

ISRAEL DISCOUNT BANK LTD.

Registration no. 520007030

The securities of the corporation are listed for trading on the Tel Aviv Stock Exchange

Abbreviated name: Discount

Address: 23 Yehuda Halevi St., Tel Aviv 65136, Israel

Tel: 972-3-5145582; 972-3-5145544; Fax: 972-3-5171674

e-mail: ruth.moshkovitz@discountbank.co.il

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Israel Securities Authority
www.isa.gov.il

Tel Aviv Stock Exchange Ltd.
www.tase.co.il

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

On December 24, 2014, Standard & Poor's, published an *updated* rating report/notice:

1. Rating report or notice

○ Rating of Corporation: *Another* Standard & Poor's. _____ *positive*

Comments/Nature of the Notice: *Outlook/Forecast raised* _____.

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

| Date | Subject of Rating | Rating | Comments/Nature of the Notice |
|------------|----------------------------------|---|--|
| 21/01/2014 | <i>Israel Discount Bank Ltd.</i> | <i>Other Standard & Poor's</i> _____ <i>stable</i> | <i>Other</i> <i>Rating affirmation (BBB-)</i> |
| 15/01/2013 | <i>Israel Discount Bank Ltd.</i> | <i>Other Standard & Poor's</i> _____ <i>stable</i> | <i>Other</i> <i>Rating affirmation (BBB-)</i> |
| 23/04/2012 | <i>Israel Discount Bank Ltd.</i> | <i>Other Standard & Poor's</i> _____ <i>stable</i> | <i>Other</i> <i>Rating affirmation (BBB-)</i> |

○ Rating of Debentures of the Corporation

Stock
Exchange
Security

| Name and Class of 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 |
|----------------------------------|---|-------|--|--------|-------------------------------|
| _____ | _____ | _____ | _____ | _____ | _____ |

| | | | | | |
|-------|-------|-------|-------|-------|-------|
| _____ | _____ | _____ | _____ | _____ | _____ |
|-------|-------|-------|-------|-------|-------|

Standard & Poor's rating report (research update) is presented in the appendix below.

2. On _____, _____ announced that the rating for ..._____ had been withdrawn.

This Report has been signed on behalf of the Corporation, in accordance with Regulation 5 of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, by Uri Levin, Senior Executive Vice President.

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

Prior names of the reporting entity:

Date of updating structure of form: December 2, 2014

Name of person making electronic report: Moshkovitz, Ruth; Position: Corporate Secretary

Name of Employing Company:

23 Yehuda Halevi St., Tel Aviv 65136, Israel, Tel: 972-3-5145582; Fax: 972-3-5171674

e-mail: ruth.moshkovitz@discountbank.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.



RatingsDirect

Research Update:

Israel Discount Bank Outlook Revised To Positive On Improving Capital, Cost-Cutting Plans; 'BBB-/A-3' Ratings Affirmed

Primary Credit Analyst:

Stephanie Mery, Paris (33) 1-4420-7344; stephanie.mery@standardandpoors.com

Secondary Contacts:

Michal Gur Kagan, Tel Aviv (972) 3-753-9708; michal.gur.kagan@standardandpoors.com

Beni Peer, Tel Aviv 972-3-753-9742; beni.peer@standardandpoors.com

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Research Update:

Israel Discount Bank Outlook Revised To Positive On Improving Capital, Cost-Cutting Plans; 'BBB-/A-3' Ratings Affirmed

Overview

- The capital position of Israel Discount Bank Ltd. (IDB) has benefited in recent years from lessening economic risks in Israel and the bank's relatively low growth in risk assets, with no dividend distributions. We expect its capitalization to further improve following the planned sale of its stake in FIBI, the fifth-largest bank in Israel.
- We now project our risk-adjusted capital (RAC) ratio for IDB to remain sustainably above 7%, which improves the bank's resilience to economic stress.
- We also believe that IDB's management is committed to improving the bank's cost structure and operating controls in coming years, which should bolster profitability and competitiveness, in our view.
- We are therefore revising the outlook on IDB to positive from stable. We are affirming the ratings on the bank at 'BBB-/A-3'.
- The positive outlook reflects the possibility of an upgrade over the next one-to-two years if IDB successfully executes its efficiency initiatives and reduces operational costs, supporting the bank's business flexibility and prospects for healthy expansion.

Rating Action

On Dec. 24, 2014, Standard & Poor's Ratings Services revised the outlook on Israel Discount Bank Ltd. (IDB) to positive from stable. We affirmed the 'BBB-/A-3' long- and short-term counterparty credit ratings on the bank.

Rationale

The outlook revision reflects our view that IDB's capital position has sustainably improved in recent years owing to lessening economic risks in Israel and the bank's relatively low growth in risk assets, with no dividend distributions. IDB's capital position would be further supported by the planned sale of its minority interest in FIBI, Israel's fifth-largest bank. These factors would leave the bank with sufficient capital to grow its business in coming years and should improve its resilience to economic stress.

We project our risk-adjusted capital (RAC) ratio for IDB to remain above 7% over the next 18-24 months, supported by our assumption that the bank will not distribute dividends during that period.

IDB's management has recently presented cost-reduction initiatives, which we believe are appropriate given the bank's high cost base, and we consider that they address the most relevant issues the bank faces. Although it is too soon to assess whether management's plan will be successful in reducing costs, as some measures would probably be opposed by employees' unions, we consider that the execution of these plans would be a key supporting factor for IDB's business position and earnings capacity.

Outlook

The positive outlook indicates that we may raise the ratings on IDB over the next one-to-two years. We anticipate that the bank's business stability and risk profile will remain relatively unchanged in the next 18-24 months, despite potential economic turbulence, including a slowdown in the Israeli economy and a correction in the residential real estate sector.

We could consider raising the ratings if IDB's operational cost-cutting initiatives are successful, leading to a lower cost base in line with local peers, while the bank maintains a RAC ratio above 7%. In addition, we could raise the ratings if economic prospects strengthen and our concerns regarding pressures on asset quality reduce, or if we witness a further meaningful decrease in credit concentration.

We could revise the outlook back to stable if a significant deterioration of the Israeli economy put pressure on the bank's asset quality and capitalization. Given the still-high credit concentration in the Israeli banking industry and in the bank's loan portfolio, we could revise the outlook to stable if financial stress at some of its largest borrowers weakened the bank's asset quality.

Related Criteria And Research

Related Criteria

- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Sept. 18, 2014
- Group Rating Methodology, Nov. 19, 2013
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

Related Research

- Banking Industry Country Risk Assessment: Israel, Dec. 17, 2014
- Israel-Based Bank Hapoalim And Leumi Upgraded To 'A-' Due To Lessening Domestic Economic Risks; Outlooks Stable, Oct. 7, 2014

Ratings List

Ratings Affirmed; Credit Watch/Outlook action

| | To | From |
|----------------------------|-------------------|-----------------|
| Israel Discount Bank Ltd. | | |
| Counterparty Credit Rating | BBB-/Positive/A-3 | BBB-/Stable/A-3 |

Additional Contact:

Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 6 9-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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