MIZRAHI TEFAHOT

Strategic Plan Targets Update

Capital Market Presentation

December 2014

This document constitutes an English translation of the Presentation, originally drafted and published in Hebrew. For legal purposes, it is clarified herein that whilst every effort was made to provide accurate information, this translation bears no legal status and the Bank shall not be held liable as to its accuracy and/or its contents.
The authentic 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. (the "Bank"), in connection with the update of the Bank's strategic plan for the years 2013-2017, as published by the Bank (the “Updated Strategic Plan"), for the purpose of the presentation thereof in meetings with various participants in the capital markets in Israel and abroad.

The information included herein is not exhaustive and does not include all information and data regarding the Bank and its business or the risk factors which its activity involves and does not substitute the information included in the Bank’s annual or quarterly financial reports; or immediate reports published by the Bank. For a full description of the Bank and its business and the risk factors which its activity involves, please see the reports which were published by the Bank, including its annual and quarterly financial reports and immediate reports, published by the Bank.

The information included herein is based, *inter alia*, on information which is known to the Bank's management as of the date of preparing the presentation, including public data, which were not examined by the Bank's management independently and for which the Bank is not responsible.

The information included herein does not constitute advice, recommendation, opinion or a proposal regarding an investment in any securities whatsoever.

The Updated Strategic Plan describes the Bank's targets for the remaining period of the original plan, and should not be deemed to constitute a forecast, an estimate or an evaluation, with respect to achieving the said targets, and as such, by its very nature, the Updated Strategic Plan may not be realized.

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

The Board of Directors will monitor the implementation of the Updated Strategic Plan and may amend it from time to time, as required, including, as a consequence of factors which may affect the plan.

Without derogating from the generality of the aforesaid, 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: “the Assumptions") as detailed in the Updated Strategic Plan, which might not be realized due to factors which are beyond the Bank's control, and could cause the Updated Strategic Plan to not be realized.

For the avoidance of doubt, it is clarified, that the Bank does not undertake to update the information included herein.

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

The original strategic plan – status report[1]
Balance sheet

Balance Sheet Outstanding (NIS bil)	31.12.2017 Original Plan	30.9.2014	31.12.2011	CAGR[2] 12/2011 –9/2014	CAGR[2] 12/2011 – 12/2017
Credit to the Public	174	147	119	7.8%	6.5%
Balance Sheet Debt in Israel[3]	173	144	118	7.0%	6.6%
Deposits from the Public	176	151	119	8.9%	6.7%
% of Credit to Households	65%	74%[4]	70%		

The bank has been growing at high rates, even beyond the presented outline. Therefore, it was decided that the growth targets of the strategic plan would be updated upwards.

Source: The bank's financial reports.

(1) Data include data of the Mizrahi Tefahot Group, including Yahav Bank.

(2) Compound Annual Growth Rate. The presented growth rates are non-linear.

(3) The original target referred to "Balance Sheet Credit Risk in Israel", which included bonds balances and fair value of derivatives. The updated definition in the financial reports is Balance Sheet Debt in Israel, which does not include bonds balances and fair value of derivatives. For the sake of comparison, the original data were adjusted to the updated definition. Note that the balance sheet credit risk in Israel in 2011 was approx. 120 NIS bil while the debt balance, according to the updated definition, was approx. 118 NIS bil.

(4) Retail credit growth was affected positively by a rise in housing loans demands, along weak business credit demands.

Targets of the original strategic plan – status report[1]

Market share

	31.12.2017 Target Original Plan	30.9.2014	31.12.2011
Market Shares			
Credit to the Public	17.5%	17.4%	15.1%
Balance Sheet Debt in Israel[3]	18.0%	18.6%	16.6%
Commercial Debt Balance in Israel [2] [3]	11.5%	9.2%	9.0%
Housing Loans (New Initiations)	+35%	35%[4]	34%
Deposits from the Public	16.0%	15.8%	13.5%

The bank has already achieved most of the market share targets defined as the targets for the end of the original plan period. Therefore, it was decided that most of the market share targets of the strategic plan would be updated upwards.

Source: Housing Loans (New Initiations) data in Israel – Bank of Israel report. Other data – financial reports of the five banking groups.

(1) Data include data of the Mizrahi Tefahot Group, including Yahav Bank.

(2) The original target referred to "Balance Sheet Credit Risk in Israel", which included bonds balances and fair value of derivatives. The updated definition in the financial reports is Balance Sheet Debt in Israel, which does not include bonds balances and fair value of derivatives. For the sake of comparison, 2011 data were adjusted to the updated definition.

(3) A moderation in the commercial credit demands in the market weighs on the increase of the market share in this sector.

(4) Housing Loans (New Initiations) in January-September 2014.

Targets of the original strategic plan - status report[1]
Financial ratios

	2017 Target Original Plan	January – September 2014	2011
ROE **(annual)**	14.5%	11.4%	14.6%
Core tier 1 Capital **(end of period)**	9.0%[2]	9.0%	7.8%
Cost/Income Ratio **(operating expenses divided by total income)**	≤55%	61%[3]	58%

In light of the more moderate macro-economic environment compared with the one that was the base for the original plan, as well as the developments in the regulatory environment – including higher capital requirements - it was decided that the ROE targets of the strategic plan would be updated.

Source: the Bank's financial reports.
(1) Data include data of the Mizrahi Tefahot Group, including Yahav Bank.
(2) In addition, the Board of Directors has instructed the Bank's management to maintain a capital cushion, insofar as this will be possible.
(3) The moderate increase in cost/income ratio is the result of a low interest rate and inflation environment.

Materialization of the risk factors of the original strategic plan for 2013-2017 compared with the assumptions at its basis

Regulatory Risks

The Assumption

Regulatory instructions that will substantially change the business environment in Israel are not expected , other than decisions already known now

The Risk

- *Regulatory instructions can effect the Group's business environment*
- *Legislative initiatives may reduce the Group's ability to provide certain services in the future*

Risk Materialization

- ***The ratio of tier 1 capital to elements of risk was increased – a capital addition at a rate representing 1% of the housing loans portfolio***

Geo-political Risks

The Assumption

The geo-political situation is not expected to change materially

The Risk

- *Deterioration of the geo – political situation may result in a local recession*
- *The isolation of Israel may damage the business environment*

Global Economy Risks

The Assumption

World economic growth is expected to at least on or close to zero growth per capita

The Risk

The Euro zone crisis may deteriorate and drag global economy to a deep and long recession

Domestic Economy Risks

The Assumption

- *Supportive economic environment – Domestic average annual growth of at least 3.5%*
- *Inflation will be within government current target and interest rates will correlate with this level*

The Risk

- *As a result of the global economic situation, the Israeli economy may get into a recession, and this in turn will influence the business environment*
- *A low interest level for a long period of time may jeopardize the Groups revenues*

Risk Materialization

- ***The growth rate of the Israeli economy since the plan's initiation had been at an average rate of only 2.8% per annum.***
- ***The inflation rate is below the price stability range, while the monetary interest is historically low***

Updating the strategic plan's targets

The bank's board of directors has revisited the targets of the strategic plan and decided on the following updates.

a. updating market share targets

The bank has been growing at high rates, beyond the specified path. Therefore, it has been decided that the balance sheet activity and market share targets of the strategic plan will be updated.

b. updating the dividend distribution policy

Starting 2015, the bank will resume distributing a dividend in accordance with an updated dividend policy and subject to the instructions of the Supervisor of Banks.

c. updating the ROE target

The ROE target for 2017 will be updated from 14.5% to 13.0%, with an average 8% increase in annual revenue (non-linear) and control of the expense growth at an annual rate of up to 4.5% (non-linear). This, as a result of the materialization of two main factors that have a significant effect on the domestic economy's business activity of the banking system:

1. **Macro-economic conditions change:** a slowdown in real activity and domestic economy's growth rate, inflation rate is below price stability range and monetary interest, which is at a historical low.
2. **The effect of the regulatory instructions**, particularly the instruction regarding an additional capital requirement of 1% of the Housing Loans portfolio, which affects the required core tier 1 capital.

Balance sheet – updated strategic plan (1) (NIS bil)

Target	31.12.2017 – Updated Plan	CAGR (2)	30.9.2014	31.12.2017 Original Plan
Credit to the Public	178	6.1%	147	174
Balance Sheet Debt in Israel (3)	176	6.2%	144	173
Deposits from the Public	187	6.9%	151	176
% of Credit to Households	73%		74% (4)	65%

In light of the bank's growth at rates higher than those defined in the original plan, the balance sheet projections were updated upwards compared with the original plan.

Source: the bank's financial reports.

(1) Data include data of the Mizrahi Tefahot Group, including Yahav Bank.

(2) Compound Annual Growth Rate. The presented growth rates are non-linear.

(3) The original target referred to "Balance Sheet Credit Risk in Israel", which included bonds balances and fair value of derivatives. The updated definition in the financial reports is Balance Sheet Debt in Israel, which does not include bonds balances and fair value of derivatives. For the sake of comparison, the original data were adjusted to the updated definition. Note that the balance sheet credit risk projected in Israel in 2017 was approx. 176 NIS bil.

(4) Retail credit growth was affected positively by a rise in housing loan demands, along weak business credit demands.

Market share targets – updated strategic plan[1]

Market Shares	2017 Updated Plan	30.9.2014
Credit to the Public	19.0%	17.4%
Balance Sheet Debt in Israel[2]	20.0%	18.6%
Housing Loans (New Initiations)	+35%	35% [4]
Commercial Debt Balance in Israel [2] [3]	11.0%	9.2%
Deposits from the Public	17.5%	15.8%

2017 – Original Plan
17.5%
18.0%
+35%
11.5%
16.0%

In light of the fact that the bank has already achieved some of the market share targets defined for the end of the original plan's period, most of the market share targets of the strategic plan were updated upwards.

Source: Housing Loans (New Initiations) data in Israel – Bank of Israel report. Other data – financial reports of the five banking groups..

(1) Data include data of the Mizrahi Tefahot Group, including Yahav Bank. The market share targets were set under the assumption that the annual growth rates of the various balance sheets in the other four banking groups would be similar to the average growth rates in the last three years.

(2) The original target referred to "Balance Sheet Credit Risk in Israel", which included bonds balances and fair value of derivatives. The updated definition in the financial reports is Balance Sheet Debt in Israel, which does not include bonds balances and fair value of derivatives.

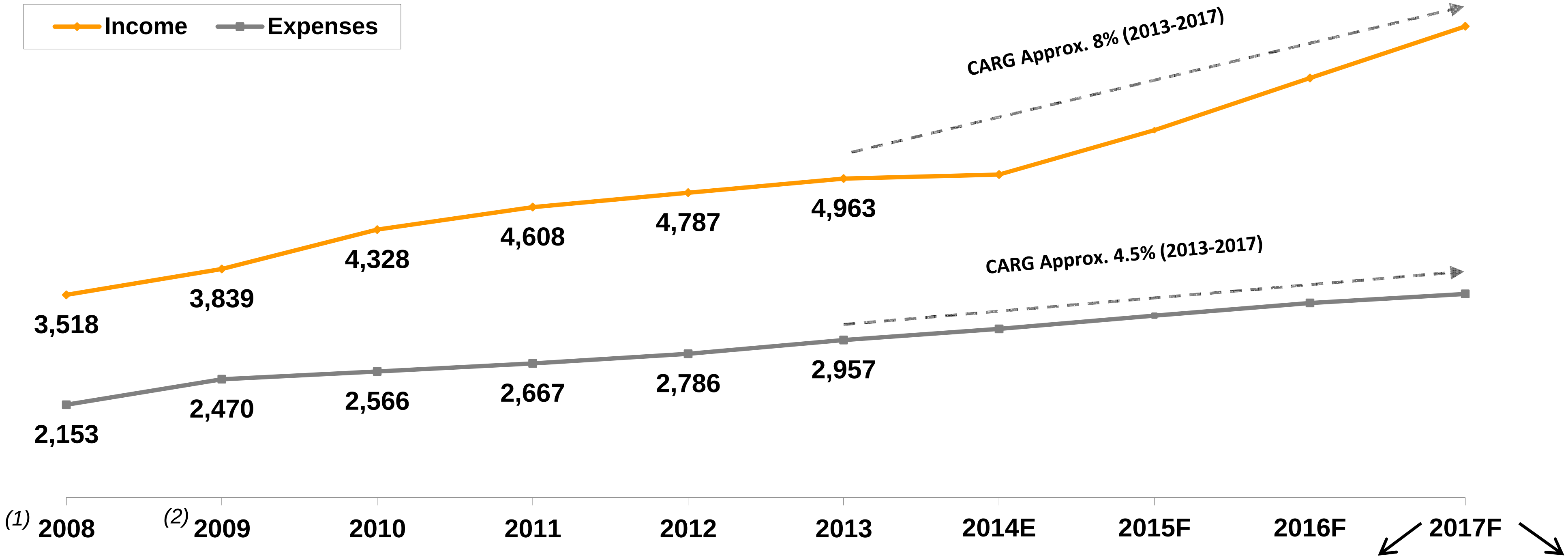
(3) Since a moderation in the commercial credit demands in the market weighs on the increase of the market share in this sector, it was decided ***only regarding this segment*** *to moderate the target defined in the original plan.*

(4) Housing Loans (New Initiations) in January-September 2014.

Updated dividend distribution policy

- The bank's board of directors approved an updated dividend distribution policy for 2015-2016, substituting the policy detailed in the original strategic plan. According to the updated dividend policy, the bank will distribute on the basis of quarterly profits for 2015-2016 (starting the first quarter of 2015), dividends at a rate of up to 15% of the net profit attributed to shareholders. This is subject to maintaining the proper capital cushion set for this matter, in order to ensure that the bank's core tier 1 capital will be no less than the target required by the Supervisor of Banks.
- In 2017, the bank will return to distributing dividend of up to 40% of the net profit attributed to shareholders in accordance with the policy that was effective during the original strategic plan. This is subject to complying with the core tier 1 capital as required by the Supervisor of Banks including a capital cushion.
- The Bank has received the approval of the Supervisor of Banks to the layout of the dividend policy. The dividend distribution is subject to the law and the limitations set forth by the Supervisor of Banks.

Updated income, expense and ROE targets (NIS mil)



	2008	2009	2010	2011	2012	2013	2017F Updated Plan	2017F Original Plan
ROE	10.4%	10.4%	11.8%	14.6%	13.1%	11.5%	13.0%	14.5%
Net Profit	601	650	801	1,044	1,076	1,078		
Cost/Income	61%	64%	59%	58%	58%	60%	≤55%	≤55%

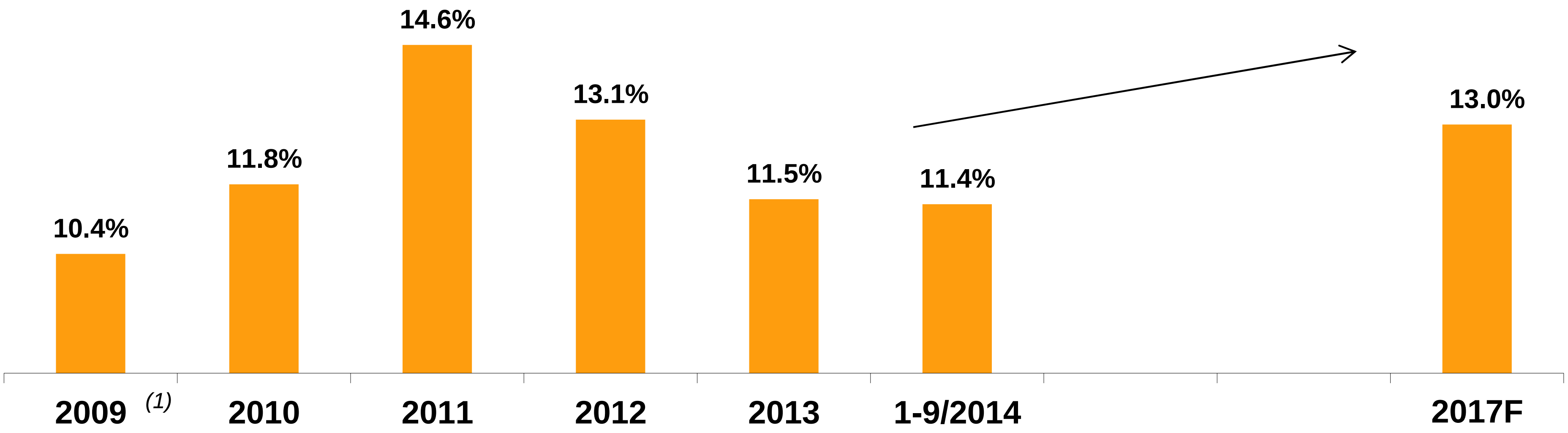
The bank's growth engines are directed at increasing the bank's income at an average annual rate of approx. 8% (non-linear) and control of the expense growth at an annual rate of approx. 4.5% (non-linear).

Source: the Bank's financial reports. Past data presented are in accordance with the latest financial report relating to the presented period.

(1) July 2008 and onwards, including Yahav Bank.

(2) Excluding provision for retirement plan.

Updated ROE target



- *The bank's target of achieving an ROE of 13.0% in 2017 is despite the increase of core tier 1 capital and despite a restrained macro-economic environment, characterized by a low interest and inflation environment.*
- *Pursuant to Bank of Israel's instruction, the core tier 1 capital will increase to a rate representing 1% of the housing loan balance[(2)] including a capital cushion. Had the effective date of the Bank of Israel's requirement been 30.9.2014, then the required core tier 1 capital would have increased to 9.8%.*

Source: the Bank's financial reports.

(1) *Excluding provision for retirement plan.*

(2) *Banking corporations are required to increase the core f tier 1 capital at set quarterly rates, effective as of January 1, 2015 and until January 1, 2017.*

The strategic plan will continue to be based on targets and efforts in the following areas:

1. *Maintaining the bank's status as a leader in the mortgage market.*

2. *Continuing the process of increasing the bank's market share in the household sector through:*
   - *Operating the LIVE branches*
   - *Strengthening the concept of service derived from hybrid banking.*
   - *"Happy banking" initiative – a leap forward in the professional, human, warm service the bank provides to its customers.*
   - *The Arab Israeli sector – opening branches, while increasing the bank's market share[1].*

3. *Positioning the bank as a major provider of services to small and mid-size businesses.*

4. *Expanding the business customer base and forming unique value propositions, adjusted to the needs of the customers.*

5. *Increasing the bank's market share in deposits from the public.*

6. *Continuing to establish the bank's position as a major factor in the FX markets and increasing its market shares in this sector.*

(1) The Bank started in 2014 to prepare for expanding its activity in the Arab Israeli sector.

The strategic plan will continue to be based on the following main growth engines:

1. *Making efforts to improve cost/income ratio[(1)] to a level below 55%*
2. *Strengthening capital management abilities and preparing for innovative, complex capital instruments*
3. *Strengthening risk management abilities*
4. *Cultivating a pro-service organizational culture.*
5. *Making efforts to continue the organic growth of the bank's core activities, at a rate higher than the banking system, similar to the bank's achievements over the last decade*

(1) Operating expenses divided by total income

Risk factors that are beyond the bank's control and may influence the bank's growth path

Regulatory Risks

The Assumption

- *No further changes to regulatory legislation and instructions that can influence the business environment.*

The Risk

- *Regulatory instructions may affect the Group's business environment*
- *Legislative initiatives may reduce the Group's ability to provide certain services in the future*

Global Economy Risks

The Assumption

- *World economic growth is expected to be between 0-1% per capita*

The Risk

- *A further moderation in real activity's growth rate around the world, particularly in Europe and central emerging economies. The concern is over low interest and inflation environments, as well as low demand for domestic export.*

Geo-political Risks

The Assumption

The geo-political situation is not expected to change materially

The Risk

- *Deterioration of the geo – political situation may result in a local recession*
- *The isolation of Israel may damage the business environment*

Domestic Economy Risks

The Assumption

- *Stable economic environment – Domestic economic average annual growth is expected to be at least 2.5-3% in the coming years*
- *a very moderate increase in the interest environment and inflation environment in the Israeli market, in a manner that inflation will be in the lower part of the government's target range, while the interest rate will gradually correlate with this inflation rate.*

The Risk

- *As a result of the global economic situation, the Israeli economy may get into a recession, and this in turn will influence the business environment*
- *A continuation of the current low inflation rate and low interest environment may continue to hurt the bank's revenues*

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