



**PRESS RELEASE**

**25.3.2009**

CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2009

FINANCIAL HIGHLIGHTS FOR 2009

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**NET INCOME - NIS 923 MILLION (\$244.5 MILLION),  
COMPARED WITH NIS 245 MILLION (\$64.9 MILLION) FOR  
2008, AN INCREASE OF 277%.**

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**RETURN ON EQUITY - 9.8%, COMPARED WITH 2.7% FOR 2008.**

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**NET OPERATING INCOME - NIS 943 MILLION (\$249.8 MILLION), COMPARED WITH  
NIS 255 MILLION (\$67.5 MILLION) FOR 2008, AN INCREASE OF 270%.**

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**NET INCOME FOR 4TH QUARTER - NIS 154 MILLION  
(\$40.8 MILLION), COMPARED TO A LOSS OF NIS 121 MILLION  
(\$32.1 MILLION) FOR THE CORRESPONDING PERIOD.**

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**RETURN ON EQUITY FOR THE 4TH QUARTER - 6.3%, COMPARED TO  
A NEGATIVE RETURN OF 5.5% FOR THE CORRESPONDING PERIOD.**

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**CAPITAL ADEQUACY RATIO - 13.12%. TIER 1 CAPITAL RATIO - 8.8%**

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**CAPITAL ADEQUACY RATIO (IN BASEL II TERMS) - 12.06%**

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## LETTER FROM THE CHAIRMAN AND CEO

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In 2009, the Discount Group continued to establish its position as one of the three leading banking groups in Israel. The Group's results and achievements in 2009 are particularly noteworthy when viewed against the background of the economic atmosphere that characterized the beginning of the year and the level of uncertainty that prevailed in the markets. A focal point in 2009 was the strengthening of the bank's capital base, its optimal allocation between the Group's various activities and providing business assistance to customers in contending with the crisis. During the year, the Bank raised NIS 2.2 billion and placed particular emphasis on proactive management of risk assets. These actions enabled the Bank to close the year with a Capital Adequacy Ratio of 12.06% in Basel II terms, while posting net income of NIS 923 million and a return on equity of 9.8%.

During 2009, the Bank continued to implement its multi-year strategic plan: the legacy Unisys system was finally shut-down, a fact that now positions the Bank's IT infrastructure on the same plane as the world's most developed banks; branches continued to assimilate Discount's unique approach, which is intended to improve customer service; progress was made in implementing the "Lean Banking" initiative, at the core of which is the removal of operational activities from branches and improving efficiency. In addition, various measures were taken, aimed at strengthening synergies and corporate governance at both the Bank and Group level.

This year too, the Bank's subsidiaries continued to constitute a major factor in the success of the Group: Mercantile Discount Bank closed the year with net income of NIS 180 million and a return on equity of 11.1%, while maintaining the momentum of its branch-opening and strengthening its focus on business segments with high growth potential. The profits of Discount Mortgage Bank increased by 9.2% to NIS 31 million. Israel Credit Cards (ICC), despite difficulties and challenges, made a profit of NIS 249 million, thanks to growth in the number of active credit cards in circulation. IDBNY, despite finding itself in the eye of the storm at the beginning of 2009, closed the year with net income of \$44 million, an increase of more than 25% compared to the previous year and an impressive result considering the business environment and the results of the U.S. banking system within which it operates.

The Discount Group enters 2010 standing on firm foundations: growing core banking business, sound capital, and business processes that support the further improvement of the bank's results. These resources, together with the expected contribution from the sale of our holdings in the shares of First International Bank of Israel, will enable the Group to bolster its operations in the credit sector, widen the mix of services in the capital market sector and strengthen operating sectors where we do not lead and where we do not currently enjoy a relative advantage. All the aforesaid will be done in cooperation with the regulatory bodies and with an unflinching social commitment to the environment and to the community within which we operate.

In 2010, it is our intention to present an updated strategic plan for 2011-2015. The plan will be based on our obligation to create value for our shareholders and our commitment to provide quality service to our customers that is both modern and secure. We believe that together with the Discount Group's employees and managers, we will be successful in achieving the goals we have set for ourselves and in taking the Group forward to further growth and prosperity.

**Dr. Yossi Bachar, Chairman of the Board of Directors**

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

**NET INCOME FOR THE DISCOUNT BANK GROUP FOR 2009 AMOUNTED TO NIS 923 MILLION (\$244.5 MILLION), COMPARED WITH NIS 245 MILLION (\$64.9 MILLION) FOR 2008. RETURN ON EQUITY FOR 2009 REACHED 9.8%, COMPARED WITH 2.7% LAST YEAR.**

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**THE MAIN FACTORS INFLUENCING THE PROFITS OF THE GROUP IN 2009, COMPARED WITH THE CORRESPONDING PERIOD:**

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- An increase of 15.3% in income from financing activities before provision for doubtful debts.
- An increase of 20.1% in non-financing income that was affected by a rise of 5.2% in operating commissions, a rise of NIS 146 million (\$38.8 million) in profits from investments in shares and a rise of NIS 242 million (\$64.1 million) in other income mainly from profits for severance pay funds.
- Operating income of affiliated companies amounted to NIS 158 million (\$41.9 million), compared with a loss of NIS 70 million (\$18.5 million) for 2008.

**FACTORS PARTIALLY OFF-SETTING THE INCREASE IN INCOME FOR 2009:**

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- An increase of 27.9% in the provision for doubtful debts.
- An increase of 2.6% in non-financing expenses.
- An increase in the provision for taxes on operating income amounting to NIS 338 million (\$89.5 million).

**MAIN DEVELOPMENTS IN THE BALANCE SHEET FOR 2009, COMPARED WITH THE CORRESPONDING PERIOD:**

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- Total assets of the Discount Group grew by 3.3%, amounting to NIS 187.8 billion (\$49.8 billion), compared with NIS 181.1 billion (\$48.2 billion) in 2008.
- Credit granted to the public decreased by 1.7%, amounting to NIS 114.4 billion (\$30.3 billion), compared with NIS 116.5 billion (\$30.8 billion) in 2008.
- Deposits from the public grew by 1.9%, amounting to NIS 141.8 billion (\$37.6 billion), compared with NIS 139.2 billion (\$36.9 billion) in 2008.
- Shareholders' equity rose by 13.6%, amounting to NIS 10 billion (\$2.6 billion), compared with NIS 8.8 billion (\$2.3 billion) in 2008.

## DATA CONCERNING SUBSIDIARIES

### 2009

|   | Net Income<br>(millions) | Return on<br>Equity<br>(%) | Capital<br>Adequacy<br>Ratio<br>(%) |
|---|--------------------------|----------------------------|-------------------------------------|
| Discount Bancorp Inc.                                 | \$44                     | 6.6                        | 14.9                                |
| Mercantile Discount Bank                              | NIS 180                  | 11.1                       | 13.1                                |
| Discount Morgage Bank                                 | NIS 31                   | 3.4                        | 12.1                                |
| Israel Credit Cards (the Bank holds 71.83% of equity) | NIS 249                  | 26.3                       | 22.8                                |

### 2008

|   | Net Income<br>(millions) | Return on<br>Equity<br>(%) | Capital<br>Adequacy<br>Ratio<br>(%) |
|---|--------------------------|----------------------------|-------------------------------------|
| Discount Bancorp Inc.                                 | \$35                     | 5.5                        | 12.1                                |
| Mercantile Discount Bank                              | NIS 148                  | 10.3                       | 12.4                                |
| Discount Morgage Bank                                 | NIS 28.4                 | 3.2                        | 10.8                                |
| Israel Credit Cards (the Bank holds 71.83% of equity) | NIS 279                  | 44.5                       | 21.1                                |

## CONDENSED CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31

### REPORTED AMOUNTS

|  | 2009            | 2008           | 2009            |
|--|-----------------|----------------|-----------------|
|  | in NIS millions | US\$ millions  |                 |
| <b>Assets</b>  |                 |                |                 |
| Cash and deposits with banks   | 24,583          | 21,554         | 6,512.1         |
| Securities   | 36,338          | 31,535         | 9,626.0         |
| Securities borrowed or purchased under resale agreements               | 336             | 25             | 89.0            |
| Credit granted to the public   | 114,426         | *116,456       | 30,311.5        |
| Credit granted to Governments  | 1,820           | 1,491          | 482.1           |
| Investment in investee companies (consolidated – affiliated companies) | 1,795           | 1,827          | 475.5           |
| Buildings and equipment  | 3,178           | 3,039          | 841.8           |
| Other assets   | 5,341           | 5,904          | 1,414.8         |
| <b>Total assets</b>  | <b>187,817</b>  | <b>181,831</b> | <b>49,752.8</b> |
| <b>Liabilities and Shareholders' Equity</b>                            |                 |                |                 |
| Deposits from the public   | 141,825         | 139,232        | 37,569.5        |
| Deposits from banks  | 3,724           | 4,555          | 986.5           |
| Deposits from the Government   | 284             | 206            | 75.2            |
| Securities loaned or sold under buy-back arrangements                  | 7,651           | 7,194          | 2,026.8         |
| Subordinated capital notes   | 11,529          | 9,373          | 3,054.1         |
| Other liabilities  | 12,512          | *12,248        | 3,314.4         |
| <b>Total liabilities</b>   | <b>177,525</b>  | <b>172,808</b> | <b>47,026.5</b> |
| Minority interest  | 298             | 226            | 78.9            |
| Shareholders' equity   | 9,994           | 8,797          | 2,647.4         |
| <b>Total liabilities and shareholders' equity</b>                      | <b>187,817</b>  | <b>181,831</b> | <b>49,752.8</b> |

\* Reclassified.

Note: US Dollar figures have been converted from New Israel Shekels at the representative rate of exchange on December 31, 2009: NIS 3.775=US\$1.00

Dr. Yossi Bachar  
Chairman of the Board  
of Directors

Giora Offer  
President &  
Chief Executive Officer

Joseph Beressi  
Senior Executive Vice President  
Chief Accountant

March 25, 2010

## CONDENSED CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31

### REPORTED AMOUNTS

|  | 2009            | 2008           | 2007           |                |
|--|-----------------|----------------|----------------|----------------|
|  | In NIS millions |                | US\$ millions  |                |
| <b>Financing Income</b>  |                 |                |                |                |
| Income from financing activities before provision for doubtful debts                 | 4,757           | 4,127          | 4,225          | 1,260.1        |
| Provision for doubtful debts   | 998             | 780            | 447            | 264.4          |
| Income from financing activities after provision for doubtful debts                  | 3,759           | 3,347          | 3,778          | 995.7          |
| <b>Operating and other Income</b>  |                 |                |                |                |
| Operating commissions  | 2,625           | 2,495          | 2,474          | 695.4          |
| Net income on investment in shares   | 197             | 51             | 58             | 52.2           |
| Other income   | 269             | 27             | 119            | 71.2           |
| <b>Total operating and other income</b>  | <b>3,091</b>    | <b>2,573</b>   | <b>2,651</b>   | <b>818.8</b>   |
| <b>Operating and other Expenses</b>  |                 |                |                |                |
| Salaries and related expenses  | 3,175           | 3,106          | 3,030          | 841.0          |
| Maintenance and depreciation of buildings and equipment                              | 981             | 910            | 819            | 259.9          |
| Other expenses   | 1,330           | 1,332          | 1,296          | 352.3          |
| <b>Total operating and other expenses</b>  | <b>5,486</b>    | <b>5,348</b>   | <b>5,145</b>   | <b>1,453.2</b> |
| Operating income before taxes  | 1,364           | 572            | 1,284          | 361.3          |
| Provision for taxes on operating income  | 507             | 169            | 566            | 134.3          |
| Operating income after taxes   | 857             | 403            | 718            | 227.0          |
| Bank's share in operating income (loss) net of tax effect of affiliated companies    | 158             | (70)           | 45             | 41.9           |
| Minority interest, after taxes, in the operating income of consolidated subsidiaries | (72)            | (78)           | (56)           | (19.1)         |
| Net operating income   | 943             | 255            | 707            | 249.8          |
| Net income (loss) from extraordinary items, net of taxes                             | (20)            | (10)           | 558            | (5.3)          |
| <b>Net income</b>  | <b>923</b>      | <b>245</b>     | <b>1,265</b>   | <b>244.5</b>   |
| <b>Earnings (losses) per share of NIS 0.1 (in NIS)</b>                               |                 |                |                |                |
| Net operating income   | 0.96            | 0.26           | 0.72           | 0.254          |
| Net income (loss) from extraordinary items, net of taxes <sup>(1)</sup>              | (0.02)          | (0.01)         | 0.57           | 0.005          |
| Net income   | 0.94            | 0.25           | 1.29           | 0.249          |
| <b>Total number of shares used for the above computation (in thousands)</b>          | <b>980,639</b>  | <b>980,639</b> | <b>980,639</b> |                |

## STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

## REPORTED AMOUNTS

|  | Share capital   | Share premium | Capital reserves   |            |
|--|-----------------|---------------|--|------------|
|  |                 |               | Benefit in respect of equity-based compensation transactions | Other      |
|  | in NIS millions |               |  |            |
| Balance at December 31, 2006   | 658             | 2,939         | 8  | 212        |
| <b>Changes in 2007:</b>  |                 |               |  |            |
| Net Income for the year  | -               | -             | -  | -          |
| Benefit in respect of equity based compensation transactions   | -               | -             | 27   | -          |
| Net adjustments for the presentation of available-for-sale securities at fair value                        | -               | -             | -  | -          |
| Net adjustments for the presentation of available-for-sale securities reclassified to the income statement | -               | -             | -  | -          |
| Related tax effect   | -               | -             | -  | -          |
| Financial statements translation adjustments   | -               | -             | -  | -          |
| <b>Balance at December 31, 2007</b>  | <b>658</b>      | <b>2,939</b>  | <b>35</b>  | <b>212</b> |
| <b>Changes in 2008:</b>  |                 |               |  |            |
| Initial application of IFRS in affiliated companies  | -               | -             | -  | -          |
| Initial application of new accounting principles in a subsidiary abroad                                    | -               | -             | -  | -          |
| Net Income for the year  | -               | -             | -  | -          |
| Dividend   | -               | -             | -  | -          |
| Benefit in respect of equity based compensation transactions   | -               | -             | 15   | -          |
| Net adjustments for the presentation of available-for-sale securities at fair value                        | -               | -             | -  | -          |
| Net adjustments for the presentation of available-for-sale securities reclassified to the income statement | -               | -             | -  | -          |
| Related tax effect   | -               | -             | -  | -          |
| Financial statements translation adjustments   | -               | -             | -  | -          |
| <b>Balance at December 31, 2008</b>  | <b>658</b>      | <b>2,939</b>  | <b>50</b>  | <b>212</b> |
| <b>Changes in 2009:</b>  |                 |               |  |            |
| Net Income for the year  | -               | -             | -  | -          |
| Benefit in respect of equity based compensation transactions   | -               | -             | 2  | -          |
| Option expiration <sup>(3)</sup>   | -               | 4             | (4)  | -          |
| Net adjustments for the presentation of available-for-sale securities at fair value                        | -               | -             | -  | -          |
| Net adjustments for the presentation of available-for-sale securities reclassified to the income statement | -               | -             | -  | -          |
| Related tax effect   | -               | -             | -  | -          |
| Financial statements translation adjustments   | -               | -             | -  | -          |
| <b>Balance at December 31, 2009</b>  | <b>658</b>      | <b>2,943</b>  | <b>48</b>  | <b>212</b> |

## Footnotes:

(1) Translation adjustments of foreign operations, primarily from a consolidated subsidiary Israel Discount Bank of New York in amount of NIS 231 million, which was treated until December 31, 1994, in the financial statements of the Bank as autonomous unit. 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) In respect of 784,511 un-exercised option warrants.

| Total share capital and reserves | Other cumulative comprehensive income (loss)                               |  |   |       | Retained earnings <sup>(2)</sup> | Total shareholders' equity |
|----------------------------------|--|--|---|-------|----------------------------------|----------------------------|
|                                  | Adjustment for presentation of available for sale securities at fair value | Translation adjustments <sup>(1)</sup> | Net gains (losses) on cash flow hedging |       |                                  |                            |
| in NIS millions                  |  |  |   |       |                                  |                            |
| 3,817                            | 249  | (233)                                  | (1)                                     | 4,133 | 7,965                            |                            |
| -                                | -  | -                                      | -                                       | 1,265 | 1,265                            |                            |
| 27                               | -  | -                                      | -                                       | -     | 27                               |                            |
| -                                | 8  | -                                      | -                                       | -     | 8                                |                            |
| -                                | (90)   | -                                      | -                                       | -     | (90)                             |                            |
| -                                | 30   | -                                      | -                                       | -     | 30                               |                            |
| -                                | -  | (1)                                    | -                                       | -     | (1)                              |                            |
| 3,844                            | 197  | (234)                                  | (1)                                     | 5,398 | 9,204                            |                            |
| -                                | -  | -                                      | -                                       | 1     | 1                                |                            |
| -                                | -  | -                                      | -                                       | (4)   | (4)                              |                            |
| -                                | -  | -                                      | -                                       | 245   | 245                              |                            |
| -                                | -  | -                                      | -                                       | (250) | (250)                            |                            |
| 15                               | -  | -                                      | -                                       | -     | 15                               |                            |
| -                                | (873)  | -                                      | -                                       | -     | (873)                            |                            |
| -                                | 249  | -                                      | -                                       | -     | 249                              |                            |
| -                                | 231  | -                                      | -                                       | -     | 231                              |                            |
| -                                | -  | (21)                                   | -                                       | -     | (21)                             |                            |
| 3,859                            | (196)  | (255)                                  | (1)                                     | 5,390 | 8,797                            |                            |
| -                                | -  | -                                      | -                                       | 923   | 923                              |                            |
| 2                                | -  | -                                      | -                                       | -     | 2                                |                            |
| -                                | -  | -                                      | -                                       | -     | -                                |                            |
| -                                | 1,014  | -                                      | -                                       | -     | 1,014                            |                            |
| -                                | (556)  | -                                      | -                                       | -     | (556)                            |                            |
| -                                | (205)  | -                                      | -                                       | -     | (205)                            |                            |
| -                                | -  | 19                                     | -                                       | -     | 19                               |                            |
| 3,861                            | 57   | (236)                                  | (1)                                     | 6,313 | 9,994                            |                            |

**ISRAEL DISCOUNT BANK LTD.**

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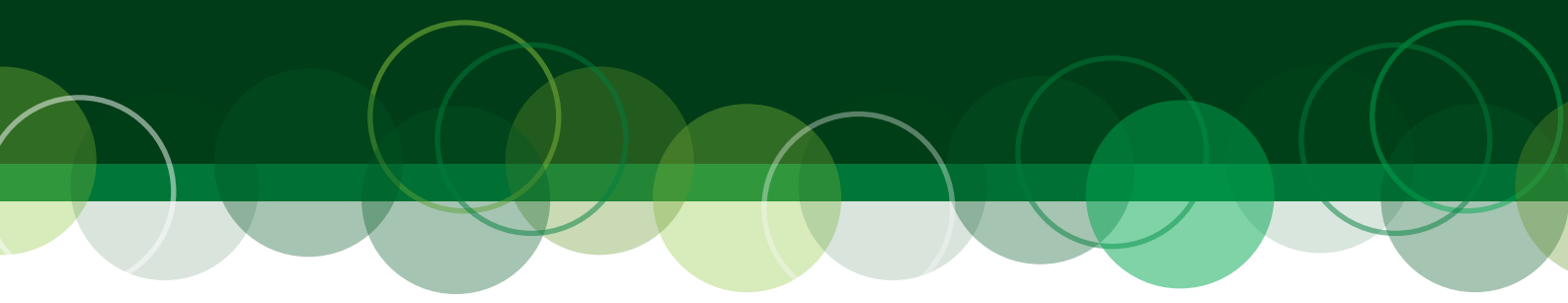
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