

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

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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 23, 2015, *S&P Maalot* published an *updated* rating report/notice:

1. Rating report or notice

☒ Rating of Corporation: *S&P Maalot* _____ *ilAA* _____ *stable*

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
25/12/2014	<i>Israel Discount Bank Ltd.</i>	<i>S&P Maalot</i> _____ <i>ilAA</i> _____ <i>stable</i>	<i>Rating upgrade</i> _____
21/01/2014	<i>Israel Discount Bank Ltd.</i>	<i>S&P Maalot</i> _____ <i>ilAA-</i> _____ <i>stable</i>	<i>Rating affirmation</i> _____
15/01/2013	<i>Israel Discount Bank Ltd.</i>	<i>S&P Maalot</i> _____ <i>ilAA-</i> _____ <i>stable</i>	<i>Rating affirmation</i> _____

☒ Rating of Debentures of the Corporation

Name and Class of Security	Registration Number	Rating Company	Current Rating	Comments/ Nature of the Notice
<i>Discount hybrid capital notes (Series A)</i>	<i>6910095</i>	<i>S&P Maalot</i> _____	<i>S&P Maalot</i> _____ <i>ilA-</i> _____ <i>stable</i>	<i>Rating upgrade</i> _____
<i>Subordinated debentures (Series J)</i>	<i>6910129</i>	<i>S&P Maalot</i> _____	<i>S&P Maalot</i> _____ <i>ilAA-</i> _____ <i>stable</i>	<i>Rating affirmation</i> _____
<i>Subordinated debentures (Series K)</i>	<i>6910137</i>	<i>S&P Maalot</i> _____	<i>S&P Maalot</i> _____ <i>ilAA-</i> _____ <i>stable</i>	<i>Rating affirmation</i> _____

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
<i>Discount hybrid capital notes (Series A)</i>	6910095	25/12/2014	<i>Capital notes</i>	<i>S&P Maalot _____ ilBBB+ _____ stable</i>	<i>Rating upgrade _____</i>
<i>Discount hybrid capital notes (Series A)</i>	6910095	21/01/2014	<i>Capital notes</i>	<i>S&P Maalot _____ ilBBB _____ stable</i>	<i>Rating affirmation _____</i>
<i>Discount hybrid capital notes (Series A)</i>	6910095	17/01/2013	<i>Capital notes</i>	<i>S&P Maalot _____ ilBBB _____ stable</i>	<i>Rating affirmation _____</i>
<i>Subordinated debentures (Series J)</i>	6910129	25/12/2014	<i>Debentures</i>	<i>S&P Maalot _____ ilAA- _____ stable</i>	<i>Rating upgrade _____</i>
<i>Subordinated debentures (Series J)</i>	6910129	21/01/2014	<i>Debentures</i>	<i>S&P Maalot _____ ilA+ _____ stable</i>	<i>Rating affirmation _____</i>
<i>Subordinated debentures (Series J)</i>	6910129	17/01/2013	<i>Debentures</i>	<i>S&P Maalot _____ ilA+ _____ stable</i>	<i>Rating affirmation _____</i>
<i>Subordinated debentures (Series K)</i>	6910137	25/12/2014	<i>Debentures</i>	<i>S&P Maalot _____ ilAA- _____ stable</i>	<i>Rating upgrade _____</i>
<i>Subordinated debentures (Series K)</i>	6910137	21/01/2014	<i>Debentures</i>	<i>S&P Maalot _____ ilA+ _____ stable</i>	<i>Rating affirmation _____</i>
<i>Subordinated debentures (Series K)</i>	6910137	17/01/2013	<i>Debentures</i>	<i>S&P Maalot _____ ilA+ _____ stable</i>	<i>Rating affirmation _____</i>

S&P Maalot's rating update report 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 and Head of Planning, Strategy and Finance Division and Joseph Beressi, Senior Executive Vice President and Chief Accountant.

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 15, 2015

Name of person making electronic report: Sokolov-Danoch, Michal; Position: Corporate Secretary

Name of Employing Company:

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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.

APPENDIX



Israel Discount Bank Ltd. Mercantile Discount Bank Ltd.

December 23, 2015

Rating Update

Domestic Issuer's Rating Of Israel Discount Bank And Mercantile Discount Bank Affirmed At 'ilAA', Outlook Stable; Rating Of Hybrid Equity Instruments Issued By Israel Discount Bank Raised

Primary Credit Analyst:

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Rating Update

Domestic Issuer's Rating Of Israel Discount Bank And Mercantile Discount Bank Affirmed At 'ilAA', Outlook Stable; Rating Of Hybrid Equity Instruments Issued By Israel Discount Bank Raised

Overview

- The domestic issuer's rating of Israel Discount Bank Ltd. and Mercantile Discount Bank has been affirmed at a level of 'ilAA'.
- The global rating of Discount Bank, which serves as the basis for determining the ratings of the hybrid instruments it issues, has been raised to a rating of 'BBB', with a stable outlook, from a level of 'BBB-', with a positive outlook.
- Consequently, the ratings of the series of hybrid tier 2 capital and hybrid tier 1 capital issued by Discount Bank, which are derived from both the global rating and also from the domestic rating, have been raised to a level of 'ilA+' and 'ilA-', respectively.
- This rating action is in accordance with our methodology for rating hybrid instruments.
- The rating outlook for the Discount group remains 'stable'.

Rating Action

On December 23, 2015, Standard & Poor's Maalot raised the rating of the subordinated equity instruments issued by Discount Bank. The rating of the hybrid tier 2 capital was raised to a level of 'ilA+' from a level of 'ilA', and the rating of the hybrid tier 1 capital was raised to a level of 'ilA-' from a level of 'ilBBB+'.

Rationale

The raising of the rating of the series of hybrid equity instruments issued by Discount Bank is supported by the latest global rating of the bank, which has been raised to a level of 'BBB' with a stable outlook, by the domestic rating of the bank that is unchanged at a level of 'ilAA' with a stable outlook, and by the lowering of the rating levels (notches) in order to reflect the characteristics of the subordinated instruments, this being in accordance with our methodology for rating hybrid instruments.

The global rating of Discount Bank has been raised due to our assessment of improvement in its business position. This improvement is reflected in the success of the bank's management in reducing the cost structure and due to our belief that it remains committed to further improve the bank's cost structure. In addition, the bank has focused on its business activity, through selling its noncore business operations, including the sale of its holding of FIBI shares, the sale of the operation in South America, the closure of the London branch and the agreement to sell the operation in Switzerland. We think these steps, alongside its ongoing capital base strengthening in accordance with regulatory requirements, will continue to contribute to improving the financial stability of the bank and its competitive ability, and will support the growth of its core operations in Israel and the United States.

The rating of Discount Bank also reflects our assessment of the Israeli banking sector from a global perspective (BICRA – Banking Industry Country Risk Assessment), which gives it a ranking of 4 (on a scale of 1-10, with 1 reflecting the lowest risk). In addition, our “satisfactory” opinion of the bank’s business position takes into account it being one of the largest domestic banking groups, its diverse business lines and its stable customer base.

The bank’s rating also reflects its “adequate” capital base, which is offset by its “medium” risk profile arising from the low capacity of its profits to absorb exceptional losses. We view the financing profile as “average” with this being supported by a diversified and stable core resources base, like the rest of the domestic sector, and by an adequate liquidity buffer.

The rating of Discount Bank also takes into account support from the State of Israel, as we believe the bank to have “moderate” systemic importance in the domestic financial sector and we also consider that Israel would be “supportive” toward its banking sector, were this to be needed.

We view Mercantile Bank as a “core company” of the Discount group. Accordingly, the rating actions for Mercantile Bank reflect the rating actions for the group.

Outlook

The stable outlook reflects our assessment that the business position and financial profile of Discount Bank will remain unchanged in the next two years. The stable outlook of Mercantile Bank reflects that of Discount Bank.

The negative scenario

A potential worsening of the economic situation, including a downturn in the Israeli economy and a correction in the residential property sector, could exert negative pressure on the rating of the bank. In addition, in light of the bank still having a high level of concentration in its corporate credit portfolio, financial pressure on several of its major borrowers could weaken the quality of the bank’s assets and lead to negative rating actions.

The positive scenario

A positive rating action appears less likely at this juncture but could materialize if an improvement in the economic situation were to lead to a further improvement in the quality of the bank’s credit portfolio, if there were to be a further reduction in the concentration in the bank’s corporate credit portfolio, in conjunction with the bank continuing to improve its profitability and cost structure.

Methodology and Related Articles

- [Methodology – General: Credit Rating On Domestic Scales](#), September 22, 2014
- [Methodology – Relationship Between The Global Rating Scale And The Domestic Rating Scale](#), February 2013
- [Methodology – General: S&P’s Conversion Tables Between The Ratings On The Global Scale And Ratings On Domestic Scales](#), September 30, 2014
- [Methodology– General: S&P’s Rating Definitions](#), November 20, 2014
- [Methodology – Core Articles: Methodology For Rating Banks](#), November 9, 2011
- [Methodology For Assessing Banking Industry Risk \(BICRA\)](#), November 9, 2011
- [Methodology For Assessing Capital Adequacy Appropriate To Banks’ Risk](#), December 6, 2010
- [Methodology: Rating Corporate Groups](#), November 19, 2013

- [Methodology – General: Use Of Credit Watch And Outlooks](#), September 14, 2009
- [Methodology – General: Timing Of Payments, Grace Periods, Guarantees And Use Of ‘D’ \(Default\) And ‘SD’ \(Selective Default\) Ratings](#), October 24, 2013
- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, January 29, 2015
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Methodology For Mapping Short-And Long-Term Issuer Credit Ratings For Banks, May 4, 2010
- Commercial Paper 1: Banks, March 23, 2004
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, February 26, 2013
- [Rating Of Banks’ Hybrid Instruments](#), November 29, 2015

The articles can be found on S&P Maalot’s website, www.maalot.co.il, or on S&P’s global website, www.standardandapoors.com.

General Details (as of December 23, 2015)

Israel Discount Bank Ltd. (Discount Manpikim)

Issuer’s rating	ilAA/Stable
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Hybrid Subordinated Debt

Discount Manpikim capital note 1	ilA+
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Hybrid tier 1 capital note (Series A)	ilA-
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Subordinated Debt

Subordinated debentures (Series A, B, D, E, G, H, I, J, K)	ilAA-
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Mercantile Discount Bank Ltd.

Issuer’s rating	ilAA/Stable
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Subordinated debentures	ilAA-
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Issuer’s Rating History

December 24, 2014	ilAA/Stable
December 16, 2010	ilAA-/Stable
April 30, 2009	ilAA-/Negative
December 9, 2007	ilAA/Stable
December 20, 2006	ilAA-/Stable
September 20, 2004	ilAA/--
March 1, 2004	ilAA/--
September 1, 2003	ilAA/--

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