



2Q 2021 REVIEW

FINANCIAL AND STRATEGIC HIGHLIGHTS

Investor Relations

August 16, 2021

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AGENDA

> Financial and Strategic Review

Barak Nardi, CFO

> Q&A

Barak Nardi, CFO

Yossi Beressi, Chief Accountant

RECORD NET INCOME AND ROBUST PERFORMANCE HIGHLIGHT UNDERLYING POTENTIAL OF THE BANK

2Q21 NET INCOME

860_M

1Q21: NIS 662m
1Q20: NIS 174m

2Q21 ROE

18.3%

Normalized* 2Q21 ROE: 10.1%
2Q20: 3.7%

CREDIT GROWTH (GROSS)

8.3% YoY

5.1% YTD
2.7% QoQ

TOTAL EQUITY

21.3Bn

FY20: NIS 19.7bn

TOTAL CREDIT (GROSS)

202 Bn

FY 2020: NIS 192bn

LLP

(0.82)%

FY 2020: 0.91%

2Q and 1H 2021 HIGHLIGHTS

- **Record ROE** of 18.3% in 2Q21 and 16.1% in 1H21 (up from 14.5% in 1Q21; 3.7% in 2Q20 and 4.8% in 1H20) driven by:
 - Strong NII** (up 12.0% vs 1Q21; 15.2% vs 2Q20 and 9.3% vs 1H20) generated by core banking growth and CPI
 - Negative LLP** of -0.82% driven by low levels of write-offs, high collections and a release of provisions
 - Lower salary expenses excluding bonuses** as early retirement plans of 2020 make an impact
- **Solid execution at all subsidiaries** drives robust Group performance
- **Strong Asset Quality** with total problematic debt down 9.5% vs 1Q21 and NPL ratio of 0.72%
- Discount expects to **reintroduce a 20% dividend** on ongoing profits once the Bol removes its current limitation and presuming that no further limitations will be set in respect of future profits.

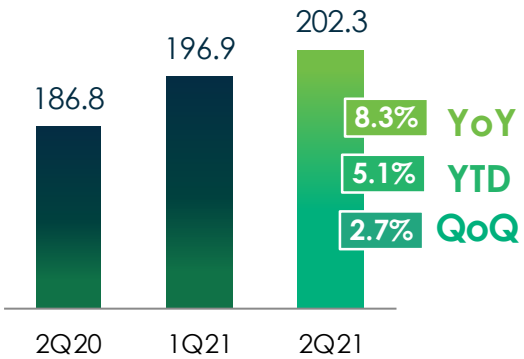
2Q21	Net income	ROE	Cost-income ratio	Credit loss expenses ratio	1H21	Net income	ROE	Cost-income ratio	Credit loss expenses ratio
	NIS 860m 1Q21: NIS 662 m; 2Q20: NIS 174 m	18.3% 1Q21: 14.5%; 2Q20: 3.7%	62.9% 1Q21: 65.1%; 2Q20: 66.0%	(0.82%) 1Q21: (0.30%) 2Q20: 1.14%		NIS 1,522m 1H20: NIS 453 m	16.1% 1H20: 4.8%	64.0% 1H20: 62.2%	(0.56%) 1H21: 1.28%
Adjusted	Net income	ROE	Cost-income ratio	Credit loss expenses ratio	Adjusted	Net income	ROE	Cost-income ratio	Credit loss expenses ratio
	NIS 878 m 1Q21: NIS 738 m; 2Q20: NIS 226 m	18.7% 1Q21: 16.2%; 2Q20: 4.8%	61.9% 1Q21: 60.6%; 2Q20: 62.7%			NIS 1,616m 1H20: NIS 509 m	17.1% 1H20: 5.4%	61.3% 1H20: 60.5%	

STRONG TOTAL CREDIT GROWTH ACROSS ALL SEGMENTS AS DEMAND IMPROVES

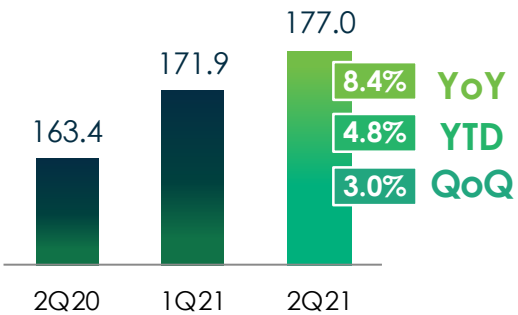
Credit to the public segments and composition*

in NIS Bn; growth %

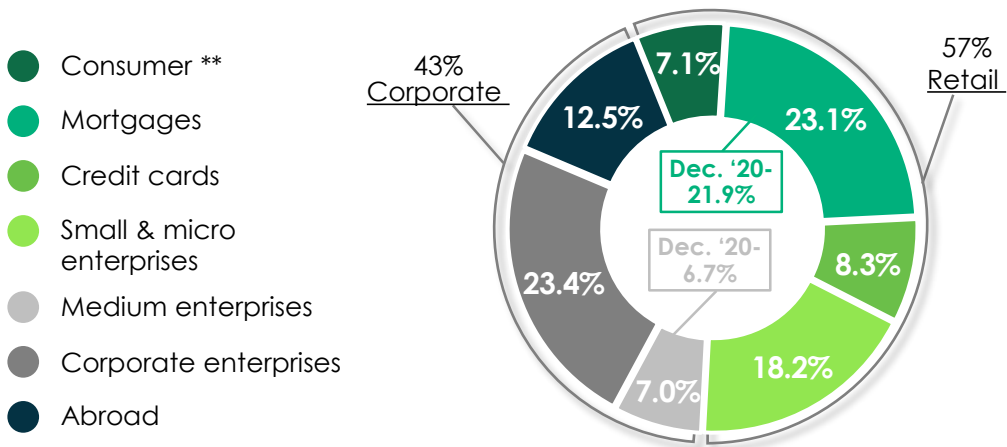
Total credit



Total credit in Israel

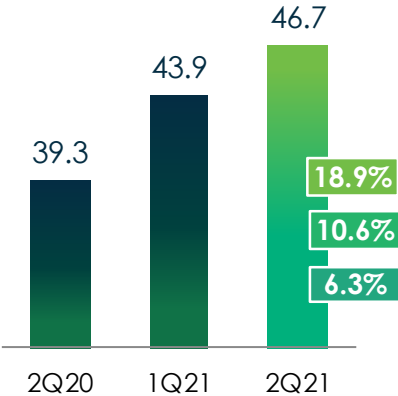


Diversified credit book



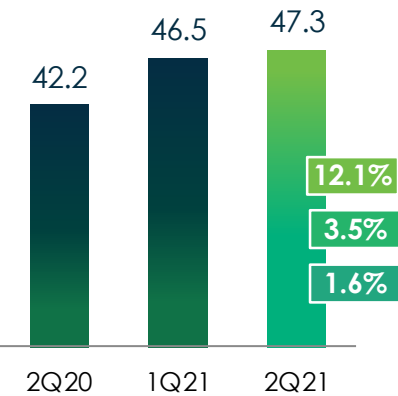
Mortgages

(in households)
in NIS Bn; growth %



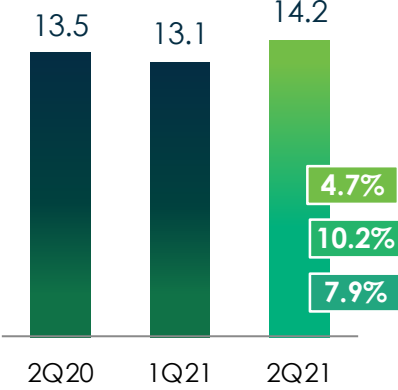
Corporate

in NIS Bn; growth %



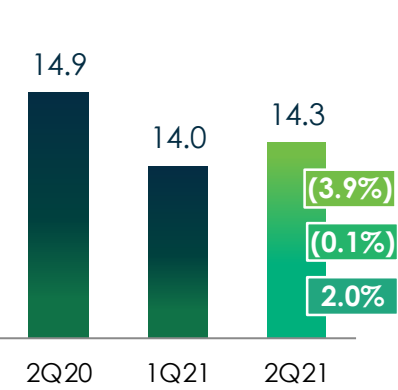
Medium enterprises

in NIS Bn; growth %



Consumer **

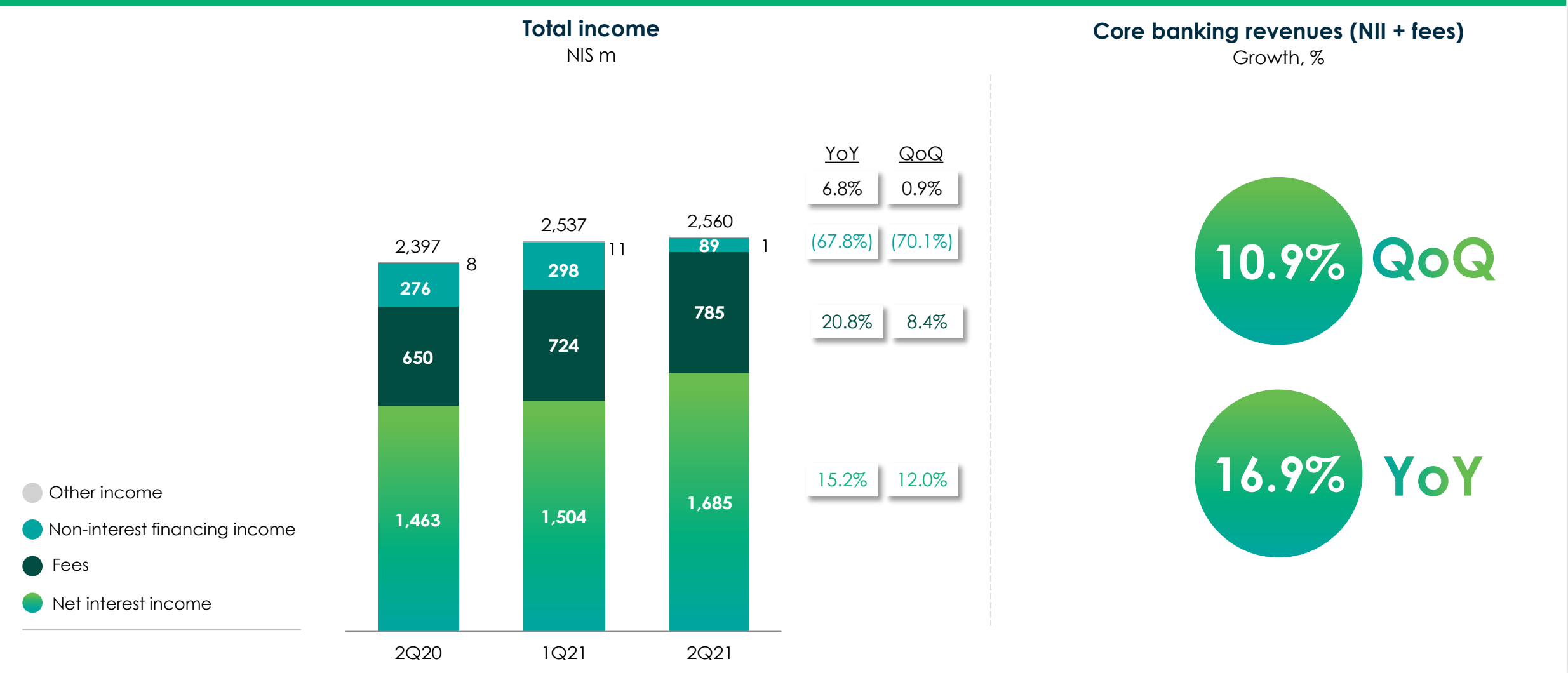
in NIS Bn; growth %



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



SIGNIFICANT GROWTH IN CORE BANKING DRIVEN BY STRONG CONSUMER SPENDING AND CREDIT DEMAND



Other income

Non-interest financing income

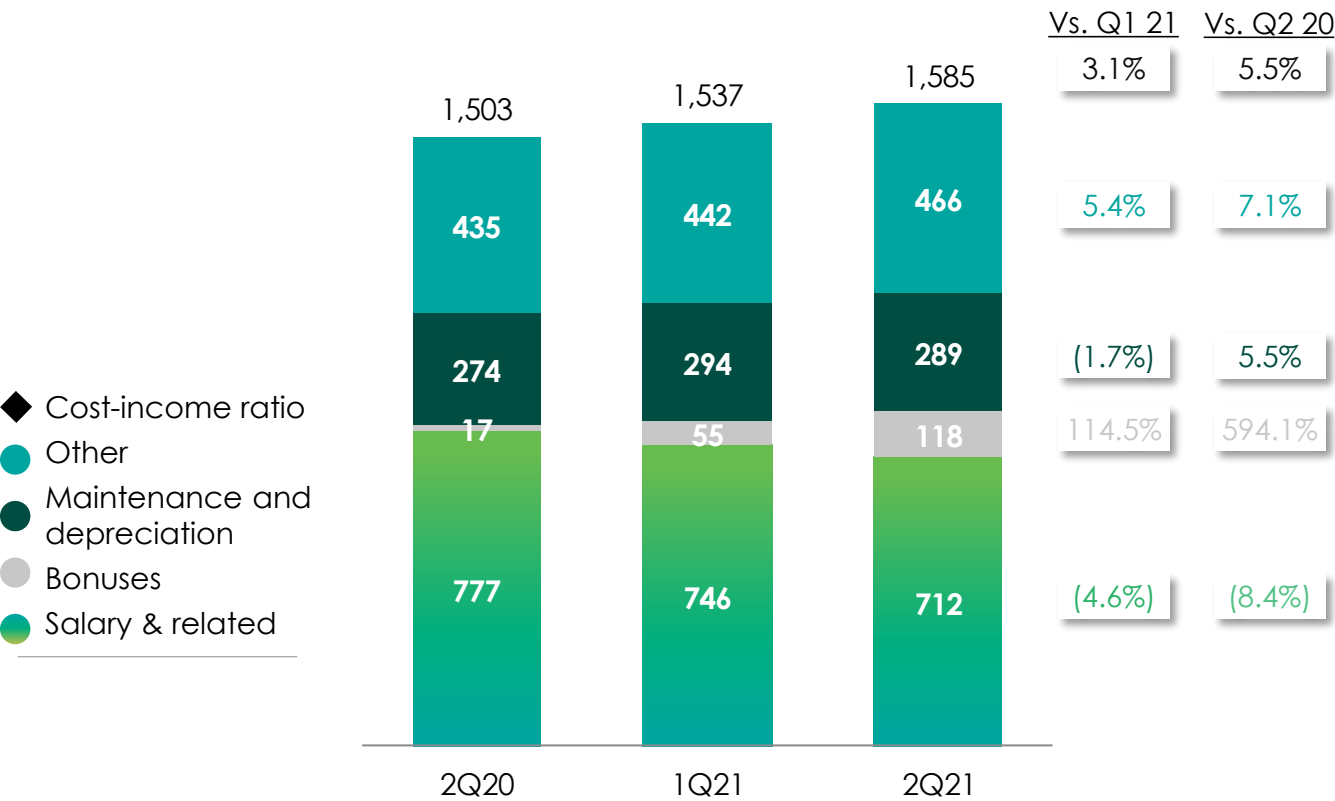
Fees

Net interest income

UNDERLYING COSTS ARE STABLE AS SUCCESS OF EARLY RETIREMENT PLAN IMPACTS RESULTS

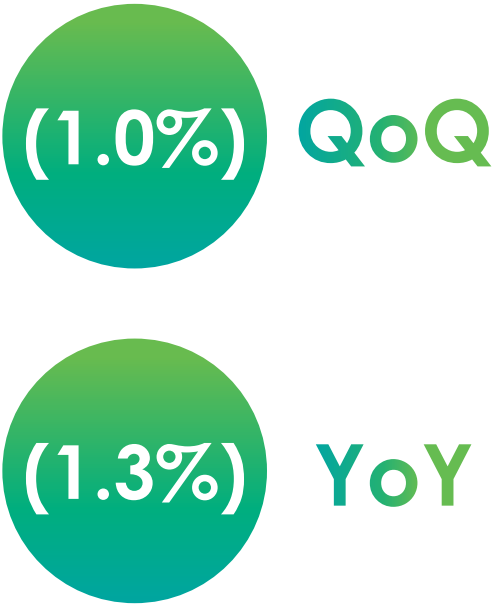
Adjusted* Total Expenses

In NIS m



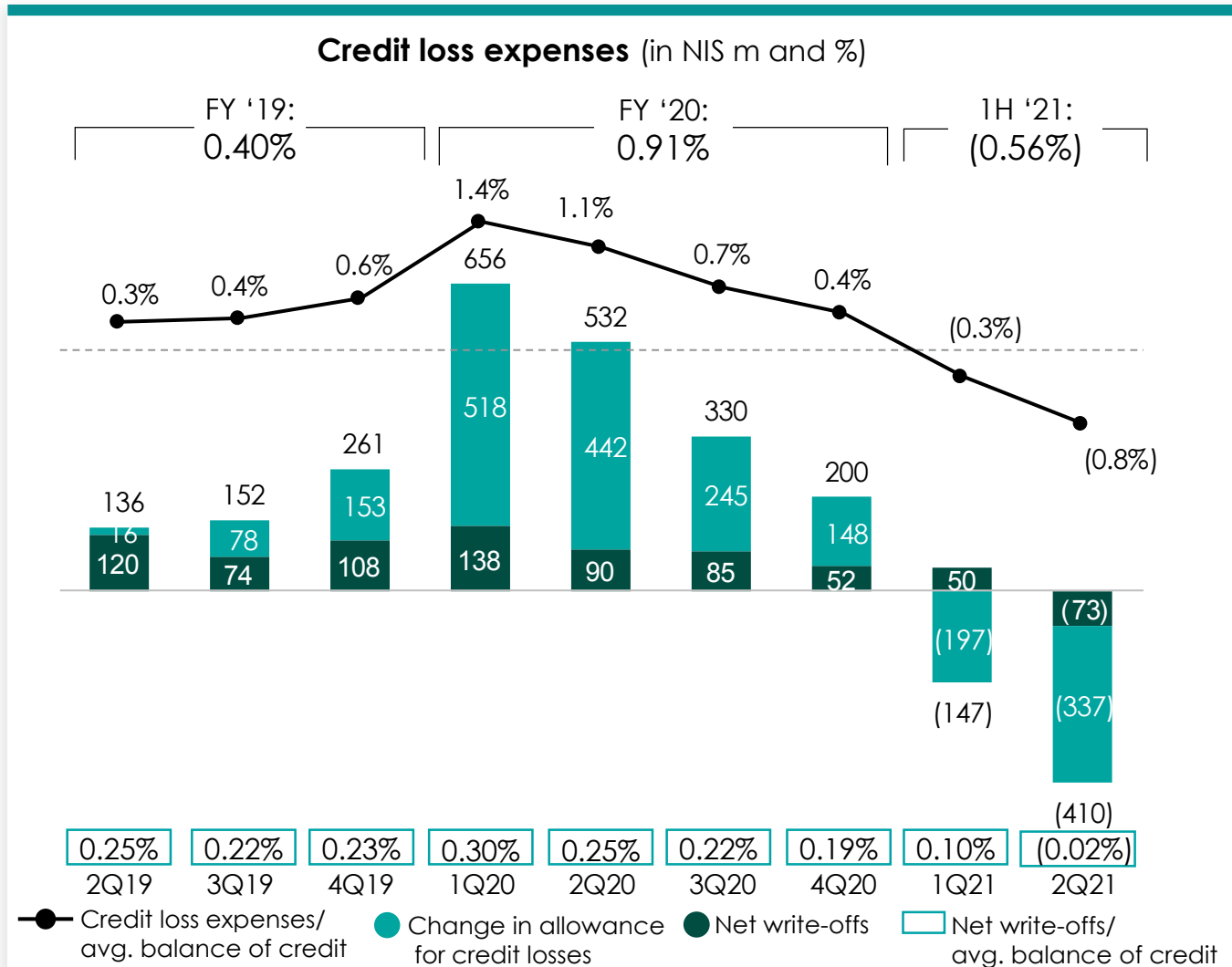
Adjusted total expenses excluding bonuses

Growth, %

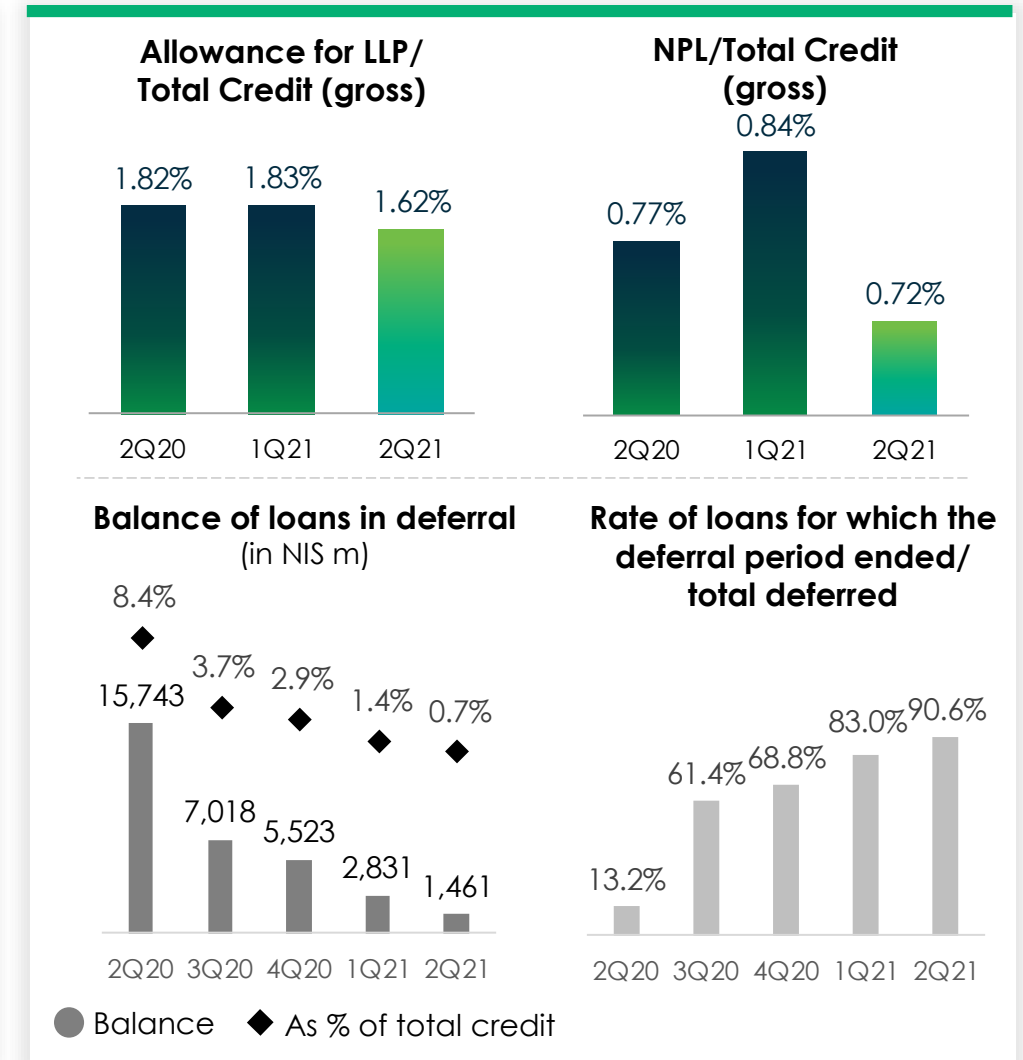


* See slide 17 for details on adjustments

HIGH QUALITY LOANS AND CONSERVATIVE UNDERWRITING REFLECTED IN CREDIT METRICS

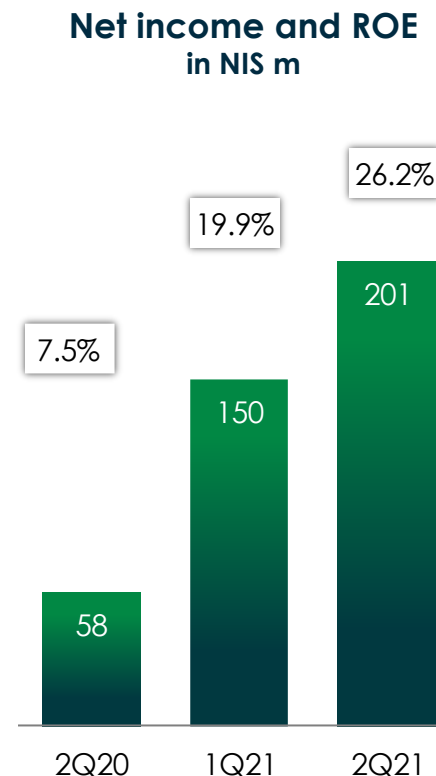


* Net write-offs are calculated as a percent of avg. balance of credit on an accumulated basis

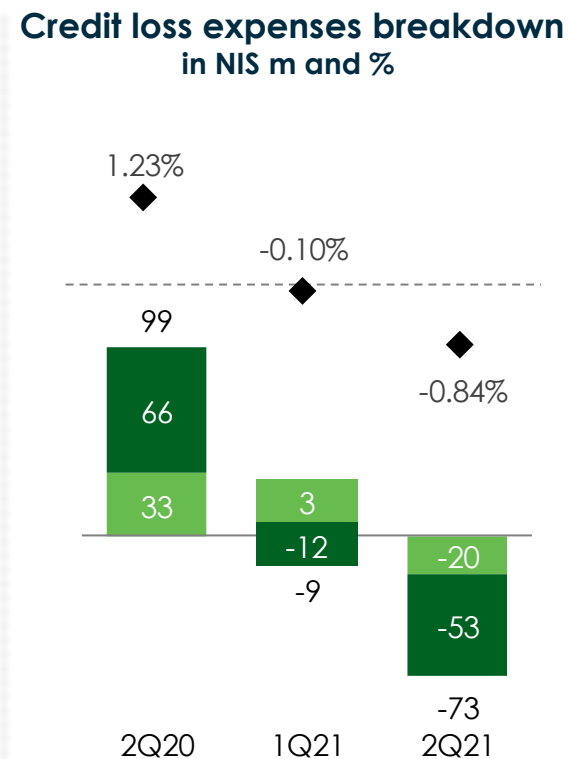


ROBUST INCOME GROWTH DELIVERS RECORD LEVEL NET INCOME AND ROE

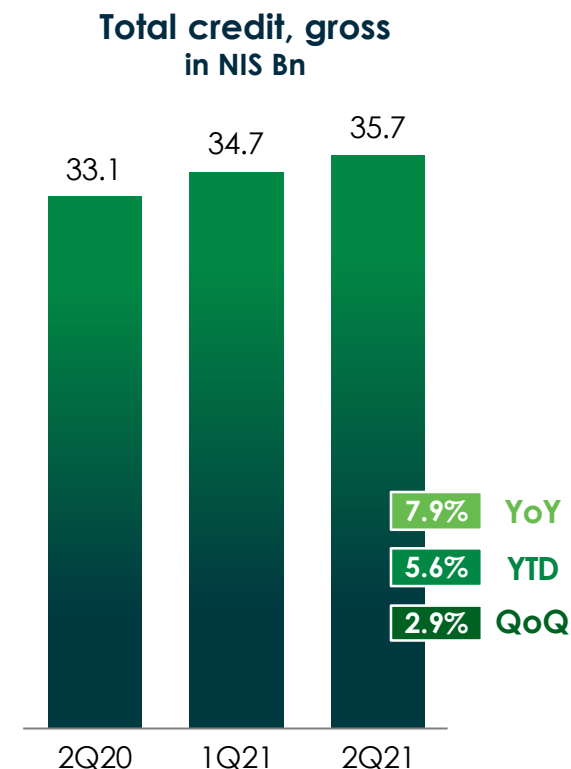
- Mercantile's record net income of NIS 201m and ROE of 26.2% was driven by strong NII growth of 12.0% YoY, an increase in non-interest income of 13.7%, lower LLP and tight cost controls.
- Total loan book expanded 7.9% YoY driven by robust growth of 29.4% in mortgages.
- An improving economy, customer strength and conservative underwriting led to a release of allowance of provisions and significant recoveries and negative credit loss expenses.
- Cost-income ratio of 50.6%, vs. 52.7% in 1Q21 and 55.6% in 2Q20.



● Net income □ ROE



● Change in allowance for credit losses
● Net write-offs ◆ Credit loss expenses ratio



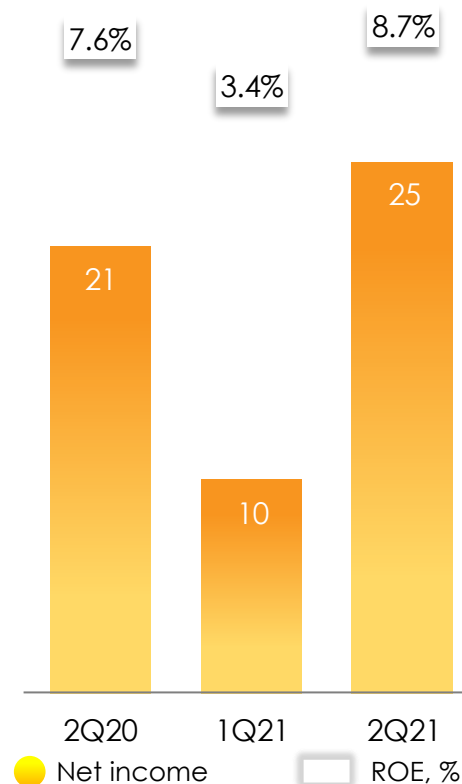
PROFITS AND LOANS ARE TRENDING HIGHER AS RISK DECLINES

→ Net income of \$25m and ROE of 8.7% increased significantly up YoY and QoQ. The increase was generated by solid execution across all business lines as well as a release of credit expenses.

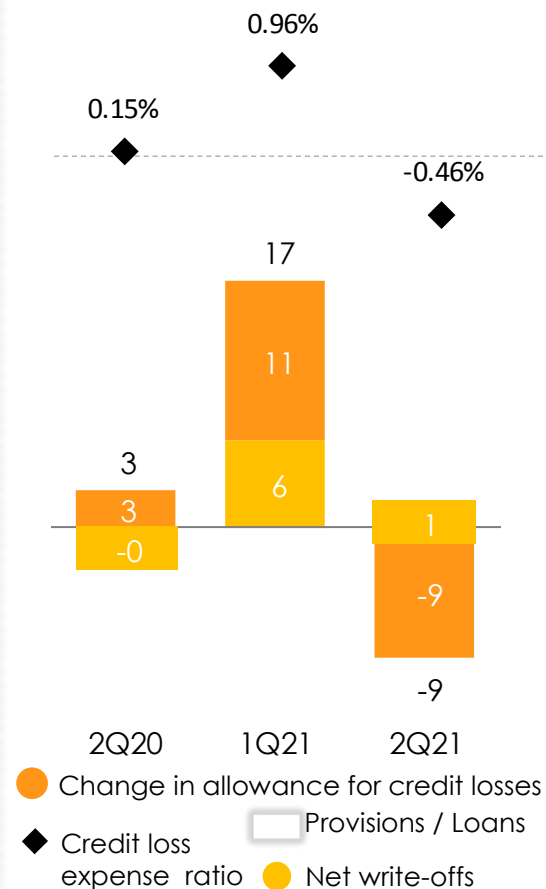
→ Loan growth of 3.2% QoQ and 14.3% YoY saw strong continuing demand. Both C&I and CRE saw increasing demand up 2.3% and 5.5% respectively QoQ and 16.2% and 18.7% in the past 12 months.

→ NIM improved to 2.38% in 2Q21 relative to 2.30% in 1Q21. Yields on loans were stable while the yield on deposits compressed improving our overall net interest income spreads.

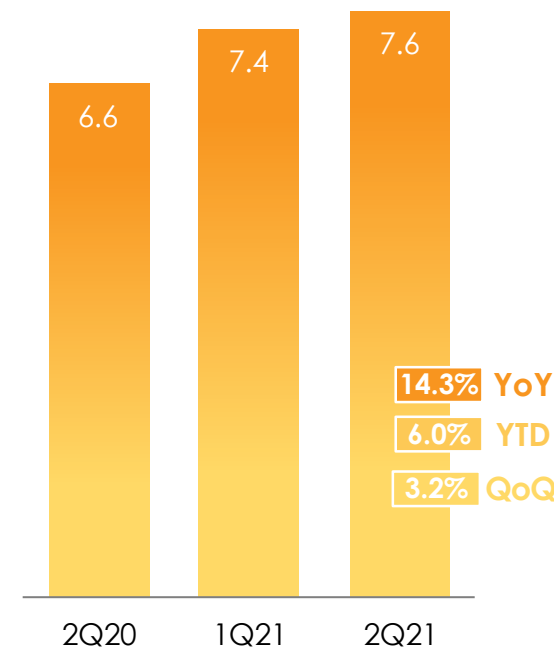
Net income and ROE
(USD m)



Asset Quality
(USD m)



Total credit
(USD Bn)
Total Loans, net



STRONG CONSUMER SPENDING AND NEGATIVE LLP DRIVES RECORD PROFITABILITY

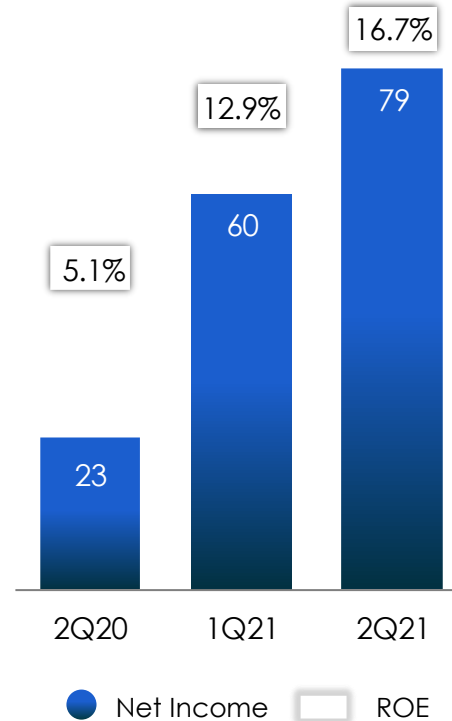
→ Record ROE and net income of 16.7% and NIS 79m.

→ CAL produced strong performance across all key business drivers including transaction turnover up 16.2% QoQ and 30.9% YoY, consumer credit up 4.6% QoQ while down 3.9% YoY and active cards up 2.8% vs. 1Q21 and 7.4% YoY.

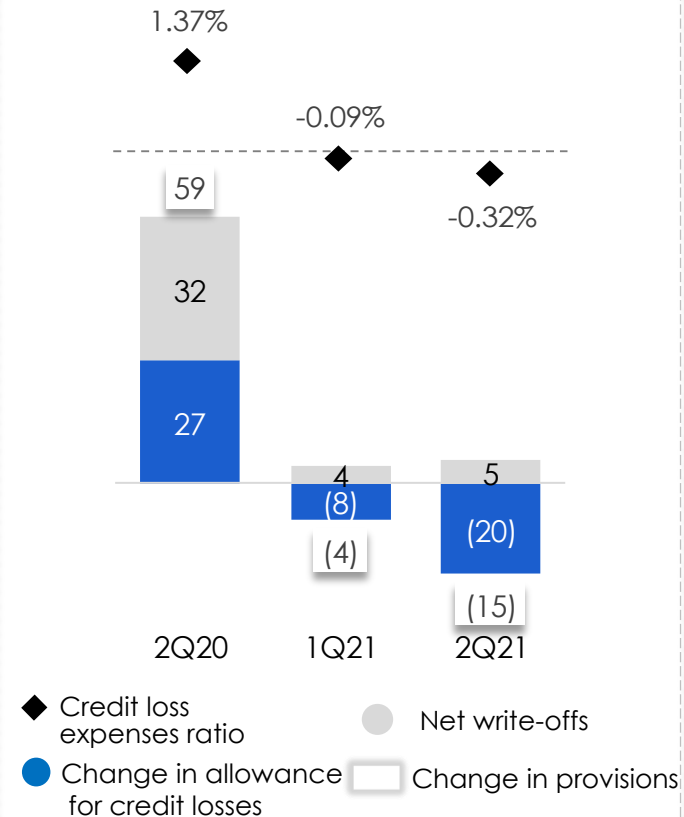
→ Negative credit expense ratio driven by a reversal of provisions as consumer credit quality improves

→ The performance highlights the strength of the activity in the local economy as international travel, a key part of CAL's business is still below pre-COVID highs.

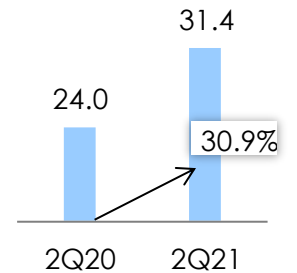
Net income and ROE
in NIS m



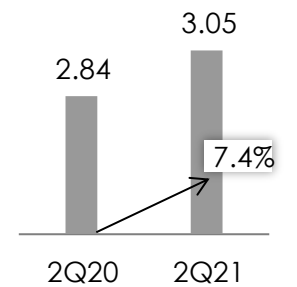
Credit loss expenses breakdown
in NIS m and %



Transaction turnover
in NIS Bn



Active credit cards
in m



OUR 5-YEAR STRATEGIC PLAN AIMED AT TAKING LEADERSHIP

ULTIMATE GOAL:

**TO BE THE BEST FINANCIAL INSTITUTION FOR ITS CUSTOMERS, DELIVERING SUPERIOR
VALUE FOR SHAREHOLDERS, OVER TIME**

1

Accelerate The Evolution of Traditional Banking

Increase the Group's
competitiveness, market
share and profitability

2

Lead Revolution in Banking Through Disruptive Innovation

Establish new non-bank
initiatives through
collaboration with third
party partners and fintech

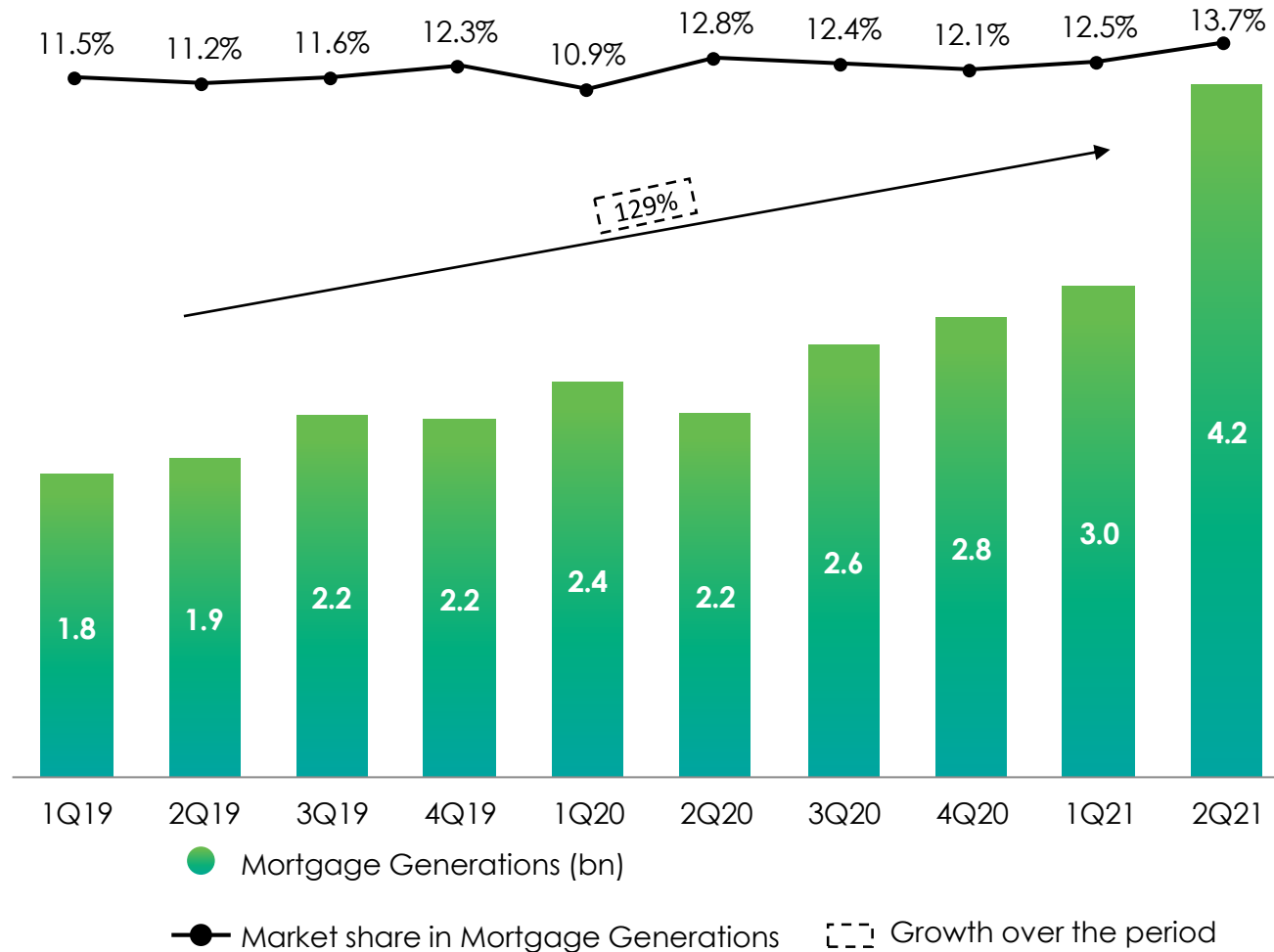
3

Maximize Group Value

Maximize the underlying,
stand-alone value of our
subsidiaries, leverage
synergies and increase the
Group's economic value

TRADITIONAL BANKING – ACCELERATED MORTGAGE GROWTH AS WE CONTINUE TO TAKE MARKET SHARE

Mortgage Generation



What have we done?

- Launched digital mortgages
- Introduce new call center staffed with mortgage specialist
- Streamlined processes
- Increased staff to meet demand
- Intensified direct marketing focused on mortgage brokers

Growing at low risk

LTV over 60% of mortgage generation

39.8%

42.3%

Total balance in arrears of over 90 days

0.57%

0.60%

● Discount

● Rest of banking sector

BANKING INNOVATION – BUILDING USER ENGAGEMENT THROUGH PAYBOX

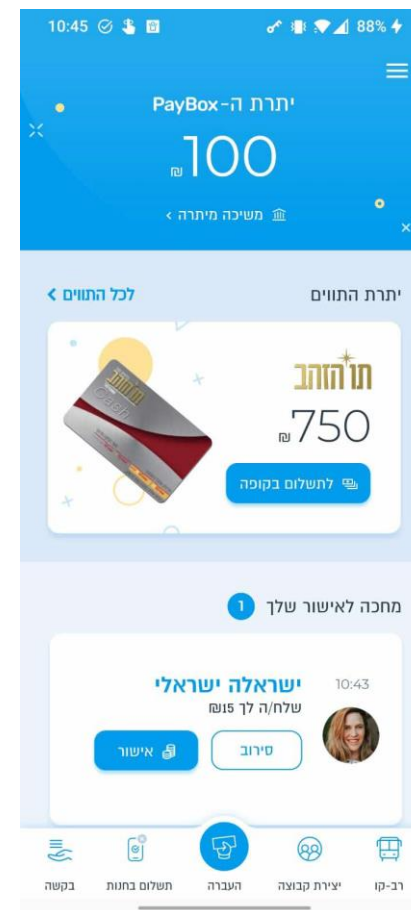
Tap to pay



What have we done?

- Reached over 2 million downloads
- Launched tap-to-pay in July
- Integrated Israeli leading gift card on PayBox
- More to come as we increase user engagement and build towards Phase II including the launch of a financial supermarket

New digital gift cards



AGENDA

> Financial and Strategic Review

Barak Nardi, CFO

> Q&A

Barak Nardi, CFO

Yossi Beressi, Chief Accountant

APPENDICES

PROFIT & LOSS AND SELECTED RATIOS

NIS m	2Q21	1Q21	2Q20	Vs. 1Q21	Vs. 2Q20	1H21	1H20	Change
Net interest income	1,685	1,504	1,463	12.0%	15.2%	3,189	2,918	9.3%
Credit loss expenses	(410)	(147)	532	n/a	n/a	(557)	1,188	(146.9%)
Non-interest financing income	89	298	276	(70.1%)	(67.8%)	387	693	(44.2%)
Commissions	785	724	650	8.4%	20.8%	1,509	1,389	8.6%
Other income	1	11	8	(90.9%)	(87.5%)	12	8	50.0%
Total non-interest income	875	1,033	934	(15.3%)	(6.3%)	1,908	2,090	(8.7%)
Total income	2,560	2,537	2,397	0.9%	6.8%	5,097	5,008	1.8%
Salaries and related expenses	830	801	794	3.6%	4.5%	1,631	1,618	0.8%
Maintenance & depreciation	308	294	274	4.8%	12.4%	602	559	7.7%
Other expenses	473	557	515	(15.1%)	(8.2%)	1,030	937	9.9%
Total operating and other expenses	1,611	1,652	1,583	(2.5%)	1.8%	3,263	3,114	4.8%
Income before taxes	1,359	1,032	282	31.7%	381.9%	2,391	706	238.7%
Provision for taxes on income	493	353	105	39.7%	369.5%	846	256	230.5%
Income after taxes	866	679	177	27.5%	389.3%	1,545	450	243.3%
Net income attributable to shareholders	860	662	174	29.9%	394.3%	1,522	453	236.0%
ROE	18.3%	14.5%	3.7%			16.1%	4.8%	
Cost income ratio	62.9%	65.1%	66.0%			64.0%	62.2%	
CET-1 ratio	10.28%	10.20%	10.08%			10.28%	10.08%	
NIM	2.48%	2.26%	2.35%			2.36%	2.40%	
Rate of credit loss expenses	(0.82%)	(0.30%)	1.14%			(0.56%)	1.28%	
NPL ratio	0.72%	0.84%	0.77%			0.72%	0.77%	
Dividend per share (in Agurot)*	-	-	-			-	4.19	

* Dividend in respect of the relevant period

ADJUSTED PROFIT & LOSS & SELECTED RATIOS

NIS m	2Q21	1Q21	2Q20	Vs. 1Q21	Vs. 2Q20
Net interest income	1,685	1,504	1,463	12.0%	15.2%
Credit loss expenses	(410)	(147)	532	n/a	n/a
Non-interest financing income	89	298	276	(70.1%)	(67.8%)
Commissions	785	724	650	8.4%	20.8%
Other income	1	11	8	(90.9%)	(87.5%)
Total non-interest income	875	1,033	934	(15.3%)	(6.3%)
Total income	2,560	2,537	2,397	0.9%	6.8%
Salaries and related expenses	830	801	794	3.6%	4.5%
Maintenance & depreciation	289	294	274	(1.7%)	5.5%
Other expenses	466	442	435	5.4%	7.1%
Total operating and other expenses	1,585	1,537	1,503	3.1%	5.5%
Income before taxes	1,385	1,147	362	20.7%	282.6%
Provision for taxes on income	501	392	133	27.8%	276.7%
Income after taxes	884	755	229	17.1%	286.0%
Net income attributable to shareholders	878	738	226	19.0%	288.5%
ROE	18.7%	16.2%	4.8%		
Cost income ratio	61.9%	60.6%	62.7%		
CET-1 ratio	10.28%	10.20%	10.08%		
NIM	2.48%	2.26%	2.35%		
Rate of credit loss expenses	(0.82%)	(0.30%)	1.14%		
NPL ratio	0.72%	0.84%	0.77%		
Dividend per share (in Agurot)*	-	-	-		

* Dividend in respect of the relevant period

1H21	1H20	Change
3,189	2,918	9.3%
(557)	1,188	(146.9%)
387	693	(44.2%)
1,509	1,389	8.6%
12	8	50.0%
1,908	2,090	(8.7%)
5,097	5,008	1.8%
1,631	1,618	0.8%
583	559	4.3%
908	851	6.7%
3,122	3,028	3.1%
2,532	792	219.7%
893	286	212.2%
1,639	506	223.9%
1,616	509	217.5%
17.1%	5.4%	
61.3%	60.5%	
10.28%	10.08%	
2.36%	2.40%	
(0.56%)	1.28%	
0.72%	0.77%	
-	4.19	

ADJUSTMENTS TO PROFIT & LOSS

NIS m	Gross			Net			Gross		Net		
	2Q21	1Q21	2Q20	2Q21	1Q21	2Q20	1H21	1H20	1H21	1H20	
Early retirement at Discount Bank and Mercantile	7	115	9	5	76	6	122	15	81	10	
Legal provision, net of insurance payment			71			46		71		46	
Cost associated with IDBNY change of headquarters location	19			13			19		13		
Income from the sale of Visa Inc. shares			-					-			
Early retirement at CAL			-					-			
Total	26	115	80	18	76	52	141	86	94	56	

SELECTED BALANCE SHEET ITEMS

NIS m	30.06.21	31.03.21	30.06.20
Cash and deposits with banks	47,405	50,307	39,608
Securities*	48,226	44,212	40,869
Credit to the public	202,258	196,901	186,841
Provision for credit loss	(3,272)	(3,609)	(3,405)
Credit to the public, net	198,986	193,292	183,436
Credit to governments	3,217	3,520	4,219
Investment in investee companies	345	355	154
Buildings and equipment	3,117	3,012	2,648
Intangible assets and goodwill	164	164	164
Assets in respect of derivative instruments	4,670	5,099	5,856
Other assets	4,604	5,046	5,146
Total Assets	310,734	306,142	282,100
Deposits from the public	240,691	240,787	222,048
Deposits from banks**	15,578	12,534	7,949
Securities lent or sold under agreements to repurchase	-	-	174
Bonds and subordinated debt notes	11,203	10,136	11,377
Liabilities in respect of derivative instruments	4,876	4,919	6,064
Other liabilities	17,040	17,368	14,965
Total liabilities	289,388	285,744	262,577
Equity capital attributed to the Bank's shareholders	20,704	19,836	19,004
Non-controlling rights in consolidated companies	642	562	519
Total equity	21,346	20,398	19,523
Total Liabilities and Equity	310,734	306,142	282,100

• Including securities borrowed or purchased under agreements to resell

• ** Including deposits from governments

FINANCIAL PERFORMANCE

Main P&L and Balance Sheet metrics and selected ratios

NIS m	2Q21	1Q21	2Q20	Vs. 1Q21	Vs. 2Q20	1H21	1H20	Change
Net interest income	335	306	299	9.5%	12.0%	641	616	4.1%
Credit loss expenses	(73)	(9)	99	n/a	n/a	(82)	197	(141.6%)
Non-interest income	141	155	124	(9.0%)	13.7%	296	222	33.3%
Total income	476	461	423	3.3%	12.5%	937	838	11.8%
Operating & other expenses	241	243	235	(0.8%)	2.6%	484	476	1.7%
Net income	201	150	58	34.0%	246.6%	351	107	228.0%
Net income excluding non-recurring items	172	117	54	47.0%	218.5%	289	103	180.6%

Return on equity	26.2%	19.9%	7.5%			22.4%	6.9%
Return on equity excluding non-recurring items	22.1%	8.3%	7.3%			18.3%	6.7%
Cost-income ratio	50.6%	52.7%	55.6%			51.7%	56.8%
Cost-income ratio excluding non-recurring items	55.8%	63.2%	55.6%			57.4%	56.8%
Rate of credit loss expenses	(0.84%)	(0.10%)	1.23%			(0.48%)	1.22%
NIM	2.75%	2.54%	2.81%			2.64%	2.89%

Total assets	52,952	51,363	47,133	3.1%	12.3%
Credit to the public, net	35,083	34,022	32,464	3.1%	8.1%
Securities	6,566	5,733	4,437	14.5%	48.0%
Deposits from the public	41,575	41,476	38,036	0.2%	9.3%
Total equity	3,539	3,337	3,181	6.1%	11.3%

FINANCIAL PERFORMANCE

Main P&L and Balance Sheet metrics and selected ratios

USD m	2Q21	1Q21	2Q20	Vs. 1Q21	Vs. 2Q20	1H21	1H20	Change
Net interest income	63	59	62	6.8%	1.6%	122	121	0.8%
Credit loss expenses	(8)	17	3	n/a	n/a	9	18	(50.0%)
Non-interest income	21	23	11	(8.7%)	90.9%	44	43	2.3%
Total income	84	82	73	2.4%	15.1%	166	165	0.6%
Operating & other expenses	59	52	45	13.5%	31.1%	111	92	20.7%
Net income	25	10	21	150.0%	19.0%	35	43	(18.6%)
Net income excluding non-recurring items	29	10	21	190.0%	38.1%	39	43	(9.3%)

Return on equity	8.7%	3.4%	7.6%			6.1%	7.9%
Return on equity excluding non-recurring items	10.3%	3.4%	7.6%			6.9%	7.9%
Cost-income ratio	70.2%	63.4%	61.6%			66.9%	56.1%
Cost-income ratio excluding non-recurring items	62.8%	63.4%	61.6%			63.0%	56.1%
Rate of credit loss expenses	(0.46%)	0.96%	0.15%			0.24%	0.51%
NIM	2.38%	2.30%	2.59%			2.33%	2.54%

Total assets	11,431	11,667	10,336	(2.0%)	10.6%
Loans, net	7,586	7,354	6,639	3.2%	14.3%
Securities	2,827	2,966	2,637	(4.7%)	7.2%
Deposits from the public	9,812	9,928	8,661	(1.2%)	13.3%
Total equity	1,168	1,148	1,132	1.7%	3.2%

FINANCIAL PERFORMANCE

Main P&L and Balance Sheet metrics and selected ratios

NIS m	2Q21	1Q21	2Q20	Vs. 1Q21	Vs. 2Q20
Income from credit card transactions	346	317	286	9.1%	21.0%
Net interest income	133	129	133	3.1%	-
Credit loss expenses	(15)	(4)	59	n/a	n/a
Non-interest financing income	(1)	1	(2)	n/a	n/a
Total income	478	447	417	6.9%	14.6%
Total expenses (excluding credit loss expenses)	383	364	328	5.2%	16.8%
Net income	79	60	23	31.7%	243.5%
Net income excluding non-recurring items	79	60	23	31.7%	243.5%

Return on equity	16.7%	12.9%	5.1%
Return on equity excluding non-recurring items	16.7%	12.9%	5.1%
Cost-income ratio	80.1%	81.4%	78.7%
Cost-income ratio excluding non-recurring items	80.1%	81.4%	78.7%

Total assets	19,501	19,385	17,885	0.6%	9.0%
Interest bearing credit	6,079	5,822	6,355	4.4%	(4.3%)
Consumer credit	5,261	5,030	5,477	4.6%	(3.9%)
Total equity	2,068	1,989	1,835	4.0%	12.7%

1H21	1H20	Change
663	616	7.6%
262	267	(1.9%)
(19)	164	n/a
-	6	n/a
925	889	4.0%
747	707	5.7%
139	16	768.8%
139	16	768.8%

14.6%	1.8%
14.6%	1.8%
80.8%	79.5%
80.8%	79.5%