Strategic plan
2013-2017
Capital market presentation
July 2012
General Comments regarding Legal Responsibility

This presentation was prepared by Mizrahi Tefahot Bank Ltd. (the "Bank"), in connection with the Bank's new strategic plan for the years 2013-2017 (the "Strategic Plan"), for the purpose of the presentation thereof in meetings with various participants in the capital markets in Israel and abroad.

The information included herein is not exhaustive and does not include all information and data regarding the Bank and its business or the risk factors which its activity involves. For a full description of the Bank and its business and the risk factors which its activity involves, please see the reports which were published by the Bank, including its financial statements and immediate reports.

The information included herein is based, inter alia, on information which is known to the Bank's management as of the date of preparing the presentation, including, public data, which were not examined by the Bank's management independently and for which the Bank is not responsible.

The information included herein does not constitute advice, recommendation, opinion or a proposal regarding an investment in any securities whatsoever.

The Strategic Plan describes the Bank's targets for the next five years, and should not be deemed to constitute a forecast, an estimate or an evaluation, with respect to achieving the said targets, and as such, by its very nature, the Strategic Plan may not be realized.

It is hereby clarified that the information and the data which relate to a future date, are targets and objectives which the Bank set for itself within the Strategic Plan, and as such, they may not be realized.

The Board of Directors will monitor the implementation of the Strategic Plan which may be amended, from time to time, as required, including, as a consequence of factors which may affect the plan.

Without derogating from the generality of the aforesaid, insofar as the presentation includes forward-looking information, as defined in the Securities Law, 5728-1968, the information is based on assumptions, facts and data (collectively: "Assumptions") which may not be realized due to factors which are beyond the Bank's control, and could cause the Strategic Plan to not be realized.

For the avoidance of doubt, it is clarified, that the Bank does not undertake to update the information included herein.

The presentation does not constitute an offer for the purchase or sale of the Bank's securities, or an invitation to receive such offers.
New plan
Higher targets
Better bank
More of the same

For the past 8 years we have set goals and performed accordingly. It is the time for a new plan.

The following plan aims to continue the success story. Our future growth path is embedded in our strategy and the required infrastructure and culture supporting our growth.

Even under tougher capital requirements we can produce the same and even better returns.
The main engines and targets

1. **Credit portfolio mix of at least 60% households**

2. **Continuing the organic growth while increasing the Bank’s market share in core areas of activity**

3. **Growing while achieving operational efficiency (maintaining, and even improving, our efficiency ratio)**

4. **Capital efficiency (the results of implementation of advanced models, and accordingly the capital reduction, was not taken into account in this strategic plan)**

5. **Encouraging service oriented culture – internally and towards clients**
What you see is what you get!

**Human Resources**
- Youngest and most educated force in the banking system*

**Technology**
- Integrated CRM and efficient back office systems enable more than 3,000 employees of all divisions to be proactively engaged in relationships

**Culture**
- Deep understanding of the Bank’s goals and comprehensive incentive plans created a culture of success

**Competitive Advantage**
- Better relationships
- Better understanding
- Better achievements

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*All comparisons included in this presentation referring to the Banking System are between UMTB and the following four banking groups: Bank Leumi, Bank Hapoalim, Israel Discount bank and First International Bank Israel, unless otherwise specifically stated.*
We grew our workforce by 35% since 2005. The growth followed revenue growth.

<table>
<thead>
<tr>
<th>Year</th>
<th>Workforce</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 05</td>
<td>3,439</td>
</tr>
<tr>
<td>Dec 05</td>
<td>3,660</td>
</tr>
<tr>
<td>Dec 06</td>
<td>3,671</td>
</tr>
<tr>
<td>Dec 07</td>
<td>3,841</td>
</tr>
<tr>
<td>Dec 08</td>
<td>3,977</td>
</tr>
<tr>
<td>Dec 09</td>
<td>4,135</td>
</tr>
<tr>
<td>Dec 10</td>
<td>4,387</td>
</tr>
<tr>
<td>Dec 11</td>
<td>4,636</td>
</tr>
</tbody>
</table>

SOURCE: banks’ financial reports  * Not including Yahav Bank  **From 2009 onwards – including Bank Adanim that was merged into the Bank
Composition of workforce is a powerful engine for being a better bank

Management positions

Academic employees

Distribution by age and seniority

Constant improvement of the work force of UMTB

SOURCE: Mizrahi Tefahot. Data referring to Bank only
Comparison of the human infrastructure in the Israeli banking system

UMTB presents a superior work force composition in the banking system – youngest, shortest seniority and most educated

SOURCE: based on Globes magazine May 2012, graph relating to 2011
All the technological, logistical, educational and operational units of the Bank are moving to one location.

UMTB is the only bank that moved its HO to the Diamond District, where local taxes are substantially lower.
The result of UMTB’s implementation of our plans in technology and HR made us the most efficient bank in the banking system.

Cost to income ratio (Consolidated)*

<table>
<thead>
<tr>
<th>Year</th>
<th>UMTB</th>
<th>Average of the banking system</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>62%</td>
<td>≤55**</td>
</tr>
<tr>
<td>2011</td>
<td>58%</td>
<td>60%</td>
</tr>
</tbody>
</table>

71%

SOURCE: banks’ financial reports

* Cost to income ratio – Non-interest expenses divided by total pre provision income and operational income
** Future target for 2017

We plan to improve efficiency ratios while growing the business
Hybrid banking and Live banking – utilizing technology and operation to change culture and relationships

Breakthrough banking products live side by side, in order to meet clients preferences

Hybrid banking

client preference:
Personal relations with his banker and proximity of the branch

Technology brings closer our client and their personal banker

A client that has a personal banker and understands the benefits of geographical flexibility

LIVE
Hybrid banking – instead of putting barriers between the client and the banker, all channels are leading our clients to their personal banker.

Ideal combination between personal and digital banking.
Live banking – focused on specific segments with common characteristics but distant geographical locations

- Technology is part of every-day's life
- The banker is accessible to all types of clients
- Physically remote from the branch
- Understand the advantages of geographical flexibility
Compensation plans are closely tied to targets and performance

Management has reached an agreement with the union which enables managing both cost and incentive plans.

**Top level management**

Specific option plan (gave up bonus plan until 2013) closely tied to strategic plan and achieving ROE targets over time

**Mid and low level management**

Option plan closely tied to strategic plan and achieving ROE targets over time

**All employees (excl. Top management)**

Bonus plan tied to performance
- ROE targets according to strategic plan
- Annual business plan targets
- Division, department and personal performance
Two brands, one group

In the world of growing public tension regarding cost of services, the group can provide a dual solution

A dual branding strategy is aimed to lead to services and products tailored to client’s profile and differentiation between the brands
Yahav bank plans to continue to be a growth area, targeted to reach the Group’s ROE by 2017

**SOURCE:** Yahav’s financial reports

* growth: 2011 compared to 2008
Our backbone is keeping our #1 position in mortgage banking by assuring professional advice and quality service.

* Calculated based on business segments as reported in these banks’ financial results for 2011

** Margin = interest margin relating to revenue and expenses rate of the bank. Source: financial reports 2011
Corporate banking – focusing on trade and trade finance

Being there for our clients – with solutions tailored to their needs and where we can provide high value added services

Trading floors
UMTB was the first in the banking system that unified all trading floors under one roof and one management, to support its corporate and institutional client with quality and timely solutions

Trade finance
Unifying all trade finance, guarantees and factoring activities to one unit under one management, to best service exporters and importers, in co-operation with our international branches

Trade finance (excl. Diamonds) ($ mil)

- Cumulative growth 107.9%
- 11% CAGR (not linear)
- 2004: 5,937
- 2011: 12,344

Derivatives trading (NIS bil)

- Cumulative growth 92%
- 9.8% CAGR (not linear)
- 2004: 102
- 2011: 196

Source: Bank’s systems
SOURCE: bank's financial reports
All these led to our competitive advantage

- Superior human resources and flexible work relations
- Harnessing technology and operations as tool to support relations with clients
- Culture of success – the success of the Bank is the success of the employees and vice versa
- Superior credit mix

Better relationships
Better understanding
Better achievements
While keeping the best combination of high return with low risk

Risk Adjusted Return On Capital - comparison between the five major banking groups and the system, average 2004 - 2010

SOURCE: Bank of Israel – Israeli banking system, annual review 2010
2013 – 2017 strategic plan – main targets
The group credit portfolio mix - we are targeting to keep our unique credit profile and low risk associated with it.

**UMTB (incl. Yahav)**

**31.3.12**
- Households: 70%
- Corporates: 30%

**Average of the banking system 31.3.2012**
- Households: 39%
- Corporates: 61%

**2017**
- Households: 65%
- Corporates: 35%

* SOURCE: banks’ financial reports  * Future target for 2017
The target: we plan to continue our organic growth by recruiting growing numbers of net new accounts.

![Graph showing growth from 2008 to 2017 with 35,000, 60,000, and 75,000 accounts indicated.]

SOURCE: bank’s systems
* 1-6/2012 in annual terms
Targeted loans to the public

Loans to the public (NIS bil)

- 2011: 119
- 2017: 174

6.5% CAGR (not linear)

Loans to the public – market share

- 2011: 15.1%
- 2017: 17.5%

Subject to the assumption that the banking system’s loans to the public growth rate will be similar to the rate in the past four years (about 4%) and considering regulatory limitations to risk weighted assets, the Group’s market share is targeted to reach approx. 17.5%
The Bank plans to strengthen its position as the third largest bank in credit to the public in Israel

Targeted balance sheet credit risk to the public (in Israel)

**Balance sheet credit risk to the public (in Israel) (NIS bil)**

- 2011: 120
- 2017: 176

6.6% CAGR (not linear)

**Balance sheet credit risk to the public (in Israel) – market share**

- 2011: 16.5%
- 2017: 18.0%

SOURCE: bank’s financial reports  * including debentures and fair value of derivatives
In line with the increase of loans to the public, the Bank plans to increase its market share in deposits from the public.

Subject to the assumption that the banking system’s deposits from the public growth rate will be similar to the rate in the past four years (3.2%), the Group’s market share is targeted to reach approx. 16%.
## Targeted market share

<table>
<thead>
<tr>
<th>Category</th>
<th>2011</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total loans to the public</td>
<td>15.1%</td>
<td>17.5%</td>
</tr>
<tr>
<td>Balance sheet Credit risk to the public in Israel</td>
<td>16.5%</td>
<td>18%</td>
</tr>
<tr>
<td>Mortgages (new initiations)</td>
<td>34%</td>
<td>35+%</td>
</tr>
<tr>
<td>Corporate and SME credit</td>
<td>9.1%</td>
<td>11.5%</td>
</tr>
</tbody>
</table>

Based on a main macroeconomic scenario of average GDP growth of 3.5%
2013 – 2017 strategic plan – Yahav bank targets

**Synergies with the Group**
- launching new product utilizing UMTB’s platform
- continuing integrating mortgage representatives in the branches
- receiving operational services from the Group

**Internal improvement**
- preserving the perception and branding of Yahav bank by its customers
- capital efficiency
- upgrading and branding the direct channels

**Focusing on clients groups**
- leveraging on the competitive position in the public services segment
- geographical focus for recruiting and preserving clients
- segmentation of clients
2013 – 2017 strategic plan – efficiency as a focal point

- Ongoing and strict managing of the budget
- Back office – continuing transferring areas of activities
- The technology and logistics center in Lod – functional efficiency and cost saving
- Culture of efficiency and improvement
- New incentive plan based on performance (in the process by the Bank)
- Yahav – continuing the co-operation within the group while cutting cost and improving
- More efficient IT operation

Efficiency ratio targeted to be below 55%
2013 – 2017 strategic plan targets

- ROE based on core tier 1 ratio of at least 9% (gradual increase) - 14.5%
- ROE based on core tier 1 ratio of at least 7.5% - 17%

*July 2008 onwards including Yahav  **excluding provision for retirement plan
Dividend policy

We will keep current dividend policy and resume dividend distributions accordingly, subject to the Board of Directors resolution instructing the Bank’s management to make all efforts to reach core tier 1 level of at least 9%, if possible, early 2014.

### Distributed dividend

<table>
<thead>
<tr>
<th>Payment year</th>
<th>Total dividend paid (NIS mil)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>130</td>
</tr>
<tr>
<td>2006</td>
<td>325</td>
</tr>
<tr>
<td>2007</td>
<td>400</td>
</tr>
<tr>
<td>2008</td>
<td>150</td>
</tr>
<tr>
<td>2010</td>
<td>200</td>
</tr>
<tr>
<td>2011</td>
<td>120</td>
</tr>
<tr>
<td>Total</td>
<td>1,325</td>
</tr>
</tbody>
</table>

**Dividend distribution policy (April 2006):**

- 40% of the net operating profit
- 80% of the profit from extraordinary items
Some major risk factors that may fundamentally influence the group’s financial results

**Regulatory risks**
- **The assumption**: Regulatory orders that will substantially change the business environment in Israel are not expected, other than decisions already known now.
- **The risk**: 
  - Regulatory orders can affect the Group’s business environment.
  - Legislative initiatives may reduce the Group’s ability to provide certain services in the future.

**Global economy risks**
- **The assumption**: World economic growth is expected to at least on or close to zero growth per capita.
- **The risk**: Euro zone crisis may deteriorate and drag global economy to a deep and long recession.

**Geo political risks**
- **The assumption**: Geo political situation is not expected to change materially.
- **The risk**: 
  - Deterioration of the geo – political situation may result in a local recession.
  - The isolation of Israel may damage the business environment.

**Domestic economy risks**
- **The assumption**: 
  - Supportive economic environment – Domestic average annual growth of at least 3.5%.
  - Inflation will be within government current target and interest rates will correlate with this level.
- **The risk**: 
  - As a result of the global economic situation, the Israeli economy may get into a recession, and this in turn will influence the business environment.
  - Low interest level for a long period of time may jeopardize the Group’s revenues.

Exogenous factors, that are not under the group’s control, can affect the group’s targeted growth path.