



1Q 20 REVIEW

FINANCIAL AND STRATEGIC HIGHLIGHTS

Investor Relations

May 27, 2020

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OUR RESPONSE TO COVID-19

SUPPORTING OUR CUSTOMERS AND EMPLOYEES

Business continuity

- Special task force to implement and manage the way we operate during COVID-19
- Branch network remained operational
- Expansion of call center service hours
- Expansion of digital channel functionality

Employees

- Quick adjustment of the way we work (~40% from employees worked remotely)
- Critical employees operated in capsules to ensure safe social distancing
- Full base salary pay for all employees
- Additional bonus payment to front-line employees

Customers

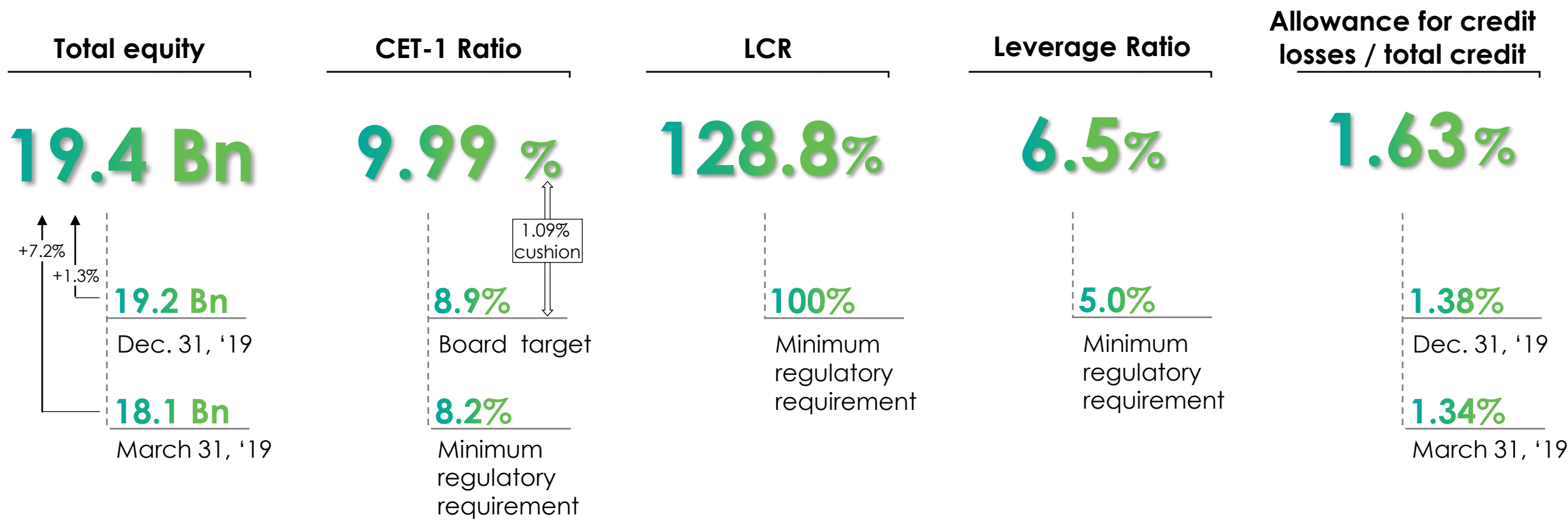
- Mortgage forbearance
- Term deposit break at no cost
- Corporate debt deferment
- Short-term loans for retail customers
- Bridge loans for SMEs
- Government backed loans for businesses

Community

- Accelerated payments to suppliers
- Donations to non-profit organizations
- Donations to hospitals to purchase medical devices
- Volunteer activities by employees to support in-need populations

MANAGING THE DOWNTURN FROM A STRONG POSITION

WITH A ROBUST BALANCE SHEET AND RESILIENT FINANCIAL RATIOS



1Q 2020 HIGHLIGHTS

RESULTS DRIVEN BY LOAN LOSSES, TRADING GAINS AND DISCIPLINED COST MANAGEMENT

Net Income

NIS 279 m

(4Q19: NIS 325 m ; 1Q19: NIS 405 m)

ROE

6.0%

(4Q19: 7.2% ; 1Q19: 9.6%)

Cost-Income Ratio

58.6%

(4Q19: 68.6% ; 1Q19: 66.2%)

Loan loss provision ratio

1.42%

(4Q19: 0.58% ; 1Q19: 0.33%)

- Loan book grew 1.5% QoQ and 7.6% YoY driven by mortgages and corporate
- Realized profit by leveraging opportunities in the bond and derivatives market
- Total income increased by 7.4% QoQ, mainly driven by non interest income
- Loan loss provision of NIS 656 m (1.42% of total credit)
- Disciplined cost management resulted in flat expenses YoY, 8.1% decrease QoQ
- Dividend put on hold in accordance with BOI instructions

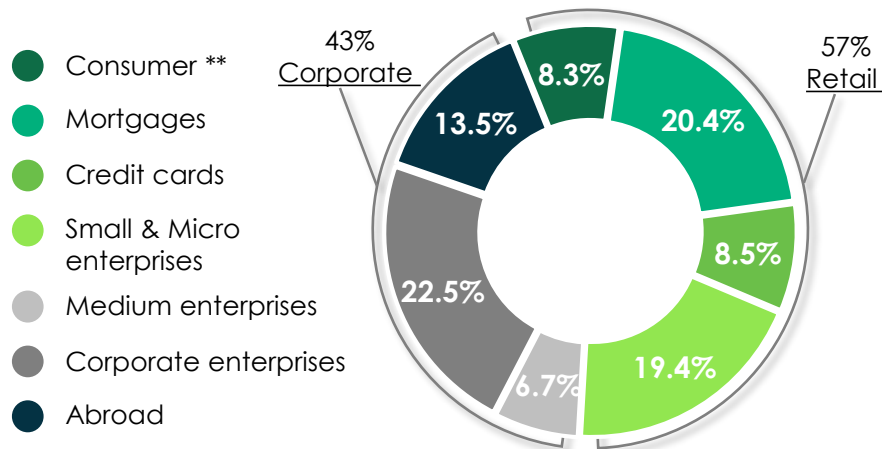
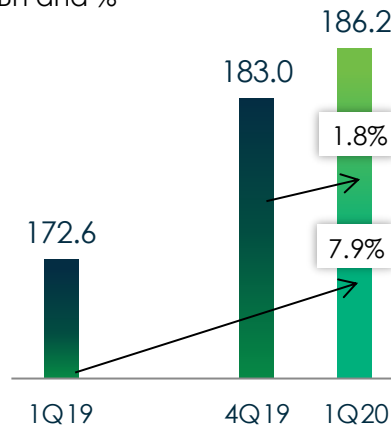
CREDIT TRENDS DRIVEN BY COVID-19

MARKET CONDITIONS DROVE LOWER DEMAND

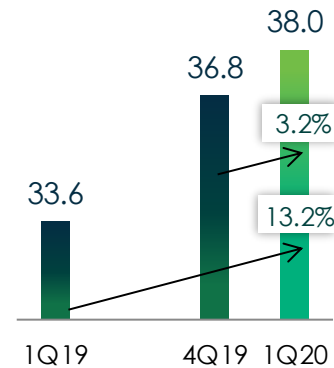
Credit to the Public segments and composition*

in NIS Bn and %

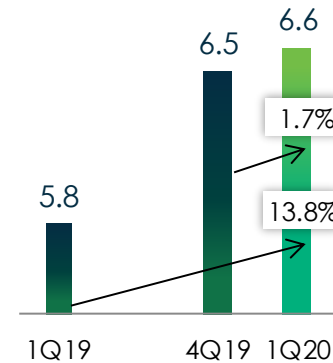
Total credit



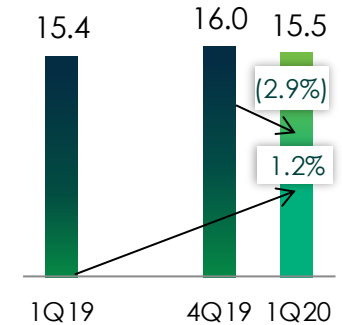
Mortgages



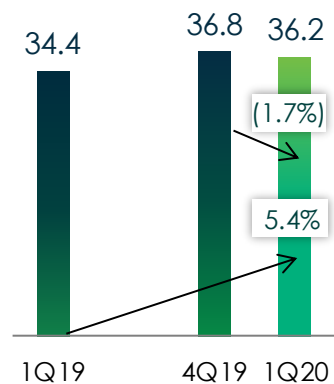
Credit cards (interest bearing)



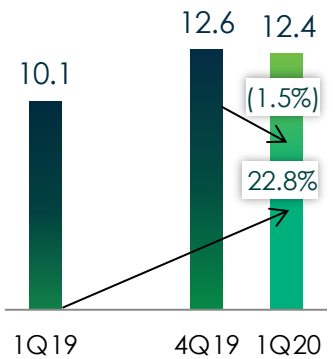
Consumer **



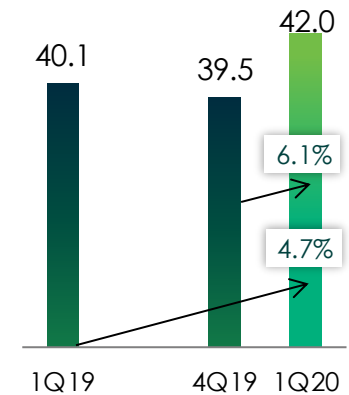
Micro & small enterprises



Medium enterprises



Corporate



* Regulatory segments, in Israel

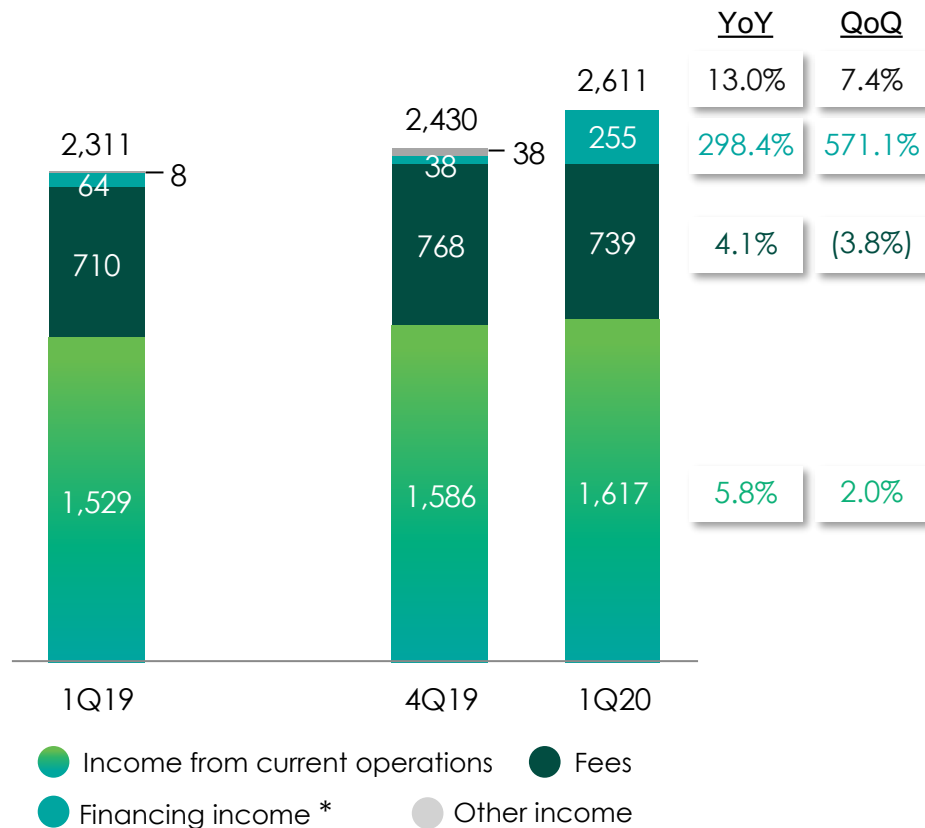
** Balance of household credit excluding mortgages and credit cards

DIVERSIFIED SOURCES OF INCOME

HIGHLIGHTS OUR RESILIENCE

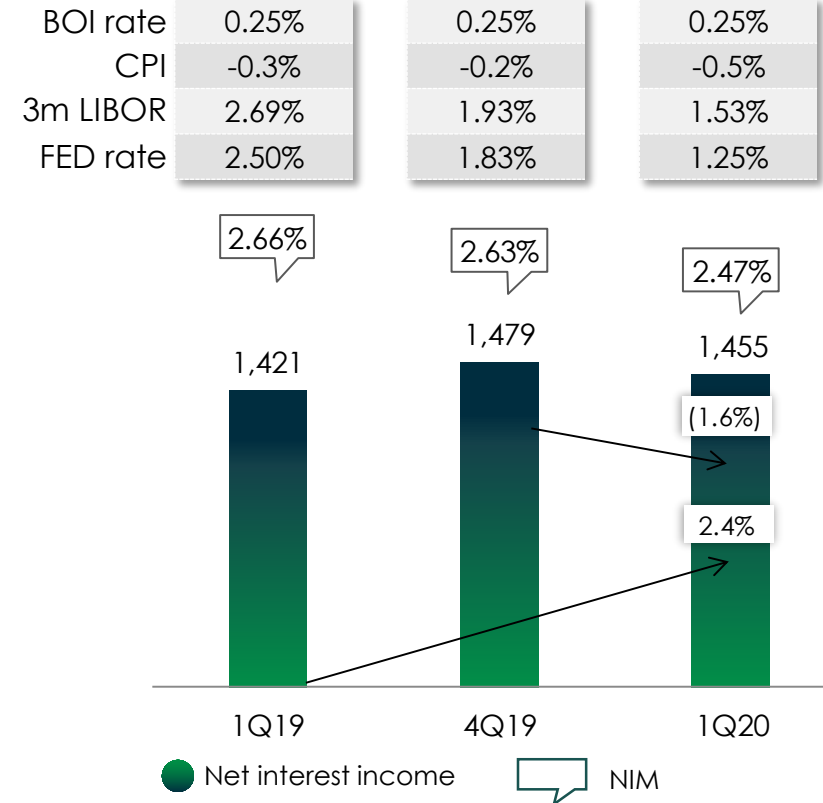
Total income

NIS m



NII and NIM

NIS m

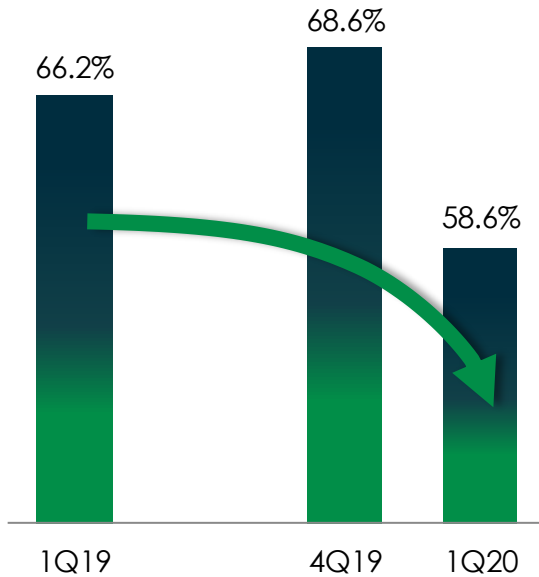


* Including CPI, income from realization and adjustment to fair value of bonds, investments in shares, loans sold, adjustments to fair value of derivative instruments.

CONTINUED TREND OF POSITIVE JAWS

ON THE BACKDROP OF COVID-19 IMPACT

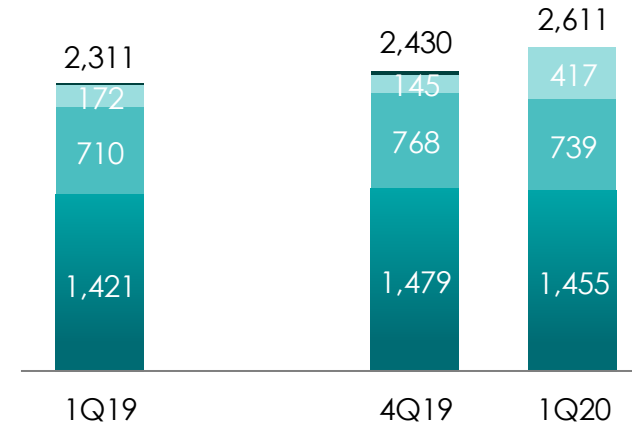
Cost-income ratio



- Other income
- Non interest financing income
- Fees
- Net interest income

NIS M

Total income

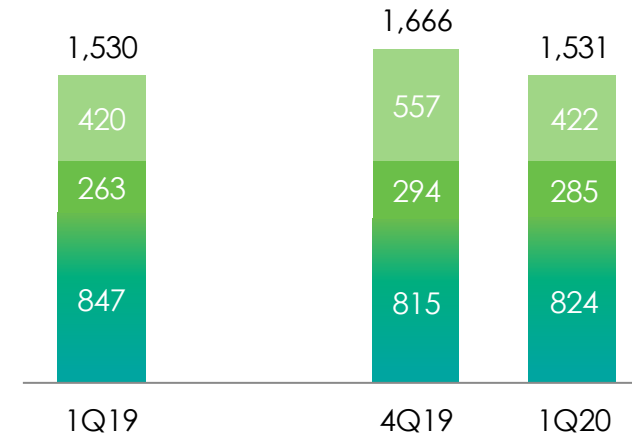


QoQ	YoY
7.4%	13.0%
187.6%	142.4%
(3.8%)	4.1%

(1.6%)	2.4%
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Positive Jaws

Total expenses



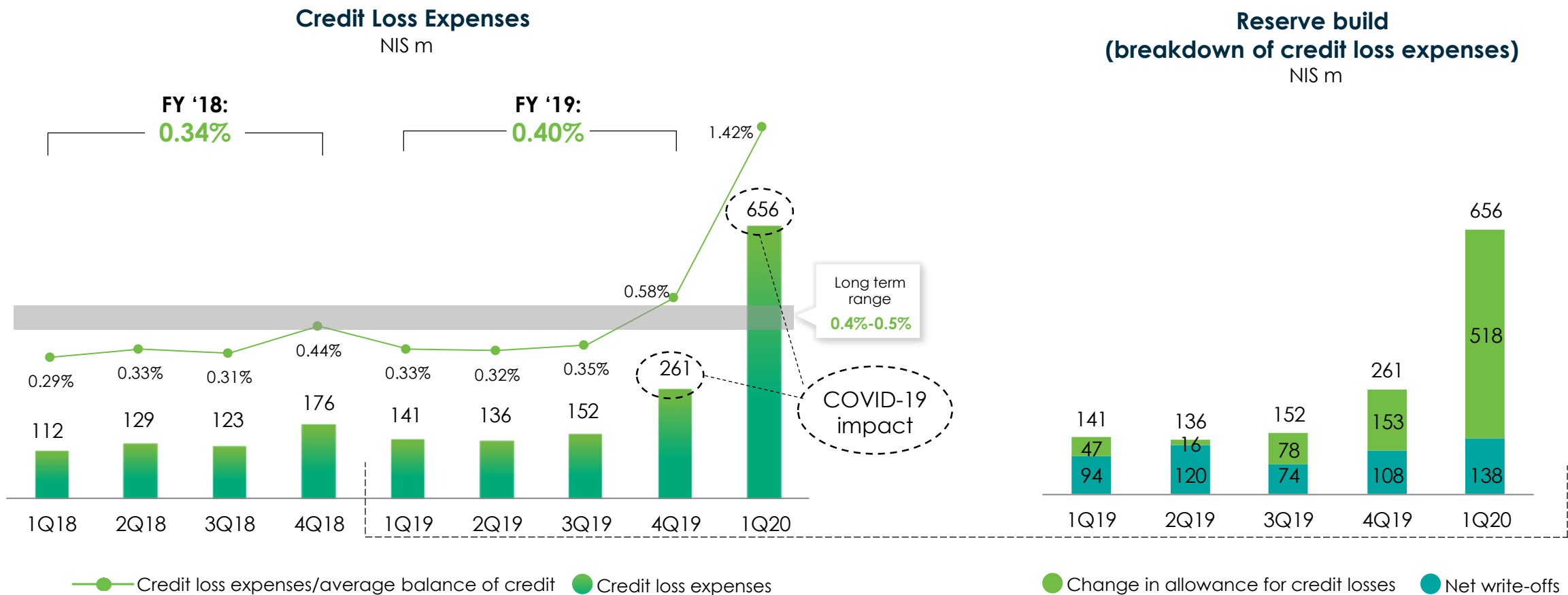
QoQ	YoY
(8.1%)	0.1%
(24.2%)	0.5%
(3.1%)	8.4%
1.1%	(2.7%)

- Other
- Maintenance and depreciation
- Salary & Related

NIS M

CREDIT LOSS EXPENSES REFLECT RESERVE BUILD

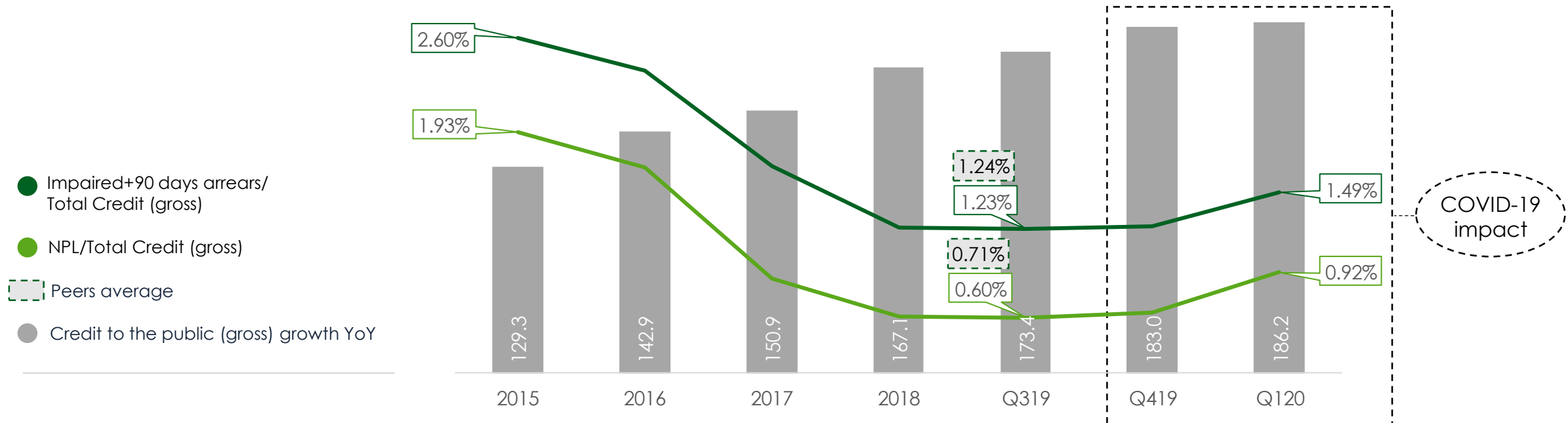
SIGNIFICANT NEGATIVE IMPACT ON PROFITABILITY



ENTERED THE CRISIS WITH SOLID PORTFOLIO

DUE TO IMPROVED UNDERWRITING AND MONITORING CAPABILITIES

Credit quality indicators and credit growth



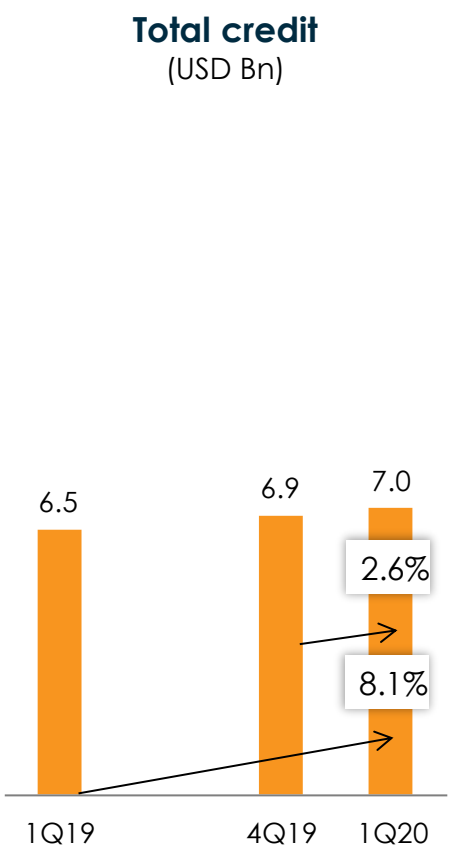
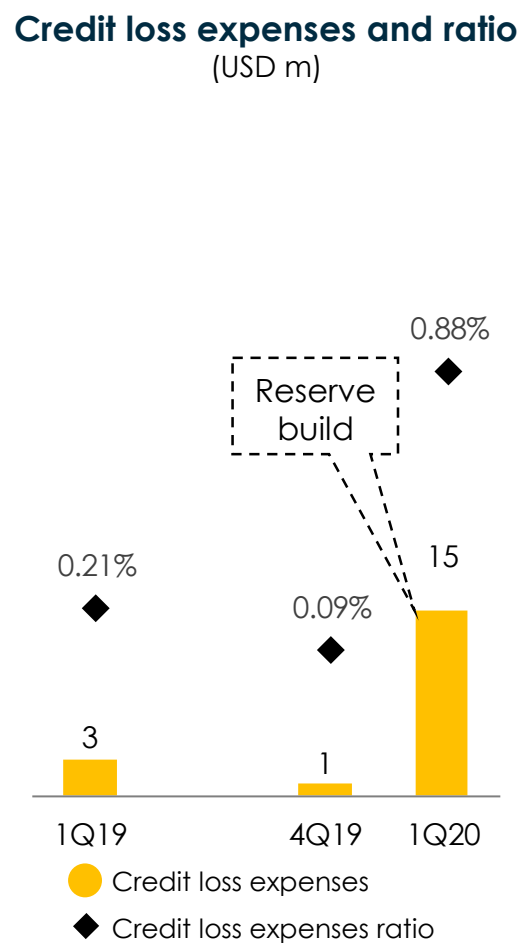
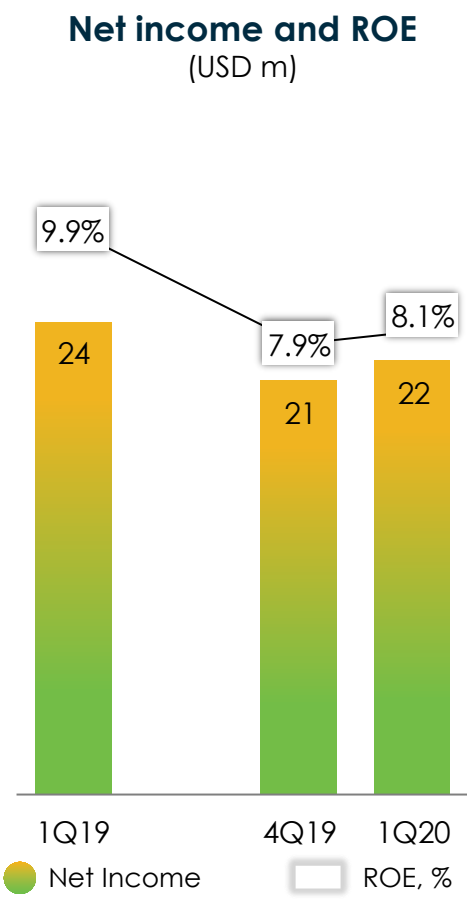
SUBSIDIARIES

CREDIT DEMAND AND TRADING GAINS DROVE PROFITABILITY



OFFSET BY RESERVE BUILD ON ACCOUNT OF COVID-19

- Loan loss provision expense of USD 15.0 m due to deteriorating economic factors.
- Increase in non-interest income from customer derivative contracts and recognized gains on sale of bonds.
- Cost-income ratio decreased to 51.6% vs. 63.8% in 4Q19 and 58.0% in 1Q19.
- In response to COVID-19, the Bank provided customers with payment deferral and loans under the fully guaranteed Government SBA PPP program.



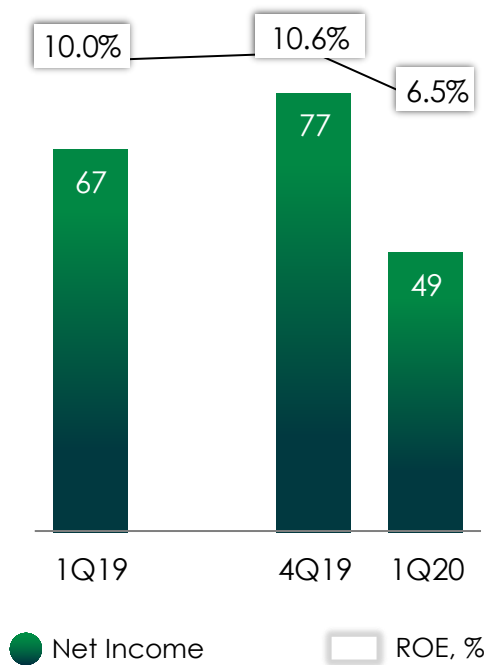
SIMILAR TRENDS AS DISCOUNT BANK

MERCANTILE

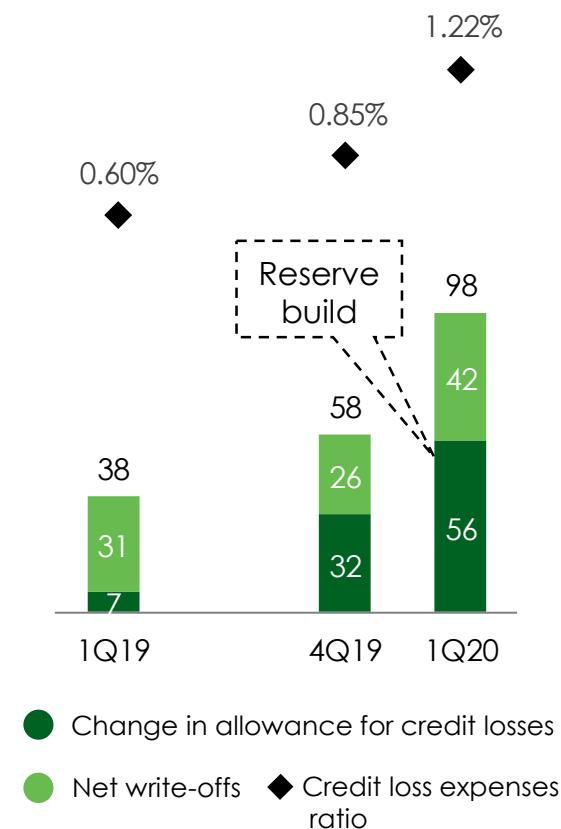
MARKET CONDITIONS DROVE LOWER DEMAND

- Slight decrease in credit to the public due to lower demand.
- Growth of 1.2% QoQ and 12.2% YoY in total income, driven primarily by net interest income and non interest income growth.
- Loan loss provision increased to 1.22%, mainly due to reserve build.
- Cost-income ratio of 58.1%, vs. 56.8% in 4Q19 and 62.2% in 1Q19.
- Full integration of Municipal Bank. Opens new business opportunities for Mercantile.

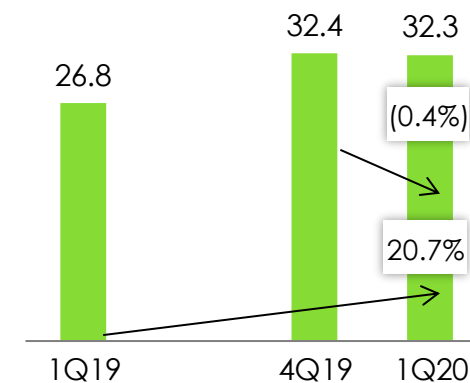
**Net income and ROE
in NIS m**



**Credit loss expenses breakdown
in NIS m and %**



**Total credit *
in NIS Bn**



* Including Municipal balances

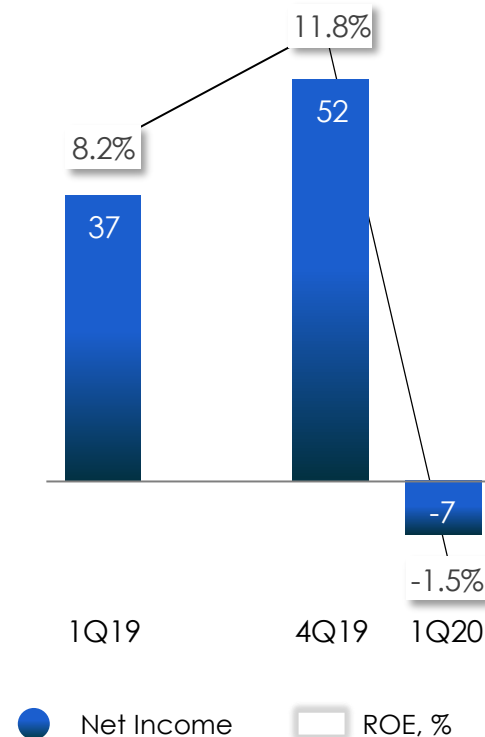
BUSSINESS PARAMETERS CONTINUED TO GROW

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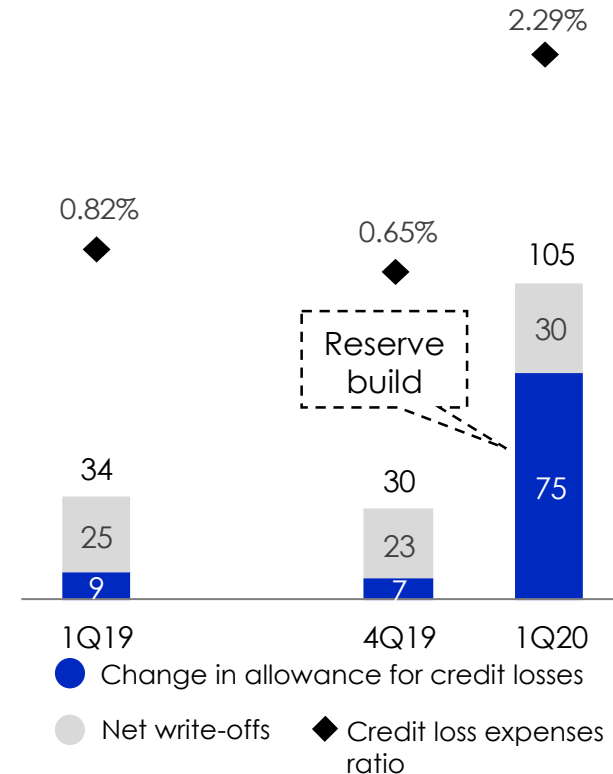
SUBSTANTIAL IMPACT OF COVID-19 ON PROFITABILITY

- Total income increased by 9.3% YoY, supported by a 10.1% increase in transaction volumes and 7.9% in number of active cards compared with last year.
- Credit loss expenses of NIS 105 m due to an increase in group provision, led to a NIS 7 loss in net income
- 1Q20 transaction turnover was negatively impacted by the slowdown, According to BOI publication, credit cards activity is already recovering through the middle of May compared with a month earlier
- Cost-income ratio decreased to 80.3% vs. 77.3% in 2019

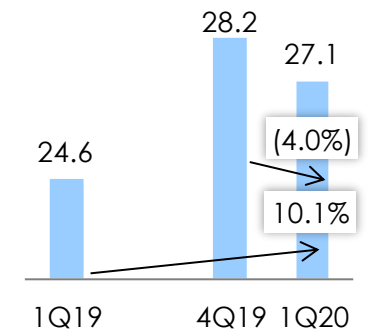
Net income and ROE
in NIS m



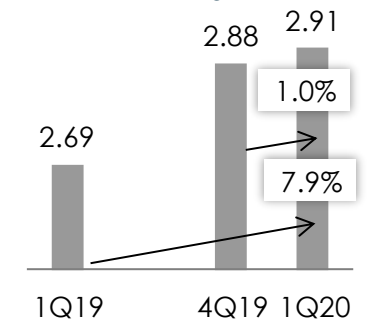
Credit loss expenses breakdown
in NIS m and %



Transaction turnover
in NIS Bn



Active credit cards
in NIS m



STRATEGY

CRISIS IS ACCELERATING TRENDS

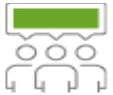
SUPPORTING OUR EXISTING STRATEGIC FOCUS



Accelerated migration, first adoption and day-by-day usage of **digital** channels



Reduced usage of **branches** on account of usage of virtual channels



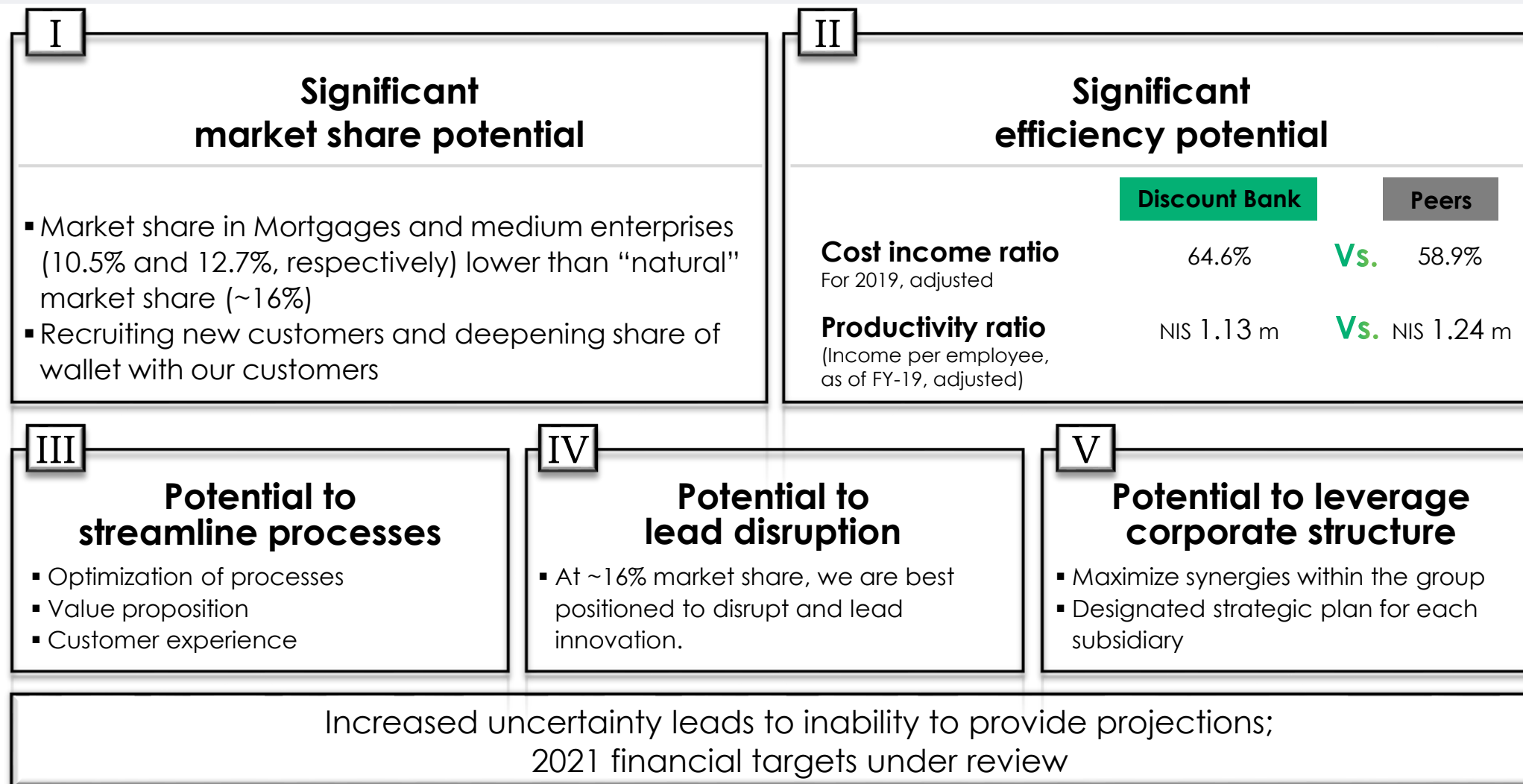
Change in **“the way we work”** – remote working, lean and agile operations and quick execution of tasks



Increased importance of **proactive approach** to customer interaction and meeting their needs

WHILE DEALING WITH COVID-19 IMPLICATIONS

KEEPING FOCUS ON ACHIEVING OUR POTENTIAL



APPENDICES

FINANCIAL PERFORMANCE

Main P&L metrics and financial ratios

NIS m	1Q20	4Q19	1Q19	Vs. 4Q19	Vs. 1Q19
Net interest income	1,455	1,479	1,421	(1.6%)	2.4%
Credit loss expenses	656	261	141	151.3%	365.2%
Non-interest financing income	417	145	172	187.6%	142.4%
Commissions	739	768	710	(3.8%)	4.1%
Other income	-	38	8	-	-
Total non-interest income	1,156	951	890	21.6%	29.9%
Total income	2,611	2,430	2,311	7.4%	13.0%
Salaries and related expenses	824	815	847	1.1%	(2.7%)
Maintenance & depreciation	285	294	263	(3.1%)	8.4%
Other expenses	422	557	420	(24.2%)	0.5%
Total operating and other expenses	1,531	1,666	1,530	(8.1%)	0.1%
Income before taxes	424	503	640	(15.7%)	(33.8%)
Provision for taxes on income	151	168	224	(10.1%)	(32.6%)
Income after taxes	273	335	416	(18.5%)	(34.4%)
Net income attributable to shareholders	279	325	405	(14.2%)	(31.1%)
ROE	6.0%	7.2%	9.6%		
Cost income ratio	58.6%	68.6%	66.2%		
CET-1 ratio	9.99%	10.31%	10.17%		
NIM	2.47%	2.63%	2.66%		
Rate of credit loss expenses	1.42%	0.58%	0.33%		
NPL ratio	0.92%	0.64%	0.59%		
Dividend per share (in Agurot)*	-	4.19	4.18		

* Dividend in respect of the relevant period

FINANCIAL PERFORMANCE

Main Balance Sheet metrics

NIS m	31.3.20	31.12.19	31.3.19
Cash and deposits with banks	29,392	26,044	18,894
Securities	42,605	37,745	35,618
Credit to the public	186,215	182,991	172,604
Provision for credit loss	(3,028)	(2,524)	(2,308)
Credit to the public, net	183,187	180,467	170,296
Credit to Governments	4,406	3,515	3,223
Investment in investee companies	152	171	196
Buildings and equipment	2,641	2,577	2,443
Intangible assets and goodwill	164	164	160
Assets in respect of derivative instruments	7,757	4,545	3,405
Other assets	5,612	4,064	4,382
Total Assets	276,404	259,823	239,440
Deposits from the public	213,667	201,450	190,839
Deposits from banks	7,339	6,419	4,970
Bonds and Subordinated debt notes	13,069	13,129	8,271
Liabilities in respect of derivative instruments	7,878	4,839	3,395
Other liabilities	13,880	14,266	12,932
Total liabilities	256,960	240,630	221,295
Equity capital attributed to the Bank's shareholders	18,929	18,678	17,618
Non-controlling rights in consolidated companies	515	515	527
Total equity	19,444	19,193	18,145
Total Liabilities and Equity	276,404	259,823	239,440

FINANCIAL PERFORMANCE

Main P&L and Balance Sheet Metric



USD m	1Q20	4Q19	1Q19	Vs. 4Q19	Vs. 1Q19
Net interest income	59	61	64	(3.3%)	(7.8%)
Credit loss expenses	15	1	3	1,400%	400%
Non-interest income	32	19	17	68.4%	88.2%
Total income	91	80	81	13.8%	12.3%
Operating & other expenses	47	51	47	(7.8%)	0.0%
Net income	22	21	24	4.8%	(8.3%)

Return on equity	8.1%	7.9%	9.9%
Cost-income ratio	51.6%	63.8%	58.0%
Rate of credit loss expenses	0.88%	0.09%	0.21%
NIM	2.51%	2.63%	2.90%

USD Bn					
Total assets	10,998	9,777	9,459	12.5%	16.3%
Loans, net	6,945	6,778	6,393	2.5%	8.6%
Securities	2,672	2,440	2,311	9.5%	15.6%
Deposits from the public	8,365	8,164	8,014	2.5%	4.4%
Total equity	1,081	1,078	983	0.3%	10.0%

FINANCIAL PERFORMANCE

Main P&L and Balance Sheet Metric



NIS m	1Q20	4Q19	1Q19	Vs. 4Q19	Vs. 1Q19
Net interest income	317	313	293	1.3%	8.2%
Credit loss expenses	98	58	38	69.0%	157.9%
Non-interest income	98	97	77	1.0%	27.3%
Total income	415	410	370	1.2%	12.2%
Operating & other expenses	241	233	230	3.4%	4.8%
Net income	49	77	67	(36.4%)	(26.9%)

Return on equity	6.5%	10.6%	10.0%
Cost-income ratio	58.1%	56.8%	62.2%
Rate of credit loss expenses	1.22%	0.85%	0.60%
NIM	2.99%	3.39%	3.55%

NIS Bn					
Total assets	44.8	44.4	36.1	0.8%	24.0%
Credit to the public, net	31.8	32.0	26.4	(0.5%)	20.4%
Securities	4.7	4.8	5.3	(1.9%)	(10.9%)
Deposits from the public	35.8	36.2	30.4	(1.1%)	18.1%
Total equity	3.13	3.06	2.82	2.5%	11.2%

FINANCIAL PERFORMANCE

Main P&L and Balance Sheet Metric

NIS m	1Q20	4Q19	1Q19	Vs. 4Q19	Vs. 1Q19
Income from credit card transactions	330	352	313	(6.3%)	5.4%
Net interest income	134	130	120	3.1%	11.7%
Credit loss expenses	105	30	34	250.0%	208.8%
Non-interest financing income	8	2	(1)	300.0%	-
Total income	472	484	432	(2.5%)	9.3%
Total expenses (excluding credit loss expenses)	484	412	382	17.5%	26.7%
Net income	(7)	52	37	-	-

Return on equity	(1.5%)	11.8%	8.2%
Cost-income ratio	80.3%	78.9%	80.6%

NIS Bn

Total assets	18.4	19.2	17.1	(4.2%)	7.2%
Interest bearing credit	6.6	6.5	5.8	1.7%	13.8%
Consumer credit	5.6	5.5	4.9	3.4%	16.3%
Total equity	1.8	1.8	1.9	0.1%	(2.5%)