



MIZRAHI TEFAHOT

Financial Statements

June 2017





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Facing new challenges and opportunities:

- **Possible acquisition and merger of Union Bank into Mizrahi Tefahot**
- **A new collective agreement 2016 - 2021**

“Mizrahi Tefahot Bank’s acquisition of Union Bank would be credit positive”*

“Union Bank is significantly weaker than Mizrahi as a brand and in terms of profitability and efficiency. The bank was loss making in 2016 and had a cost-to-income ratio (adjusted for one-offs) of around 85% during 2016, much weaker than Mizrahi’s cost-to-income ratio of 59%, the best among rated Israeli banks.

*Integrating Union bank’s employees with Mizrahi’s staff, which has a high-quality-of-service focus, will likely be difficult. Mizrahi ranks first in terms of customer satisfaction among Israeli banks. However, Mizrahi’s successful track record of merging banks into its business, such as the merger of Tefahot bank and the acquisition of a 50% stake in Bank Yahav from Bank Hapoalim, suggests the bank will likely be successful.”**

“Israel bank regulator signals support for Mizrahi – Union deal

- ***Merger would boost competition in Israel’s banking sector***
- ***Mizrahi hopes to take on Israel’s leaders in corporate lending”****

“We are for a merger between Mizrahi and Union. It will create a bank that will challenge Leumi and Hapoalim”**

* Bloomberg, August 9, 2017

** TheMarker, August 14, 2017



MOU regarding a new collective agreement

- **Synchronizing the agreement with the strategic plan – including industrial peace until end of 2021**
- **For the first time in the Israeli banking system – part of the remuneration of all employees is linked to ROE goals**
- **For the first time in the bank – creating “second generation”:**
 - **with regards to veterancy - compensation of 3% (rather than 4%) and expanding the transitional period to 7 years (rather than 5)**
 - **for call center employees a complete change in the structure of their salary base**

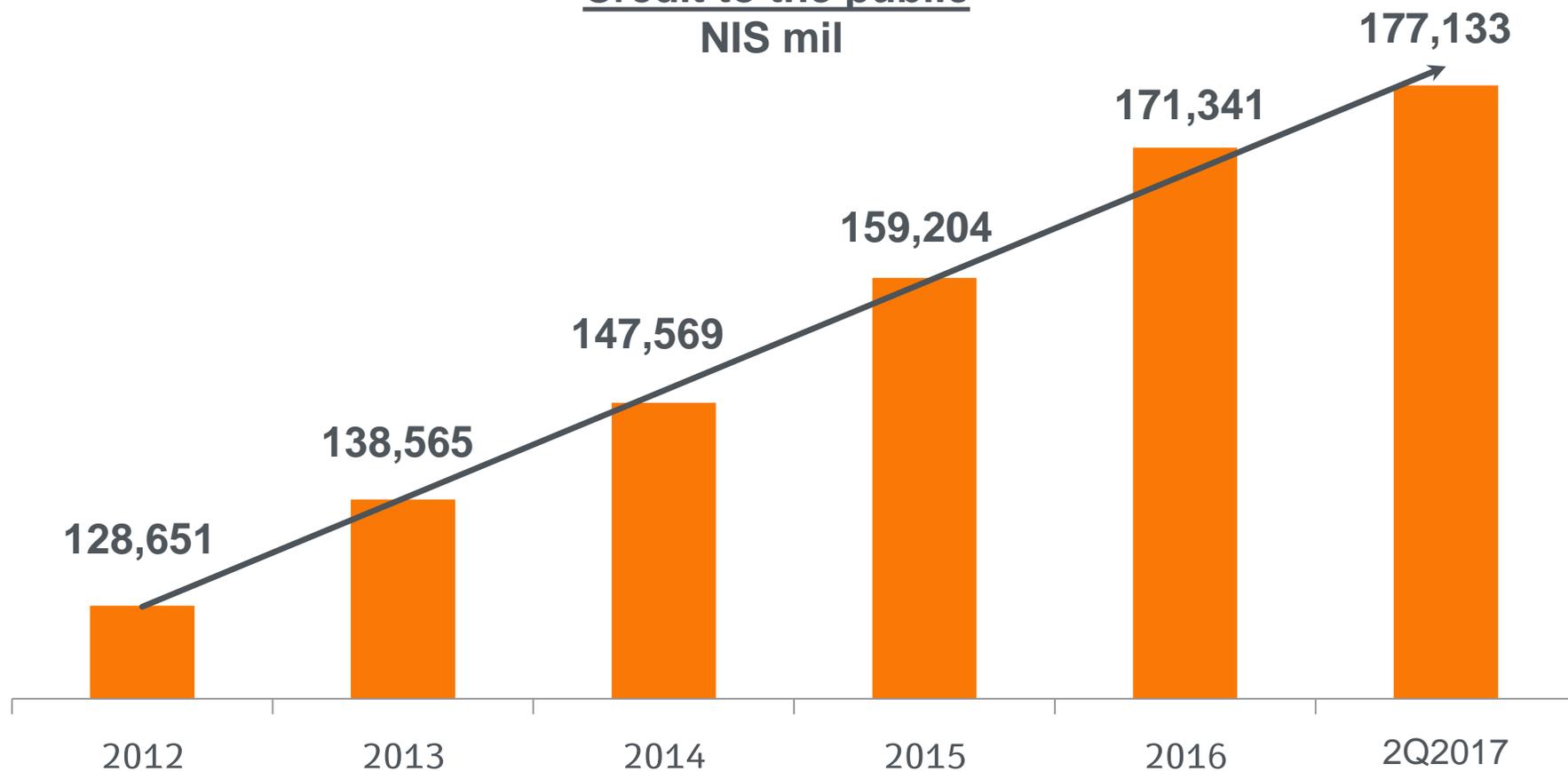


**“It is all about
G R O W T H”**



Continuous loan growth

Credit to the public
NIS mil

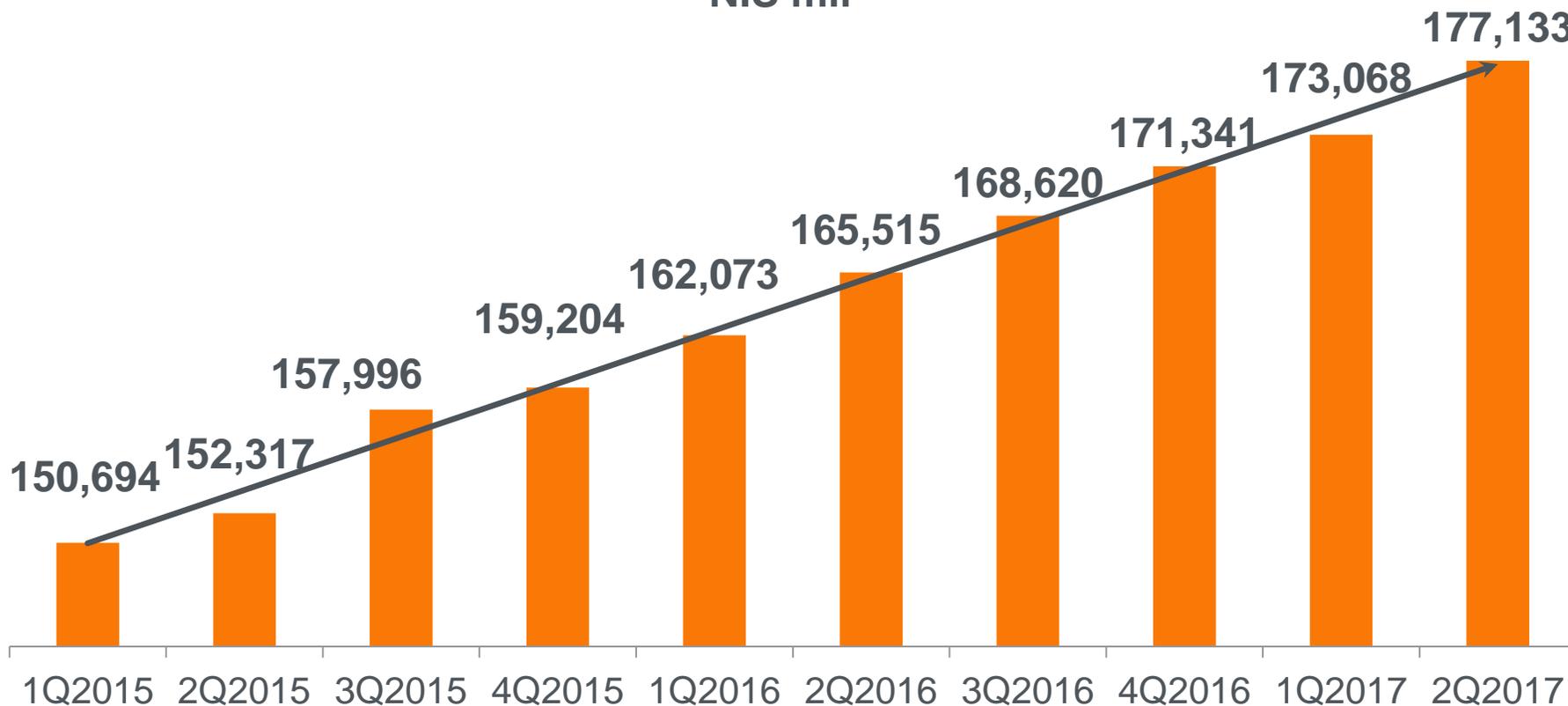


Average annual growth rate 7.4%



Continuous loan growth

Credit to the public
NIS mil





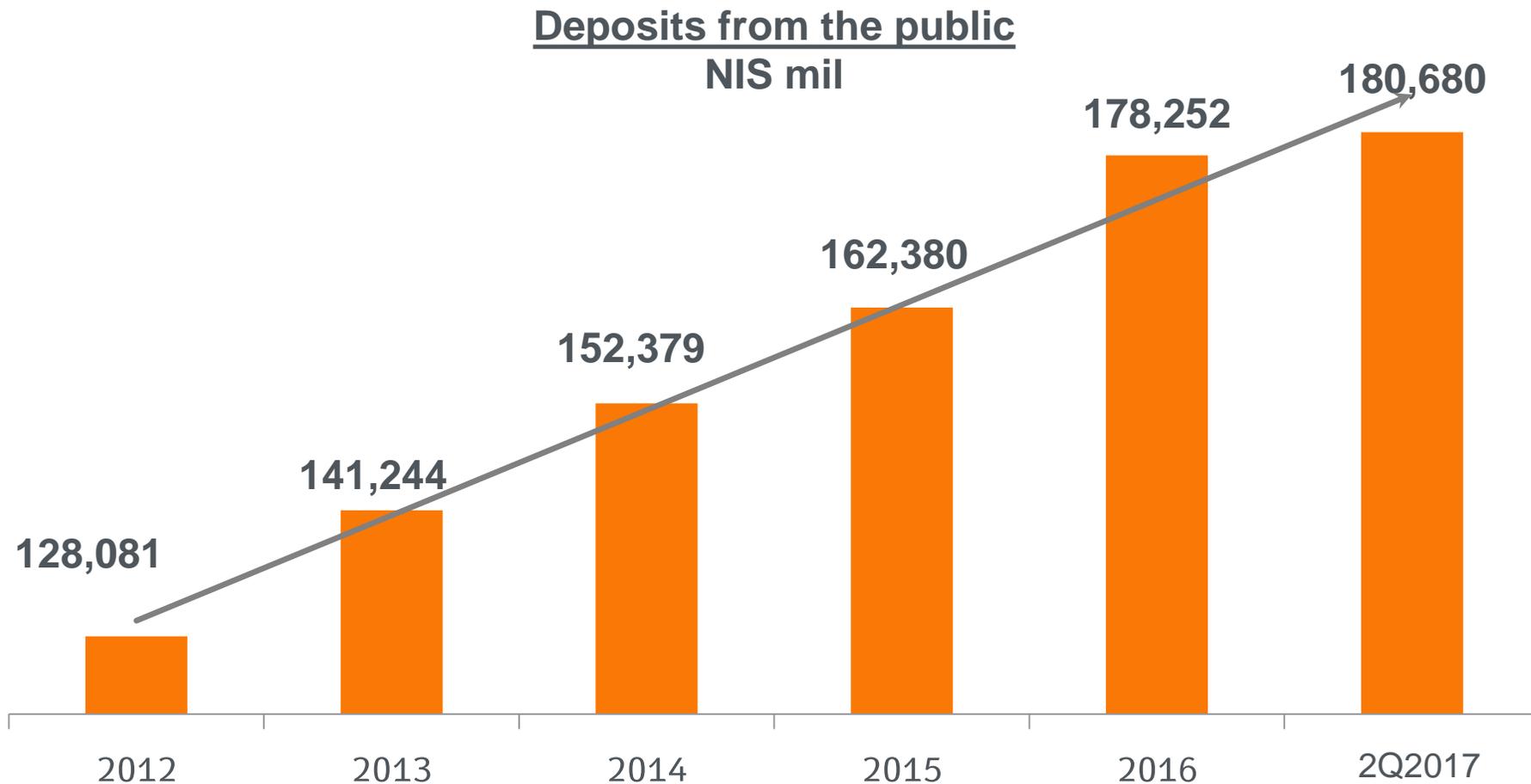
Credit growth in most segments

Double digit growth in small businesses and medium businesses for the first time

Loans to the public			
	30.6.2017	30.6.2016	% of change
Housing loans	117,585	110,007	6.9%
Households	19,797	17,533	12.9%
Private banking	88	86	2.3%
Small and micro businesses	16,169	14,551	11.1%
Medium businesses	5,615	4,720	19%
Large businesses and Institutional investors	14,714	15,350	(4.1%)
Overseas operations	3,165	3,268	(3.2%)
Total	177,133	165,515	7.0%



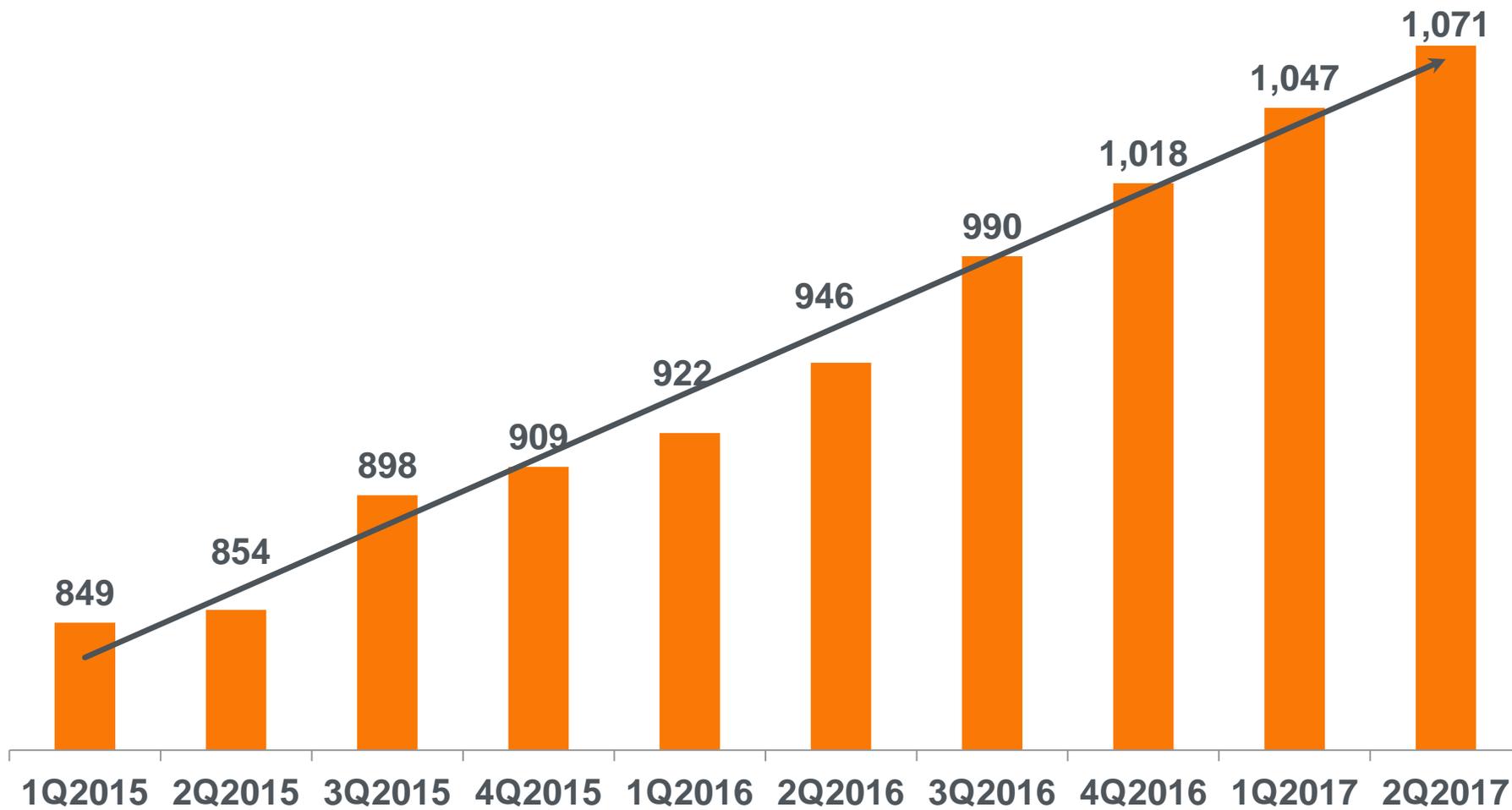
Continuous deposit growth



Average annual growth rate 8 %



Financing revenues from current operations continue to grow (NIS m)





Growth in financing revenues in all main business segments

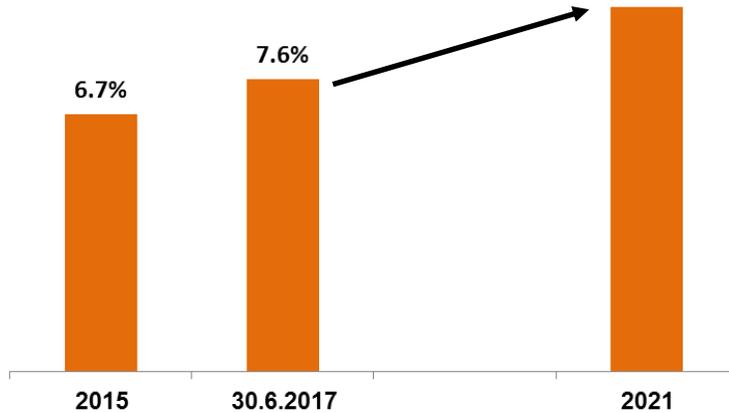
Financing revenues (NIS m)			
	Q2/2017	Q2/2016	% of change
Housing loans	318	270	17.8%
Households	300	262	14.5%
Private banking	15	14	7.1%
Small and micro businesses	215	191	12.6%
Medium businesses	54	47	14.9%
Large businesses and institutional investors	149	144	3.5%
Overseas operations	39	41	(4.9%)



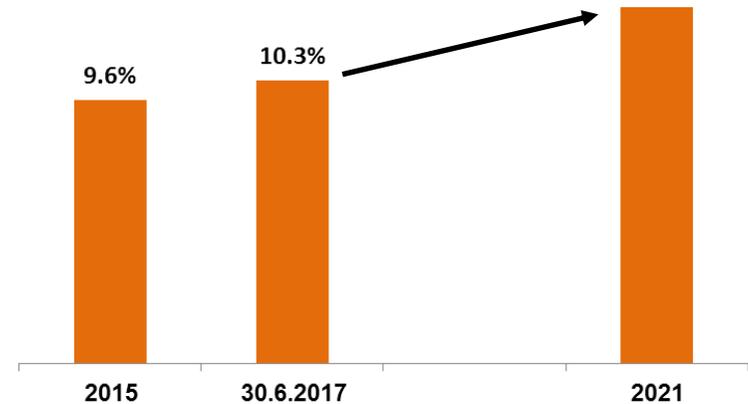
”And taking market share in relevant segments“

Market share in Israel* in business credit and deposit – growth** and targets***

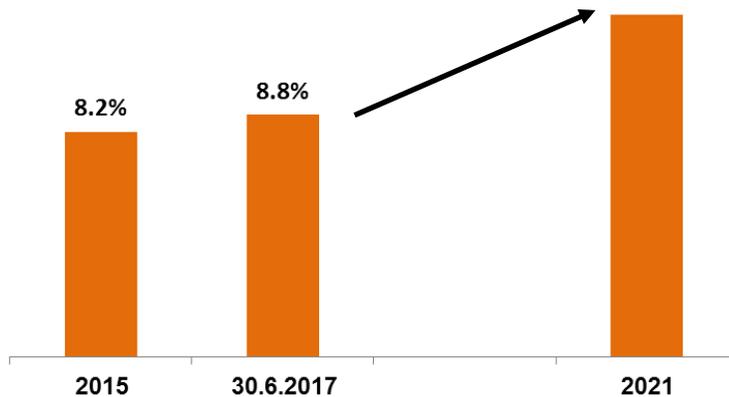
Credit to medium businesses



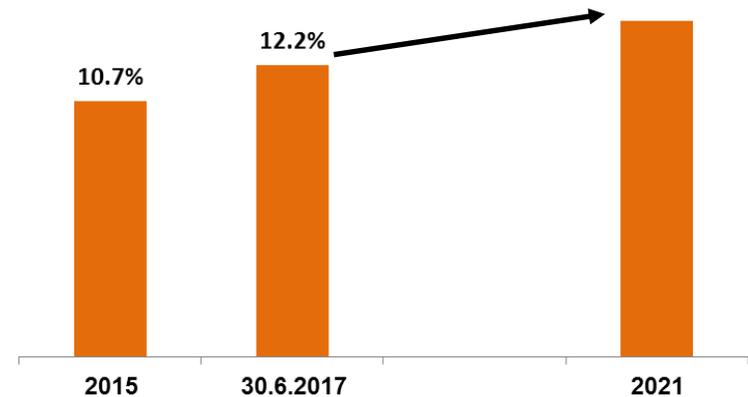
Deposits from medium businesses



Credit to small and micro businesses



Deposits from small and micro businesses

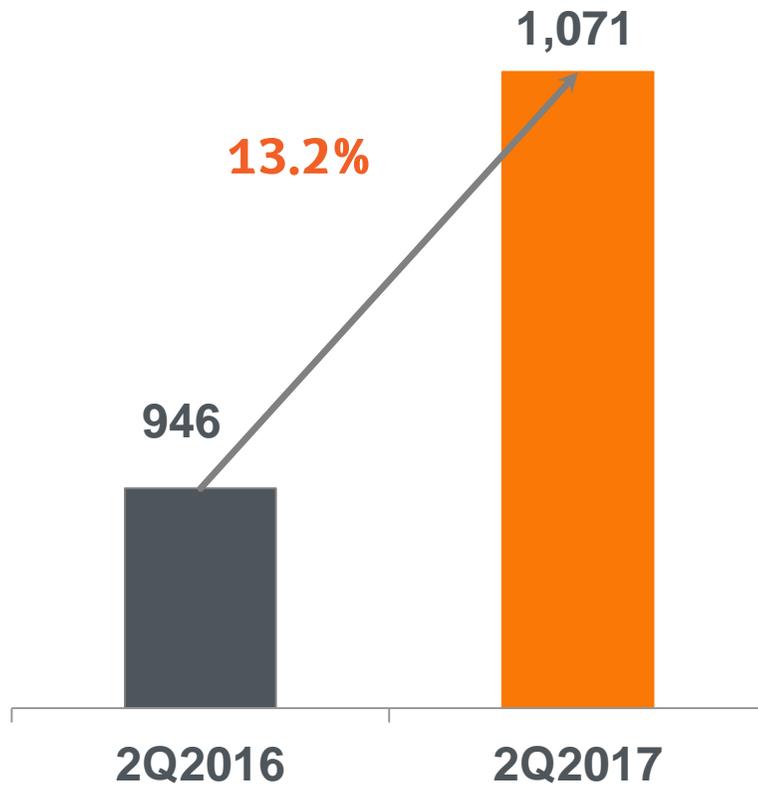


* According to supervisory operating segments, % out of 5 major banking groups

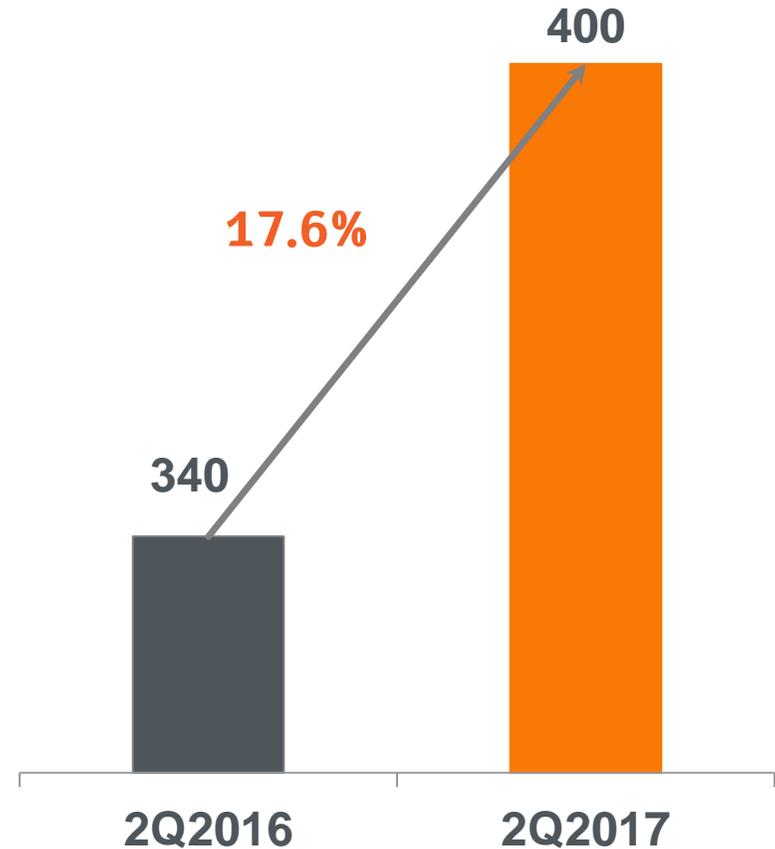
** Source: financial reports of the 5 banking groups *** In accordance with UMTB's strategic plan for 2016-2021

Increase in net profit and total financing revenues from current operations (y/y)

Total financing revenues from current operations

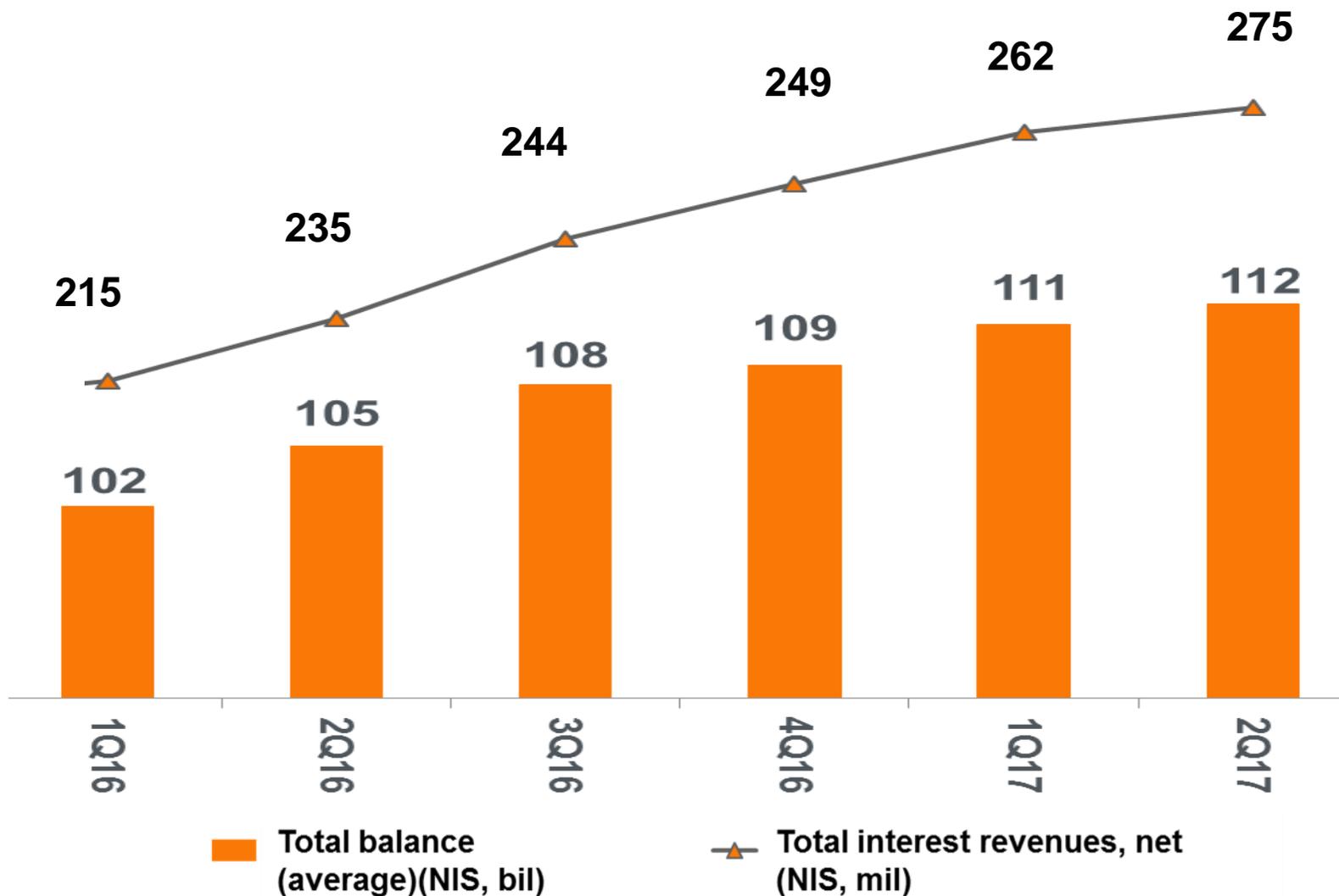


Net profit



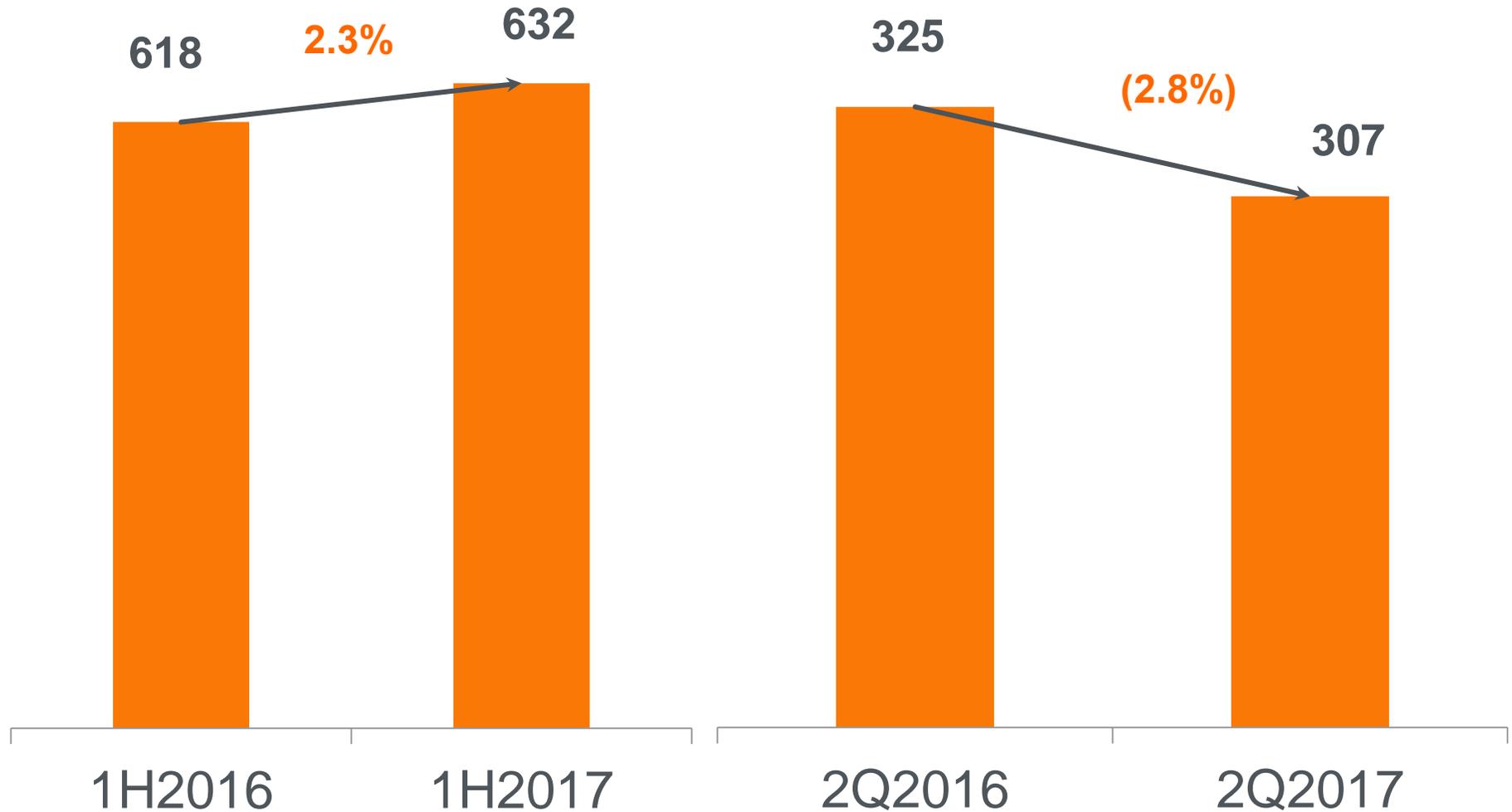


Mortgages –balance and revenues*



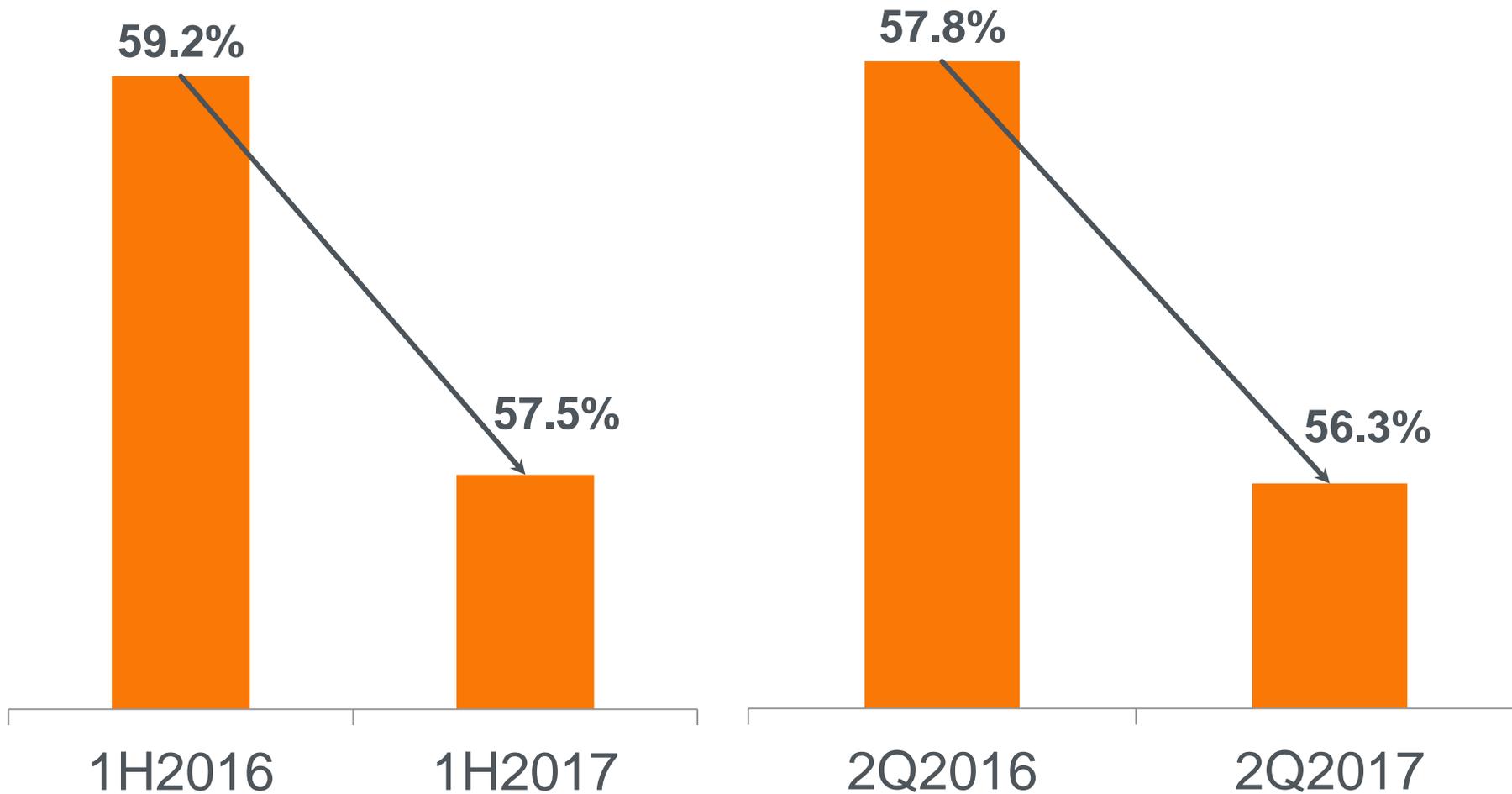
* Operating segments in conformity with management approach.
Note 12 to quarterly reports, Note 29 to annual reports

Continue to control expenses – maintenance & depreciation of buildings and equipment and other expenses



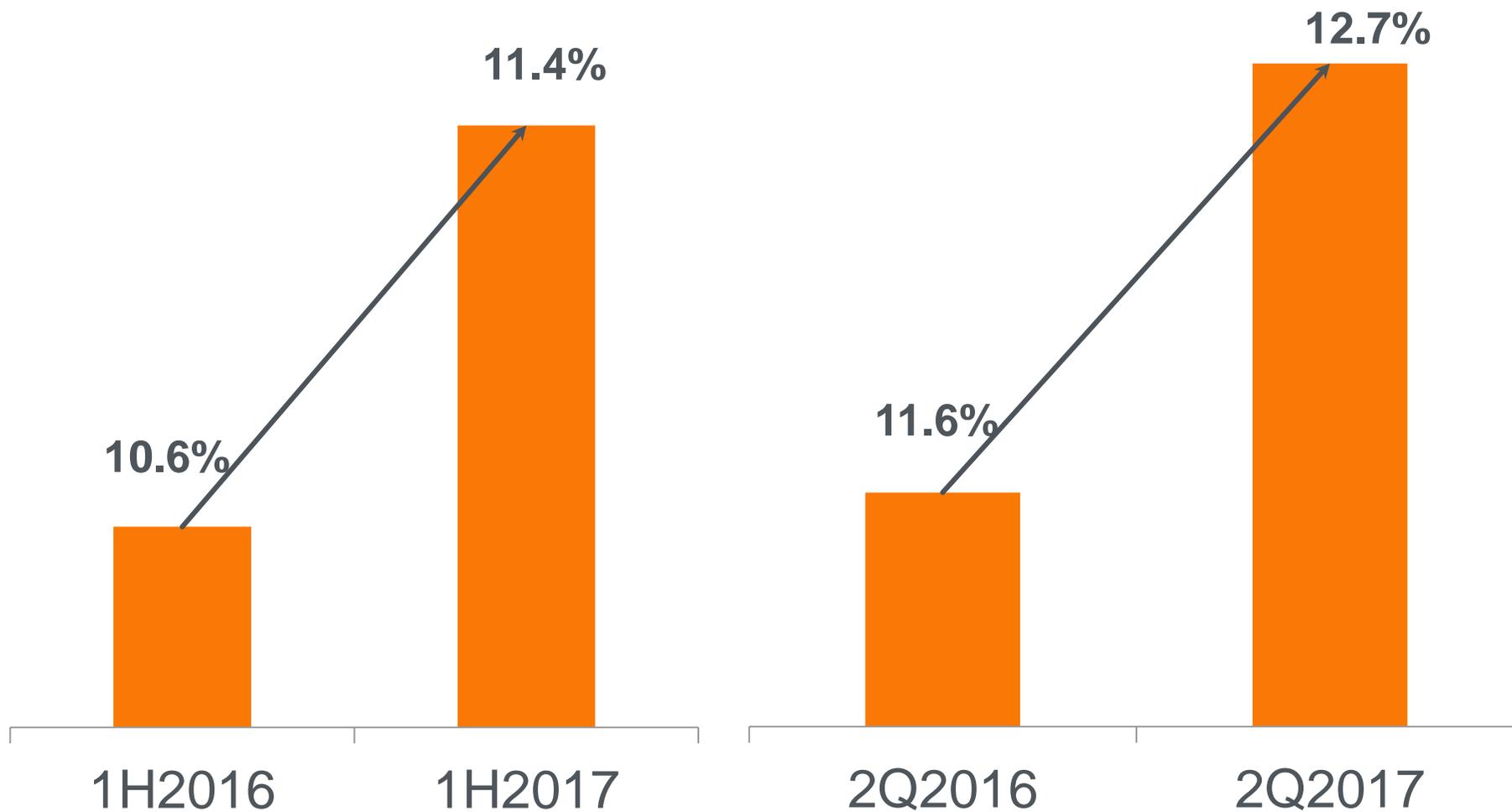


Continue to improve efficiency





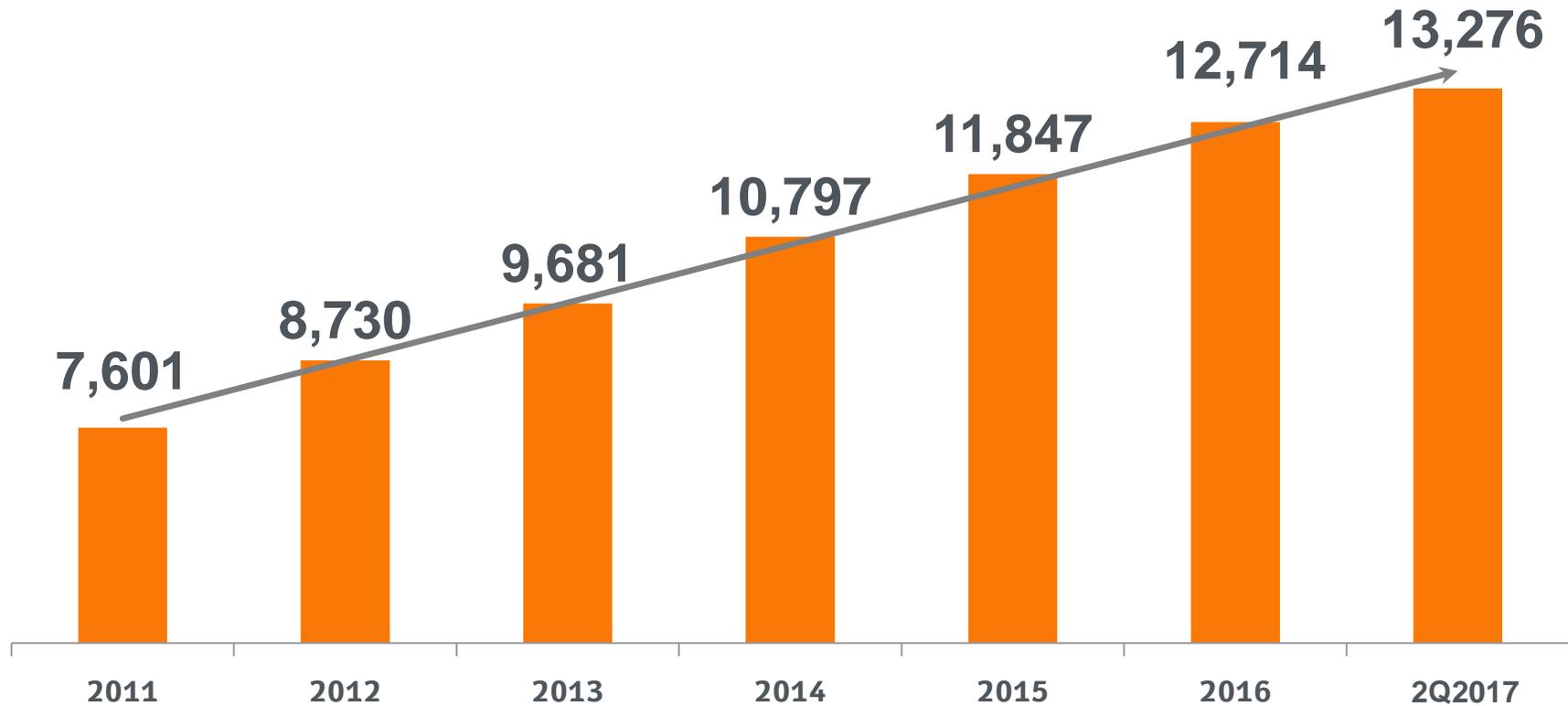
Continue to improve ROE





Increasing equity base

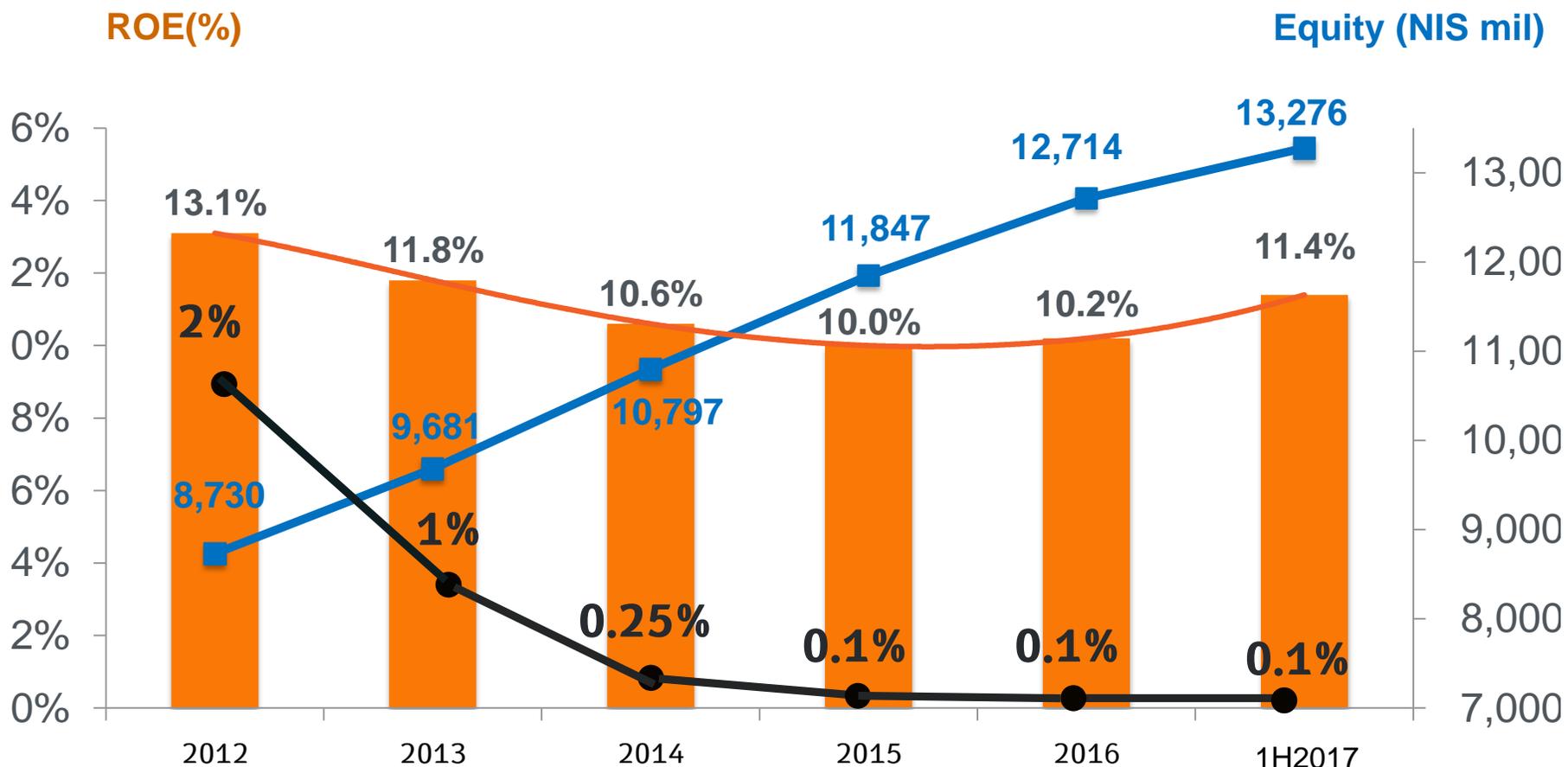
Core tier 1 as of Q2/2017 – 10.15%



Average annual growth rate 10.7%



Double digit ROE despite dramatic increase in equity and extremely low interest rate

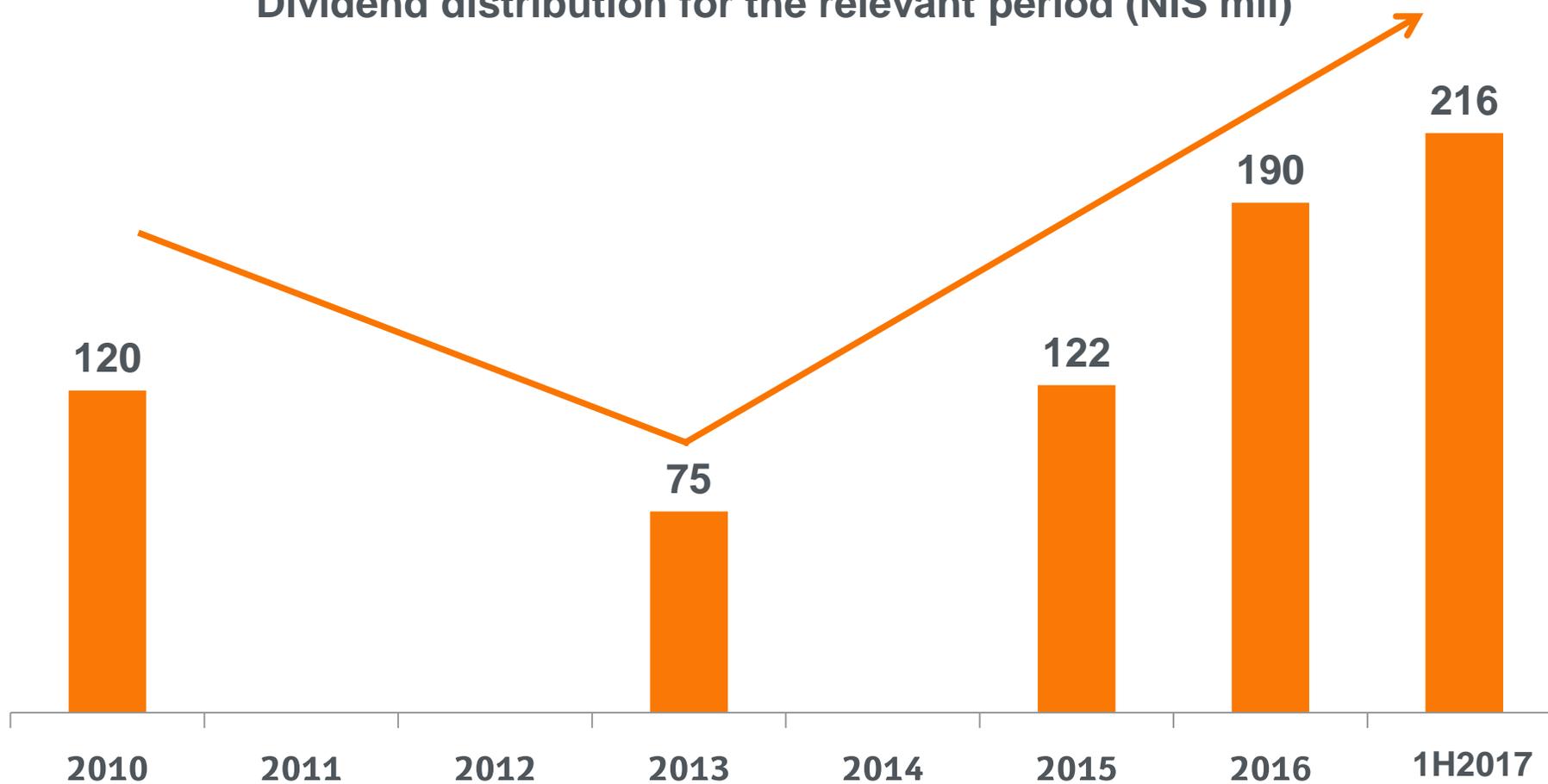


In black – Bank of Israel interest rate at the end of the period



Dividend distribution –dividend payout of 30% of net profit

Dividend distribution for the relevant period (NIS mil)

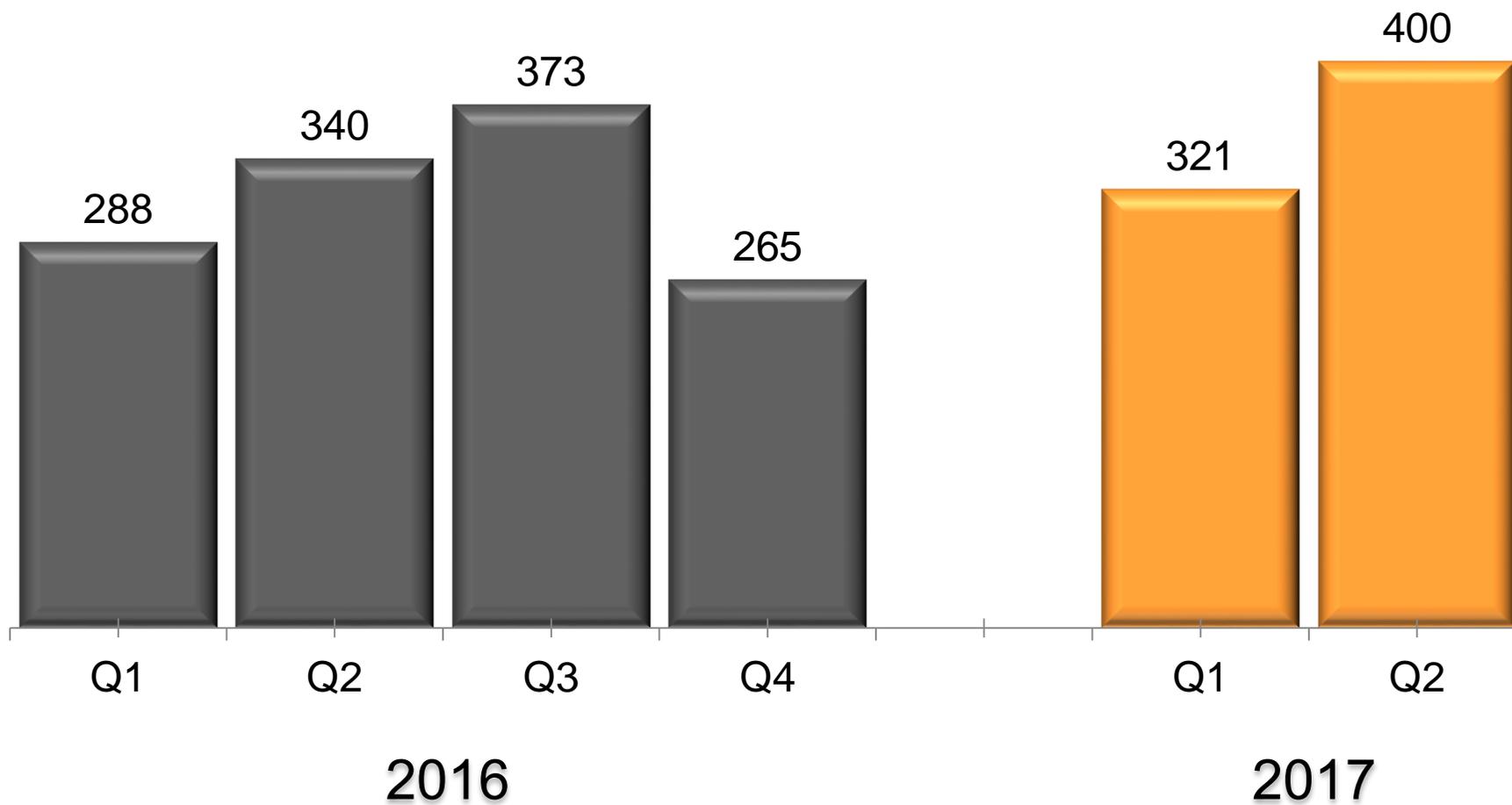




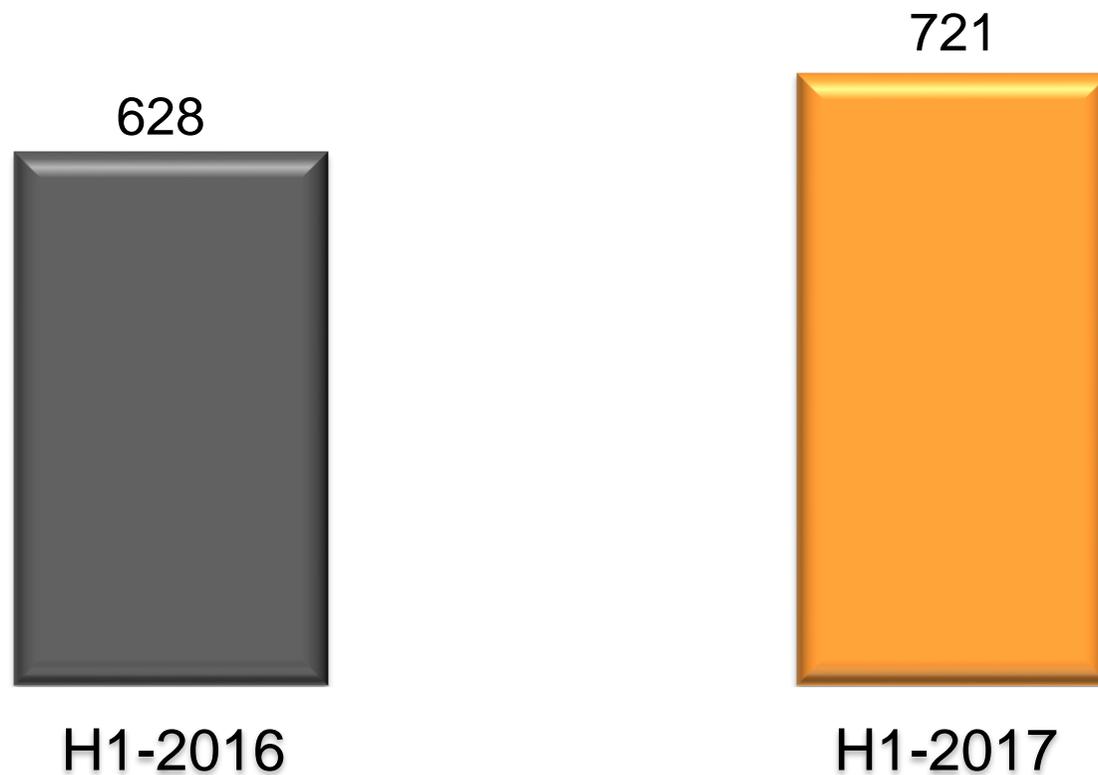
Financial results



Net profit (NIS mil)

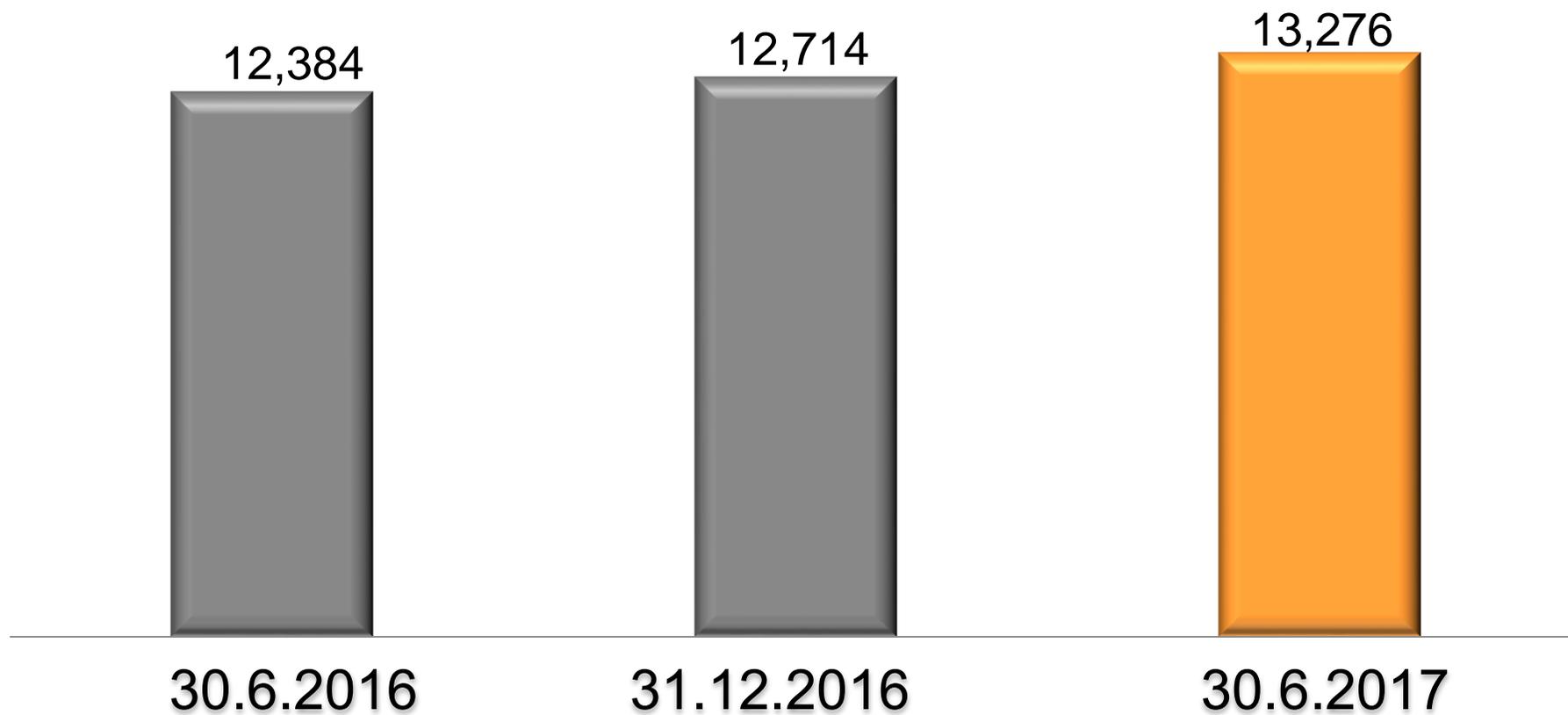


Net profit (NIS mil)



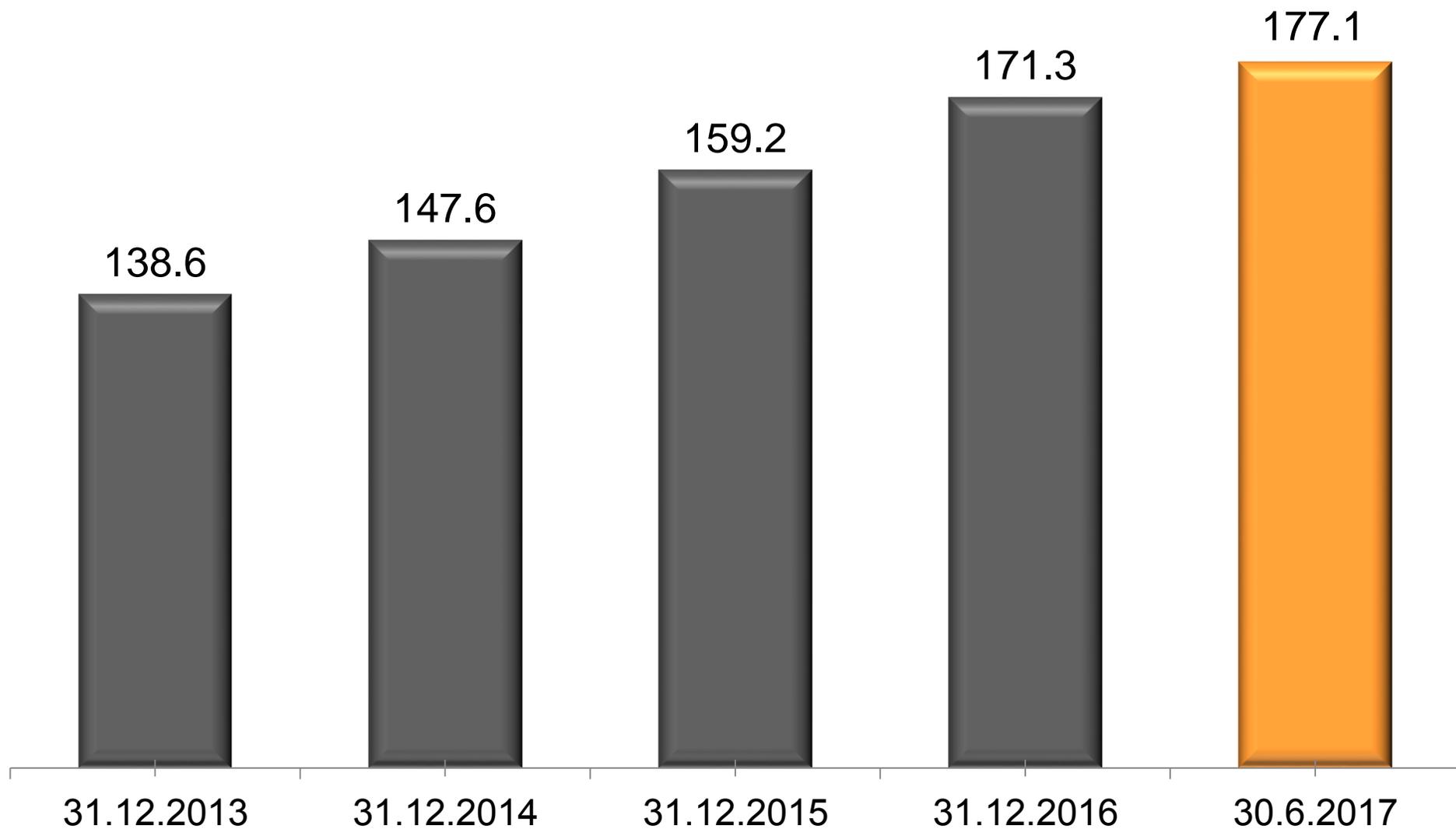


Equity (NIS bil)



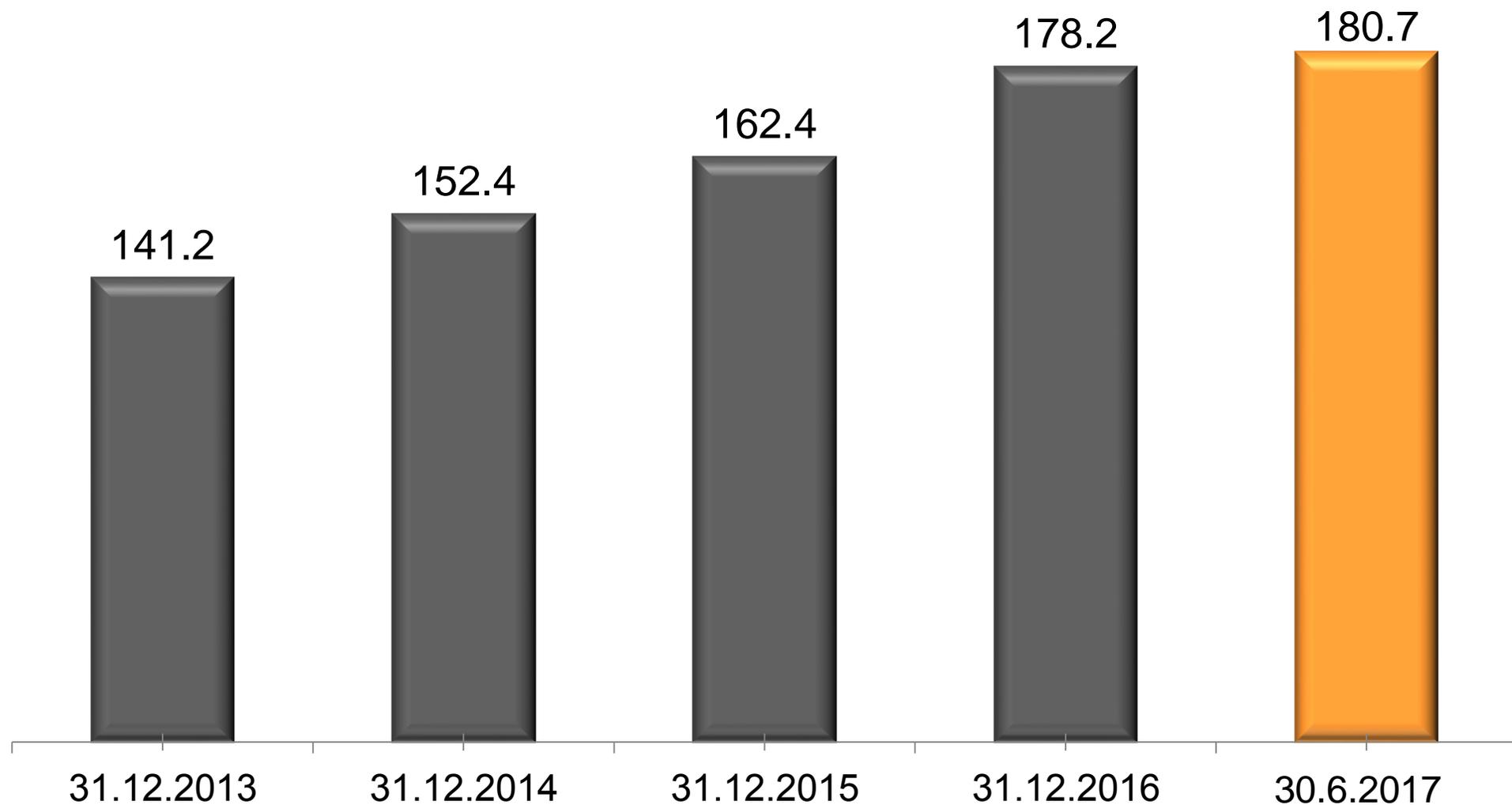


Loans to the public (NIS bil)





Deposits from the public (NIS bil)



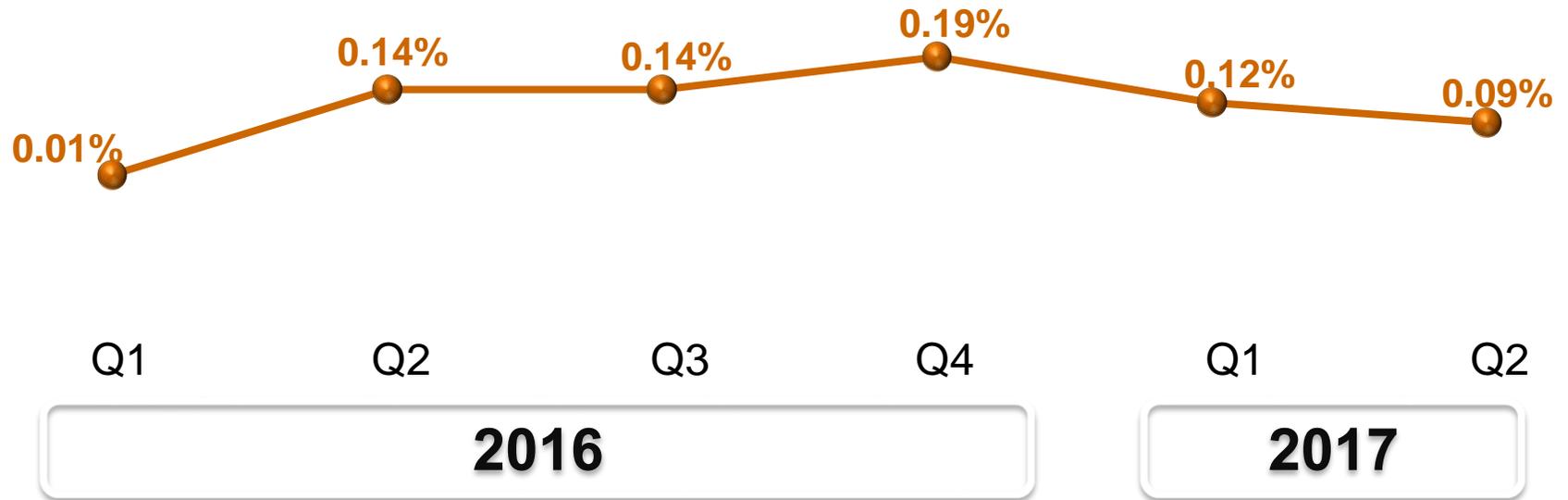


Financing Revenues (NIS mil)

	H1- 2017	H1- 2016	Rate of change
Interest revenues, net	2,200	1,774	
Non-interest financing revenues	20	136	
Total financing revenues	2,220	1,910	16.2
Less:			
Linkage differentials with respect to CPI position	84	(62)	
Revenues from collection of interest on troubled debt	22	20	
Gain from debentures	25	54	
Effect of accounting treatment of derivatives at fair value and others	(29)	17	
Total effects other than current operations	102	29	
Total financing revenues from current operations	2,118	1,881	13.4

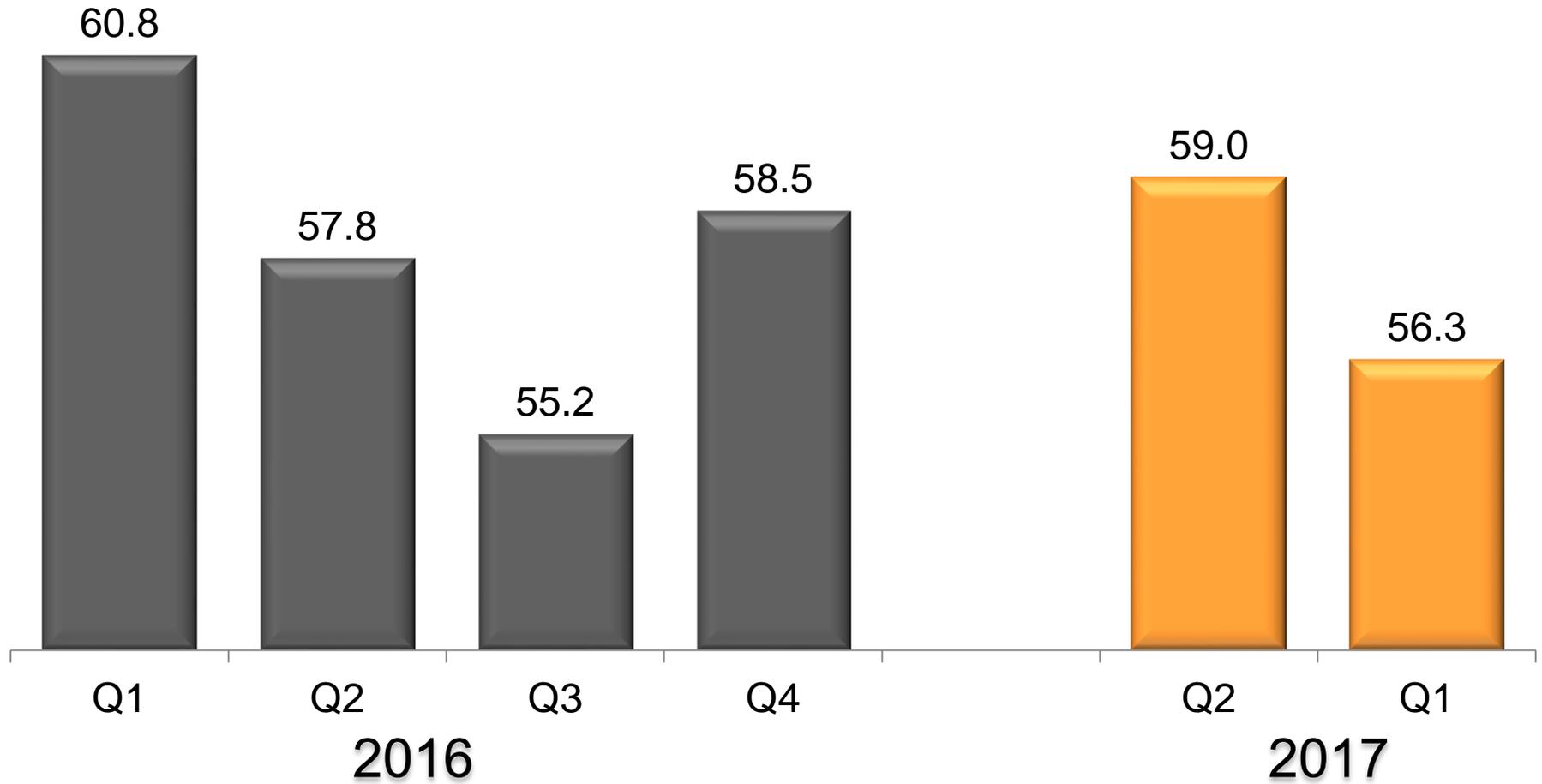


Provisions / loans to the public





Cost / income ratio





Capital adequacy

