

An increase of 16.8% in net profit for 2016 to NIS 521 million

Return on equity: 7.2%

An increase of 11% in net interest income

to NIS 2,169 million

**A decrease of 3.6% in the current operating and other expenses
and improvement in the efficiency ratio**

An increase of 7.7% in the average balance of credit to the public

Credit to the public at December 2016 amounted to NIS 77,328 million

Ratio of Tier I equity capital to risk assets: 10.09%

Ratio of comprehensive capital to risk assets: 13.79%

An increase of 3.5% in equity attributed to shareholders

To NIS 7,321 million

The Board of Directors resolved to distribute a dividend of NIS 70 million

Further to a dividend distribution of NIS 200 million in the fourth quarter

Profitability and growth

Net profit of the International Bank Group increased in 2016 by 16.8% amounting to NIS 521 million. **Return on equity** reached 7.2%. The growth of the Group is reflected both on the **credit** side and on the **Deposits** side, which grew by 7.7% and 6.3%, respectively (average balances). The growth of the credit portfolio is reflected in all segments of operation: a 7.4% growth in credit to the business segment and an 8.1% growth in credit to household and private banking customers. **Net interest income** grew by 11.1%, stemming, inter alia, from the growth in the credit portfolio.

Efficiency

The International Bank continues to improve efficiency, in accordance with the strategic outline and a decrease is noted in all expense items:

- **Payroll and related expenses** decreased by 2.6%, approximately NIS 45 million (with the elimination of a nonrecurring decrease of NIS 72 million last year, stemming from the implementation of the special collective labor agreement at Bank Leumi). The decrease in expense derives mostly from the decline in the number of positions in the Group.
- **Maintenance expenses and depreciation of buildings and equipment** decreased by 4.4%, NIS 19 million, stemming mainly from efficiency measures leading to a decrease of 7% in the area of properties in use by the Group, including the recently completed sale of the office premises at the Shalom Tower building, a capital gain in respect of which, in the net amount of NIS 28 million, will be recognized in the first quarter of 2017.
- **Other expenses** decreased by 3.8%, approximately NIS 20 million.

A decrease of 3.6% was recorded in total in the **operating and other expenses** (eliminating the nonrecurring effect of the Bank Leumi agreement last year), which amounted to NIS 2,683 million. The gradual and consistent improvement continued in the **efficiency ratio**, which declined to 73.5% from 77.6% last year.

Financial stability

The growth trend in **equity** attributed to shareholders continued, growing in 2016 by 3.5% to NIS 7,321 million. **The Tier I equity capital ratio** reached 10.09%, and the **comprehensive capital ratio** grew to 13.79%. The financial stability is recognized also in the ratio of deposits to credit reaching 136.8% and in the liquidity coverage ratio reaching 123%. Concurrently with the growth in credit, the Bank continues to maintain the quality of the asset portfolio and to present a decline in the troubled credit risk, which dropped in 2016 by 6.8%; the rate of **credit loss expenses** was 0.10%.

The fourth quarter of 2016

Net profit for the fourth quarter amounted to NIS 112 million, as compared with NIS 117 million in the corresponding quarter last year. Return on equity reached 6.2%. Nonrecurring items in the fourth quarter decreased net profit by NIS 29 million, comprising 1.6% in return on equity, but which are expected to contribute to the future efficiency of the Group and to the decrease in expenses: the Bank has completed the strategic focusing process in the domestic arena and has signed an agreement for the sale of operations of FIBI Switzerland. A provision of NIS 18 million for expenses connected with the sale was recognized in the fourth quarter (a net effect of NIS 11 million). The income in respect of the sale of assets and the improvement in the efficiency ratio would be recognized in 2017. In addition, a nonrecurring steep rise in income tax expenses was recognized in the net amount of NIS 18 million, resulting from the effect of the reduction in the tax rate on the balance of deferred taxes.

Ms. Smadar Barber-Tsadik CEO of the International Bank Group:

"The financial results for 2016 of the International Bank Group reflect the strategic focusing: continuing growth while maintaining proportionality of the risk level, a high financial stability and consistent and continuous improvement in efficiency of the Group.

Accordingly, the credit to the public portfolio reflects growth of approximately 8% in all segments of operation and a growth of 11% in net interest income, and this, while maintaining the quality of the credit portfolio expressed in a decline in credit risk, in the adequate distribution of credit and in the low allowance for credit losses.

A significant emphasis was directed this year to efficiency being part of the long-term strategic plan of the Bank. The results of these actions are noted in the decline in expenses, the decline in number of positions, the decline in property areas, and in improvement in the efficiency ratio. The successful merger of the Bank with UBank and PAGI Bank towards the end of 2015, led both to a decline in expenses and to an increase in activity, reflected, inter alia, in the growth in the credit portfolio of the Group.

Emphasis was directed also to the progress in the fields of innovation and digital banking, which, inter alia, include the fintech project and the cyber hotbed. The Bank established recently an innovation and digital department, which coordinates, leads and implements advanced digital innovation for all lines of customers of the Group, and is responsible for the integration of innovation processes. Innovation and digital enable the development of service while enlarging the communication channels with customers, who are able to enjoy access to the Bank from any place and at any time. Also in this arena, the International Bank focuses on its leading fields: the fields of investments and credit, in which we also apply the service and professional approach, as reflected in the Bank's "investing in you" slogan. The importance of this approach stands out particularly in periods of uncertainty and fluctuating markets, periods in which the Bank persistently innovates and offers products and services responding to customer needs"

CONDENSED PRINCIPAL FINANCIAL INFORMATION AND PRINCIPAL EXECUTION INDICES

<i>Principal financial ratios</i>	2016	2015	2014	2013	2012
					percent
<i>Execution indices</i>					
Return on equity	7.2%	6.5%	6.8%	8.4%	9.4%
Return on assets	0.4%	0.4%	0.4%	0.5%	0.5%
Ratio of equity capital tier 1	10.09%	9.81%	9.69%	9.98%	
Leverage ratio ⁽¹⁾	5.52%	5.43%			
Liquidity coverage ratio ⁽¹⁾	123%	104%			
Efficiency ratio	73.5%	77.6%	77.3%	74.3%	74.1%
<i>Credit quality indices</i>					
Ratio of provision for credit losses to credit to the public	1.08%	1.12%	1.25%	1.19%	1.22%
Ratio of impaired debts or in arrears of 90 days or more to credit to the public	1.04%	1.36%	1.50%	1.79%	2.09%
Ratio of provision for credit losses to total impaired credit to the public	147%	108%	110%	83%	75%
Ratio of net write-offs to average total credit to the public	0.09%	0.15%	0.05%	0.14%	0.25%
<i>Principal data from the statement of income at the end of the reported year</i>					
	2016	2015	2014	2013	2012
					NIS million
Net profit attributed to shareholders of the Bank	521	446	455	538	563
Interest Income, net	2,169	1,953	2,101	2,187	2,250
Expenses from credit losses	80	18	89	97	134
Total non Interest income	1,480	1,541	1,667	1,664	1,547
Of which: Fees	1,300	1,378	1,375	1,418	1,362
Total operating and other expenses	2,683	2,710	2,912	2,860	2,814
Of which: Salaries and related expenses	1,656	1,629	1,780	1,746	1,676
Primary net profit per share of NIS 0.05 par value (NIS)	5.19	4.45	4.54	5.36	5.61
<i>Principal data from the balance sheet at the end of the reported year</i>					
	2016	2015	2014	2013	2012
					NIS million
Total assets	127,907	125,476	117,807	111,025	105,569
of which: Cash and deposits with banks	29,150	30,727	29,182	26,100	22,939
Securities	15,776	16,439	12,554	10,799	9,756
Credit to the public, net	*77,328	72,555	68,931	68,680	67,853
Total liabilities	119,973	117,813	110,764	104,124	98,901
of which: Deposits from banks	755	1,565	1,469	1,335	1,385
Deposits from the public	105,817	103,262	95,155	89,122	84,365
Bonds and subordinated capital notes	5,801	5,862	4,903	5,702	5,620
Capital attributed to the shareholders of the Bank	7,321	7,073	6,797	6,673	6,459
<i>Additional data</i>					
	2016	2015	2014	2013	2012
Share price (0.01 NIS)	5,650	4,594	4,990	4,766	5,449
Dividend per share (NIS)	1.99	1.30	2.84	1.99	-
Number of positions ⁽²⁾	4,563	4,817	5,067	5,170	5,191
Ratio of fees to assets	1.0%	1.1%	1.2%	1.3%	1.3%

* Not including Credit to the public in FIBI Bank (Switzerland) in the amount of NIS 298 million, stated in the item Assets held for sale (see Note 18A to the financial statements).

(1) According to instructions of the Bank of Israel the Leverage ratio and the Liquidity coverage ratio were calculated since 2015. Therefor no comparative data is stated.

(2) The number of positions includes conversion of overtime in terms of positions.

STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31

(NIS million)

	Note	Consolidated			The Bank		
		2016	2015	2014	2016	(1)2015	(1)2014
Interest Income	2	2,526	2,260	2,664	1,873	1,521	1,798
Interest Expenses	2	357	307	563	342	283	486
Interest Income, net	2	2,169	1,953	2,101	1,531	1,238	1,312
Expenses from credit losses	13,29	80	18	89	45	11	16
Net Interest Income after expenses from credit losses		2,089	1,935	2,012	1,486	1,227	1,296
<i>Non Interest Income</i>							
Non Interest Financing income	3	115	149	230	99	*95	152
Fees	4	1,300	1,378	1,375	954	839	809
Other income	5	65	14	62	188	*193	264
Total non Interest income		1,480	1,541	1,667	1,241	1,127	1,225
<i>Operating and other expenses</i>							
Salaries and related expenses	6	1,656	1,629	1,780	1,227	1,054	1,176
Maintenance and depreciation of premises and equipment		409	428	444	299	269	276
Amortizations and impairment of intangible assets	17	116	131	139	82	86	85
Other expenses	7	502	522	549	427	416	414
Total operating and other expenses		2,683	2,710	2,912	2,035	1,825	1,951
Profit before taxes		886	766	767	692	529	570
Provision for taxes on profit	8	398	326	328	301	*213	230
Profit after taxes		488	440	439	391	316	340
The bank's share in profit of equity-basis investees, after taxes	15	72	38	35	130	*130	115
Net profit:							
Before attribution to noncontrolling interests		560	478	474	521	446	455
Attributed to noncontrolling interests		(39)	(32)	(19)	-	-	-
Attributed to shareholders of the Bank		521	446	455	521	446	455

Consolidated and The Bank	Note	2016	2015	2014
Primary profit per share attributed to the shareholders of the Bank	9			NIS
Net profit per share of NIS 0.05 par value		5.19	4.45	4.54

* Reclassified. See note 15A.

(1) See note 15E regarding to merging Ubank and Pagi with and into the Bank.

The notes to the financial statements are an integral part thereof.

Irit Izakson
Chairperson of the Board of Directors


Smadar Barber-Tsadik
Chief Executive Officer


Nachman Nitzan
Executive Vice President,
Chief Accountant

Tel-Aviv, 15 March, 2017

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31

(NIS million)

	<i>Consolidated</i>		
	<i>2016</i>	<i>2015</i>	<i>2014</i>
Net profit before attribution to noncontrolling interests	560	478	474
Net profit attributed to noncontrolling interests	(39)	(32)	(19)
Net profit attributed to the shareholders of the Bank	521	446	455
Other comprehensive income (loss) before taxes:			
Adjustments of available for sale securities to fair value, net	14	(75)	(40)
Adjustments from translation of financial statements ⁽¹⁾ net after the effect of hedges ⁽²⁾	(3)	-	(1)
Adjustments of liabilities in respect of employee benefits ⁽³⁾	(131)	11	(35)
Other comprehensive loss before taxes	(120)	(64)	(76)
Related tax effect	38	24	29
Other comprehensive loss before attribution to noncontrolling interests, after taxes	(82)	(40)	(47)
Less other comprehensive loss attributed to noncontrolling interests	(10)	(2)	(1)
Other comprehensive loss attributed to the shareholders of the Bank, after taxes	(72)	(38)	(46)
Comprehensive income before attribution to noncontrolling interests	478	438	427
Comprehensive income attributed to noncontrolling interests	(29)	(30)	(18)
Comprehensive income attributed to the shareholders of the Bank	449	408	409

(1) Adjustments from translation of financial statements of foreign operations which their currency of operations is different from the currency of operation of the Bank.

(2) Hedges-gains (losses) regarding the hedging of investment in foreign currency.

(3) Mostly reflects adjustments in respect of actuarial assessments as of the end of the period regarding defined benefits pension plans, of amounts recorded in the past in other comprehensive profit.

The notes to the financial statements are an integral part thereof.

BALANCE SHEET AS AT DECEMBER 31

(NIS million)

	Note	Consolidated		The Bank	
		2016	2015	2016	2015 ⁽⁴⁾
<i>Assets</i>					
Cash and deposits with banks	11	29,150	30,727	23,332	24,916
Securities	12, 26	15,776	16,439	13,523	*13,451
Securities which were borrowed		414	353	414	353
Credit to the public	13, 29	78,175	73,379	61,746	55,075
Provision for Credit losses		(847)	(824)	(653)	(612)
Credit to the public, net		77,328	72,555	61,093	54,463
Credit to the government	14	654	669	7	-
Investments in investee companies	15	514	438	2,541	*3,007
Premises and equipment	16	1,133	1,229	1,019	*1,080
Intangible assets	17	243	272	219	207
Assets in respect of derivative instruments	27A, 27B	1,332	1,636	1,342	1,655
Other assets ⁽²⁾	18	1,020	1,158	784	*876
Assets held for sale	18A	343	-	45	-
Total assets		127,907	125,476	104,319	100,008
<i>Liabilities, temporary equity and Shareholders' Equity</i>					
Deposits from the public	19	105,817	103,262	84,403	*80,203
Deposits from banks	20	755	1,565	3,576	3,809
Deposits from the Government		570	511	296	276
Bonds and subordinated capital notes	21	5,801	5,862	4,019	3,841
Liabilities in respect of derivative instruments	27A, 27B	1,356	1,659	1,356	1,654
Other liabilities ⁽¹⁾⁽³⁾	22	4,929	4,954	3,018	*2,826
Liabilities held for sale	18A	745	-	-	-
Total liabilities		119,973	117,813	96,668	92,609
Temporary equity - noncontrolling interests		330	326	330	326
Capital attributed to the shareholders of the Bank		7,321	7,073	7,321	7,073
Noncontrolling interests		283	264	-	-
Total equity		7,604	7,337	7,321	7,073
Total liabilities, temporary equity and shareholders' equity		127,907	125,476	104,319	100,008

* Reclassified. See note 15A.

- (1) Of which: provisions for credit losses in respect of off-balance sheet credit instruments in the amount of NIS 71 million and NIS 85 million (consolidated) and NIS 62 million and NIS 71 million (the Bank) as of December 31, 2016 and 2015, respectively.
- (2) Of which: other assets measured at fair value in the amount of NIS 238 million consolidated and the Bank (31.12.15 - NIS 317 million consolidated and the Bank).
- (3) Of which: other liabilities measured at fair value in the amount of NIS 491 million consolidated and the Bank (31.12.15 - NIS 495 million consolidated and the Bank).
- (4) See note 15E regarding to merging Pagi with and into the Bank.

The notes to the financial statements are an integral part thereof.

STATEMENT OF CHANGES IN EQUITY

(NIS million)

	Share capital and premium (1)	Accumulated other comprehensiv e loss	Retained earnings (2)	Total share- holders' equity	Non- controli ng interests	Total equity
Balance as at January 1, 2014	927	(21)	5,767	6,673	228	6,901
<i>Changes during 2014</i>						
Net profit for the year	-	-	455	455	19	474
Dividend	-	-	(285)	(285)	-	(285)
Other comprehensive loss, after tax effect	-	(46)	-	(46)	(1)	(47)
Balance as at December 31, 2014	927	(67)	5,937	6,797	246	7,043
<i>Changes during 2015</i>						
Net profit for the year	-	-	446	446	18	464
Dividend	-	-	(130)	(130)	-	(130)
Other comprehensive loss, after tax effect	-	(38)	-	(38)	-	(38)
Temporary equity - noncontrolling interest	-	-	(2)	(2)	-	(2)
Balance as at December 31, 2015	927	(105)	6,251	7,073	264	7,337
<i>Changes during 2016</i>						
Net profit for the year	-	-	521	521	21	542
Dividend	-	-	(200)	(200)	-	(200)
Other comprehensive loss, after tax effect	-	(72)	-	(72)	(2)	(74)
Temporary equity - noncontrolling interest	-	-	(1)	(1)	-	(1)
Balance as at December 31, 2016	927	(177)	6,571	7,321	283	7,604

(1) Including share premium of NIS 313 million (as from 1992 onwards).

(2) Including an amount of NIS 2,391 million which can not be distributed as dividend - see note 33.

The notes to the financial statements are an integral part thereof.