-sensitive market funding. Customer deposits accounted for 75% of total assets as of June 2023, comfortably funding the bank's loan portfolio with a net loans-to-deposits ratio of 88%. Furthermore, market funds accounted for a low 12% of tangible banking assets as of the same date[10]. We expect IDB to remain primarily deposit funded, benefitting from the strong savings culture in Israel.

Deposits are relatively granular, whereby 49% of the bank's deposit base in Israel was from households and small businesses as of June 2023 (see Exhibit 7). Our assessment also considers that foreign deposits, which could be more vulnerable to an institution-specific loss in depositor confidence, made up 12% of total deposits as of June 2023. Nevertheless, deposits from institutional and capital markets investors were 11% of total deposits, considerably lower than peers. We note that both domestic and foreign deposits had remained stable during past systemic shocks in Israel.

Exhibit 7
Granular retail deposits make up a large part of IDB's deposit base
Breakdown of deposits by segment as of June 2023



Source: Bank's financial statements

The bank also maintains comfortable liquidity buffers at 27% of tangible banking assets as of June 2023. Cash and interbank balances accounted for 14% of assets, with securities accounting for an additional 14%. The securities portfolio primarily comprises of A1-rated Israeli government securities at 64% of total, and to a lesser extent mortgage-backed and asset-backed securities of US government agencies (18% of total), while 3% of the securities portfolio were investments in shares. Our assessment also considers that part of the securities portfolio equivalent to around 7% of assets was pledged and therefore encumbered. IDB also reported a solid Liquidity Coverage Ratio at 134% and a Net Stable Funding Ratio of 122% as of June 2023, significantly above the 100% minimum requirement for each.

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

Israel Discount Bank Ltd.'s ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 8
ESG Credit Impact Score

CIS-2
Neutral-to-Low

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

Source: Moody's Investors Service

IDB's **CIS-2** indicates that ESG considerations are not material to the current ratings because a very high level of government support mitigates the impact of ESG factors. In particular, social risks for the bank have increased and are high because of the military conflict in addition to high customer relations risks.

Exhibit 9
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-3	S-4	G-2
Moderately Negative	Highly Negative	Neutral-to-Low

Source: Moody's Investors Service

Environmental

IDB 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, IDB faces growing business risks and stakeholder pressure to meet broader carbon transition goals. IDB is engaging in further developing its climate risk and relevant portfolio management capabilities and increasing its green financing.

Social

IDB 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, IDB 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

IDB faces overall low governance risks. The bank's financial strategy is transparent and conservative, under the oversight of a proactive and hands-on regulator, and its risk management is in line with industry practices and commensurate with its universal banking model. The bank also provides timely and detailed external reporting. However, the bank's US subsidiary is under increased scrutiny and has entered into consent orders with its US regulators to address identified compliance shortcomings and to enhance its policies, procedures, controls and staffing levels. The orders include a look-back review of past transactions. We will monitor the outcome of this process and any risks that may emerge.

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

IDB's A2 deposit ratings continue to incorporate three notches of government support uplift from the bank's baa2 Adjusted BCA because of our expectation of a very high probability of extraordinary support from the Israeli authorities. This assessment is based on IDB's systemic importance as one of the country's five-largest banking groups and the Israeli government's long standing practice of injecting capital into systemically important banks in case of need. A potential weakening of the sovereign's capacity to provide support, indicated by a downgrade of the Government of Israel's rating, may reduce the support uplift incorporated in the bank's ratings.

Counterparty Risk (CR) Assessment

IDB'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.

Counterparty Risk Ratings (CRRs)

IDB's CRR is A1/P-1

For jurisdictions with a non-operational resolution regime, like 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 10

Israel Discount Bank 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	1.2%	a1	↓↓	baa3	Sector concentration	Expected trend
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	10.4%	baa3	↓	ba1	Expected trend	
Profitability						
Net Income / Tangible Assets	0.9%	baa2	↓	baa3	Expected trend	
Combined Solvency Score		baa1		baa3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	9.6%	a2	↔	a3	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	28.2%	baa1	↓	baa2	Asset encumbrance	Expected trend
Combined Liquidity Score		a3		baa1		
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
Senior unsecured bank debt	0	0	baa2	3		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 11

Category	Moody's Rating
ISRAEL DISCOUNT BANK LTD.	
Outlook	Rating(s) Under Review
Counterparty Risk Rating	A1/P-1[1]
Bank Deposits	A2/P-1[1]
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A1(cr)/P-1(cr)[1]
Senior Unsecured	A2[2]

[1] Rating(s) within this class was/were placed on review on October 24 2023 [2] Placed under review for possible downgrade on October 24 2023
Source: Moody's Investors Service

Endnotes

1 IDB will need to sell ICC within a period of three years from the effective date (date of publication of the Regulations in the Official Gazette), or until the end of four years in certain circumstances, to the extent that a public offer outline would be decided upon.

2 House price growth in Israel peaked at a high 20% year-over-year as of September 2022 with fewer real estate transactions and a marginal decrease in prices in recent months.

3 The cost of risk average is for the period in the run-up to the pandemic of 2006-2019. Credit costs had increased to 0.90% in 2020 from 0.39% in 2019.

4 Based on 2022 figures

5 The measures include loan-to-value limits of 75% for sole dwellings and 70% for the rest but for non-investment purposes, a monthly repayment cap at 50% of a borrower's monthly salary and a limit on the variable-rate part of the mortgage at two-thirds of the loan. Higher risk-weights for the calculation of regulatory capital metrics for mortgages with higher loan-to-value and repayment ratios also encourage tighter underwriting.

6 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.

7 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.

8 The bank's internal capital target is established by the Board of Directors on the basis of the Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP).

9 On 15 October 2023, the BoI set out a comprehensive outline to support bank customers during this period. The measures include a 3-month deferral of loan repayments without accruing interest for a specific set of households and small businesses that are most affected by the conflict. All other bank customers can also defer repayments but with interest accruing. Individual banks are additionally offering more customised solutions.

10 Based on Moody's estimate for the bank's quarterly figures, given lack of breakdown between senior and subordinated debt. Subordinated debt is not included in Moody's definition of market funding.

REPORT NUMBER 1385910

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
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