

# Israel Discount Bank Fact Sheet (FYE 2008)



## Company Profile

Israel Discount Bank is a leading financial group with the third largest banking franchise in Israel. With nationwide coverage, the bank provides a full spectrum of corporate and retail financial products and services to its clients, both in Israel and in key financial centers around the world.

In the domestic market, the group is comprised of commercial banks and financial services companies, active in credit cards, investment banking and portfolio management. The bank is perceived as a leader in retail banking with new and innovative concept branches and extended operating hours. Abroad, the bank operates through a network of subsidiaries, branches and representative offices in North America, Europe and Latin America, with a focus primarily on private banking and commercial finance. Israel Discount Bank New York (IDBNY) is the largest Israeli-owned bank operating outside of Israel.

## 2008 Financial Highlights

million NIS	2008	2007	2006
Interest Income, before loan Provisions	4,127	4,225	3,790
Loan Provisions	780	447	570
Interest Income, net	3,347	3,778	3,220
Operating & Other Income	2,490	2,572	2,359
Operating & Other Expenses	5,265	5,066	5,020
Income before tax	572	1,284	559
Net income (Reported)	245	1,265	836
Net income (adj.)	540	840	597
ROE (Reported)	2.7%	14.7%	11.7%
ROE (adj.)	5.9%	9.7%	8.4%

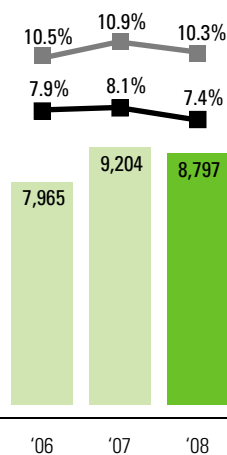
## Key Ratios

	2008	2007	2006
Capital Adequacy Ratio (CAR)	10.3%	10.9%	10.5%
Provisions / Credit to the public	0.64%	0.41%	0.59%
Loans / Total Assets	64.1%	60.4%	55.4%
Loans / Deposit	83.9%	78.1%	69.0%
Deposit / Total Assets	76.4%	77.4%	80.3%
Cost Income Ratio	79.6%	74.5%	81.6%

### Shareholders Equity and Capital Ratios

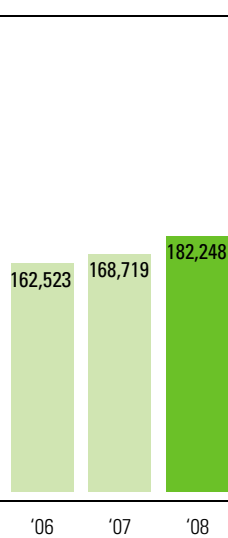
NIS millions

■ Shareholders Equity ■ Tier-1 Capital  
■ Capital Adequacy Ratio



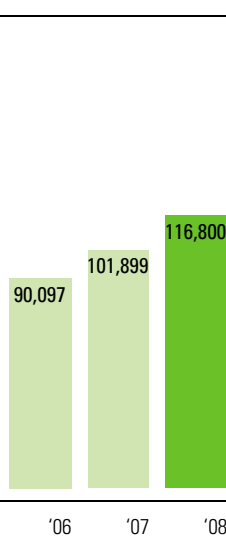
### Total Assets

NIS millions



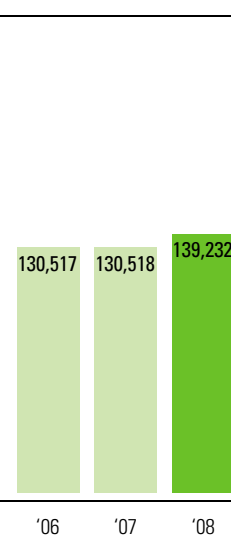
### Loans

NIS millions



### Deposits

NIS millions





# Letter from The Chairman

Dear Shareholders,

The 2008 Discount Bank Annual Report reflects not only the financial results of the bank and its subsidiaries, but more so, the stability of the bank in Israel as well as in New York, given the global economic crisis of which we are an integral part.

The Israeli banking sector in general, and Discount in particular, have shown impressive resilience during this turmoil, due largely to the stringent regulatory controls in the domestic banking sector, but also due to the bank's strategy which is focused on traditional commercial banking activity, having refrained from investing in "toxic assets", and maintaining better capital and liquidity levels than many of their foreign peers.

## Our Economic Environment

The domestic economy entered this recession later than most western economies, with clear signs of a heightening recession becoming evident locally only in Q4/08 and Q1/09. The impact is felt across the board, and reflected in service - production and industrial indices, and increasing levels of unemployment. The potential for early recovery of the economy is very much dependent on the developments in Israel's traditional export markets – Europe and the U.S. The main monetary measure adopted by Bank of Israel to dealing with the crisis has been aggressive interest rate reductions. However, it is not enough. There is a need for additional fiscal measures, government initiatives, changes in priorities and a preference toward large national projects in order to combat rising unemployment.

The crisis has proved that global markets are directly interconnected with one another. Financial institutions in all markets dragged down stock indices to historic lows. The same trends have been evident in the domestic banking sector, which, in my opinion, have dropped well in excess of the true inherent risk profiles of the banks.

In my opinion, the central challenge remains the management of the domestic credit markets – a return to normal functioning of the corporate debt and capital markets (non-bank credit). The share of bank credit in overall credit (bank & institutional investors) as of year end

2008 was 55%, compared with 74% in 2002. During the second half of 2008, many of these players have ceased to operate as market makers, with regard to both the issuance and purchase of corporate bonds, and no less importantly, regarding the rollover of corporate bond debt in the years to come. It is here that an immediate solution is required. The domestic banking sector does not have the capacity to assume on its books all of the debt issued by institutional investors during 2006-7 and that will need to be refinanced, in the coming years.

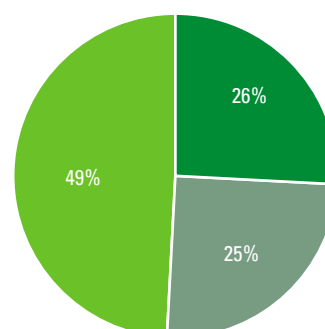
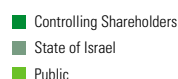
## The Group's Strategic Plan

The current financial crisis caught us in the midst of carrying out our strategic plan approved at the beginning of 2007 – a plan of "Accelerated Growth" aimed at positioning Discount Bank as the leading domestic retail bank. To a large degree, many of our growth targets have already been achieved – growth in credit and interest bearing assets on the one hand, as well as deposits on the other, both of which have been impressive.

Undoubtedly, our longer-term goals of both risk appetite and RoE that were an integral part of our strategic plan will come under scrutiny and will be adjusted later this year, as economic developments become clearer. As for dividend distribution, management has decided to postpone its proposal to the board regarding a dividend policy until the beginning of 2010.

## Shareholding Breakdown

as at December 31, 2008





**The Group's 2008 Performance**

In the context of a developing credit crunch in Israel, growth in the group has exceeded 16% in 2008 and surpassed sector growth as a whole. This was achieved while adhering to stringent underwriting criteria, improvement in the quality of the portfolio as a whole and maintaining credit spreads.

The mortgage campaign initiated last year, as part of the retail banking efforts, has proved itself, both in the doubling of market share of our mortgage bank, whilst at the same time recruiting new, qualitative retail clients for the bank. Our credit card company, ICC, posted its best financial results ever and positioned itself as the market leader in terms of innovation in this sector, with growth in domestic market share and abroad in credit card and related activities, as well as in non-bank consumer finance.

Looking to our franchise abroad – in each of the U.S. Europe and South America, we have demonstrated to our clients, our competitive advantage and professionalism in the services we offer. Our intention is to further develop our business platform in those regions where we have an existing presence. During this past year, we completed the acquisition of a Swiss bank in Zurich, which will serve to complement our existing private banking operation in Geneva.

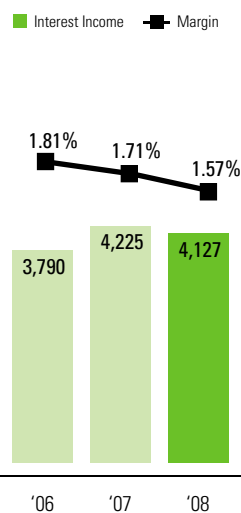
Among our group subsidiaries, IDBNY has played a prominent role – despite the particularly severe crisis in the U.S banking industry, coupled with the need to allocate management resources to dealing with the demands of local regulators, IDBNY has posted satisfactory results, maintained a healthy credit portfolio, whilst at the same time adhering to especially high levels of liquidity and capital adequacy.

We are continuing to place an emphasis on group management as a whole – demonstrated by our group policies of risk management, development of a corporate governance policy, refining the scope of activity of our group companies and instituting standard working methodologies.

During this period, we have succeeded in maintaining good labor relations with the unions and achieving modifications in employee compensation for 2009, in line with economic and financial developments. This momentum will be continued in order to reach a mutually agreeable compensation plan for the years to come, allowing for, on the one hand, management flexibility, and on the other, respectable levels of employee reward and compensation.

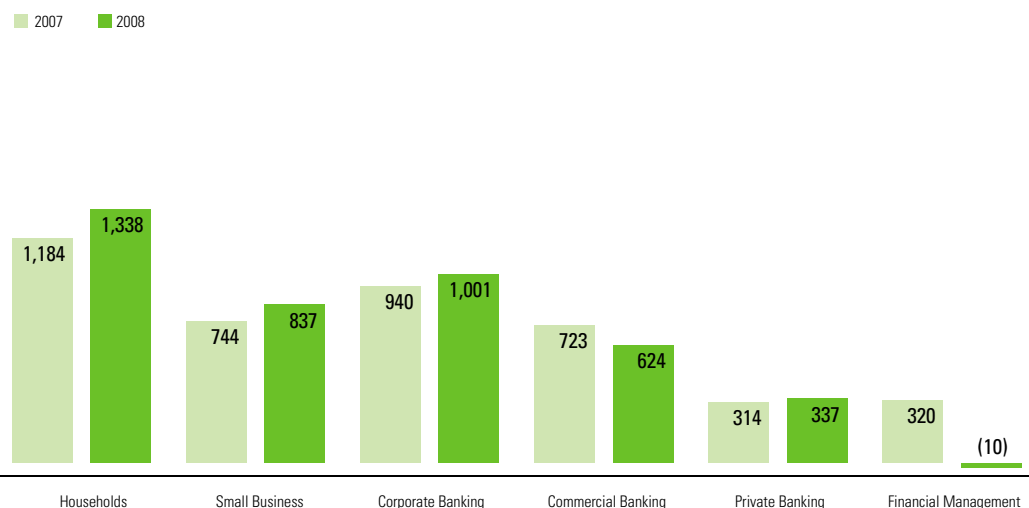
**Interest Income and Margin**

NIS millions



**Interest Income Contribution by Sector**

NIS million



# Letter from The Chairman Continue

## Looking to the Future

This year will be focused on operational efficiencies. It will be based on measures initiated back in 2008, including the reorganization of two divisions, centralized computing needs of our group companies, continued development of a centralized back office to service the operational needs of the branches, improvements in the E-banking platform and further improvements in the quality of our human resources.

Improvements in our Capital Structure – Discount Bank is currently well on the way toward the implementation of the Basel 2 initiatives in December 2009. As part of this process, we adopted a capital adequacy policy whereby the bank will strive to achieve a total capital ratio of 12% by year-end 2009, despite the challenges posed by the current recessionary environment.

## Improvements in Group Risk Management

One of the reasons leading to the outbreak of the crisis in mid-2007 was the relatively low stature assigned to risk managers in organizations and the lack of appropriate tools allowing for effective ongoing risk management. As part of the lessons learned, and as a result of heightened regulation, the Discount Group is at present, and will continue in the future, to ensure the improvement both in processes and availability of resources, to effectively manage risks in all of our group companies.

Priority will be given to enhance financial strength and reducing risk – namely, capital adequacy limits, liquidity management and minimizing of operational risks.

## In Conclusion

Given the current atmosphere in the markets, coupled with the expectation that the crisis will continue throughout this year, we believe that the initiatives put in place will constitute the basis for realizing our longer-term vision, namely a continued focus on our traditional domestic classic banking operation.

It will strengthen our operations abroad, especially in the US – all with the support of our shareholders.

I have no doubt that 2009 will be a very challenging year, but am convinced that the Discount Group has the ability to meet these challenges.

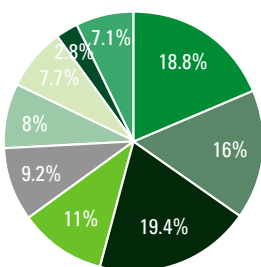
Sincerely,



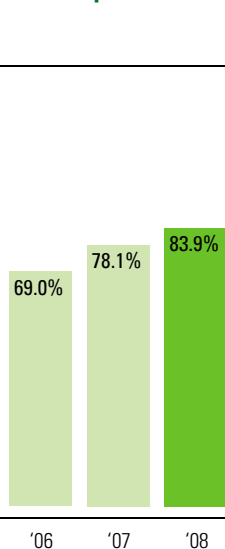
**Shlomo Zohar**  
Chairman of the Board

## Breakdown of Total Credit Risk Balance Sheet & Off-Balance Sheet

- Real Estate & Construction
- Industry
- Private Individuals - Others
- Trade
- Financial Services
- Private Individuals - mortgages
- Service Companies
- Transportation & Storage
- Other

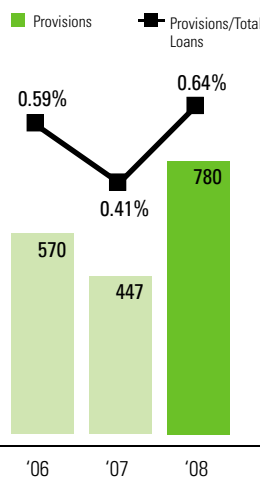


## Loan Deposit Ratio



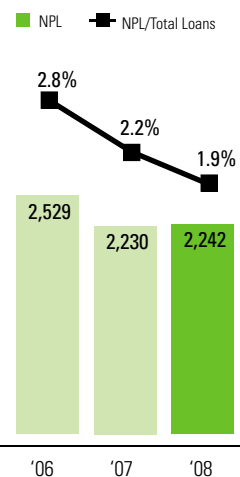
## Loan Provisions

NIS millions



## Non Performing Loans

NIS millions





# Letter from The CEO



Dear Shareholders,

The Discount Group reported its 2008 Financial Results against the backdrop of a global financial crisis, whose effects began to be felt locally within Israel, during the second half of the year. However, the emergence of the crisis found us well-positioned from a business perspective. In particular, we remained stable in terms of all key parameters due to conservative management which is focused solely on a traditional commercial banking model. We also strived to maintain full transparency across all of the Group's financial data, and remain very much receptive to our investors.

In 2008 as a whole, our main business parameters all presented strong growth. However, this was not reflected in our bottom-line results. Our earnings suffered due to write-downs on certain of our assets, as well as other negative mark-to-market influences, due to the fall and turmoil in global markets.

Our growth in the past year is very much reflected by the increased levels of our interest yielding assets and the revenues resulting from them. We experienced solid loan growth, amounting to 15% over last year, most of which came from our retail and corporate clients. At the same time, we maintained healthy margins and did not compromise our underwriting standards.

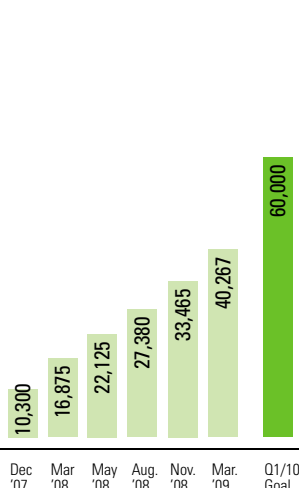
Our customer deposits also grew over last year by 7%. Our Loan/Deposit ratio at 2008 year-end stood at 84%, which we see as evidence of just how liquid we are at this particular time, and the importance we place on maintaining our high levels of liquidity.

Our securities portfolio of NIS 32 billion has also been particularly stable during the current global crisis. This is due mainly to its composition of mostly highly rated Government and other US Government Agency securities.

Alongside our loans, deposits and investment activity, we have seen further development in our capital markets, pension advisory and foreign trade services.

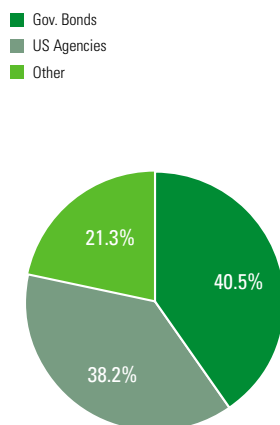
The 6% growth posted in fee income is testimony to the increased levels of business activity from clients across all our business sectors, coupled with the recruitment of new clients, especially from within the public sector which we have been recently targeting. In fact, we have successfully

### Retail Client Recruitment - Public Sector



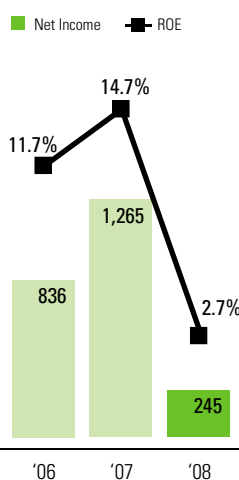
### Group Securities Portfolio

As of 31.12.08, NIS million  
Total (Fair Value): NIS 31,473 million



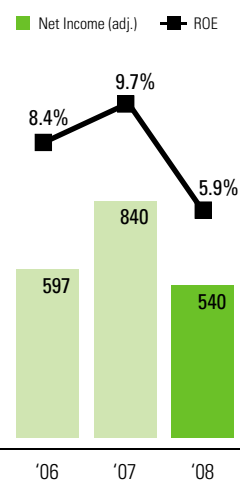
### Evolution of Net Income and ROE (Reported)

NIS millions



### Evolution of Net Income and ROE (Adjusted)

NIS millions





## Letter from **The CEO** Continue

recruited some 40,000 new clients during the past 18 months, in a highly competitive market.

Our New York-based subsidiary, IDBNY, has been operating in particularly difficult recessionary conditions for some time now. However, they achieved a net income of US\$35 million for 2008. Our other subsidiaries, Mercantile Discount Bank and our Mortgage Bank, both reported respectable bottom-line earnings. Israel Credit Cards reported record highs in terms of its earnings.

In terms of our operational efficiencies, we have a number of new initiatives under way. A key project in particular, on which we are focused, is that of "Lean Banking," a plan to shift all of the back-office tasks of our branches to one centralized back-office. This will allow our branches to become solely 'points of sale' and face-to-face customer contact, while at the same time, allowing for meaningful cost reductions. We currently have 21 such 'paperless' branches in operation throughout Israel.

The strong growth in our core businesses, despite the difficult macro conditions, is entirely due to the outcome of tireless efforts by all our employees across the Group. I believe that this strong team will allow us to continue to further build on our achievements this year, whilst ensuring a high level of liquidity, and working toward further cost reductions and improved levels of efficiency.

We aim to continue to offer our clients, both new and innovative products and services, providing comprehensive client-tailored solutions, with the overall goal of providing an ongoing improvement in our service levels and ultimately our customers' satisfaction with us.

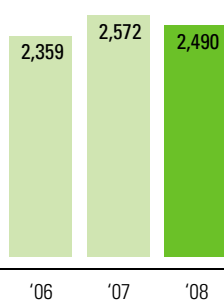
During this particularly challenging period, myself and the entire management team of Discount, remain focused on supporting our clients, so that they too will overcome the obstacles they are facing in the current environment.

I wish to take this opportunity of thanking our clients, shareholders and vendors for their continued support and loyalty, and as a team, we will make every effort to continue to justify this support.

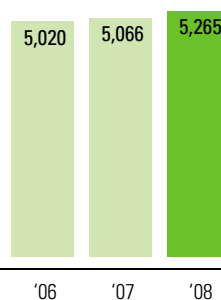
Best regards,

**Giora Offer**  
President & Chief Executive Officer

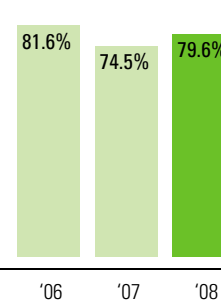
**Operating & Other Income**  
NIS millions



**Operating & Other Expenses**  
NIS millions

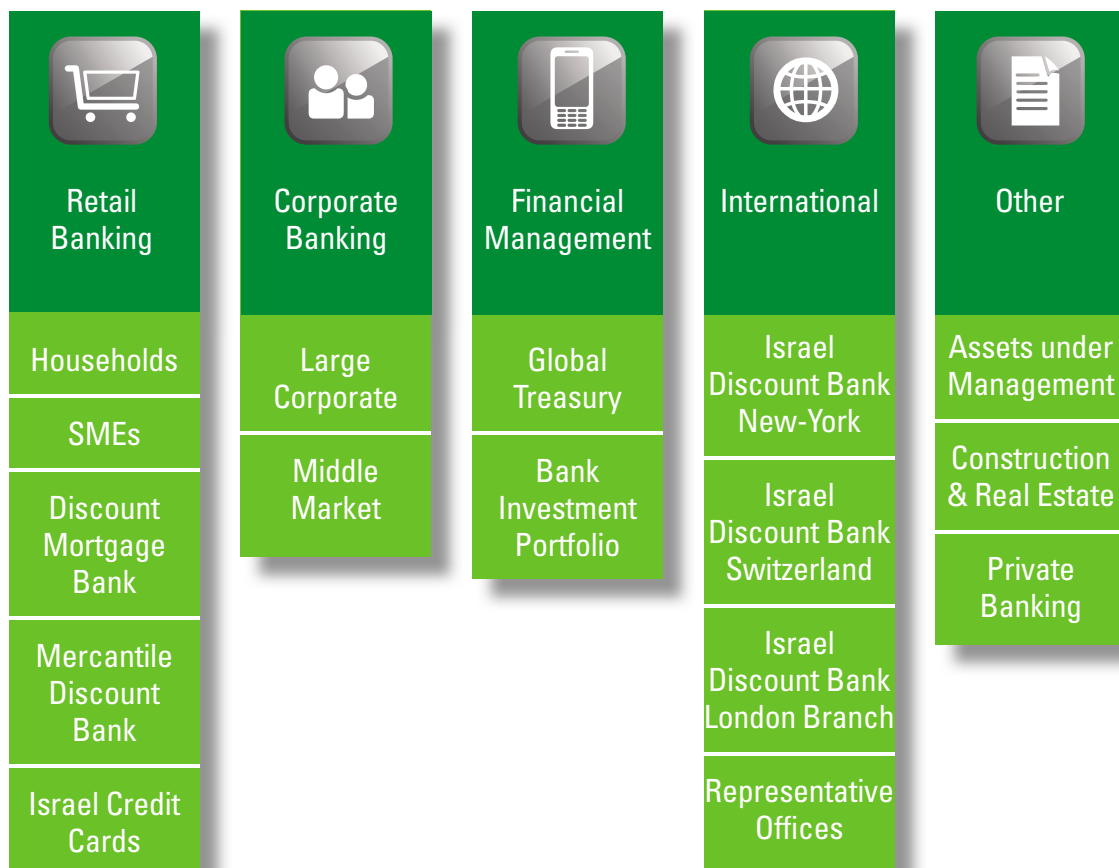


**Cost Income Ratio**  
NIS millions



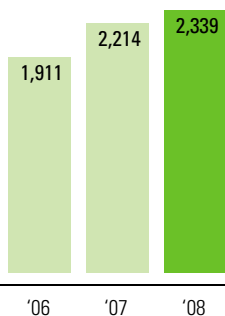


# Areas of Activity



## Commissions

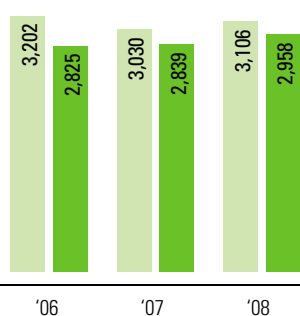
NIS millions



## Salary Expenses (Reported and Adjusted\*)

NIS millions

■ Salary Expense  
■ Salary Expense (adj)





[www.discountbank.co.il](http://www.discountbank.co.il)

### **IR Contact Information**

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#### **IR website:**

<http://www.discountbank.co.il/IR>

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