



# 2Q 20 REVIEW

## FINANCIAL AND STRATEGIC HIGHLIGHTS

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Investor Relations

August 27, 2020

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# WHAT WE ARE SEEING – MARKET TRENDS

## Growth in credit by segments

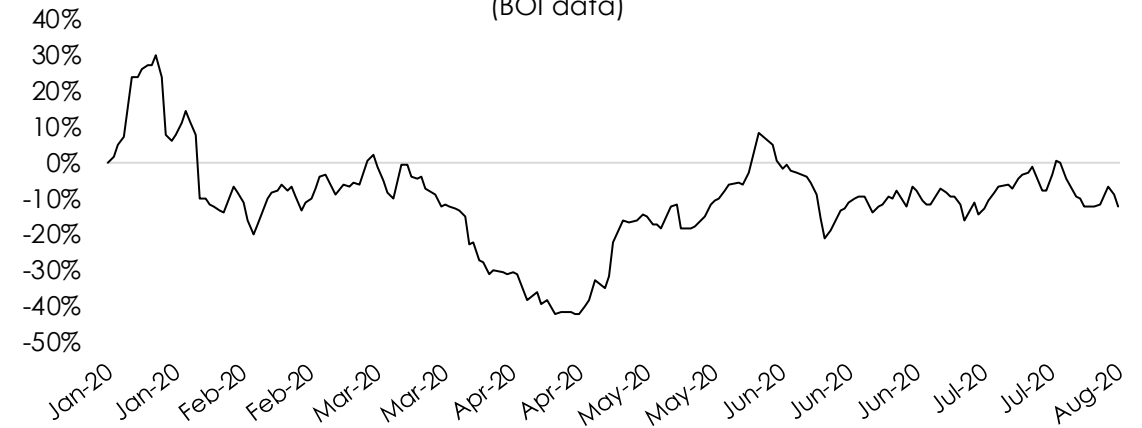
(BOI data)

March-July  
(annualized)

Total Credit	5%
Consumer	(9%)
Commercial & Corporate	5%
SME	6%
Mortgages	9%

## The change in credit card spending, vs. Jan '20

(BOI data)



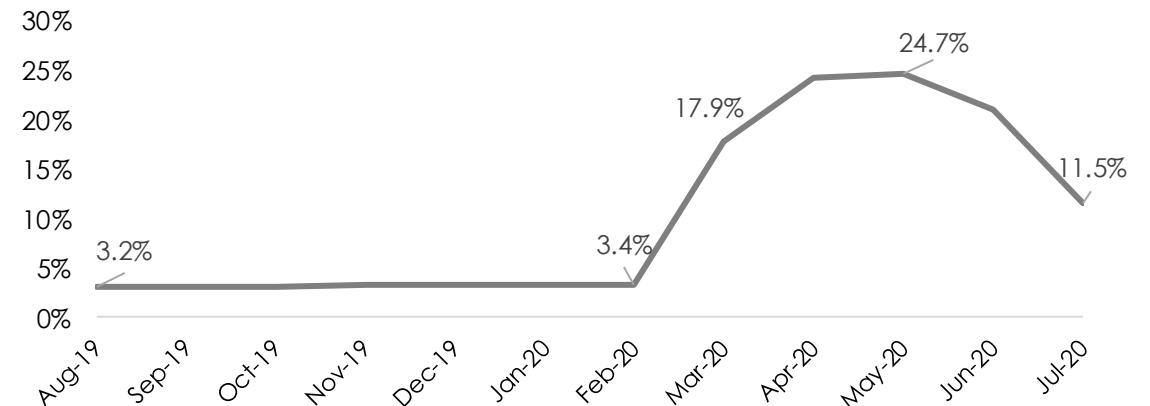
## Loan deferrals in the Banking sector, March-August 14

(BOI data)

	Number of loans deferred	Payment deferrals in NIS m	% of total loans
Total	690,016	8,769	15.7%
Commercial & Corporate	6,366	1,695	6.6%
SME	148,877	2,928	20.7%
Mortgages	168,266	2,713	25.0%
Consumer credit	366,507	1,433	10.2%

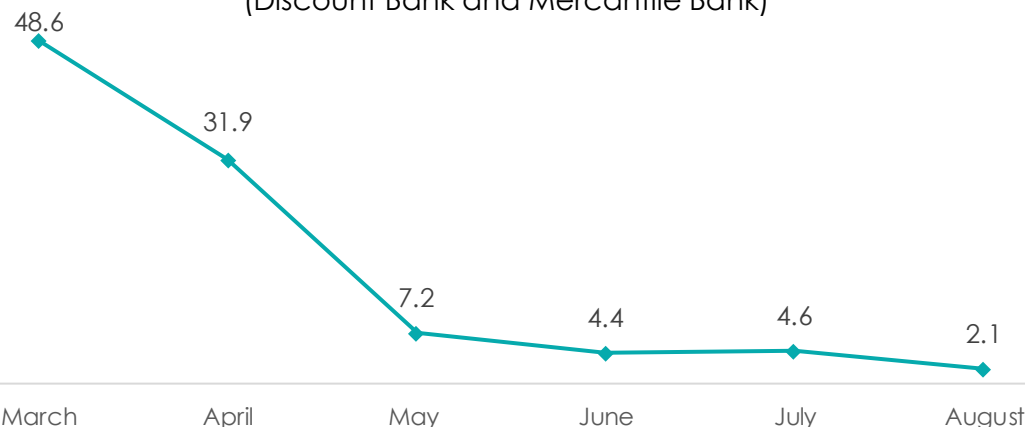
## Mortgages in grace as % of total

(BOI data)



# WHAT WE ARE SEEING – DISCOUNT GROUP

**Deferral requests, in thousands**  
(Discount Bank and Mercantile Bank)



**Balance of total requested deferrals, in millions, as of June 30**  
(Discount Bank and Mercantile Bank)

	Total balances deferred	% of total credit
Mortgages	7,849	19.8%
SME	6,500	17.6%
Consumer	1,862	6.2%
Corporate & Medium enterprises	2,130	3.8%
<b>Total Credit</b>	<b>18,341</b>	<b>10.0%</b>

**Balance of loans for which the deferral period ended and payments resumed, in millions**  
(Discount Bank and Mercantile Bank)

	As of June 30	% of total deferred	As of August 21	% of total deferred
Mortgages	719	9.2%	5,089	61.5%
SME	950	14.6%	4,310	64.1%
Consumer	139	7.5%	1,118	54.4%
Corporate & Medium enterprises	235	11.0%	1,401	60.9%
<b>Total Credit</b>	<b>2,043</b>	<b>11.1%</b>	<b>11,918</b>	<b>61.6%</b>

**Increase in digital usage**

**18 %**

Growth in transactions through digital channels

As of June 2020 vs. June 2019

**55 %**

Growth in digital account opening

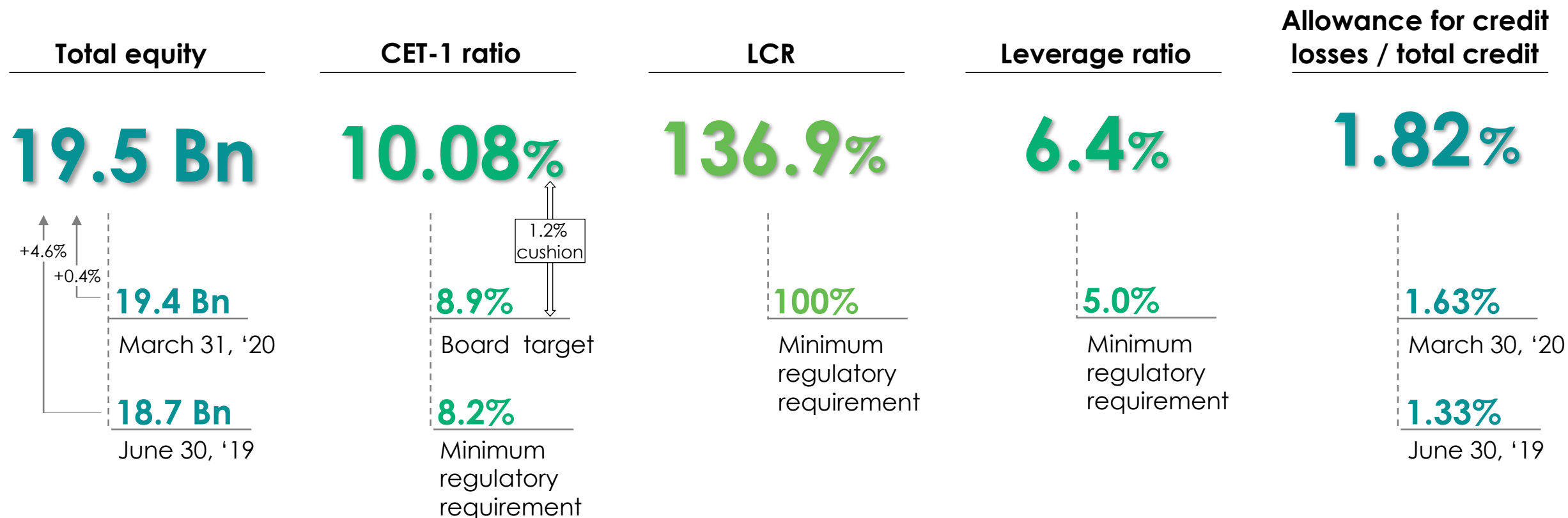
As of June 2020 vs. March 2020

**x5**

Increase in scheduled meetings with bankers

As of June 2020 vs. March 2020

# ROBUST CAPITAL AND LIQUIDITY POSITION PREPARING US FOR THE FUTURE



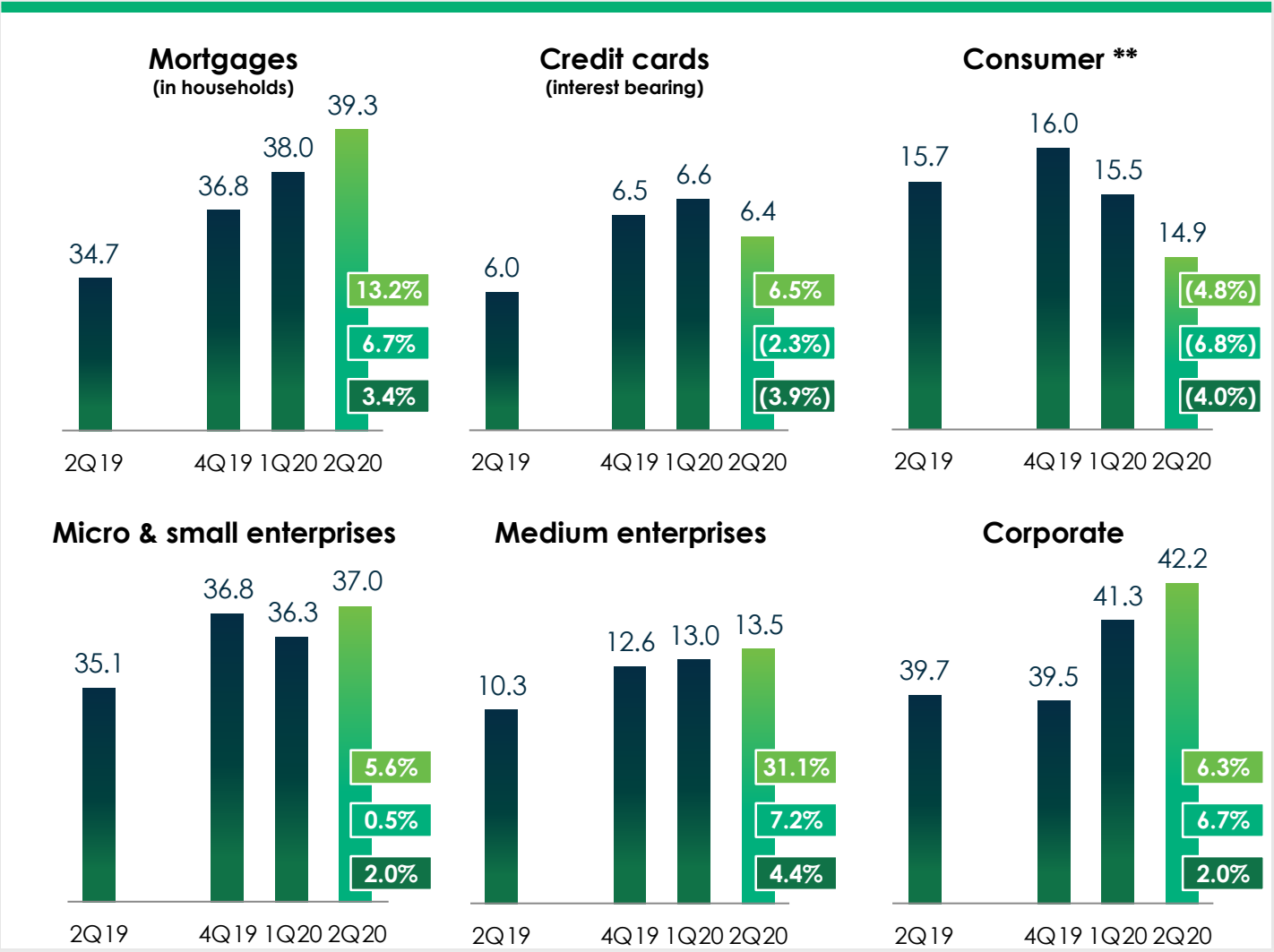
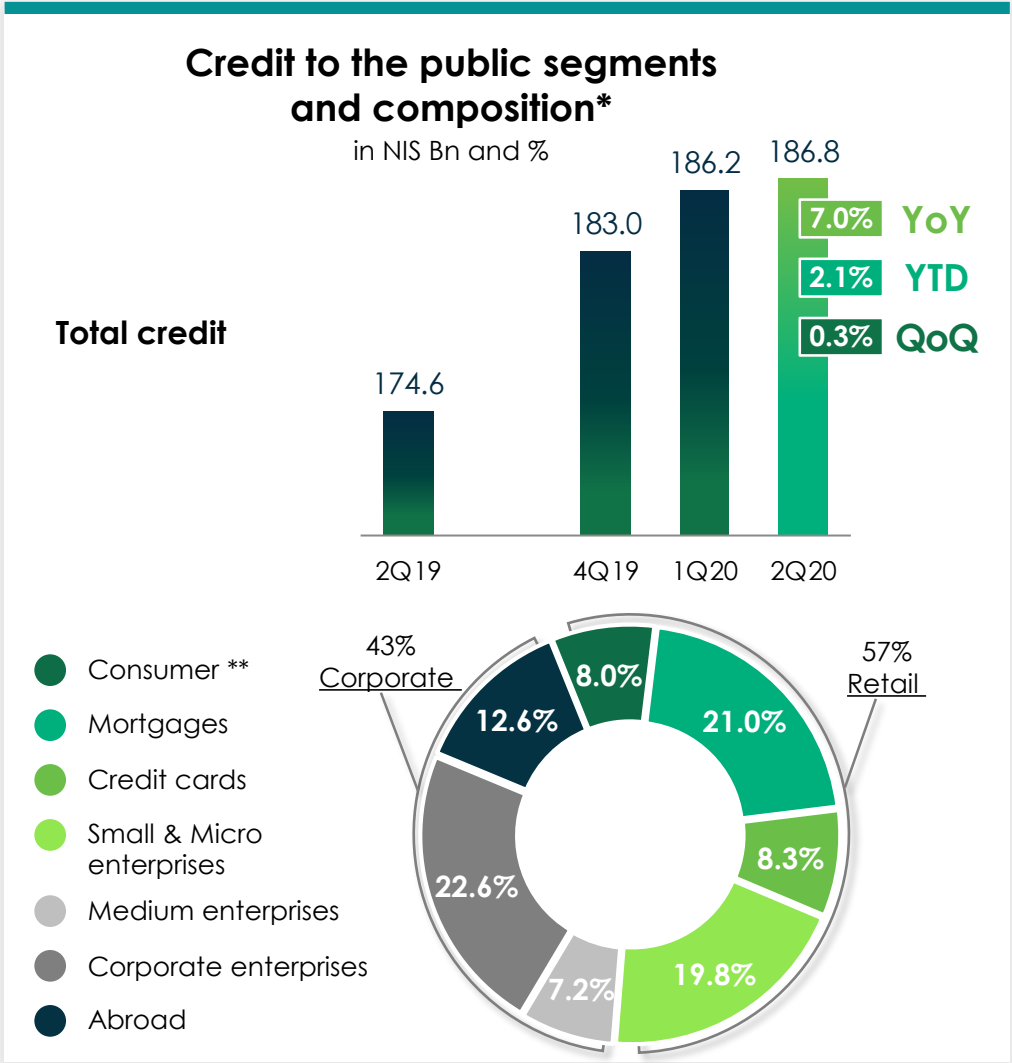
# 2Q 2020 HIGHLIGHTS

- The COVID-19 shut-down had a substantial impact on our business across the Group.
- Loan book growth of 0.3% QoQ, 7.0% YoY, driven by 3.4% growth in mortgages and 4.4% in medium enterprises vs. 1Q20.
- Continued reserve build that includes over NIS 1 Bn in COVID-19 related expenses, while write offs are still stable.
- NII growth of 0.5% supported by volume growth, mitigated by lower NIM due to declining interest rates and CPI.
- Total expenses increased by 3.4% QoQ and 0.8% YoY, mainly due to an increase in a provision for legal proceedings and a change in the discount rate impacting long-term employee awards.
- Introduced an early retirement plan for ~ 300 employees to retire by the end of 2020.

2Q20	Net income	ROE	Cost-income ratio	Credit loss expenses ratio
	<b>NIS 174 m</b> (1Q20: NIS 279 m)	<b>3.7%</b> (1Q20: 6.0%)	<b>66.0%</b> (1Q20: 58.6%)	<b>1.14%</b> (1Q20: 1.42%)

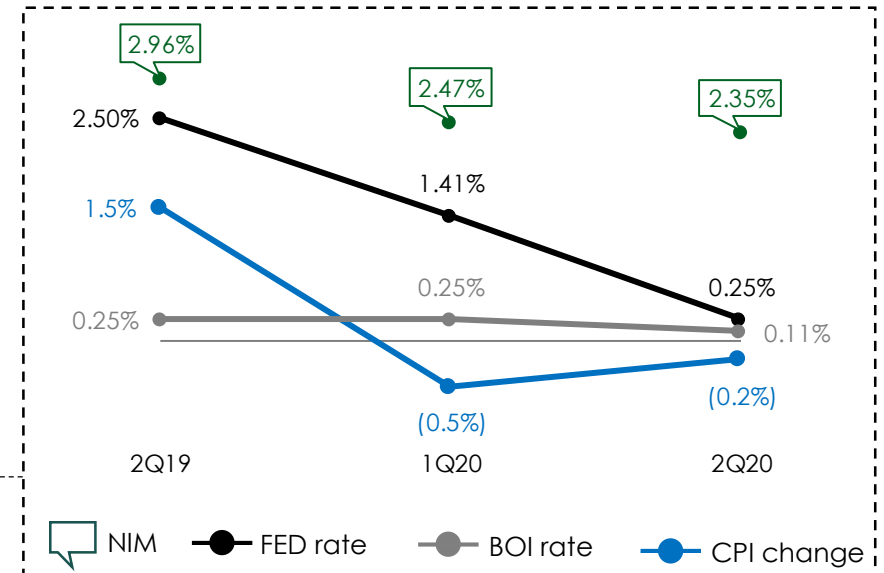
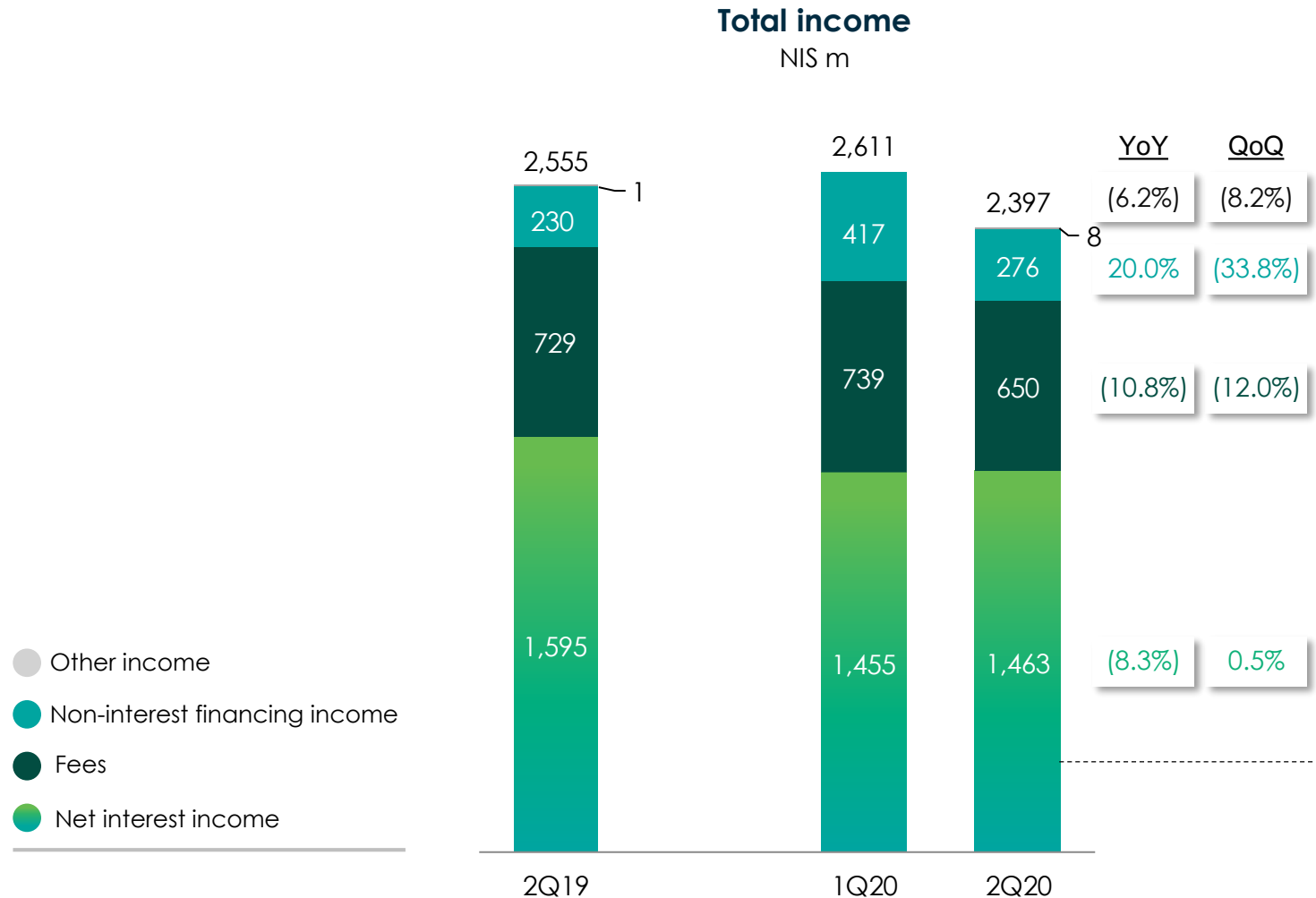
1H20	Net income	ROE	Cost-income ratio	Credit loss expenses ratio
	<b>NIS 453 m</b> (1H19: NIS 950 m)	<b>4.8%</b> (1H19: 11.1%)	<b>62.2%</b> (1H19: 63.7%)	<b>1.28%</b> (1H19: 0.32%)

# CREDIT GROWTH MAINLY IN OUR FOCUS SEGMENTS



\* Regulatory segments, in Israel  
\*\* Balance of household credit excluding mortgages and credit cards

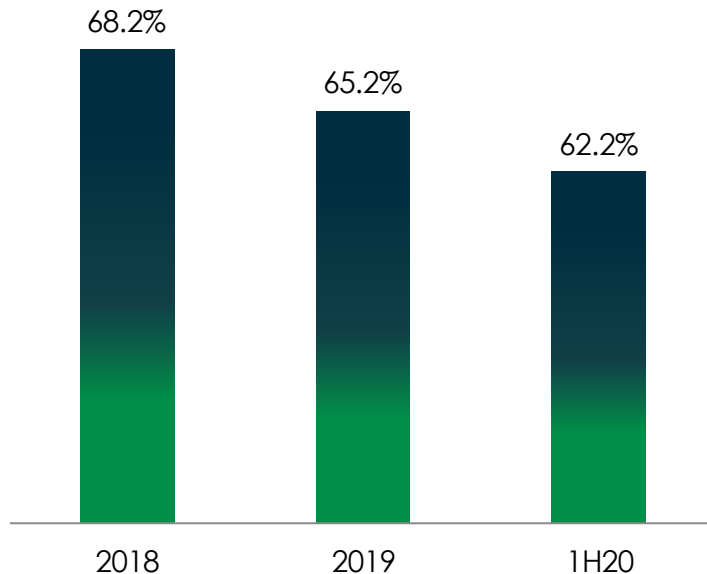
# DESPITE THE IMPACTS OF COVID-19 WE DEMONSTRATED RESILIENT NET INTEREST INCOME



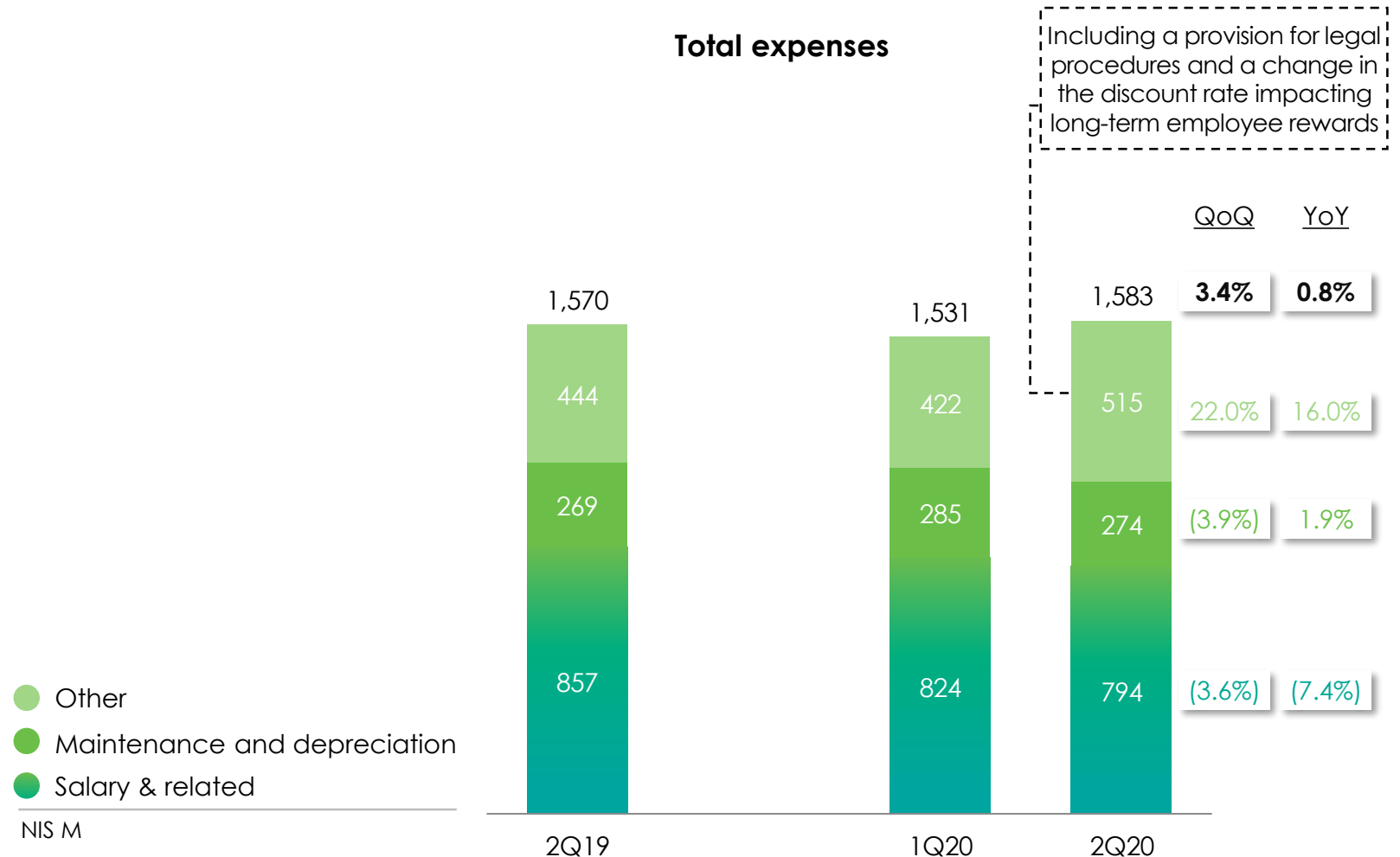


# IMPROVED COST INCOME RATIO DESPITE CERTAIN NON-REPRESENTATIVE EXPENSES

Cost-income ratio

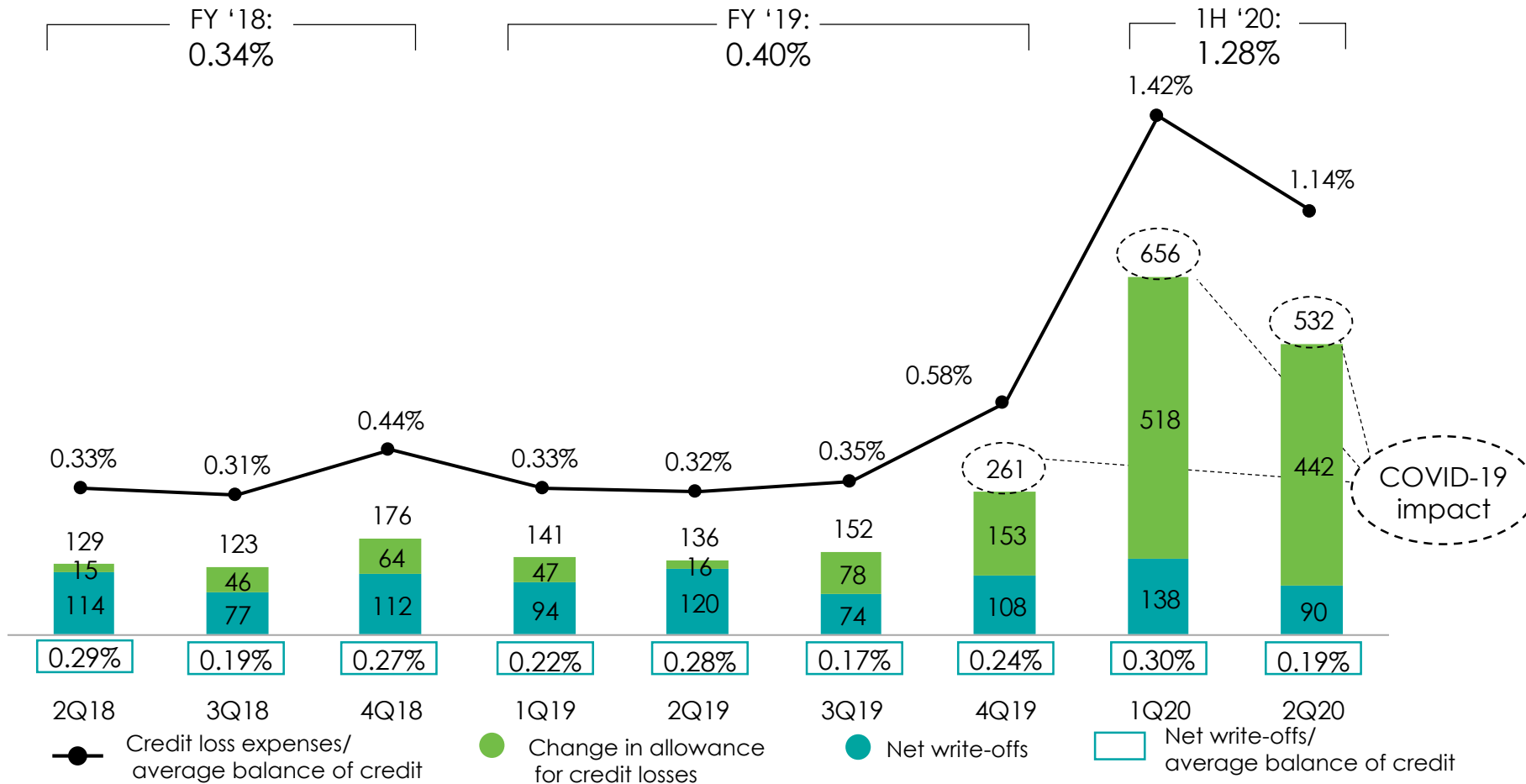


Total expenses

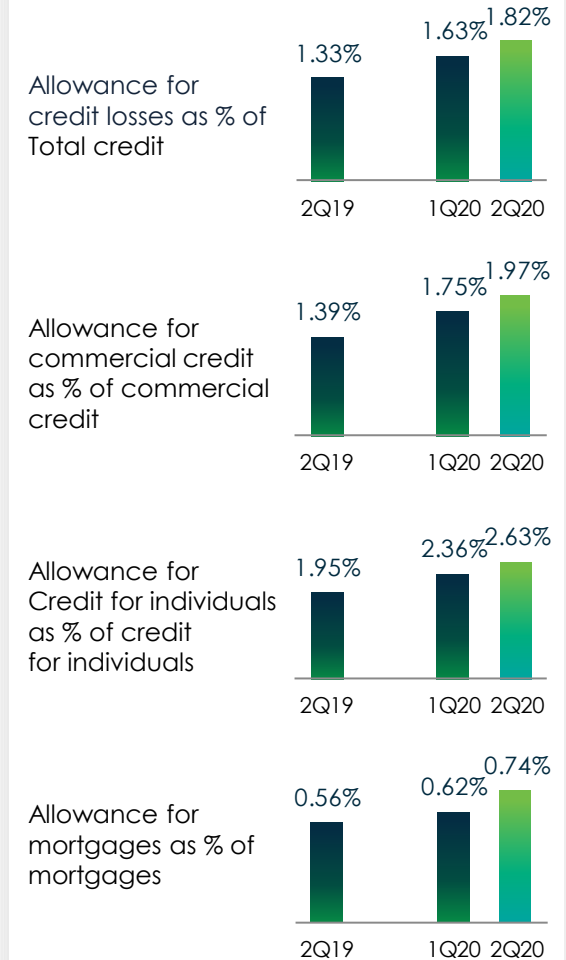


# LOAN LOSS PROVISIONS HIGHLIGHT RESERVE BUILD WHILE WRITE OFFS ARE STILL STABLE

Credit loss expenses



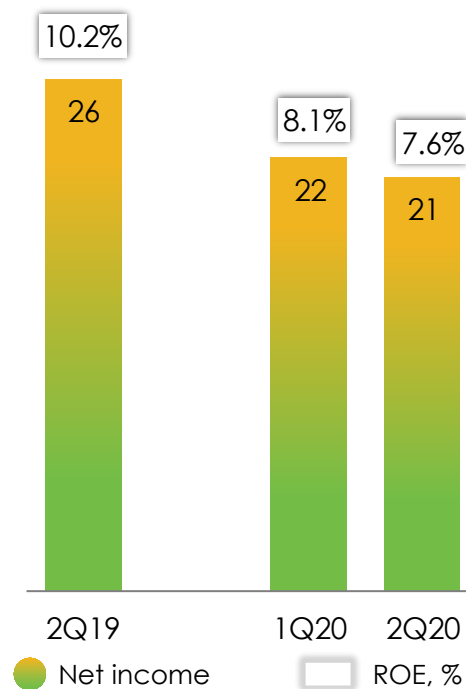
Credit quality indicators



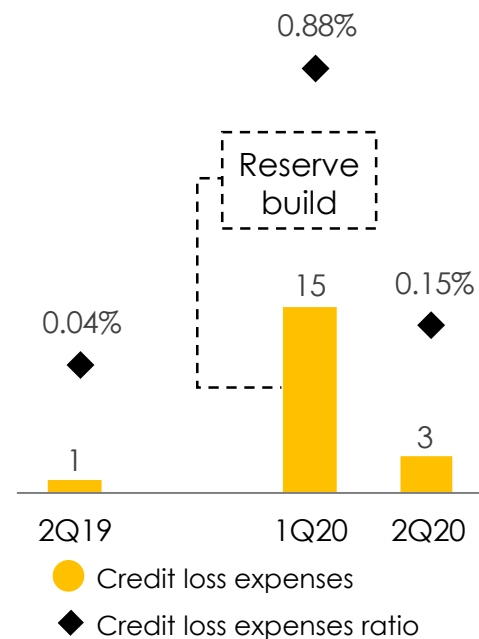
# SUBSIDIARIES

- Reduction of the credit book and the growth in deposits, reflect the current economic environment of drop-off in activity.
- A decline in interest income, due to lower interest rate, was off-set by lower funding costs on deposits, resulting in a 5.1% increase in net interest income vs. 1Q20.
- Provisions for loan losses decreased vs. 1Q20 where we saw a significant increase in our reserve build due to COVID-19.
- Cost-income ratio of 56.1% in 1H20 vs. 57.5% in 1H19.

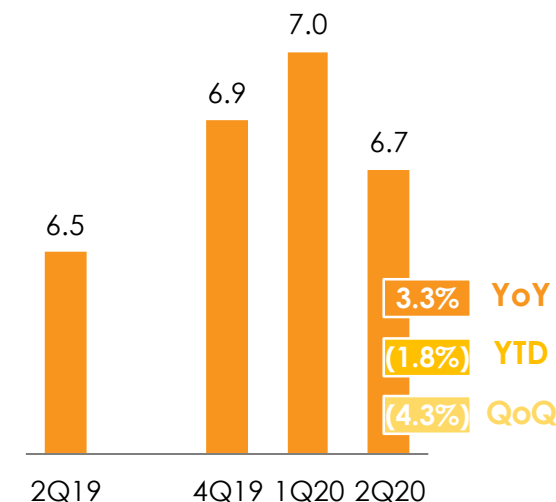
**Net income and ROE**  
(USD m)



**Credit loss expenses and ratio**  
(USD m)



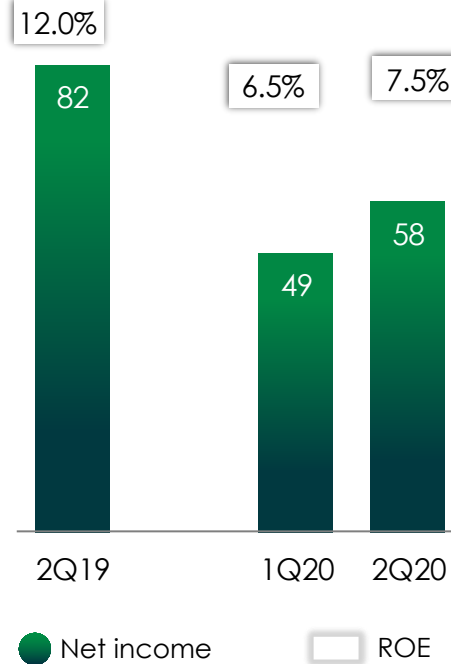
**Total credit**  
(USD Bn)



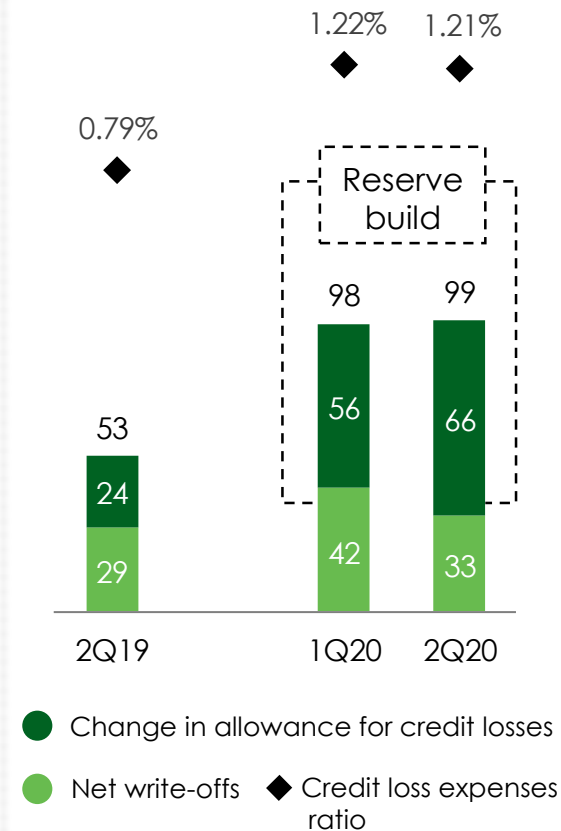
# BENEFITTING FROM THE RECENT MERGER WITH SUBSTANTIAL CREDIT GROWTH

- Credit growth of 2.3% QoQ and 20.8% YoY, driven mainly by mortgages and medium enterprises.
- Increase of 1.9% in total income driven by growth in both net interest income and non-interest financing income.
- Loan loss provision similar to previous quarter at 1.23%, mainly due to reserve build.
- Cost-income ratio of 55.6%, vs. 58.1% in 1Q20 and 55.9% in 2Q19.
- Loan deferrals of NIS 5.3 Bn, of which NIS 2.5 Bn to SME.

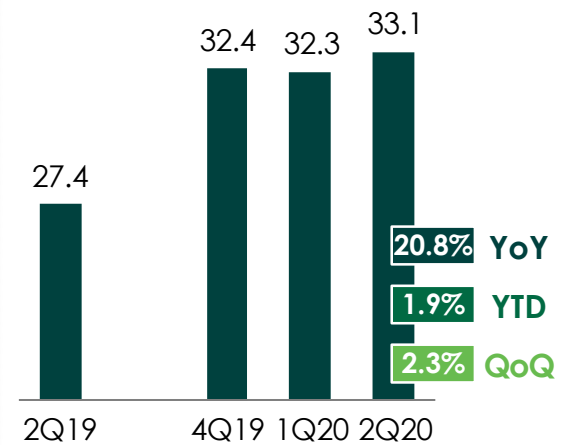
**Net income and ROE  
in NIS m**



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



**Total credit \*  
in NIS Bn**

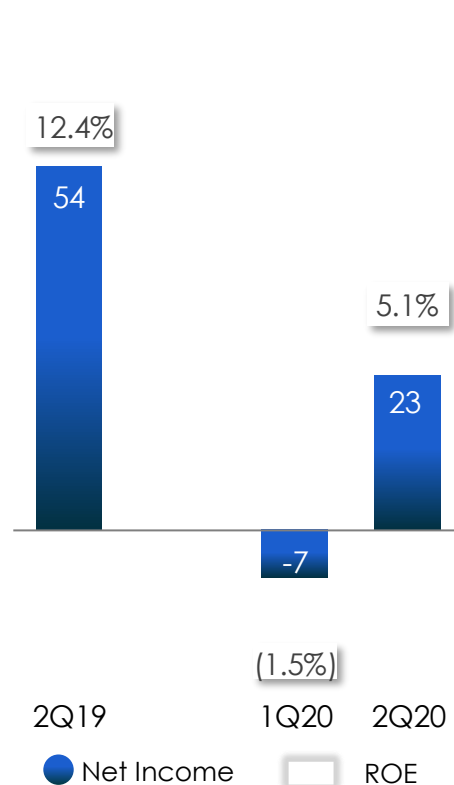


\* Including Municipal balances

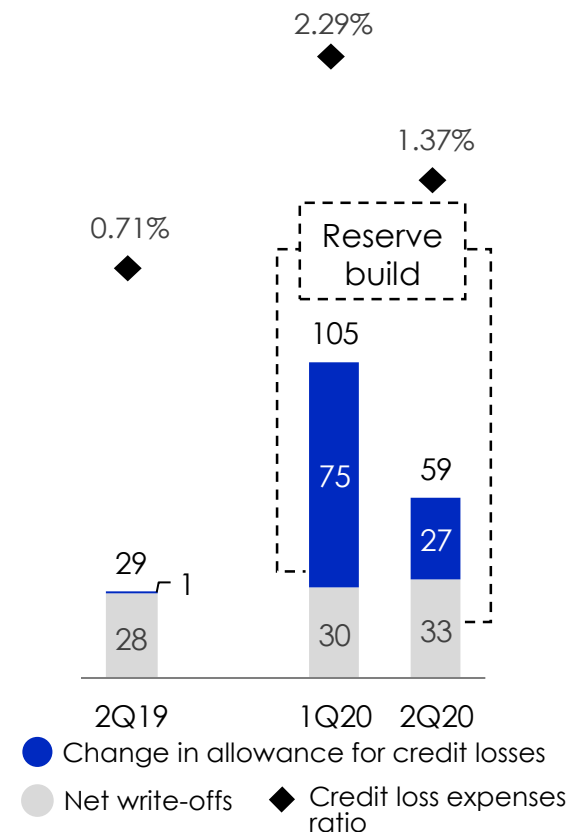
# DESPITE MATERIAL IMPACT OF THE SLOWDOWN OUTPERFORMED THE MARKET

- Transaction turnover, domestically and abroad, was negatively impacted by the reduction in global economic activity. However, transaction turnover and active cards growth in CAL, was higher than peers.
- Additional group provision due to the uncertainty in the market led to a 1.37% credit loss expenses ratio. The balance of provision for credit losses amounted to 2.2% of total credit.
- Decrease of 13.5% in total expenses, mainly driven by a reduction in activity-related expenses as a result of the slowdown in transaction volumes.
- Cost-income ratio of 79.5% in 1H20 vs. 78.7% in 1H19.

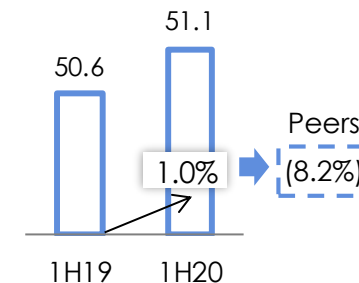
**Net income and ROE  
in NIS m**



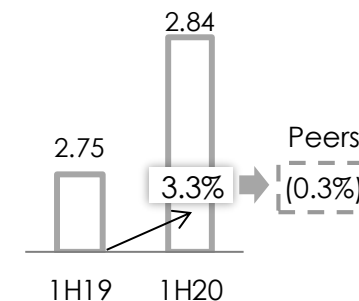
**Credit loss expenses breakdown  
in NIS m and %**



**Transaction turnover  
in NIS Bn**



**Active credit cards  
in m**



# STRATEGY

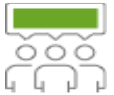
# CRISIS IS ACCELERATING TRENDS



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



# FOCUSED ON ACHIEVEING OUR POTENTIAL

I

## Significant market share potential

- Market share in mortgages and medium enterprises (10.5% and 12.7%, respectively) lower than “natural” market share (~16%)
- Recruiting new customers and deepening share of wallet with our customers

II

## Significant efficiency potential

	Discount Bank		Peers
<b>Cost-income ratio</b> For 2019, adjusted	64.6%	<b>Vs.</b>	58.9%
<b>Productivity ratio</b> (Income per employee, as of FY-19, adjusted)	NIS 1.13 m	<b>Vs.</b>	NIS 1.24 m

III

## Potential to streamline processes

- Optimization of processes
- Value proposition
- Customer experience

IV

## Potential to lead disruption

- At ~16% market share, we are best positioned to disrupt and lead innovation.

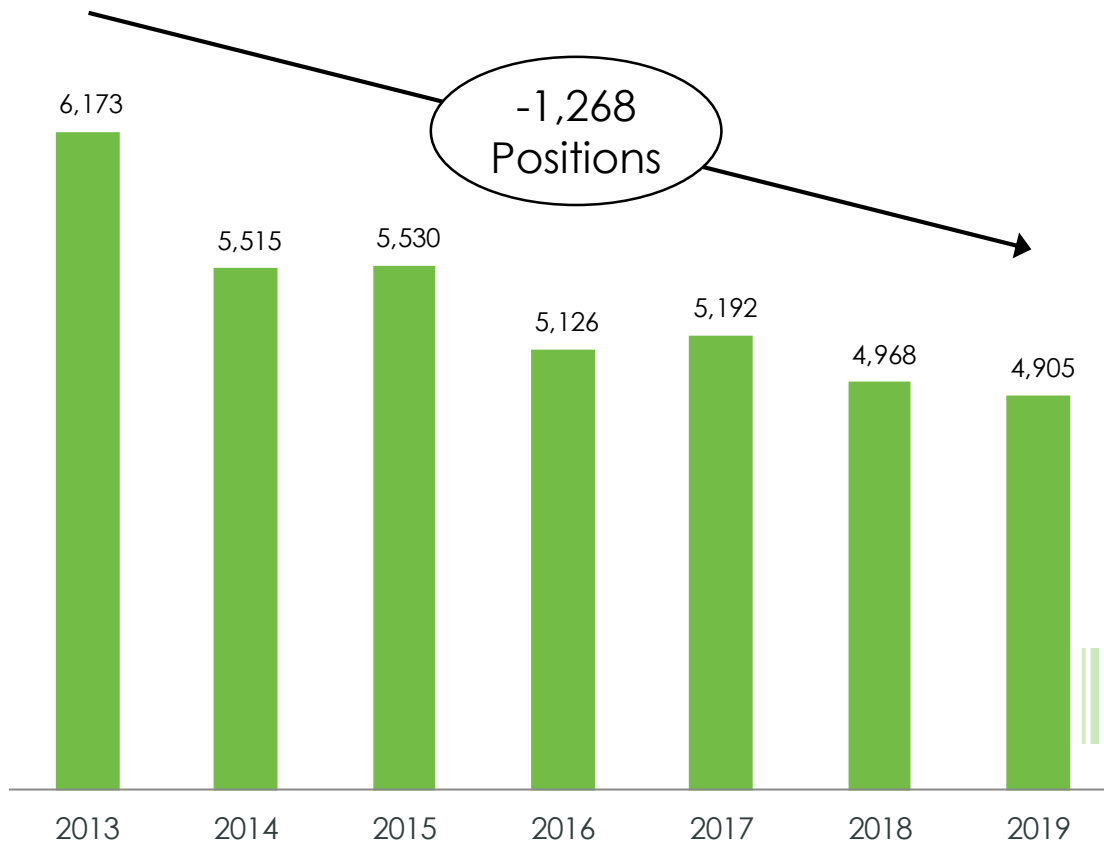
V

## Potential to leverage corporate structure

- Maximize synergies within the group
- Designated strategic plan for each subsidiary

# ACCELERATING OUR COST CUTTING PLAN

Employee workforce  
By positions



Early retirement plan

- Targets 300 employees aged 50-66
- Preferred terms of up to 200% severance pay (on top of mandatory severance pay) and special bonus for employees aged 56-60.
- Total cost of the plan - NIS 553 m (including mandatory severance pay), of which NIS 253 will be added to OCI
- Expected impact on P&L - NIS 210 m in 4Q20
- Expected impact on CET-1 ratio - 0.1% over 5 years.

- ~ **300** FTE through early retirement plan, by 2020
- ~ **60** FTE through natural retirement, by 2020
- ~ **90** FTE through natural retirement by 2021

**~450\***  
Employees  
expected to retire  
in 2020-2021

\* As compared with FTE as of December 2019

# APPENDICES

# PROFIT & LOSS AND SELECTED RATIOS

NIS m	2Q20	1Q20	2Q19	Vs. 1Q20	Vs. 2Q19
Net interest income	1,463	1,455	1,595	0.5%	(8.3%)
Credit loss expenses	532	656	136	(18.9%)	291.2%
Non-interest financing income	276	417	230	(33.8%)	20.0%
Commissions	650	739	729	(12.0%)	(10.8%)
Other income	8	-	1	-	N/A
Total non-interest income	934	1,156	960	(19.2%)	(2.7%)
<b>Total income</b>	<b>2,397</b>	<b>2,611</b>	<b>2,555</b>	<b>(8.2%)</b>	<b>(6.2%)</b>
Salaries and related expenses	794	824	857	(3.6%)	(7.4%)
Maintenance & depreciation	274	285	269	(3.9%)	1.9%
Other expenses	515	422	444	22.0%	16.0%
<b>Total operating and other expenses</b>	<b>1,583</b>	<b>1,531</b>	<b>1,570</b>	<b>3.4%</b>	<b>0.8%</b>
Income before taxes	282	424	849	(33.5%)	(66.8%)
Provision for taxes on income	105	151	300	(30.5%)	(65.0%)
Income after taxes	177	273	549	(35.2%)	(67.8%)
<b>Net income attributable to shareholders</b>	<b>174</b>	<b>279</b>	<b>545</b>	<b>(37.6%)</b>	<b>(68.1%)</b>
ROE	3.7%	6.0%	12.8%		
Cost income ratio	66.0%	58.6%	61.4%		
CET-1 ratio	10.08%	9.99%	10.37%		
NIM	2.35%	2.47%	2.96%		
Rate of credit loss expenses	1.14%	1.42%	0.32%		
NPL ratio	0.77%	0.92%	0.60%		
Dividend per share (in Agurot)*	-	-	7.02		

\* Dividend in respect of the relevant period

# SELECTED BALANCE SHEET ITEMS

NIS m	30.6.20	31.3.20	30.6.19
Cash and deposits with banks	39,608	29,392	21,245
Securities	40,037	42,605	35,470
Credit to the public	186,841	186,215	174,553
Provision for credit loss	(3,405)	(3,028)	(2,318)
Credit to the public, net	183,436	183,187	172,235
Credit to governments	4,219	4,406	3,495
Investment in investee companies	154	152	173
Buildings and equipment	2,648	2,641	2,467
Intangible assets and goodwill	164	164	160
Assets in respect of derivative instruments	5,856	7,757	4,263
Other assets	5,146	5,612	4,122
<b>Total Assets</b>	<b>282,100</b>	<b>276,404</b>	<b>244,313</b>
Deposits from the public	222,048	213,667	192,814
Deposits from banks	7,717	7,339	6,416
Bonds and subordinated debt notes	11,377	13,069	8,158
Liabilities in respect of derivative instruments	6,064	7,878	4,345
Other liabilities	14,965	13,880	13,186
Total liabilities	262,577	256,960	225,645
Equity capital attributed to the Bank's shareholders	19,004	18,929	18,168
Non-controlling rights in consolidated companies	519	515	500
Total equity	19,523	19,444	18,668
<b>Total Liabilities and Equity</b>	<b>282,100</b>	<b>276,404</b>	<b>244,313</b>

# FINANCIAL PERFORMANCE

Main P&L and Balance Sheet metrics and selected ratios

USD m	2Q20	1Q20	2Q19	Vs. 1Q20	Vs. 2Q19	1H-20	1H-19	Change
Net interest income	62	59	63	5.1%	(1.6%)	121	127	(4.7%)
Credit loss expenses	3	15	1	(80.0%)	200%	18	4	350.0%
Non-interest income	11	32	16	(65.6%)	(31.3%)	43	33	30.3%
<b>Total income</b>	<b>73</b>	<b>91</b>	<b>79</b>	<b>(19.8%)</b>	<b>(7.6%)</b>	<b>164</b>	<b>160</b>	<b>2.5%</b>
<b>Operating &amp; other expenses</b>	<b>45</b>	<b>47</b>	<b>45</b>	<b>(4.3%)</b>	<b>0.0%</b>	<b>92</b>	<b>92</b>	<b>-</b>
<b>Net income</b>	<b>21</b>	<b>22</b>	<b>26</b>	<b>(4.5%)</b>	<b>(19.2%)</b>	<b>43</b>	<b>49</b>	<b>(12.2%)</b>
Return on equity	7.6%	8.1%	10.2%			7.9%	10.1%	
Cost-income ratio	61.6%	51.6%	57.0%			56.1%	57.5%	
Rate of credit loss expenses	0.15%	0.88%	0.04%			0.51%	0.12%	
NIM	2.59%	2.51%	2.83%			2.54%	2.85%	
<b>USD Bn</b>								
Total assets	10,336	10,998	9,909	(6.0%)	4.3%			
Loans, net	6,639	6,945	6,401	(4.4%)	3.7%			
Securities	2,637	2,672	2,384	(1.3%)	10.6%			
Deposits from the public	8,661	8,365	8,191	3.5%	5.7%			
Total equity	1,132	1,081	1,030	4.7%	9.9%			

# FINANCIAL PERFORMANCE

Main P&L and Balance Sheet metrics and selected ratios

NIS m	2Q20	1Q20	2Q19	Vs. 1Q20	Vs. 2Q19	1H-20	1H-19	Change
Net interest income	299	317	290	(5.7%)	3.1%	616	583	5.7%
Credit loss expenses	99	98	53	1.0%	86.8%	197	91	116.5%
Non-interest income	124	98	111	26.5%	11.7%	222	188	18.1%
<b>Total income</b>	<b>423</b>	<b>415</b>	<b>401</b>	<b>1.9%</b>	<b>5.5%</b>	<b>838</b>	<b>771</b>	<b>8.7%</b>
<b>Operating &amp; other expenses</b>	<b>235</b>	<b>241</b>	<b>224</b>	<b>(2.5%)</b>	<b>4.9%</b>	<b>476</b>	<b>454</b>	<b>4.8%</b>
<b>Net income</b>	<b>58</b>	<b>49</b>	<b>82</b>	<b>18.4%</b>	<b>(29.3%)</b>	<b>107</b>	<b>149</b>	<b>(28.2%)</b>
Return on equity	7.5%	6.5%	12.0%			6.9%	10.9%	
Cost-income ratio	55.6%	58.1%	55.9%			56.8%	58.9%	
Rate of credit loss expenses	1.23%	1.22%	0.79%			1.22%	0.69%	
NIM	2.81%	2.99%	3.34%			2.89%	3.43%	
<b>NIS Bn</b>								
Total assets	47.1	44.8	37.6	5.3%	25.4%			
Credit to the public, net	32.5	31.8	27.0	2.1%	20.4%			
Securities	4.4	4.7	4.7	(5.9%)	(5.5%)			
Deposits from the public	38.0	35.8	31.7	6.1%	19.9%			
Total equity	3.2	3.13	2.9	1.5%	9.2%			

# FINANCIAL PERFORMANCE

Main P&L and Balance Sheet metrics and selected ratios

NIS m	2Q20	1Q20	2Q19	Vs. 1Q20	Vs. 2Q19	1H-20	1H-19	Change
Income from credit card transactions	286	330	333	(13.3%)	(14.1%)	616	646	(4.6%)
Net interest income	133	134	130	(0.7%)	2.3%	267	250	6.8%
Credit loss expenses	59	105	29	(43.8%)	103.4%	164	63	160.3%
Non-interest financing income	(2)	8	(1)	-	-	6	(2)	-
<b>Total income</b>	<b>417</b>	<b>472</b>	<b>462</b>	<b>(11.7%)</b>	<b>(9.7%)</b>	<b>889</b>	<b>894</b>	<b>(0.6%)</b>
<b>Total expenses</b> (excluding credit loss expenses)	<b>328</b>	<b>379</b>	<b>356</b>	<b>(13.5%)</b>	<b>(7.9%)</b>	<b>707</b>	<b>704</b>	<b>0.4%</b>
<b>Net income</b>	<b>23</b>	<b>(7)</b>	<b>54</b>	<b>-</b>	<b>(57.4%)</b>	<b>16</b>	<b>91</b>	<b>(82.4%)</b>

Return on equity	5.1%	(1.5%)	12.4%
Cost-income ratio	78.7%	80.3%	77.1%

1.8%	10.1%
79.5%	78.7%

NIS Bn					
Total assets	17.9	18.4	17.4	(2.6%)	3.0%
Interest bearing credit	6.4	6.6	6.0	(3.9%)	6.5%
Consumer credit	5.5	5.6	5.1	(3.2%)	8.3%
Total equity	1.8	1.8	1.8	0.7%	3.6%