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Research Update:

Israel Discount Bank of New York Assigned 'BBB+' Issuer Credit Rating As Core Subsidiary Of Parent; Outlook Stable

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Overview

- New York-based Israel Discount Bank of New York (IDB-NY) is a core and integral subsidiary of its large Israel-based parent bank.
- We believe that the parent would almost certainly provide support to IDB-NY if needed.
- We are assigning a 'BBB+' issuer credit rating to the bank, equivalent to the long-term rating on the parent.
- Our stable outlook mirrors the stable outlook on its parent because we expect that our ratings and the trends for IDB-NY will be the same as the parent's over the two year outlook horizon.

Rating Action

On Feb. 21, 2019, S&P Global Ratings assigned a 'BBB+' long-term issuer credit rating on Israel Discount Bank of New York (IDB-NY). The rating outlook is stable.

Rationale

Our ratings on IDB-NY are based on S&P Global Ratings' view that the bank is an important, core subsidiary of its Israel-based parent, Israel Discount Bank Ltd. (BBB+/Stable/A-2 global issuer credit ratings), and we expect that the parent would provide support to IDB-NY, if needed. Therefore, we view the creditworthiness of IDB-NY as equivalent to that of its parent.

With \$9.0 billion in assets as of Sept. 30, 2018, New York City-based IDB-NY is the main bank subsidiary of U.S. holding company Discount Bancorp Inc., which is wholly owned by Israel Discount Bank Ltd., the third-largest bank in Israel (with \$64.2 billion in assets as of Sept. 30, 2018). IDB-NY has operated in the U.S., an important market for its parent, in our view, for decades. Illustrating its financial importance to the Israeli group, IDB-NY typically contributes roughly 15% of the group's annual net income and accounts for 20% of the group's capital. The bank's strategy is closely aligned with the parent's. We expect that the parent would support the U.S. subsidiary in times of stress, demonstrated by the group setting up contingency liquidity for IDB-NY during the financial crisis in 2008. The

group has had a presence in the U.S. through IDB-NY for many decades, and we believe that the group will continue to be committed to operating in the U.S.; in our view, this commitment partly stems from the important economic, political, and historical ties between the U.S. and Israel.

We rate IDB-NY at the same level as the group's supported group credit profile ('bbb+'), which benefits from one notch of assumed extraordinary systemic support from Israel. That is because we believe the entire group, including the U.S. subsidiary, would benefit from government support provided to the parent, if needed.

On a stand-alone basis, IDB-NY is relatively small compared with most rated U.S. regional banks and has a niche-oriented, concentrated business model. Although the bank may face competitive challenges in both lending and deposit gathering, it benefits from its long-term customer relationships and tends to attract customers with an affinity to its Israeli bank parent. IDB-NY has some large borrower and industry concentrations, although recent asset quality performance has been good, albeit in this currently benign environment.

These risks are partly offset by the bank's high capital ratios, including strong regulatory capital ratios and an S&P Global Ratings risk-adjusted capital (RAC) ratio of above 12% as of June 30, 2018. Still, the bank lacks a track record of good earnings; although earnings improved significantly in the first nine months of 2018, profitability has been modest for the past several years. As a wholesale bank, IDB-NY has a less-diversified deposit base than regional bank peers and has a much higher-than peers' proportion of brokered deposits. However, we assume that the parent would provide funding support to IDB-NY if needed.

Outlook

The stable outlook on IDB-NY mirrors the stable outlook on its parent. As a core subsidiary of its parent, our ratings on IDB-NY will likely be the same as our rating on its parent over the next two years. So long as the rating on the parent remains unchanged, we would only change our rating on IDB-NY if we were to alter our view of the subsidiary's strategic importance to its parent, which we do not view as likely in the next couple of years.

Related Criteria

- General Criteria: Methodology for National And Regional Scale Credit Ratings, June 25, 2018
- Risk-Adjusted Capital Framework Methodology, July 20, 2017
- Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Group Rating Methodology, Nov. 19, 2013
- Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use

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