



MIZRAHI TEFAHOT

Strategic Plan

2017-2021

Capital Market Presentation

November 2016

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The original Hebrew text shall be regarded as the sole official text and readers are advised to consult it in all matters.**

General Comments regarding Legal Responsibility

This presentation was prepared by Mizrahi Tefahot Bank Ltd. ("Bank"), in connection with the Bank's strategic plan for the years 2017-2021, as published by the Bank ("New Strategic Plan"), for the purpose of its presentation in conversations with certain participants in the capital markets in Israel and abroad ("Presentation").

The information included in the Presentation is not exhaustive and does not include full information on the Bank and its operations or the risk factors which its activity involves, and it does not substitute the information included in the annual, quarterly or immediate reports published by the Bank. For a full description of all that regards the Bank and its operations, as well as the risk factors which the Bank's activity involves, please see the reports released to the public by the Bank, including the financial reports and immediate reports it has published.

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The New Strategic Plan is considered a plan which establishes the Bank's targets for its duration, and it is not to be considered an outlook, an assessment or an evaluation in the matter of achieving said targets, and as such, by its very nature, the New Strategic Plan might not be realized.

It is hereby clarified that the information and data in the Presentation which relate to some future date are considered targets and objectives which the Bank has set for itself within the New Strategic Plan, and as such, they might not be realized.

The Board of Directors will monitor the implementation of the New Strategic Plan and may amend it, from time to time, as required, including as a result of changes to factors which might affect it.

Without derogating from the generality of the above, 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") as detailed in the New Strategic Plan, which might not be realized due to factors which are beyond the Bank's sole control, consequently causing the New Strategic Plan to not be realized (in this matter, see page 38 of the Presentation).

To remove doubt, it is clarified that the Bank does not undertake to update the information included in the Presentation.

The Presentation does not constitute an offer for the purchase or sale of the Bank's securities, or an invitation to receive such offers.



Fruitful growth strategy



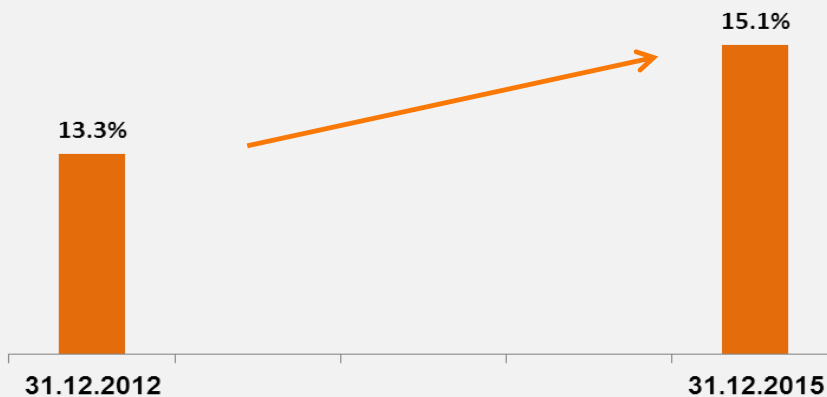
After a decade of achieving every milestone, it is time now for the next step!

Current position

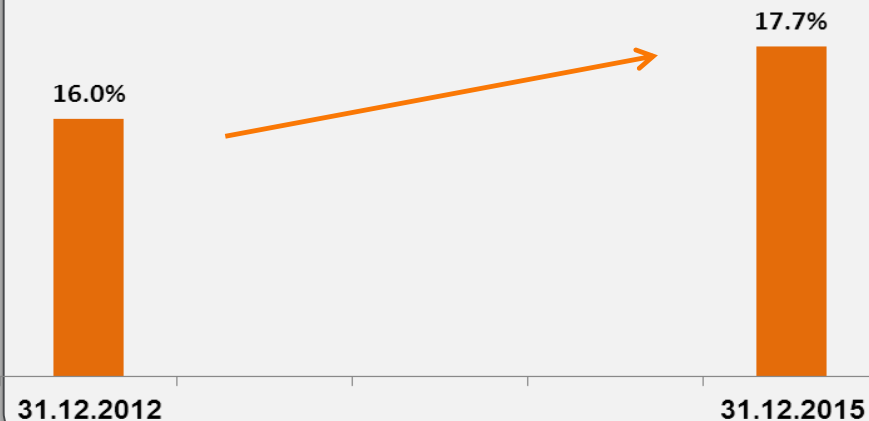


Total assets and credit to the public – market share⁽¹⁾

Total assets



Credit to the public

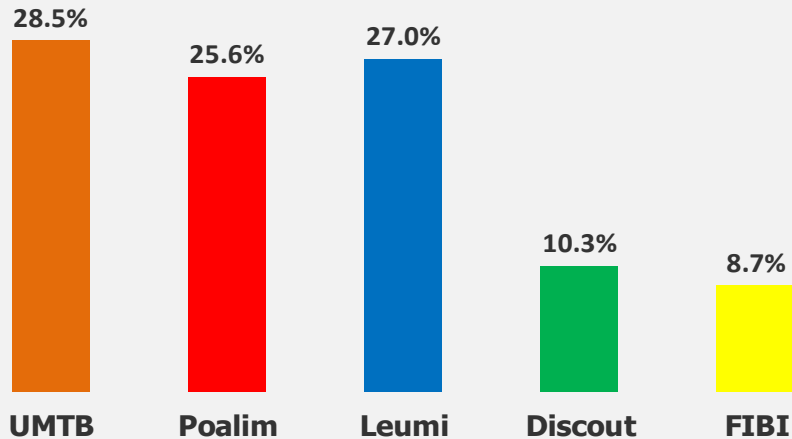


The Bank increased its market share in total assets and credit to the public, and is now the third largest bank in the Israeli banking system

Source: Financial reports of the five banking groups
(1) Data include UMTB group including Yahav bank

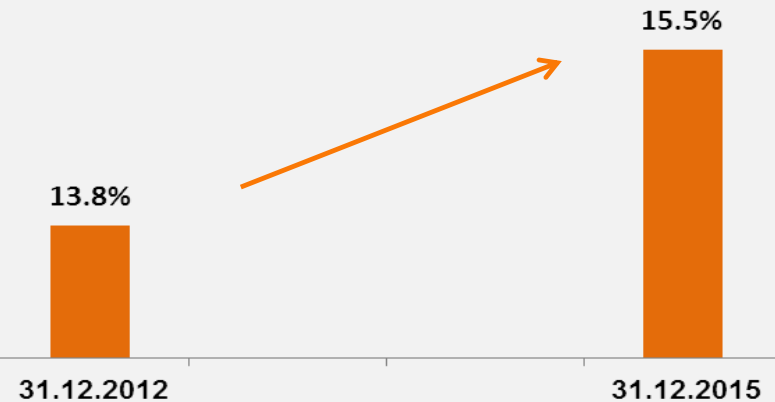
Retail activity in Israel – market share⁽¹⁾

Credit to households including mortgages⁽²⁾ (as of 31.12.2015)



UMTB is the largest retail bank in Israel

Retail core deposits⁽³⁾



UMTB increased its market share in retail deposits

Source: Financial reports of the five banking groups

(1) Data include UMTB group including Yahav bank

(2) Households segments and private banking segment according to supervisory operating segments

(3) Deposits from individuals – see “deposits from the public” note

Mortgage loans – market share⁽¹⁾

Market share⁽¹⁾

34.7%



2012

Average market
share
2013 – 2016
36.1%

38.7%

1-9/2016

Average LTV

55.6%



2012

52.8%



1-9/2016

Average payment to income

31.4%



2012

25.7%



1-9/2016

The Bank reached a market share of 36% in mortgage loans, while increasing the margins and at the same time improving the risk profile – reduction in LTV and in payment to income

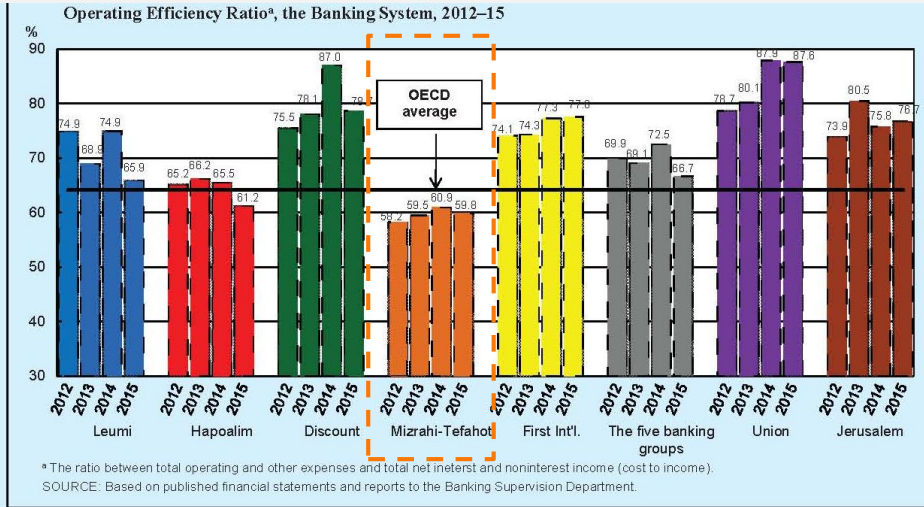
Source: Bank of Israel reports, and UMTB's analysis

(1) Bank's and treasury's funds

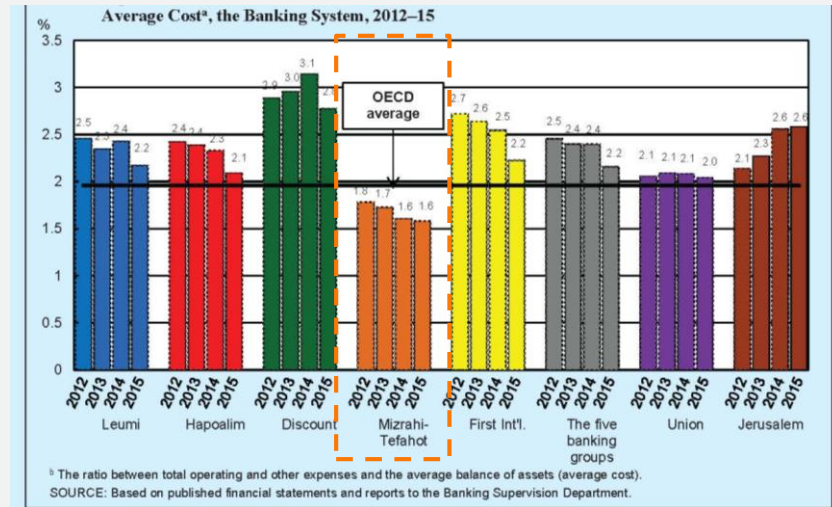


Efficiency in the Israeli banking system

Cost/income ratio 2012-2015



Cost per unit 2012-2015

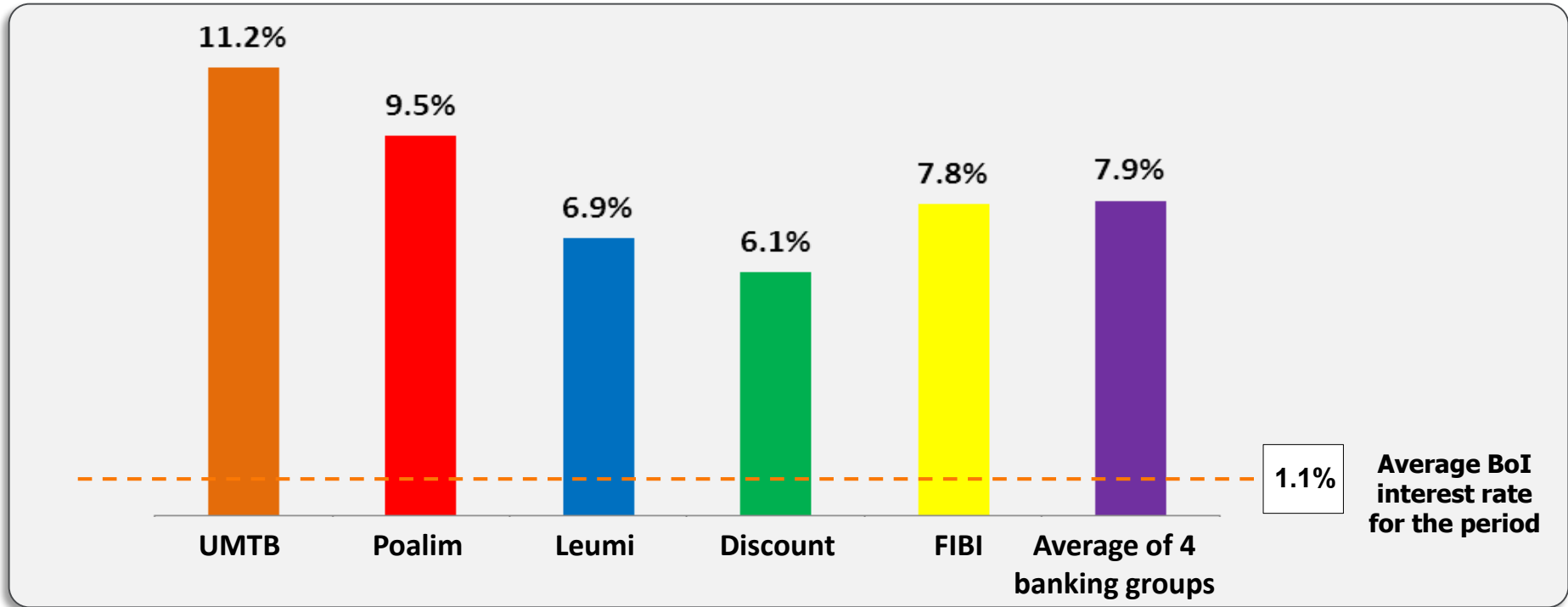


UMTB is consistently more efficient than all other banks in the Israeli banking system and is inline with OECD countries average

Source: Supervisor of Banks annual survey 2015



Average return on equity 2012-2015

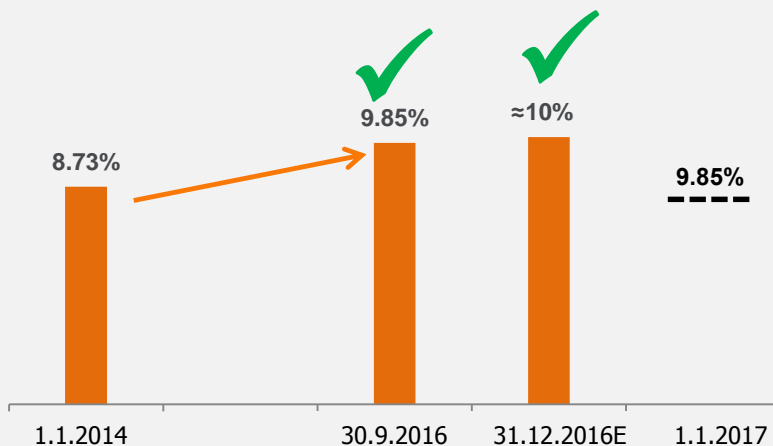


UMTB presents the most stable and highest ROE than all other banks in the Israeli banking system

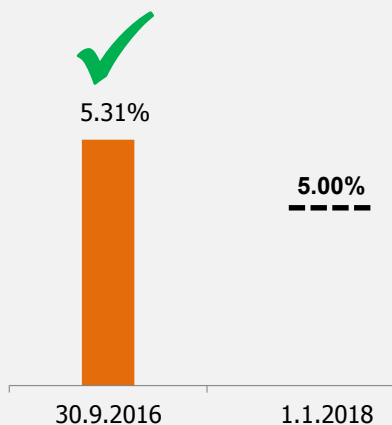
Source: Financial reports of the five banking groups, and UMTB's analysis

Financial ratios

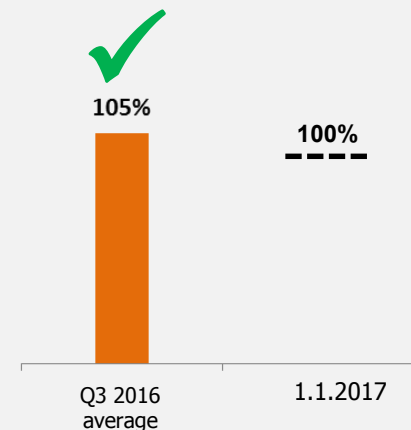
Core tier 1⁽¹⁾



Leverage ratio⁽²⁾



LCR⁽³⁾



Regulatory requirement - - - -

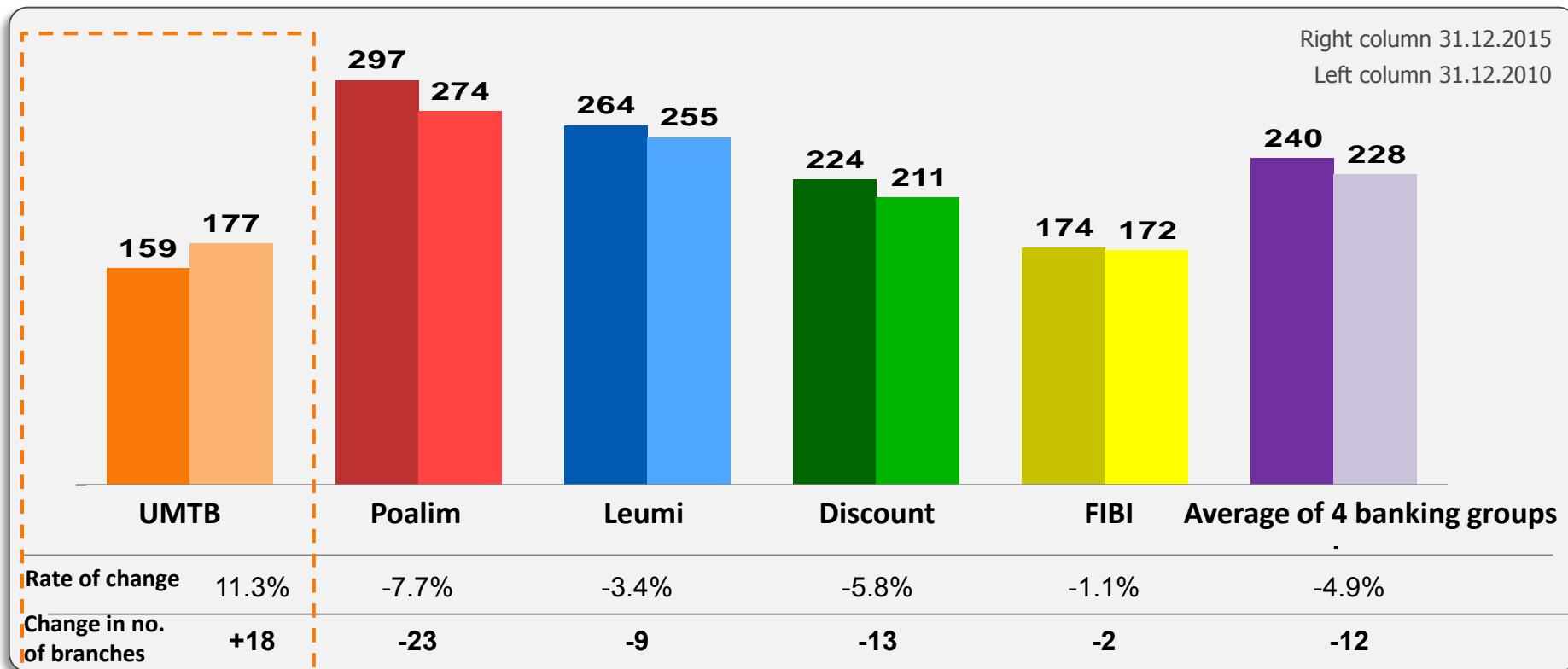
Achieving capital adequacy and liquidity targets enables UMTB to present a challenging growth plan and to substantially increase the dividend yield

(1) Source: Bank's financial reports

(2) Leverage ratio – tier one capital to total exposure (balance sheet exposures, derivatives exposures, securities financing transactions as well as off balance sheet items)

(3) Liquidity coverage ratio – high liquid assets (cash, deposits in central banks and certain bonds) to net cash outflow projection for the next 30 days

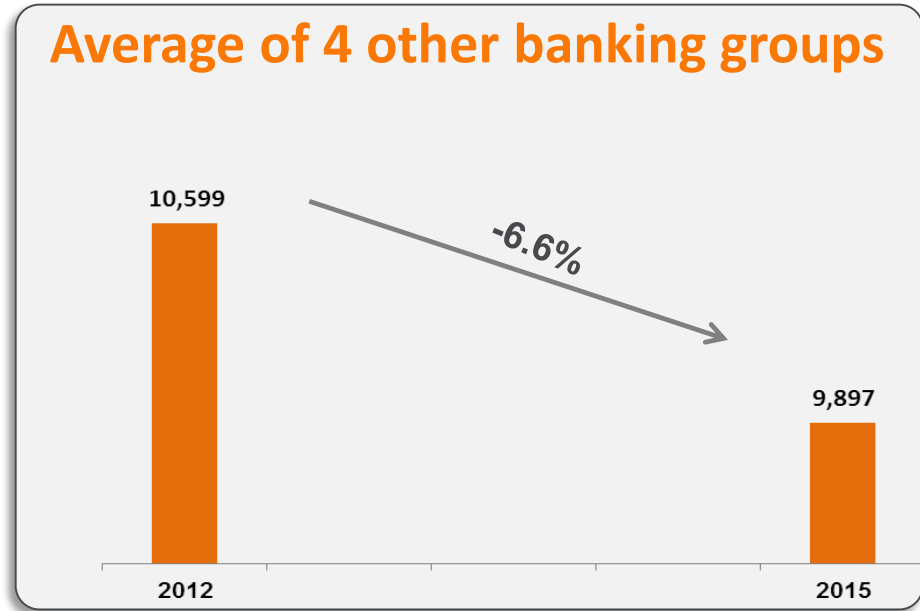
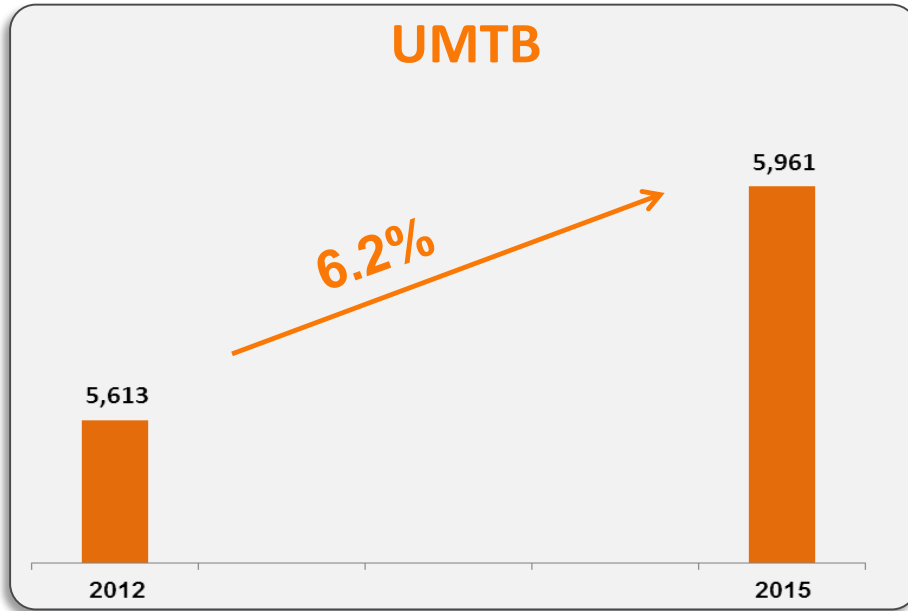
Number of branches in Israel, according to banking groups



The growth strategy of the Bank is reflected in the growth in the number of branches, contrary to the trend in the banking system

Source: Financial reports of the five banking groups, and UMTB's analysis

Number of positions in the Bank⁽¹⁾



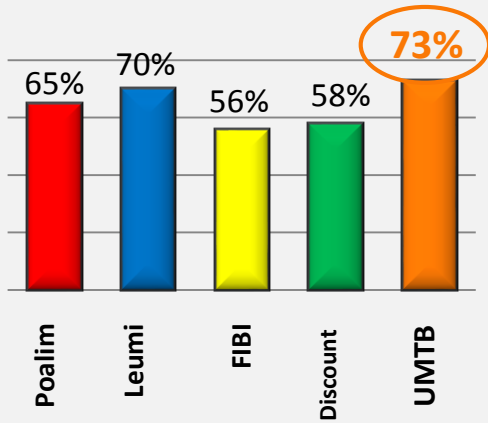
Contrary to the other banks, UMTB is growing in number of employees, on the back of constant increase in business activity, while keeping the best cost/income ratio in the system

Source: Supervisor of Banks annual survey 2015

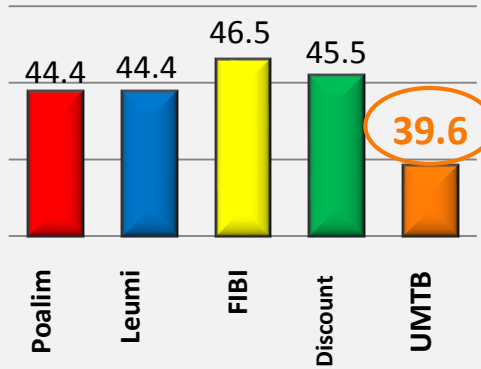
(1) Number of positions according to monthly average and on a group basis (including all the banks of a banking group in Israel and abroad)

2015 work force composition⁽¹⁾

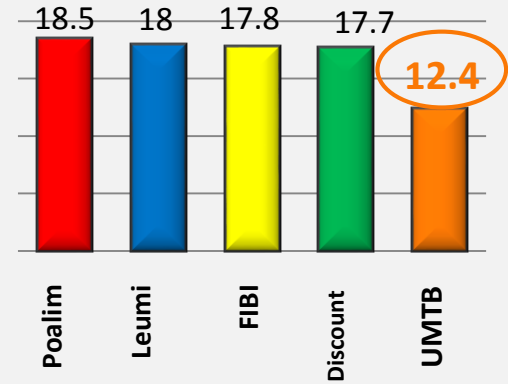
Academic employees (%)



Average age



Average seniority (in years)



UMTB has the most educated youngest work force in the banking system in Israel

Source: Banking groups' financial reports

(1) Data regarding academic employees rates in the banks do not include students



Summary of current position


Continuous growth

In the past 5 years we presented the highest growth rate in credit and deposits, number of branches and positions

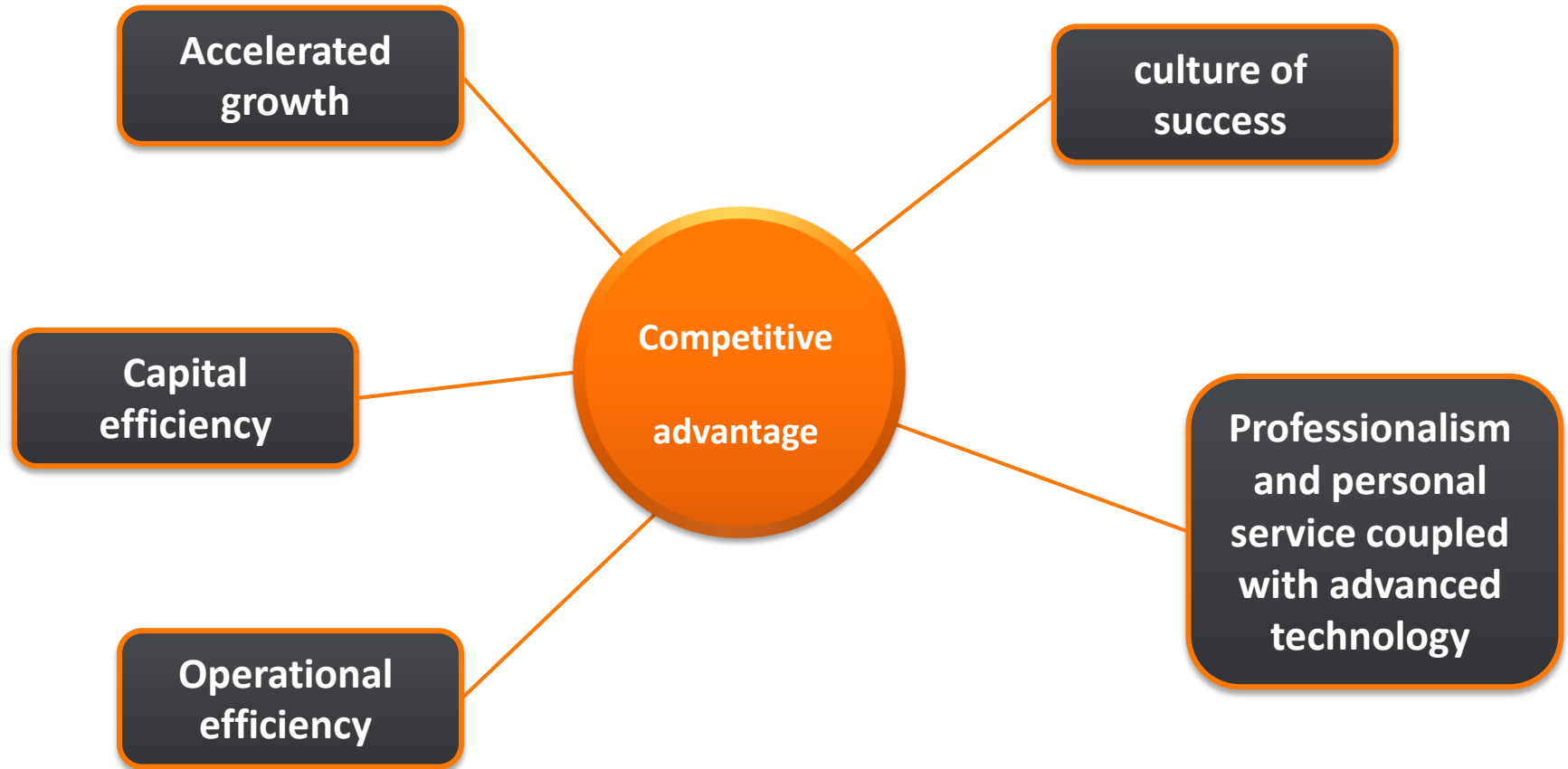
An efficient bank
Best efficiency in the banking system and compares well with OECD average 

Double digit ROE
The most stable and highest ROE in the banking system in Israel 

Leading market share in retail credit 

Quality work force
UMTB has the youngest most educated work force in Israel 

The components of success



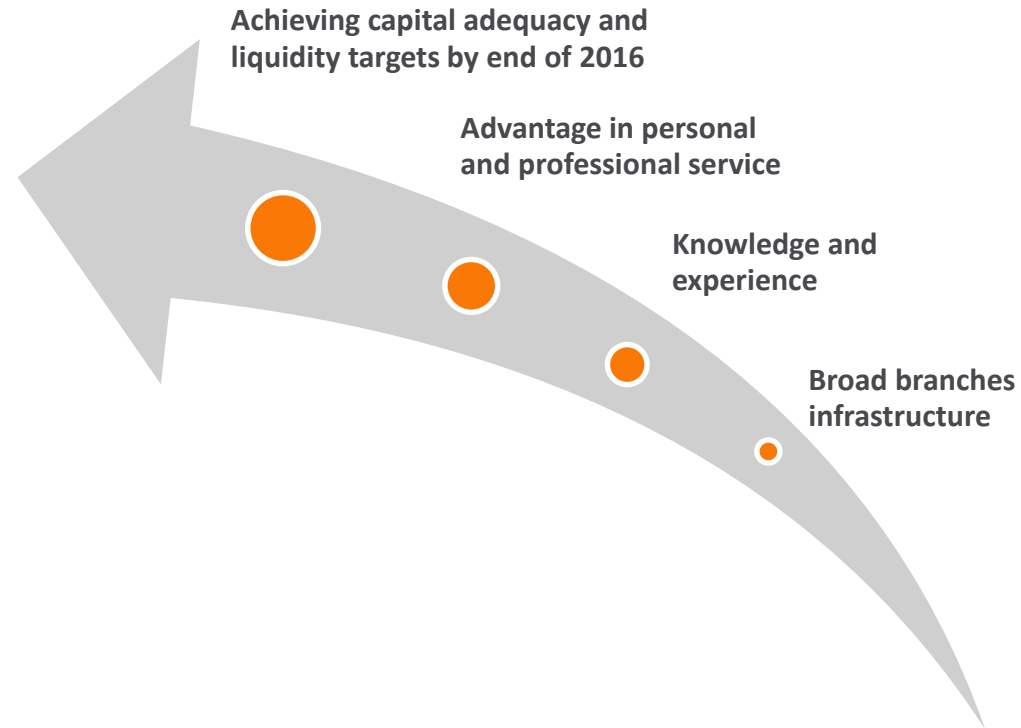
The new strategic plan

The plan's principles

**Increased focus and
expansions in business
segments**

**Maintaining and
strengthening the Bank's
position as leader in retail
banking**

**Becoming a significant
financial assets administrator
in the system**



Strategic plan targets



Continuation of growth momentum



Increasing market share to 20%



Increasing profitability



Maintaining double digit ROE

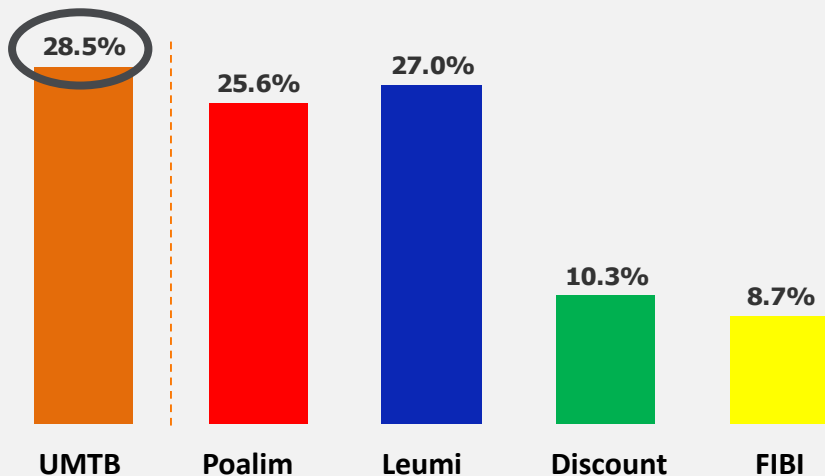


Increasing investors' dividend yield

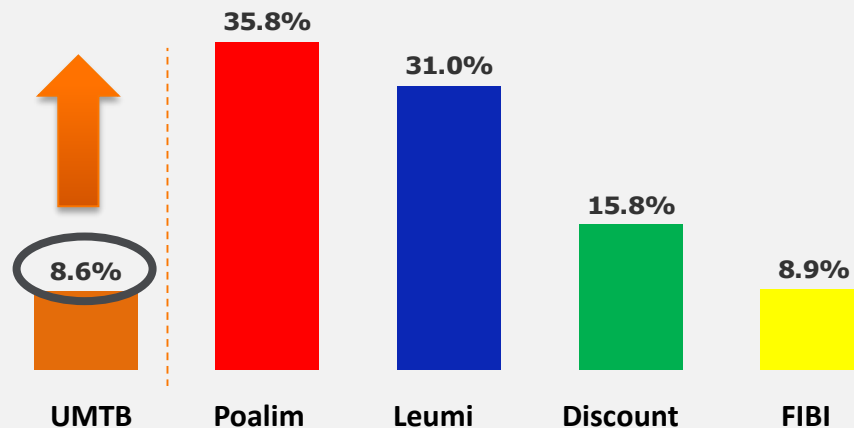
Substantial potential for market share growth In the business segments

Credit to the public in Israel (gross): market shares as of 31.12.2015 – supervisory segments

Retail including mortgages⁽¹⁾



Total business segments⁽²⁾



Due to our market share in the business segments – there is a major expansion potential

Source: Financial reports of the five banking groups, and UMTB's processing

(1) Households segments and private banking segment in Israel

(2) Small and micro businesses, medium businesses, large businesses and institutional investors in Israel

Market share⁽¹⁾

**Small and micro
businesses**

8.4%

**Medium
businesses**

6.9%

**Large businesses and
institutional investors**

9.4%

Expansion potential in all of the business segments

Source: Financial reports of the five banking groups, and UMTB's processing

(1) Supervisory operating segments as of 31.12.2015



Increasing focus on business segments - supporting factors



Retail banking

Higher competition from non-banking institutions

All other banks in the Israeli banking system focusing on retail banking

Increased digitalization may drag retail banking to price competition

Regulatory burden erodes profitability in this segment

consumer credit expansion trend may be turning around

Business banking



Reaching capital adequacy targets allows increasing volume of credit granted to businesses

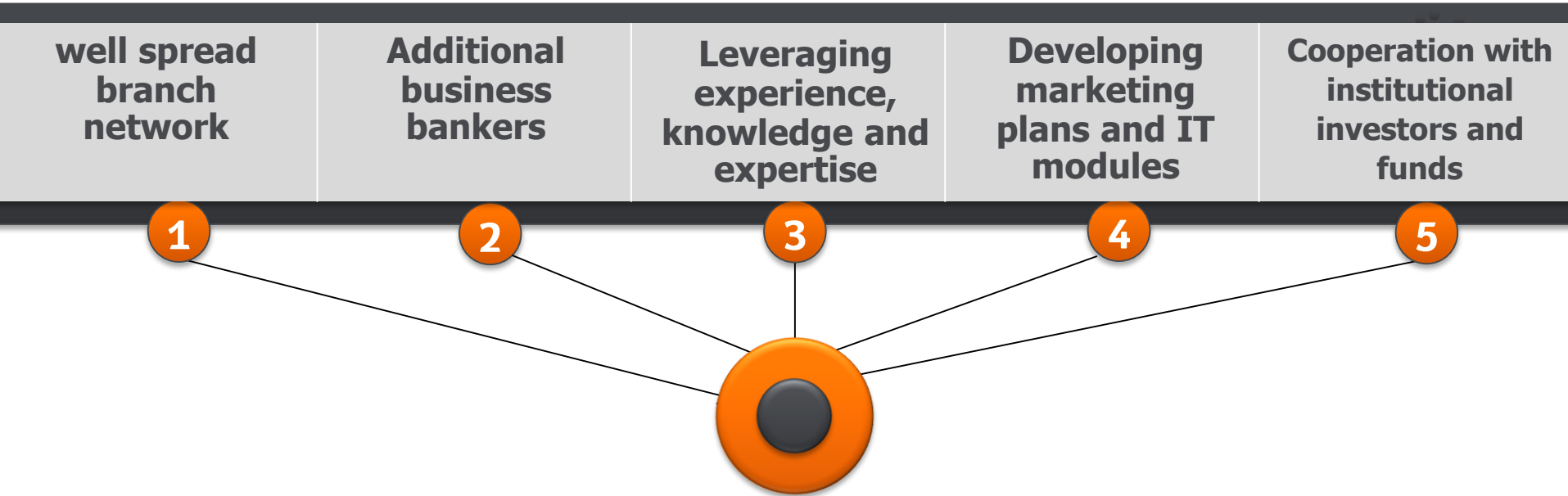
Evident growth trend in the market in leading business sectors as energy, infrastructure and high-tech

Forecast of increase in business credit demand required for growing production capacity

“solvency 2” directive to reduce the regulatory arbitrage between banks and insurance companies

Potential for expansion of small business and medium businesses segments representing the backbone of the Israeli market

increasing focus on business segments – supporting steps



Continue to lead in retail banking

- Leverage on leadership in the mortgage market to expand business activity

- Grow market share in credit to the public and deposits from the public

- “happy banking” – the next level of client banking experience

- Focusing on quality clients, specifically on targeted segments: Arab segment, Ultra- Orthodox segment, third age

- Personal, human service supported by advanced technology

- Strengthening synergies with Yahav bank dual strategy orientation: service oriented and price oriented

Hybrid banking enhancing client experience



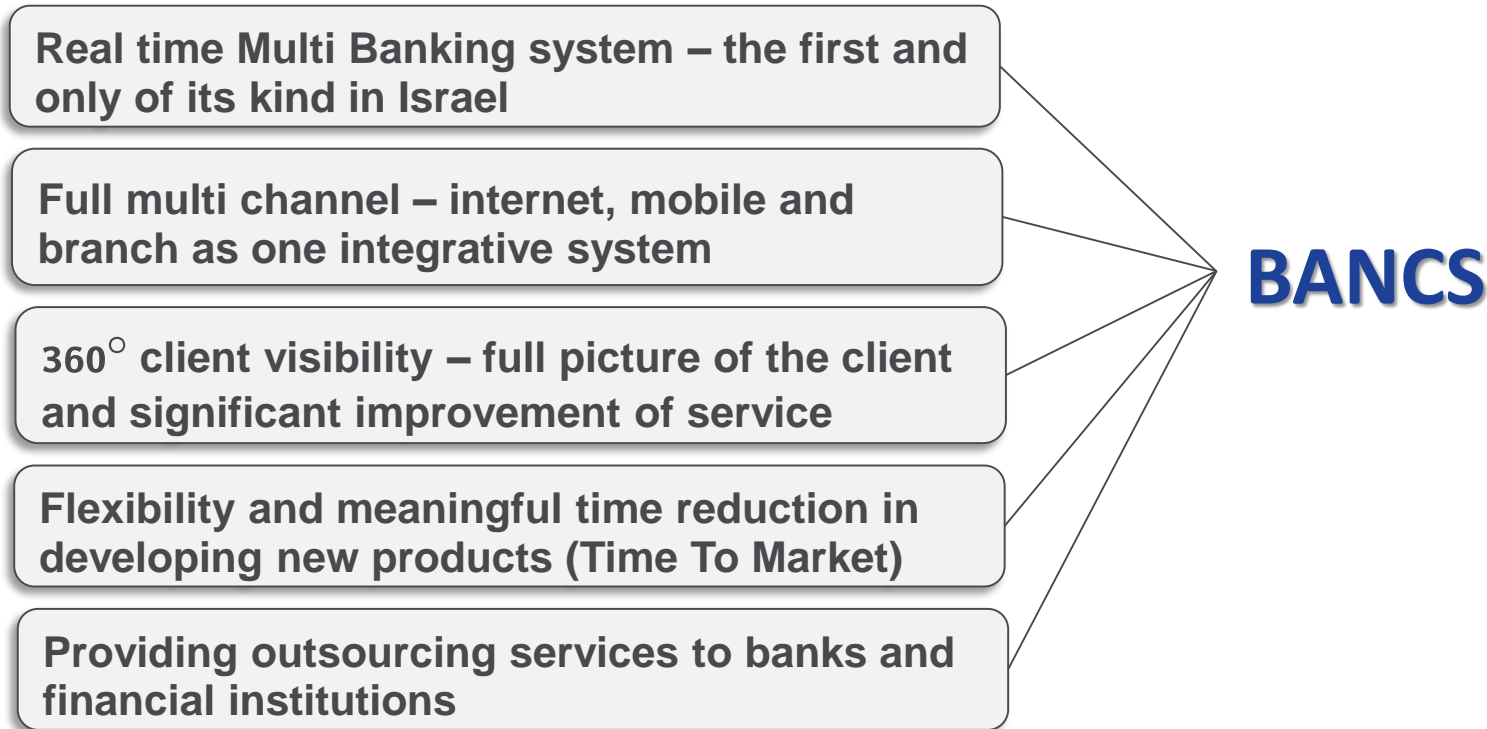
Yahav bank – complementing the retail strategy

In recent years Yahav bank expanded its clientele and increased its market share in the households segment. The new strategic plan aims to continue the market share growth based on price focused strategy and utilization of new platform (BANCS)



Yahav bank – digital innovation

In the coming months Yahav bank is expected to go live with independent core banking system that is advanced and modular (BANCS). The system, by TCS, is ranked among the three leading systems world wide ⁽¹⁾



(1) International Banking System ranking 2015



Leveraging infrastructures

Obtaining a significant position as financial assets custodian and servicer

Operating
provident
funds

Operating
mutual funds

Custody -
pension and
insurance
assets

Trustee to
institutional

BANCS based
computer
services

Cash center
services

Cash
transportation
services

The group will aspire to expand utilization of infrastructure and abilities to extend banking services to other entities in the financial system

Maintaining excellent operational efficiency



Cultivating organizational culture supporting efficiency and improvement



Optimization of branch network and real estate assets



Intelligent utilization of technology to enhance the personal experience of the client



Transfer activities from the branch network to the back office operation



Constructing voluntary retirement plan and maintaining long-term stable work relations



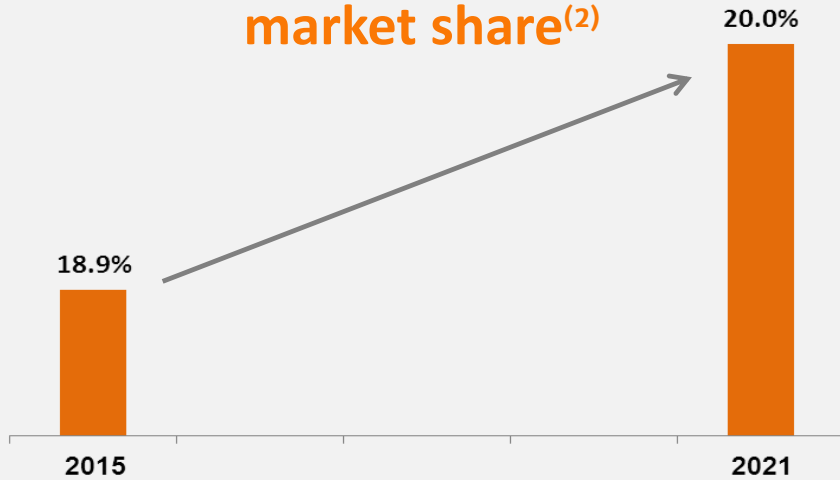
Creating banking processes and operational solutions "LEAN" based

The strategic target of the Bank is cost/income ratio of below 55%

**through the new growth engines
the Bank aims to reach 20%
market share**

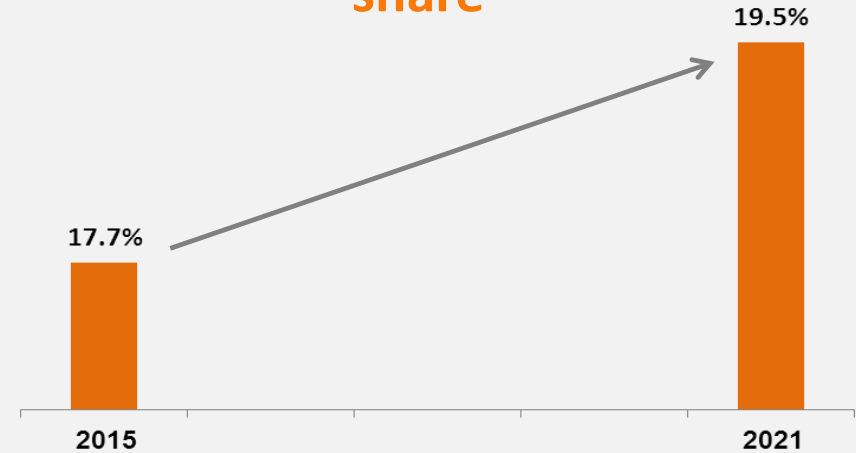
Market share targets⁽¹⁾

Credit to the public in Israel – market share⁽²⁾



Average annual growth of more than 5% in credit to the public in Israel will translate to a market share of 20% for the group

Credit to the public – market share⁽³⁾



Average annual growth of more than 5% in credit to the public will translate to a market share of 19.5% for the group

Source: Financial reports of the five banking groups

(1) Data include UMTB group including Yahav bank

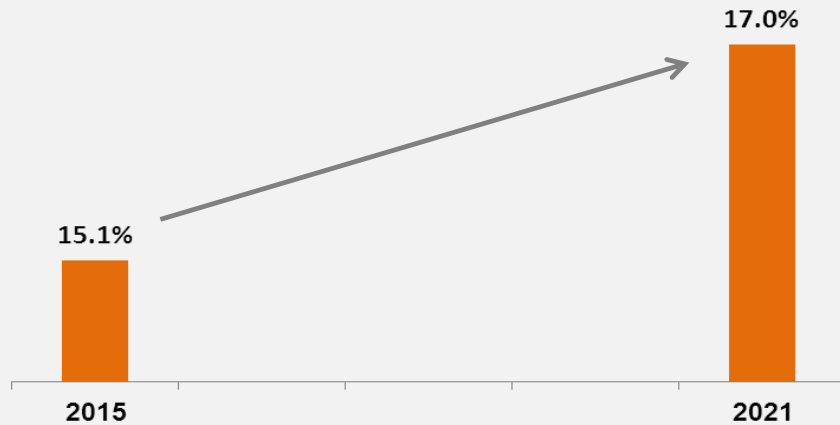
(2) Assuming annual growth rate of credit to the public in Israel in the banking system will be 5%, slightly higher than the growth rate of the system in the last 5 years

(3) Assuming annual growth rate of credit to the public in the banking system will be 4%, like the growth rate of the system in the last 5 years



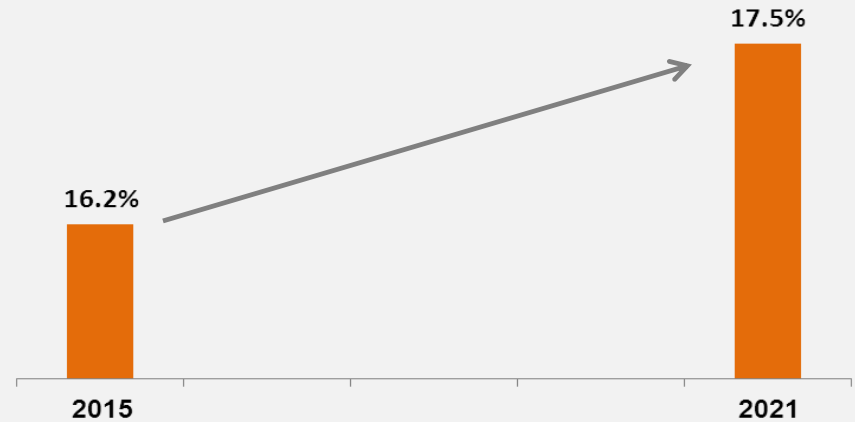
Market share targets⁽¹⁾

Group total assets – market share⁽²⁾



Average annual growth of more than 5% in total assets will translate to a market share of 17% for the group

Deposits from the public in Israel – market share⁽³⁾



Average annual growth of more than 5% in deposits from the public in Israel will translate to a market share of 17.5% for the group

Source: Financial reports of the five banking groups

(1) Data include UMTB group including Yahav bank

(2) Assuming annual growth rate of total assets in the banking system will be 4%, like the average growth in the last 5 years

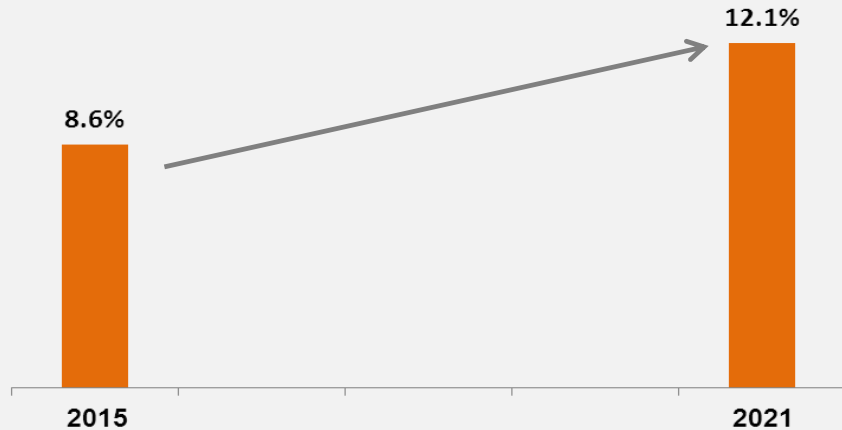
(3) Assuming annual growth rate of deposits from the public in Israel in the banking system will be 5%



Market share targets⁽¹⁾

Supervisory segments

Our share in business credit in Israel⁽²⁾



Average annual growth of 11% in business credit in Israel will translate to a market share of 12% for the group

Our share in business deposits in Israel⁽³⁾



Average annual growth of 10% in business deposits in Israel will translate to a market share of 18% for the group

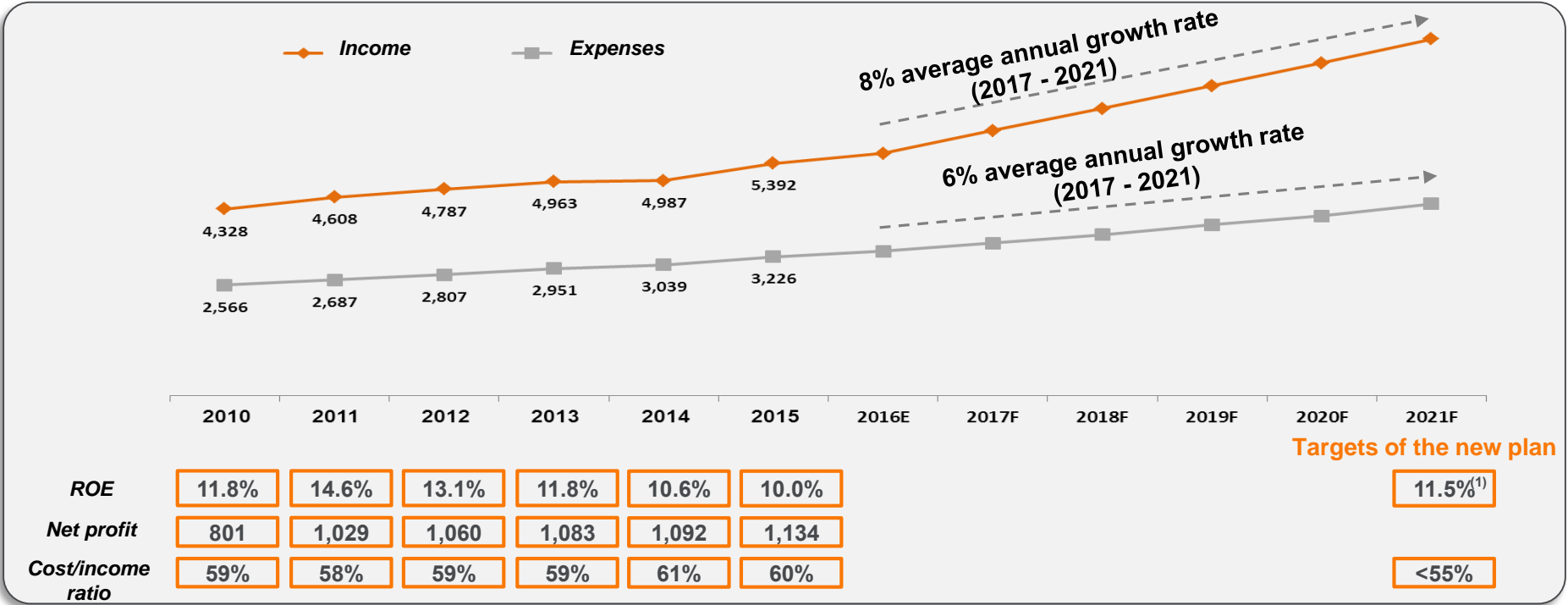
Source: Financial reports of the five banking groups

(1) Data include UMTB group including Yahav bank

(2) Including the following segments: small businesses, medium businesses, large businesses and institutional investors. Assuming annual growth rate of business credit in Israel in the banking system will be 4.5%, compared to almost no change in the last 5 years

(3) Including the following segments: small businesses, medium businesses and large businesses. Assuming annual growth rate of business deposits in Israel in the banking system will be 6%

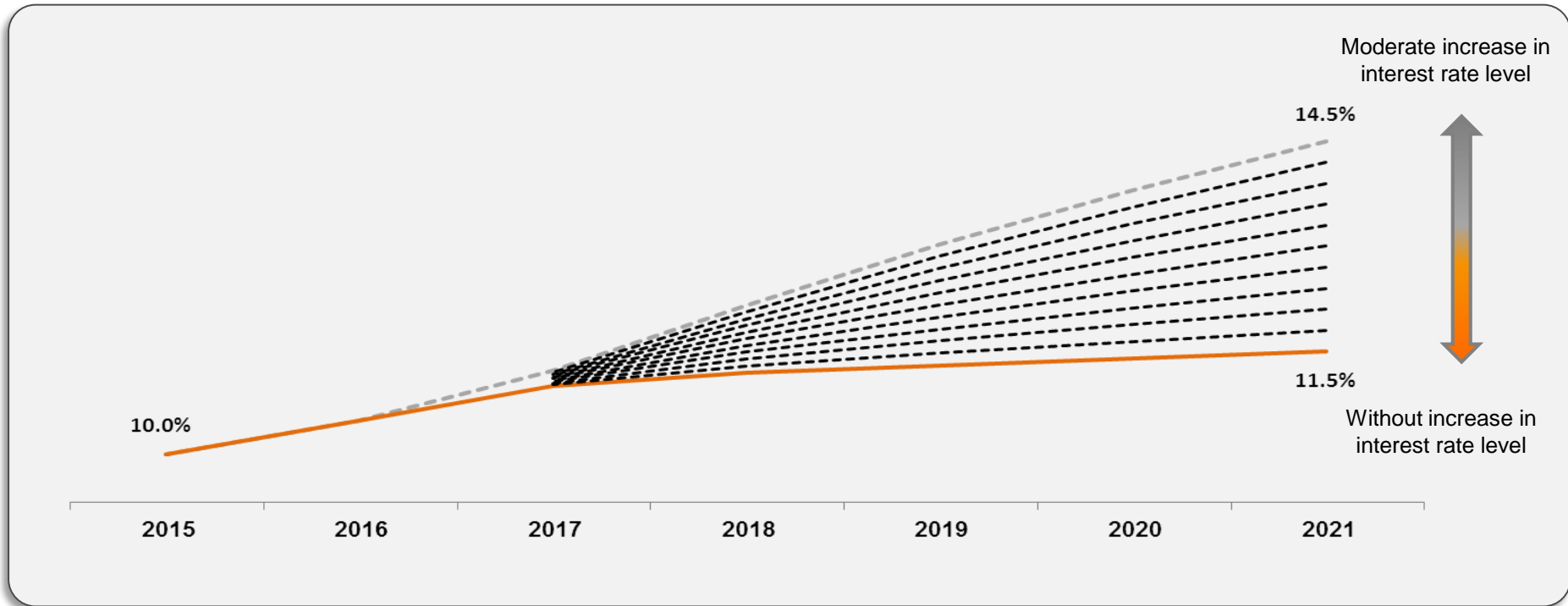
Profitability and ROE targets – at current interest rate level (NIS m)



If interest rate remains, the growth engines of the Bank will translate to increase in income at an average annual rate of 8% (not linear) coupled with control of the average annual expenses increase at up to 6% (not linear)

Source: Bank's financial reports. Past data presented are in accordance with latest financial report for the presented period
 (1) Return on equity of minimal tier 1 plus a safety buffer

ROE ⁽¹⁾ - scenarios

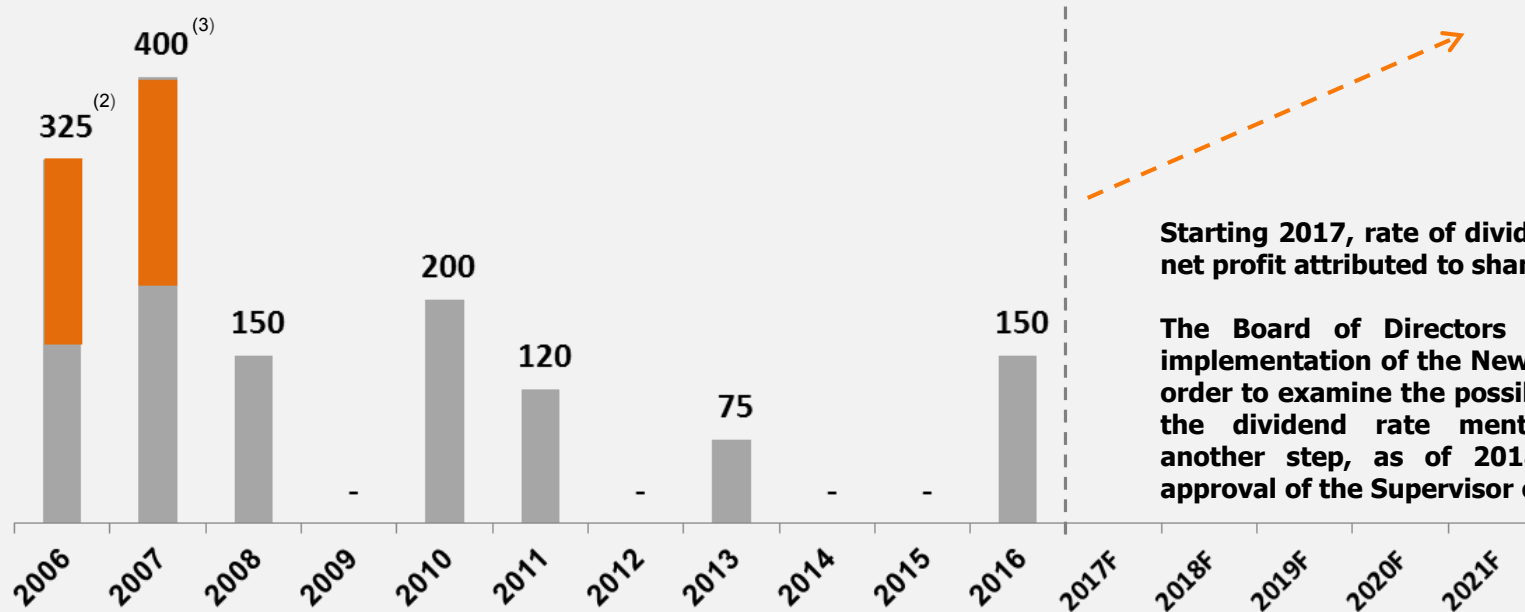


The strategic plan assumptions are conservative regarding Bank of Israel rate and inflation. If these parameters improve compared to their current level, ROE may rise above 11.5%

(1) Return on equity of minimal tier 1 plus a safety buffer

Dividend distribution policy⁽¹⁾

Dividend distributed in the last decade (NIS m)



The new strategic plan supports a significant increase in dividend yield to investors

Starting 2017, rate of dividend distributed of net profit attributed to shareholders: **30%**.

The Board of Directors will monitor the implementation of the New Strategic Plan, in order to examine the possibility of increasing the dividend rate mentioned above by another step, as of 2018, subject to an approval of the Supervisor of Banks.

(1) The updated dividend policy is subject to the Bank's compliance with the ratio of tier 1 capital to risk weighted assets, as required by the Supervisor of Banks' directives, and maintaining proper safety buffers.

(2) The dividend for extra-ordinary profit in 2006 amounted to 170 NIS m

(3) The dividend for extra-ordinary profit in 2007 amounted to 180 NIS m

Summary - main targets

Growth

Amplifying the focus on the business segments, coupled with maintaining the groups' strength in retail activity and leverage on the leadership in the mortgage market:

- The group will achieve 20% market share
- Opening 3 – 5 branches a year, increasing the branch network to 190 - 200 branches

Profitability

Profitability growth resulting in double digit stable Return on Equity throughout the plan's years, reaching 11.5% in 2021

Efficiency

Excellent operational efficiency and cost/income ratio below 60% throughout the plan's years, reaching below 55% by 2021

Higher dividend yield⁽¹⁾

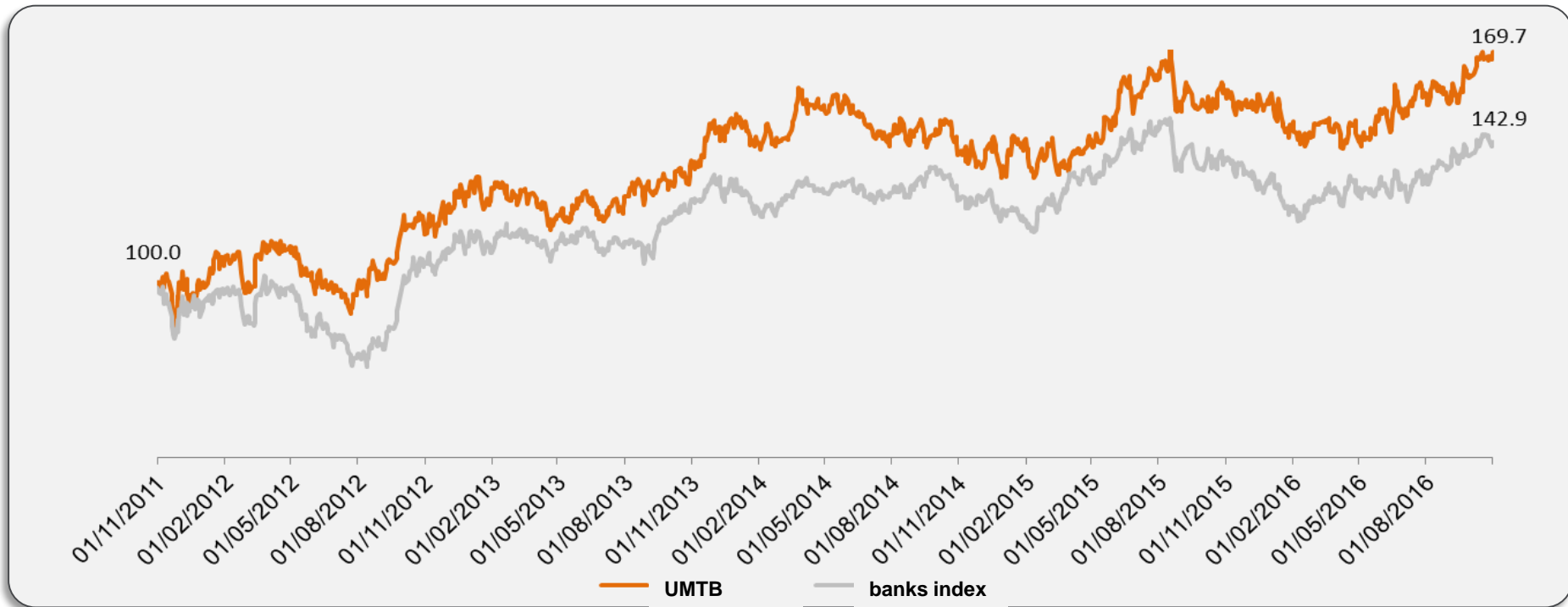
Stating 2017, dividend distribution rate out of net profit attributed to shareholders: 30%

The Board of Directors will monitor the implementation of the New Strategic Plan, in order to examine the possibility of increasing the dividend rate mentioned above by another step, as of 2018, subject to receiving the approval of the Supervisor of Banks.

(1) The updated dividend policy is subject to the Bank's compliance with the ratio of tier 1 capital to risk weighted assets, as required by the Supervisor of Banks' directives, and maintaining proper safety buffers.

UMTB stock (MZTF) Vs. banks index

100 basis = 1.11.2011



UMTB' outperformed the banks index in the past 5 years

Source: TASE



Risk factors that are not under the group's control and may influence the groups growth path

<i>Risk factors</i>	<i>The assumption</i>	<i>The risk</i>
<i>Regulatory risks</i>	<i>Regulatory orders that will change the business environment in Israel are not expected</i>	<ul style="list-style-type: none"> •Regulatory orders can effect the business environment •Legislative initiatives may reduce the Group's ability to provide certain services in the future
<i>Geo political risks</i>	<i>Geo political situation is not expected to change in a way that will harm the business environment</i>	<ul style="list-style-type: none"> •Deterioration of the geo – political situation may result in a local recession •The isolation of Israel may damage the business environment
<i>Monetary conditions in Israel</i>	<ul style="list-style-type: none"> • The interest rate in Israel will remain in its current level • Inflation annual rate of up to 0.5% 	<i>Zero, or negative, interest and inflation level may harm the group's revenues</i>
<i>Real activity in Israel</i>	<ul style="list-style-type: none"> • Stable economic environment – Domestic average annual growth in the coming years of 2.5% 	<ul style="list-style-type: none"> •Additional downturn of in the global real activity growth rate, especially in Europe and main emerging markets. Fear of low demand for local export. •As a result of the global economic situation, the Israeli market may get into a recession, and this in turn will influence the business environment

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



MIZRAHI TEFAHOT

Thank you