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INVESTORS SERVICE

CREDIT OPINION
29 June 2022

Update

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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.

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Israel Discount Bank Ltd.

Update to credit analysis

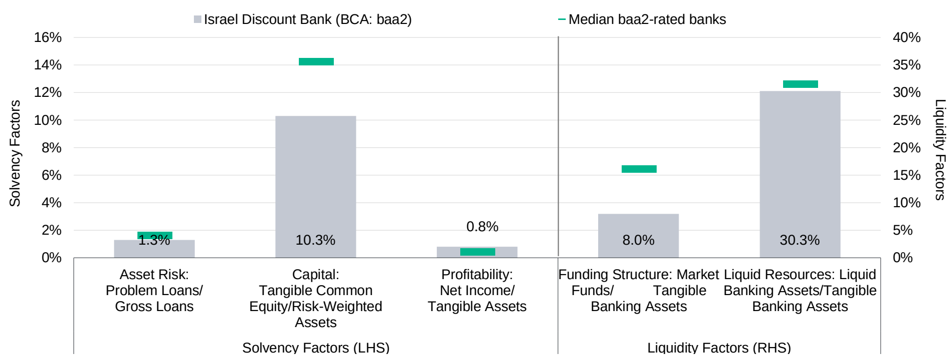
Summary

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) strong growth prospects and enhanced efficiency that have supported the bank's profitability in recent years.

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 March 2022, below similarly-rated international peers mainly reflecting Bank of Israel's (BoI, the central bank) more conservative risk-weighting; (2) relatively high operating cost base despite substantial improvement in recent years; and (3) downside risks from a significant and growing exposure 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
- Very high likelihood of government support, in case of need, underpins the deposit ratings

Credit challenges

- Exposure 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 is currently expected, 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 deteriorating operating conditions lead to a material weakening in asset quality, or
- 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]

	03-22[2]	12-21[2]	12-20[2]	12-19[2]	12-18[2]	CAGR/Avg.[3]
Total Assets (ILS Million)	340,658.0	335,088.0	293,969.0	259,823.0	239,176.0	11.5[4]
Total Assets (USD Million)	106,747.5	107,913.6	91,556.3	75,223.8	64,006.4	17.0[4]
Tangible Common Equity (ILS Million)	23,448.0	21,068.0	18,189.3	18,127.0	17,142.0	10.1[4]
Tangible Common Equity (USD Million)	7,347.6	6,784.9	5,665.0	5,248.1	4,587.4	15.6[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) (%)	6.2	13.1	17.2	11.1	10.7	11.7[5]
Net Interest Margin (%)	2.2	2.1	2.1	2.4	2.4	2.3[5]
PPI / Average RWA (%)	2.5	1.9	1.9	2.0	1.8	2.0[6]
Net Income / Tangible Assets (%)	1.1	0.9	0.5	0.7	0.7	0.8[5]
Cost / Income Ratio (%)	54.9	62.8	61.7	63.0	65.9	61.6[5]
Market Funds / Tangible Banking Assets (%)	7.9	8.0	8.5	6.2	5.4	7.2[5]
Liquid Banking Assets / Tangible Banking Assets (%)	29.8	30.3	29.1	24.6	24.7	27.7[5]
Gross Loans / Due to Customers (%)	83.3	83.8	86.5	92.5	90.1	87.2[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 around 15% market share and total consolidated assets of NIS341 billion (around $107 billion) as of March 2022. IDB also had a 14% market share in deposits and 17% in loans as of the same date. IDB was incorporated in 1935.

IDB provides a full range of banking services out of its 171 branches in Israel as of the end of 2021.

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, its majority-owned credit card company.

The bank's common stock trades on the Tel Aviv Stock Exchange (ticker: DSCT).

Recent developments

We have maintained our stable outlook on Israel's banking system.

The Israeli economy has weathered the pandemic-driven shock better than most advanced economies and its growth prospects remain robust. Furthermore, Israel's exposure to the Russia-Ukraine conflict is limited. The swift and enduring economic recovery and strengthening labour market will help sustain banks' sound loan quality. Israeli banks have large and growing exposure to the country's property market, which combined with rapid house price increases poses a risk to their loan performance. Tight underwriting standards for residential mortgages provide a safeguard, however.

Capital will remain sound, underpinned by conservative regulatory risk weights on mortgages. Profitability is moderate and will be supported by business growth and ongoing cost efficiency measures, which will help counterbalance revenue headwinds from intensifying competition in the banking sector and efforts by the authorities to reduce the cost of banking services. Gradually rising interest rates and moderate inflation will also support banks' profitability. Growing domestic deposits will provide ample funding and liquidity will stay robust.

Detailed credit considerations

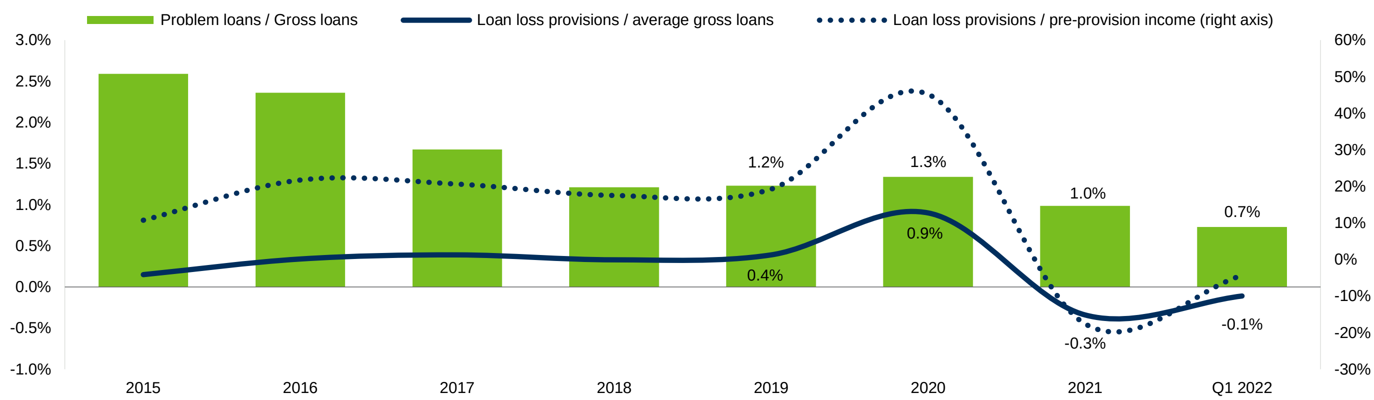
Strong asset quality, which will be supported by an increasing focus on residential mortgages; exposure concentration in real estate and geopolitical tensions are downside risks

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 8.8% over the period 2016-2021) that drives some unseasoned risk and its previous through-the-cycle performance that had been relatively weaker than peers, but also ongoing reduction in asset risk in its 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 potential geopolitical tensions and concentration to Israel's real estate market through lending along with high and rising property prices.

IDB's problem loans (defined as non-accruing loans and accruing loans that are more than 90 days overdue) to gross loans declined to 0.7%% as of March 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 the bank's asset quality to remain strong, supported by Israel's robust economic growth and a tight labour market. Borrowers' servicing ability will also be broadly sustained given gradual monetary policy tightening and a moderate rise in interest rates in Israel over the coming year from higher but contained inflationary pressures.

Exhibit 3

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



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 in the coming quarters after provision charge-backs in 2021 and in the first three months of 2022, equivalent to 0.3% and 0.1% of average gross loans respectively, but to remain contained. However, IDB's credit costs will likely continue to exceed the domestic peer average, in line with historical performance and given that IDB is currently the only Israeli bank to consolidate a credit card company. IDB's credit costs of 0.5% over the period 2006-2019 (that includes an entire economic cycle) exceeded that of its main peers. This was partly driven by a lower historic share of mortgages that the bank is currently addressing, and a higher share of retail unsecured lending in the bank's portfolio than peers.

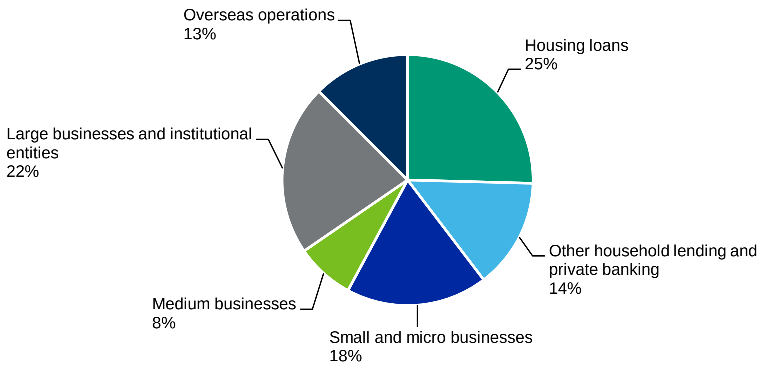
Furthermore, the initial application of the US Current Expected Credit Loss (CECL) standard from 1 January 2022 has not led to significant additional impairments on implementation, and we do not expect it to lead to higher ongoing provisions, given the significant general provisions required for housing loans under the previous standard.[1]

We expect asset risk in IDB's loan portfolio to reduce over time, reflecting an increasing share of relatively lower-risk residential mortgages. Mortgages, a key strategic focus for the bank, grew by a high 28% year-over-year and accounted for 25% of the bank's loan book as of March 2022[2] (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 and eliminated exposures to holding companies, which had caused an increase in problem loans in the past, with no exposures to any borrower group exceeding 15% of its capital as of March 2022.

Exhibit 4

IDB's loan book diversification has improved

Loan book breakdown as of March 2022 (supervisory operating segments)



Source: Bank's financial results

However, IDB's large and growing exposure both to residential mortgages and the construction and real estate sector, which made up a further 15% of total lending as of March 2022, render its asset quality susceptible to developments in the Israeli property market.

House prices in Israel are rising at a high rate, although a structurally limited supply of new housing units provides price support and limits the risk of a potential price correction. Banks are also exposed to potentially higher risk in the mortgage book from a jump in interest rates and a rise in unemployment, although this is not our central expectation. For housing loans, risks are mitigated by the low overall level of household debt in the economy, macroprudential measures, which enforce tight underwriting standards and high capital buffers against mortgages.[3]

We see higher risk in lending to the construction and real estate sector and the bank's exposure, although lower than peers, grew by a high 14% as of March 2022 year-over-year because of strong demand. In view of the significant lending growth in these sectors and growing risk, the BoI requested banks to heighten their monitoring of borrowers and new transactions and to increase provisions against the sector. The BoI has also requested additional capital in the form of higher risk-weighting (150% risk-weight compared to the current 100%) for new and outstanding loans for land acquisition[4] with a loan-to-value exceeding 80%. The bank did not disclose the impact of the regulation, which could be material. The BoI will however allow banks to spread the impact of the regulation on regulatory capital over four quarters, beginning with the second quarter of 2022.

Most of the bank's real estate exposure involves the funding of closed residential construction projects[5] where risk is mitigated by close oversight and more conservative underwriting criteria[6]. Residential projects made of 36% of total credit risk in the sector as of March 2022, whereas income generating properties were 24% of credit risk and land acquisition was 21%.

Similarly to other Israeli banks, potential geopolitical tensions that could compromise business confidence and economic activity remain a downside risk.

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. The bank's capital ratios are also significantly more stable compared to banks globally that use a model-based approach in calculating credit RWAs. We expect the bank's capital buffers to decline slightly in the next 12-18 months following the gradual resumption of profit distribution to shareholders and sustained loan growth, with capitalisation supported by the balance between sufficient internal capital generation against growth targets.

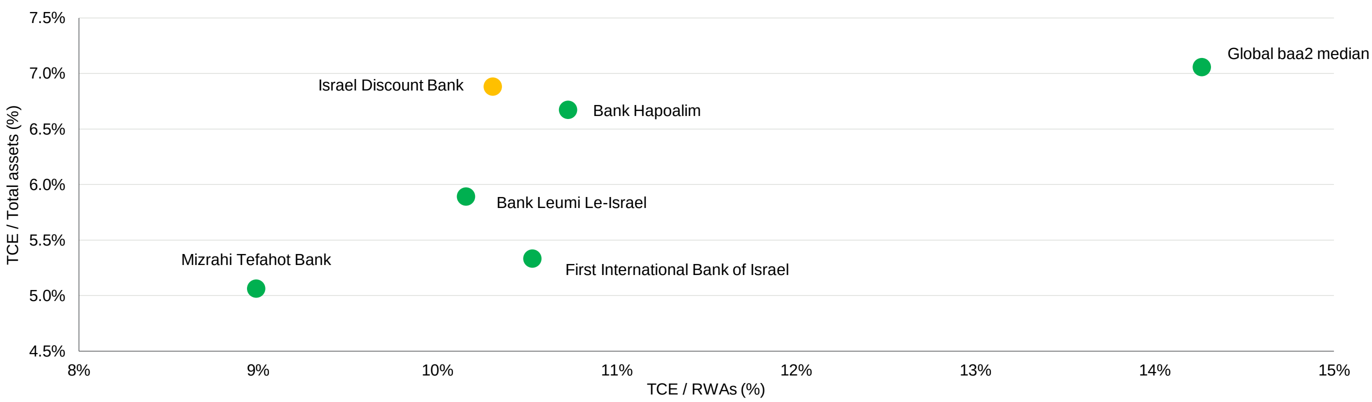
IDB's TCE/RWAs capital ratio was 10.3% as of March 2022, below that of similarly-rated international peers (see Exhibit 5). However, the BoI maintains a conservative approach to risk-weighting that results in higher loss-absorption buffers than capital ratios show. Israeli banks use the standardised 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 6.3% as of March 2022, above the 5.0% minimum regulatory requirement. Its TCE-to-total assets ratio was 6.9% 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 March 2022, for the other Israeli banks as of December 2021

Source: Moody's Investors Service

IDB reported a Common Equity Tier 1 (CET1) ratio of 10.55% as of March 2022 up from 10.14% at the end of 2021, exceeding the 9.17% minimum regulatory requirement and the bank's own internal target of 9.75%.[7]

Capital metrics improved in Q1 2022, mainly following a capital raising of around NIS1.4 billion in the first quarter of 2022 to mitigate a decline in the capital buffer above the minimum regulatory requirements and to sustain strong business growth. The increase in long-term yields reduced the book value of the bank's available-for-sale bond portfolio and its CET1 ratio by 30 basis points during Q1 2022 and a further 11 basis points until mid-May[8], at a time when demand for credit was high. The capital raise, together with a sale of loans and RWA management, have allowed IDB to maintain steady capital levels, and therefore continue to benefit from strong loan growth, which was 13% year-over-year as of March 2022, and distribute profits. IDB distributed 20% of Q1 2022 profits, while under the bank's dividend policy, IDB may distribute up to 30% of net profits in each quarter.

Strengthened profitability, supported by enhanced efficiency; cost base remains higher than peers

We consider IDB's profitability as moderate, having consistently strengthened in recent years, closing the gap with its domestic peers and strengthening resiliency at times of stress. We expect IDB's profitability will continue to benefit from ongoing cost initiatives and the bank's growth potential because of Israel's robust economic growth, 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. The bank's efficiency initiatives have significantly lowered operating expenses in recent years. Nevertheless, the bank's cost base remains somewhat higher than both domestic and global peers.

IDB reported net income, excluding one-off gains from the sale of real estate properties, equivalent to 0.8% of tangible assets in the first three months of 2022, broadly at the same level as 2021 and up from 0.5% in 2020. The improvement in bottom-line profits was aided by the aforementioned loan loss provision reversals, strong revenue growth because of loan growth and higher CPI, which was negative in 2020, benefiting returns from the bank's net long CPI position (deriving mainly from CPI-linked mortgages).

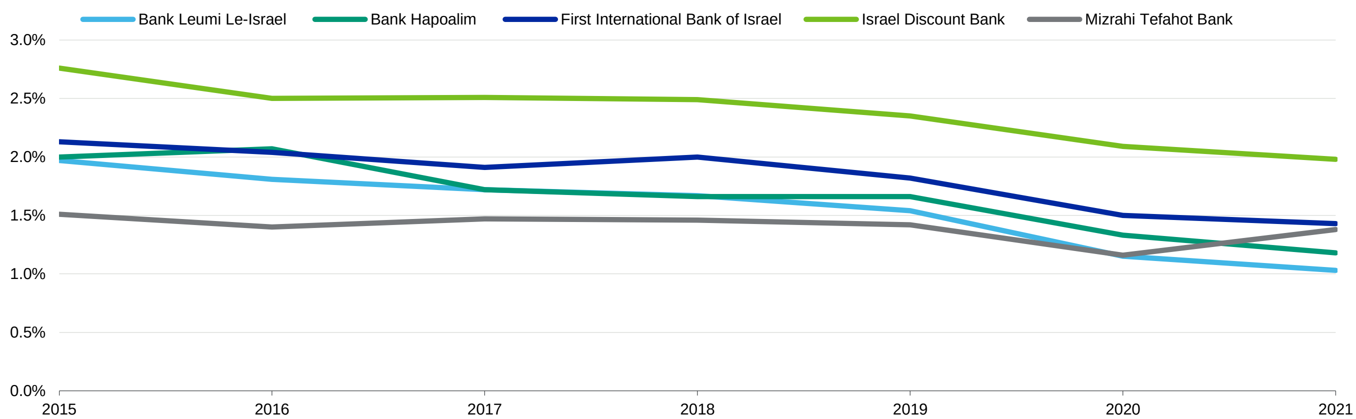
Over the coming 12-18 months, we expect these trends to be sustained and provision expenses to normalise but remain contained supporting bottom-line profitability. Higher interest rates will also support wider net interest margins, further boosting profitability, with IDB indicating that its net interest income would potentially gain NIS1.2 billion (around $360 million) based on a 1% parallel increase in interest rates[9]. Nevertheless, over the longer-term competition by providers of financial services in Israel will likely intensify as Israeli authorities continue to implement measures to promote competition and lower the cost of banking services for households and small businesses. 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, and a new system facilitating fast and zero cost switching between banks was launched in September 2021. Although, IDB disclosed a net positive customer acquisition following the launch of this system.

Profitability strengthened in recent years supported by enhanced efficiency 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. The bank has 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. Operating costs declined to 2.0% of assets in the first three months of 2022 and in 2021[10], from over 2.5% before 2018 (see Exhibit 6). Combined with revenue growth, the bank's cost-to-income ratio improved to 63.3% in the first three months of 2022[11], compared to 65.9% in 2018.

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. Figures also exclude provisions related to US investigations into tax evasion schemes and other litigation costs

Source: Moody's Investors Service

Nevertheless, IDB's cost base remains higher than its domestic peers. We expect the bank to maintain its tight cost control. Revenue growth will also remain a key strategic pillar, driven by a strengthened capacity for new mortgage loan origination. The bank also remains committed to expanding its digital offerings by deepening collaboration with third parties and fintechs, strengthening its ability to withstand competition. Under its new strategic plan, the bank is targeting a return on equity of 12.5% and a cost-to-income ratio of 55% by 2025.

Following the divestment of the two largest banks' credit card companies, we note that IDB has been allowed for the time being to retain its majority owned credit card subsidiary, enhancing the bank's growth prospects, but continuing to weigh on its efficiency, with the consolidation of the credit card company being one factor behind the bank's higher cost base than 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 79% of total assets as of March 2022, comfortably funding the bank's loan portfolio with a net loans-to-deposits ratio of 82%. Customer deposits grew by a strong 11% year-over-year as of March 2022. Furthermore, market funds accounted for only 8% of tangible banking assets as of the same date. We expect IDB to remain primarily deposit funded, benefitting from the strong savings culture in Israel.

Deposits are relatively granular, whereby 39% of the bank's deposit base in Israel was from households and 20% from small businesses as of March 2022. Our assessment also considers that foreign deposits, which could be more vulnerable to an institution-specific loss in depositor confidence, made up 13% of total deposits as of March 2022. Nevertheless, deposits from institutional and capital markets investors were 11% of total deposits in Israel, considerably lower than peers. We note that both domestic and foreign deposits had remained stable during past systemic shocks in Israel.

The bank also maintains comfortable liquidity buffers at 30% of tangible banking assets as of March 2022. Cash and interbank balances accounted for 18% of assets, with securities accounting for an additional 13%. The securities portfolio primarily comprises of A1-rated Israeli government securities at 60% of total, and to a lesser extent mortgage-backed and asset-backed securities of US government agencies (20% 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% as of March 2022, significantly above the 100% minimum requirement.

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

In line with our general view for the banking sector, IDB has a low exposure to Environmental risks. See our Environmental risks heat map for further information. Although Israel is exposed to environmental risk through rising temperatures, drought episodes and water scarcity given its geographical location in a semiarid climate zone, the authorities have taken a number of steps to address these risks, including through seawater desalination and wastewater recycling.

Overall, we believe banks, including IDB, face moderate Social risks; see also our Social risk heat map. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy which is partly mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage due to product misselling or other types of misconduct is a further social risk.

Societal trends are also relevant in a number of other areas, such as shifting customer preferences towards digital banking services, increasing information technology cost, aging population concerns in several countries, impacting demand for financial services or socially driven policy agendas that may translate into regulation that affects banks' revenue base. Specifically in Israel, authorities are taking measures to promote competition in the banking system and to reduce the cost of financial services for households and small business, which will weigh on the banks' profitability.

Further, strict labour laws and strong banking employee unions in Israel limit staffing flexibility and drive up staffing costs. However, the banks have reduced employee posts through successive early retirement plans and have implemented stringent cost control, which has allowed them to mitigate these challenges.

Governance is highly relevant for IDB, as it is to all players in the banking industry. For banks, corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. Governance risks are largely internal rather than externally driven, and for IDB we do not currently have material governance concerns. Nonetheless corporate governance remains a key credit consideration and requires ongoing monitoring.

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 7

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 8

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 The new standard was implemented from 1 January 2022. The cumulative first-day effect of the change, a deduction of NIS139 million net of tax equivalent to 0.1% of risk-weighted assets, in calculating provisions was taken against the balance of retained earnings. However, the impact on supervisory capital can be phased-in over four years. Banks are allowed to add any decrease from the standard's implementation back to Common Equity Tier 1 capital at a rate of 75% on 1 January of the first year of implementation, 50% in the second year and 25% in the third year, with full effect from the fourth year. Under the previous standard, Israeli banks were mandated to maintain minimum general loan-loss provisions equivalent to 0.35% of gross loans for outstanding housing loans. The CECL implementation resulted in a decrease of NIS34 million and NIS49 million in the balance of provisions for the households (non-housing) portfolio and housing loans portfolio respectively, and an increase of NIS38 million, NIS9 million and NIS195 million in the business and commercial loan portfolio, bank and government exposures and off-balance sheet exposure respectively.

2 This is net of a sale of a portfolio of mortgages totalling NIS1 billion in the first quarter of 2022.

3 The measures include loan-to-value limits, a monthly repayment cap at 50% of a borrower's month salary and a limit on the variable-rate of interest part of the mortgage. 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 According to the Bank of Israel, these criteria include minimum levels of equity and pre-sales and the ability of projects to absorb declines in sales prices or rises in the cost of construction without impairing the borrowers' ability to service the debt.

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 unrealised losses on the bank's available-for-sale portfolio in other comprehensive income were partly offset by a reduction in the actuarial liability for employee benefits.

9 Including rate hikes in both Israel and abroad.

10 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.

11 Excluding gains relating to real estate sales.

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