



Israel Discount Group Reports Strong Results in 2Q 2022

2Q22 Net Income of NIS 680 million and ROE of 11.8% driven by 6.7% QoQ and 16.4% YoY Loan Growth and Increase in NIM

1H2022 Net Income of 1,663 million, 9.3% YoY increase and ROE of 14.9%

Discount Group reported strong quarterly results completing the second quarter of 2022 with net income of NIS 680 million and ROE of 11.8%. During the quarter we leveraged our successful NIS 1.4 billion equity issuance to responsible and profitable NIS 14.8 billion or 6.7% QoQ credit growth, focusing on our targeted segments: mortgages and medium sized enterprises. We also took the opportunity of market conditions to grow in corporate lending by 10.3% QoQ. During the second quarter Discount also started to benefit from increasing interest rates. As a result of the above, net interest income from core banking business grew by 23% YoY and fees increased by 8.4%. Combined with disciplined cost management, Cost Income ratio improved to 59.2% in the second quarter.

Discount announced a dividend of NIS 136 million in respect of 2Q22 earnings, in line with its 20% distribution policy. This is the fourth consecutive dividend distribution since payments were reinstated at the bank post COVID.

Uri Levin, Discount Group CEO, said: "The strong 2Q results demonstrate Discount's strength and ability to constantly achieve double digit return on equity, while responsibly growing in lending in our targeted segments. This, in changing market conditions, which pose challenges but also provide us with opportunities. We will continue leveraging these opportunities towards achieving our strategic targets, promoting winning customer experience and creating significant value to our shareholders."

2Q 2022 Main highlights:

- Net income of 680m and ROE of 11.8% supported by increase in revenues from core banking activity, which outpace the growth in operating expenses, leading to improving cost income ratio of 59.2%.
- Leverage of NIS 1.4 billion equity raise into NIS 14.8 billion credit growth (6.7% QoQ).
- Focus on key segments: Mortgage balance grew by 28.9% and medium enterprises balance grew by 22.0% YoY. We took advantage of a market opportunity and grew in corporate credit by 10.3% QoQ.
- Net interest income grew by 23% YoY supported by credit growth and NIM improving to 2.63%
- Conservative management of credit portfolio: Credit Loss Expenses Ratio stood at 0.23% largely due to increase in credit growth, changes in macro assumptions, partially offset by improvement in the quality of our loan book.
- Dividend payout of NIS 136m; 20% of 2Q 22 net income

Group Overview

Discount Group completed the second quarter of 2022 with strong net income of NIS 680m and solid ROE of 11.8%. We leveraged the successful equity raise which was completed at the end of 1Q22, of NIS 1.4 billion to responsible and profitable credit growth. Total credit grew by 16.4% YoY (6.7% QoQ) while maintaining the focus on our target segments of mortgages (+28.9% YoY and +7.1% in 2Q22) bringing mortgage to 25.8% of our total credit book. Medium sized enterprises were also up significantly in the quarter +22.0% YoY and +3.8% in 2Q22. We also took advantage of a market opportunity and grew in corporate credit by 10.3% QoQ after we held back the growth in 1Q.22.

Net interest income increase by 23.0% vs. 2Q21 fueled by credit growth and CPI. Net interest margin increased to 2.63%. Total income grew by 13.2%, supported also by 8.4% in fee income. The mid and long term macro picture is favorable for NII with rising interest rates expectations. Every increase of 1% in the interest rate is estimated to have a NIS 1.12 bn positive impact on NII before tax. The expenses remained overall flat with 0.5% increase compared with the previous quarter, as we remain committed to disciplined cost management. Due to the combination of the above, cost income ratio stood at 59.2% in 2Q22.

After five consecutive quarters of credit loss expenses release, this quarter credit loss expense stood at 0.23%, largely reflecting the credit growth in this quarter and the change in macro assumptions, in particularly increasing rates. This was partially offset by improvement in the quality of the loan book according to our models, leading to negative specific provision. Asset quality remains strong with a coverage ratio of 1.3% and Non-Performing Loan ratio of 0.84%. 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.

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%, while increasing rates allow us to accelerate the pace. 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	2Q22	1Q22	2Q21	Vs. 1Q22	Vs. 2Q21	1H22	1H21	change
Net interest income	2,073	1,800	1,685	15.2%	23.0%	3,873	3,189	21.4%
Credit loss expenses (expenses release)	131	-60	-410	--	--	71	-557	--
Non-interest financing income	-27	45	89	160.0%	130.3%	18	387	-95.3%
Commissions	851	825	785	3.2%	8.4%	1,676	1,509	11.1%
Other income	0	416	1	--	--	416	12	--
Total non-interest income	824	1,286	875	-35.9%	-5.8%	2,110	1,908	10.6%
Total income	2,897	3,086	2,560	-6.1%	13.2%	5,983	5,097	17.4%
Salaries and related expenses	844	855	830	-1.3%	1.7%	1,699	1,631	4.2%
Maintenance & depreciation	307	303	308	1.3%	-0.3%	610	602	1.3%
Other expenses	565	549	473	2.9%	19.5%	1,114	1,030	8.2%
Total operating and other expenses	1,716	1,707	1,611	0.5%	6.5%	3,423	3,263	4.9%
Income before taxes	1,050	1,439	1,359	-27.0%	-22.7%	2,489	2,391	4.1%
Provision for taxes on income	371	447	493	-17.0%	-24.7%	818	846	-3.3%
Income after taxes	679	992	866	-31.6%	-21.6%	1,671	1,545	8.2%
Net income attributable to shareholders	680	983	860	-30.8%	-20.9%	1,663	1,522	9.3%
ROE	11.8%	18.3%	17.2%			14.9%	15.5%	
Cost income ratio	59.2%	55.3%	62.9%			57.2%	64.0%	
CET-1 ratio	10.16%	10.55%	10.28%			10.16%	10.28%	
NIM	2.63%	2.36%	2.45%			2.50%	2.35%	
Rate of credit loss expenses	0.23%	-0.11%	(0.82%)			0.06%	-0.56%	
NPL ratio	0.84%	0.70%	0.89%			0.84%	0.89%	
Dividend per share (in Agurot)*	10.99	15.89	-			26.89	--	

* Dividend in respect of the relevant period

Discount Group Selected Balance Sheet Items

NIS m	30.06.22	31.12.21	30.06.21
Cash and deposits with banks	63,449	59,638	47,405
Securities*	45,256	45,075	48,226
Credit to the public	235,510	216,196	202,258
Provision for credit losses	-3,045	-3,040	-3,272
Credit to the public, net	232,465	213,156	198,986
Credit to governments	2,607	2,664	3,217
Investment in investee companies	493	462	345
Buildings and equipment	3,573	3,401	3,117
Intangible assets and goodwill	163	163	164
Assets in respect of derivative instruments	11,023	5,522	4,670
Other assets	5,392	5,006	4,604
Total Assets	364,421	335,088	310,734
Deposits from the public	283,423	260,907	240,691
Deposits from banks and governments	14,884	12,880	15,578
Securities borrowed or sold via repo agreements*	1,946		
Bonds and subordinated debt notes	13,863	15,071	11,203
Liabilities in respect of derivative instruments	9,303	6,323	4,876
Other liabilities	16,909	17,759	17,040
Total liabilities	340,328	312,940	289,388
Equity capital attributed to the Bank's shareholders	23,490	21,483	20,704
Non-controlling rights in consolidated companies	603	665	642
Total equity	24,093	22,148	21,346
Total Liabilities and Equity	364,421	335,088	310,734

* Including securities borrowed or purchased under agreements to resell

Overview of Subsidiaries

Mercantile:

Strong ROE of 15.5% and solid net income of NIS 141 million at Mercantile were driven by credit growth and carefully managed expenses. 17.6% YoY Loan book expansion was mainly driven by significant growth across all segments. Mortgages increased by 32.9%, Commercial by 21.6%, Small enterprises increased by 11.5% and Consumer by 8.7%. Total income from core banking activity grew by 5.7% YoY and expenses slightly increased. Overall cost income ratio declined to 49.1%.

NIS m	2Q22	1Q22	2Q21	Vs. 1Q22	Vs. 2Q21
Net interest income	414	359	335	15.3%	23.6%
Credit loss expenses (expenses release)	36	25	-73	44.0%	--
Non-interest income	89	89	141	0.0%	-36.9%
Total income	503	448	476	12.3%	5.7%
Operating & other expenses	247	241	241	2.5%	2.5%
Net income	144	121	201	19.0%	-28.4%
Return on equity	15.5%	12.9%	23.9%		
Cost-income ratio	49.1%	53.8%	50.6%		
Rate of credit loss expenses	0.36%	0.30%	(0.84%)		
NIM	2.86%	2.51%	2.74%		
Total assets	63,081	60,900	52,952	3.6%	19.1%
Credit to the public, net	41,306	39,494	35,083	4.6%	17.7%
Securities	7,001	7,035	6,566	-0.5%	6.6%
Deposits from the public	49,466	48,881	41,575	1.2%	19.0%
Total equity	3,777	3,691	3,539	2.3%	6.7%

1H22	1H21	change
773	641	20.6%
61	-82	--
178	296	-39.9%
951	937	1.5%
488	484	0.8%
265	351	-24.5%
14.2%	21.3%	
51.3%	51.7%	
0.30%	-0.48%	
2.68%	2.64%	

IDB NY:

IDB NY solid net income of \$29.7 million is driven by 26.7% increase in net interest income, 12.7% annual credit growth and release of provisions. Net interest income growth was driven primarily by 26 bps increase in net interest margin, following a series of Fed rate hikes, which outpaced the deposits costs. 2Q22 produced another release of provision for credit losses of \$2.3 million vs. a release of \$6.6m in 1Q 2022. Credit quality remains strong largely due to an improvement in classified loans.

USD m	2Q22	1Q22	2Q21	Vs. 1Q22	Vs. 2Q21
Net Interest Income	79	72	63	9.7%	25.4%
Credit Loss Expenses (Expenses Release)	-2	-7	-8	-71.4%	-75.0%
Non-Interest Income	20	18	21	11.1%	-4.8%
Total Income	99	90	84	10.0%	17.9%
Operating & Other Expenses	62	58	59	6.9%	5.1%
Net Income	29	28	25	3.6%	16.0%
Return on Equity	10.8%	9.7%	8.7%		
Cost-Income Ratio	62.6%	63.4%	70.2%		
Credit Loss Expenses ratio (Expenses Release)	-0.10%	-0.31%	-0.46%		
NIM	2.62%	2.34%	2.38%		
Total Assets	12,604	12,980	11,431	-2.9%	10.3%
Loans, net	8,608	8,564	7,586	0.5%	13.5%
Securities	2,607	2,804	2,827	-7.0%	-7.8%
Deposits from the Public	10,821	11,301	9,812	-4.2%	10.3%
Total Equity	1,094	1,116	1,168	-2.0%	-6.3%

1H22	1H21	change
151	122	23.8%
-9	9	-200.0%
38	44	-13.6%
189	166	13.9%
120	111	8.1%
57	35	62.9%
10.3%	6.1%	
63.5%	66.9%	
-0.21%	0.24%	
2.48%	2.33%	

CAL:

CAL produced robust net income of NIS 81 million and 14.6% ROE. The results were supported by a 20.8% increase in consumer credit, 18.2% increase in credit cards transaction turnover and 6.2% increase in active cards.

CAL 's payments platform won 2 global Fintech Futures Payments Awards.

NIS m	2Q22	1Q22	2Q21	Vs. 1Q22	Vs. 2Q21	1H22	1H21	change
Income From Credit Card Transactions	412	377	346	9.3%	19.1%	789	663	19.0%
Net Interest Income	172	160	133	7.5%	29.3%	332	262	26.7%
Credit Loss Expenses (Expenses Release)	27	-1	-15	--	--	26	-19	--
Non-Interest Financing Income	31	17	-1	82.4%	- 3200.0%	48	--	--
Total Income	615	554	478	11.0%	28.7%	1169	925	26.4%
Total Expenses (excluding credit loss expenses)	475	440	383	8.0%	24.0%	915	747	22.5%
Net income	81	80	79	1.3%	2.5%	161	139	15.8%
Return on equity	14.6%	14.3%	16.7%			14.4%	14.6%	
Cost-income ratio	77.2%	79.4%	80.1%			78.3%	80.8%	
Total assets	17,698	16,867	19,501	4.9%	-9.2%			
Interest bearing credit	7,520	7,188	6,079	4.6%	23.7%			
Consumer credit	6,414	6,180	5,030	3.8%	27.5%			
Total equity	2,057	2,305	2,068	-10.8%	-0.5%			

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