

**The following translation to English of the report, is intended solely for the convenience of the reader. This translation has no legal status and the bank does not assume any responsibility whatsoever as to its accuracy and its contents. Only the original Hebrew text is binding, and readers are advised to consult the Hebrew text in all matters.**

### **Immediate Report regarding Matters which deviate from the Corporation's Ordinary Course of Business**

Mizrahi Tefahot Bank Ltd. (the "**Bank**") announces as follows:

1. On 23.7.2012, the Bank's Board of Directors approved a five-year strategic plan for the years 2013-2017, which is based on the following principles:
  - a. The target is to present in 2017 an average return on equity from ordinary operations of 17%, based on the target of core capital ratio of 7.5%, according to the current strategic plan (see Section 1 of the Immediate Report dated October 25, 2010 ref. no. 2010-01-657462; this reference constitutes an incorporation by way of reference of all of the information which is included the said Immediate Report).
  - b. However, further to the instructions of the Supervisor of Banks, dated March 28, 2012, whereby the Bank is required to adopt a target until December 31, 2014, for core capital ratio, at a rate which shall not be lower than 9%, the Bank's Board of Directors, resolved, on 23.7.2012, to instruct the Bank's management to act for the early implementation of the said instruction in order to apply it, insofar as possible, commencing as of January 1, 2014. In addition, the Board of Directors decided to instruct the Bank's management to maintain, to the extent possible, appropriate profit margins for this purpose. The core capital ratio will be calculated in accordance with the provisions of Basel III and the adjustments which will be determined in the instructions of the Supervisor of Banks. As a result, the average equity basis which will be utilized for the Bank's activities will be increased, which will lead to such an arithmetic result, whereby, given profit will produce lower yield. Accordingly, the target of the return on equity from ordinary operations, which is adjusted to the regulatory requirement of core equity ratio at a rate which will not be lower than 9%, will be approximately 14.5% in 2017. For comparative purposes, this rate of return on equity is equivalent to approximately 17%, based on the regulatory requirement during the period of the current strategic plan, as provided in sub-section a above.
  - c. Provided that the core capital ratio will be not lower than the target determined by the Board of Directors, as stipulated in sub-section b

above, during the period of the five-year plan, the dividend distribution policy adopted by the Bank will be maintained. That is to say, each year dividend at a rate of 40% of the net profit from ordinary operations and 80% of the profit from extraordinary operations will be distributed.

2. The Bank is basing its new five-year plan on a number of principal objectives and efforts, in the following areas:
  - a. Maintaining its leading status in the mortgage market;
  - b. Continuing the process of increasing the market share in the household segment, while reinforcing the service concept deriving from hybrid banking and the operation of the Live branches in the Bank;
  - c. Positioning the Bank as a central provider of services for small and medium businesses;
  - d. Expansion of the business customers basis and preparation of unique value propositions, which are adjusted to the needs of such customers;
  - e. Increasing the Bank's market share in the public deposit segment;
  - f. Continuing to strengthen the Bank's status as a central figure in the currency markets and expanding its market share in this segment.
3. The growth engines for meeting the targets of the new strategic plan are as follows:
  - a. Maintaining the ratio of the operating efficiency (expenses to revenue) and taking measures for its improvement to a level lower than 55%;
  - b. Strengthening of the capital management abilities and preparation towards raising capital by innovative and complex instruments;
  - c. Enhancing the risk management ability, while implementing advanced risk pricing models (implementation of the advanced models is not taken into account for purposes of meeting the core capital ratio, as provided in Section 1b above);
  - d. Promoting service-oriented organizational culture;
  - e. Taking measures to further inherent growth of the Bank's core operations, at a rate higher than the growth rate of the banking sector, similarly to the Bank's achievements during the last eight years.
4. The growth engines are designed to increase the Bank's revenue at an average annual rate of more than 8% (although not linear), versus control of the average annual expense at a moderate increase rate of approximately only 4.5% (which is also not linear).

5. In addition to the aforesaid, the Bank bases the new Strategic Plan, *inter alia*, on the efforts in the following areas: reinforcing the Bank's status as an efficient service-oriented bank which control the level of expenses; continuous streamlining as an organizational culture; new performance-based incentive plan (which is in the process of being prepared by the Bank); further expansion of the back office, while transferring additional logistics and operating activities from the branches to this department; streamlining the information technology systems and the continuation of the activity of Bank Yahav for Government Employees Ltd., development of price-oriented banking service, which offers an appropriate service alternative.
6. The above constitutes a strategic plan which determines the Bank's targets for the next five years, and is not a forecast, an estimate or an evaluation for purposes of meeting the said targets, and as such, according to its nature, the strategic plan may not be realized.

In addition, and without derogating from the generality of the aforesaid, insofar as this plan includes forward-looking information, as defined in the Securities Law, 5728-1968, the information is based on assumption, facts and data ("**Assumptions**") which were presented to the Board of Directors, including; no changes in legislation and regulations affecting the business environment; no developments and changes in the security-political situation which affect or harm the business environment; stabilization of the global economy in the coming years, at a zero growth rate, of the per capita income (following the global economic slowdown over the recent years); growth of the Israeli economy in the coming years, at an average annual rate of at least 3.5%; a price increase in the Israeli market in the coming years, at a rate which will not deviate from the known governmental target, and the existence of an interest rate environment which reflects this target.

The Assumptions may not be realized due to factors beyond the Bank's control which may affect the above issues and cause the strategic plan not to be realized. For additional details, see p. 37 of the Presentation included in the Immediate Report which will be released by the Bank immediately after the release of this plan.

It is clarified that the Board of Directors will monitor the implementation of the strategic plan and may change it, from time to time, as shall be required, including due to changes in the factors which may affect the plan, as aforesaid.