



Q1-2014

Investor Presentation

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Executive Summary



- **Challenging Q1** in which interest rate continued to decline, CPI was negative, and FAS91 directive was implemented. These external influences, coupled with a labor dispute and a change in the accounting presentation of FIBI's shares, reduced our Net Interest Income and Net Income.
- **Total Assets stayed almost flat**, resulted from RWA restraint in order to achieve our capital target and from low demand for corporate credit.
- **Total Deposits decreased by c-1%**, mainly due to management decision to temporarily reduce the amount of super jumbo deposits.



- **Met Capital Adequacy milestones ahead of plan**, and presented Basel III CT-1 ratio of 9.1%, which is higher than BOI target.
- **Continued improvement in Asset Quality**, reflected in substantial decrease in Loan Loss Provision (LLP ratio), in line with the sector average.
- **Our subsidiaries continued to grow**, had a meaningful contribution to the group's Net Income.
- **Finalizing our Strategic Plan**, which will focus on cost reduction program and retail growth. Will be presented in August.

Capital Ratios and Risk Weighted Assets (NIS m)

Current CT-1 of 9.1% (Basel 3). Meeting CT-1 milestones will allow retail growth in 2014



RWA



RWA

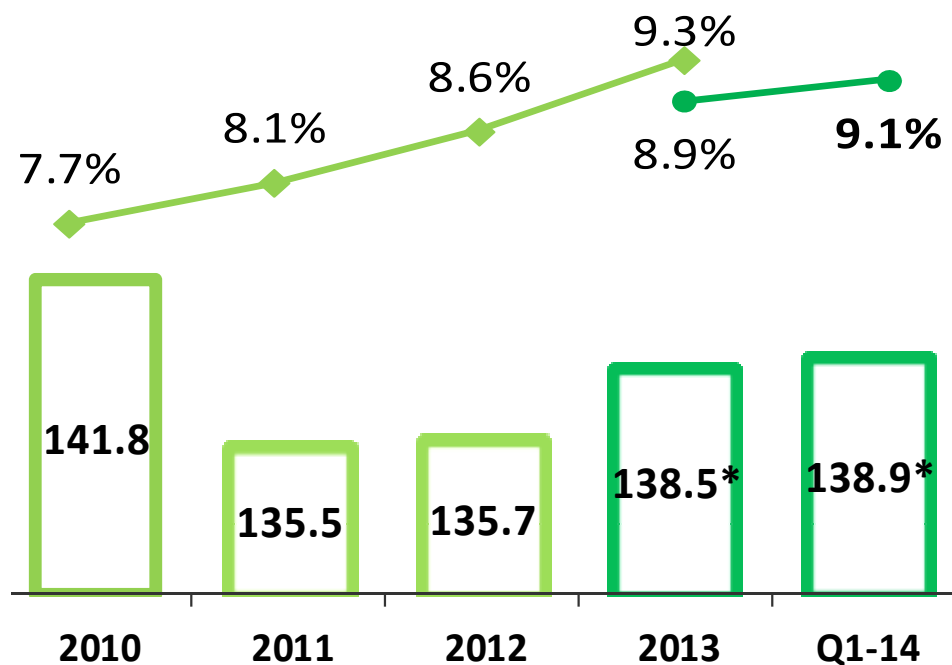


CT-1 Basel 3



CT-1 Basel 2

The Bank's plan is to achieve a target of 9.3%-9.4% Core Tier 1 by the end of 2014, in order to maintain a cushion for unexpected events.



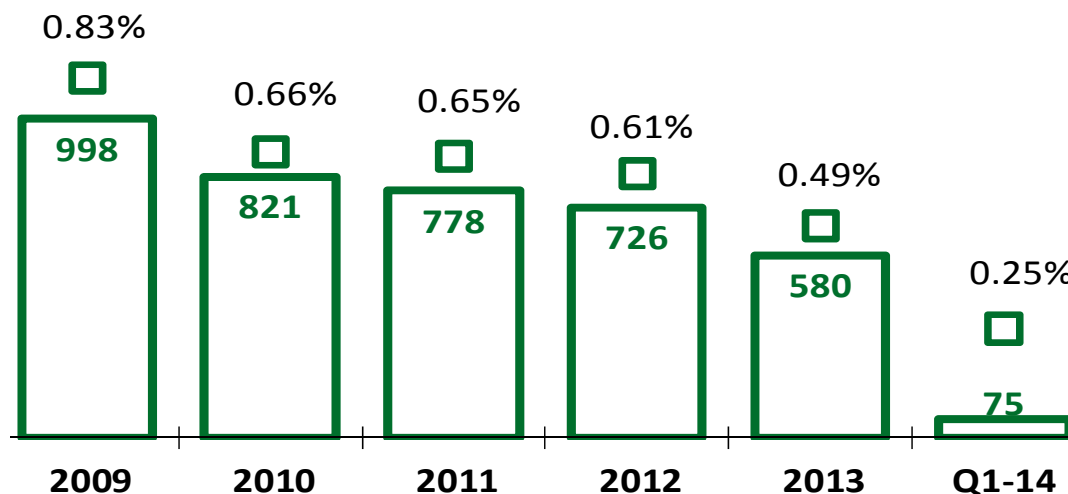
* The growth in RWA in Q1-14, is due to the transition to Basel III regime.

Asset Quality (NIS m)

Continuous reduction in LLP ; LLP/total credit ratio aligned with sector average

Loan Loss Provisions

- Provision
- LLP/ Total Credit



All credit quality indicators present an improvement

Key Indicators	2011	2012	2013	Q1-2014
Impaired Debt / Total Loans	4.7%	4.5%	3.3%	3.1%
NPL Coverage Ratio	35.2%	38.3%	55.4%	58.6%
Allowance for LLP's/ Total Loans	1.66%	1.74%	1.80%	1.80%

Asset Quality (NIS m)

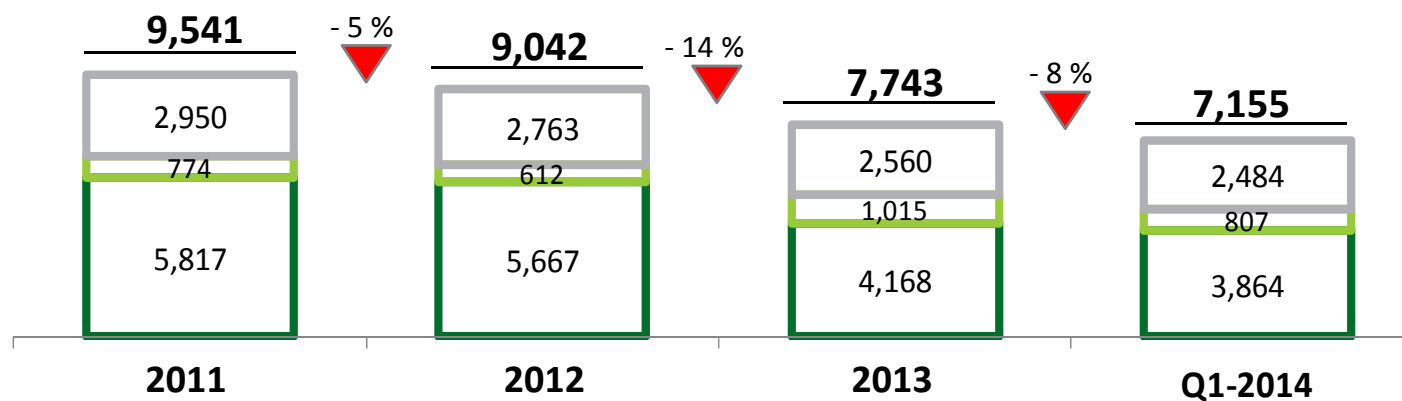
Long-Term Favorable Trends in Problematic Debt

Problematic Credit Risk

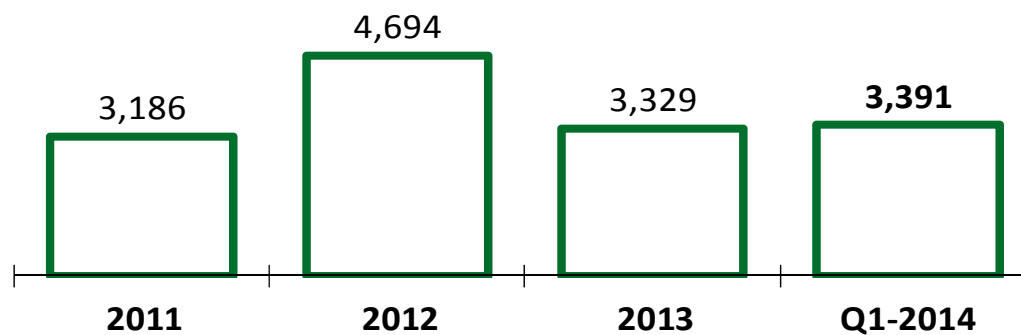
□ Special Mention

□ Substandard

□ Impaired



Total Non Performing Assets





Q1-14 Results



Key Metrics & Ratios for Q1 results (compared to Q4-13 & Q1-13)

	Q1-14	Q4-13	change	Q1-13	change
Net interest Income	1,018	1,071	- 4.9%	1,044	- 2.5%
Loan Loss Provisions	75	123	- 39.0%	145	- 48.3%
Non-Interest Income	807	861	- 6.3%	895	- 9.8%
commissions	631	684	- 7.7%	668	- 5.5%
Operating & Other Expenses	1,494	1,557	- 4.0%	1,472	1.5%
Net Income before Tax	256*	252	1.6%	322	-20.5%
Net Income	165	72	129.2%	263	- 37.3%

*Disregarding FAS91, Net Income before Tax was NIS 279 m.

Total Assets	198.0	200.5	- 1.3%	200.1	- 1.1%
Credit to the Public, Net	115.9	115.9	0	116.2	- 0.2%
Net Deposits from the Public	147.8	148.9	-0.8%	151.9	- 2.7%

	Q1-14	Q4-13	Q1-13
ROE	5.4%	2.4%	9.2%
LLP /Total Credit	0.25%	0.41%	0.49%
CT-1 (Basel III)	9.1%	8.9%	8.7%

Main Factors of Q1-14 results (compared to Q4-13)



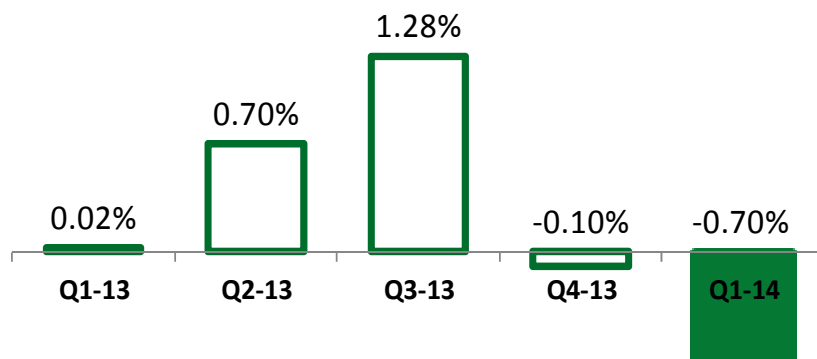
- **Met Capital Adequacy milestones ahead of plan**, and presented Basel III CT-1 ratio of 9.1%.
- **Continued improvement in Asset Quality**, reflected in substantial decrease in LLP ratio to **0.25%**, in line with the sector average.
- **Dynamic management of investment portfolio**, led to **capital gains** of NIS **105 m**.
- **Total Expenses** decreased by **4%** mostly due to a decline in Legal Costs and other expenses.
- **A provision** of NIS **158 m**, for MTM of FIBI holdings in Q4-13.



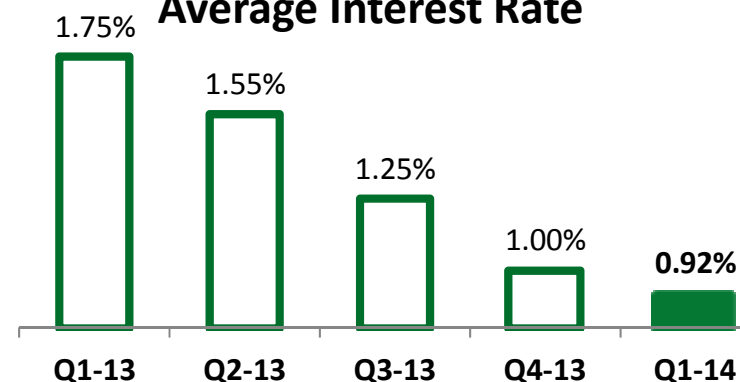
- Reduction of NIS 53 m in Net Interest Income, mainly due to **Negative CPI & low Interest rate**.
- **Implementation of FAS91** reduced Net Income by **NIS 14 m** shekels.
- **A provision** of NIS **26 m**, for MTM of FIBI holdings in Q1-14.
- **Tax benefit** in Q4-13.
- **Total Assets** decline by **c- 1%**.

Macroeconomic Factors and Expectations

Average Inflation



Average Interest Rate



10Y Government Bond Yield

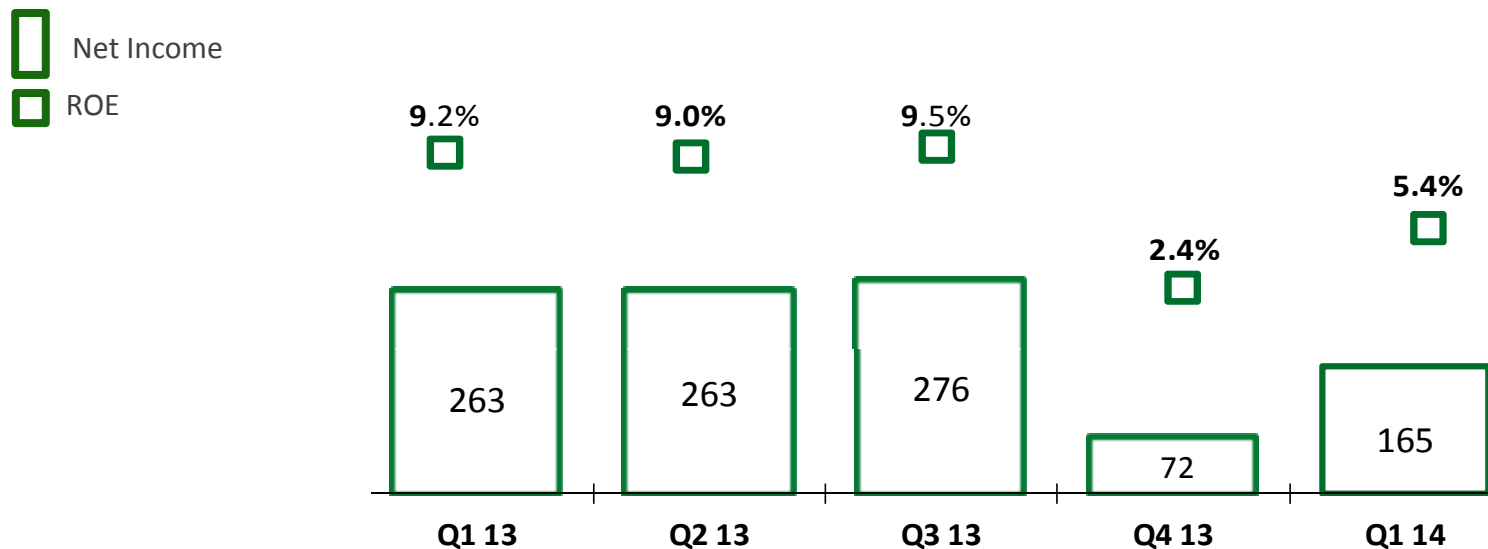


2014 outlook

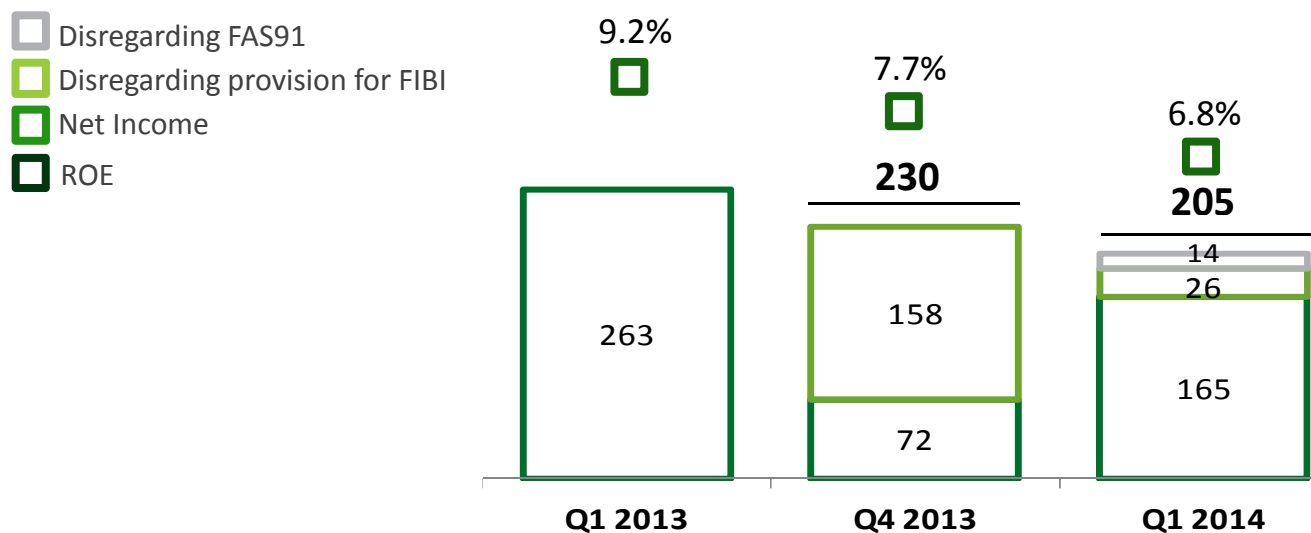
- BOI Interest Rate - average of 0.8%.
- Inflation rate – 0.8% in 2014.

Net Income & ROE (NIS m)

Net Income (compared to Q4 disregarding FIBI) decreased due to a decline in Fees



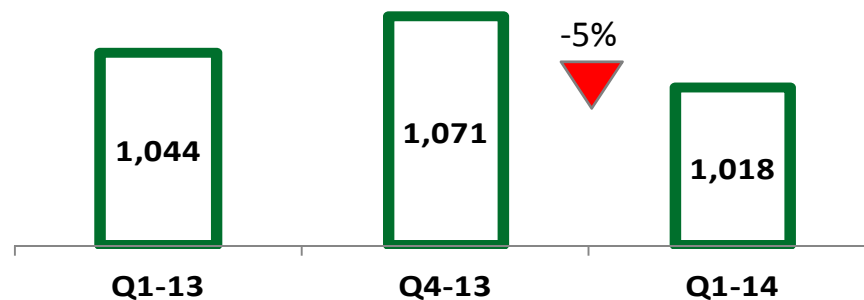
Net Income & ROE Disregarding FAS91 and FIBI (NIS m)



Net Interest Income (NIS m)

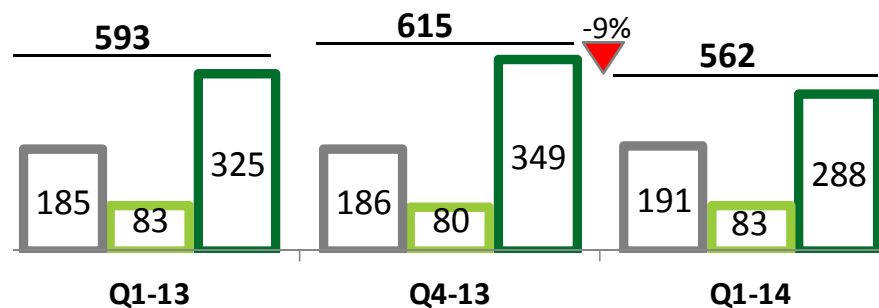
Decrease in NII resulted from the Retail and Corporate segments

Net Interest Income

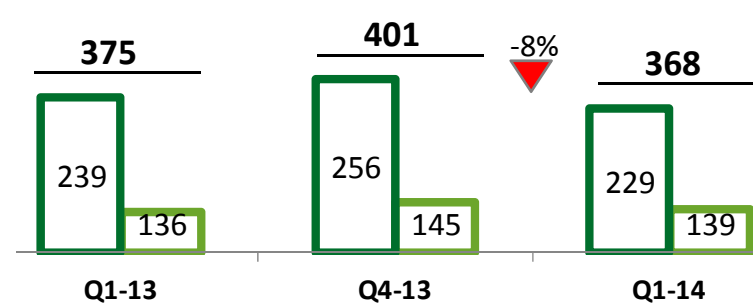


Net Interest Income by Business Sectors (NIS m)

Retail



Corporate



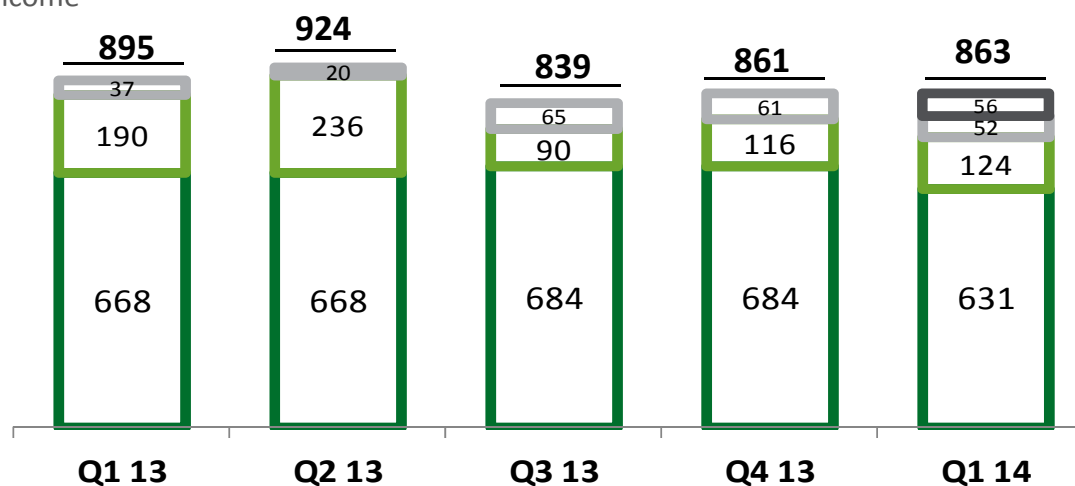
SME Private Banking Household

Corporate Commercial

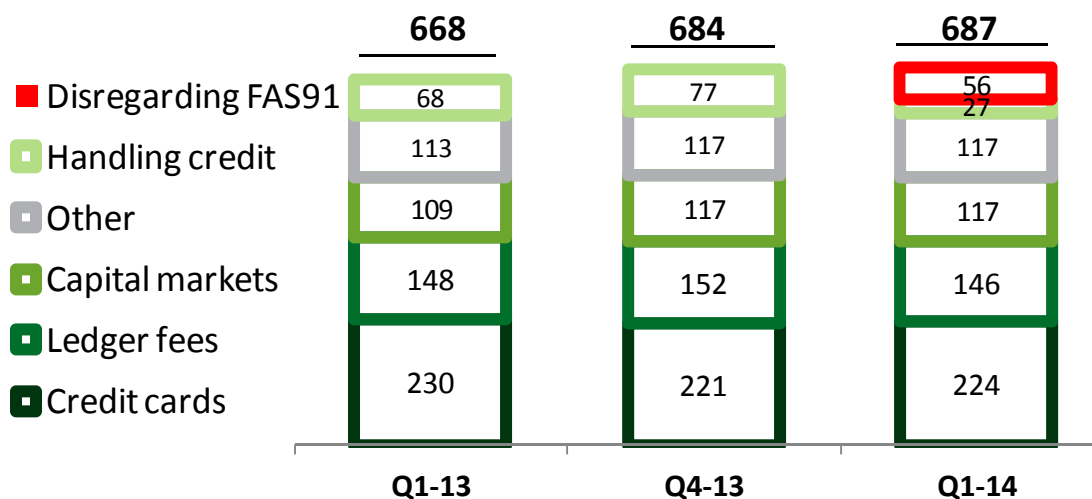
Non-Interest Income (NIS m)

Disregarding the impact of FAS91, Net Interest Income & Commissions stayed almost flat

- Disregarding FAS91
- Other (Mainly employee severance compensation fund)
- Non Interest Financing Income
- Commissions



Commissions (NIS m)

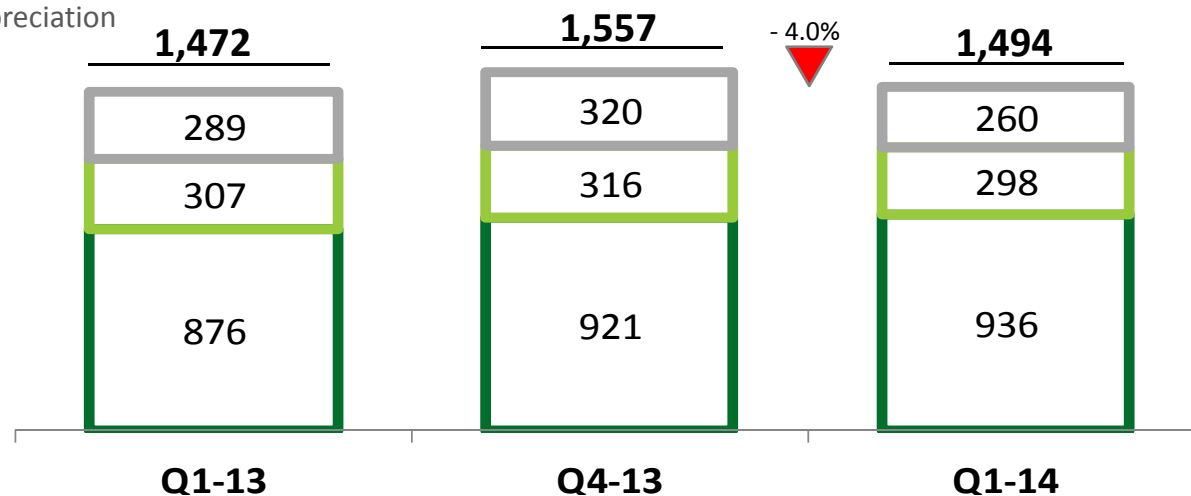


Operating & Other Expenses (NIS m)

Decreased by 4% ; Salary & Related increased by 1.6% due to wage agreement for 2014

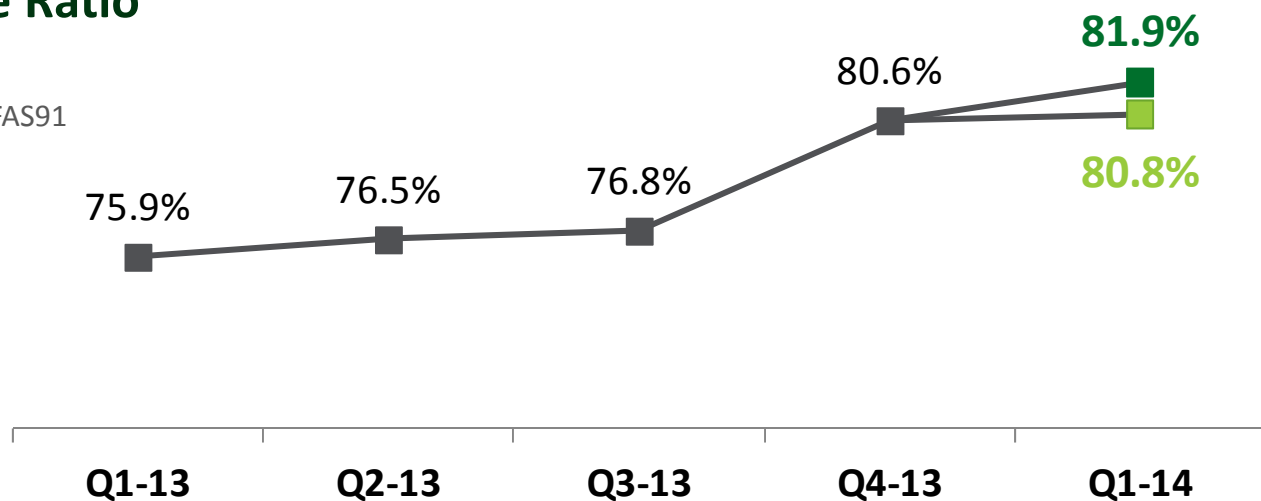
Total Expenses

- Salary & Related
- Maintenance & Depreciation
- Other



Cost / Income Ratio

- CIR
- CIR Disregarding FAS91

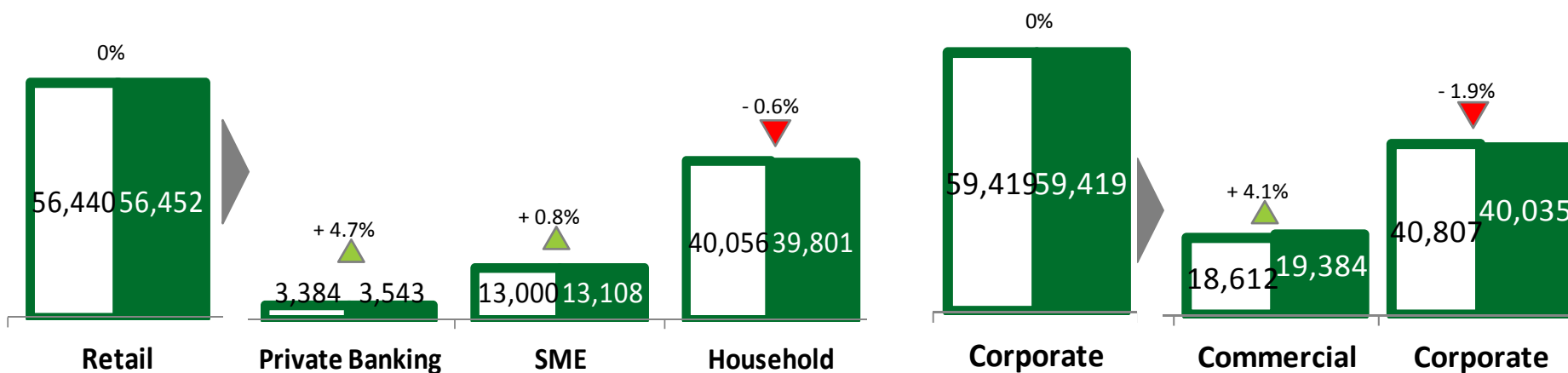


Loans & Deposits (NIS m)

Loan / Deposit Ratio - 78% ; Total loans stayed flat ; Return to growth in 2014

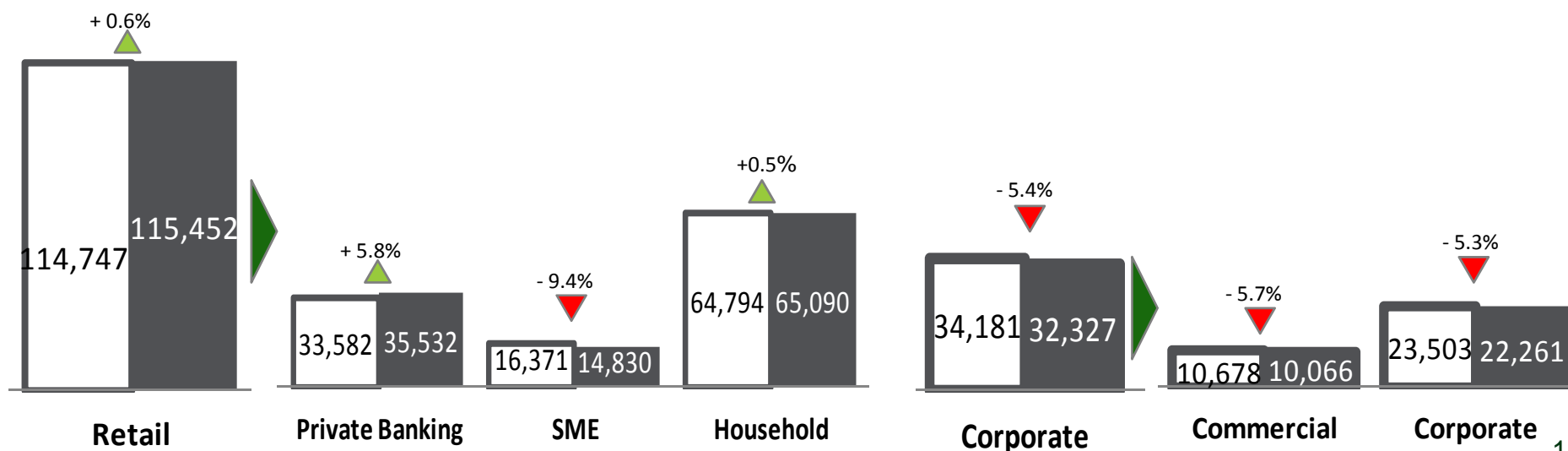
Net Loans

31.12.13 31.03.14



Net Deposits

31.12.13 31.03.14



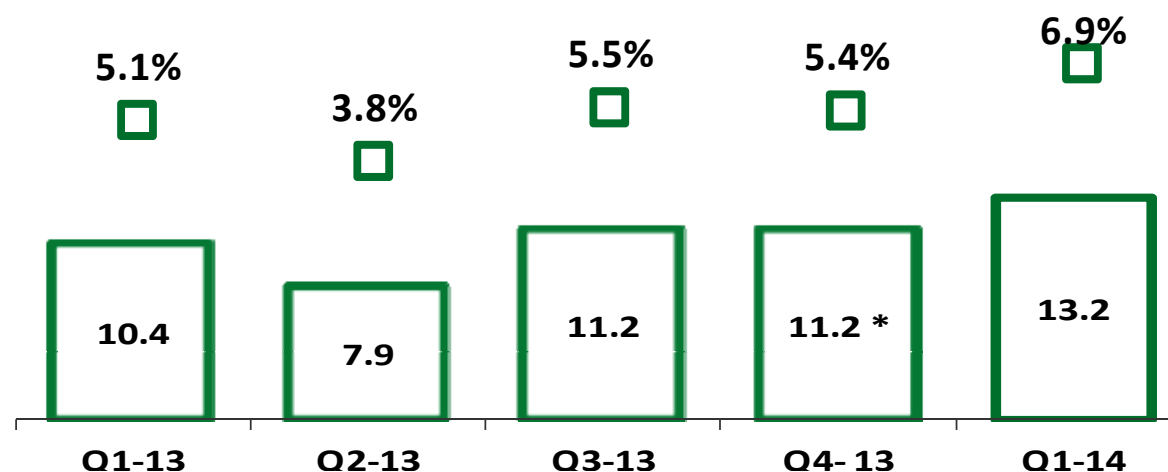


Subsidiaries



IDB New York (in m dollars)

Net Income
ROE



	Q1-14	Q4-13	change	Q1-13	change
Net interest Income	48.7	47.9	1.7%	39.3	23.9%
Loan Loss Provisions	4.5	6.0	-25.0%	2.3	95.7%
Non-Interest Income	20.6	16.8 *	-18.4%	18.9	9.0%
commissions	13.6	11.5	18.3%	12.7	7.1%
Operating & Other Expenses	46.4	44.0	5.5%	44.1	5.2%
Net Income	13.2	11.2 *	17.9%	10.4	26.9%

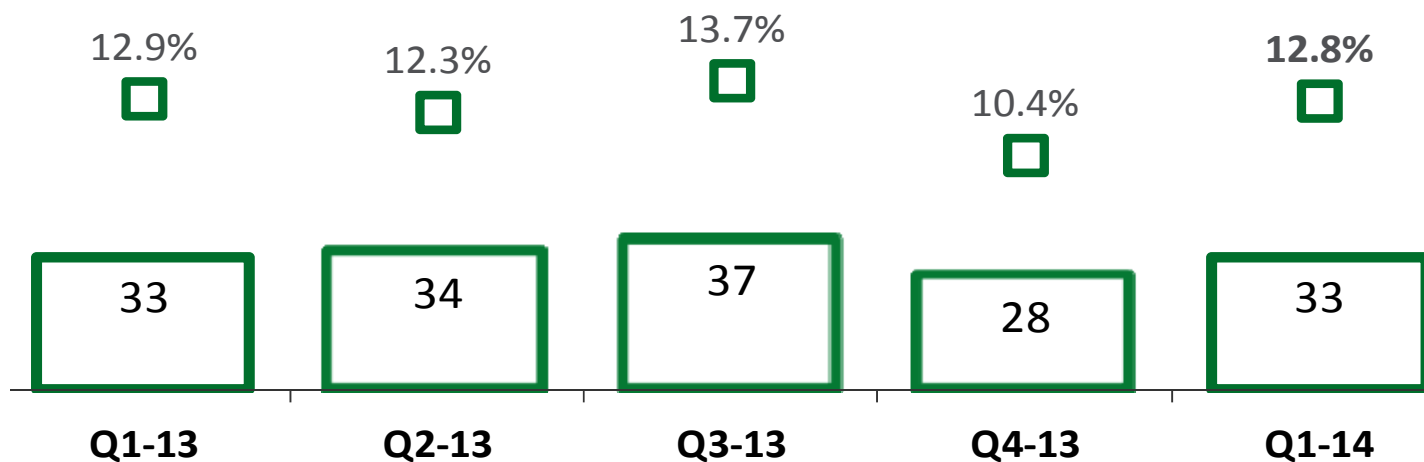
* Disregarding tax provision and the presentation at fair value of bonds in connection with the sale of DBLA

	Q1-14	Q4-13	change	Q1-13	change
Total Assets	9,743	9,604	1.5%	9,770	-0.3%
Credit to the Public, Net	4,555 ^	4,448 ^	2.4%	4,060	12.2%
Net Deposits from the Public	6,599 ^	6,474 ^	1.9%	7,363	-10.4%

^ Disregarding classification of the securities of DBLA as assets held for sale

Israel Credit Cards

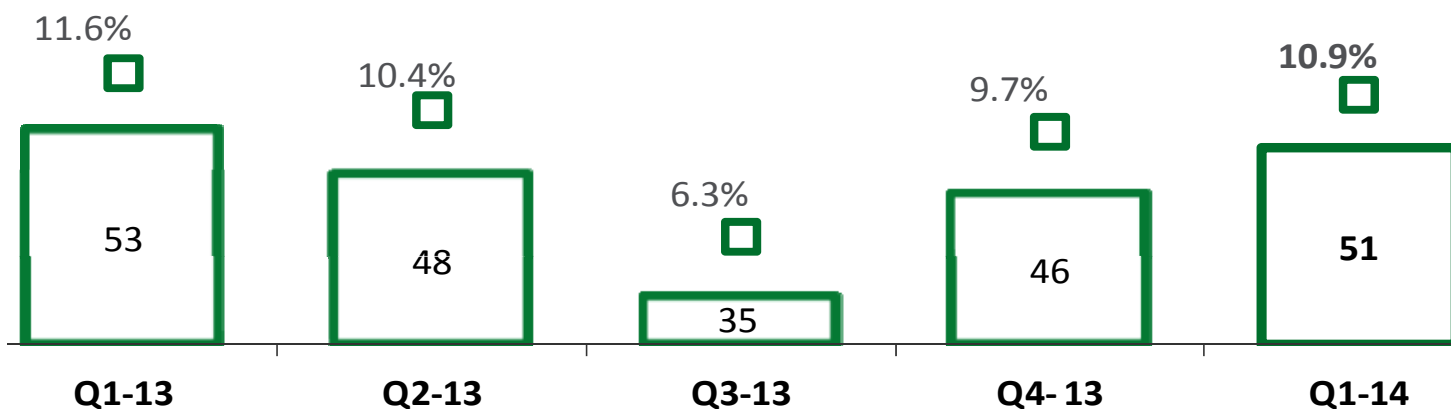
Net Income
ROE



	Q1-14	Q4-13	change	Q1-13	change
Total Income	272	277	-1.8%	276	0
Payments to Banks	52	57	-8.8%	49	0
Total Expenses	223	236	-5.5%	228	-2.2%
Net Income	33	28	17.9%	33	0
	Q1-14	Q4-13	change	Q1-13	change
Total active cards	1,746	1,722	1.4%	1,635	6.8%
Transactions turnover	14,531	14,791	-1.8%	13,619	6.7%

Mercantile Discount

Net Income
ROE



	Q1-14	Q4-13	change	Q1-13	change
Net interest Income	191	183	4.4%	177	7.9%
Loan Loss Provisions	- 14	5	-	22	-163.3%
Non-Interest Income	90	101	-10.9%	141	- 36.2%
commissions	78	101	- 22.8%	87	- 10.3%
Operating & Other Expenses	212	213	- 0.5%	211	0.5%
Net Income	51	46	17.9%	53	- 3.8%

	Q1-14	Q4-13	change	Q1-13	change
Total Assets	27,902	28,446	- 1.9%	27,695	0.7%
Credit to the Public, Net	17,987	17,792	1.1%	16,607	8.3%
Net Deposits from the Public	23,424	23,964	-2.3%	23,411	0.1%

▪ Incorporated in 1935

- Market Capitalization NIS 6.7 bln (as of 31.03.2014)
- Asset Size NIS 198 bln (as of 31.3.2014)

▪ Branches in Israel

- Discount Bank : 147 Branches
- Mercantile Discount Bank: 79 branches

- **Major Business Lines-** Retail , Corporate, Financial Management, Capital Markets and Private Banking.

- **Key overseas operations in U.S., Switzerland and London** with Representative Offices in Latin America

Main Shareholders

85.47%

Public Float

14.53%

Former Controlling Shareholders

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For further details see the Forward Looking Information section in the Bank's Financial Statements.

A green pushpin is pinned to the top center of a piece of white lined paper. The paper contains investor information for Israel Discount Bank.

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