ISRAEL DISCOUNT BANK LTD.

Registration no.: 520007030

FAO: Israel Securities Authority
www.isa.gov.il

FAO: The Tel Aviv Stock Exchange Ltd.
www.tase.co.il

T125 (Public)

Magna transmission date: February 26, 2023
Reference No.: 2023-01-020529

Supplementary Report to the Report filed on *January 26, 2023* **whose reference number is:** *2023-01-011721*

Main details added/completed: *The full rating report is attached*

<u>Immediate Report Regarding Rating of Debentures/Rating of Corporation or Withdrawal of Rating</u>

On January 17, 2023, *Other* Fitch Ratings published:

⦿ *An initial* rating report/notice

○ A withdrawal of rating notice

1. Rating report or notice

☑ Rating of Corporation: *Other* Fitch Ratings A/F1+ ___________ __________ *stable*

Comments/Nature of the Notice: *Initial rating* __________

Rating history during the three years prior to the rating/notice date:

Date	Subject of Rating	Rating	Comments/Nature of the Notice
___________	___________	___________ ___________ _________ _________ ___________	___________ ___________

☑ Rating of debentures of the Corporation

Name and Class of Security	Stock Exchange Security Registration Number	Rating Company	Current Rating	Comments/Nature of the Notice
USD Notes	*000000*	Other *Fitch Ratings*	Other *A* _________ ________ *stable*	Initial rating _________________

Rating history during the three years prior to the rating/notice date:

Name and Class of Security	Stock Exchange Security Registration Number	Date	Class of Security Being Rated	Rating	Comments/Nature of the Notice
________	________	________	________	________ _________ _________ ________ ________	_________________ _________________

Fitch Ratings' rating report is attached

2. On _________________, __________________ announced that the rating for …__________ had been withdrawn.

Details of signatories authorized to sign in the name of the Corporation:

	Name of Signatory	Position
1	*Assaf Pasternak*	*Other* *Executive Vice President, Head of Financial Markets Division*
2	*Barak Nardi*	*Other* *Executive Vice President, Head of Strategy, Finance and Holdings Division*

Reference numbers of previous documents relating to this topic (their mention does not constitute their inclusion by way of reference):

The securities of the Corporation are listed for trade on the Tel Aviv Stock Exchange Date of updating structure of form: 21/02/2023
Abbreviated name: Discount
Address: 23 Yehuda Halevi St., Tel Aviv 6513601, Israel Tel: +972-3-9439111; Fax: +972-3-5171674
Email: michal.sd@dbank.co.il

Prior names of the reporting entity:

Name of person making electronic report: Sokolov-Danoch, Michal Position: Corporate Secretary Name of Employing Company:
Address: 23 Yehuda Halevi St., Tel Aviv 6513601, Israel Tel: +972-3-5145582; Fax: +972-3-5171674 Email: michal.sd@dbank.co.il

Israel Discount Bank's Immediate Reports are published in Hebrew on the website of the Israel Securities Authority and the Tel Aviv Stock Exchange.
The English translation is prepared for convenience purposes only.
In the case of any discrepancy between the English and Hebrew versions, the Hebrew will prevail.

Israel Discount Bank Limited

Banks
Universal Commercial Banks
Israel

Key Rating Drivers

Support Drives Ratings: The Issuer Default Ratings (IDRs) of Israel Discount Bank Limited (IDB) reflect Fitch Ratings' view of a very high probability that Israel (A+/Stable/F1+) would provide support to IDB, if needed. Fitch assesses Israel's ability and propensity to support IDB as very high, particularly given the bank's systemic importance in the country, with about 15% of banking-system assets.

Universal Banking Franchise: IDB's Viability Rating (VR) reflects a good domestic universal banking franchise, improved asset quality and profitability, and adequate capitalisation and funding. While IDB is now required to reduce its shareholdings in its credit card subsidiary, Israel Credit Cards Ltd. (Cal), to improve competition, this does not significantly alter our view of IDB's business profile.

High Loan Growth: The bank grew its mortgage book by 18% in 9M22, taking market share from competitors, but we view this segment as lower-risk due to conservative underwriting standards as a result of prudent regulatory limits and close oversight. IDB has also grown construction and real estate lending, a higher-risk segment, by 12% over the same period, though demand is driven by high population growth in Israel, ultimately translating into housing credit demand, which mitigates risks.

Sound Asset Quality: Impaired loans were 0.6% of gross loans at end-September 2022, which is low compared to both domestic and international peers, but, in our view, the decrease from 0.8% at end-2021 was mainly due to high growth in mortgage loans, which have not seasoned. We expect the impaired loans ratio to be slightly higher than domestic peers' though the cycle as long as IDB owns a credit card subsidiary, but to remain below 1.5% over the next two years.

Growth, Higher Rates Benefit Earnings: Strong 27% net interest income growth yoy in 9M22 was supported by interest-rate rises and higher loan volumes. Operating profitability, which has historically been lower than peers', is benefitting from improved cost efficiency, with a Fitch-calculated cost/income ratio of 59%, compared with an average of 73% over the past decade. We expect operating profit to be above 2% of risk-weighted assets (RWA) in 2022 and 2023 based on continued, albeit slowing, net interest income improvement and improving cost controls.

Adequate Capital Buffers: Headroom in our assessment is limited, but capitalisation has remained adequate, with a 10.17% common equity Tier 1 (CET1) ratio at end-September 2022 versus its 9.19% minimum regulatory requirement. We expect the bank to manage its capitalisation proactively, particularly during periods of high growth, and to maintain current buffers over regulatory requirements.

Our capitalisation assessment also considers the bank's improved internal capital generation and its fairly high ratio of RWAs to total assets (64% at end-September 2022) given the bank uses the standardised approach to calculate credit-risk RWAs.

Sound Funding and Liquidity: IDB's 83% loan-to-deposit ratio is broadly in line with domestic and international peers. Funding benefits from the bank's stable and granular deposit base, split equally between retail and corporate deposits. Liquidity is sound, with a liquidity coverage ratio of 125% at end-9M22. IDB recently accessed international wholesale funding markets by issuing USD800 million senior unsecured notes.

IDB's 'F1+' Short-Term IDR is the higher of two possible Short-Term IDRs that map to an 'A' Long-Term IDR. This is because we view the sovereign's propensity to support as more certain in the near term.

Ratings

Foreign Currency

Long-Term IDR	A
Short-Term IDR	F1+
Viability Rating	a
Government Support Rating	a

Sovereign Risk (Israel)

Long-Term Foreign-Currency IDR	A+
Long-Term Local-Currency IDR	A+
Country Ceiling	AA

Outlooks

Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (September 2022)

Related Research

Fitch Assigns Israel Discount Bank's USD800 million Senior Notes 'A' Final Rating (January 2023)

Fitch Rates Israel Discount Bank 'A'/Stable; Senior Debt 'A(EXP)' (January 2023)

Global Economic Outlook (December 2022)

Fitch Affirms Israel at 'A+'; Outlook Stable (August 2022)

Analysts

Michael Bojko, CFA
+44 20 3530 2723
michael.bojko@fitchratings.com

Rory Rushton
+44 20 3530 1919
rory.rushton@fitchratings.com

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

IDB's IDRs are primarily sensitive to a weakening of Israel's ability or propensity to support the bank. A downgrade of Israel's Long-Term IDR would likely result in a downgrade of IDB's GSR and IDRs. A reduced propensity of the Israeli authorities to support the country's largest banks, which could be signalled by the introduction of a deposit guarantee scheme followed by effective bank-resolution legislation, would also result in a downgrade of the bank's IDRs and GSR.

A sharp deterioration of asset quality that results in an impaired loan ratio of above 2% for an extended period of time, combined with a CET1 ratio below current levels and weakening internal capital generation, could result in a VR downgrade. Given the bank's significant exposure to the construction and real estate sector, a sharp decline in real estate prices would put pressure on asset quality, and therefore on the VR.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of Israel's Long-Term IDR is unlikely to result in an upgrade of the bank's GSR and Long-Term IDR as we typically do not assign GSRs above 'a' for D-SIBs in countries whose sovereigns are rated 'AA' or 'AA-' and where support propensity is high.

An upgrade of IDB's VR is unlikely given the bank's geographical concentration unless there is a material and structural improvement in profitability that allows the bank to generate stronger and more stable operating profit/RWA while also maintaining materially higher capital ratios, which we do not expect.

Other Debt and Issuer Ratings

Rating level	Rating
Senior unsecured: long term	A

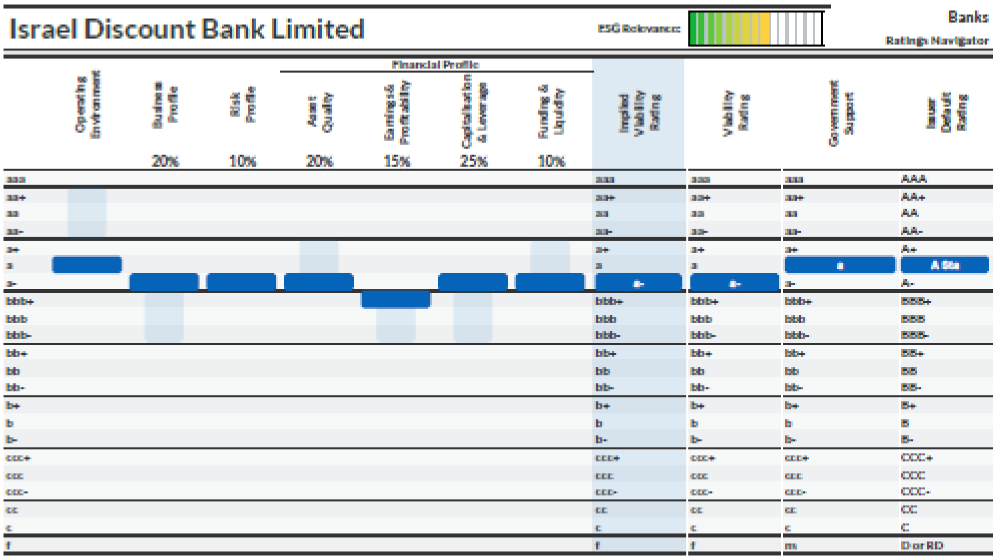
Source: Fitch Ratings

The 'A' rating of IDB's USD800 million senior unsecured notes is in line with IDB's 'A' IDR and in line with the baseline approach for senior debt ratings under our criteria. This reflects our view that a default on senior unsecured debt equates to a default of the bank. It also reflects Fitch's expectation of average recovery prospects.

Significant Changes from Last Review

On 19 January 2023, Israel's Ministry of Finance lowered the threshold for its classification of a 'bank with wide-ranging activity' to 10% of banking system assets. As IDB is now above this threshold, it will be required to reduce its shareholding in its credit card subsidiary Cal so that it no longer has a majority stake. The announcement was not unexpected and does not change Fitch's assessment of IDB's business profile. IDB will have a transition period of three to four years in which to reduce its shareholding.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The 'a' operating environment score is below the 'aa' category implied score due to the following adjustment reasons: sovereign rating (negative), size and structure of economy (negative).

The 'a-' business profile score is above the 'bbb' category implied score due to the following adjustment reason: market position (positive).

The 'a-' capitalisation & leverage score is above the 'bbb' category implied score due to the following adjustment reason: leverage and risk-weight calculation (positive).

Company Summary and Key Qualitative Factors

Business Profile

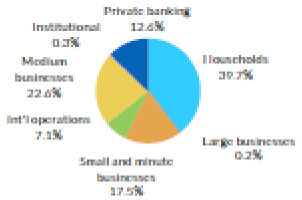
IDB is Israel's fourth-largest bank by total assets. It is publicly traded on the Tel Aviv Stock Exchange and widely held by the public, with no individual shareholders exercising significant control. Like the three other large Israeli banks, Bank Leumi Le-Israel B.M. (A/Stable), Bank Hapoalim B.M. (A/Stable) and Mizrahi Tefahot Bank Ltd (A/Stable), IDB operates a universal banking model and provides a wide range of retail, commercial and private banking services. In recent years, IDB has grown its market share of mortgage loans in particular.

In addition to its main brand, Discount Bank, which had 98 branches at end-9M22, IDB also offers banking services through its Mercantile Bank subsidiary, which had 73 branches. Mercantile has a particular focus on small business banking and on retail banking. Mercantile has its own management team but operates on IDB's IT platform. Other subsidiaries include Cal, a credit card issuer; Discount Capital Markets, an investment banking entity that also holds equity stakes in domestic private equity funds and individual non-financial companies; and Tafnit, an asset manager for retail clients and institutions.

While IDB's larger domestic peers were required to sell their credit card subsidiaries in 2019 to promote stronger competition, IDB was allowed to retain its majority control (71.8% of equity and 79% of voting rights at end-2021) of Cal. However, this decision was reviewed in January 2023, and IDB will now be required to reduce its shareholding. Cal represented about 10% of net income in 9M22, but its sale would not fundamentally alter IDB's strategy. Like the larger domestic banks, IDB would continue to receive income related to credit card distribution to its customers, limiting lost income, even if it does not own the card issuer.

Customer Loans

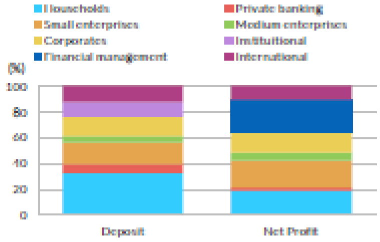
ILS236.9, end-3Q22



Results and operations of segments based on regulatory approach
Source: Fitch Ratings, IDB

Business Model

End-9M22



Results and operations of segments based on regulatory approach
Source: Fitch Ratings, IDB

Risk Profile

Loan underwriting is conservative by global standards, which is partly driven by the regulator's portfolio- and loan-level restrictions. For example, mortgage loans are limited to 75% loan-to-value (LTV) ratios for owner-occupiers, and 50% for landlords. This limits banks using underwriting standards to grow market share.

Commercial loans for the construction of residential real estate are a significant, higher-risk lending segment. The Bank of Israel (BOI) has temporarily allowed banks to increase their exposure to the construction and real estate sector (CRE) to 26% of total credit but expects banks to reduce this to the original 20% limit, beginning in 2026. In 2022 the BOI also increased capital requirements for higher LTV loans used to purchase land for development, effectively limiting these loans to 80% LTV.

Loan growth is high but has not been at the expense of maintaining sound underwriting standards. As the fourth-largest bank, IDB has opportunities to grow and gain domestic market share through improved service to attract customers from the larger banks in areas where IDB is under-represented in the market.

Exposure to market risk consists primarily of interest rate risk and consumer price index (CPI) risk in the banking book, and sensitivities to interest rate and CPI changes are subject to the bank's framework of risk limits as well as close regulatory oversight. CPI exposure is lower than peers' given IDB's lower exposure to mortgage loans. Many mortgages in Israel have a component of the loan that is linked to the CPI. A 3% decrease in CPI would reduce capital by ILS303 million, or equivalent to about 12bp of RWAs. Interest rate risk is appropriately managed, and the bank's sensitivity analysis indicates a parallel 1% decrease in interest rates would only reduce net interest income by about 10%.

IDB is also exposed to market risk through Discount Capital's investments in domestic equity funds, which totalled ILS2.1 billion at end-9M22, or just under 9% of CET1 capital; however, we do not expect equity investments to increase significantly from current levels. IDB's exposure to foreign exchange risk is higher than peers' given its international operations but is well-managed between foreign-currency assets and liabilities with derivatives used when necessary.

Class-action lawsuits, often centred on the fair treatment of retail and SME customers, are a major operational risk for Israeli banks. IDB's 9M22 auditors' review included an 'emphasis of a matter' statement as some of these lawsuits are at too early a stage to assess the probable outcome. These lawsuits often involve multiple banks and so, in our view, are typically more reflective of sector-wide operational risks.

Financial Profile

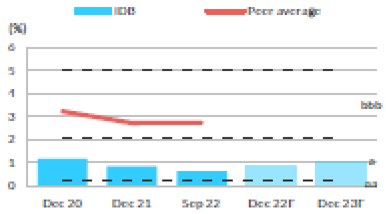
Asset Quality

Impaired loans (0.6% of gross loans at end-September 2022) is lower than peers, in our view, due to rapid credit growth, particularly in mortgage loans that have not yet seasoned. We expect the ratio to increase through 2023 but to remain below 1.5% over the next two years. As long as IDB owns a credit card subsidiary we would expect its through-the-cycled impaired loans ratio to be slightly higher than domestic peers'.

Lending to individuals represented 40% of credit exposure at end-9M22 and was split equally between mortgage loans and other retail loans (including credit cards). CRE lending, which we view as a higher-risk segment, represented 21% of credit exposure. Like peers, IDB's CRE exposure is approaching regulatory concentration limits set specifically for the sector, which has a strong demand for credit driven by Israel's high population growth and resulting demand for new housing construction in particular.

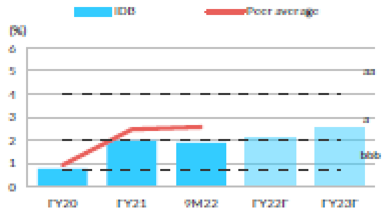
At end-9M22, 85% of IDB's loan book was domestic, and 15% was outside Israel, which is higher than that of domestic peers that have reduced their international operations in recent years. IDB's international lending is predominately in the US where IDBNY provides predominately commercial loans, of which about a third are in the construction and real estate sectors.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions

Earnings and Profitability

Loan growth and improving cost efficiency have helped IDB's risk-adjusted profitability to improve in recent years. The bank's 2.9% net interest margin in 9M22 is higher than IDB's largest domestic peers and has benefitted from significant interest rate rises, although it was strong on an international basis even in the low-rate environment due to a large base of stable and low-cost current accounts. Profitability has also benefitted from improved cost efficiency in recent years, and we expect the upside from rising interest rates and continued improvement in cost controls to support stronger risk-adjusted operating profit over the next two years.

Net interest income accounted for 69% of operating income in 9M22, although it is typically close to 60% and was elevated in 9M22 due to exceptionally strong loan growth. IDB has a higher proportion of fee income than peers because it was not required to sell its credit card subsidiary. Like peers, IDB has been slow to pass on rate rises to its depositors due to ample liquidity and its large proportion of stable current account deposits.

Our calculation of operating profit/RWAs (9M22: 1.9%) excludes one-off gains of ILS413 million on the sale of IDB's Tel Aviv office buildings ahead of a move to new joint campus for IDB and its subsidiaries. It also excludes an ILS24 million gain on the sale of shares in Visa Inc.

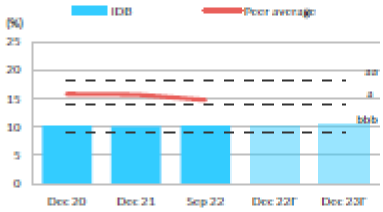
Capital and Leverage

IDB's regulatory capital requirements are 100bp lower than the two largest domestic peers (Leumi and Hapoalim) due to its smaller size. Its 98bp buffer above the 9.19% regulatory CET1 requirement at end-9M22 (including a 19bp add-on for mortgage lending) is small by international standards, but we view it as adequate given the standardised risk-weights (end-9M22 RWAs/total assets: 64%) used by the Israeli banking sector and the conservative provisioning policies required by the regulator, which reduce the risk of a sharp increases in loan impairment charges reducing capitalisation. We expect the bank to maintain management buffers over regulatory requirements around current levels over the next two years.

The CET1 ratio was boosted in March 2022 by the issuance of ILS1.4 billion of equity, which increased the CET1 ratio by 64bp in order to support growth given very high demand for mortgage loans in particular. It also mitigated the impact of interest rate rises, which reduced capital ratios due to the impact of higher rates on the securities portfolio held at fair value. While fair-value changes in the securities portfolio are mitigated by a decrease in pension liabilities, different valuation methods for the pension liabilities result in a temporary impact on capital ratios.

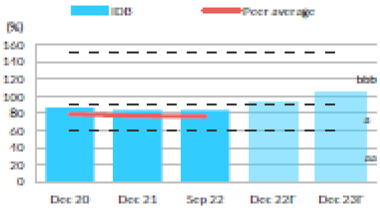
The 29bp buffer over the 12.5% total capital requirement will have increased following the issuance of an ILS463 million contingent convertible capital instrument in November 2022. IDB's 6.0% leverage ratio is similar to peers' and comfortably above the conservative 5% regulatory requirement, which supports our assessment.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions

Funding and Liquidity

Customer deposits represented 89% of non-equity funding at end-9M22, of which 51% came from retail customers, and 49% from corporate customers. Approximately half of the corporate deposits are from SMEs, which we view as particularly stable. Non-interest-bearing balances declined in 9M22 as customers moved savings to interest-bearing accounts following the BOI's interest rate increases. If interest rates increase further, as we expect, customers may increasingly consider savings alternatives, such as money market funds, which is why we expect an increase in the loans/deposits ratio. Nevertheless, we expect IDB's deposit stability and funding costs to continue to benefit significantly from its high proportion of low-cost current accounts.

Wholesale funding needs are limited given IDB's low loan-to-deposit ratio but may increase if customers spend the savings they accumulated during the pandemic and also choose to move savings to higher-returning money market funds outside the banking sector. IDB has good access to domestic-currency wholesale funding as a frequent issuer in the local debt capital market, and it also issued an USD800 million senior unsecured note in January 2023, which has further diversified its funding base.

Liquidity is sound, with an average liquidity coverage ratio of 125% in 3Q22. High-quality liquid assets of ILS80 billion represented 21% of total assets at end-9M22. They consisted almost entirely of Level 1 assets, with more than half taking the form of cash deposited with the BOI.

Additional Notes on Charts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics per Fitch's Bank Rating Criteria. They are based on a combination of Fitch's macro-economic forecasts, outlook at the sector level and company-specific considerations. As a result, Fitch's forecasts may materially differ from the guidance provided by the rated entity to the market

To the extent Fitch is aware of material non-public information with respect to future events, such as planned recapitalisations or merger and acquisition activity, Fitch will not reflect these non-public future events in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

Black dashed lines represent indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'a' category. Light-blue columns represent Fitch's forecasts.

Peer average includes Bank Hapoalim B.M. (VR: a-), Mizrahi Tefahot Bank Ltd (a-), Bank Leumi Le-Israel B.M. (a-), Ceska Sporitelna, a.s. (a), Komercni Banka, a.s. (a), Bank Pekao S.A. (bbb), Erste Group Bank AG (a), AIB Group plc (unrated), Bank of Ireland Group plc (bbb). Latest average uses 1H22 data for AIB Group plc, Bank of Ireland Group plc.

Financials

Financial Statements

	30 Sep 22		31 Dec 21	31 Dec 20	31 Dec 19	31 Dec 18
	9 months - 3rd quarter	9 months - 3rd quarter	Year end	Year end	Year end	Year end
	(USDm)	(ILSm)	(ILSm)	(ILSm)	(ILSm)	(ILSm)
	Reviewed – unqualified (emphasis of matter)	Reviewed – unqualified (emphasis of matter)	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement						
Net interest and dividend income	1,740	6,164	6,540	5,907	5,905	5,537
Net fees and commissions	719	2,547	3,125	2,826	2,972	2,851
Other operating income	48	170	858	1,178	792	606
Total operating income	2,507	8,881	10,523	9,911	9,669	8,994
Operating costs	1,482	5,250	6,858	6,681	6,299	6,148
Pre-impairment operating profit	1,025	3,631	3,665	3,230	3,370	2,846
Loan and other impairment charges	54	190	-591	1,747	721	554
Operating profit	971	3,441	4,256	1,483	2,649	2,292
Other non-operating items (net)	128	452	90	73	42	46
Tax	364	1,290	1,516	549	932	789
Net income	735	2,603	2,830	1,007	1,759	1,549
Other comprehensive income	-208	-738	-374	-418	76	156
Fitch comprehensive income	526	1,865	2,456	589	1,835	1,705
Summary balance sheet						
Assets						
Gross loans	68,475	242,606	218,860	195,952	186,506	170,414
- Of which impaired	420	1,489	1,797	2,207	1,814	1,633
Loan loss allowances	889	3,151	3,040	3,761	2,524	2,274
Net loans	67,585	239,455	215,820	192,191	183,982	168,140
Interbank	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Derivatives	3,839	13,601	5,522	6,400	4,545	3,726
Other securities and earning assets	12,533	44,406	46,285	44,832	39,116	39,522
Total earning assets	83,958	297,462	267,627	243,423	227,643	211,388
Cash and due from banks	20,183	71,510	59,638	42,936	26,044	21,858
Other assets	2,851	10,102	7,823	7,610	6,136	5,930
Total assets	106,992	379,074	335,088	293,969	259,823	239,176
Liabilities						
Customer deposits	82,068	290,766	261,253	226,462	201,631	189,173
Interbank and other short-term funding	5,576	19,757	12,534	13,268	6,765	8,012
Other long-term funding	3,808	13,491	13,219	8,392	11,309	6,662
Trading liabilities and derivatives	3,620	12,826	6,323	7,365	4,839	3,249
Total funding and derivatives	95,072	336,840	293,329	255,487	224,544	207,096
Other liabilities	4,944	17,516	17,759	16,946	14,266	12,597
Preference shares and hybrid capital	n.a.	n.a.	1,852	1,809	1,820	1,814
Total equity	6,977	24,718	22,148	19,727	19,193	17,669
Total liabilities and equity	106,992	379,074	335,088	293,969	259,823	239,176
Exchange rate		USD1 = ILS3.543	USD1 = ILS3.15	USD1 = ILS3.222	USD1 = ILS3.463	USD1 = ILS3.771

Source: Fitch Ratings, Fitch Solutions, Israel Discount Bank Limited

Key Ratios

	30 Sep 22	31 Dec 21	31 Dec 20	31 Dec 19	31 Dec 18
Ratios (annualised as appropriate)					
Profitability					
Operating profit/risk-weighted assets	1.9	2.0	0.8	1.4	1.3
Net interest income/average earning assets	2.9	2.6	2.5	2.7	2.8
Non-interest expense/gross revenue	59.3	65.4	67.8	65.3	68.4
Net income/average equity	14.7	13.4	5.2	9.5	9.2
Asset quality					
Impaired loans ratio	0.6	0.8	1.1	1.0	1.0
Growth in gross loans	10.9	11.7	5.1	9.4	11.9
Loan loss allowances/impaired loans	211.6	169.2	170.4	139.1	139.3
Loan impairment charges/average gross loans	0.1	-0.3	0.9	0.4	0.3
Capitalisation					
Common equity Tier 1 ratio	10.2	10.1	10.2	10.3	10.2
Fully loaded common equity Tier 1 ratio	n.a.	10.0	10.0	n.a.	n.a.
Tangible common equity/tangible assets	6.5	5.7	6.3	7.0	7.0
Basel leverage ratio	6.0	6.0	6.3	6.9	6.9
Net impaired loans/common equity Tier 1	-6.7	-5.7	-7.9	-3.7	-3.7
Funding and liquidity					
Gross loans/customer deposits	83.4	83.8	86.5	92.5	90.1
Liquidity coverage ratio	125.3	123.1	147.5	121.2	124.8
Customer deposits/total non-equity funding	89.4	90.4	90.6	91.0	92.0
Net stable funding ratio	121.4	126.7	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, Israel Discount Bank Limited

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	a to a-
Actual jurisdiction D-SIB GSR	a
Government Support Rating	a
Government ability to support D-SIBs	
Sovereign Rating	A+/ Stable
Size of banking system	Neutral
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Positive
Government propensity to support D-SIBs	
Resolution legislation	Neutral
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Positive
Liability structure	Positive
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

IDB's IDRs are driven by its Government Support Rating (GSR), which is in line with the domestic systemically important bank (D-SIB) GSR for Israel and reflects Fitch's view of a very high probability that Israel (A+/Stable) would provide support to IDB, if needed. Fitch believes that Israel has a strong ability to support its banking sector, and that the sovereign's propensity to support IDB is high, particularly given the bank's systemic importance in the country with a market share of about 15% of banking sector assets. IDB's 'F1+' Short-Term IDR is the higher of two possible Short-Term IDRs that map to an 'A' Long-Term IDR. This is because we view the sovereign's propensity to support as more certain in the near term.

Environmental, Social and Governance Considerations

FitchRatings **Israel Discount Bank Limited**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Israel Discount Bank Limited has 5 ESG potential rating drivers

- Israel Discount Bank Limited has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.