

**MIZRAHI TEFAHOT BANK LTD**  
No. with the Registrar of Companies: 520000522

To	<b><u>Israel Securities Authority</u></b>	To	<b><u>Tel Aviv Stock Exchange Ltd</u></b>	T121 (Public)	Date of transmission: December 27, 2016
	<b>www.isa.gov.il</b>		<b>www.tase.co.il</b>		Ref: 2016-01-092211

**Immediate Report**

**Explanation: This form may not be used if an appropriate form exists for the reported event.**

*Issue results must be reported under T20 and not under this form.*

*Bond rating or corporation rating reports must be submitted through Form T125.*

**Nature of the Event: Efficiency Improvement Program**

Attached file *t\_121\_271216\_isa.pdf*

☐ The company is a shell company, as defined in the TASE Rules and Regulations.

Date on which the corporation first learned of the event: *December 27, 2016 at 15:00.*

*The above report was signed by Rita Rubinstein, Deputy CEO, Manager of the Human Resources Division and Meno Aviv, Chief Accountant.*

The reference numbers of previous documents on the subject (reference does not constitute incorporation by reference):

Securities of a Corporation Listed for Trading  
on the Tel Aviv Stock Exchange  
Abbreviated Name: Mizrahi Tefahot  
Address: 7 Jabotinsky Street  
Ramat Gan, 52520, Israel  
E-mail: mangment@umtb.co.il

Form structure revision date: December 26, 2016

Tel: 03-7559207 Fax: 03-7559913  
03-7559720

Previous name of the reporting entity: United Mizrahi Bank Ltd.

Name of the person reporting electronically: Feller Maya Position: Bank Secretary Name of Employing Company:

Address: 7 Jabotinsky Street, Ramat Gan, 52520, Israel Tel: 03-7559720 Fax: 03-7559923 E-mail: [mangment@umtb.co.il](mailto:mangment@umtb.co.il)

December 27, 2016

To:  
**Israel Securities Authority**

To:  
**Tel Aviv Stock Exchange Ltd**

Dear Sir or Madam,

**Re: Efficiency Improvement Program (Retirement plan)**

Further to the details in the Bank's financial reports of March 31<sup>st</sup>, 2016, concerning legislation and supervision instructions for the banking group's operations (page 232), Mizrahi Tefahot Bank Ltd ("**Bank**") respectfully reports the following:

1. In the Supervisor of Banks' letter from January 12, 2016, to the banking corporations re: the improvement of the operational efficiency of the banking system in Israel ("**Letter**"), the banking corporations were required to outline a multi-annual efficiency improvement program. According to the Letter, the Board of Directors has to outline a multi-annual efficiency improvement program for the next five years, as well as efficiency improvement principles for the longer term.  
Furthermore, according to the Letter, a banking corporation which meets the conditions set therein will receive capital relief, so that the required dates for compliance with the capital adequacy targets set for it by the Supervisor of Banks will take into account a straight-line spread of the anticipated reduction in capital deriving from the program's costs, for a period of five (5) years.
2. On December 27, 2016, the Bank's Board of Directors approved an efficiency improvement program recommended by the Bank's management, which includes an outline for implementation mentioned in the Letter ("**Efficiency Improvement Program**").  
As required in the Letter, the Bank received an approval in principle from the Supervision of Banks for the Efficiency Improvement Program.
3. 3.1 According to the Efficiency Improvement Program, the early retirement of approximately 300 employees will become available under favorable conditions ("**Retiring Employees**").  
3.2 It should be noted that among the Retiring Employees who can retire early as aforesaid, there are Bank employees as well as approx.50 employees of a subsidiary fully controlled and held by the Bank, Mizrahi Tefahot Technological Division Ltd ("**Technology Company**").  
However, it is possible that the number of Retiring Employees from each group will change; but their total number shall not exceed 300.
4. According to the Efficiency Improvement Program, the Retiring Employees shall be entitled to an early pension until they reach the age of retirement or to increased compensations at a rate of 150% (in addition to transferring the provident fund ownership under their name), per the criteria detailed in the program.  
It is possible that under the retirement conditions, employees will be granted additional benefits that are not material.  
The impact of the program's cost is estimated at approx. ILS 300 Million (beyond the compensation monies deposited in the provident funds as aforesaid), before taxes, and it will be included in the financial reports for December 31, 2016.
5. For the implementation of the Efficiency Improvement Program, the Bank's management negotiated with the Bank's Employees' Union, as part of the negotiations that the Employees' Union requested to have over a new wage agreement for 2016 and 2017.  
As for the Technology Company – the retirement of its employees under the Efficiency Improvement Program will be possible soon.

6. **Principles of the Accounting Treatment**

- 6.1 The costs of updating the actuarial liability in respect of the Efficiency Improvement Program at a total of ILS 300 Million will be treated as an actuarial loss and recognized at the time of the program's approval as other comprehensive income.
  - 6.2 In the subsequent periods, the program's costs will be reduced to profit and loss as part of the "actuarial profits and losses" balance in the straight-line method over the average remaining service period of the employees, which is currently at approx. 15 years.
  - 6.3 If in certain periods the total compensation payments exceed the cost of service and interest cost recognized that year, and a settlement takes place (according to US accounting standards on employee rights), then the pace of "actuarial profits and losses" reduction will be adjusted to the settlement pace of the actuarial liability in those periods, respectively.
7. The impact of the Efficiency Improvement Program is estimated at a 0.15% reduction of the tier 1 capital ratio, which will be spread over a period of 5 years.
8. The Efficiency Improvement Program is expected to save approx. ILS 70 Million per annum in expenditure, before taxes.
9. It should be noted that the figures and estimates in this report constitute forward-looking information, per the term's definition in the Securities Law 5728-1968. These figures are dependent, *inter alia*, on employees' response to the retirement offer and retirement conditions, the timing of the employees' retirement and the characteristics of the retiring population (seniority, age, gender and wage level). As such, the actual results of the Efficiency Improvement Program may be materially different compared to the figures specified above.

Respectfully,

**Mizrahi Tefahot Bank Ltd**

**By: Rita Rubinstein, Deputy CEO, Manager of the Human Resources Division**  
**Meno Aviv, Chief Accountant**