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Public

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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Date of transmission: July 4, 2016

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To	**To**
Israel Securities Authority	**Tel Aviv Stock Exchange Ltd**
www.isa.gov.il	**www.tase.co.il**

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: Supplementary Periodic Report 2015

An update to the bank's periodic report for 2015 is attached hereby, submitted via the request of the bank's issuing company (Mizrahi Tefahot Issuing Company Ltd) to receive permission to publish a shelf prospectus.

Attached file 015_-_updated_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: *July 4, 2016* at *09:30*.

The supplementary report was signed by:

1. *Mr. Aviv Menahem, Member of the Board of Management and Chief Accountant*
2. *Ms. Friedman Racheli, Chief Legal Advisor and Head of the Legal Department*

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

Previous names of reporting entity: United Mizrahi Bank Ltd.

Form structure revision date: June 29, 2016

Name of the person reporting electronically: Friedman Rachel; Position held: Legal Advisor; Name of Employing Company:

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[Mizrahi Tefahot Letterhead]

Sivan 28, 5776

July 4, 2016

To:

Israel Securities Authority

Via MAGNA

To:

Tel Aviv Stock Exchange Ltd

Via MAGNA

Re: Supplementary Report to the Periodic Report of

<u>Mizrahi Tefahot Ltd (hereinafter: "Bank") for the Period Ending on December 31, 2015</u>

On February 25, 2016, Mizrahi Tefahot Bank Ltd published the periodic report for December 31, 2015 (Reference: 2016-01-034402) ("**Periodic Report**"); and on May 18, 2016, the Bank published the financial statement for March 31, 2016 (Reference: 2016-01-028419). Ahead of the publication of Mizrahi Tefahot Issuing Ltd's shelf prospectus, the bank was requested to publish several clarifications and supplements to the Periodic Report.

Below are the clarifications and supplements as aforesaid:

1. **Clarifications and supplements to Note 4 to the financial statements – commissions**

   (Page 275)

   Below are the (consolidated) commission data for the year ending on December 31, reported sums (in ILS M), as published by the bank in the Periodic Report:

	Consolidated		
	2015	2014	2013
Account	303	298	298

management[1]			
Credit cards	158	156	150
Activities involving securities	244	238	223
Commissions on distribution of financial product[2]	55	54	47
Provident fund operations	20	19	40
Credit processing	38	56	148
Translation differences	169	137	132
Foreign trade activity	41	43	34
Net revenues from credit portfolio service	55	62	72
Life insurance distribution commissions	93	95	91
Home insurance distribution commissions	15	21	24
Commissions from financing transactions[3]	193	181	168

[1] In Israeli currency and in foreign currency.
[2] Includes distribution commissions from mutual funds and retirement products.
[3] For information about application of US standard FAS 91 (ASC 310-20) with regard to measurement of interest revenues as from January 1, 2014, see Note 1.D.4 to the financial statements.

Other commissions	42	35	31
Total commissions	1426	1395	1458

As stated in the Board of Directors and Management's report, the commission data were affected by legislation and various regulatory directives:

Banking Rules (Customer Service)(Commissions)(Amendment) 5774-2013, which affected the group's revenue from account management commissions, as detailed in the above table, as of coming into effect on April 1, 2014. For further details, see page 122 of the bank's financial statements for December 31, 2014.

Banking Order (Customer Service)(Control of Basic Bundle Service) 5774-2014, which affected the group's revenue from account management commissions, as detailed in the above table, as of coming into effect on April 1, 2014. For further details, see page 123 of the bank's financial statements for December 31, 2014.

Banking Rules (Customer Service)(Commissions)(Amendment) 5775-2015

The amendment's implementation mainly affects the group's revenue from account management commissions and credit handling commissions as detailed in the table above. For further details, see page 96 of the bank's financial statements for September 30, 2015.

Banking Order (Customer Service)(Supervision of Notification Service) 5775-2015

The order's implementation affects the group's revenue from credit handling commissions as detailed in the table above. For further details, see page 96 of the bank's financial statements for September 30, 2015.

Financial Services Regulations (Insurance)(Maximal Commissions in Building Insurance By Way of Housing Loan) 5773-2012

The regulations, which were published on August 26, 2012, require that the commissions an insurer pays an insurance agent due to a comprehensive home insurance required as collateral for a housing loan shall not exceed 20% (including VAT) of the insurance commission collected by the insurer from the insured. The decline in the maximal commission has been performed gradually since January 1, 2013, with the maximal commission set at 30% in 2013 and 25% in 2014. This decline in the commission rate affects the group's revenue from home insurance distribution as detailed in the table above.

The regulatory effects, as described above, reduced the effect of the bank's business growth ("Quantity effect"), so that overall 2015 commissions amounted to ILS 1426M, compared with ILS 1395M in 2014 – a 2.2% increase.

2014 includes the implementation of FAS91, as stated in Note 1 of the financial statements, so that commissions were affected by a ILS 92M decline. Excluding this effect, and including the regulatory effects described above, commissions in 2014 amounted to ILS 1487M, compared with ILS 1458 in 2013 – a 2% increase.

Further explanations to the change in balances presented in the note:

- The termination of provident fund operation activities at Bank Yahav (which ended in the fourth quarter of 2012) explains the decline in "Provident fund operation".
- The decline in net revenue from credit portfolio services is explained by the ongoing decline in the housing loan portfolio under the state's responsibility.

2. **Clarifications and supplements to Note 1 to the financial statements, regarding the adoption of US accounting rules regarding the measurement of interest revenue**

(Note 1.D.4D, page 245)

Below are details and clarifications relating to the recognition of revenue from early repayment commissions:

As stated in the note, as from January 1, 2014, the bank applies the directives specified in the Supervisor of Banks' circular with regard to adoption of generally accepted accounting principles for banks in the USA with regard to measuring interest revenues (ASC 310-20).

The rules establish that commissions from the creation of loans shall not be recognized in the profit and loss statement, but shall be taken into account in the calculation of the loan's effective interest.

In addition, rules were established to handle change in debt conditions and early repayment commissions.

It was further noted in the note that commissions charged due to early repayment performed prior to January 1, 2014 and not yet amortized are recognized over a period of three years or the remaining term of the loan - whichever is shorter. Commissions charged due to early repayment performed after January 1, 2014 are recognized immediately as interest revenue.

It should be clarified that due to the "from now on" manner of implementation of the standard from January 1, 2014, in 2014, 2015 and 2016, revenues from the ongoing spread created by the accounting method practiced prior to the implementation of the new standard are included, concurrently with the immediate allocation of revenue due to the collection of early repayment commissions according to the established rules.

In 2017, only ongoing revenue will be included as part of the revenue from early repayment commissions.

In 2015, ILS 78M were allocated as interest revenue due to the ongoing spread of commissions, compared with ILS 94M in 2014.

It should be noted in this context that on the other hand, as time has passed from the initial implementation, more interest revenue is recognized consequently to commission spreads from loan creations according to the effective interest method, as mentioned above.

3. **Clarifications and supplements to Note 1, 13, 30 to the financial statements on the subject of impaired debt, credit risk and provision for credit losses** (Note 1.d. 6 c, page 248) (Note 13b, page 295) (Note 30 1. b, page 420)

In Note 1, it was stated that according to the bank's policy, a debt over ILS 700K is classified as impaired when, based on current information and events, it is expected that the bank will not be able to collect all the sums owed thereto under the contractual terms of the debt agreement.

It should be clarified that the statement which appears in the note in this context – "In any case, debt is classified as impaired when its principal or interest is in arrears over 90 days, unless the debt is well secured and is in collection proceedings" – refers to debts that exceed ILS 700K.

Debts below ILS 700K which have been in arrears for 90 days or more are evaluated on a group basis, and classified as inferior debt in this case.

Below are expansions and clarifications on the transaction in the credit losses provision balance, as detailed in Note 13 to the financial statements:
The balance of the accounting write-offs presented in the note primarily includes write-offs that are of a technical nature arising from the passage of time with regard to the customer's arrear, in accordance with the US standard applicable to the Bank in this regard.
Thus, for example, the provision balance of large impaired debts is usually written off after two years.
A debt measured on a group basis is written off after 150 arrear days.
This means that the bank's collection efforts occasionally take longer compared to the write-off's timing according to the accounting rules.
Consequently, relatively high balances for "write-offs" and "recovery of debts written off for accounting purposes in previous years" are presented.

Below are expansions and clarifications on that which is stated with regard to credit quality in Note 30:
The paragraph below is re-edited.
The state of debts arrears is monitored daily and in an automated manner, providing one of the key indications of credit quality. The state of arrears, and consequently classification of the debt, are performed, *inter alia*, according to the actual number of days in arrears for each debt.

Non-performing debts

A debt measured on an individual basis is defined as non-performing (not accruing interest revenue) after 90 arrear days.
A debt previously reorganized as a problematic debt, which has become arreared under its new terms as well, shall be classified as non-performing as well.

Debt measured on a group basis shall be defined as non-performing (inferior) after 150 arrear days. At this time, the debt shall also be written off.

Inferior debts

A debt on an individual track is classified as a revenue-accruing inferior debt after 60 arrear days. A debt on a group track is classified as inferior after 90 arrear days.

Housing loans

The arrear status of housing loans is monitored according to the depth of the loan's arrearage, except in loans without a monthly or quarterly payment.
The credit risk characteristics, including risk specific to housing loans, are included in the Board of Directors and Management report, under the Risk Review chapter.

4. **Clarifications and supplements to Note 29 to the financial statements on the subject of activity segments**

   (Page 404)

   a. Below are expansions and supplements to the principles according to which balances, revenue and expenditure are attributed to customers.
      The following paragraph is presented as included in the note, including expansions and supplements relating to the allocation of capital, transfer prices, inter-segment revenue and expenditure and indirect expenditure.

      The principles used in assigning balances, revenues and expenses to customers in the system are as follows:

      - Credit interest revenues and deposit interest expenses are directly attributed to the customer. For credit, expense set at the cost of capital raised (the transfer price) is attributed to customers, against an inter-segment credit to the Financial Management segment. Each of the segments is also charged with the surplus premium inherent in the cost of raising capital instruments eligible for capital adequacy - this, according to the capital attributed to its operations. For deposits, revenue set at cost of capital raised is attributed to customers, against an inter-segment debit to the Financial Management segment. The transfer prices for credit and deposits are similar. Each segment is credited according to the capital attributed to its operations, against a charge of the Financial Management segment. Capital consumption is measured by the average scope of the risk-adjusted assets managed in the segment.

- In the calculation of the risk-adjusted assets attributable to each segment, off-balance credit exposures are "converted" to credit equivalent, according to the coefficients stipulated in the provisions of the capital adequacy measurement.
- For derivative instrument operations, profits are attributed to the customer at the spread incorporated in the inherent price of the derivative instrument quoted to the customer. Profit arising from changes to fair value of derivatives is attributed to Financial Management.
- Profit and loss from bank investment in securities and from strategic positions are attributed to Financial Management.
- Expenses with respect to credit losses are directly attributed to customers on behalf of whom they were made.
- Commission and other revenues are specifically attributed to customers.
- Payroll, building maintenance and other expenses attributed specifically to branches, are loaded on branch customers via loading bases which express the volume of customer activity and the number of operations in his account. Later, an additional (inter-segment) account-settling is performed, under which part of the branch's direct expenses are loaded unto customers from non-retail activity segments. The inter-segment account-settling reflects the fact that the branch also serves non-retail customers. This account-

settling is presented as part of the inter-segment expenditure/revenue in the note.

- Payroll expenses of headquarters staff, maintenance and other expenses not specifically related to branches, are loaded on customers based on appropriate load bases, which take into account the expense's share relative to the segment.

  Occasionally, certain headquarter expenses can be attributed to a specific activity segment; and occasionally, certain headquarter expenses can be attributed according to an existing evaluation of the resource distribution allocated per each segment.

  When headquarter expenses cannot be attributed, they shall be loaded according to an adjustment of scope and computer actions as aforesaid. As part of this, computer expenses directly related to specific activity segments are attributed to those segments, while other computer expenses are loaded unto the activity segments according to employee numbers.
- Provision for tax on profit from ordinary activity is attributed to customers, pro-rated in accordance with the effective tax rate and accounting for tax impact referring to specific segments and not to all bank operations.
- Return on equity is calculated as the ratio of net profit to attributed equity. Equity is attributed based on the average risk assets of the customers.
- Balance sheet and assets-under-management balances are specifically attributed to customers.
- Fixed assets are attributed based on the appropriate loading bases.

b. Below are the effects of expenses relating to the US Department of Justice's investigation of the private banking segment:

   If the expenses relating to the US Department of Justice investigation of the private banking segment (and not the Financial Management segment, as the bank attributed), the net loss in this segment would amount to ILS

98M in 2015 (compared with a profit of ILS 29M, according to the management's approach in the financial statements).
Accordingly, the Financial Management segment's net profit in 2015 would have amounted to ILS 136M in 2015 (compared with a profit of ILS 9M, according to the management's approach in the financial statements).

Furthermore, below is the effect of attribution to geographic areas:
The net profit outside of Israel would have amounted to ILS 27M in 2015 (compared with a profit of ILS 43M in the financial statements).
Accordingly, the net profit in Israel would have amounted to ILS 1107M in 2015 (compared with a profit of ILS 1091M in the financial statements).

5. **Clarifications and supplements to Note 1 to the financial statements on the subject of the consolidating basis of subsidiaries**

Consolidated companies in which the bank does not hold more than 50% of the means of control

(Note 1 d.2) b. - page 242)

The bank holds 50% of the issued and paid capital of Bank Yahav for Government Employees Ltd (hereinafter: "**Bank Yahav**"). The rest of the issued and paid capital is held by a single shareholder and the bank does not have excessive legal rights. The Supervisor of Banks has allowed the bank to consolidate the financial statements of Bank Yahav according to the existing circumstances regarding the bank's level of effect over the management of Bank Yahav's business, and according to Article 9g of the Reporting to the Public Directives.

Had the bank not consolidated Bank Yahav's financial statements, then the consolidated financial statements (excluding Bank Yahav) would have been similar to the bank's solo financial statements, as published, except for the significant changes below:

Main balance sheet data (as of December 31, 2015)

- The affiliated company investment balance would have decreased by approx. ILS 1.5B.
- The deposits from the public balance would have decreased by approx. ILS 21.2B.
- The bond and deferred deed balance would have increased by approx. ILS 20.6B.

Main profit and loss data (for 2015)

- The total non-interest revenue would have increased by approx. ILS 133M.
- The net profit share of affiliated companies, after the tax effect, would have decreased by approx. ILS 89M.

For details regarding the held company investment balance and the contribution to the net profit attributed to the bank's shareholders, see Note 15 to the financial statements as of December 31, 2015 (pages 300-301).

6. **Clarifications and supplements to the Board of Directors and Management's report on the subject of housing loan risk – the LTV ratio**

(Page 154)

The LTV ratio used by the bank for the purpose of managing and reviewing the risks of its mortgage portfolio - and particularly for the purpose of performing (extreme) stress tests - is the historical LTV ratio calculated on the date of the loan's approval, and does not take into account the changes that have occurred to housing prices since that date onwards.

Therefore, the portfolio's current LTV ratio, which takes these changes into account, is different than the historical LTV ratio used by the bank.

In view of the increase in housing prices, since 2008, the bank's current LTV ratio adjusted to this increase is lower than the LTV ratio used by the bank; and similarly, the inherent risk level of the portfolio is lower than the risk level in the bank's reports. Therefore, the portfolio analysis results - and particularly the analyses of the LTV ratio and results of the stress tests – should be related to as conservative results.

In this context, it should be noted that that the average LTV ratio of the bank as of December 31, 2015, based on the current clearance balances (without updating the property's value due to changes in the housing prices), would have declined as follows:

In loans up to a year old, at a rate of approx. 3%;

In loans that are between a year and five years old, at a rate of approx. 7%

In loans that are over five years old, at a rate of approx. 18%

In all loans, at a rate of approx. 10%

7. **Clarifications and supplements to Note 26 c.12) to the financial statements on the subject of the US Department of Justice investigation**

   (Page 386-389)

   It should be noted in connection with the provision amount for the investigation, as mentioned in the note (USD 36M – approx. ILS 141M), that this sum was calculated with respect to the data regarding which the bank's legal advisors were of the opinion that they may be relevant, as well as according to the components regarding which they were of the opinion that they should be taken into account for calculation purposes, as the matter may be: an estimate of the revenue tax that the American customers related to these data ("the relevant customers") were supposed to pay to the US tax authority, the revenue the bank derived from the relevant customers' banking activities, and a rate of the relevant customers' financial assets. With respect to the data related to Mizrahi Switzerland's business with American customers, the provision was calculated based on a calculation which relies on the theoretical assumption that Mizrahi Switzerland Bank is included in the Swiss plan.

Respectfully,

Mizrahi Tefahot bank Ltd.

Names of signatories:

Name: Aviv Menahem

Position: Member of the Board of Management and Chief Accountant

Name: Friedman Racheli

Position: Chief Legal Advisor and Head of the Legal Department