

August 30, 2018

Net profit in the second quarter of 2018 after increasing the provision with respect to the US DOJ investigation by NIS 425 million (USD 116.5 million): **NIS 207 million**

Net profit (excluding the effects of the additional provision) **in the second quarter: NIS 472 million**

Return on equity in the second quarter: **6.1%**

Net profit return on equity (excluding the aforementioned effects): **14.1%**

Financing revenues in the second quarter: NIS 1,474 million

Compared to NIS 1,194 million in the corresponding period last year, **23.5% growth**

Net profit in the first half of 2018

After increasing the provision with respect to the investigation: **NIS 550 million**

Net profit (excluding the aforementioned) **in the first half: NIS 815 million**

Return on equity in the first half: **8.1%**

Net profit return on equity (excluding the aforementioned): **12.0%**

Cost-income ratio in the first half: 65.9%

Cost-income ratio (excluding the aforementioned) **in the first half: 56.2%**

Continued growth in current operations

Along with the developments in the US DOJ investigation and its implications on the financial results, results in the second quarter of 2018 reflect continued growth in the Bank's current operations, with impressive increase in key parameters.

Thus, for example, total revenues in the second quarter amounted to a record NIS 1,849 million, an impressive increase of 18.6% compared to the corresponding period last year, with financing revenues in the second quarter higher by 23.5% and in the first half – by 19.1% compared to the relevant corresponding periods last year.

Concurrently, growth of the Bank's loan and deposit portfolios continued. Loans to the public in the second quarter increased by 5.6% compared to the corresponding period last year, with growth since the beginning of 2018 reflecting an annualized growth rate of 6.7%; deposits from the public increased by 5.1% compared to the second quarter 2017, with performance since the beginning of 2018 reflecting an annualized growth rate of 7.0%.

Enhanced focus on business banking

In accordance with the main target of the five-year strategic plan, the Bank continues to enhance focus on business banking.

Compared to the year-ago period, the Bank posted in the second quarter of 2018 accelerated growth by 9.2% in all types of business loans: to small and micro businesses, to medium businesses, to large businesses and to institutional entities, with financing revenues from business operations higher by 9.4% over the corresponding period last year.

Compared to end of 2017, the picture is even more crystal clear: total business operations grew at an annualized rate of 11.4%, in particular loans to large businesses and to institutional entities, which grew at an annualized rate of 13.5% and loans to small and micro businesses, which grew at an annualized rate of 13.1%.

Continued co-operation with institutional entities

The Bank's co-operation with institutional entities in the capital market continued this year, with three transactions since the beginning of 2018 for sale of mortgage portfolios.

In March, the Bank and institutional investors signed an agreement for the sale of 80% of a housing loan portfolio, at a total value of NIS 900 million. In June, two more agreements were signed, through which the Bank sold to institutional investors 80% of two housing loan portfolios, at a total value of NIS 1 billion.

Eldad Fresher: Negotiations with the US Department of Justice have started; the goal is to conclude this investigation as soon as possible, so that we can continue to focus on achieving the strategic plan

"The developments in the US DOJ investigation and the increased accounting provision with respect thereto are naturally the focus of the financial statements for the second quarter of 2018. However, it is important to note that along with the increased provision, the Bank demonstrated strong performance in current banking operations with continued growth in revenues, loans and deposits, increased focus on business banking and maintaining its leadership position in mortgages. Consequently, we expect that concurrently with further handling of the investigation and discontinuation of dividend distributions for the time being, the Bank will be able to continue its growth momentum within the strategic plan path, resume Tier I capital adequacy exceeding 10% as soon as the next quarter, and we estimate that we will be able to resume to act according to our dividend distribution policy during 2019.

The significant growth in Bank business was reflected, *inter alia*, in 18.6% growth in total revenues in the second quarter of this year compared to the corresponding period last year, due to growth in volume of business and in financing margins; loans to the public amounted to NIS 187 billion, an increase by 5.6% compared to the corresponding period last year; deposits from the public amounted to NIS 189.9 billion – higher by 5.1%; total balance sheet increased by 4.9% to NIS 246.6 billion; and shareholder equity amounted to NIS 14.0 billion – up by 5.3% compared to the second quarter of 2017.

At the same time, Yahav Bank continued to improve its business results and to increase its contribution to Group profit. In the first half of 2018, net profit at Yahav Bank amounted to NIS 62 million, reflecting a 10.0% return on equity, compared to 6.1% return on equity in the year-ago period. Return on equity at Yahav Bank in the second quarter was up to 10.5%, compared to 6.8% in the corresponding period last year.

The letter from the US Department of Justice, received by the Bank in early August, means that the investigation is entering its final stages and is the starting point for negotiations. As far as the Bank is concerned, we intend to conduct an intensive dialog in order to reach an adequate resolution as soon as possible. At the same time, we will take all required steps to ensure that the Bank optimally faces the investigation challenges on the one hand, while continuing to successfully achieve the path for our strategic plan on the other hand", said **Bank President & CEO Eldad Fresher**.

Mizrahi-Tefahot Ltd.
Highlights of condensed financial statements
As of June 30, 2018 – NIS in millions

Major balance sheet items

	June 30,		Rate of change
	2018	2017	in %
Loans to the public, net	187,055	177,133	5.6
Deposits from the public	189,900	180,680	5.1
Shareholder equity attributable to equity holders of the Bank	13,986	13,276	5.3
Balance sheet total	246,593	235,056	4.9

Profit and profitability

	Second quarter of		Rate of change
	2018	2017	in %
Total financing revenues before expenses with respect to credit losses	1,474	1,194	23.5
Commissions and other revenues	375	365	2.7
Total revenues	1,849	1,559	18.6
Expenses with respect to credit losses	90	42	–
Operating and other expenses	1,325 ⁽¹⁾	877	51.1
Net profit attributable to shareholders of the Bank	207⁽¹⁾	400	(48.3)

Key financial ratios (in percent)

	June 30,	
	2018	2017

Key performance benchmarks

Net profit return on equity:

For the second quarter	⁽¹⁾ 6.1	12.7
For the six months ended	⁽¹⁾ 8.1	11.4
Deposits from the public to loans to the public, net	101.5	102.0
Ratio of Tier I capital to risk components	9.95	10.15
Leverage ratio	5.38	5.42
(Quarterly) liquidity coverage ratio	120	122
Cost-income ratio:		
For the second quarter	⁽¹⁾ 71.7	56.3
For the six months ended	⁽¹⁾ 65.9	57.5

Key credit quality benchmarks

Ratio of provision for credit losses to total loans to the public	0.81	0.82
Ratio of impaired debts or debts in arrears 90 days or longer to loans to the public	1.12	0.89
Expenses with respect to credit losses to loans to the public, net for the period	0.19	0.09

Additional information

Share price (in NIS) as of June 30	67.17	63.50
Quarterly dividends per share (in Agorot)	59	41

(1) Operating and other expenses include an additional provision amounting to NIS 425 million (USD 116.5 million) with respect to the investigation by the US Department of Justice.

Net profit and financial ratios for the Bank's current operations, excluding the effects of this additional provision, are as follows:

Net profit in the second quarter of 2018: NIS 472 million.

Net profit in the first half of 2018: NIS 815 million.

Annualized return on equity in the second quarter of 2018: 14.1%.

Annualized return on equity in the first half of 2018: 12.0%.

Cost-income ratio in the second quarter of 2018: 53.8%.

Cost-income ratio in the first half of 2018: 56.2%.