

Israel Discount Bank Ltd.
2nd Quarter 2021 Conference Call
August 16, 2021

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Israel Discount Bank Second Quarter 2021 Results Conference Call. All participants are at present in listen-only mode. Following Management's formal presentation, instructions will be given for the question-and-answer session. For Operator assistance during the conference, please press star-zero. As a reminder, this conference is being recorded August 16th, 2021. If you have not yet done so, please access the presentation on the bank's website, investors.discountbank.co.il. I would now like to remind everyone that forward-looking statements for the respected company's business, financial condition, and the results of its operations are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated. Such forward-looking statements include but are not limited to product demand, pricing, market acceptance, changing economic conditions, risks and product and technology development, and the effect of the company's accounting policies, as well as certain other risk factors, which are detailed from time to time in the company's filings with the various securities authorities. Mr. Nardi, would you like to begin?

Barak Nardi: Thank you. Good afternoon, everyone, I hope you are well. Today, we once again reported record result, with robust net income of 860 million shekels, ROE of 18.3%, and credit growth of 8.3 year over year, which crossed the 200 billion shekel milestone. We also provided our normalized adjusted ROE of 10.1% that uses the average LLP from the

years 2016 to 2019, instead of the reported negative LLP of 0.82%, to help give a better idea of where our underlying ROE currently stands, and highlights the strength of our core business.

Slide 5 lays out the major highlights of our results. There were several factors that contributed to our strong performance this quarter. First, net interest income growth of 12% during Q2, and 15.2% year over year, was generated by a combination of core business growth and positive CTI. Second, the recent early retire plans that is bearing fruit that salary expenses excluding bonuses were lower. And third, the negative LLP was also a driver. Our high rate of credit growth is being generated without lowering our lending standards as our overall credit quality is improving with problematic debt down 9.5% as of Q1, and our NPL ratio balance is 0.72%. Lastly, we announce that we expect to reintroduce dividend payments totaling 20% of net income once the Bank of Israel removed its current limitation, and presuming that no further limitations will be set in respect of ongoing profits.

Moving to slide 6, you can see that we delivered strong credit performance with overall credit growth of 8.3% year over year, and 5.1% since the beginning of this year. What stands out in the year to date period, our focus segments of mortgages and medium enterprises, up 10.6 and 10.2%, respectively. Corporate growth remains solid, while consumer lending continues to pick up the pace.

As we mentioned earlier, slide 7 highlights the success we are seeing from our core banking activities of net interest income and fee generation

that improved 10.9% in the quarter, and 16.9% year on year. Even if we exclude the impact of CPI on core activities, we delivered a high rate of growth year on year. Non-interest financing income was lower in the quarter, mainly due to losses from derivatives, and fewer bond realizations.

On slide 8, we can clearly see the benefits from our early retirement plans in 2020. Our total adjusted expenses were up only slightly, and that is mainly on account of larger provisions for profit based bonuses. Salary expense excluding bonuses were down 4.6% quarter over quarter, and 8.3% year on year. Our total adjusted expenses excluding bonuses were actually down, both quarter on quarter and year over year.

Slide 9 speaks for itself. Negative LLP of 0.83% in the quarter was driven by low write-offs, significant recoveries, and a release of provisions on the balance sheet that were made during the crisis. The credit expense release leaves our reserve ratio at a still conservative ratio of 1.62%, above where we were pre-COVID. Our NPL improved significantly to 0.72%, as NPLs were either reclassified as performing, or were paid down. Deferrals have continued to trend down and do not present a concern.

Moving on from the discussion at the group level, let's talk of a bit on our main subsidiaries, starting with Mercantile on slide 10. Mercantile produced a record quarter in terms of both net income and ROE, even excluding gains from the valuation gain, on shares of Zim Shipping. Similar to the trends as a group, negative LLP and impressive credit

growth, are significant drivers of the 201 million shekel net income, and 22.6% ROE result. Mercantile continues to perform well and achieve strong results as it focuses on its strategy.

In New York presented on slide 11. Credit demand remains strong, particularly in C&I, while negative LLP in non-interest financing income helped produce 25 million dollars in net income, and an 8.7% ROE. Spreads has began to improve as yields on loan remain stable. The quarter included roughly 6 million dollars in one-time expenses associated with the move of our headquarters into a new building.

On slide 12, we present yet another record quarter, this time at Cal, with net income of 79 million shekel and 16.7% ROE. Cal produced strong performance across all key business drivers, including transaction turnover, consumer credit, and acquisition of new active cards. A strong result were achieved despite one of Cal's major drivers, international transactions, are still well below the level of pre-COVID activity, which continues to negatively impact the business. We hope that this may begin to change later in the year.

That closes out the final section of the presentation, and on slide 13 we move on to talk a bit about our strategy. As we have laid out in the past, we are fully focused on being the best financial institution for our customers, and delivering superior value to shareholders over time. Our strategy has three main pillars. First, to accelerate the evolution of traditional banking. Second, to lead the revolution in banking through disruptive innovation. And third, to maximize Group's value.

We define mortgages as one of our key strategic pillars, and on slide 14, we dive into some details. You can see that our mortgage generation business is booming. We have grown 130% over the past two and a half years, and have increased our market share in generation to 13.7%, that's at 11.2% two years ago. Not only are we growing quickly as we mentioned the 18.3% year on year growth earlier, but also we are doing it without letting down our lending standards at all. You see that we are better than our peers, both in terms of percent of loans over 60% LTV and loans in arrears of over 90 days. We are able to achieve these great results by launching digital mortgages, streamlining our processes, and working closely with mortgage brokers.

After talking about one of the key pillars of our traditional banking strategy, I want to say a few words about PayBox, our main disruptive innovation initiative that's highlighted on slide 15. We are happy to say that in Q2, we received all of the approvals necessary to relaunch PayBox with Shufersal, and leverage its growing user engagement to be fully innovative initiative in the role of personal finance. PayBox crossed the 2 million download threshold, launched AppToPay, and just announced that Israel's leading gift card program will be digitally available on the platform as well. This is just the beginning for PayBox, with much more to come before we head to phase 2 and create a financial market – marketplace for personal finance.

To summarize, 2Q was a great way to close out the first half of 2021, and we look forward to building on our success and creating value for our stakeholders. With that, let's open it up for questions. Thank you.

Operator: Thank you. Ladies and gentlemen, at this time we will begin the question-and-answer session. If you have a question, please press star-one. If you wish to cancel your request, please press star-two. If you are using speaker equipment, kindly lift the handset before pressing the numbers. Your questions will be polled in the order they are received. Please stand by we poll for your questions. *[pause]* The first question is from Tavy Rosner of Barclays. Please go ahead.

Tavy Rosner: Hi, Good afternoon, and thanks for taking my questions. I wanted to start with the long growth. I mean, you mentioned a very strong growth during the quarter, and one of the key drivers has been mortgages. It's something that we're seeing to a different extent across all banks, but there seems to be a strong demand across the market. And I was wondering, what are the driving forces here? Do you see that as sustainable? And, I guess, as a last point, is there risk that a high level of competition will hurt the bank's margins?

Barak Nardi: Thanks, Tavy. So I'll answer. Regarding mortgages, at the beginning of our strategy, we highlighted this as one of our key pillars. Because what we found out, that it's not – for us, it's not an issue of demand, it's issue of capacity. And we worked very hard to solve the capacity issue, and we launched a digital process, and we streamlined the processes. And we – now, we can say we fixed most of the issues we had, and we can answer the demand. So what we are seeing, we see our growth, after we fix those capacity issue, and it's a sustainable growth, we don't see any decline of margins, we are not increasing the risk appetite over there. So, overall, we feel very comfortable with the current numbers, and we believe we will be able to support them going forward. We need to take into consideration that we are still below our natural market share when it

come to mortgages. So we believe that even if the overall demand in the Israeli market will be a bit lower, we will be able to still support our substantial mortgage numbers. Regarding risk, overall, when we are looking at the LTV, the LTV in the mortgage market is relatively low, with an average of around maybe 60%, maximum is 75%. So overall, we believe that in this line of business, the risk is lower than other line of business, so we feel very comfortable with the growth – with the fast growth over there.

Tavy Rosner: Thanks, that's helpful. And then, talking about provisions. You know, when we look back the last 18 months, you obviously had way more provisions than you had recoveries. So, I guess, looking at the situation as a CFO, what would be the reason why you haven't released more recoveries? Is it because you still have, you know, some doubts with regards to certain creditors? Or you're being careful? How should we look at recoveries, you know, going forward?

Barak Nardi: So, we feel very comfortable with the quality of our current portfolio. And as you mentioned, we are still – our overall coverage ratio is still higher than pre-COVID, it's on 1.62% right now, that's at 1.38% at prior to COVID. We think it's, you know, COVID is not over yet. So we wanted to have some buffer in our balance sheet. It's still too early to say what will happen in next quarter, but overall, when we are looking at all the – the credit quality indicators, we feel very comfortable. Write-offs are very low, NPL looks good, deferrals are almost gone. So we feel very comfortable. But yet, we still wanted to make sure that we can – we will be ready for any potential developments. But currently, we feel very comfortable with the current situation and the current – with the current situation.

Tavy Rosner: Great. Thank you.

Operator: *[pause]* If there are any additional questions, please press star-one. If you wish to cancel your request, please press star-two. Please stand by while we poll for more questions. *[pause]* There are no further questions at this time. Mr. Nardi, would you like to make your concluding statement?

Barak Nardi: So, thank you very much, all, for joining, and see you all next quarter. Thank you.

Operator: Thank you. This concludes the Israel Discount Bank Second Quarter 2021 Results Conference Call. Thank you for your participation. You may go ahead and disconnect.

[End of conference call.]