



Israel Discount Group Reports Record Results in 1Q 2022

Net Income of NIS 983 million and ROE of 18.3% driven by 12.1% Loan Growth and Property Sales

Discount Group reported record quarterly results completing the first quarter of 2022 with net income of NIS 983 million, ROE of 18.3% and a strong capital position with CET-1 of 10.55% that is significantly above both regulatory and management requirements. Our strong capital position, excess liquidity and solid leverage ratios allowed Discount to, once again, grow our balance sheet by well over 10% while focusing on our targeted segments, mortgagees and medium sized enterprises. Discount announced a dividend of 197m shekels in respect of 1Q22 earnings. This is the third consecutive dividend distribution since payments were reinstated at the bank post COVID.

Uri Levin, Discount Group CEO, said: "We achieved another quarter of record profits, while emphasizing significant and responsible growth in strategic focus areas and establishing a quality credit portfolio that can demonstrate strength even in a challenging environment. I have great confidence in our ability to meet our 2025 financial targets, even in a changing macro environment, as we continue to create significant value for our clients and shareholders while increasing competitiveness in the banking and financial system."

1Q 2021 Main highlights:

- Discount reported **strong results** with 983m in net profit and ROE of 18.3% supported by a strong underlying business and one-times associated with the sale of properties as we prepare to move to our new campus in early 2023. Adjusted net profit was NIS 668m and adjusted ROE was 12.4%
- **Solid execution at all subsidiaries** driving a robust Group performance
- **Continued robust YTD growth in targeted segments** of **mortgages** up 5.1% and **medium enterprises** up 12.9% in part due to an updated classification of corporate customers to medium. Excluding the reclassification of corporate customers to medium balances were up 6.2%.
- **Strong Asset quality** with negative LLP, low write-offs and 1.31% coverage ratio
- **Raised Equity of NIS 1.4 billion** driving CET-1 to 10.55% and facilitating future growth as we continue to focus on achieving long-term financial goals
- **Dividend** payout of NIS 197 m; 20% of 1Q 22 net income

Group Overview

Discount Group completed the first quarter of 2022 with strong net income of NIS 983m and solid ROE of 18.3%. This was largely driven by 12.1% YoY credit growth (2.1% in the quarter) while maintain focus on our target segments of mortgages (+27.7% YoY and +5.1% in 1Q22) bringing mortgage to 25.4% of our total credit book and our market share of mortgage balances to 11.1%. Medium sized enterprises were also up significantly in the quarter +26.9% YoY and +12.9% in 1Q22 and excluding the reclassification of certain customers to medium enterprises was up 19.4% and 6.2% respectively. The 1.2% increase in CPI and credit expenses release of NIS 60m provided additional uplift in the quarter.

Net interest income increased 19.7% YoY and 7.0% in during the quarter fueled by credit growth and CPI. The mid and long term macro picture is favorable for NII with rising expectations for both interest rates and inflation. Every increase of 1% in the interest rate is estimated in have a NIS 1.2bn positive impact on NII.

Asset quality remains strong with a coverage ratio of 1.31% and a credit expense release of NIS 60m in the quarter. The expense release was generated mainly on account of low net write-offs (0.10% of total credit) and lower provisions. On January 1st 2022, in accordance with the guidance of the Bank of Israel, we implemented CECL which brought new models and methodologies for calculating expected losses.

In late March and in response to the sharp changes in the Israel government bond yield curve, and given the opportunities we recognized in the market, the Bank raised NIS 1.4 in equity and helped bring the CET-1 ratio to 10.55% as at the end of 1Q22. The capital increase places the bank well above its management and regulatory CET-1 ratios of 9.75% and 9.17% respectively.

The Group's loan portfolio continues to grow increasing 12.1% YoY and 2.1% since the beginning of the year. Mortgages and Medium sized enterprises continue to be the main focus as we execute on our strategy. We originated new mortgages of NIS 5.3b during 1Q22 and taking 14.8% market share that a year ago was only 12.5%. The mortgage balance growth of 27.7% would have been higher if not for the sale of a portion of our mortgage portfolio during the quarter. Balances of corporate and medium sized enterprises regulatory segments were impacted in the quarter as a number of corporate clients were classified as medium.

The growth of our loan book, strong fee growth, (+14% YoY and 2% in 1Q22) as well as income from the sale of real estate properties, slightly offset by lower non-interest income, helped produce over NIS 3bn (+21.6% YoY and +13.4% QoQ) in Total Income in 1Q22. Expenses were up 3.3% in 1Q22 vs. 1Q21 mainly on account of salary increases that are part of the previous wage agreement with the union and revenues share and commissions paid by CAL to its partners.

We continue to focus on execution of our strategy as we build towards achieving our 2025 financial targets of 3.5 billion shekels in net income, 12.5% ROE and a cost income ratio of 55%. These ambitious and challenging goals set the stage for Discount in the coming years as we continue to focus on execution and being the best financial institution for our customers and delivering superior value to shareholders over time.

Main highlights of P&L, Balance Sheet and Selected Ratios

Discount Group P&L and Selected Ratios

NIS m	1Q22	4Q21	1Q21	Vs. 4Q21	Vs. 1Q21
Net interest income	1,800	1,683	1,504	7.0%	19.7%
Credit loss expenses (expenses release)	(60)	(10)	(147)	(500.0%)	59.2%
Non-interest financing income	45	180	298	(75.0%)	(84.9%)
Commissions	825	809	724	2.0%	14.0%
Other income	416	50	11	732.0%	3681.8%
Total non-interest income	1,286	1,039	1,033	23.8%	24.5%
Total income	3,086	2,722	2,537	13.4%	21.6%
Salaries and related expenses	855	970	801	(11.9%)	6.7%
Maintenance & depreciation	303	293	294	3.4%	3.1%
Other expenses	549	676	557	(18.8%)	(1.4%)
Total operating and other expenses	1,707	1,939	1,652	(12.0%)	3.3%
Income before taxes	1,439	793	1,032	81.5%	39.4%
Provision for taxes on income	447	269	353	66.2%	26.6%
Income after taxes	992	524	679	89.3%	46.1%
Net income attributable to shareholders	983	529	662	85.8%	48.5%
ROE	18.3%	9.8%	13.8%		
Cost income ratio	55.3%	71.2%	65.1%		
CET-1 ratio	10.55%	10.14%	10.20%		
NIM	2.36%	2.30%	2.25%		
Rate of credit loss expenses	(0.11%)	(0.02%)	(0.30%)		
NPL ratio	0.70%	0.59%	0.84%		
Dividend per share (in Agurot)*	15.89	9.08			

* Dividend in respect of the relevant period

Discount Group Adjusted P&L and Selected Ratios

	1Q22	4Q21	1Q21	Vs. 4Q21	Vs. 1Q21
Net interest income	1,800	1,683	1,504	7.0%	19.7%
Credit loss expenses (expense release)	(60)	(10)	(147)	500.0%	(59.2%)
Non-interest financing income	45	180	298	(75.0%)	(84.9%)
Commissions	825	809	724	2.0%	14.0%
Other income	8	2	11	300.0%	(27.3%)
Total non-interest income	878	991	1,033	(11.4%)	(15.0%)
Total income	2,678	2,674	2,537	0.1%	5.6%
Salaries and related expenses	855	735	801	16.3%	6.7%
Maintenance & depreciation	303	293	294	3.4%	3.1%
Other expenses	549	633	442	(13.3%)	24.2%
Total operating and other expenses	1,707	1,661	1,537	2.8%	11.1%
Income before taxes	1,031	1,023	1,147	0.8%	(10.1%)
Provision for taxes on income	354	354	392	-	(9.7%)
Income after taxes	677	669	755	1.2%	(10.3%)
Net income attributable to shareholders	668	674	738	(0.9%)	(9.5%)
ROE	12.4%	12.5%	15.3%		
Cost income ratio	63.7%	62.1%	60.6%		
CET-1 ratio	10.52%	10.14%	10.20%		
NIM	2.36%	2.30%	2.25%		
Rate of credit loss expenses	(0.11%)	(0.02%)	(0.30%)		
NPL ratio	0.70%	0.59%	0.84%		
Dividend per share (in Agurot)*	15.89	9.08	-		

* Dividend in respect of the relevant period

Discount Group Adjustments to P&L

NIS m	Gross	Gross	Gross	Net	Net	Net
	1Q22	4Q21	1Q21	1Q22	4Q21	1Q21
Retirement benefits		14	115		9	76
Early redemption of long term benefits		29			19	
Provisions for new salary agreement		235			155	
Income from real estate sales	(408)	(48)		(315)	(38)	
Total	(408)	230	115	(315)	145	76

Discount Group Selected Balance Sheet Items

NIS m	31.03.22	31.12.21	31.03.21
Cash and deposits with banks	60,997	59,638	50,307
Securities*	44,074	45,076	45,347
Credit to the public	220,733	216,196	196,901
Provision for credit loss	(2,882)	(3,040)	(3,609)
Credit to the public, net	217,851	213,156	193,292
Credit to governments	2,553	2,664	3,520
Investment in investee companies	455	462	355
Buildings and equipment	3,441	3,401	3,012
Intangible assets and goodwill	163	163	164
Assets in respect of derivative instruments	5,732	5,522	5,099
Other assets	5,392	5,006	5,046
Total Assets	340,658	335,088	306,142
Deposits from the public	267,731	260,907	240,787
Deposits from banks**	13,342	12,880	12,534
Bonds and subordinated debt notes	12,211	15,071	10,136
Liabilities in respect of derivative instruments	5,892	6,323	4,919
Other liabilities	17,773	17,759	17,368
Total liabilities	316,949	312,940	285,744
Equity capital attributed to the Bank's shareholders	23,027	21,483	19,836
Non-controlling rights in consolidated companies	682	665	562
Total equity	23,709	22,148	20,398
Total Liabilities and Equity	340,658	335,088	306,142

* Including securities borrowed or purchased under agreements to resell

** Including deposits from governments

Overview of Subsidiaries

Mercantile:

Strong ROE of 12.9% and solid net income of NIS 121 million at Mercantile were driven by credit growth, supportive CPI and carefully managed expenses. YoY Loan book expansion of 5.0% in 1Q22 was mainly driven by significant growth across the entire loan book. Mortgages were up 7.5%, Commercial up 5.4% Small enterprises up 3.4% and Consumer up 2.8%. Expenses were slightly lower producing a positive JAWS ratio in the quarter and Cost-income ratio of 53.8%.

NIS m	1Q22	4Q21	1Q21	Vs. 4Q21	Vs. 1Q21
Net interest income	359	342	306	5.0%	17.3%
Credit loss expenses (expenses release)	25	(6)	(9)	n/a	n/a
Non-interest income	89	94	155	(5.3%)	(42.6%)
Total income	448	436	461	2.8%	(2.8%)
Operating & other expenses	241	309	243	(22.0%)	(0.8%)
Net income	121	91	150	33.0%	(19.3%)
Return on equity	12.9%	10.2%	18.5%		
Cost-income ratio	53.8%	70.9%	52.7%		
Rate of credit loss expenses	0.30%	(0.06%)	(0.10%)		
NIM	2.51%	2.60%*	2.54%		
Total assets	60,900	59,894	51,363	1.7%	18.6%
Credit to the public, net	39,494	37,636	34,022	4.9%	16.1%
Securities	7,035	6,883	5,733	2.2%	22.7%
Deposits from the public	48,881	48,070	41,476	1.7%	17.9%
Total equity	3,691	3,771	3,337	(2.1%)	10.6%

* Calculated using previous methodology

IDB NY:

In New York, we saw credit grow 16.5% and deposits were up 13.8% in the past year. Coupled with lower LLP helped to deliver ROE of 9.7%. Strong year over year deposit growth up 13.8% continued to provide liquidity for loan growth and disciplined management of cost of funds contributed to overall improvement in margins. 1Q22 produced a release of provision for credit losses of \$6.6 million vs. a release of \$4.8m in 4Q 2021. On January 1st IDB NY adopted (CECL) accounting for the allowance for credit losses.

USD m	1Q22	4Q21	1Q21	Vs. 4Q21	Vs. 1Q21
Net interest income	72	71	59	1.0%	21.2%
Credit loss expenses (expenses release)	(7)	(5)	17	n/a	n/a
Non-interest income	18	22	23	(17.7%)	(22.7%)
Total income	89	92	82	(3.9%)	9.0%
Operating & other expenses	58	54	52	7.2%	12.7%
Net income	28	30	10	(6.9%)	183.9%
Return on equity	9.7%	10.4%	3.4%		
Cost-income ratio	64.4%	58.1%	63.4%		
Rate of credit loss expenses	(0.31%)	(0.23%)	0.96%		
NIM	2.34%	2.41%	2.28%		
Total assets	12,980	12,952	11,667	0.2%	11.3%
Loans, net	8,564	8,421	7,354	1.7%	16.5%
Securities	2,804	2,829	2,966	(0.9%)	(5.5%)
Deposits from the public	11,301	11,245	9,928	0.5%	13.8%
Total equity	1,116	1,158	1,148	(3.6%)	(2.8%)

CAL:

CAL produced robust net income of NIS 80 million and 14.3% ROE supported by a 23.9% increase in total income, 22.9% increase in consumer credit and a 20.5% increase in transaction turnover. A negative change in allowance for credit losses on the back of an improving economy led to negative credit loss expenses. A number of strategic initiatives were closed during 1Q22 including credit as a service agreement with PAZ and BIT. A new loyalty club with Electra Consumer and a 3-year extension with Shufesal and lastly a new payment as a service agreement with PayBox.

NIS m	1Q22	4Q21	1Q21	Vs. 4Q21	Vs. 1Q21
Income from credit card transactions	377	388	317	(2.8%)	18.9%
Net interest income	160	146	129	9.6%	24.0%
Credit loss expenses (expenses release)	(1)	9	(4)	n/a	75%
Non-interest financing income	17	1	1	1600.0%	1600.0%
Total income	554	535	447	3.6%	23.9%
Total expenses (excluding credit loss expenses)	440	462	364	(4.8%)	20.9%
Net income	80	40	60	100%	33.3%
Return on equity	14.3%	7.5%	12.9%		
Cost-income ratio	79.4%	86.4%	81.4%		
Total assets	16,867	16,076	19,385	4.9%	(13.0%)
Interest bearing credit	7,188	6,717	5,822	7.0%	23.5%
Consumer credit	6,180	5,777	5,030	7.0%	22.9%
Total equity	2,305	2,216	1,989	4.0%	15.9%

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