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: January 22, 2023 Reference No.: 2023-01-010014

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

On January 19, 2023, *Other* Standard & Poor's published:

⦿ *An updated* rating report/notice

○ A withdrawal of rating notice

1. Rating report or notice
☑ Rating of Corporation: *Other* Standard & Poor's Rating BBB+ _______ ________ *positive*
Comments/Nature of the Notice: *Rating affirmation* ________

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

Date	Subject of Rating	Rating	Comments/Nature of the Notice
02/11/2022	*Israel Discount Bank Ltd.*	*Other Standard & Poor's BBB+ ________ ________ positive*	*Rating affirmation ________*
20/01/2022	*Israel Discount Bank Ltd.*	*Other Standard & Poor's BBB+ ________ ________ positive*	*Outlook/Forecast upgrade ________*
23/01/2021	*Israel Discount Bank Ltd.*	*Other Standard & Poor's BBB+ ________ ________ stable*	*Rating affirmation ________*
07/05/2020	*Israel Discount Bank Ltd.*	*Other Standard & Poor's BBB+ ________ ________ stable*	*Outlook/forecast downgrade ________*

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

S&P Global's 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 On ________________, ________________________ announced that the rating for …_________ had been withdrawn.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	*Barak Nardi*	*Other* *Executive Vice President, Head of Planning, Strategy, Finance and Holdings Division*
2	*Assaf Pasternak*	*Other* *Executive Vice President, Head of Financial Markets 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: 29/12/2022

Abbreviated name: Discount

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Email: michal.sd@dbank.co.il

Prior names of the reporting entity:

Name of person making electronic report: Tenne, Ayelet Position: Lawyer, General Secretary Name of Employing Company:
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S&P Global
Ratings

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Research Update:

Israel Discount Bank And IDB NY Affirmed At 'BBB+' On Improved Earnings Countering Risks; Outlooks Still Positive

January 19, 2023

Overview

- Improving efficiency, a strengthened business franchise, and recent interest rate increases will support Israel Discount Bank Ltd.'s (IDB's) earnings and capital build-up.
- Nevertheless, deteriorating economic conditions and IDB's recent rapid lending growth could undermine earnings and improvements in its capital base.
- We therefore affirmed our 'BBB+/A-2' ratings on IDB and our 'BBB+' rating on its core subsidiary Israel Discount Bank of New York.
- The positive outlooks indicate the possibility of an upgrade over the next two years if IDB generates healthy earnings through the cycle and strengthens its capitalization.

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Rating Action

On Jan. 19, 2023, S&P Global Ratings affirmed its 'BBB+' long-term and 'A-2' short-term issuer credit ratings on Israel Discount Bank Ltd. (IDB). At the same time, we affirmed our 'BBB+' long-term issuer credit rating on its core U.S. subsidiary Israel Discount Bank of New York (IDB NY). The outlooks on both long-term ratings are still positive.

Rationale

The affirmations reflect our view that IDB's earnings capacity has improved on the back of effective management and rising interest rates. Thanks to tight cost management and reduction in staff and branches, IDB has brought its efficiency closer to that of peers. IDB's cost-to-income ratio dropped to 56% at end-September 2022 from 67% at end-2020, and its cost to average assets declined to 1.96% from 2.41% at the same dates. These improvements, complemented by a growing business, rising interest rates, and inflation--about 8% of IDB's assets are linked to the consumer price index--enhanced revenues in 2022. We estimate that

IDB's 2022 return on equity will stand around 13.2%, versus 9.0%-9.5% prior to the pandemic, then slow to 11.5%-11.0% in 2023-2024. These ratios suggest that IDB is on track to meeting its 2025 profitability and cost-focused financial targets, which the bank shared with investors at end-2021.

At the same time, the current economic slowdown will likely spur volatility in IDB's capital base. Although economic turbulence is more pronounced in Europe, Israel faces slowing growth and tightening monetary policy. We believe IDB enters this downturn with strong credit quality. We note the bank's low nonperforming exposures (NPEs) ratio at 1.1% and high NPE coverage at 118% as of end-September 2022, according to our calculations, as well as a sound earnings buffers. However, in line with that of peers, IDB's loan portfolio is skewed toward construction and real estate (about 18% of the bank's credit exposure) and consumer financing, and we see these activities as highly sensitive to domestic economic developments. We expect IBD's clients operating in these cyclical sectors will feel increased stress that sets off higher credit losses. Consequently, we believe that higher NPEs and credit losses could weigh on the bank's bottom line and hinder capital build-up.

As a result, we forecast IDB's risk-adjusted capital (RAC) ratio will improve to close to 10.0% by end 2024 from 9.4% at end-2021. In our view, stronger earnings will steady vigorous lending growth and rising credit losses. Additionally, the bank is rebalancing its portfolio toward the less risky mortgage and medium corporate segments, and this should benefit the RAC ratio.

Our base-case assumptions for IDB include:

- Loan book growth moderating to 5%-7% in 2023 and 2024 since higher rates and inflation will constrain households and corporates.
- Increasing interest margins of 3.0%, before deposits repricing and higher funding costs lower the interest margins to 2.8%-2.9% by end-2024.
- An increase of about 3% on average in noninterest expenses in 2023 and 2024.
- Higher impairment charges as a percentage of average loans, averaging 45-50 basis points (bps) over 2023-2024 from 22 bps in 2022.
- Dividend payout of about 20% in 2022 then rising to 30% in 2023 and 2024, in line with IDB's internal limit.

Outlook

The positive outlook on IDB and IDB NY reflects the possibility of an upgrade over the next two years due to stronger capital and earnings.

Upside scenario

An upgrade will hinge on continued positive performance of the bank's operational efficiency, cost of risk, and profitability amid a deteriorating environment. Specifically, an upgrade would stem from a sustainable improvement in IDB's earnings capability and indications that the RAC ratio will stay at or above 10%.

Downside scenario

We could revise the outlook to stable if the bank's earnings deteriorated, thereby weakening capitalization and restraining the RAC ratio meaningfully below 10%. This could occur if the pace of loan growth or cost of risk exceeded our projections, or if dividend payouts were to the detriment of internal capital generation.

Ratings Score Snapshot

Issuer Credit Rating	BBB+/Positive/A-2
SACP	bbb
Anchor	bbb+
Business position	Adequate (0)
Capital and earnings	Adequate (0)
Risk position	Moderate (-1)
Funding and liquidity	Adequate and adequate (0)
Comparable ratings analysis	Adequate
Support	+1
ALAC support	0
GRE support	0
Group support	0
Sovereign support	+1
Additional factors	0

SACP--Stand-alone credit profile.

ESG credit indicators: E-2, S-2, G-2

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July

20, 2017

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Full Analysis: Israel Discount Bank Ltd., Nov. 2, 2022
- Banking Industry Country Risk Assessment: Israel, Oct. 18, 2022
- Israel Discount Bank, IDB NY Outlooks Revised To Positive On Resilient Risk Profile, Capital Buffers; Ratings Affirmed, Jan. 20, 2022

Ratings List

Ratings Affirmed	
Israel Discount Bank Ltd.	
Issuer Credit Rating	BBB+/Positive/A-2
Israel Discount Bank of New York	
Issuer Credit Rating	BBB+/Positive/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914