



PRESS RELEASE 30.11.09

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CONSOLIDATED FINANCIAL STATEMENTS AS AT SEPTEMBER 30, 2009

## FINANCIAL HIGHLIGHTS FOR FIRST NINE MONTHS OF 2009

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### FOR THIRD QUARTER OF 2009:

#### NET INCOME - NIS 292 MILLION (\$77.7 MILLION)

an increase of 165.5% compared with the corresponding quarter last year

#### RETURN ON EQUITY - 12.7% ON AN ANNUALIZED BASIS

compared with 4.8% for the corresponding quarter last year

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

#### NET INCOME - NIS 314 MILLION (\$83.6 MILLION)

an increase of 207.8% compared with the corresponding quarter last year

#### RETURN ON EQUITY - 13.7% ON AN ANNUALIZED BASIS

compared with 4.5% for the corresponding quarter last year

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### FOR FIRST NINE MONTHS OF 2009:

#### NET INCOME - NIS 769 MILLION (\$204.6 MILLION)

an increase of 110.1% compared with the corresponding period last year

#### RETURN ON EQUITY - 11.3% ON AN ANNUALIZED BASIS

compared with 5.3% for the corresponding period last year

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

#### NET INCOME - NIS 748 MILLION (\$199.0 MILLION)

an increase of 99.5% compared with the corresponding period last year

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

compared with 5.4% for the corresponding period for 2008.

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### THE RATIO OF CAPITAL TO RISK ASSETS - 12.92%

As at December 31, 2008 - 10.23%



## SHLOMO ZOHAR CHAIRMAN OF THE BOARD OF DIRECTORS

I am at the end of my four-year term as Chairman of the Discount Group, and proud of the results that the group is reporting for the first 9 months of 2009, especially taking into consideration the financial crisis of this past year.

The third quarter ROE of 12.7% is among the highest in the past years, and is indicative of the continued growth trend of the bank and the group's focus on its traditional banking activities. It also reflects the successful implementation of the bank's long-term strategic plan.

Each of the subsidiaries has succeeded by adhering to its specific focus: Mercantile Discount Bank with superb profitability, Discount Mortgage Bank - in increasing its market share. Israel Credit Cards continues to post record earnings and IDBNY was profitable throughout this difficult period and reported in Q3/09 substantially improved earnings.

During 2009, an emphasis has been placed on efficiency and cost saving measures, and among others, completing the upgrading of the bank's IT infrastructure. Likewise, this year has seen a heightened focus on risk management at the group level, corporate governance policies, and the implementation of the Basel II rules. In terms of capital adequacy, the bank has successfully reached the goals it set for itself by posting a total capital ratio of 12.92%.

I have no doubt as to Discount's solid infrastructure and sound financial standing. The bank is well positioned to deal with the growing competition in the domestic financial market and will continue with its other initiatives that will further solidify both its earnings and position as a leading banking group in Israel.

**Best Regards,**

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



## GIORA OFFER PRESIDENT & CHIEF EXECUTIVE OFFICER

The Discount Bank Group has posted Q3 Net Income of NIS 292mio with an annualized ROE of 12.7%. Net Income for the first nine months was NIS 769mio with an annualized ROE of 11.3%. The group's total capital ratio at 30th September, 2009 was 12.92% with a Tier-1 ratio of 8.64%.

The group's performance is the direct outcome of our long-term growth strategy, our clearly-defined focus on core banking activities and support of our clients, whilst at the same time, ensuring the strengthening of our capital base. These results reflect the successful execution of our strategy - the increase in our interest and fee income, maintenance of good operational ratios and high capital ratios.

Discount will continue on its growth path with an emphasis on traditional retail and corporate banking, prudent risk management, a heightened focus on our existing clients, continued recruitment of new customers, and increasing our relative market share.

**Best Regards,**

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

ON NOVEMBER 30, 2009, THE BOARD OF DIRECTORS OF ISRAEL DISCOUNT BANK APPROVED THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE BANK AS AT SEPTEMBER 30, 2009.

**NET INCOME FOR THE DISCOUNT BANK GROUP FOR THE FIRST NINE MONTHS OF 2009 AMOUNTED TO NIS 769 MILLION (\$204.6 MILLION), COMPARED WITH NIS 366 MILLION (\$97.4 MILLION) FOR THE CORRESPONDING PERIOD LAST YEAR, AN INCREASE OF 110.1%.**

**RETURN ON EQUITY FOR THE FIRST NINE MONTHS OF 2009 REACHED 11.3%, ON AN ANNUALIZED BASIS, COMPARED WITH 5.3% 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 nine months of 2009, compared with the corresponding period last year are as follows:

- An 8.6% rise in income from financing activities before provision for doubtful debts.
- A 76.1% rise in the provision for doubtful debts.
- A 25.3% rise in operating and other income, which was effected by a rise in operating commissions of 6.2%, a rise of NIS 141 million (\$37.5 million) in profits from investments in shares and a rise of NIS 206 million (\$54.8 million) in other income, which was effected mainly by profits which were recorded for severance pay funds.
- A 3.4% rise in operating and other expenses, which was effected by a 3.3% rise in salaries and related expenses, and an 8.8% rise in maintenance and depreciation of buildings and equipment.
- Provision for taxes on operating income in the first nine months of 2009 amounted to NIS 477 million (\$126.9 million), compared with NIS 397 million (\$105.6 million) for the corresponding period last year. The increase in the provision for taxes on income was influenced, among other things, from the effect of the reduction in the tax rate on the balance of deferred taxes in the amount of NIS 37 million (\$9.8 million) and from the cancellation of deferred taxes in respect of previous years in the amount of NIS 39 million (\$10.4 million).
- The Bank's shares in the operating income of affiliated companies in the first nine months of 2009 amounted to NIS 236 million (\$62.8 million), compared with NIS 26 million (\$6.9 million) in the corresponding period last year. Income for the first nine months of 2009 includes NIS 130 million (\$34.6 million) for the cancellation of the provision for taxes for the investment in the First International Bank.

**Disregarding the components detailed below:**

**Net income for the first nine months of 2009** would have amounted to NIS 748 million (\$199.0 million), compared with NIS 375 million (\$99.8 million) for the corresponding period last year.

**Return on equity for the first nine months of 2009** would have been 11.0%, compared with 5.4% for the corresponding period last year.

**For 2009 and 2008, component disregarded for the first nine months and third quarter** - the effect of the provision for the wage agreement on the increase in liabilities for the provision for related salary expenses.

**For 2009 the following additional components were disregarded:**

**For the first nine months** - cancellation of deferred taxes for previous years; losses from the sale of investee companies; cancellation of provision for taxes for the investment in The First International Bank.

**For the first nine months and the third quarter** - effect of the reduction in the corporate tax.

**For 2008 the following additional components were disregarded:**

**For the first nine months** - settling income tax assessments and cancellation of tax provision for the Bank's share in the profits of Israel Credit Cards.

**For the first nine months and the third quarter** - loss from decline in value of investee companies.

## MAIN INVESTEE COMPANIES

**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 nine months of 2009** amounted to \$29 million, compared with \$33 million for the corresponding period last year, and \$35 million for all of 2008.

**Return on equity** was 6.1% on an annualized basis, compared with 6.9% for the corresponding period last year and 5.5% for all of 2008.

**The ratio of capital to risk assets at September 30, 2009** was 13.5%, compared with 12.1% as at December 31, 2008.

**The contribution of the investment of the Bank in Bancorp to the operating results** was a profit of NIS 83 million (\$22.1 million) (after deducting a provision for taxes of NIS 16 million (\$4.3 million)), compared to a loss of NIS 188 million (\$50.0 million) (after deducting a provision for taxes of NIS 18 million (\$4.8 million)) for the corresponding period last year.

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

**Net income for the first nine months of 2009** amounted to NIS 158 million (\$42.0 million), compared with NIS 138 million (\$36.7 million) for the corresponding period last year, an increase of 14.5%, and NIS 148 million (\$39.4 million) for all of 2008.

**Return on equity** was 13.5% on an annualized basis, compared with 13.0% for the corresponding period last year, and 10.3% for all of 2008.

**The ratio of capital to risk assets at September 30, 2009** was 12.9%, compared with 12.4% as at December 31, 2008.

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

**Net income for the first nine months of 2009** amounted to NIS 25.6 million (\$6.81 million), compared with NIS 25.4 million (\$6.76 million) for the corresponding period last year, an increase of 0.8%, and compared with NIS 28.4 million (\$7.6 million) for all of 2008.

**Return on equity** was 3.8% on an annualized basis, compared with 3.9% for the corresponding period last year, and 3.2% for all of 2008.

**The ratio of capital to risk assets at September 30, 2009** was 10.4%, compared with 10.8% at December 31, 2008.

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

**Net income for the first nine months of 2009** amounted to NIS 416 million (\$110.7 million), compared with NIS 241 million (\$64.1 million) for the corresponding period last year, an increase of 72.6%.

**The Bank's share in the income of The First International Bank** amounted to NIS 111 million (\$29.5 million), compared with NIS 64 million (\$17.0 million) for the corresponding period last year, an increase of 73.4%.

**Return on equity** was 9.6% on an annualized basis, compared with 5.8% for the corresponding period last year, and 2.9% for all of 2008.

**The ratio of capital to risk assets at September 30, 2009** was 14.3% compared with 12.3% at December 31, 2008.

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

**Net income for the first nine months of 2009** amounted to NIS 202 million (\$53.8 million), compared with NIS 169 million (\$45.0 million) for the corresponding period last year, an increase of 19.5%.

**The contribution of ICC to the operating results of the Bank** amounted to NIS 121 million (\$32.2 million), compared with NIS 97 million (\$25.8 million) for the corresponding period last year.

**The ratio of capital to risk assets at September 30, 2009** was 21.5% compared with 19.9% at the end of 2008.

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

	Unaudited		Audited	Unaudited
	30.9.2009	30.9.2008	31.12.2008	30.9.2009
	NIS	NIS	NIS	US\$
<b>Assets</b>				
Cash and deposits with banks	23,083	*16,094	21,554	6,142.4
Securities	35,866	29,860	31,535	9,543.9
Borrowed securities or purchased under resale agreements	513	119	25	136.5
Credit granted to the public	115,840	*113,461	*116,669	30,824.9
Credit granted to Governments	1,833	1,496	1,491	487.8
Investments in affiliated companies	1,783	*1,887	1,827	474.4
Buildings and equipment	3,062	2,909	3,039	814.8
Other assets	5,555	5,129	5,904	1,478.2
<b>Total assets</b>	<b>187,535</b>	<b>170,955</b>	<b>182,044</b>	<b>49,902.9</b>
<b>Liabilities and Shareholders' Equity</b>				
Deposits from the public	140,390	*127,686	139,232	37,357.6
Deposits from banks	5,200	4,733	4,555	1,383.7
Deposits from the Government	255	*193	206	67.9
Securities loaned or sold under buy-back arrangements	7,639	8,175	7,194	2,032.7
Subordinated capital notes	10,837	9,538	9,373	2,883.7
Other liabilities	12,945	*11,664	*12,461	3,444.7
<b>Total liabilities</b>	<b>177,266</b>	<b>161,989</b>	<b>173,021</b>	<b>47,170.3</b>
Minority interest	283	194	226	75.3
Shareholders' equity	9,986	8,772	8,797	2,657.3
<b>Total liabilities and shareholders' equity</b>	<b>187,535</b>	<b>170,955</b>	<b>182,044</b>	<b>49,902.9</b>

\* Reclassified.

Note: US Dollar figures have been converted from New Israel Shekels at the representative rate of exchange on September 30, 2009:  
NIS 3.758=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

November 30, 2009

## CONDENSED CONSOLIDATED STATEMENT OF INCOME

Reported amounts  
NIS/US\$ millions

	Unaudited				Audited	Unaudited
	For the 3 months ended		For the 9 months ended		For the year ended	For the 9 months ended
	30.9.2009	30.9.2008	30.9.2009	30.9.2008	31.12.2008	30.9.2009
	NIS	NIS	NIS	NIS	NIS	US\$
<b>Financing Income</b>						
Income from financing activities before provision for doubtful debts	1,329	1,057	3,535	3,254	4,127	940.7
Provision for doubtful debts	246	182	729	414	780	194.0
Income from financing activities after provision for doubtful debts	1,083	875	2,806	2,840	3,347	746.7
<b>Operating and Other Income</b>						
Operating commissions	664	*663	1,961	*1,846	*2,495	521.8
Net income (loss) on investment in shares	65	(36)	98	(43)	51	26.1
Other income	82	*12	230	*24	*27	61.2
Total operating and other income	811	639	2,289	1,827	2,573	609.1
<b>Operating and Other Expenses</b>						
Salaries and related expenses	812	733	2,314	2,241	3,106	615.7
Maintenance and depreciation of buildings and equipment	248	240	730	671	910	194.3
Other expenses	315	*341	966	*967	*1,332	257.1
Total operating and other expenses	1,375	1,314	4,010	3,879	5,348	1,067.1
Operating income before taxes	519	200	1,085	788	572	288.7
Provision for taxes on operating income	252	65	477	397	169	126.9
Operating income after taxes	267	135	608	391	403	161.8
Bank's share in operating income (loss) of affiliated companies, net of tax effect	46	(8)	236	26	(70)	62.8
Minority interest, after taxes, in the operating income of consolidated subsidiaries	(21)	(17)	(57)	(47)	(78)	(15.2)
Net operating income	292	110	787	370	255	209.4
Net loss from extraordinary items, net of taxes	-	-	(18)	(4)	(10)	(4.8)
Net income	292	110	769	366	245	204.6
<b>Earnings per share of NIS 0.1 (in NIS/US\$):</b>						
Net operating income	0.30	0.11	0.80	0.38	0.26	0.213
Net loss from extraordinary items, net of taxes	-	-	(0.02)	(0.01)	(0.01)	(0.005)
Net income	0.30	0.11	0.78	0.37	0.25	0.208
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>	Total shareholders' equity	
	NIS millions										
<b>B. Statement of changes in shareholders' equity for the nine months ended September 30, 2009 and 2008 (unaudited)</b>											
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	-	-	-	-	-	-	-	-	769	769	
Benefit in respect of equity based compensation transactions	-	-	3	-	3	-	-	-	-	3	
Cancellation of options <sup>(3)</sup>	-	4	(4)	-	-	-	-	-	-	-	
Net adjustments for the presentation of available-for-sale securities at fair value	-	-	-	-	-	1,008	-	-	-	1,008	
Net adjustments for the presentation of available-for-sale securities reclassified to the income statement	-	-	-	-	-	(385)	-	-	-	(385)	
Related tax effect	-	-	-	-	-	(227)	-	-	-	(227)	
Financial statements translation adjustments	-	-	-	-	-	-	21	-	-	21	
Balance at September 30, 2009	658	2,943	49	212	3,862	200	(234)	(1)	6,159	9,986	
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	-	-	-	-	-	-	-	-	366	366	
Dividend declared	-	-	-	-	-	-	-	-	(250)	(250)	
Benefit in respect of equity based compensation transactions	-	-	12	-	12	-	-	-	-	12	
Net adjustments for the presentation of available-for-sale securities at fair value	-	-	-	-	-	(881)	-	-	-	(881)	
Net adjustments for the presentation of available-for-sale securities reclassified to the income statement	-	-	-	-	-	70	-	-	-	70	
Related tax effect	-	-	-	-	-	297	-	-	-	297	
Financial statements translation adjustments	-	-	-	-	-	-	(44)	-	-	(44)	
Balance at September 30, 2008	658	2,939	47	212	3,856	(317)	(278)	(1)	5,512	8,772	

\* 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.

(3) For 784,511 options which were not exercised.

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

Reported amounts

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