

MIZRAHI TEFAHOT BANK LTD

No. with the Registrar of Companies: 520000522
Securities of a Corporation Listed for Trading on the Tel Aviv Stock Exchange
Abbreviated Name: Mizrahi Tefahot
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Israel Securities Authority
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To
Tel Aviv Stock Exchange Ltd
www.tase.co.il

Immediate Report

Explanation: this form may not be used when there is
an appropriate form for the reported event
Issue results should be reported on T20 and not on this form
Report in respect of bonds or corporate rating should be filed on T125
Nature of the event: option plan - neutralization

Please see attached the immediate report

The date on which the corporation first learned of the event: November 28, 2011

The reference numbers of previous documents on the subject (reference does not constitute incorporation by reference): **2010-01-423252 2010-01-659319 2010-01-290094**

Previous names of reporting entity: United Mizrahi Bank Ltd.

Form structure revision date: September 4th, 2011

Name of the person reporting electronically: Maya Feller; Position held: Company Secretary
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Immediate Report

1. Background

On March 21, 2010, the board of directors resolved, in accordance with the recommendation of the CEO and the compensation committee, and after obtaining the approval of the audit committee, of March 21, 2010, that for the purposes of the calculation of the annual rate of return for 2009, in respect of each one of the option plans specified in Section 2 of the immediate report released by the bank on March 22, 2010 (ref. no. 2010-01-423252) (the "**Previous Plans**" and the "**Previous Immediate Report**", respectively), the provision made in the bank's financial statements for 2009, in respect of retirement of employees, should be neutralized, and the said provision amount should be spread, in a linear manner, over the years 2010-2015 (the "**Resolution for Spreading Out the Provision**"), all as provided in the Previous Immediate Report.

The reference of the Previous Immediate Report, as provided above, constitutes incorporation by way of reference of all of the information which is provided in the Previous Immediate Report, including, the information specified in Section 2 of the said Report.

It is hereby clarified that within the Previous Plans, no options were issued to the bank's CEO or to the bank's chairman of the board of directors.

2. Applying the Resolution for Spreading Out the Provision to the 2010 memorandum and the 2011 memorandum

2.1 After the Resolution for Spreading Out the Provision, as provided above, the bank approved the issuance of options to employees, including officers, as follows:

2.1.1 Issuance of options to employees, including officers in the bank, according to a memorandum of offering to employees released by the bank on October 26, 2010 (ref. no. 2010-01-659319 (the "**2010 Memorandum**").

2.1.2 Issuance of warrants to employees¹, including officers in the bank, according to a memorandum of offering to employees released by the bank on October 3, 2011 (ref. no. 2011-01-290094 (the "**2011 Memorandum**").

(the option plans according to the 2010 Memorandum and the 2011 Memorandum will be referred to, collectively, as: the "**New Plans**").

It is hereby clarified that in the New Plans, no options were issued to the banks' CEO or the bank's chairman of the board of directors.

¹ Out of whom, one offeree is on an unpaid leave, and is currently working in a company wholly owned by the bank.

- 2.2 In sections 2.11.1 of the 2010 Memorandum and 2.11.1 of the 2011 Memorandum, it was determined that the rate of eligibility of each offeree to exercise options granted to him according to the terms and conditions of each one of the said option plans, will be determined on each vesting date, in respect of the exercise portion vested on such date, in accordance with the ratio of return on net profit from ordinary activities and the bank's average equity, as defined in the said sections (the "**Annual Rate of Return**") for the fiscal year of the report which shall have preceded such vesting date, according to the criteria provided in each of the said sections.

In this regard, it shall be noted that in accordance with the terms and conditions of the New Plans, the rate of eligibility of each offeree who is included in the branch and department managers group, in exercising the options which shall be issued to him, shall be determined, in addition to the aforesaid, also in accordance with the terms and conditions provided in 2.11.2 of the 2010 Memorandum and 2.11.2 of the 2011 Memorandum.

- 2.3 In Sections 2.11.1 of the 2010 Memorandum and 2.11.1 of the 2011 Memorandum, it was determined, *inter alia*, that the bank's board of directors will be authorized, according to its discretion, and after obtaining the approval of the audit committee, to neutralize the effect of one-time or irregular events, in order to calculate the Annual Rate of Return, for any fiscal year of reporting, such as, the effect of the implementation of new regulatory instructions, the effect of irregular provisions or payments (such as provisions due to retirement of employees) etc.

It was further determined that if the board of directors shall have resolved to exercise its authority, as provided above, in respect of a certain fiscal year of reporting, then the board of directors will determine the Annual Rate of Return for such year, after performing the neutralizations, and this rate shall constitute the Annual Rate of Return for such year, for the purpose of each one of the option plans.

- 2.4 On November 28, 2011, the board of directors resolved, after obtaining the audit committee's approval, that the Spreading Resolution will also apply to the New Plans, *mutatis mutandis*, as the case may be. In accordance therewith, the calculation of the Annual Rate of Return, for a fiscal year of reporting, for the purpose of the New Plans, shall be performed while taking into account that the provision recorded in the bank's financial statements for 2009, in respect of retirement of employees, in the sum of ILS 170 million (gross, before tax, i.e., ILS 118 million after tax), shall be spread, in a linear manner, over the years 2010-2015.

The aforesaid, since according to the accepted accounting principles, the relevant provision was fully recorded in 2009, and may not be spread over a few years, concurrently with the financial benefit created by the employee retirement plan.

As a result of the above resolution, after spreading the said provision amount, in a linear manner, including for 2010 (as part of the general spreading for 2010-2015), the Annual Rate of Return for 2010, for the purpose of the 2010 Memorandum, shall be 11.4%, instead of 11.7%, which is the rate which was published in the bank's financial statements for 2010.