FitchRatings

13 NOV 2024

Fitch Affirms Israel Discount Bank at 'A-'; Outlook Negative

Fitch Ratings - London - 13 Nov 2024: Fitch Ratings has affirmed Israel Discount Bank Limited's (IDB) Long-Term Issuer Default Rating (IDR) at 'A-' with a Negative Outlook and Short-Term IDR at 'F1'. The bank's Viability Rating (VR) has been affirmed at 'a-'.

Key Rating Drivers

VR and Support Drive Ratings: IDB's Long-Term IDR is driven by its VR and underpinned by our view of a very high probability that Israel (A/Negative/F1+) 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 VR reflects a good domestic universal banking franchise, improved asset quality and profitability, and adequate capitalisation and funding. IDB is required to reduce its shareholdings in its credit card subsidiary, Israel Credit Cards Ltd. (Cal), to improve competition. It has also announced the sale of a minority stake in its US subsidiary bank. However, these actions do not significantly change our view of IDB's business profile.

High Loan Growth: The bank has grown its mortgage book in recent years, 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 increased construction and real estate lending, a higher-risk subsector, although demand is driven by high population growth, which supports housing credit demand and mitigates risks.

Sound Asset Quality: Impaired loans were 0.8% of gross loans at end-1H24, which compares favourably with both domestic and international peers. Loan growth has been high in recent years, so we expect higher loan impairment charges as new loans season. We also 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: Net interest income has benefited from interest-rate rises and higher loan volumes in recent years. Operating profitability, which has historically been lower than peers', is benefiting from improved cost efficiency, with a Fitch-calculated cost/income ratio of 52% in 1H24, compared with an average of 68% over the past decade. We expect operating profit to continue to benefit from 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 10.67% common equity Tier 1 (CET1) ratio at end-1H24 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 risk-weighted assets (RWA) to total assets (end-1H24: 72%), as the bank uses the standardised approach to calculate credit-risk RWAs.

Sound Funding and Liquidity: IDB's 91% loans/deposits ratio is higher than its largest domestic peers, but broadly in line with 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 133% at end-1H24.

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

Rating Sensitivities

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

A downgrade of the sovereign ratings would result in a downgrade of IDB's Long-Term IDR and senior debt ratings if accompanied by a downgrade of the bank's VRs.

A sharp increase in the bank's risk environment that increases the likelihood of asset quality deterioration could result in a downgrade. A 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 also 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

An upgrade of IDB's IDRs is unlikely due to the Negative Outlook on the sovereign's Long-Term IDR. We would revise the Outlook to Stable if the sovereign Outlook was revised to Stable.

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 ratio, while also maintaining materially higher capital ratios, which we do not expect.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

IDB's senior unsecured notes are rated in line with the Long-Term IDR. 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.

The Long-Term IDR (xgs) of 'A-(xgs)' is at the level of the VR. The Short-Term IDR (xsg) of 'F2(xgs)' is the lower of two possible options that map to a 'A-' Long-Term IDR (xgs) due to IDB's 'a-' funding & liquidity score.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

The rating on the senior unsecured notes is sensitive to a change in the bank's IDR.

The IDRs (xgs) are sensitive to changes in the bank's VR.

VR ADJUSTMENTS

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).

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Public Ratings with Credit Linkage to other ratings

IDB's IDRs and Government Support Rating reflect a very high probability of support from Israel.

ESG Considerations

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.

Fitch Ratings Analysts

Michael Bojko, CFA
Director
Primary Rating Analyst
+44 20 3530 2723
Fitch Ratings Ltd 30 North Colonnade, Canary Wharf London E14 5GN

Rory Rushton

Senior Analyst
Secondary Rating Analyst
+44 20 3530 1919

Patrick Rioual
Senior Director
Committee Chairperson
+33 1 44 29 91 21

Media Contacts

Peter Fitzpatrick
London
+44 20 3530 1103
peter.fitzpatrick@thefitchgroup.com

Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Israel Discount Bank Limited	LT IDR	A-	Affirmed		A-
	ST IDR	F1	Affirmed		F1
	Viability	a-	Affirmed		a-
	Government Support	a-	Affirmed		a-
	LT IDR (xgs)	A-(xgs)	Affirmed		A-(xgs)
	ST IDR (xgs)	F2(xgs)	Affirmed		F2(xgs)
• senior unsecured	LT	A-	Affirmed		A-

ENTITY/DEBT	RATING			RECOVERY	PRIOR
• senior unsecured	LT (xgs)	A-(xgs)	Affirmed		A-(xgs)

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	⬘
NEGATIVE	⊖	⬙
EVOLVING	⊙	◆
STABLE	◘	

Applicable Criteria

Bank Rating Criteria (pub.15 Mar 2024) (including rating assumption sensitivity)

Additional Disclosures

Solicitation Status

Endorsement Status

Israel Discount Bank Limited	UK Issued, EU Endorsed

DISCLAIMER & DISCLOSURES

conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch’s website.

Endorsement policy

Fitch’s international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch’s approach to endorsement in the EU and the UK can be found on Fitch’s Regulatory Affairs page on Fitch’s website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.