



ATTACHMENT

**ISRAEL DISCOUNT BANK LTD.
("The Bank")**

September 14, 2016

**Israel Securities Authority
[Via Magna](#)**

**The Tel Aviv Stock Exchange Ltd.
[Via Magna](#)**

Re. Efficiency Plan

Further to that stated in the financial statements as of June 30, 2016 (page 18; page 20 of the English translation), which was published on August 15, 2016, regarding the drawing up of an outline for an efficiency plan, the Bank hereby reports as follows:

1. On January 12, 2016, the Supervisor of Banks published a letter regarding "Improving the Operational Efficiency of the Israeli Banking System ("the Letter"), pursuant to which the banking corporations are required to outline a multi-annual efficiency plan. As stated in the Letter, the Supervisor will grant relief to banking corporations with regard to the capital adequacy requirements in respect to certain costs of the efficiency plan, subject to the conditions stated therein.

The relief detailed in the Letter shall apply to efficiency plans approved until December 31, 2016.

2. On September 13, 2016, the Board of Directors of the Bank approved the efficiency plan, after the Bank's management had considered options for implementing the matters referred to in the Letter and had drawn up an outline that was subsequently approved in principle by the Banking Supervision Department.
3. The efficiency plan that has been approved constitutes a dramatic expansion of the Group's existing efficiency plan, part of the Strategic Plan for the years 2015-2019, as detailed in the Bank's financial statements for 2015 (pages 16-17; pages 17-18 of

the English translation), which was published on February 29, 2016. The efficiency plan that has been approved includes early retirement alongside natural retirement and overall is expected to lead to a further reduction in the workforce of some 1,000 employees during the course of the next five years.

4. The main points of the retirement plan and its effects are as follows:

4.1. According to the plan, some 500 Group employees will be eligible to take early retirement under preferred terms, most of whom, where possible, will retire by the end of 2016.

4.2. The preferred terms that will be offered to employees will include, among other incentives, increased severance pay at a rate of up to 265%.

4.3. The overall cost of the plan is estimated at NIS 510 million (over and above the legally mandated severance pay amount), of which an amount of NIS 60 million was recorded in the financial statements for the first quarter of 2016, as set forth in the Bank's financial statements as of June 30, 2016 (page 90; page 96 of the English translation), which was published on August 15, 2016.

4.4. As estimated by the Bank, NIS 200 million gross (NIS 130 million net of tax) will be charged to profit or loss by the end of 2016 and the remainder will be spread over the average duration of the liability, which is currently estimated to be 12 years, in accordance with the accounting principles applying to the Bank, as set forth below.

4.5. The effect of the efficiency plan on the ratio of equity to risk assets is estimated at 0.14% and will be charged in installments over five years.

5. Main points of the accounting treatment:

5.1 The costs of updating the Bank's actuarial liabilities to its employees due to the efficiency program will be treated as an actuarial loss and will be charged to "Other Comprehensive Income".



- 5.2 In subsequent periods, the costs of the plan will be written-down, using the straight-line method applied over the employees' average remaining service period, and included in the Statement of Income under "actuarial gains and losses". In periods in which the liability has been "substantively extinguished" (as defined in U.S. generally accepted accounting principles) an additional writedown will be made, over and above the aforementioned writedown, in the amount of the extinguishment costs borne by the Bank (being the actual payments made – whether due to natural retirement or to early retirement) from the remainder of the severance pay liability.
6. It should be noted that the data presented above falls within the definition of forward-looking information, as this term is defined in the Securities Law, 1968. The scope of the efficiency plan, as well as its effect on profit or loss and on the capital adequacy in the years covered by the plan and subsequent thereto, depend on – among other things – the extent of the employees' response to the retirement offer in accordance with the terms of the plan and the characteristics of the retiring population (years of service, sex, and salary level). Accordingly, the actual effects of the efficiency plan could be substantially different from the data presented above.

Signed by:

Uri Levin, Senior Executive Vice President and Head of the Planning, Strategy and Finance Division
Joseph Beressi, Senior Executive Vice President and Chief Accountant