

4Q & FY-2017



Financial Results

Conference call presentation

March 7, 2018



Agenda



Opening

Lilach Asher Topilsky, CEO

4Q and FY2017

Ziv Biron, CFO

Financial performance

Conclusion

Lilach Asher Topilsky, CEO

Q&A

Lilach Asher Topilsky, CEO

Ziv Biron, CFO

Yossi Beressi, Chief Accountant

Ran Oz, Head of Financial Markets Division

Opening



Lilach Asher Topilsky, CEO



Four Years into our Strategic Program

Seeing marked improvement across the board

1



Financial Performance

- Performance improved in all key Financial metrics
- On track to 2021 Financial Targets
- Approved a dividend policy

2



Leadership in Customer Satisfaction

- Reshaping customer experience across all channels
- Reaching top rating in customer satisfaction surveys

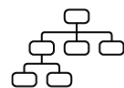
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Innovation

- Embracing disruptive services to bring innovation to our customers
- Launched innovative solutions for consumers and businesses

4



Group Companies

- Increased contribution of Discount Solo
- CAL and IDBNY launched new strategies
- Mercantile continued to deliver on its strategy
- Discount Capital strengthened underwriting business

5



Organizational Culture

- A new “Spirit of Discount” adopted, with new Vision statement and set of values
- Continued to strengthen performance management culture

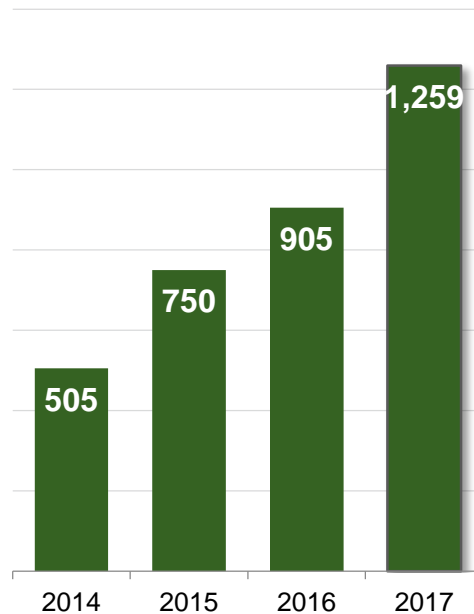
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Strong Financial Results Continue

Well on the way to meeting our 2021 financial targets

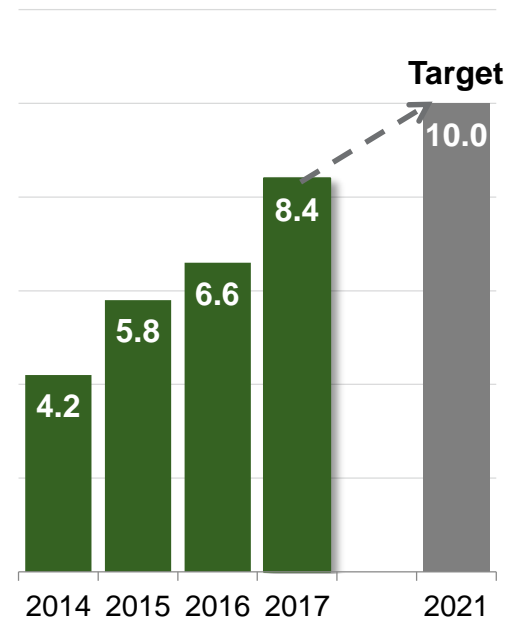
Net income

(in NIS m)



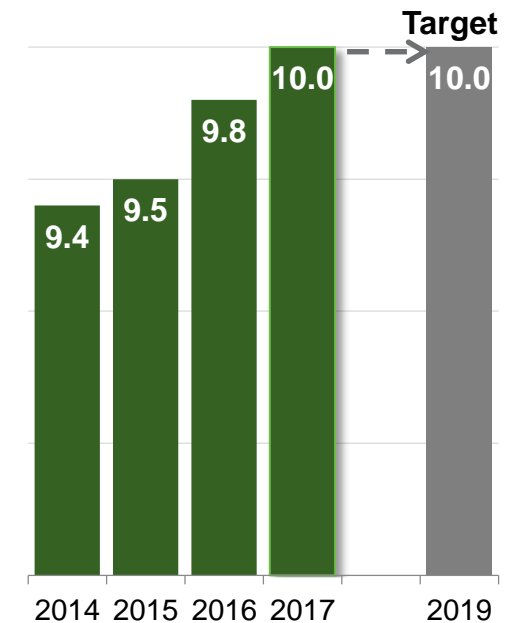
ROE

(%)



Core tier-1 capital ratio

(%)



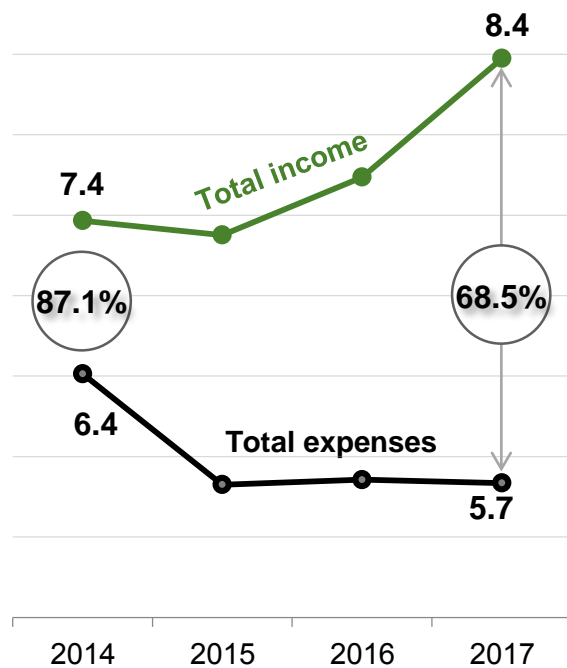
Significant Improvement in Efficiency and Growth

1

Due to relentless execution of our 5-Year strategy

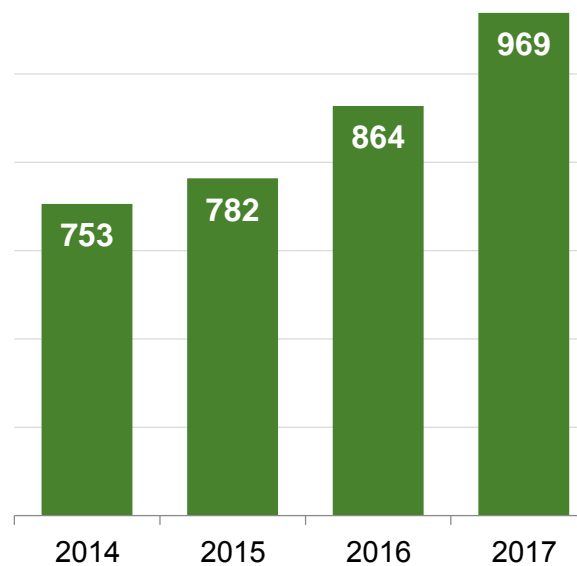
Cost-income ratio*

(in NIS Bn)



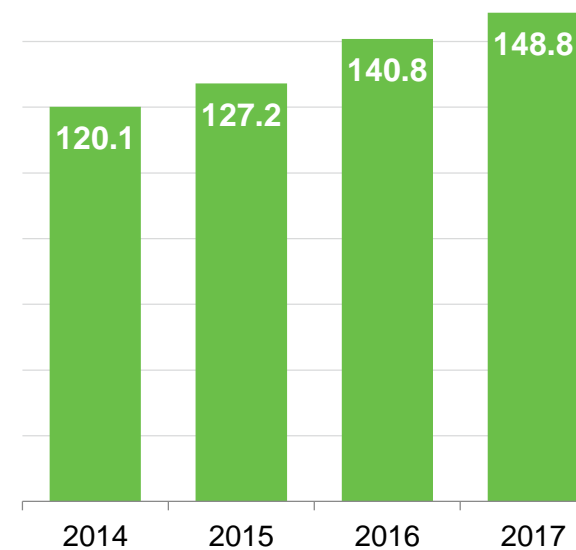
Employee productivity ratio

Total income* / average balance of positions
(in NIS thousands)



Credit growth

(in NIS Bn)



Leading the way in Customer Satisfaction

2

By transforming traditional banking to meet customer expectations and needs



Enhanced Digital Channels

- State-of-the-art mobile App
- Improved consumer website
- New Securities website
- Business banking Website and App to be launched in 2018



New and extended means of communication

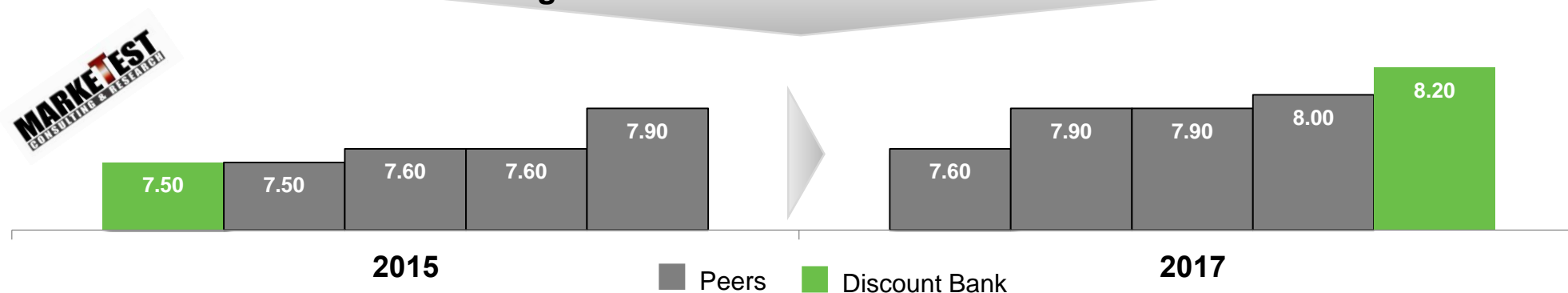
- InApp Correspondence – customers now interact with our bankers directly from their Mobile App
- Email – our bankers can easily be reached by e-mail
- Didi – our AI based BOT provides assistance and insights



Multi-channel customer relationship management

- Flawless integration of all communication channels
- A powerful dashboard, assisting bankers in managing their tasks and meeting their KPIs
- Full roll-out by mid 2018

Taking a lead in overall customer satisfaction



At the Forefront of Banking Innovation

Embracing and developing disruptive products and services



A Leading Online Accounting Platform for SME

- Discount is first in the Israeli market to leverage Open API Banking Platform
- Enables business clients to link their banking and accounting information, get a full view of their business along with data-driven insights
- Tailored for SME and SOHO clients



The First P2P and group payments platform in Israel

- Enabling person to person money transfers as well as group collection
- Over 400,000 users transferring and collecting money using Paybox today
- A platform for a full digital wallet



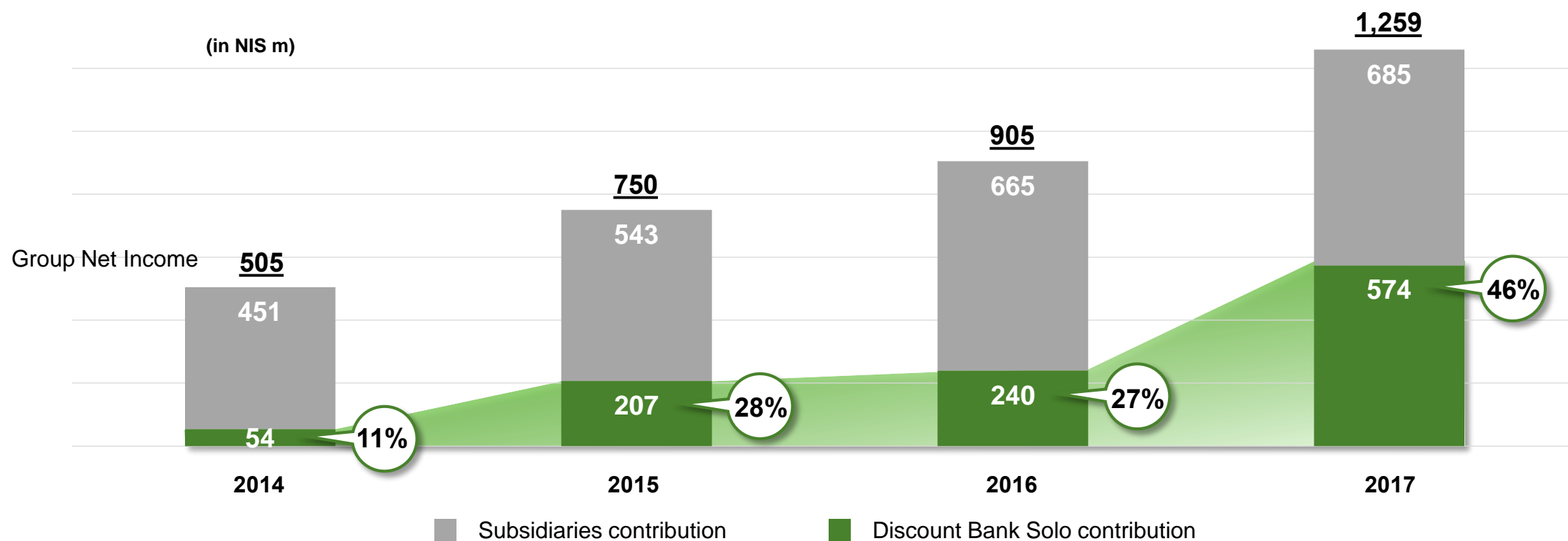
Investments and Partnerships with the Fintech industry

- Strategic investments in Fintech funds and startups
- Strengthens link to the Fintech industry and ecosystem
- Provides a deal-flow of innovative services and products

Group Income More than Doubled in 4 Years

4

Discount Solo contributed nearly 50% of Group income



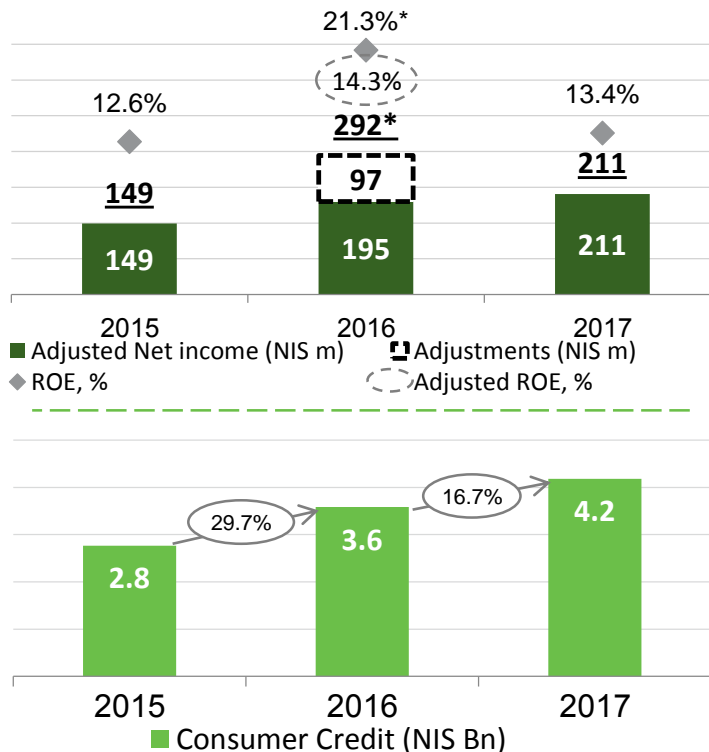


4

Robust Performance at CAL

Approved a 5-year strategy aimed at leading the changing Credit Card market

Financial performance*



Primary Focus Areas

- Growth momentum continues, in both consumer and business credit
- New 5-Year strategic plan approved and launched
- New strategic partnerships with:
 - Shufersal – one of the leading consumer clubs
 - Gama - the largest Israeli Credit card Payment facilitator
- Forward outlook – disciplined execution of CAL's 5 year strategy
 - Expand customer base and consumer credit
 - Set up Shufersal Club and acquire club members
 - Invest and improve technology and data capabilities
 - Expand issuing and clearing with all banks

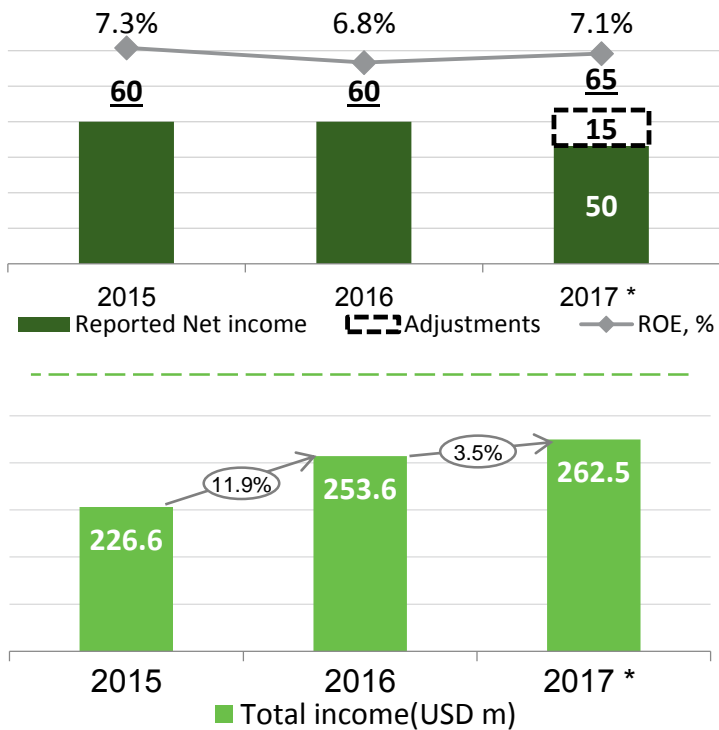
* Including 2016 one-times Visa Europe (income) and arrangement in lieu of legal proceedings (expense)

New leadership, New Strategy

4

New strategic plan leverages extensive long standing client relationships

Financial performance*



Primary Focus Areas

- New leadership – CEO and several members of Board of Management
- Approved a new 5-Year strategic plan
- Underlying pre-tax income up 14%
- Forward outlook - Relentless execution of new strategy:
 - Focus on key sectors
 - Investment in Technology infrastructure
 - Enhance Human Capital skills and capabilities
 - Develop stronger business synergies with Group

* Excluding a USD 15.5 m impact of the US tax reform. Including this impact, Net Income was 50 MM USD and ROE was 5.4%

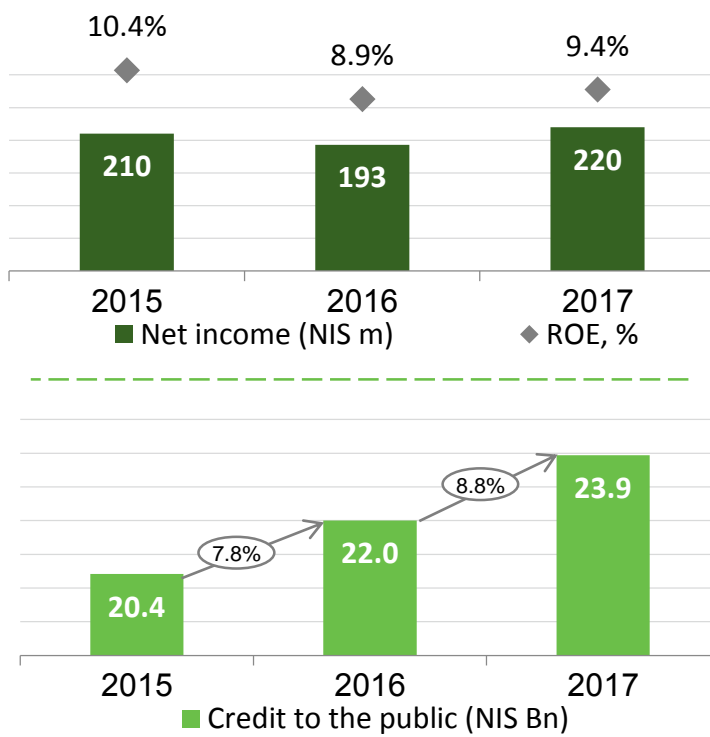


Successfully Delivering on its Strategy

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Focus on core markets

Financial performance



Primary Focus Areas

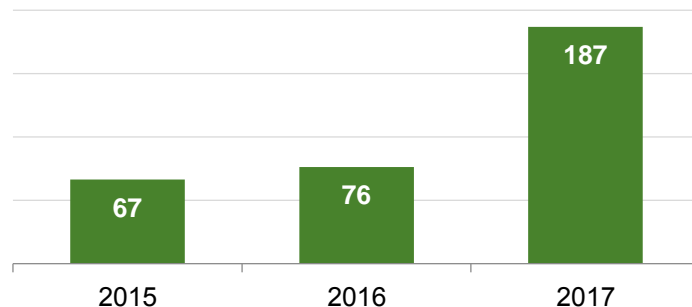
- Continued implementation of strategic plan
 - Focused growth in targeted consumer and business segments
 - Disciplined expense management
- Forward outlook – continue implementing strategic plan
 - Implement New CRM and operating model for consumers
 - Increase customers' utilization of digital channels

Yielding on its Investments

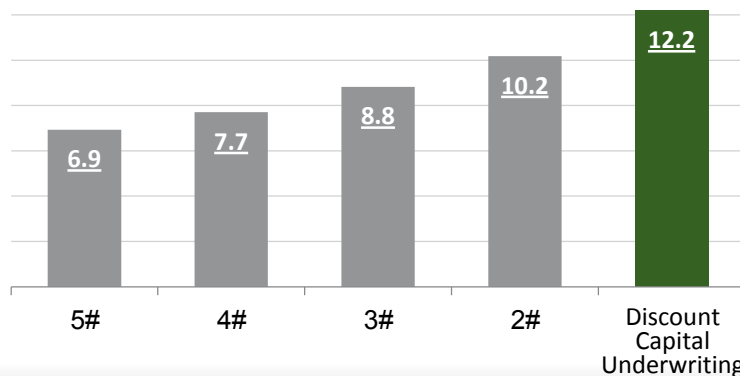
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Leading the Underwriting League Table for 2017

Net Income (NIS m)



Underwriting league table* (NIS Bn)



Primary Focus Areas

- Growth across all areas of operations –investments, underwriting, M&A and advisory
- Increase in number and volume of underwriting deals – ranked #1 among local peers
- Continued leadership in underwriting and M&A
- Further diversification of the investment portfolio
- Investments in Fintech funds in line with Group Strategy

* Includes deals led for parent companies and external

5

New Vision and Value Statement

The Customer is at our Core



We aspire to be the “Bank of Choice” for our customers enabling financial growth and stability over time through professional, fair and tailored banking

Committed to our Customers



- Committed to prompt and professional response
- Tailored innovative solutions
- Convenient, easily accessible and transparent service
- Outstanding customer experience

Making it Happen



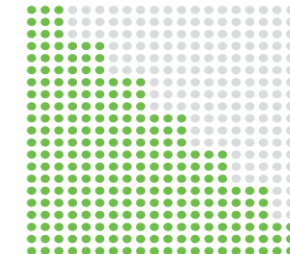
- Embrace Change
- Curious and daring
- Open to new ideas

Leading Change



- Initiating and decisive
- Assuming full responsibility
- Meeting our commitments

Succeeding Together



- Collaborating and sharing knowledge
- Establishing trust
- Respectful and considerate

4Q and FY2017 Financial performance

—
Ziv Biron, CFO



Highlights of 2017

Robust performance across all key parameters

Net income
NIS 1,259 m
(2016: NIS 905 m)

ROE
8.4%
(2016: 6.6%)

Cost-income ratio
68.5%
(2016: 72.7%)

Core tier-1 ratio
10.0%
(2016: 9.8%)

2017 financial performance

- Net interest income is up 9.2%
- Total Income is up 4.7%
- Total Expenses down 1.4%
- Credit to the public up 5.7%
- Total Expenses down 1.4%

Capital and liquidity

- Total equity crossed 16 Billion NIS with 10% Core tier 1 ratio
- Capital strength allows for a dividend policy of up to 15% starting 2018
- LCR remains solid at 126.7%

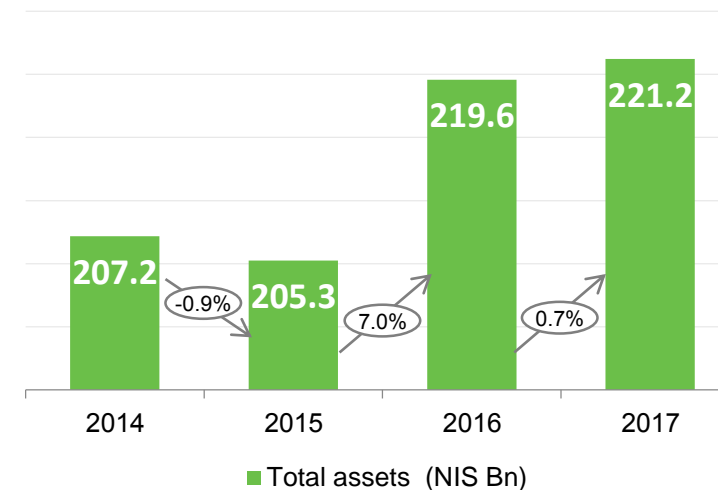
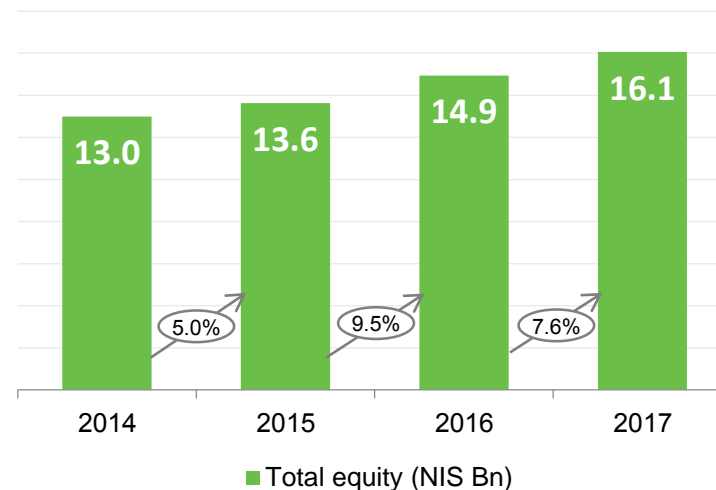
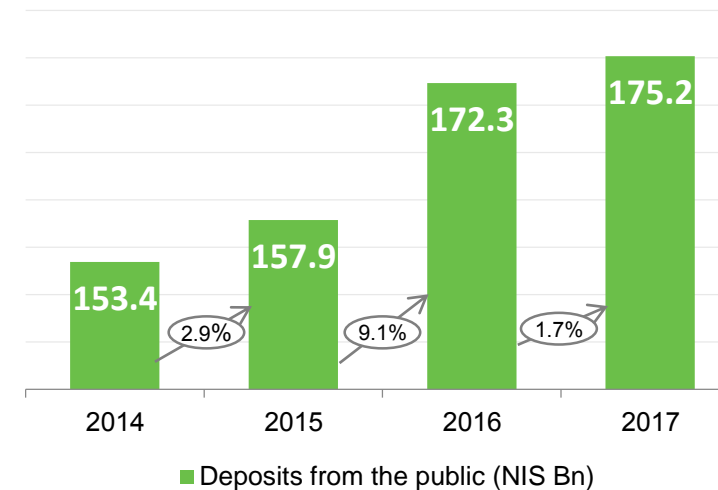
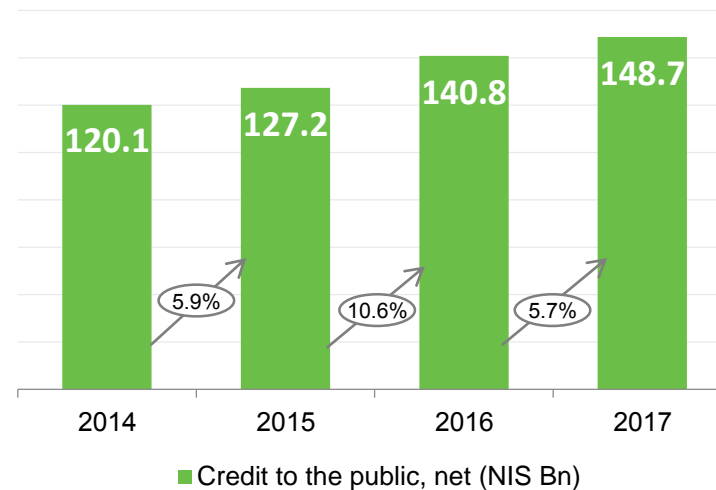
Strategy execution

- Roll out of new consumer operating model
- Launched innovative customer and bankers facing technologies
- Took leadership position in customer satisfaction

Continuous Strengthening Balance Sheet

Main Metrics From the Balance Sheet

	2016	2017
Cost Income Ratio	72.7%	68.5%
Return on Equity	6.6%	8.4%
Common Tier-1	9.8%	10.0%
Leverage Ratio	6.6	6.8
LCR	146.5%	126.7%
Interest Spread	2.24%	2.32%



Improvement of Financial Performance

Main Metrics
From the P&L

NIS m	2017	2016	2015	% change compared to 2016
Interest income, net	4,975	4,557	4,223	9.2%
Credit loss expenses	574	469	187	22.4%
Non-interest financing income	595	754	363	(21.1%)
Commissions	2,717	2,585	2,611	5.1%
Other income	87	100	79	(13.0%)
Total non-interest income	3,399	3,439	3,053	(1.2%)
Total income	8,374	7,996	7,276	4.7%
Salaries and related expenses	3,366	3,416	3,396	(1.5%)
Maintenance and depreciation of buildings and equipment	1,044	1,067	1,158	(2.2%)
Other expenses	1,325	1,331	1,171	(0.5%)
Total operating and other expenses	5,735	5,814	5,725	(1.4%)
Income before taxes	2,065	1,713	1,364	20.5%
Provision for taxes on income	747	741	566	0.8%
Income after taxes	1,318	972	798	35.6%
Net income attributable to bank's shareholders	1,259	905	750	39.1%

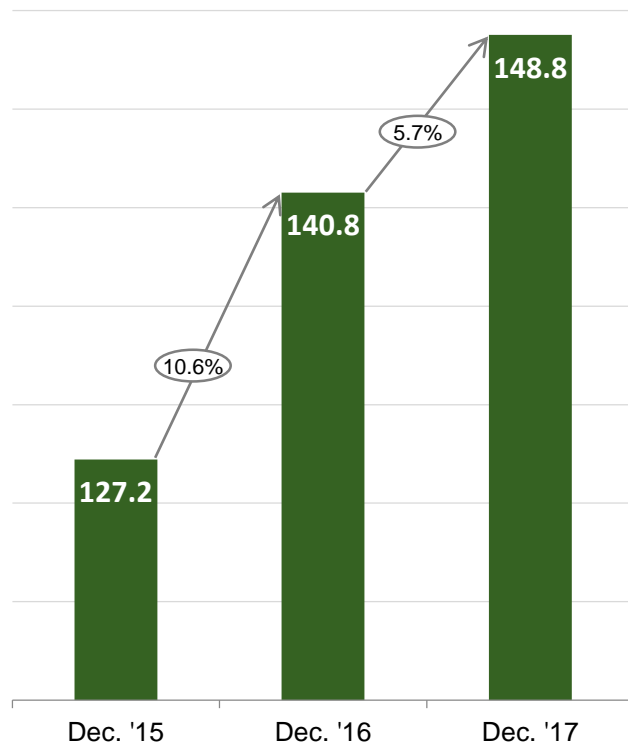
Improvement of Financial Performance

Main Metrics
From the P&L

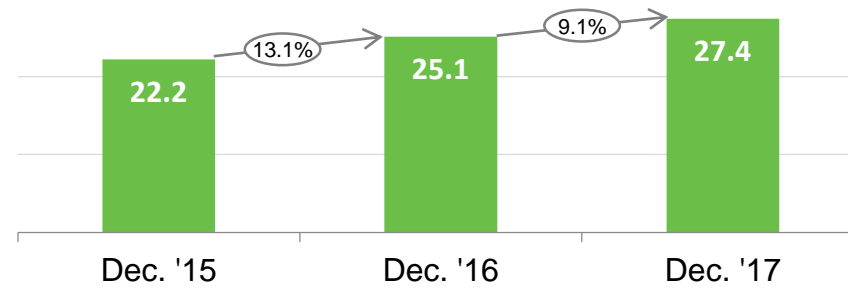
NIS m	4Q17	4Q16	3Q17	% Change compared to	
				4Q16	3Q17
Interest income, net	1,297	1,166	1,207	11.2%	7.5%
Credit loss expenses	31	224	187	(86.2%)	(83.4%)
Non-interest financing income	94	179	197	(47.5%)	(52.3%)
Commissions	696	653	694	6.6%	0.3%
Other income	37	6	9	516.7%	311.1%
Total non-interest income	827	838	900	(1.3%)	(8.1%)
Total income	2,124	2,004	2,107	6.0%	0.8%
Salaries and related expenses	856	866	837	(1.2%)	2.3%
Maintenance and depreciation of buildings and equipment	272	254	248	7.1%	9.7%
Other expenses	363	338	329	7.4%	10.3%
Total operating and other expenses	1,491	1,458	1,414	2.3%	5.4%
Income before taxes	602	322	506	87.0%	19.0%
Provision for taxes on income	222	168	180	32.1%	23.3%
Income after taxes	380	154	326	146.8%	16.6%
Net income attributable to bank's shareholders	371	145	313	155.9%	18.5%

Robust Credit Growth in all Segments

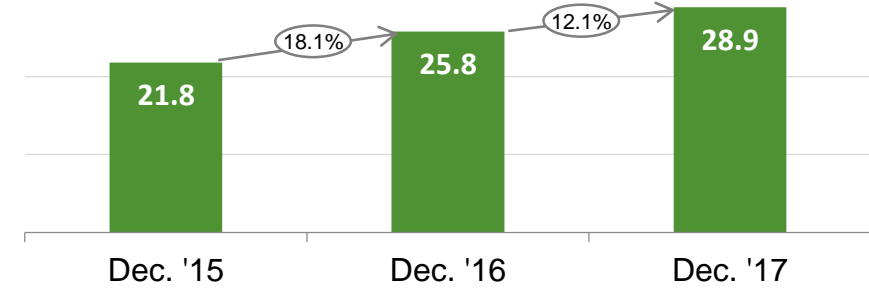
Credit to the Public, net (NIS Bn)



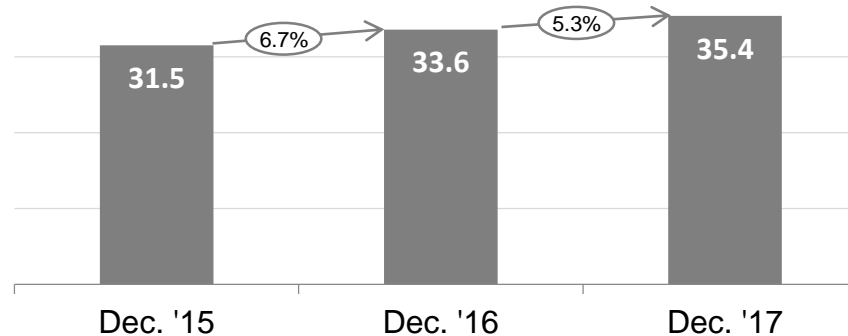
Consumer Credit (NIS Bn)



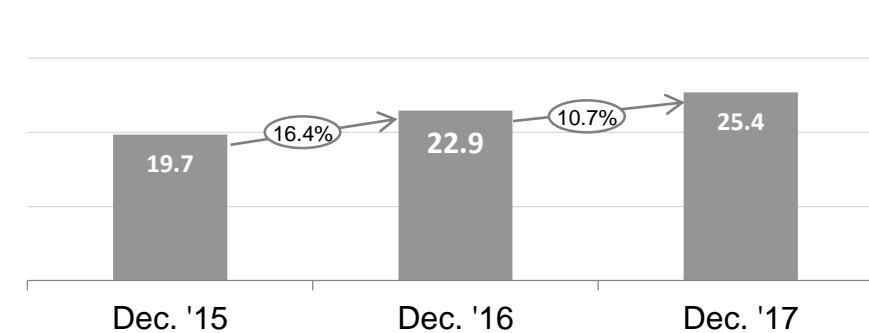
Mortgages (NIS Bn)



Micro and Small Enterprises (NIS Bn)



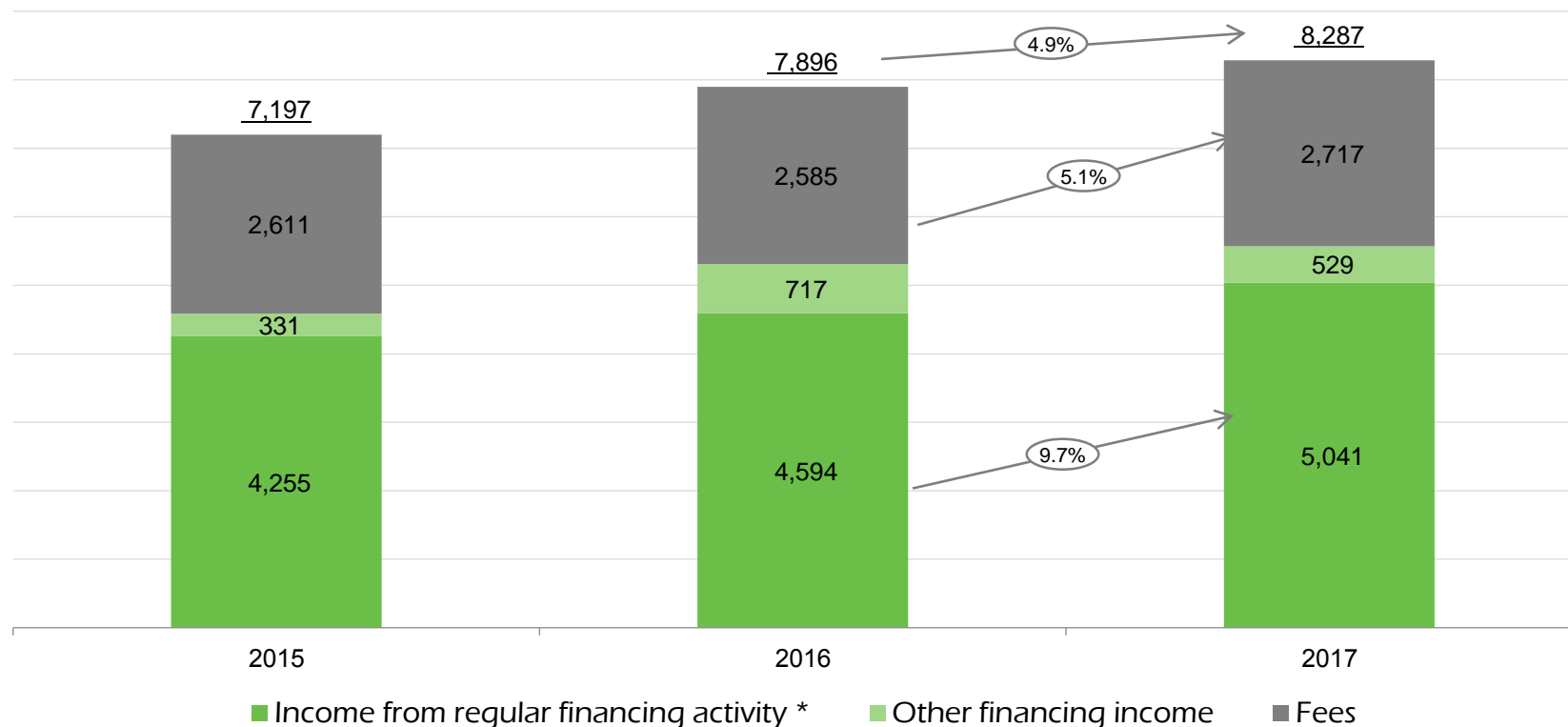
Corporate Credit (NIS Bn)



Income Growth From Banking Activity

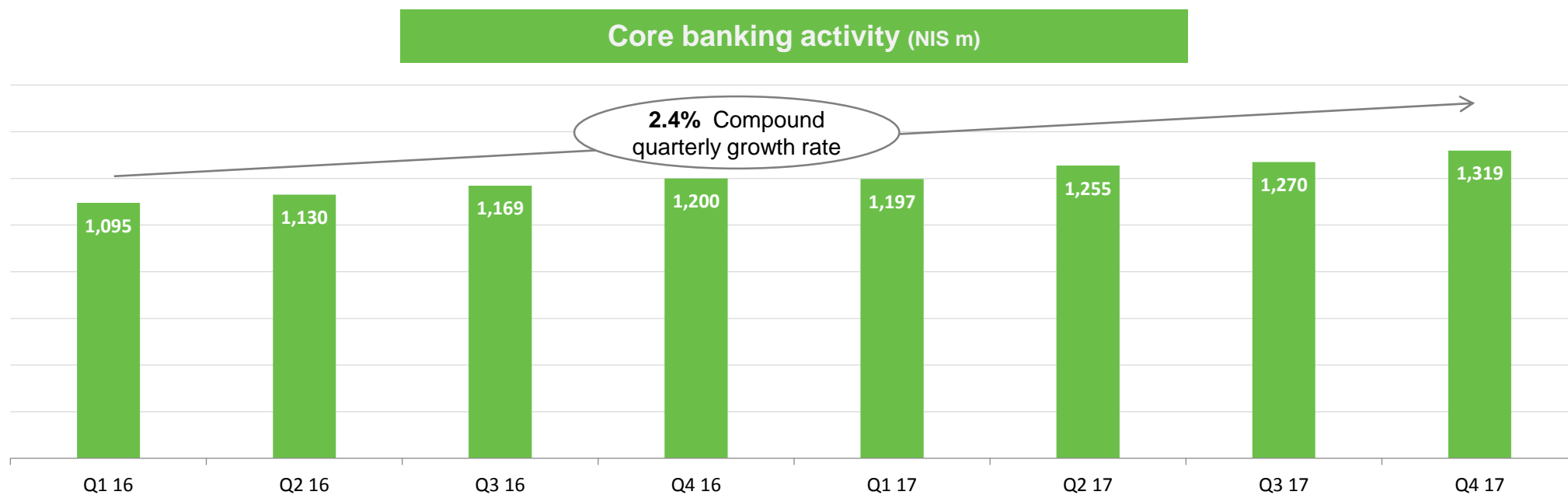
Supported by credit growth, NIM expansion

Income Growth From Banking Activity (NIS m)



* Exclude CPI, income from realization and adjustment to fair value of bonds, investments in shares, loans sold, adjustments to fair value of derivative instruments for 2016 and 2017. The CPI impact for 2015 was not disclosed

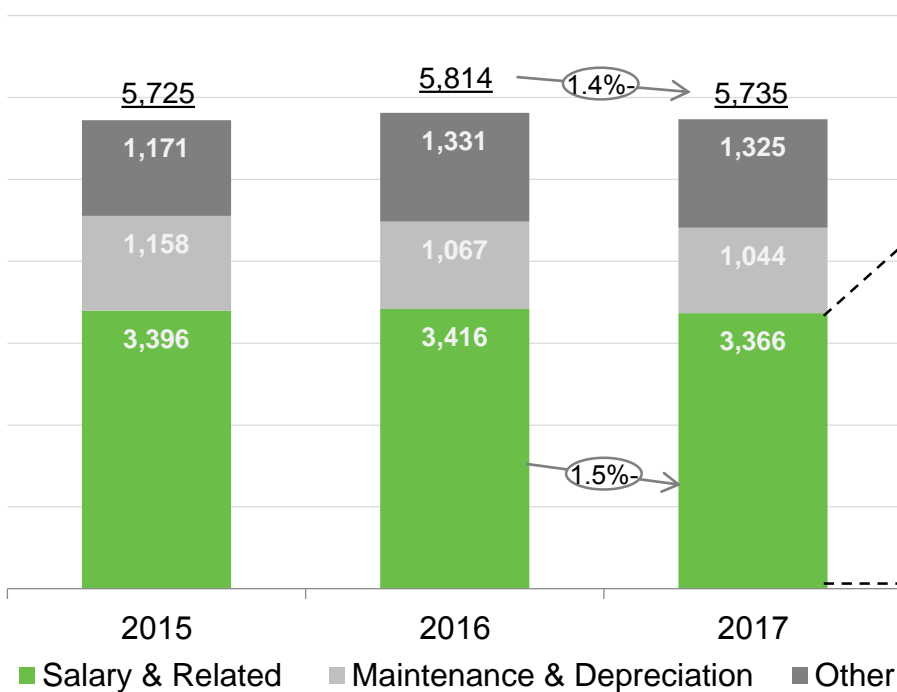
Steady Growth from Core Banking Activity



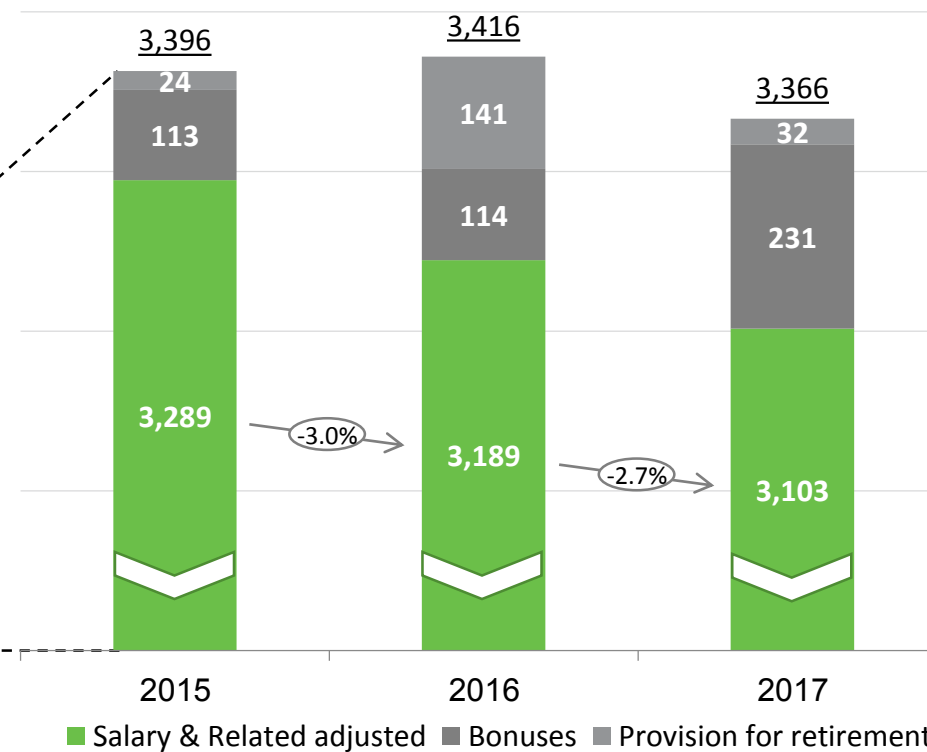
Group Expenses

Expense Management Remains in Focus

Total expenses, Group (NIS m)



Salary and related expenses, Group * (NIS m)

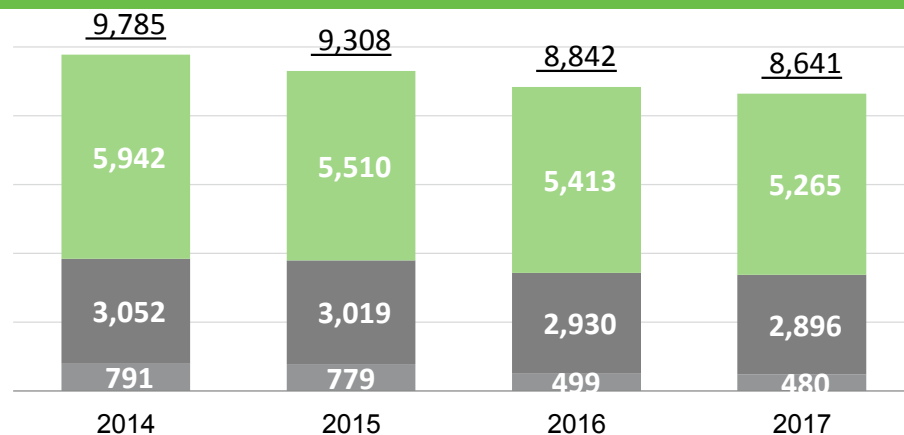


*Bars do not show "other" expenses

Workforce – Reduction in Head Count Continues

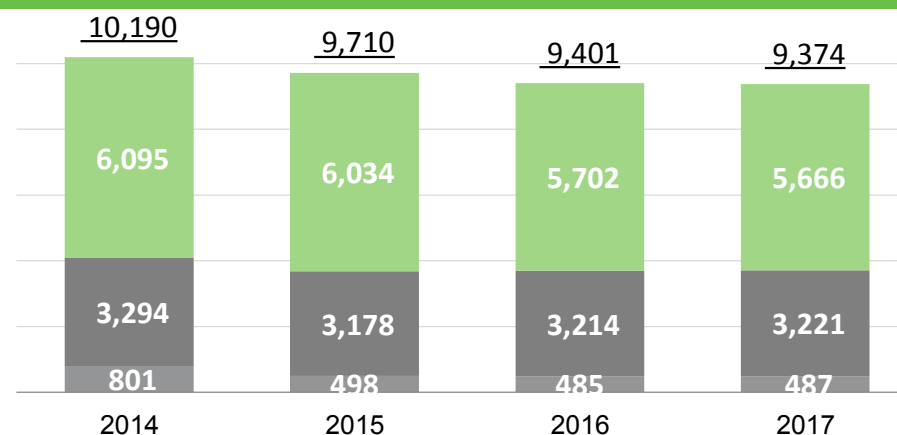
Predominantly at Discount Solo

Average monthly positions (FTEs)



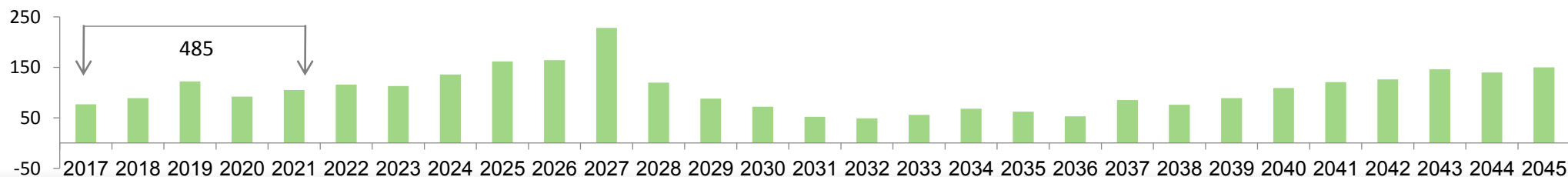
■ Abroad ■ Local subsidiaries ■ Bank only (Solo)

Total workforce at year end



■ Abroad ■ Local subsidiaries ■ Bank only (Solo)

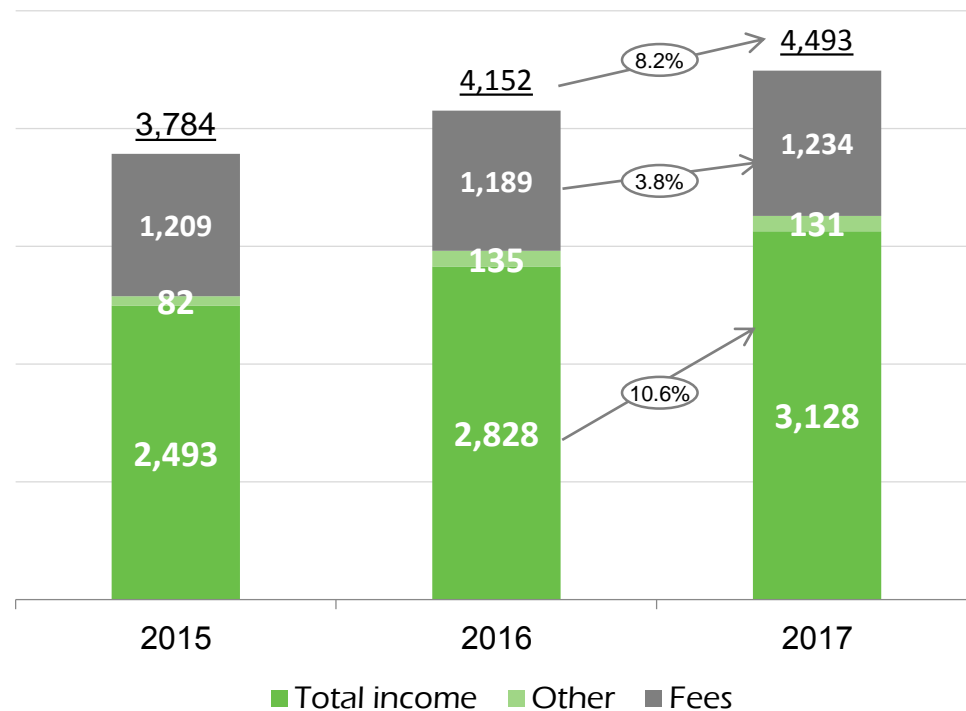
Natural Expected Retirement, Yearly



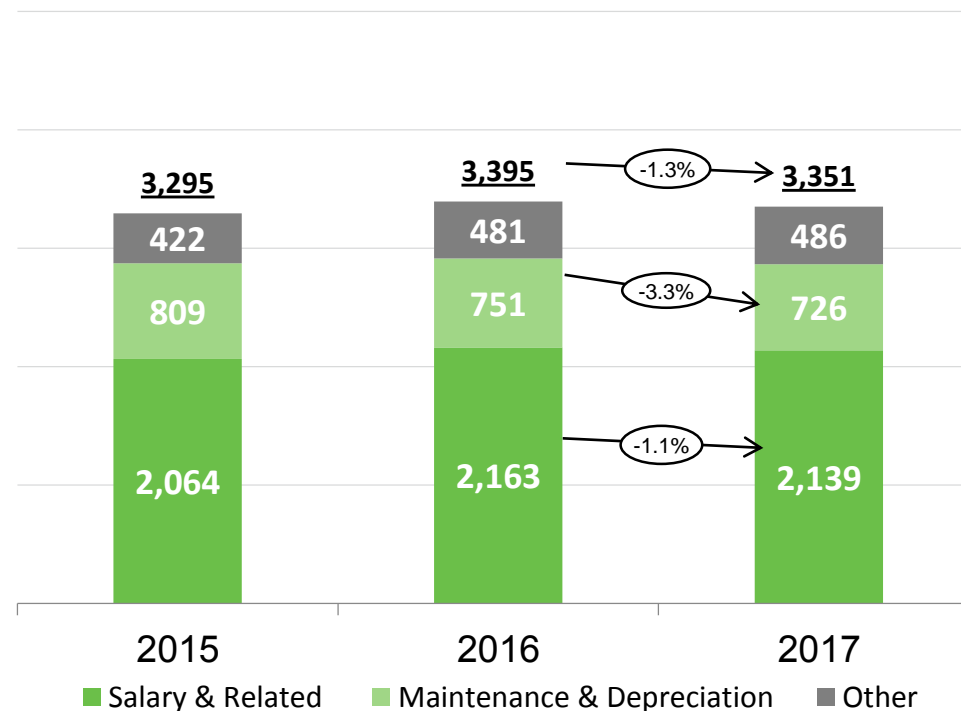
Discount SOLO

Solid Growth and Disciplined Expense Management

Total Income, Discount Bank (NIS m)



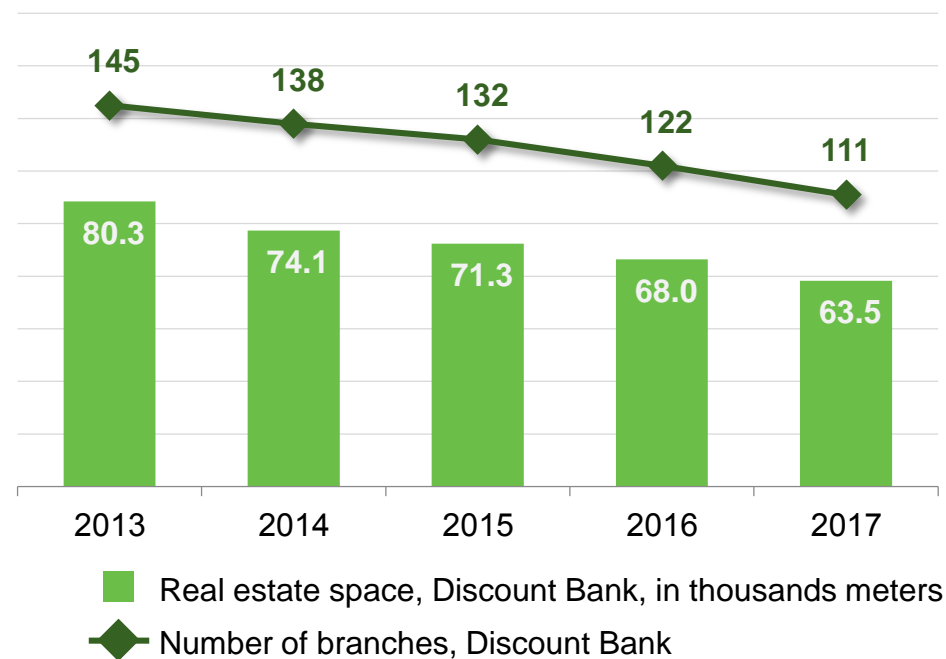
Total Expenses, Discount Bank (NIS m)



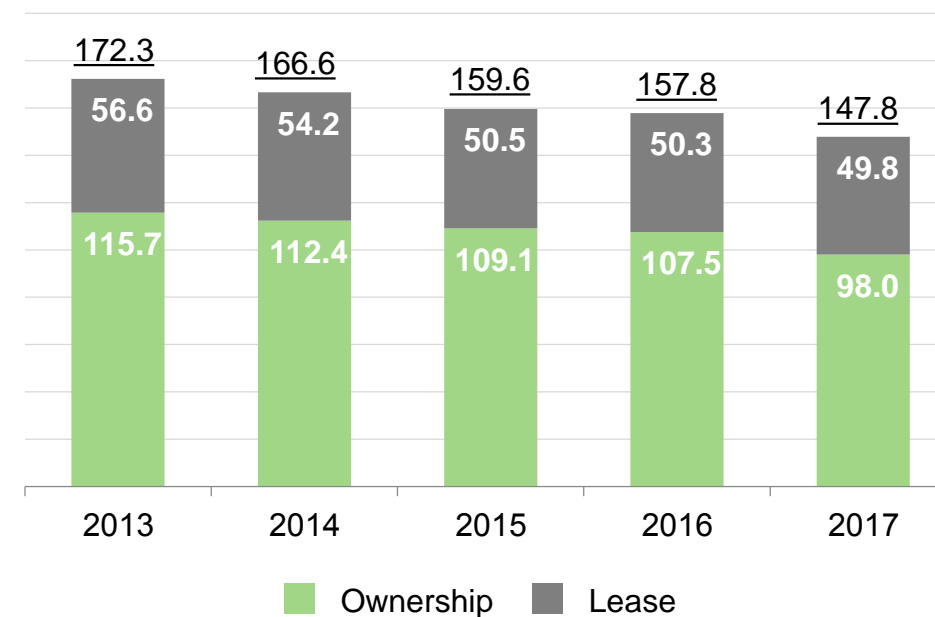
Adjusting Physical Footprint to Meet Future Needs

Continuous Decrease in number of branches and overall real estate space

Real estate space, Discount Bank
& Number of Branches



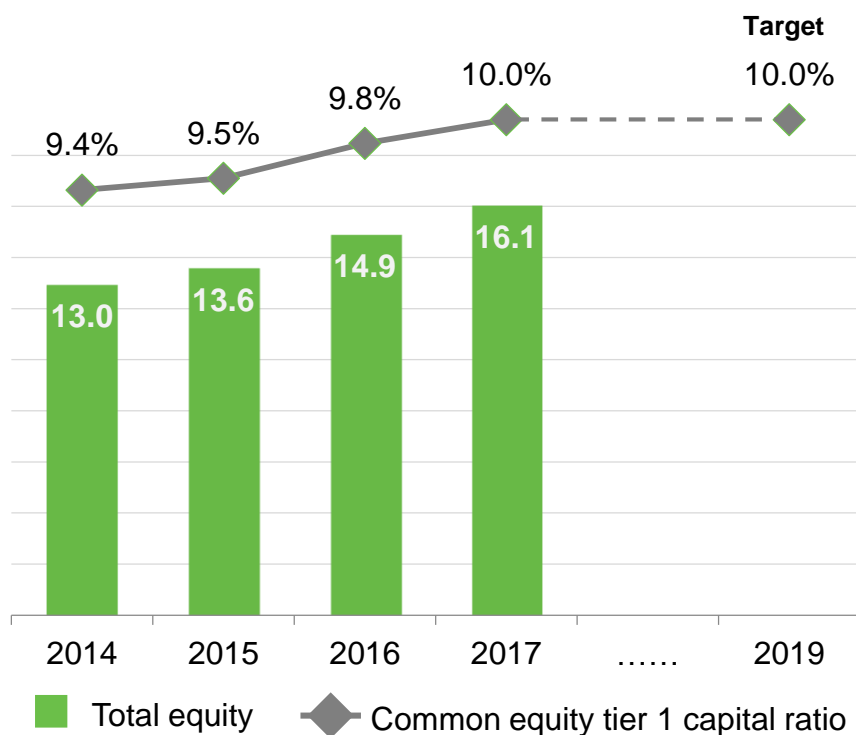
Real estate space, Group (Thousands of meters)



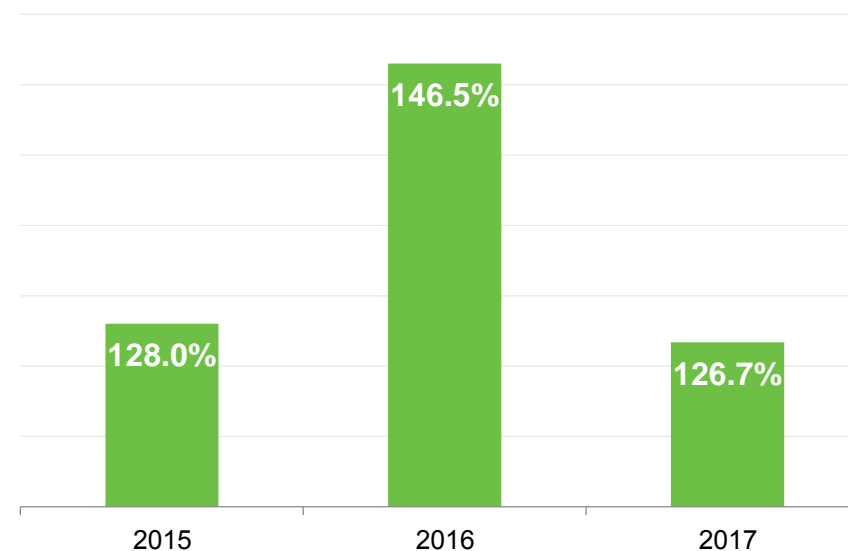
Adequate Capital & Liquidity Position

Allowing for Flexibility and Growth

Total equity (NIS Bn) and Core Tier-1 capital ratio

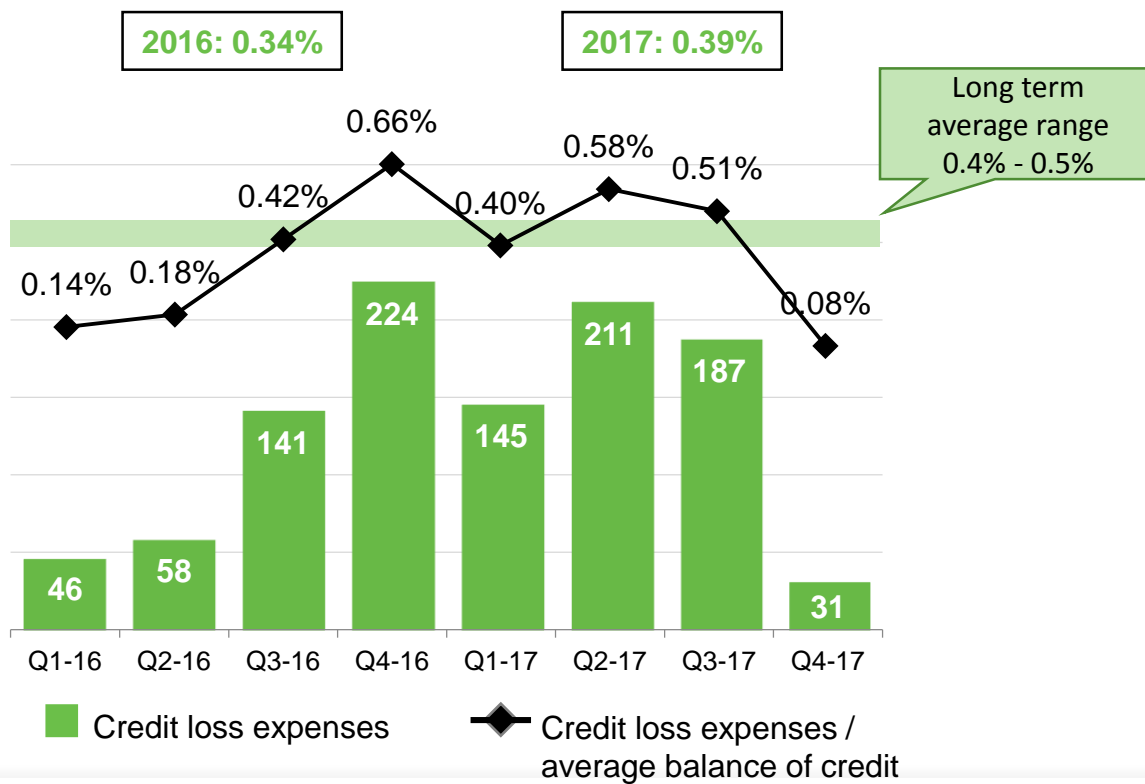


Liquidity Coverage Ratio (LCR)

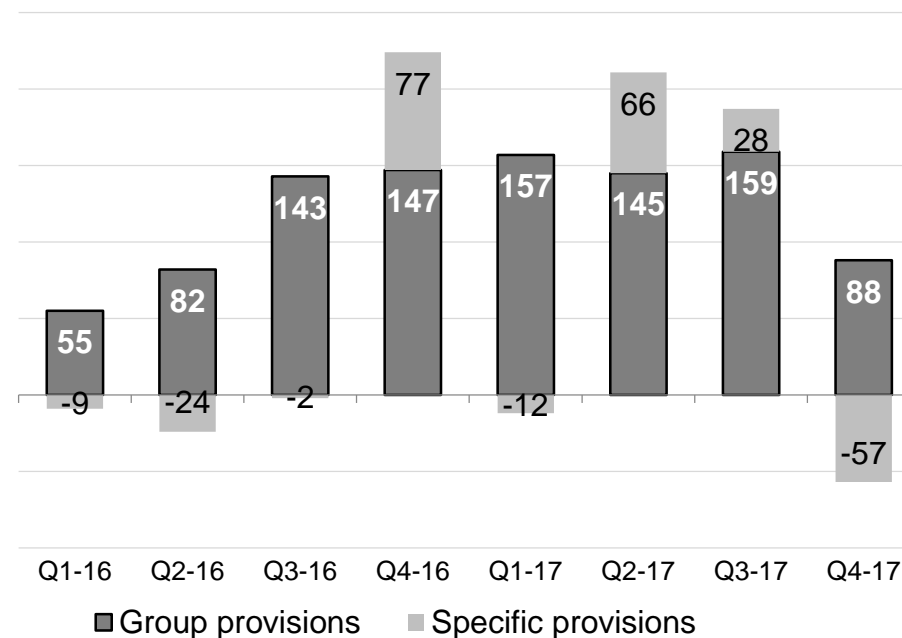


Credit Loss Expenses

Credit loss expenses (NIS m) and credit loss expenses ratio

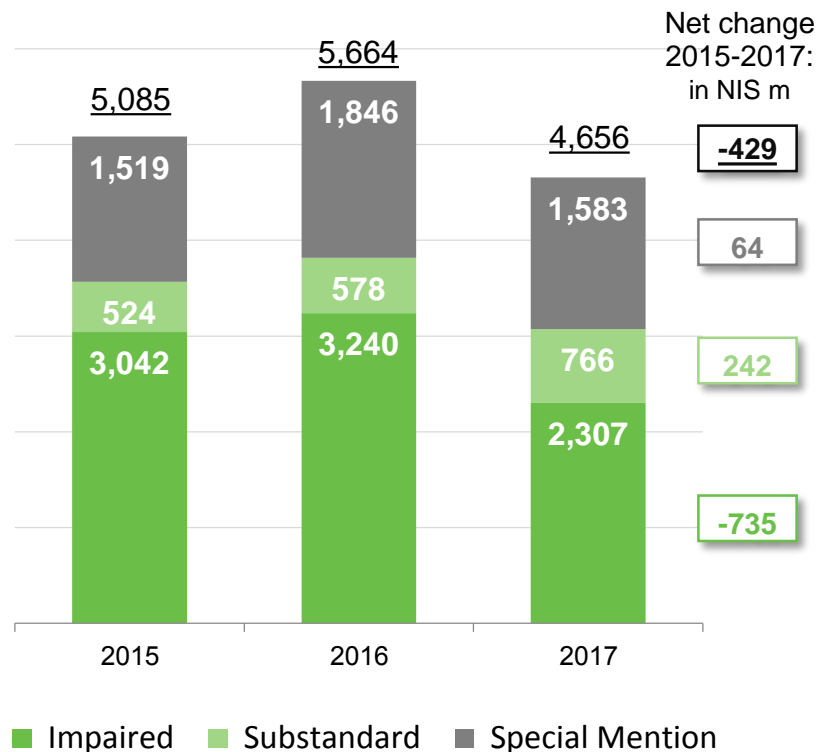


Group and specific provision (NIS m)

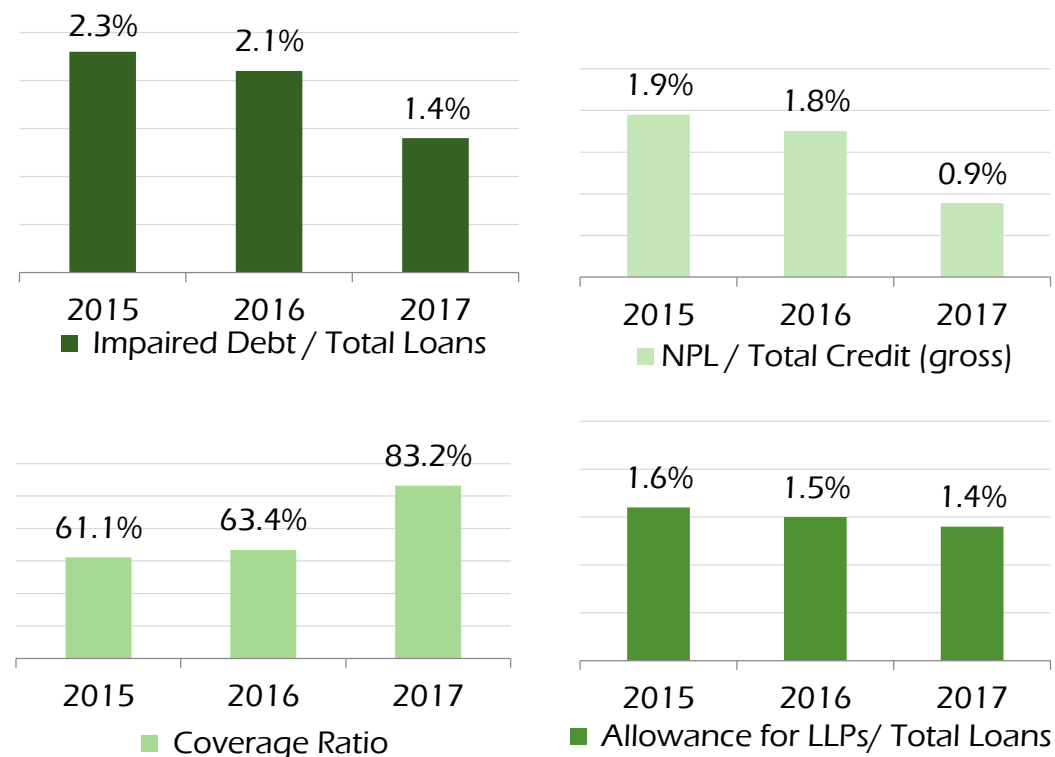


Credit Quality Continues to Improve

Credit risk by classification (NIS Bn)



Credit quality indicators



*Coverage Ratio - Allowance for credit losses\ (Impaired credit + Non-impaired credit in arrears for 90 days and over)

Conclusion



Lilach Asher Topilsky, CEO



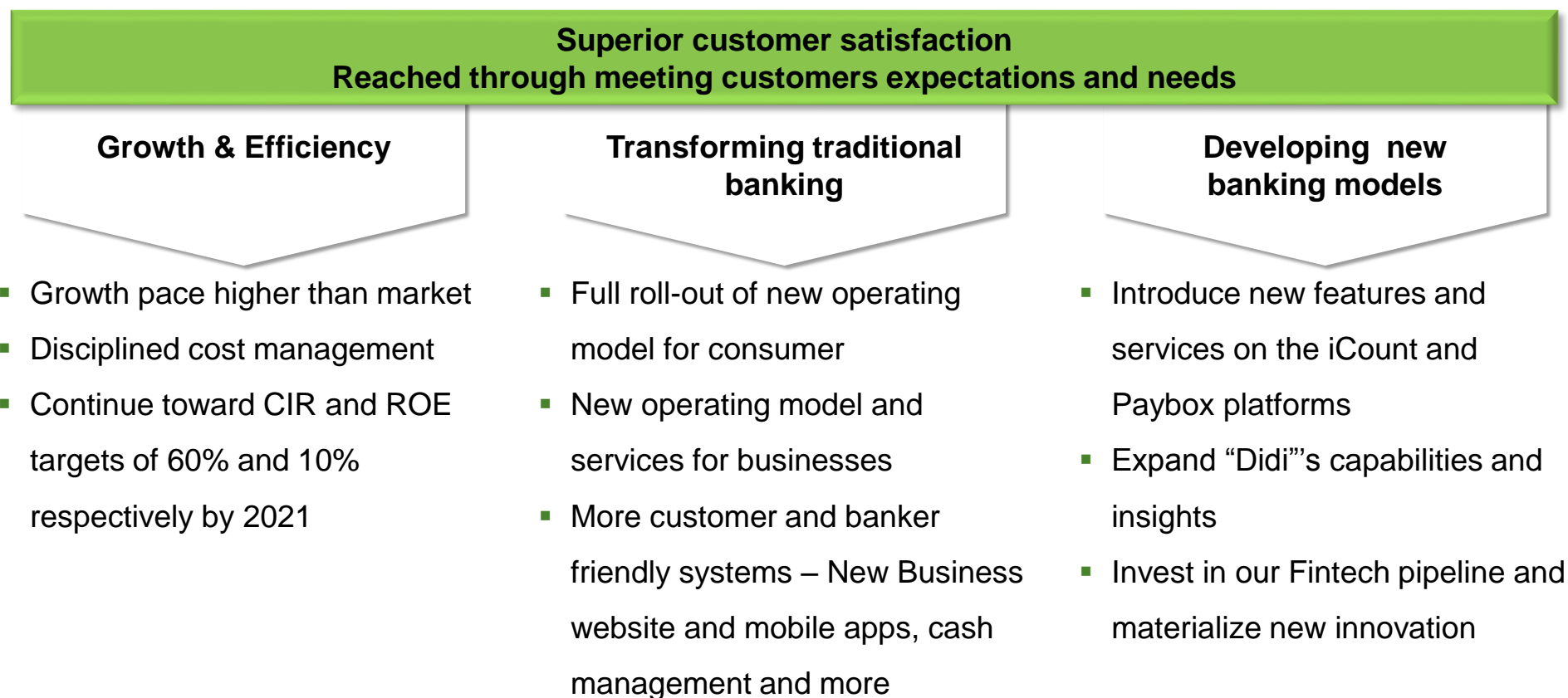
Pillars of Our 5-Year Strategic Plan

The Framework of Our Program



Technology and Innovation Continue to Lead the Way

Main Focus Areas for 2018



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