

RATING ACTION COMMENTARY

Fitch Revises Israel Discount Bank's Outlook to Stable; Affirms IDR at 'A-'

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Fitch Ratings - London - 29 Oct 2025: Fitch Ratings has revised Israel Discount Bank Limited's (IDB) Outlook to Stable, from Negative, while affirming its Long-Term Issuer Default Rating (IDR) at 'A-'. We have also affirmed its Viability Rating (VR) at 'a-'.

The Outlook revision reflects the resilience of IDB's financial profile to Israel's operating environment challenges since the start of the war as well as the reduction of risks. Economic activity has returned mostly to normal, providing growth opportunities to Israeli banks while containing asset quality pressures. Downside risks to our operating environment assessment for these banks are linked to the sovereign ratings (A/Negative/F1+).

KEY RATING DRIVERS

Well-Established Domestic Franchise: IDB's Long-Term IDR is driven by its VR and reflects a good domestic universal banking franchise, resilient asset quality and profitability through the war and adequate capitalisation and funding. The sale of Israel Credit Cards Ltd (Cal), the bank's subsidiary, which we expect to complete next year, does not change our assessment of IDB's franchise strength as the bank's business profile benefits from diversification across other subsectors.

High Probability of Government Support: IDB'S IDRs are also underpinned by potential government support, which is reflected in a Government Support Rating of 'a-'. Israel has strong incentives to provide support, given the bank's systemic importance in the country, with about 15% of banking system assets.

Stable Underwriting Standards: IDB has maintained conservative underwriting standards, partly as a result of prudent regulatory limits and close oversight. Loan growth is broadly in line with peers' and reflects the rapid expansion of the population, which is less indebted than those in many developed markets, and its economy. IDB has 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.

Resilient Asset Quality: Impaired loans were 0.7% of gross loans at end-1H25, which compares favourably with domestic and international peers. The increase in loans has moderated, supporting asset quality. We expect the impaired loans ratio to rise but remain about 1% over the next two years. Asset quality is underpinned by a high coverage of impaired loans by loan loss allowances (186%), although we expect this to trend down although remain comfortably above 100%.

Resilient Earnings: Net interest income (NII) benefitted from loan growth in 1H25, though the net interest margin (NIM) decreased due to tighter loan margins. Nevertheless, the NIM remains strong on an international basis due to the bank's large base of stable and low-cost current accounts. Fee income fell to 25% of revenues following the classification of Cal as a discontinued operation, bringing it in line with domestic peers. Cal's profitability was slightly lower than the group, so we expect the sale to be marginally positive for IDB's profitability, with an operating profit/risk-weighted assets broadly stable in 2025 and 2026, despite pressures on NII.

Stable Capital Buffers: Capital buffers have been stable and at the low end among its domestic peers, with a 10.53% common equity Tier 1 ratio at end-1H25 versus a 9.20% regulatory minimum requirement. Our assessment considers IDB's improved internal capital generation and its fairly high risk-weighted assets/assets ratio (end-1H25: 69%), as the bank uses the standardised approach to calculate credit risk-weighted assets. We do not expect the sale of Cal to materially benefit capital ratios due to likely shareholders' pressure to return any excess capital.

Funding Benefits from Government Support: IDB's funding and liquidity assessment score is driven by government support and our expectation that the state's propensity to provide support is more certain in the near term, given the systemic importance of the bank. As a result, IDB's 'F1' Short-Term IDR is the higher of two possible Short-Term IDRs that map to an 'A-' Long-Term IDR. Its funding and liquidity profile is also underpinned by its stable and granular deposit base - split equally between retail and corporate deposits - and sound liquidity.

RATING SENSITIVITIES

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

IDB's Long-Term IDR would be downgraded if IDB's GSR and VR were downgraded. A downgrade of the former would be triggered by a downgrade of the sovereign rating, which could also trigger a downgrade of IDB's VR, if it greatly increased pressure on the

bank's financial profile. This reflects the contagion risk resulting from the links between the sovereign, the operating environment and local banks' performance.

The most likely trigger for a downgrade of IDB's VR would be a deterioration of asset quality that results in an impaired loans ratio of above 2% for an extended period, combined with the common equity Tier 1 ratio declining below current levels and weakening internal capital generation.

The Short-term IDR would be downgraded if Israel's Short-Term IDR was downgraded by at least two notches.

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 operating environment for Israeli banks, which is sensitive to the drivers of a downgrade of the sovereign rating. In addition, upside is unlikely due to the bank's geographical concentration and small capital buffers.

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 would equate 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 and liquidity score.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

The senior ratings are sensitive to changes in the bank's Long-Term IDR.

The Long-Term IDR (xgs) is sensitive to changes in the bank's VR. The Short-Term IDR (xgs) is sensitive to changes in the funding and liquidity score.

VR ADJUSTMENTS

The 'a' operating environment score is below the 'aa' implied category score due to the following adjustment reasons: sovereign rating (negative), size and structure of economy (negative).

The 'a-' business profile score is above the 'bbb' implied category score due to the following adjustment reason: market position (positive).

The 'bbb+' earnings and profitability score is below the 'a' implied category score due to the following adjustment reason: earnings stability (negative).

The 'a-' capitalisation and leverage score is above the 'bbb' implied category 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 GSR is linked to Israel's Long-Term IDR while IDB's Short-Term IDR is linked to the sovereign's Short-Term IDR.

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>.

RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡			PRIOR ⚡
Israel Discount Bank Limited	LT IDR	A- Rating Outlook Stable		A- Rating Outlook Negative
	Affirmed			
	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-
senior unsecured	LT (xgs)	A-(xgs)	Affirmed		A-(xgs)

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

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

Rory Rushton
Senior Analyst
Secondary Rating Analyst
+44 20 3530 1919
rory.rushton@fitchratings.com

Cristina Torrella Fajas
Senior Director
Committee Chairperson
+34 93 323 8405
cristina.torrellafajas@fitchratings.com

MEDIA CONTACTS

Matthew Pearson
London

+44 20 3530 2682

matthew.pearson@thefitchgroup.com

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

[Bank Rating Criteria \(pub. 21 Mar 2025\) \(including rating assumption sensitivity\)](#)

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UK Issued, EU Endorsed

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