FitchRatings

Banks
Universal Commercial Banks
Israel

Israel Discount Bank Limited

Update

Key Rating Drivers

Support Drives Ratings: The Issuer Default Ratings (IDRs) of Israel Discount Bank Limited (IDB) reflect Fitch Ratings' view of a very high probability that Israel (A+/RWN/F1+/RWN) would provide support to IDB, if needed. Fitch assesses Israel's ability and propensity to support IDB as very high, particularly given the bank's systemic importance in the country, with about 15% of banking system assets.

Universal Banking Franchise: IDB's Viability Rating (VR) reflects a good domestic universal banking franchise, improved asset quality and profitability, and adequate capitalisation and funding. While IDB is now required to reduce its shareholdings in its credit card subsidiary, Israel Credit Cards Ltd. (Cal), to improve competition, this does not significantly alter our view of IDB's business profile.

High Loan Growth: The bank grew its mortgage book by 13% in 2022, taking market share from competitors, but we view this segment as lower-risk due to conservative underwriting standards as a result of prudent regulatory limits and close oversight. IDB has also grown construction and real estate lending, a higher-risk segment, by 7.2% over the same period, though demand is driven by high population growth in Israel, ultimately translating into housing credit demand, which mitigates risks.

Sound Asset Quality: Impaired loans were 0.8% of gross loans at end-1H23, which is low compared to both domestic and international peers, but we view this in the context of high loan growth, as many loans, in particular mortgage loans, have not seasoned. We expect the impaired loans ratio to be slightly higher than domestic peers through the cycle as long as IDB owns a credit card subsidiary, but to remain below 1.5% over the next two years.

Growth, Higher Rates Benefit Earnings: Strong 46% net interest income growth yoy in 1H23 was supported by interest-rate rises and higher loan volumes. Operating profitability, which has historically been lower than peers', is benefitting from improved cost efficiency, with a Fitch-calculated cost/income ratio of 47%, compared with an average of 73% over the past decade. We expect operating profit to continue to benefit from higher net interest income, due to higher interest rates, and improving cost controls.

Adequate Capital Buffers: Headroom in our assessment is limited, but capitalisation has remained adequate, with a 10.35% common equity Tier 1 (CET1) ratio at end-1H23 versus its 9.19% minimum regulatory requirement. We expect the bank to manage its capitalisation proactively, particularly during periods of high growth, and to maintain the current buffers over regulatory requirements.

Our capitalisation assessment also considers the bank's improved internal capital generation and its fairly high ratio of RWAs to total assets (end-1H23: 68%), as the bank uses the standardised approach to calculate credit-risk RWAs.

Sound Funding and Liquidity: IDB's 78% loans-to-deposits ratio is broadly in line with that of domestic and international peers. Funding benefits from the bank's stable and granular deposit base, split equally between retail and corporate deposits. Liquidity is sound, with a liquidity coverage ratio of 135% at end-1H23. In 2023, IDB accessed international wholesale funding markets by issuing USD800 million senior unsecured notes.

IDB's 'F1+' Short-Term IDR is the higher of two possible Short-Term IDRs that map to an 'A' Long-Term IDR. This is because we view the sovereign's propensity to support as more certain in the near term.

Ratings

Foreign Currency	
Long-Term IDR	A
Short-Term IDR	F1+
Long-Term IDR (xgs)	A-(xgs)
Short-Term IDR (xgs)	F2(xgs)
Viability Rating	a-
Government Support Rating	a
Sovereign Risk (Israel)	
Long-Term Foreign-Currency IDR	A+
Long-Term Local-Currency IDR	A+
Country Ceiling	AA
Watches	
Long-Term Foreign-Currency IDR	Negative
Short-Term Foreign-Currency IDR	Negative
Government Support Rating	Negative
Sovereign Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Local-Currency IDR	Negative

Applicable Criteria

Bank Rating Criteria (September 2023)

Related Research

Fitch Places Four Israeli Banks on RWN after Sovereign Action (October 2023)

Fitch Places Israel's 'A+' IDRs on Rating Watch Negative (October 2023)

Global Economic Outlook (September 2023)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A downgrade of the sovereign rating is likely to result in a downgrade of IDB's GSR and IDRs.

A sharp deterioration of asset quality that results in an impaired loan ratio of above 2% for an extended period, combined with the CET1 declining below current levels and weakening internal capital generation, could result in a VR downgrade. Given the bank's significant exposure to the real estate sector, a sharp decline in real estate prices would put pressure on asset quality, and therefore on the VR.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

IDB's IDRs are likely to be affirmed and removed from RWN if Israel's ratings are affirmed and removed from RWN. An upgrade of the IDRs is unlikely due to the RWN on the sovereign IDRs.

An upgrade of IDB's VR is unlikely given the bank's geographical concentration and would require a material and structural improvement in profitability that allows the bank to generate stronger and more stable operating profit/RWAs while also maintaining materially higher capital ratios, which we do not expect.

Other Debt and Issuer Ratings

Rating Level	Rating	Outlook
Senior unsecured: long term	A	Watch Negative

Source: Fitch Ratings

The 'A' rating of IDB's USD800 million senior unsecured notes is in line with IDB's 'A' IDR and in line with the baseline approach for senior debt ratings under our criteria. This reflects our view that a default on senior unsecured debt equates to a default of the bank. It also reflects Fitch's expectation of average recovery prospects.

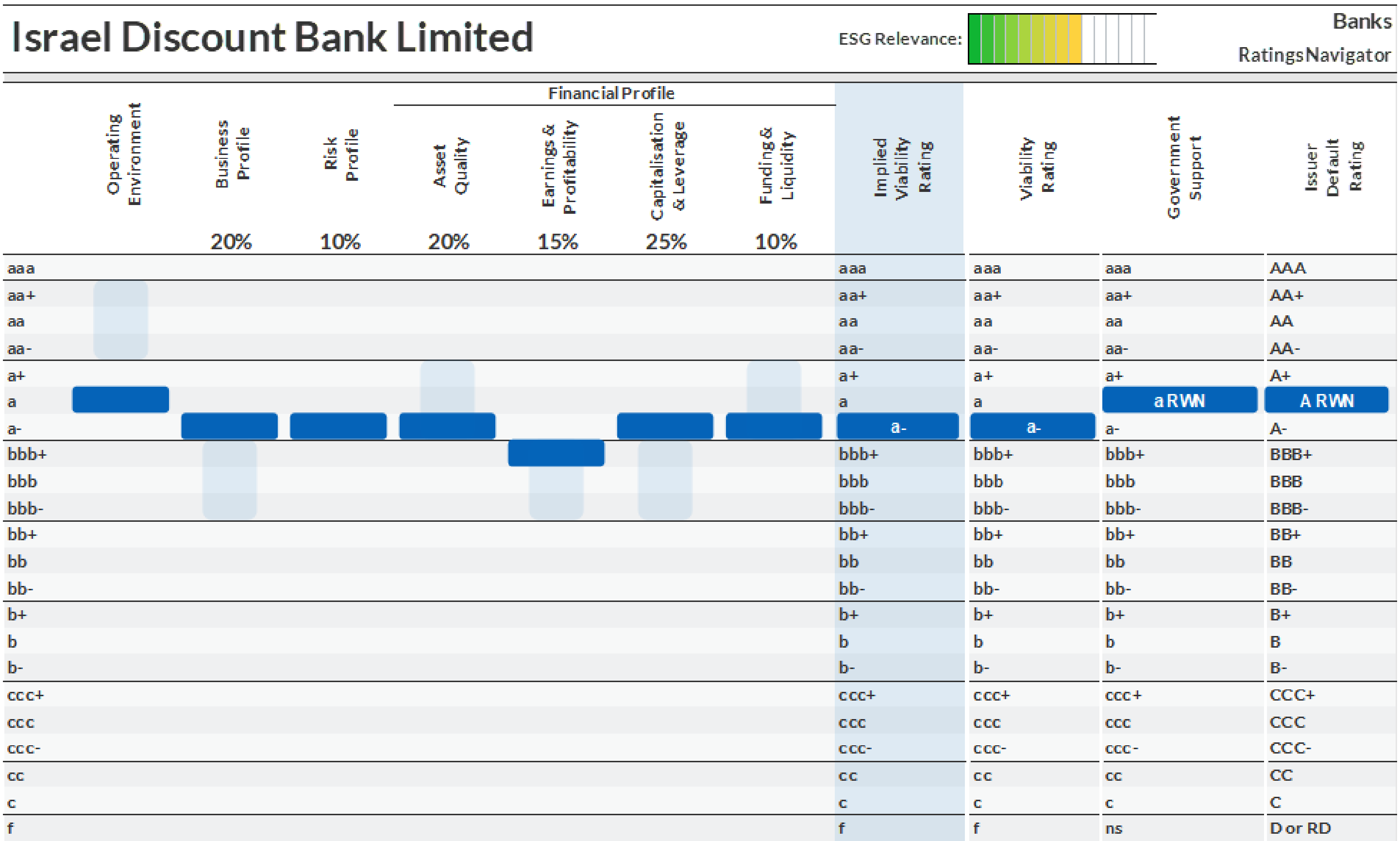
Significant Changes from Last Review

Rating Watch Negative Assigned

On 19 October 2023 we placed the support-driven 'A' Long-Term Issuer Default Ratings (IDRs) of four Israeli banks, including IDB, on RWN following similar action on the sovereign. The RWN reflects the heightened risk of a widening of Israel's current conflict.

The banks' 'F1+' Short-Term IDRs, their 'a' GSRs, and their 'A' senior debt ratings were also placed on RWN. While the ratings reflect our view of a very high probability that Israel would support the banks, if needed, the RWN reflects the heightened risk that the Israel-Gaza crisis widens.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The operating environment score has been assigned below the implied score due to the following adjustment reasons: sovereign rating (negative), size and structure of economy (negative)

The business profile score has been assigned above the implied score due to the following adjustment reason: market position (positive)

The capitalisation & leverage score has been assigned above the implied score due to the following adjustment reason: leverage and risk-weight calculation (positive).

Financials

Financial Statements

	30 Jun 23		31 Dec 22	31 Dec 21	31 Dec 20	31 Dec 19
	6 months - interim	6 months - interim	Year end	Year end	Year end	Year end
	(USDm)	(ILSm)	(ILSm)	(ILSm)	(ILSm)	(ILSm)
	Reviewed - unqualified	Reviewed - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement						
Net interest and dividend income	1,535	5,678	8,707	6,540	5,907	5,905
Net fees and commissions	475	1,756	3,404	3,125	2,826	2,972
Other operating income	173	641	499	858	1,178	792
Total operating income	2,182	8,075	12,610	10,523	9,911	9,669
Operating costs	1,054	3,901	7,217	6,858	6,681	6,299
Pre-impairment operating profit	1,128	4,174	5,393	3,665	3,230	3,370
Loan and other impairment charges	149	550	467	-591	1,747	721
Operating profit	979	3,624	4,926	4,256	1,483	2,649
Other non-operating items (net)	80	297	421	90	73	42
Tax	375	1,389	1,806	1,516	549	932
Net income	684	2,532	3,541	2,830	1,007	1,759
Other comprehensive income	72	266	-734	-374	-418	76
Fitch comprehensive income	756	2,798	2,807	2,456	589	1,835
Summary balance sheet						
Assets						
Gross loans	70,217	259,804	246,887	218,860	195,952	186,506
- Of which impaired	579	2,143	1,520	1,797	2,207	1,814
Loan loss allowances	965	3,571	3,209	3,040	3,761	2,524
Net loans	69,252	256,233	243,678	215,820	192,191	183,982
Derivatives	3,351	12,400	11,420	5,522	6,400	4,545
Other securities and earning assets	15,147	56,044	47,003	46,285	44,832	39,116
Total earning assets	87,751	324,677	302,101	267,627	243,423	227,643
Cash and due from banks	15,323	56,696	65,713	59,638	42,936	26,044
Other assets	2,822	10,442	8,940	7,823	7,610	6,136
Total assets	105,896	391,815	376,754	335,088	293,969	259,823
Liabilities						
Customer deposits	79,133	292,792	292,410	261,253	226,462	201,631
Interbank and other short-term funding	6,739	24,936	19,115	12,534	13,268	6,765
Other long-term funding	4,454	16,479	12,308	13,219	8,392	11,309
Trading liabilities and derivatives	2,736	10,124	9,348	6,323	7,365	4,839
Total funding and derivatives	93,062	344,331	333,181	293,329	255,487	224,544
Other liabilities	5,352	19,802	18,095	17,759	16,946	14,266
Preference shares and hybrid capital	n.a.	n.a.	n.a.	1,852	1,809	1,820
Total equity	7,482	27,682	25,478	22,148	19,727	19,193
Total liabilities and equity	105,896	391,815	376,754	335,088	293,969	259,823
Exchange rate		USD1 = ILS3.7	USD1 = ILS3.519	USD1 = ILS3.15	USD1 = ILS3.222	USD1 = ILS3.463

Source: Fitch Ratings, Fitch Solutions, Israel Discount Bank Limited

Key Ratios

	30 Jun 23	31 Dec 22	31 Dec 21	31 Dec 20	31 Dec 19
Ratios (%; annualised as appropriate)					
Profitability					
Operating profit/risk-weighted assets	2.8	2.0	2.0	0.8	1.4
Net interest income/average earning assets	3.6	3.1	2.6	2.5	2.7
Non-interest expense/gross revenue	48.3	57.4	65.4	67.8	65.3
Net income/average equity	19.2	14.7	13.4	5.2	9.5
Asset quality					
Impaired loans ratio	0.8	0.6	0.8	1.1	1.0
Growth in gross loans	5.2	12.8	11.7	5.1	9.4
Loan loss allowances/impaired loans	166.6	211.1	169.2	170.4	139.1
Loan impairment charges/average gross loans	0.4	0.2	-0.3	0.9	0.4
Capitalisation					
Common equity Tier 1 ratio	10.4	10.3	10.1	10.2	10.3
Fully loaded common equity Tier 1 ratio	n.a.	10.1	10.0	10.0	n.a.
Tangible common equity/tangible assets	7.0	5.9	5.7	6.3	7.0
Basel leverage ratio	6.4	6.2	6.0	6.3	6.9
Net impaired loans/common equity Tier 1	-5.2	-6.7	-5.7	-7.9	-3.7
Funding and liquidity					
Gross loans/customer deposits	88.7	84.4	83.8	86.5	92.5
Liquidity coverage ratio	134.5	130.5	123.1	147.5	121.2
Customer deposits/total non-equity funding	87.6	90.3	90.4	90.6	91.0
Net stable funding ratio	122.7	124.8	126.7	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, Israel Discount Bank Limited

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	a to a-
Actual jurisdiction D-SIB GSR	a
Government Support Rating	a
Government ability to support D-SIBs	
Sovereign Rating	A+/ RWN
Size of banking system	Neutral
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Positive
Government propensity to support D-SIBs	
Resolution legislation	Neutral
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Positive
Liability structure	Positive
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

IDB's IDRs are driven by its GSR, which is in line with the domestic systemically important bank (D-SIB) GSR for Israel and reflects Fitch's view of a very high probability that Israel would provide support to IDB, if needed. In Fitch's view, Israel has a strong ability to support its banking sector, and its propensity to support IDB is high, particularly given IDB's systemic importance in the country with a market share of about 15% of banking-sector assets.

Environmental, Social and Governance Considerations

Israel Discount Bank Limited

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Israel Discount Bank Limited has 5 ESG potential rating drivers

- Israel Discount Bank Limited has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.h scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

SOLICITATION & PARTICIPATION STATUS

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For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.