FitchRatings

Banks
Universal Commercial Banks
Israel

Israel Discount Bank Limited

Update

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/Negative/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 has grown its mortgage book in recent years, 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 subsector, though demand is driven by high population growth, which supports housing credit demand and mitigates risks.

Sound Asset Quality: Impaired loans were 0.8% of gross loans at end-1H24, which compares favourably to both domestic and international peers. Loan growth has been high in recent years, so we expect higher loan impairment charges as new loans season. We also expect the impaired loans ratio to be slightly higher than domestic peers through 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: Net interest income has benefitted from interest-rate rises and higher loan volumes in recent years. Operating profitability, which has historically been lower than peers', is benefitting from improved cost efficiency, with a Fitch-calculated cost/income ratio of 52% in 1H24, compared with an average of 68% over the past decade. We expect operating profit to continue to benefit from net interest income, due to higher interest rates and improving cost controls.

Adequate Capital Buffers: Headroom in our assessment is limited, but capitalisation has remained adequate, with a 10.67% common equity Tier 1 (CET1) ratio at end-1H24 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 the 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 (end-1H24: 72%), as the bank uses the standardised approach to calculate credit-risk RWAs.

Sound Funding and Liquidity: IDB's 91% loans/deposits ratio is higher than its largest domestic peers, but broadly in line with 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 133% at end-1H24.

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
Long-Term IDR (xgs)	A-(xgs)
Short-Term IDR (xgs)	F2(xgs)
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	Negative
Sovereign Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Local-Currency IDR	Negative

Applicable Criteria

Bank Rating Criteria (March 2024)

Related Research

Global Economic Outlook (September 2024)

Fitch Downgrades 4 Israeli Banks to 'A-'/Negative/'F1' after Sovereign Action (August 2024)

Fitch Downgrades Israel to 'A'; Outlook Negative (August 2024)

Fitch Removes Four Israeli Banks from Rating Watch Negative; Affirms at 'A', Outlook Negative (April 2024)

Fitch Maintains Israel Discount Bank's 'A' IDR on Rating Watch Negative (December 2023)

Fitch Places Four Israeli Banks on RWN after Sovereign Action (October 2023)

Fitch Places Israel's 'A+' IDRs on Rating Watch Negative (October 2023)

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Rating Sensitivities

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

A further downgrade of the sovereign ratings would result in a downgrade of IDB's Long-Term IDR and senior debt ratings if accompanied by a downgrade of the bank's VRs.

A sharp deterioration of asset quality that results in an impaired loan ratio of above 2% for an extended period, combined with the CET1 declining below current levels and weakening internal capital generation, could result in a VR downgrade. Given the bank's significant exposure to the 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 IDB's IDRs is unlikely due to the Negative Outlook on the sovereign's Long-Term IDR. We would revise the Outlook to Stable if the sovereign Outlook is changed to Stable.

An upgrade of IDB's VR is unlikely given the bank's geographical concentration and would require a material and structural improvement in profitability that allows the bank to generate stronger and more stable operating profit/RWAs ratio, 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 rating of IDB's USD800 million senior unsecured notes is in line with IDB's IDR and 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

IDB reported improved profitability in 1H24, with an annualised operating profit/RWAs ratio of 2.4%, which is higher than the past three financial years. Asset quality has proven resilient, and the impaired loans ratio fell to 0.8% at end-1H24 (end-2023: 0.9%).

Capitalisation is stable, and the CET1 ratio has benefitted from the regulator's directive for banks to limit shareholder distributions due to the war. The loans/deposits ratio has increased to 91%, but liquidity remains strong.

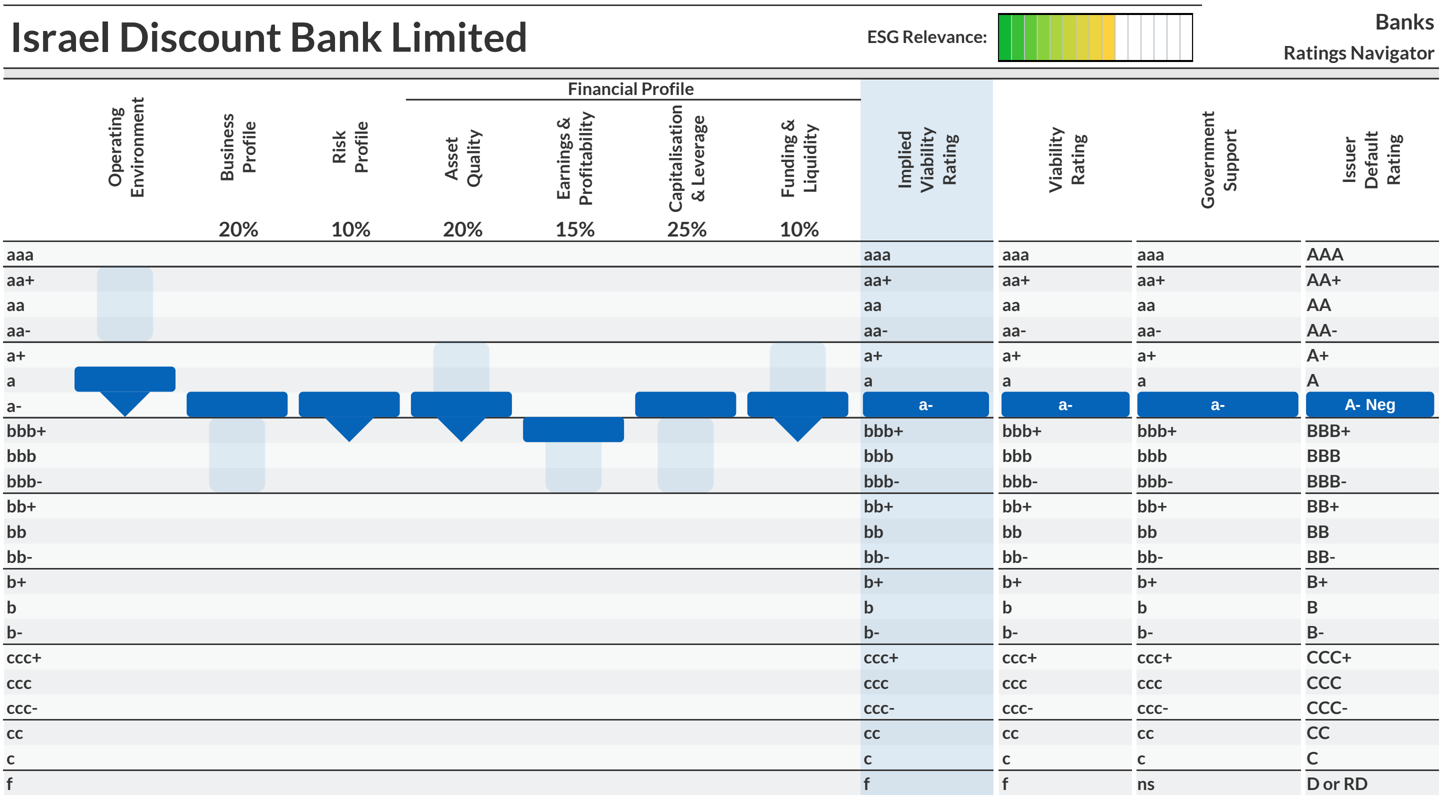
In August 2024, IDB announced the sale of a 15% equity stake in its US subsidiary, Israel Discount Bank of New York (IDBNY) to an investment fund. Given IDBNY's small size compared to the wider group, this does not affect our assessment of IDB.

Sovereign Downgrade

On 15 August 2024 we downgraded IDB's support-driven Long-Term IDR to 'A-' from 'A' following a downgrade of the sovereign rating. The Negative Outlook on the Long-Term IDR reflects that on the sovereign's Long-Term IDR.

The sovereign downgrade reflected the impact of the continuation of the war in Gaza, and the lower sovereign rating reflects a weakened ability to support the banking sector. Our assessment of the propensity of the Israeli sovereign to support the banking sector has not changed.

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 operating environment score has been assigned below the implied score due to the following adjustment reasons: sovereign rating (negative), size and structure of economy (negative)

The business profile score has been assigned above the implied score due to the following adjustment reason: market position (positive)

The capitalisation & leverage score has been assigned above the implied score due to the following adjustment reason: leverage and risk-weight calculation (positive).

Financials

Financial Statements

	30 Jun 24		31 Dec 23	31 Dec 22	31 Dec 21
	6 months - interim	6 months - interim	Year end	Year end	Year end
	(USDm)	(ILSm)	(ILSm)	(ILSm)	(ILSm)
	Reviewed – unqualified (emphasis of matter)	Reviewed – unqualified (emphasis of matter)	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	1,435	5,396	10,956	8,707	6,540
Net fees and commissions	471	1,772	3,495	3,404	3,125
Other operating income	173	650	1,302	499	858
Total operating income	2,080	7,818	15,753	12,610	10,523
Operating costs	1,077	4,049	7,966	7,217	6,858
Pre-impairment operating profit	1,003	3,769	7,787	5,393	3,665
Loan and other impairment charges	96	361	1,607	467	-591
Operating profit	907	3,408	6,180	4,926	4,256
Other non-operating items (net)	n.a.	n.a.	415	421	90
Tax	343	1,289	2,316	1,806	1,516
Net income	564	2,119	4,279	3,541	2,830
Other comprehensive income	67	253	457	-734	-374
Fitch comprehensive income	631	2,372	4,736	2,807	2,456
Summary balance sheet					
Assets					
Gross loans	73,281	275,463	266,014	246,887	218,860
- Of which impaired	599	2,253	2,384	1,520	1,797
Loan loss allowances	1,108	4,164	4,214	3,209	3,040
Net loans	72,173	271,299	261,800	243,678	215,820
Derivatives	2,748	10,330	11,106	11,420	5,522
Other securities and earning assets	16,521	62,102	61,490	47,003	46,285
Total earning assets	91,442	343,731	334,396	302,101	267,627
Cash and due from banks	12,345	46,404	51,115	65,713	59,638
Other assets	2,968	11,157	10,213	8,940	7,823
Total assets	106,755	401,292	395,724	376,754	335,088
Liabilities					
Customer deposits	80,688	303,307	297,673	292,410	261,253
Interbank and other short-term funding	5,430	20,412	23,970	19,115	12,534
Other long-term funding	4,836	18,177	15,491	12,308	13,219
Trading liabilities and derivatives	2,299	8,641	10,469	9,348	6,323
Total funding and derivatives	93,253	350,537	347,603	333,181	293,329
Other liabilities	5,220	19,621	18,883	18,095	17,759
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	1,852
Total equity	8,283	31,134	29,238	25,478	22,148
Total liabilities and equity	106,755	401,292	395,724	376,754	335,088
Exchange rate		USD1 = ILS3.759	USD1 = ILS3.627	USD1 = ILS3.519	USD1 = ILS3.15

Source: Fitch Ratings, Fitch Solutions, IDB

Key Ratios

	30 Jun 24	31 Dec 23	31 Dec 22	31 Dec 21
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.4	2.3	2.0	2.0
Net interest income/average earning assets	3.2	3.4	3.1	2.6
Non-interest expense/gross revenue	51.9	50.5	57.4	65.4
Net income/average equity	14.1	15.6	14.7	13.4
Asset quality				
Impaired loans ratio	0.8	0.9	0.6	0.8
Growth in gross loans	3.6	7.8	12.8	11.7
Loan loss allowances/impaired loans	184.8	176.8	211.1	169.2
Loan impairment charges/average gross loans	0.3	0.6	0.2	-0.3
Capitalisation				
Common equity Tier 1 ratio	10.7	10.7	10.3	10.1
Fully loaded common equity Tier 1 ratio	10.6	10.6	10.1	10.0
Tangible common equity/tangible assets	7.7	6.5	5.9	5.7
Basel leverage ratio	6.9	6.7	6.2	6.0
Net impaired loans/common equity Tier 1	-6.2	-6.3	-6.7	-5.7
Funding and liquidity				
Gross loans/customer deposits	90.8	89.4	84.4	83.8
Liquidity coverage ratio	132.6	130.7	130.5	123.1
Customer deposits/total non-equity funding	88.7	88.3	90.3	90.4
Net stable funding ratio	121.0	122.3	124.8	126.7

Source: Fitch Ratings, Fitch Solutions, IDB

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	a- or bbb+
Actual jurisdiction D-SIB GSR	a-
Government Support Rating	a-
Government ability to support D-SIBs	
Sovereign Rating	A/ Negative
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 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 would provide support to IDB, if needed. Fitch believes Israel's ability and propensity to support IDB are very high, particularly given IDB's systemic importance in the country with a market share of about 15% of banking-sector assets.

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.

			ESG Relevance to Credit Rating
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) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
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

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.h 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), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
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) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
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

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.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

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