



# Israel Discount Group Reports 2Q and First Half 2021 Results

**Record Group Net Income of NIS 860 million and ROE of 18.3%**

**Dividend Expected to be Reinstated in Coming Quarters with a Payout of 20%**

## 2Q 2021 Main highlights:

- **Record ROE** of 18.3% in 2Q21 up from 14.5% in 1Q21 and 3.7% in 2Q20 driven by:
  - **Strong NII** generated by growth in core banking; up 12.0% QoQ and 15.2% YoY
  - **Negative LLP** of -0.82% driven by low write-offs, high collections and a release of provisions
  - **Lower salary expenses excluding bonuses** as early retirement plans make an impact
- **Normalized ROE was 10.1%** when replacing current credit expense release ratio of -0.82% with a credit expense ratio of 0.37% (average of 2016-2019)
- **Solid execution at all subsidiaries** resulting in robust Group performance
- **Gross Credit balance surpassed NIS 200bn** for the first time with loan book growth of 2.7% QoQ and 8.3% YoY
- **Strong Asset Quality** with problematic debt down 9.5% vs 1Q21 and an NPL ratio of 0.72%
- Discount expects to **reintroduce a 20% dividend** on ongoing profits once the Bol removes its current limitation and presuming that no further limitations will be set in respect of future profits.

## 1H 2021 Main highlights:

- **ROE of** 16.1% in 1H21 vs. 4.8% in 1H20 **adjusted ROE** was 17.1% and 5.4% respectively
- **Net income** of NIS 1,522m in 1H21 vs NIS 453m in 1H20; adjusted net income was NIS 1,616m in 1H21 and NIS 509m in the same period last year
- **NII** was up 9.3% to NIS 3,189 1H21 on account of solid loan growth and positive CPI
- **Fee income** is up 8.6% to NIS 1,509 as economic activity is picking up relative to the first half last year

## Group Overview

Discount Group reported record results for the second quarter of 2021 with net income of NIS 860m, strong ROE of 18.3% and reached a milestone with gross total credit of over NIS 200bn driven mainly by our core banking business (net interest income and fees) which increased 10.9% QoQ and 16.9% YoY and a credit expense reversal of -0.82%. The Group's normalized ROE, which assumes a credit loss expense ratio of 0.37% was 10.1% in 2Q21 and 10.6% in 1H21.

These achievements were the result of strong performance across each of our subsidiaries as we continue to execute on our strategy in both traditional and innovative banking. This quarter saw us once again win market share in mortgages and gain momentum in medium enterprises, both, main areas of focus for the Group.

This quarter we also announced our intention to reintroduce dividend payments totaling 20% of net income once the Bol removes its current limitation and presuming that no further limitations will be set in respect of future profits.

The Group's loan portfolio continues to expand increasing 8.3% YoY, 5.1% YTD and 2.7% vs. 1Q21. We continue to execute on our strategy with focus on key areas, mortgages and medium enterprises. We achieved significant growth in mortgages, up 18.9% YoY, 10.6% YTD and 6.3% in the first quarter reaching 10.4% market share. Our growing share is produced by the fast pace of mortgage generation that reached NIS 4.2bn in 2Q21, up almost 130% since the beginning of 2019 all while maintaining conservative underwriting and risk management. LTVs over 60% and total mortgages in arrears of 90 days or more both lower than the rest of the banking sector average. Our medium enterprise book, another key area of focus is up 4.7% YoY, 10.2% YTD and 7.9% QoQ.

The growth of our loan book as well as significant increase in fees helped produce almost NIS 2.5bn in core banking revenues in 2Q21. NII of NIS 1.7bn was up 15.2% YoY and 12.0% QoQ while fees were up 20.8% and 8.4% correspondingly. Non-interest financing income was down in the quarter as mainly due to losses on account of derivatives including negative marked to market and linked losses.

We maintained tight cost controls with total adjusted expenses excluding bonuses down 1.3% and 1.0% YoY and QoQ respectively. Salary expenses excluding bonuses were 8.4% lower vs. 2Q20 and 4.6% vs 1Q21 as the impact of the early retirement plan plays out. Bonuses for employees were higher along with the record ROE result.

The Group's overall credit quality improved as collections on loans in arrears and a release of some of the reserves that were built in 2020 led to a credit expense release ratio of negative 0.82%. Along with the collections our problematic debt was 9.5% lower in the quarter as customers returned to timely payments of loans. Even with the negative credit expense release ratio our provisions to loan ratio of 1.62% is still well above the 1.38% of pre-COVID.

The Group continues to focus on its five year strategic plan having hit a number of achievements during the quarter including, the performance of our mortgage lending business within the pillar of traditional banking and completing the reestablishment of PayBox with Shufersal within the pillar of innovation. During the second quarter PayBox reached over 2 million downloads, launched tap to pay and completed the integration of Israel's leading gift card program onto the platform.

Below please find the condensed financials for the Group and our subsidiaries for the second quarter.

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

### Discount Group P&L and Selected Ratios

NIS m	2Q21	1Q21	2Q20	Vs. 1Q20	Vs. 2Q20	1H21	1H20	Change
Net interest income	1,684	1,504	1,463	12.0%	15.2%	3,189	2,918	9.3%
Credit loss expenses (expenses release)	(410)	(147)	532	n/a	n/a	(557)	1,188	(146.9%)
Non-interest financing income	89	298	276	(70.1%)	(67.8%)	387	693	(44.2%)
Commissions	785	724	650	8.4%	20.8%	1,509	1,389	8.6%
Other income	1	11	8	(90.9%)	(87.5%)	12	8	50.0%
Total non-interest income	875	1,033	934	(15.3%)	(6.3%)	1,908	2,090	(8.7%)
<b>Total income</b>	<b>2,560</b>	<b>2,537</b>	<b>2,397</b>	<b>0.9%</b>	<b>6.8%</b>	<b>5,097</b>	<b>5,008</b>	<b>1.8%</b>
Salaries and related expenses	830	801	794	3.6%	4.5%	1,631	1,618	0.8%
Maintenance & depreciation	493	353	105	4.8%	12.4%	602	559	7.7%
Other expenses	866	679	177	27.5%	389.3%	1,545	450	243.3%
<b>Total operating and other expenses</b>	<b>1,611</b>	<b>1,652</b>	<b>1,583</b>	<b>(2.5%)</b>	<b>1.8%</b>	<b>3,263</b>	<b>3,114</b>	<b>4.8%</b>
Income before taxes	1,359	1,032	282	31.7%	381.9%	2,391	706	238.7%
Provision for taxes on income	493	353	105	39.7%	369.5%	846	256	230.5%
Income after taxes	866	679	177	27.5%	389.3%	1,545	450	243.3%
<b>Net income attributable to shareholders</b>	<b>860</b>	<b>662</b>	<b>174</b>	<b>29.9%</b>	<b>394.3%</b>	<b>1,522</b>	<b>453</b>	<b>236.0%</b>
ROE	18.3%	14.5%	3.7%			15.2%	5.0%	
Cost income ratio	62.9%	65.1%	66.0%			64.0%	62.2%	
CET-1 ratio	10.28%	10.20%	10.08%			10.28%	10.08%	
NIM	2.48%	2.26%	2.35%			2.36%	2.40%	
Rate of credit loss expenses	(0.82%)	(0.30%)	1.14%			(0.56%)	1.28%	
NPL ratio	0.72%	0.84%	0.77%			0.72%	0.77%	
Dividend per share (in Agurot)*	-	-	-			-	4.19	

\* Dividend in respect of the relevant period

### Discount Group Adjusted P&L and Selected Ratios

	2Q21	1Q21	2Q20	Vs. 1Q20	Vs. 2Q20	1H21	1H20	Change
Net interest income	1,685	1,504	1,463	12.0%	15.2%	3,189	2,918	9.3%
Credit loss expenses	(410)	(147)	532	n/a	n/a	(557)	1,188	(146.9%)
Non-interest financing income	89	298	276	(70.1%)	(67.8%)	387	693	(44.2%)
Commissions	785	724	650	8.4%	20.8%	1,509	1,389	8.6%
Other income	1	11	8	(90.9%)	(87.5%)	12	8	50.0%
Total non-interest income	875	1,033	934	(15.3%)	(6.3%)	1,908	2,090	(8.7%)
<b>Total income</b>	<b>2,560</b>	<b>2,537</b>	<b>2,397</b>	<b>0.9%</b>	<b>6.8%</b>	<b>5,097</b>	<b>5,008</b>	<b>1.8%</b>
Salaries and related expenses	830	801	794	3.6%	4.5%	1,631	1,618	0.8%
Maintenance & depreciation	289	294	274	(1.7%)	5.5%	583	559	4.3%
Other expenses	466	442	435	5.4%	7.1%	908	851	6.7%
<b>Total operating and other expenses</b>	<b>1,585</b>	<b>1,537</b>	<b>1,503</b>	<b>3.1%</b>	<b>5.5%</b>	<b>3,122</b>	<b>3,028</b>	<b>3.1%</b>
Income before taxes	1,385	1,147	362	20.7%	282.6%	2,532	792	219.7%
Provision for taxes on income	501	392	133	27.8%	276.7%	893	289	212.2%
Income after taxes	884	755	229	17.1%	286.0%	1,639	506	223.9%
<b>Net income attributable to shareholders</b>	<b>878</b>	<b>738</b>	<b>226</b>	<b>19.0%</b>	<b>288.5%</b>	<b>1,616</b>	<b>509</b>	<b>217.5%</b>
ROE	18.7%	16.2%	4.8%			17.1%	5.4%	
Cost income ratio	61.9%	60.6%	62.7%			61.3%	60.5%	
CET-1 ratio	10.28%	10.20%	10.08%			10.28%	10.08%	
NIM	2.48%	2.26%	2.35%			2.36%	2.40%	
Rate of credit loss expenses	(0.82%)	(0.30%)	1.14%			(0.56%)	1.28%	
NPL ratio	0.72%	0.84%	0.77%			0.72%	0.77%	
Dividend per share (in Agurot)*	-	-	-			-	4.19	

\* Dividend in respect of the relevant period

## Discount Group Adjustments to P&L

NIS m	Gross	Gross	Gross	Net	Net	Net	Gross	Gross	Net	Net
	2Q21	1Q21	2Q20	2Q21	1Q21	2Q20	1H21	1H20	1H21	1H20
Early retirement at Discount Bank and Mercantile	7	115	9	5	76	6	122	15	81	10
Legal provision, net of insurance payment			71			46		71		46
Cost associated with IDBNY change of headquarters location	19			13			19		13	
Income from the sale of Visa Inc. shares										
Early retirement at CAL										
<b>Total</b>	<b>26</b>	<b>115</b>	<b>80</b>	<b>18</b>	<b>76</b>	<b>52</b>	<b>141</b>	<b>86</b>	<b>94</b>	<b>56</b>

## Discount Group Selected Balance Sheet Items

NIS m	30.06.21	31.03.21	30.06.20
Cash and deposits with banks	47,405	50,307	39,608
Securities*	48,226	44,212	40,869
Credit to the public	202,258	196,901	186,841
Provision for credit loss	(3,272)	(3,609)	(3,405)
Credit to the public, net	198,986	193,292	183,436
Credit to governments	3,217	3,520	4,219
Investment in investee companies	345	355	154
Buildings and equipment	3,117	3,012	2,648
Intangible assets and goodwill	164	164	164
Assets in respect of derivative instruments	4,670	5,099	5,856
Other assets	4,604	5,046	5,146
<b>Total Assets</b>	<b>310,734</b>	<b>306,142</b>	<b>282,100</b>
Deposits from the public	240,691	240,787	222,048
Deposits from banks**	15,578	12,534	7,949
Securities lent or sold under agreements to repurchase	-	-	-
Bonds and subordinated debt notes	11,203	10,136	11,377
Liabilities in respect of derivative instruments	4,876	4,919	6,064
Other liabilities	17,040	17,368	14,965
Total liabilities	289,388	285,744	262,577
Equity capital attributed to the Bank's shareholders	20,704	19,836	19,004
Non-controlling rights in consolidated companies	642	562	519
Total equity	21,346	20,398	19,523
<b>Total Liabilities and Equity</b>	<b>310,734</b>	<b>306,142</b>	<b>282,100</b>

\* Including securities borrowed or purchased under agreements to resell

\*\* Including deposits from governments

## Overview of Subsidiaries

### **Mercantile:**

Mercantile produced a record quarter in terms of both net income and ROE even excluding gains from the valuation gain on shares of Zim Shipping. Similar to the trends at the Group, negative LLP and impressive credit growth were significant drivers of the 201-million-shekel net-income and 26.2% RoE result. Mercantile continues to perform well and achieve strong results as it focuses on its strategy.

<b>NIS m</b>	<b>2Q21</b>	<b>1Q21</b>	<b>2Q20</b>	<b>Vs. 1Q21</b>	<b>Vs. 2Q20</b>	<b>1H21</b>	<b>1H20</b>	<b>Change</b>
Net interest income	335	306	299	9.5%	12.0%	641	616	4.1%
Credit loss expenses (expenses release)	(73)	(9)	99	n/a	n/a	(82)	197	(141.6%)
Non-interest income	141	155	124	(9.0%)	13.7%	296	222	33.3%
<b>Total income</b>	<b>476</b>	<b>461</b>	<b>423</b>	<b>3.3%</b>	<b>12.5%</b>	<b>937</b>	<b>838</b>	<b>11.8%</b>
<b>Operating &amp; other expenses</b>	<b>241</b>	<b>243</b>	<b>235</b>	<b>(0.8%)</b>	<b>2.6%</b>	<b>484</b>	<b>476</b>	<b>1.7%</b>
<b>Net income</b>	<b>201</b>	<b>150</b>	<b>58</b>	<b>34.0%</b>	<b>246.6%</b>	<b>351</b>	<b>107</b>	<b>228.0%</b>
<b>Net income excluding non-recurring items</b>	<b>172</b>	<b>117</b>	<b>54</b>	<b>47.0%</b>	<b>218.5%</b>	<b>289</b>	<b>103</b>	<b>180.6%</b>
Return on equity	26.2%	19.9%	7.5%			22.4%	6.9%	
Return on equity excluding non-recurring items	22.1%	8.3%	7.3%			18.3%	6.7%	
Cost-income ratio	50.6%	52.7%	55.6%			51.7%	56.8%	
Cost-income ratio excluding non-recurring items	55.8%	63.2%	55.6%			57.4%	56.8%	
Rate of credit loss expenses	(0.84%)	(0.10%)	1.23%			(0.48%)	1.22%	
NIM	2.75%	2.54%	2.81%			2.64%	2.89%	
Total assets	52,952	51,363	747,133	3.1%	12.3%			
Credit to the public, net	35,083	34,022	32,464	3.1%	8.1%			
Securities	6,566	5,733	4,437	14.5%	48.0%			
Deposits from the public	41,575	41,476	38,036	0.2%	9.3%			
Total equity	3,539	3,337	3,181	6.1%	11.3%			

**IDB NY:**

At IDB NY credit demand remains strong particularly in C&I while negative LLP and non-interest financing income helped produce \$25 million in net income and an 8.7% ROE. Spreads have begun to improve as yields on loan remain stable. The quarter included roughly 6 million dollars in expenses associated with the move of our headquarters into a new building.

USD m	2Q21	1Q21	2Q20	Vs. 1Q21	Vs. 2Q20	1H21	1H20	Change
Net interest income	63	59	62	6.8%	1.6%	122	121	0.8%
Credit loss expenses (expenses release)	(8)	17	3	n/a	n/a	9	18	(50.0%)
Non-interest income	21	23	11	(8.7%)	90.9%	44	43	2.3%
<b>Total income</b>	<b>84</b>	<b>82</b>	<b>73</b>	<b>2.4%</b>	<b>15.1%</b>	<b>166</b>	<b>165</b>	<b>0.6%</b>
<b>Operating &amp; other expenses</b>	<b>59</b>	<b>52</b>	<b>45</b>	<b>13.5%</b>	<b>31.1%</b>	<b>111</b>	<b>92</b>	<b>20.7%</b>
<b>Net income</b>	<b>25</b>	<b>10</b>	<b>21</b>	<b>150.0%</b>	<b>19.0%</b>	<b>35</b>	<b>43</b>	<b>(18.6%)</b>
<b>Net income excluding non-recurring items</b>	<b>29</b>	<b>10</b>	<b>21</b>	<b>190.0%</b>	<b>38.1%</b>	<b>39</b>	<b>43</b>	<b>(9.3%)</b>
Return on equity	8.7%	3.4	7.6			6.1%	7.9%	
Return on equity excluding non-recurring items	10.3%	3.4%	7.6%			6.9%	7.9%	
Cost-income ratio	70.2%	63.4%	61.6%			66.9%	56.1%	
Cost-income ratio excluding non-recurring items	62.8%	63.4%	61.6%			63.0%	56.1%	
Rate of credit loss expenses	(0.46%)	0.96%	0.15%			0.24%	0.51%	
NIM	2.38%	2.30%	2.56%			2.33%	2.54%	
Total assets	11,431	11,667	10,336	(2.0%)	10.6%			
Loans, net	7,586	7,354	6,639	3.2%	14.3%			
Securities	2,827	2,966	2,637	(4.7%)	7.2%			
Deposits from the public	9,812	9,928	8,661	(1.2%)	13.3%			
Total equity	1,168	1,148	1,132	1.7%	3.2%			

**CAL:**

CAL produced a record quarter with net income of 79 million shekel and 16.7% RoE. CAL produced strong performance across all key business drivers including: Transaction turnover, consumer credit and acquisition of new active cards. While on the one hand negative LLP gave a boost to profits one of CAL's major drivers, international travel, is still well below the levels of activity pre-COVID which continues to negatively impact the business. We hope that this may begin to change later in the year.

<b>NIS m</b>	<b>2Q21</b>	<b>1Q21</b>	<b>2Q20</b>	<b>Vs. 1Q21</b>	<b>Vs. 2Q20</b>	<b>1H21</b>	<b>1H20</b>	<b>Change</b>
Income from credit card transactions	346	317	286	9.1%	21.0%	663	616	7.6%
Net interest income	133	129	133	3.1%		262	267	(1.9%)
Credit loss expenses (expenses release)	(15)	(4)	59	n/a	n/a	(19)	164	n/a
Non-interest financing income	-1	1	(2)	n/a	n/a		6	n/a
<b>Total income</b>	<b>478</b>	<b>447</b>	<b>417</b>	<b>6.9%</b>	<b>14.6%</b>	<b>925</b>	<b>889</b>	<b>4.0%</b>
<b>Total expenses</b> (excluding credit loss expenses)	<b>383</b>	<b>364</b>	<b>328</b>	<b>5.2%</b>	<b>16.8%</b>	<b>747</b>	<b>707</b>	<b>5.7%</b>
<b>Net income</b>	<b>79</b>	<b>60</b>	<b>23</b>	<b>31.7%</b>	<b>243.5%</b>	<b>139</b>	<b>16</b>	<b>768.8%</b>
<b>Net income excluding non-recurring items</b>	<b>79</b>	<b>60</b>	<b>23</b>	<b>31.7%</b>	<b>243.5%</b>	<b>139</b>	<b>16</b>	<b>768.8%</b>
Return on equity	16.7%	12.9%	5.1%			14.6%	1.8%	
Return on equity excluding non-recurring items	16.7%	12.9%	5.1%			14.6%	1.8%	
Cost-income ratio	80.1%	81.4%	78.7%			80.8%	79.5%	
Cost-income ratio excluding non-recurring items	80.1%	81.4%	78.7%			80.8%	79.5%	
Total assets	19,501	19,385	17,885	0.6%	9.0%			
Interest bearing credit	6,079	5,822	6,355	4.4%	(4.3%)			
Consumer credit	5,261	5,030	5,477	4.6%	(3.9%)			
Total equity	2,068	1,989	1,835	4.0%	12.7%			

Disclaimer:

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