



Rating_Action: Moody's assigns A2 rating to Israel Discount Bank's proposed senior unsecured issuance; outlook stable

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Limassol, January 17, 2023 – Moody's Investors Service ("Moody's") has today assigned an A2 long-term foreign currency rating to Israel Discount Bank Ltd. (IDB)'s proposed issuance of USD-denominated senior unsecured notes. The assigned outlook on this rating is stable.

RATINGS RATIONALE

-- SENIOR UNSECURED RATING

The proposed notes will constitute IDB's direct, unsecured and unsubordinated obligations and the A2 long-term senior unsecured rating assigned to them reflects IDB's baa2 Baseline Credit Assessment (BCA) and three notches of rating uplift based on Moody's assessment of a very high probability of support from the Government of Israel (A1 positive). 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.

IDB's baa2 BCA is supported by (1) its stable deposit-based funding structure along with comfortable liquidity; (2) strong asset quality, with low levels of problem loans equivalent to 0.7% of gross loans as of September 2022; and (3) strengthened recurring profitability supported by efficiency gains. IDB's standalone BCA also reflects (1) adequate but modest capital buffers, with a tangible common equity/risk-weighted assets ratio of 10.3% as of September 2022, below similarly-rated international peers mainly reflecting Bank of Israel's (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.

-- STABLE OUTLOOK

The assigned stable outlook is in line with the stable outlook on IDB's long-term deposits ratings and reflects Moody's 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 OR DOWNGRADE OF THE RATING

The A2 senior unsecured rating 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 the rating agency currently expects, without an increase in credit risk.

The A2 senior unsecured rating could be downgraded if operating conditions deteriorate, for example in case of a real estate price correction, higher unemployment and an economic slowdown, and 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 Moody's considers that the government's willingness or capacity to provide support has materially declined.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Banks Methodology published in July 2021 and available at <https://ratings.moodys.com/api/rmc-documents/71997>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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The rating has been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moody.com/documents/PBC_1288235.

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