



PRESS RELEASE 31.8.09

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CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2009

## FINANCIAL HIGHLIGHTS FOR FIRST HALF OF 2009

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### FOR SECOND QUARTER OF 2009:

**NET INCOME - NIS 337 MILLION (\$86.0 MILLION)**

an increase of 52.5% compared with the corresponding quarter last year

**RETURN ON EQUITY - 15.8% ON AN ANNUALIZED BASIS**

compared with 9.9% for the corresponding quarter last year

### **DISREGARDING COMPONENTS DETAILED IN THE TEXT OF THE PRESS RELEASE:**

**NET INCOME - NIS 223 MILLION (\$56.9 MILLION)**

an increase of 54.9% compared with the corresponding quarter last year

**RETURN ON EQUITY - 10.2% ON AN ANNUALIZED BASIS**

compared with 6.4% for the corresponding quarter last year

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### FOR FIRST HALF OF 2009:

**NET INCOME - NIS 477 MILLION (\$121.7 MILLION)**

an increase of 86.3% compared with the corresponding period last year

**RETURN ON EQUITY - 11.0% ON AN ANNUALIZED BASIS**

compared with 5.6% for the corresponding period last year

### **DISREGARDING COMPONENTS DETAILED IN THE TEXT OF THE PRESS RELEASE:**

**NET INCOME - NIS 369 MILLION (\$94.2 MILLION)**

an increase of 27.7% compared with the corresponding period last year

**RETURN ON EQUITY - 8.4% ON AN ANNUALIZED BASIS**

compared with 6.4% for the corresponding period last year

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### **THE RATIO OF CAPITAL TO RISK ASSETS - 11.49%**

compared with 10.22% at December 31, 2008

TAKING INTO ACCOUNT THE ISSUANCE OF UPPER TIER II CAPITAL IN JULY AND AUGUST 2009, THE RATIO OF CAPITAL TO RISK ASSETS WOULD BE 12.08% IN JUNE 30, 2009 TERMS.



## GIORA OFFER PRESIDENT & CHIEF EXECUTIVE OFFICER

Israel Discount Bank has reported Q2/09 Net Income of NIS 337mm with an annualized ROE of 15.8%. Net Income for the first 6mos was NIS 477mm with an ROE of 11%.

These results have been achieved on the back of continued growth in our revenues and controlled costs, leading to improvement in our group earnings.

As at June 30th, 2009, we reached a Total Capital Ratio of 11.5% and Tier-1 ratio of 8.08%. Further capital issuances subsequent to the reporting date have led to a Total Capital Ratio of 12.08%.

The Board of Directors has recently approved an update to the group strategic plan, whereby a new ROE target range of 9%-11% has been set for the years 2010-2011. In addition, the Board has approved the publication of a prospectus which will allow the Bank to pursue further capital raising.

Even during these challenging times, the Bank has succeeded in remaining attentive to our clients' needs, recruiting new clients and broadening the scope of banking activities across the franchise.

Prudent risk management, improvement in asset quality and capital levels, coupled with a high level of liquidity, have allowed us to continue to execute on our business plans and at the same time improving group results.

**Best Regards,**

**Giora Offer, President & Chief Executive Officer**

ON AUGUST 31, 2009, THE BOARD OF DIRECTORS OF ISRAEL DISCOUNT BANK APPROVED THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE BANK AS AT JUNE 30, 2009.

**NET INCOME FOR THE DISCOUNT BANK GROUP FOR THE FIRST HALF OF 2009 AMOUNTED TO NIS 477 MILLION (\$121.7 MILLION), COMPARED WITH NIS 256 MILLION (\$65.3 MILLION) FOR THE CORRESPONDING PERIOD LAST YEAR, AN INCREASE OF 86.3%.**

**RETURN ON EQUITY FOR THE FIRST HALF OF 2009 REACHED 11.0%, ON AN ANNUALIZED BASIS, COMPARED WITH 5.6% FOR THE CORRESPONDING PERIOD LAST YEAR AND 2.7% FOR ALL OF 2008.**

The main factors having an influence on the business results of the Group in the first half of 2009, compared with the corresponding period last year are as follows:

- A 108.2% rise in the provision for doubtful debts.
- A 24.3% rise in operating and other income, which was effected by a rise in operating commissions of 9.5%, a rise of NIS 40 million (\$10.2 million) in profits from investments in shares and a rise of NIS 136 million (\$34.7 million) in other income, which was effected mainly by profits which were recorded for severance pay funds.
- A 2.7% rise in operating and other expenses, which was effected by a 0.5% decline in salaries and related expenses, an 11.8% rise in maintenance and depreciation of buildings and equipment, and a 4.0% rise in other expenses.
- Provision for taxes on operating income in the first half of 2009 amounted to NIS 225 million (\$57.4 million), compared with NIS 332 million (\$84.7 million) for the corresponding period last year.
- The Bank's shares in the operating income of affiliated companies in the first half of 2009 amounted to NIS 190 million (\$48.5 million), compared with NIS 34 million (\$8.7million) in the corresponding period last year. Income for the first half of 2009 includes NIS 130 million (\$33.2 million) for the cancellation of the provision for taxes for the investment in the First International Bank.
- Net loss of NIS 18 million (\$4.6 million) from extraordinary items in the first half of 2009, compared with NIS 4 million (\$1.0 million) for the corresponding period last year.

**Disregarding the components detailed below:**

**Net income for the first half of 2009** would have amounted to NIS 369 million (\$94.2 million), compared with NIS 289 million (\$73.4 million) for the corresponding period last year.

**Return on equity for the first half of 2009** would have been 8.4%, compared with 6.4% for the corresponding period last year.

**Components disregarded for the first half and second quarter of 2009 and 2008:**

Provision for the decline in value of debentures available for sale; loss and provision for decline in value of available for sale securities; income from severance pay funds; effect of the provision for the wage agreement on the increase in liabilities for the provision for related salary expenses.

**The following additional components were disregarded for the first half and second quarter of 2009:**

Cancellation of deferred taxes for previous years; losses from the sale of investee companies (for first half only); and cancellation of provision for taxes for the investment in The First International Bank.

**The following additional components were disregarded for the first half and second quarter of 2008:**

Expenses for early retirement; cost of implementing improvements and examinations at Israel Discount Bank of New York; and settling income tax assessments and cancellation of tax provision for the Bank's share in the profits of Israel Credit Cards.

## MAIN INVESTEE COMPANIES - FINANCIAL HIGHLIGHTS FOR FIRST HALF OF 2009

**Discount Bancorp, Inc.** is a wholly owned subsidiary of the Bank. It holds all the shares of Israel Discount Bank of New York, the largest Israeli-owned bank operating overseas.

**Net income for the first half of 2009** amounted to \$15 million, compared with \$31 million for the corresponding period last year, and \$35 million for all of 2008.

**Return on equity** was 4.9% on an annualized basis, compared with 9.6% for the corresponding period last year and 5.5% for all of 2008.

**The ratio of capital to risk assets at June 30, 2009** was 12.0%, compared with 12.1% at December 31, 2008.

**The contribution of the investment of the Bank in Bancorp to the operating results** was a profit of NIS 131 million (\$33.4 million) (after deducting a provision for taxes of NIS 8 million (\$2.0 million)), compared with a loss of NIS 223 million (\$56.9 million) (after deducting a provision for taxes of NIS 14 million (\$3.6 million)) for the corresponding period last year.

**Mercantile Discount Bank Ltd.** is a wholly owned subsidiary of the Bank.

**Net income for the first half of 2009** amounted to NIS 98 million (\$25.0 million), similar to the corresponding period last year, and NIS 148 million (\$37.8 million) for all of 2008.

**Return on equity** was 13.1% on an annualized basis, compared with 14.4% for the corresponding period last year, and 10.3% for all of 2008.

**The ratio of capital to risk assets at June 30, 2009** was 12.7%, compared with 12.4% at December 31, 2008.

**Discount Mortgage Bank Ltd.** is a wholly owned subsidiary of the Bank.

**Net income for the first half of 2009** amounted to NIS 18.3 million (\$4.7 million), compared with NIS 15.2 million (\$3.9 million) for the corresponding period last year, an increase of 20.6%, and compared with NIS 28.4 million (\$7.2 million) for all of 2008.

**Return on equity** was 4.1% on an annualized basis, compared with 3.5% for the corresponding period last year, and 3.2% for all of 2008.

**The ratio of capital to risk assets at June 30, 2009** was 10.5%, compared with 10.8% at December 31, 2008.

**The First International Bank of Israel Ltd.** is an affiliated company. As at June 30, 2009, the Bank held 26.4% of the capital and 11.1% of the voting rights in The First International Bank.

**Net income for the first half of 2009** amounted to NIS 249 million (\$63.5 million), compared with NIS 186 million (\$47.5 million) for the corresponding period last year, an increase of 33.9%.

**The Bank's share in the income of The First International Bank** amounted to NIS 66 million (\$16.8 million), compared with NIS 47 million (\$12.0 million) for the corresponding period last year, an increase of 40.4%.

**Return on equity** was 8.8% on an annualized basis, compared with 6.8% for the corresponding period last year, and 2.9% for all of 2008.

**The ratio of capital to risk assets at June 30, 2009** was 13.9% compared with 12.3% at December 31, 2008.

**Israel Credit Cards Ltd. ("ICC")** is a subsidiary of the Bank. As at June 30, 2009, the Bank held 71.8% of the share capital and 79.0% of the voting rights in Israel Credit Cards.

**Net income for the first half of 2009** amounted NIS 129 million (\$32.9 million), compared with NIS 108 million (\$27.6 million) for the corresponding period last year, an increase of 19.4%.

**The contribution of ICC to the operating results of the Bank** amounted to NIS 76 million (\$19.4 million), compared with NIS 61 million (\$15.6 million) for the corresponding period last year.

**The ratio of capital to risk assets at June 30, 2009** was 21.0% compared with 19.9% at the end of 2008.

**CONDENSED CONSOLIDATED BALANCE SHEET AS AT JUNE 30, 2009**Reported amounts  
NIS/US\$ millions

	Unaudited		Audited	Unaudited
	30.6.2009	30.6.2008	31.12.2008	30.6.2009
	NIS	NIS	NIS	US\$
<b>Assets</b>				
Cash and deposits with banks	21,466	*14,440	21,554	5,477.4
Securities	37,751	34,679	31,535	9,632.8
Borrowed securities or purchased under resale agreements	308	2	25	78.6
Credit granted to the public	117,091	*107,191	116,800	29,877.8
Credit granted to Governments	1,809	1,448	1,491	461.6
Investments in affiliated companies	1,735	*1,952	*1,827	442.7
Buildings and equipment	3,057	2,908	3,039	780.0
Other assets	6,665	4,849	5,904	1,700.7
<b>Total assets</b>	<b>189,882</b>	<b>167,469</b>	<b>182,175</b>	<b>48,451.6</b>
<b>Liabilities and Shareholders' Equity</b>				
Deposits from the public	143,064	*126,945	139,232	36,505.2
Deposits from banks	5,155	4,395	4,555	1,315.4
Deposits from the Government	235	*169	206	60.0
Securities loaned or sold under buy-back arrangements	8,866	6,668	7,194	2,262.3
Subordinated capital notes	9,834	8,473	9,373	2,509.3
Other liabilities	12,928	*11,387	*12,592	3,298.8
<b>Total liabilities</b>	<b>180,082</b>	<b>158,037</b>	<b>173,152</b>	<b>45,951.0</b>
Minority interest	263	177	226	67.1
Shareholders' equity	9,537	9,255	8,797	2,433.5
<b>Total liabilities and shareholders' equity</b>	<b>189,882</b>	<b>167,469</b>	<b>182,175</b>	<b>48,451.6</b>

\* Reclassified.

Note: US Dollar figures have been converted from New Israel Shekels at the representative rate of exchange on June 30, 2009:  
NIS 3.919=US\$ 1.00.

**Shlomo Zohar**  
Chairman of the Board  
of Directors

**Giora Offer**  
President &  
Chief Executive Officer

**Joseph Beressi**  
Senior Executive Vice President  
Chief Accountant

August 31, 2009

## CONDENSED CONSOLIDATED STATEMENT OF INCOME

Reported amounts  
NIS/US\$ millions

	Unaudited				Audited	Unaudited
	For the 3 months ended		For the 6 months ended		For the year ended	For the 6 months ended
	30.6.2009	30.6.2008	30.6.2009	30.6.2008	31.12.2008	30.6.2009
	NIS	NIS	NIS	NIS	NIS	US\$
<b>Financing Income</b>						
Income from financing activities before provision for doubtful debts	1,266	1,132	2,206	2,197	4,127	562.9
Provision for doubtful debts	231	139	483	232	780	123.2
Income from financing activities after provision for doubtful debts	1,035	993	1,723	1,965	3,347	439.7
<b>Operating and Other Income</b>						
Operating commissions	647	*575	1,297	*1,184	*2,495	331.0
Net income (loss) on investment in shares	31	23	33	(7)	51	8.4
Other income	75	*11	148	*12	*27	37.7
Total operating and other income	753	609	1,478	1,189	2,573	377.1
<b>Operating and Other Expenses</b>						
Salaries and related expenses	722	649	1,502	*1,509	3,106	383.3
Maintenance and depreciation of buildings and equipment	237	215	482	431	910	123.0
Other expenses	322	*326	651	*626	*1,332	166.1
Total operating and other expenses	1,281	1,190	2,635	2,566	5,348	672.4
Operating income before taxes	507	412	566	588	572	144.4
Provision for taxes on operating income	311	199	225	332	169	57.4
Operating income after taxes	196	213	341	256	403	87.0
Bank's share in operating income (loss) of affiliated companies, net of tax effect	162	24	190	34	(70)	48.5
Minority interest, after taxes, in the operating income of consolidated subsidiaries	(20)	(15)	(36)	(30)	(78)	(9.2)
Net operating income	338	222	495	260	255	126.3
Net loss from extraordinary items, net of taxes	(1)	(1)	(18)	(4)	(10)	(4.6)
Net income	337	221	477	256	245	121.7
<b>Earnings per share of NIS 0.1 (in NIS/US\$):</b>						
Net operating income	0.34	0.23	0.50	0.27	0.26	0.128
Net loss from extraordinary items, net of taxes	-	-	(0.01)	(0.01)	(0.01)	(0.003)
Net income	0.34	0.23	0.49	0.26	0.25	0.125
Total number of shares used for the above computation (in thousands)	980,639	980,639	980,639	980,639	980,639	

\* Reclassified.





## CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

Reported amounts

	Capital reserves				Other cumulative comprehensive income (loss)						
	Share capital	Share premium	Benefit in respect of equity based compensation transactions	Other capital reserves	Total share capital and reserves	Adjustments for presentation of available-for-sale securities at fair value	Translation adjustments <sup>(1)</sup>	Net gains (losses) on cash flow hedging	Retained earnings <sup>(2)</sup>	Dividend declared after balance sheet date	Total shareholders' equity
NIS millions											

### B. Statement of changes in shareholders' equity for the six months ended June 30, 2009 and 2008 (unaudited)

Balance at December 31, 2008 (audited)	658	2,939	50	212	3,859	(196)	(255)	(1)	5,390	-	8,797
Net income for the period	-	-	-	-	-	-	-	-	447	-	447
Benefit in respect of equity based compensation transactions	-	-	2	-	2	-	-	-	-	-	2
Net adjustments for the presentation of available-for-sale securities at fair value	-	-	-	-	-	632	-	-	-	-	632
Net adjustments for the presentation of available-for-sale securities reclassified to the income statement	-	-	-	-	-	(247)	-	-	-	-	(247)
Related tax effect	-	-	-	-	-	(147)	-	-	-	-	(147)
Financial statements translation adjustments	-	-	-	-	-	-	23	-	-	-	23
Balance at June 30, 2009	658	2,939	52	212	3,861	42	(232)	(1)	5,867	-	9,537
Balance at December 31, 2007 (audited)	658	2,939	35	212	3,844	197	(234)	(1)	5,398	-	9,204
Initial application of IFRS in affiliated companies	-	-	-	-	-	-	-	-	1	-	1
Initial application of new accounting principles in a subsidiary abroad	-	-	-	-	-	-	-	-	(3)	-	(3)
Net income for the period	-	-	-	-	-	-	-	-	256	-	256
Dividend declared after balance sheet date	-	-	-	-	-	-	-	-	(250)	250	-
Benefit in respect of equity based compensation transactions	-	-	8	-	8	-	-	-	-	-	8
Net adjustments for the presentation of available-for-sale securities at fair value	-	-	-	-	-	*(224)	-	-	-	-	(224)
Net adjustments for the presentation of available-for-sale securities reclassified to the income statement	-	-	-	-	-	*(86)	-	-	-	-	(86)
Related tax effect	-	-	-	-	-	115	-	-	-	-	115
Financial statements translation adjustments	-	-	-	-	-	-	(16)	-	-	-	(16)
Balance at March 31, 2008	658	2,939	43	212	3,852	2	(250)	(1)	5,402	250	9,255

\* Reclassified.

Footnotes:

(1) Translation adjustments of foreign autonomous units, primarily from the consolidated subsidiary Israel Discount Bank of New York, in the amount of NIS 231 million which was treated until December 31, 1994, in the financial statements of the Bank as autonomous units. Accordingly this item included the financing sources of this investment and the related tax effect until that date.

(2) Including an amount of NIS 2,704 million that is not available for distribution.

**CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)**

Reported amounts

Reported amounts											Total share- holders' equity
Capital reserves					Other cumulative comprehensive income (loss)						
					Adjustments for presentation			Net gains (losses) on cash flow hedging			
Share capital	Share premium	Benefit in respect of equity based compensation transactions	Other capital reserves	Total capital and reserves	Total of share available for sale securities at fair value	Translation adjustments <sup>(1)</sup>	Retained earnings <sup>(2)</sup>	flow			
NIS millions											

**C. Statement of changes in shareholders' equity for 2008 (audited)**

Balance at December 31, 2007	658	2,939	35	212	3,844	197	(234)	(1)	5,398	9,204
Initial application of IFRS in affiliated companies	-	-	-	-	-	-	-	-	1	1
Initial application of new accounting principles in a subsidiary abroad	-	-	-	-	-	-	-	-	(4)	(4)
Net income for the year	-	-	-	-	-	-	-	-	245	245
Dividend	-	-	-	-	-	-	-	-	(250)	(250)
Benefit in respect of equity based compensation transactions	-	-	15	-	15	-	-	-	-	15
Net adjustments for the presentation of available-for-sale securities at fair value	-	-	-	-	-	(873)	-	-	-	(873)
Net adjustments for the presentation of available-for-sale securities reclassified to the income statement	-	-	-	-	-	249	-	-	-	249
Related tax effect	-	-	-	-	-	231	-	-	-	231
Financial statements translation adjustments	-	-	-	-	-	-	(21)	-	-	(21)
Balance at December 31, 2008	658	2,939	50	212	3,859	(196)	(255)	(1)	5,390	8,797

Footnotes:

(1) Translation adjustments of foreign autonomous units, primarily from the consolidated subsidiary Israel Discount Bank of New York, in the amount of NIS 231 million which was treated until December 31, 1994, in the financial statements of the Bank as autonomous units. Accordingly this item included the financing sources of this investment and the related tax effect until that date.

(2) Including an amount of NIS 2,704 million that is not available for distribution.



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