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: Dec. 22, 2022
Reference No.: 2022-01-153994

Immediate Report Regarding Rating of Debentures/Rating of Corporation or Withdrawal of Rating

On December 21, 2022, *Other* Moody's published:

⦿ *An updated* rating report/notice

○ A withdrawal of rating notice

1. Rating report or notice
☑ Rating of Corporation: *Other* Moody's – A2 Rating ________ __________ *stable*
Comments/Nature of the Notice: *Other* See note below

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

Date	Subject of Rating	Rating	Comments/Nature of the Notice
29/06/2022	*Israel Discount Bank Ltd.*	*other Moody's A2 rating* ________ ________ *stable*	*Other* *See note below*
14/12/2021	*Israel Discount Bank Ltd.*	*other Moody's A2 rating* ________ ________ *stable*	*Rating affirmation* ________
15/06/2021	*Israel Discount Bank Ltd.*	*other Moody's A2 rating* ________ ________ *stable*	*Rating upgrade* ________
19/01/2021	*Israel Discount Bank Ltd.*	*other Moody's A3 rating* ________ ________ *positive*	*Rating affirmation* ________
02/07/2020	*Israel Discount Bank Ltd.*	*other Moody's A3 rating* ________ ________ *positive*	*Rating affirmation* ________
19/12/2019	*Israel Discount Bank Ltd.*	*other Moody's A3 rating* ________ ________ *positive*	*Outlook/Forecast upgrade* ________

☐ 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
________	________	________ ________	________ ________ ________ ________ ________	________________ ________________

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
________	________	________	________	________ ________ ________ ________ ________	________________ ________________

The 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 On _______________, ________________ announced that the rating for …_________ had been withdrawn.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*

Note to rating reports dated December 21, 2022 and June 29, 2022 – Credit Opinion upgrade

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: 13/12/2022
Abbreviated name: Discount
Address: 23 Yehuda Halevi St., Tel Aviv 6513601, Israel Tel: 972-3-943911; 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.

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
21 December 2022

Update

Send Your Feedback

RATINGS

Israel Discount Bank Ltd.

Domicile	Tel Aviv, Israel
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	A2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

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.

Contacts

Alexios Philippides +357.2569.3031
VP-Senior Analyst
alexios.philippides@moodys.com

Corina Moustra +357.2569.3003
Associate Analyst
corina.moustra@moodys.com

Henry MacNevin +44.20.7772.1635
Associate Managing Director
henry.macnevin@moodys.com

Nick Hill +33.1.5330.1029
MD-Financial Institutions
nick.hill@moodys.com

Israel Discount Bank Ltd.

Update to credit analysis

Summary

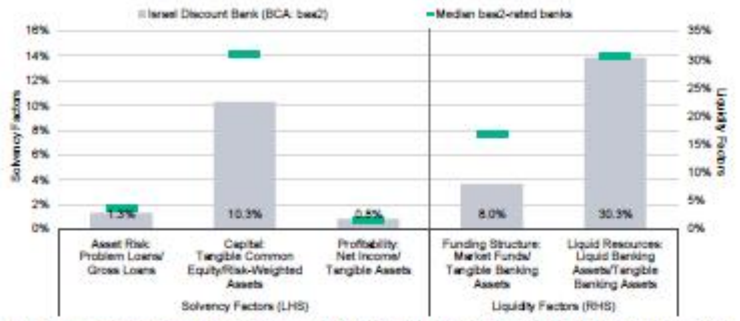
Israel Discount Bank Ltd. (IDB)'s A2 long-term deposit ratings reflect (1) the bank's baa2 Baseline Credit Assessment (BCA); and (2) three notches of rating uplift based on our assessment of a very high probability of support from the Government of Israel (A1 positive), in case of need.

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

At the same time, IDB's standalone BCA reflects (1) adequate but modest capital buffers, with a tangible common equity (TCE)/risk-weighted assets (RWAs) ratio of 10.3% as of September 2022, below similarly-rated international peers mainly reflecting Bank of Israel's (BoI, the central bank) more conservative risk-weighting; (2) somewhat higher operating cost base compared to peers, despite substantial improvement in recent years; and (3) downside risks from a significant exposure concentration to the Israeli property market, and potential geopolitical events.

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
- Strong asset quality
- Strengthened profitability, supported by enhanced efficiency and widening margins
- Very high likelihood of government support, in case of need, underpins the deposit ratings

Credit challenges

- Exposure concentration in real estate and geopolitical tensions are downside risks
- Modest risk-weighted capitalisation, but moderate leverage
- Operating cost base remains higher than peers

Outlook

The stable outlook on IDB's long-term ratings reflects our expectation that the bank will sustain recent profitability improvements and will continue to moderate asset risk by growing into lower risk segments, and that its capital will remain broadly stable.

Factors that could lead to an upgrade

- IDB's ratings could be upgraded following a combination of both stronger sovereign creditworthiness and an improvement in the bank's standalone credit profile.
- The bank's standalone BCA could be upgraded following (1) materially strengthened capital; and (2) a sustained improvement in the bank's recurring profitability beyond what we currently expect, without an increase in the credit risk profile.

Factors that could lead to a downgrade

- Downward pressure could be exerted on IDB's ratings if operating conditions deteriorate, for example in case a real estate price correction, higher unemployment and an economic slowdown lead to a material weakening in asset quality.
- If the bank's capitalisation declines from current levels or if the bank does not sustain the ongoing improvements in its profitability and efficiency, or the reduction in asset risk, there could also be negative pressure on the ratings.
- There could also be negative rating pressure if we consider that the government's willingness or capacity to provide support has materially declined.

Key indicators

Exhibit 2

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

	09-22[2]	12-21[2]	12-20[2]	12-19[2]	12-18[2]	CAGR/Avg.[3]
Total Assets (ILS Million)	379,074.0	335,088.0	293,969.0	259,823.0	239,176.0	13.1[4]
Total Assets (USD Million)	106,569.8	107,913.6	91,556.3	75,223.8	64,006.4	14.6[4]
Tangible Common Equity (ILS Million)	25,333.0	21,068.0	18,189.3	18,127.0	17,142.0	11.0[4]
Tangible Common Equity (USD Million)	7,121.9	6,784.9	5,665.0	5,248.1	4,587.4	12.4[4]
Problem Loans / Gross Loans (%)	0.7	1.4	1.9	1.2	1.2	1.3[5]
Tangible Common Equity / Risk Weighted Assets (%)	10.3	9.6	9.1	9.6	9.8	9.7[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	5.6	13.1	17.2	11.1	10.7	11.5[5]
Net Interest Margin (%)	2.4	2.1	2.1	2.4	2.4	2.3[5]
PPI / Average RWA (%)	2.3	1.9	1.9	2.0	1.8	2.0[6]
Net Income / Tangible Assets (%)	0.9	0.9	0.5	0.7	0.7	0.7[5]
Cost / Income Ratio (%)	55.9	62.8	61.7	63.0	65.9	61.8[5]
Market Funds / Tangible Banking Assets (%)	10.7	8.0	8.5	6.2	5.4	7.8[5]
Liquid Banking Assets / Tangible Banking Assets (%)	29.1	30.3	29.1	24.6	24.7	27.5[5]
Gross Loans / Due to Customers (%)	83.4	83.8	86.5	92.5	90.1	87.3[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 NIS379 billion (around $107 billion) as of September 2022. 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 171 branches in Israel as of the end of September 2022. 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 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 will be taken by February 2023 on whether IDB will also be required to divest of ICC.[1] For the first nine months of 2022, ICC's contribution accounted for 6.5% of IDB's consolidated profits.

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, which will be supported by an increasing focus on residential mortgages; exposure concentration in real estate and geopolitical tensions are downside risks

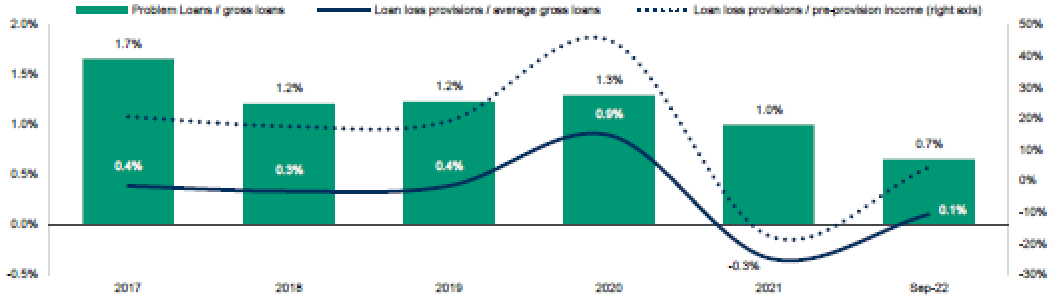
Our assigned baa3 Asset Risk score for IDB considers its currently strong asset quality and recent contained credit losses. Our assessment also takes into account the bank's higher than peer-average loan growth in recent years (loans grew by a compound annual rate of 9% over the period 2016-2021) and exceptionally high growth recently (loans grew by 16% year-over-year in September) that drives some unseasoned risk and its previous through-the-cycle performance that had been relatively weaker than its peers. But 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. Similarly to peers, IDB is exposed to downside risks from its large and growing exposure to Israel's real estate market through its portfolio along with high and rising property prices, and potential geopolitical tensions.

IDB's problem loans (defined as non-accruing loans and accruing loans that are more than 90 days overdue) to gross loans were 0.7% as of September 2022, lower than their pre-pandemic level (end-2019: 1.2%, see Exhibit 3), a reflection of strong lending growth and limited defaults. We expect higher problem loan formation going forward from the impact of higher interest rates, inflation and the global economic slowdown on borrowers and as newly originated loans season. But, we expect the bank's asset quality to remain strong overall, supported by Israel's more favourable economic conditions, such as a tight labour market, still close to potential growth in 2023 of 3.2% and more contained inflationary pressure than in other advanced economies.

Exhibit 3

IDB's asset quality is strong, with a low level of problem loans and contained credit losses in recent years

Evolution of problem loans and credit costs

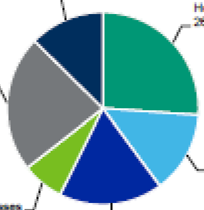


Sources: Bank's financial statements; Moody's Investors Service

We also expect IDB's credit costs (loan loss provision expenses to average gross loans) to normalise closer although below their historic average of 0.5%[2], which includes an entire economic cycle but also a smaller historical proportion of lower-risk housing loans. Following significant provision charge-backs in 2021 equivalent to 0.3% of gross loans, credit costs increased to 0.1% in the first nine months of 2022, mainly driven by an increase in group provisions owing to a revision in macroeconomic expectations and strong loan growth. Provided IDB continues to consolidate a credit card company, its credits costs, as in the past, will likely exceed the domestic peer average.

We expect asset risk in IDB's loan portfolio to reduce over time, reflecting an increasing share of relatively lower-risk residential mortgages. Housing loans, a key strategic focus for the bank, grew by a high 26% year-over-year and accounted for 26% of the bank's loan book as of September 2022 (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 one exposure to a borrower group slightly exceeding 15% of its capital as of September 2022.

Exhibit 4
IDB's loan book diversification has improved
Loan book breakdown as of September 2022 (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 15% of total lending as of September 2022, exposes the bank to the risk of a sharp property price correction and a reduced ability of borrowers to service their loans.

House prices in Israel have risen at a rapid rate, growing by 19% year-over-year as of August 2022, the highest pace since 2010, increasing the risk of a correction because of a rising supply of housing units from increased housing starts, and cooling demand as some households are priced out of the market. But, any near-term price correction would be limited because of ongoing demand from a young and growing population. Additionally, banks are at risk from higher unemployment and a jump in interest rates. For housing loans, risks are mitigated by bank's full recourse to the borrowers and a strong repayment culture, macroprudential measures[3], which enforce tight underwriting standards, and high capital buffers against mortgages.

We see significantly higher risk in financing of the construction and real estate sector. Higher interest rates, inflation and volatile prices of raw materials may strain the repayment capacity of some borrowers, particularly if there is also a drop in property prices. The BoI has taken steps to contain these risks. The regulator has instructed banks to scale up their monitoring of borrowers, improve and expand reporting on their exposure to the sector, and increase their collective provisions against performing exposures. It has also asked banks to allocate more capital towards riskier exposures by risk weighting new and outstanding loans for land acquisition with a loan-to-value exceeding 80% at 150%, up from 100%.[4]

The bank's construction and real estate exposure, although lower than most of its domestic peers, grew by a high 15% year-over-year as of September 2022 because of strong demand. We expect the pace of exposure growth to moderate going forward, given higher interest rates and property prices. Most of the bank's real estate exposure involved the funding of closed residential construction projects where risk is mitigated by close oversight[5]. Residential projects made up 37% of the total credit risk in the sector as of September 2022, while income generating properties for 24%. A significant part, around 20%, of the exposure to the sector was for the acquisition of land for construction where projects will take several years to complete and there is a risk that they may become uneconomical over time.

Similarly to other Israeli banks, IDB's asset quality would be vulnerable to the downside risk of geopolitical tensions, and particularly any large-scale event, that can compromise business confidence and economic activity.

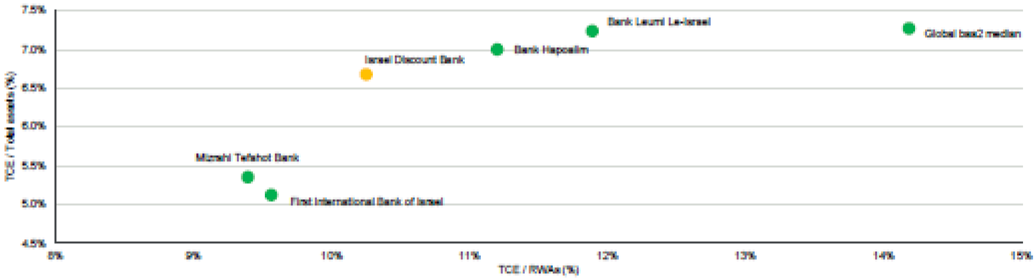
Modest risk-weighted capitalisation, but moderate leverage

We view IDB's risk-weighted capitalisation as adequate but modest compared to the global median for similarly-rated banks. However, IDB's loss-absorption buffers are supported by conservative regulatory risk-weights, especially on mortgage lending, 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 10.3% as of September 2022, 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 6.0% as of September 2022, above the 4.5% minimum regulatory requirement[6]. Its TCE-to-total assets ratio was 6.7% 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



Data for IDB is as of September 2022, for the other Israeli banks as of June 2022
Source: Moody's Investors Service

IDB reported a Common Equity Tier 1 (CET1) ratio of 10.17% as of September 2022, staying broadly stable from the reported 10.14% at the end of 2021 and substantially exceeding the 9.19% minimum regulatory requirement and also the bank's own internal minimum threshold of 9.75%.[7]

Capital metrics were steady despite an unrealised loss in the bank's available-for-sale bond portfolio from a rise in yields during the first nine months of 2022 that reduced the CET1 ratio by around 50 basis points, net of the positive effect from a decrease in actuarial liabilities for employee benefits, and exceptionally strong loan growth of 11% over the same period.

A capital raising of around NIS1.4 billion in the first quarter of 2022, along with strengthened profitability, and a sale of loans and RWA management allowed IDB to maintain steady capital levels, and therefore continue to benefit from strong loan growth and distribute profits. IDB distributed 20% of profits in each of the last three quarters, in line with the bank's dividend policy whereby IDB may distribute up to 30% of net profits in each quarter.

Looking ahead we expect the bank's capital buffers to remain broadly stable over the next 12-18 months reflecting adequate internal capital generation from stronger profitability, balancing growth targets, profit distribution to shareholders and regulatory developments. For example, IDB estimated the higher risk weight on financing land acquisition at high loan-to-value would reduce its CET1 by 5 basis points with the impact spread until the second quarter of 2023. IDB also transferred around NIS4.5 billion in bonds from the available-for-sale portfolio to the held-to-maturity portfolio in the second quarter of 2022 that will help moderate the volatily on capital from a re-valuation of the bond portfolio.

Strengthened profitability supported by enhanced efficiency and widening margins; cost base remains higher than peers

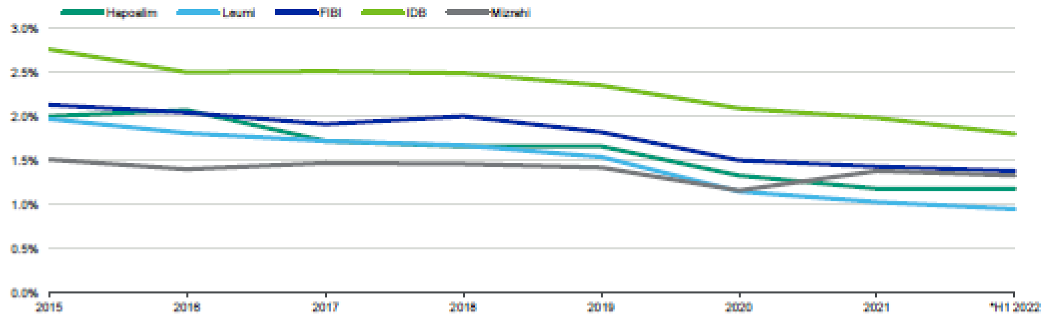
IDB's ongoing profitability is moderate, having consistently strengthened in recent years, closing the gap with its domestic peers and strengthening internal capital generation and resiliency at times of stress. We expect IDB's profitability will continue to benefit from higher policy interest rates and ongoing focus on controlling operating expenses over the coming quarters, as well as business and income growth because of Israel's robust economic growth potential, process improvements at the bank that have reduced time to market and a number of digital initiatives that can capture a broader share of the population than the bank's current clientele. Large past efficiency initiatives by IDB have significantly reduced its operating expenses. The bank's cost base remains, however, somewhat higher than both domestic and global peers, partly because IDB consolidates a credit card company.

IDB reported net income equivalent to 0.88% of tangible assets in the first nine months of 2022, 0.77% excluding the one-off gains from the sale of real estate properties, broadly at the same level as 2021 and up from 0.5% in 2020. The improvement in bottom-line profits was driven by strong revenue growth because of loan growth, a widening net interest margin and higher CPI benefiting returns from the bank's net long CPI position (deriving mainly from CPI-linked mortgages). The bank's net interest margin increased to 2.4% in the nine months to September 2022 from 2.1% in 2021. Credit costs increased against provision releases in 2021, but remained low.

The impact from gradually rising policy rates in Israel and the US will be net positive on IDB's bottom-line profitability. Higher interest rates will allow the bank to unlock value from its low-cost core deposit base, supporting its net interest margin and increasing net interest income, while the bank's earnings continue to benefit from higher CPI, although credit growth will moderate and credit costs will increase somewhat because of reduced loan affordability from the higher interest rates. These trends will likely allow the bank to reach its strategic goals of a return on equity of 12.5% and a cost-to-income ratio of 55% by 2025, earlier than initially expected.

Profitability strengthened in recent years supported by numerous cost efficiency initiatives[8] and strong business growth, with the bank's net income to tangible assets ratio averaging 0.7% for the period 2017-2019 compared to an average of 0.4% for the period 2014-2016. Operating costs declined further to 1.8% of assets in the first nine months of 2022, from 2.0% in 2021[9] and over 2.5% before 2018 (see Exhibit 6), although IDB's cost base remains somewhat higher than its domestic peers. We expect the bank to maintain its tight control of costs against operating expense inflation because of high CPI.

Exhibit 6
IDB's cost base has declined substantially in recent years, but remains higher than its domestic peers
Operating expenses / Total assets



Moody's adjusted figures, IDB's latest figure is for 9M 2022. Figures also exclude provisions related to US investigations into tax evasion schemes and other litigation costs
Source: Moody's Investors Service

Revenue growth will also remain a key strategic pillar, driven by focus on mortgages and middle-market corporates. The bank also remains committed to expanding its digital offerings by deepening collaboration with third parties and fintechs, strengthening its ability to withstand competition. Competition by providers of financial services in Israel is intensifying as 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 including expanding caps on fees and providing more transparency and comparability on interest rates and costs. This year, the BoI removed restrictions from the license of a newly established digital-only bank after it completed its pilot launch last year, the first new bank to be licensed in Israel in over four decades. The authorities may also require IDB to divest its credit card company ICC, with an aim to increase competition.

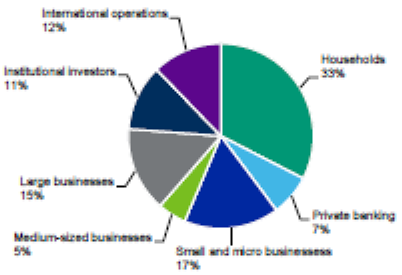
A potential divestment of ICC will modestly reduce IDB's scale and income diversification. However, the share of ICC profits in IDB's consolidated profits has progressively declined from around 10% in 2017 to only around 6.5% in the first nine months of 2022. There will also be a transition period for any potential divestment and IDB will likely benefit from the one-off of realising the value of its investment in ICC. Following any 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 growing and sticky deposit-based funding structure, with low reliance on potentially more confidence-sensitive market funding. Customer deposits accounted for 77% of total assets as of September 2022, comfortably funding the bank's loan portfolio with a net loans-to-deposits ratio of 82%. Customer deposits grew by a strong 18% year-over-year as of September 2022. Furthermore, market funds accounted for only 11% 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 September 2022 (excluding private banking deposits; 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 September 2022. 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 September 2022



Source: Bank's financial statements

The bank also maintains comfortable liquidity buffers at 29% of tangible banking assets as of September 2022. Cash and interbank balances accounted for 19% of assets, with securities accounting for an additional 11%. The securities portfolio primarily comprises of A1-rated Israeli government securities at 58% of total, and to a lesser extent mortgage-backed and asset-backed securities of US government agencies (21% of total), while 4% of the securities portfolio were investments in shares. Our assessment also considers that part of the securities portfolio equivalent to around 4% of assets was pledged and therefore encumbered. IDB also reported a solid Liquidity Coverage Ratio at 125% and a Net Stable Funding Ratio of 121% as of September 2022, significantly above the 100% minimum requirement for each.

Source of facts and figures cited in this report

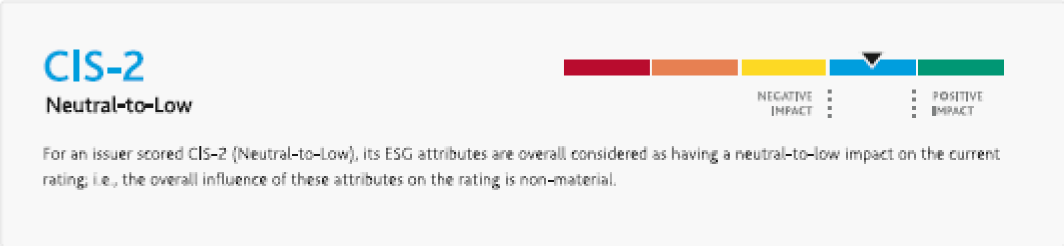
Unless noted otherwise, we have sourced data relating to systemwide trends and market shares from the central bank. Bank-specific figures originate from the banks' reports and are based on our own chart of accounts and may be adjusted for analytical purposes. Please refer to Financial Statement Adjustments 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

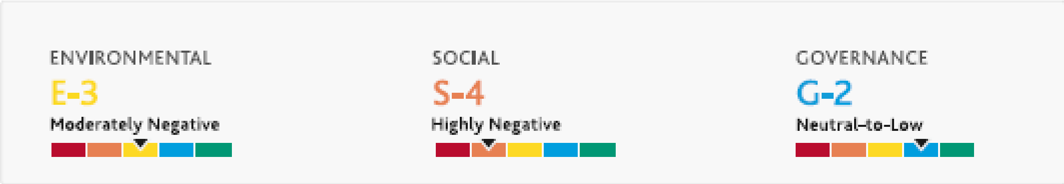


Source: Moody's Investors Service

IDB's ESG Credit Impact Score is neutral-to-low (**CIS-2**). This reflects the limited credit impact from environmental and social risk factors on the ratings to date, as well as, neutral-to-low governance risks.

Exhibit 9

ESG Issuer Profile Scores



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 from customer relations, similarly to banks globally, and there is a growing focus on consumer protection in Israel. High cyber and personal data risks are mitigated by a sound IT framework. A relatively young and growing population in Israel affords business opportunities for the bank. However, the authorities are taking steps to promote competition and to reduce the cost of financial services for households and small business, which will weigh on the bank's profitability. Strict labour laws and strong employee unions in Israel limit staffing flexibility and drive up costs. The bank has reduced employee posts through successive early retirement plans and implements stringent cost control, which has allowed it to mitigate these challenges.

Governance

IDB faces neutral-to-low governance risks, and its risk management, policies and procedures are in line with industry practices and commensurate with its universal banking model, while the bank provides timely and detailed external reporting. The bank's financial strategy is conservative, under the oversight of a proactive and hands-on regulator.

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 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.

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	1.3%	a1	↔	baa3	Sector concentration	Loan growth	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	10.3%	baa3	↓	ba1	Expected trend		
Profitability							
Net Income / Tangible Assets	0.8%	baa2	↓	baa3	Expected trend		
Combined Solvency Score		baa1		baa3			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	8.0%	a2	↔	a3	Deposit quality		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	30.3%	a3	↓	baa1	Expected trend	Asset encumbrance	
Combined Liquidity Score		a2		a3			
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

[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	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A1(cr)/P-1(cr)

Source: Moody's Investors Service

Endnotes

1 A period of two years began on 1 February 2021, ending on 1 February 2023, during which the Minister of Finance may order ICC to be separated from IDB.

2 The cost of risk average is for the period in the run-up to the pandemic of 2006-2019. Credit costs had increased to 0.9% in 2020 from 0.4% in 2019.

3 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 month 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.

4 The regulation relates to land acquired for the purpose of development of construction. This excludes agricultural land with no planning horizon or without a request for planning consent; and acquisition of land that is designated for self-use in case of the borrower not being classified in the construction and real estate sector.

5 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.

6 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.

7 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).

8 The bank had taken numerous efficiency initiatives, such as reducing headcount by 18% between 2014 and 2021 through successive early retirement plans and a reduction in the number of branches and real estate space. The bank is also in the process of relocating its headquarters out of Tel Aviv and into a less expensive location.

9 Including higher provision for bonuses due to improved financial performance in 2021 and 2022, and excluding the cost of the early retirement plan in 2021.

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 1351277

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Moody's
INVESTORS SERVICE