



Israel Discount Group Reports 3Q and First 9M 2021 Results

Record Group 3Q21 Net Income of NIS 722m and ROE of 14.5% and 9M of NIS 2.2bn and 15.2%

Dividend Reinstated with a NIS 144 m Payout totaling 20% of 3Q21 Net Income

Discount Group completed the third quarter of 2021 with net income of NIS 722m, strong ROE of 14.5% and increased its total gross balance of credit to NIS 207 billion. This was achieved through strict adherence to and solid execution of the Group's strategy, driving top line responsible growth alongside careful and effective management of expenses. On the back of the robust results and with an eye to conservative management of capital Discount is resuming its dividend payout and in-line with its policy will pay NIS 144 million representing 20% of 3Q21 net income.

3Q 2021 Main highlights:

- **ROE** of 14.5% in 3Q21 as compared with 18.3% in 2Q21 and 5.5% in 3Q20 driven by:
 - **Total Financing income** (up 4.6% vs 2Q21 and 4.4% vs 3Q20) generated by core banking growth, positive CPI and our trading gains.
 - **Negative LLP** of (0.25%) driven by low write-offs, high collections and a release of provisions
 - **Continued controlled salary expenses excluding bonuses** as the early retirement plans of 2020 make an impact
- **Normalized ROE was 10.3%** when replacing current credit expense release ratio of -0.25% with a credit expense ratio of 0.37% (average of 2016-2019)
- **Strong Credit growth** in strategically focused sectors; mortgages and medium, businesses up 18.0% and 11.8% YTD respectively
- **Strong Asset Quality** with problematic debt down 7.7% vs 2Q21 and an NPL ratio of 0.70%
- **Solid execution at all subsidiaries** resulting in robust Group performance
- **Reintroduction of a 20% dividend** of ongoing profits

9M 2021 Main highlights:

- **ROE** of 15.2% in 9M21 vs. 5.0% in 9M20
- **Normalized ROE** in 9M21 was 10.3% when replacing -0.46% with 0.37%
- **Net income** of NIS 2,244m in 9M21 vs NIS 711m in 9M20
- **Net interest income** was up 10.3% to NIS 4,846 9M21 on account of solid loan growth and positive CPI
- **Fee income** is up 11.0% to NIS 2,316 as economic activity in banking as well as in credit cards continues to recover relative to last year.

Group Overview

Discount Group completed the third quarter of 2021 with net income of NIS 722m, strong ROE of 14.5% and increased its total gross balance of credit to NIS 207 billion. Group "normalized" ROE for both Q321 and 9M21 which were 10.3%. This emphasizes the underlying strength and ability of the Group to produce double digit ROE on the basis of strong core results even when adjusting the LLP ratio to match the Group's pre-COVID run-rate of LLP expense ratio of 0.37% in place of the reported credit loss reversal ratio.

The strong results of the Group are driven by solid performance at each of the subsidiaries including Mercantile, IDBNY and CAL. All three saw an increase in customer activity, and improvements across main KPIs as they actively implemented their strategies and expanded their businesses.

Total income increased by 7.7% YoY and 4.4% since the previous quarter. A main driver of this growth was the 8.7% YoY, 7.5% YTD and 2.3% QoQ credit growth, achieved through careful execution of our strategy targeting above market growth in specific sectors Mortgages and medium sized businesses once again stood out with solid 22.4% and 9.5% YoY, 18.0% and 11.8% YTD and 6.7% and 1.4% during 3Q21. Combined with the increased activity we saw in our credit card business income from fees saw significant growth up 15.6% YoY and 2.8% QoQ.

Sustained cost restraint across the Group led to a positive JAWS ratio of 1.6% in Q321 and 12.9% YoY and drove improved profitability. This result emphasizes the positive impact of the early retirement plan that was implemented in 2020.

As our loan book continues to grow our underwriting and risk management discipline remain in clear focus. This is emphasized by the lower levels of NPLs down 0.9% vs 2Q21 and up 26.9% vs, 3Q20, ongoing low levels of write-offs and a coverage ratio that is lower than the previous quarter, yet still higher than where it was at the end of 2019 pre-COVID.

The Group remains focused on achieving its goals as outlined in the three main pillars of our strategy: Accelerating the evolution of traditional banking, leading a revolution in banking through disruptive innovation and maximizing Group value.

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

Discount Group P&L and Selected Ratios

NIS m	3Q21	2Q21	3Q20	Vs. 3Q20	Vs. 3Q20	9M21	9M20	Change
Net interest income	1,657	1,685	1,476	-1.7%	12.3%	4,846	4,394	10.3%
Credit loss expenses (expenses release)	-126	-410	330	-69.3%	-138.2%	-683	1,518	-145.0%
Non-interest financing income	198	89	301	122.5%	-34.2%	585	994	-41.1%
Commissions	807	785	698	2.8%	15.6%	2,316	2,087	11.0%
Other income	10	1	7	900.0%	42.9%	22	15	46.7%
Total non-interest income	1,015	875	1,006	16.0%	0.9%	2,923	3,096	-5.6%
Total income	2,672	2,560	2,482	4.4%	7.7%	7,769	7,490	3.7%
Salaries and related expenses	867	830	830	4.5%	4.5%	2,498	2,448	2.0%
Maintenance & depreciation	292	308	289	-5.2%	1.0%	894	848	5.4%
Other expenses	497	473	628	5.1%	-20.9%	1,527	1,565	-2.4%
Total operating and other expenses	1,656	1,611	1,747	2.8%	-5.2%	4,919	4,861	1.2%
Income before taxes	1,142	1,359	405	-16.0%	182.0%	3,533	1,111	218.0%
Provision for taxes on income	401	493	134	-18.7%	199.3%	1,247	390	219.7%
Income after taxes	741	866	271	-14.4%	173.4%	2,286	721	217.1%
Net income attributable to shareholders	722	860	258	-16.0%	179.8%	2,244	711	215.6%
ROE	14.5%	18.3%	5.5%			15.2%	5.0%	
Cost income ratio	62.0%	62.9%	70.4%			63.3%	64.9%	
CET-1 ratio	10.29%	10.28%	10.10%			10.29%	10.10%	
NIM	2.38%	2.48%	2.35%			2.36%	2.38%	
Rate of credit loss expenses	(0.25%)	(0.82%)	0.70%			(0.46%)	1.08%	
NPL ratio	0.69%	0.72%	0.59%			0.69%	0.59%	
Dividend per share (in Agurot)*	12.41	-	-			12.41	4.19	

* Dividend in respect of the relevant period

Discount Group Adjusted P&L and Selected Ratios

	3Q21	2Q21	3Q20	Vs. 3Q20	Vs. 3Q20	9M21	9M20	Change
Net interest income	1,657	1,685	1,476	-1.7%	12.3%	4,846	4,394	10.3%
Credit loss expenses	-126	-410	330	-69.3%	-138.2%	-683	1,518	-145.0%
Non-interest financing income	198	89	213	122.5%	-7.0%	585	906	-35.4%
Commissions	807	785	698	2.8%	15.6%	2,316	2,087	11.0%
Other income	10	1	7	900.0%	42.9%	22	15	46.7%
Total non-interest income	1,015	875	918	16.0%	10.6%	2,923	3,008	-2.8%
Total income	2,672	2,560	2,394	4.4%	11.6%	7,769	7,402	5.0%
Salaries and related expenses	867	830	792	4.5%	9.5%	2,498	2,410	3.7%
Maintenance & depreciation	292	289	289	1.0%	1.0%	875	848	3.2%
Other expenses	490	466	435	5.2%	12.6%	1,398	1,286	8.7%
Total operating and other expenses	1,649	1,585	1,516	4.0%	8.8%	4,771	4,544	5.0%
Income before taxes	1,149	1,385	548	-17.0%	109.7%	3,681	1,340	174.7%
Provision for taxes on income	404	501	185	-19.4%	118.4%	1,297	471	175.4%
Income after taxes	745	884	363	-15.7%	105.2%	2,384	869	174.3%
Net income attributable to shareholders	726	878	357	-17.3%	103.4%	2,342	866	170.4%
ROE	14.6%	18.7%	7.7%			15.8%	6.1%	
Cost income ratio	61.7%	61.9%	63.3%			61.4%	61.4%	
CET-1 ratio	10.29%	10.28%	10.10%			10.29%	10.10%	
NIM	2.38%	2.48%	2.35%			2.36%	2.38%	
Rate of credit loss expenses	(0.25%)	(0.82%)	0.70%			(0.46%)	1.08%	
NPL ratio	0.69%	0.72%	0.59%			0.69%	0.59%	
Dividend per share (in Agurot)*	12.41	-	-			12.41	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
	3Q21	2Q21	3Q20	3Q21	2Q21	3Q20	9M21	9M20	9M21	9M20
Early retirement at Discount Bank and Mercantile	7	7	25	4	5	16	129	40	85	26
Legal provision, net of insurance payment			168			109		239		155
Cost associated with IDBNY change of headquarters location		19			13		19		13	
Income from the sale of Visa Inc. shares			-88			-44		-88		-44
Early retirement at CAL			38			18		38		18
Total	7	26	143	4	18	99	148	229	98	155

Discount Group Selected Balance Sheet Items

NIS m	30.09.21	30.06.21	30.09.20
Cash and deposits with banks	46,334	47,405	40,469
Securities*	47,104	48,226	42,110
Credit to the public	206,944	202,258	190,300
Provision for credit loss	-3,117	-3,272	-3,644
Credit to the public, net	203,827	198,986	186,656
Credit to governments	3,127	3,217	4,276
Investment in investee companies	392	345	269
Buildings and equipment	3,203	3,117	2,805
Intangible assets and goodwill	163	164	164
Assets in respect of derivative instruments	4,367	4,670	5,451
Other assets	4,894	4,604	5,478
Total Assets	313,411	310,734	287,678
Deposits from the public	245,393	240,691	225,108
Deposits from banks**	13,920	15,578	9,610
Securities lent or sold under agreements to repurchase	-	-	-
Bonds and subordinated debt notes	11,170	11,203	11,314
Liabilities in respect of derivative instruments	4,570	4,876	5,586
Other liabilities	16,352	17,040	16,361
Total liabilities	291,405	289,388	267,979
Equity capital attributed to the Bank's shareholders	21,346	20,704	19,160
Non-controlling rights in consolidated companies	660	642	539
Total equity	22,006	21,346	19,699
Total Liabilities and Equity	313,411	310,734	287,678

* Including securities borrowed or purchased under agreements to resell

** Including deposits from governments

Overview of Subsidiaries

Mercantile:

Mercantile produced a solid quarter in terms of both net income and ROE. The Bank produced robust net interest income growth that was driven by strong loan growth across mortgages (7.1% QoQ), small businesses (3.0% QoQ) and medium sized businesses (3.8% QOQ). Mercantile maintains a conservative coverage ratio of 1.61% and is well capitalized with a total capital ratio of 14.18%.

NIS m	3Q21	2Q21	3Q20	Vs. 2Q21	Vs. 3Q20	9M21	9M20	Change
Net interest income	341	335	302	1.8%	12.9%	982	918	7.0%
Credit loss expenses (expenses release)	7	-73	77	n/a	n/a	-75	274	(127.4%)
Non-interest income	79	141	114	(44.0%)	(30.7%)	375	336	11.6%
Total income	420	476	416	(11.8%)	1.0%	1,357	1,254	8.2%
Operating & other expenses	228	241	241	(5.4%)	(5.4%)	712	717	(0.7%)
Net income	120	201	64	(40.3%)	87.5%	471	171	175.4%
Net income excluding non-recurring items	123	172	64	(171.5%)	92.2%	412	171	140.9%
Return on equity	14.1%	26.2%	8.2%			18.9%	7.3%	
Return on equity excluding non-recurring items	14.5%	22.1%	8.2%			16.5%	7.3%	
Cost-income ratio	54.3%	50.6%	57.9%			52.5%	57.2%	
Cost-income ratio excluding non-recurring items	53.8%	55.8%	57.9%			56.2%	57.2%	
Rate of credit loss expenses	0.08%	(0.84%)	0.93%			(0.29%)	1.10%	
NIM	2.69%	2.75%	2.71%			2.68%	2.81%	
Total assets	54,058	52,952	49,498	2.1%	9.2%			
Credit to the public, net	36,035	35,083	32,839	2.7%	9.7%			
Securities	6,431	6,566	5,850	-2.1%	9.9%			
Deposits from the public	42,924	41,575	39,529	3.2%	8.6%			
Total equity	3,650	3,539	3,199	3.1%	14.1%			

IDB NY:

Net income of the third quarter and nine month of 2021 showed significant improvement relative to the comparable 2Q21, 3Q20 and 9M20 driven by robust loan growth of 3.3% vs. the previous quarter and 12.6% vs. the third quarter of 2020. This, coupled with slowly improving interest spreads and release of provisions for loan losses, highlights the strength of the business, the growing economy and the resilience of our customers.

USD m	3Q21	2Q21	3Q20	Vs. 2Q21	Vs. 3Q20	9M21	9M20	Change
Net interest income	64	63	57	1.6%	12.3%	186	178	4.5%
Credit loss expenses (expenses release)	-9	-8	9	12.5%	n/a	-	27	n/a
Non-interest income	21	21	14	-	50.0%	65	57	14.0%
Total income	85	84	71	1.2%	19.7%	251	235	6.8%
Operating & other expenses	57	59	44	(3.4%)	29.5%	168	136	23.5%
Net income	27	25	14	8.0%	92.9%	62	57	8.8%
Net income excluding non-recurring items	27	29	14	(6.9%)	92.9%	67	57	17.5%
Return on equity	9.3%	8.7%	4.6%			7.1%	6.7%	
Return on equity excluding non-recurring items	9.4%	10.3%	4.6%			7.8%	6.7%	
Cost-income ratio	67.1%	70.2%	62.0%			66.9%	57.9%	
Cost-income ratio excluding non-recurring items	67.1%	62.8%	62.0%			64.4%	57.6%	
Rate of credit loss expenses	(0.47%)	(0.46%)	0.58%			-	0.53%	
NIM	2.43%	2.38%	2.37%			2.36%	2.47%	
Total assets	11,725	11,431	10,669	2.6%	9.9%			
Loans, net	7,840	7,586	6,963	3.3%	12.6%			
Securities	2,716	2,827	2,676	-3.9%	1.5%			
Deposits from the public	10,225	9,812	8,774	4.2%	16.5%			
Total equity	1,145	1,168	1,149	-2.0%	-0.3%			

CAL:

CAL produced a record quarter with net income of 92 million shekel and 18.7% ROE. Growth occurred across all parts of the business including: Transaction turnover, consumer credit and acquisition of new active cards. The performance highlights the strength of the activity in the local economy as well as some signs of a recover in income generated by international travel although this is still below pre-COVID highs.

NIS m	3Q21	2Q21	3Q20	Vs. 2Q21	Vs. 3Q20	9M21	9M20	Change
Income from credit card transactions	381	346	315	10.1%	21.0%	1044	931	12.1%
Net interest income	140	133	134	5.3%	4.5%	402	402	-
Credit loss expenses (expenses release)	1	-15	25	n/a	(96.0%)	-18	190	n/a
Non-interest financing income	4	-1	68	n/a	(94.1%)	4	74	(94.6%)
Total income	525	478	517	9.8%	1.5%	1,450	1,407	3.1%
Total expenses (excluding credit loss expenses)	394	383	405	2.9%	(2.7%)	1141	1111	2.7%
Net income	92	79	71	16.5%	29.6%	231	87	165.5%
Net income excluding non-recurring items	92	79	51	16.5%	80.4%	231	67	244.8%
Return on equity	18.7%	16.7%	16.1%			15.6%	6.3%	
Return on equity excluding non-recurring items	18.7%	16.7%	11.3%			15.6%	4.9%	
Cost-income ratio	75.0%	80.1%	78.3%			78.7%	79.0%	
Cost-income ratio excluding non-recurring items	75.0%	80.1%	81.0%			78.7%	79.9%	
Total assets	15,165	19,501	18,431	(22.2%)	(17.7%)			
Interest bearing credit	6,245	6,079	6,129	2.7%	1.9%			
Consumer credit	5,447	5,261	5,332	3.5%	2.2%			
Total equity	2,159	2,068	1,908	4.4%	13.2%			

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