

**Bank Leumi Le-Israel Ltd. ("the Bank")**

**Outline**

Offering by the State of Israel to employees of: Bank Leumi le-Israel B.M. (hereinafter: "Bank"), Arab Israel Bank Ltd., Leumi Mortgage Bank Ltd. and Amutat Misadot Ovdey Bank Leumi LeIsrael (Registered Non-Profit Entity), pursuant to Section 15b(1)(b) of the Securities Law, 1968 and the Securities Regulations (Details of Outline Offering of Securities to Employees), 2000.

**of**

Up to 6,734,777 Bank ordinary shares, registered in the owner's name, of NIS 1 par value, offered to participants (as defined below), including the Chairman of the Board of Directors and the President and CEO of the Bank.

Date: April 6, 2011

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**1. Introduction**

- 1.1. The Bank is a company registered in Israel. The Bank's ordinary shares have a par value of NIS 1 each and are listed for trading on the Tel Aviv Stock Exchange Ltd.
- 1.2. In accordance with agreements with regard to privatization of the Bank, and in accordance with decisions of the Finance Committee of the Knesset (hereinafter: "**the existing agreements**"), the participants, and/or any of them, were granted the right to purchase from the State 3.873% of the Bank's issued and paid-in share capital as of February 12, 2006 (hereinafter: "**the number of offered shares**"). At stage 1, the State offered, in an outline issued on May 25, 2006, Bank ordinary shares which constituted 2.873% of the Bank's share capital as of February 12, 2006 – i.e. 40,630,905 shares – out of the number of offered shares.

The existing agreements further stipulated that at Stage 2, the employees' rights pursuant to the existing agreements would continue to be in effect, both in case of a public offering of Bank shares by way of publication of a prospectus, and in the case of a private placement or block trading, should Barnea Investments B.V. ("**Barnea Group**") fail to exercise the option granted thereto (which, as is now known, has not been exercised), provided that the employees cooperate with the Government with regard to sale of the State's remaining Bank shares and would maintain good labor relations with regard to the privatization proceedings. To this end, and to the extent necessary, the Bank shall issue an outline soon after the sale dates of the remaining Bank shares owned by the State, and the price of shares offered to participants shall be based on the sale price of said shares. The existing agreements further stipulated that the number of shares to be offered to participants (should Barnea Group fail to exercise the option granted thereto): (a) would be adjusted for a bonus share distribution, if any, during the relevant period, and (b) shall not be changed by allotment of option warrants to participants pursuant to the outline issued by the Bank on January 24, 2006. Note that since then and through publication of this outline, no bonus shares were distributed by the Bank.

In view of the foregoing, and after the State sold its Bank shares, which constitute 5% of the Bank's issued share capital, on January 19, 2011 (see immediate report dated January 19, 2011, reference no. 2011-01-023031), the participants are offered, pursuant to this outline, 6,734,777 Bank shares, which constitute 0.457% of the Bank's issued share capital as of the outline date.

**After the offering to participants pursuant to this outline, the outstanding rights of employees to purchase from the State up to 7,407,550 Bank shares shall continue to be in effect pursuant to the aforementioned existing agreements.**

**For the sake of clarity, in this outline the State offers to participants only 6,734,777 shares, or 0.457% of the Bank's share capital as of the date of this outline, and the content thereof does not confer on the participants any rights to Bank shares beyond those shares offered therein.**

- 1.3. The shares offered to participants under this plan are offered without any representation or commitment by the State with regard to the value of the purchased shares, the value of the Bank, the state of the Bank's business or Government policy and action with regard to the Bank or to areas in which the Bank operates, and the shares are offered subject to the participants' waiving any claim or demand for indemnification of any kind from the State, M. I. Holdings Ltd., employees and managers thereof or any person acting on their behalf, with respect to the Bank and its operations or with respect to the shares.

1.4. In this plan, "**the participants**" means:

Any person who, upon the eligibility date and upon the record date (as defined below), is a member of one of the following groups:

- 1.4.1. Tenured Bank employees, including tenured Bank employees assigned to Bank subsidiaries and/or employed by the Bank's subsidiaries overseas;
- 1.4.2. Bank employees included in Management Group 1 at the Bank, who are parties to an individual contract with the Bank upon the eligibility date;
- 1.4.3. Employees who are members of Bank management (including the Chairman of the Board of Directors and excluding other Directors of the Bank), and the Chief Internal Auditor of the Bank;
- 1.4.4. Tenured employees of Arab Israel Bank Ltd.;
- 1.4.5. Tenured employees of Leumi Mortgage Bank Ltd.;
- 1.4.6. Employees pursuant to the special agreement signed on March 4, 1988;
- 1.4.7. Employees under a professional individual contract at the Bank, who have been employed for at least four years prior to the eligibility date;
- 1.4.8. Tenured employees of Amutat Misadot Ovdey Bank Leumi LeIsrael (Registered Non-Profit Entity);

1.4.9. Any other employee, or former employee, whom the Bank's Board of Directors and/or any person authorized thereby should determine is eligible to participate in the plan, subject to written consent by the Bank's employee representative obtained prior to the effective date;

and excluding:

1.4.10. Any employee on unpaid leave upon the eligibility date, unless his or her date of return to work, as specified in the Bank's confirmation of their unpaid leave is no later than 6 months after the eligibility date, except for female employees on unpaid maternity leave.

1.4.11. Any employee whom the Bank's Board of Directors and/or any person authorized thereby should determine his or her ineligibility to participate in the plan, even though upon the eligibility date, said employee was included in one of the groups listed in Sections 1.4.1-1.4.9 above, subject to written consent by the Bank's employee representative obtained prior to the effective date.

1.5. The plan's objective is to promote the Bank's interests and goals, by (a) sharing Bank equity with employees of the Bank, Arab Israel Bank, Leumi Mortgage Bank and the non-profit entity, by way of a share offering; (b) increasing the equity interest of employees and management in the Bank's success and operating results; and (c) regulating labor relations at the Bank, as part of the privatization process through which the State's holding of Bank shares is sold. In general, holding of Bank shares by employees creates an incentive for employees to improve the Bank's business results over time, with a long-term strategic view towards the business development of Leumi Group.

- 1.6. The Bank has applied for and received confirmation from the Tax Authority that the tax ruling in the agreement (as defined below) shall also apply to the offering to employees pursuant to this outline, subject to no changes being made to the framework and to the outline of offering by the State to employees, as described in the tax ruling in the agreement, and subject to strict compliance with all provisions of the tax ruling in the agreement. The Bank shall report to the Tax Authority, pursuant to provisions of Section 102 of the Income Tax Ordinance, the regulations, rules, circulars and directives issued pursuant thereto (jointly: "**Section 102**"). In case of a contradiction between provisions of the plan or appendices and documents compiled in conjunction therewith and provisions of Section 102 and/or the tax ruling in the agreement, then provisions of Section 102 and of the tax ruling in the agreement shall prevail, and the required adjustments to the plan shall be determined by the Bank's Board of Directors pursuant and subject to all statutory provisions.
- 1.7. Subject to terms and conditions set forth in this outline, the Bank shall provide financing to participants for purchase of the shares offered thereto within the framework of this outline. Should, for any reason, any tax payment with respect to purchase of the shares by any participant be due upon the share purchase date, and should the participant so choose, the Bank would provide financing for payment of said tax payment. For the sake of clarity, in no case would the Bank provide financing for payment of tax due (if any) at the end of the lock-up period.
- 1.8. Participants should consider the tax implications of participation in the plan. The content of this outline does not purport to be a qualified or concise interpretation of the statutory provisions, nor a concise description of the tax statute provisions that apply to the plan, and does not replace professional advice on these issues.
- 1.9. The plan is in addition and without prejudice to wage agreements between the Bank and Bank employees, and to wage agreements between Arab Israel Bank and its employees, between Leumi Mortgage Bank and its employees and between the non-profit entity and its employees, if any such agreements are in place.

- 1.10. **Permits, approvals and consent:** All permits, approvals and licenses required by law for the plan and for issuing the outline have been obtained. However, the Israeli Securities Authority (ISA), pursuant to Regulation 9 of the Securities Regulations (Details of Outline Offering of Securities to Employees), 2000, may instruct the Bank within fourteen (14) business days from submission of the outline to provide explanations, details, information and documents with regard to the outline, and to instruct the Bank to amend the outline within a time period to be specified thereby. Should the ISA instruct the Bank to amend the outline, the ISA may require postponement of the start date of the period for delivery of securities to a date not earlier than three business days and not later than fourteen business days after publication of the amended outline. The outline shall be amended pursuant to provisions of the aforementioned regulations. Furthermore, the share offering to the Chairman of the Board of Directors is also subject to approval by the General Meeting of the Bank's shareholders, which has yet to be obtained.

The approvals thus far received are: The Bank's Board of Directors, on March 17, 2011, approved the plan and its terms, the publication of the outline and the share offering pursuant thereto (as stated, the share offering to the Chairman of the Bank's Board of Directors has been approved by the Audit Committee and the Bank's Board of Directors, and is subject to approval by the General Meeting of shareholders); the Bank has received approved confirmation from the Tax Authority that the tax ruling in the agreement (as defined below) shall also apply to the offering to employees pursuant to this outline, subject to Section 4.3 below; and, the Bank has obtained approval from the Supervisor of Banks at the Bank of Israel to provide loans to participants in conjunction with the offering to employees, as per Section 4.4 below.

## 2. **Interpretation**

The introduction to the outline is a part thereof. In any case of contradiction between the introduction and the outline, the latter shall prevail.

3. **Definitions**

In this outline, the following terms shall have the following meanings:

- 3.1. **"Stock Exchange"** – Tel Aviv Stock Exchange Ltd.
- 3.2. **"Bank"** – Bank Leumi Le-Israel Ltd.
- 3.3. **"Arab Israel Bank"** – Arab Israel Bank Ltd.
- 3.4. **"Leumi Mortgage Bank"** – Leumi Mortgage Bank Ltd.
- 3.5. **"The Bank and other companies"** – the Bank, Leumi Mortgage Bank, Arab Israel Bank and the non-profit entity.
- 3.6. **"The Board of Directors"** – including the Board of Directors' committee authorized by the Board of Directors with regard to the plan.
- 3.7. **"Tax ruling in the agreement"** – the tax ruling by the Professional Department of the Income Tax Authority Directorate in Tel Aviv, dated June 12, 2006, titled "Tax ruling in agreement – Bank Leumi le-Israel B.M. – Employees eligible to be included under provisions of Section 102 of the Ordinance under the capital gains track, and calculation of the resulting benefit value".
- 3.8. **"The non-profit entity"** – Amutat Misadot Ovdey Bank Leumi le-Israel (Registered Non-Profit Entity).
- 3.9. **"The Trustee"** – as this term is defined in Section 102 of the Income Tax Ordinance, and as of the publication date of this outline – Tamir Fishman Trustees 2004 Ltd.
- 3.10. **"Tenured employees"** – any tenured employee, upon the eligibility date, of the Bank, Arab Israel Bank, Leumi Mortgage Bank or of the non-profit entity, as the term "tenured employee" is defined in the collective bargaining agreements in place at the Bank.
- 3.11. **"The plan"** – the offer to sell the Bank's ordinary shares to employees of the Bank and other companies pursuant to provisions of this outline.

- 3.12. "**Management**" – executive management of: the Bank, Arab Israel Bank, Leumi Mortgage Bank, the Bank's Chairman of the Board of Directors and the Bank's Chief Internal Auditor.
- 3.13. "**Companies Law**" – the Companies Law, 1999.
- 3.14. "**CPI**" – the Consumer Price Index, including fruits and vegetables, as published by the Central Bureau of Statistics and Economic Research, or any replacement index designated for the same purpose by the State, which is based on data from the Central Bureau of Statistics.
- 3.15. "**Eligibility date**" – January 19, 2011.
- 3.16. "**Effective date**" or "**the effective date**" – as this term is defined in Section 9.4 of this outline.
- 3.17. "**Price per share**" – as this term is defined in Section 7 of this outline.
- 3.18. "**Share**" or "**shares**" – Bank ordinary shares, registered in the owner's name, of NIS 1 par value each, in the issued and paid-in share capital of the Bank<sup>1</sup>.
- 3.19. "**Participant**" – as set forth in Section 1.4 of this outline.
- 3.20. "**Disability**" – disability as defined in the special collective bargaining agreement dated December 19, 1999 with reference no. 59/2000, or disability recognized by a pension fund or by retirement insurance.
- 3.21. "**Retirement**" – termination of employment due to arrival at the retirement age, as set forth in law, or in a collective bargaining agreement applicable to Bank employees.
- 3.22. "**Lock-up period**" – a period of four (4) years starting on the effective date, or for as long as the loan obtained by any participant in conjunction with purchase of the shares (including for the purpose of tax payment) has yet to be fully repaid, whichever is later.

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<sup>1</sup> All issued shares of the Bank have been converted to ordinary stock registered in the owner's name. Ordinary stock may be transferred in units of NIS 1 par value each. The terms "shares" and "shareholder" in this outline include "stock" and "stockholder", respectively, and one ordinary NIS 1 share means ordinary NIS 1 par value stock.

- 3.23. **"The other person"** – any transferee of shares due to death or legal incompetence of a participant.
- 3.24. **"The Ordinance"** or **"the Income Tax Ordinance"** – the Income Tax Ordinance (New Version), 1961.

**4. Required approvals and permits**

- 4.1. The plan and its provisions, publication of this outline and the share offering pursuant thereto were approved by the Bank's Board of Directors on March 17, 2011. The plan is carried out in accordance with the existing agreements (as defined above). Under the plan, the State offers participants the opportunity to purchase, at this stage, 6,734,777 shares, which constitute at present 0.457% of the Bank's issued and paid-in share capital. In accordance with and subject to the existing agreements, at a later stage, as set forth in Section 1.2 above, the State shall further offer to employees up to 7,407,550 Bank shares.
- 4.2. All permits, approvals and licenses required by law for the plan and for publication of this outline have been obtained, other than as set forth below.
- 4.3. The Bank has applied for and received confirmation from the Tax Authority that the tax ruling in the agreement shall also apply to the offering to employees pursuant to this outline, subject to no changes being made to the framework and to the outline of offering by the State to employees, as described in the tax ruling in the agreement, and subject to strict compliance with all provisions of the tax ruling in the agreement. Pursuant to this confirmation, provisions of Section 102 (as defined above) shall apply to the plan.
- 4.4. The Bank has obtained approval by the Supervisor of Banks at the Bank of Israel for granting of loans to participants who so wish, for financing the purchase of shares and payment of any tax due (if any) upon the share purchase date by the participants, as set forth in Sections 1.7 above and 10 below.

- 4.5. The share offering to the Chairman of the Bank's Board of Directors was approved by the Bank's Audit Committee on March 13, 2011, and by the Bank's Board of Directors on March 17, 2011, and is contingent on obtaining approval by the General Meeting of Bank shareholders, in accordance with Section 273 of the Companies Law.
- 4.6. The ISA, pursuant to Regulation 9 of the Securities Regulations (Details of Outline Offering of Securities to Employees), 2000, may instruct the Bank within fourteen (14) business days from submission of the outline to provide explanations, details, information and documents with regard to the outline, and to instruct the Bank to amend the outline within a time period to be specified thereby. Should the ISA instruct the Bank to amend the outline, the ISA may require postponement of the start date of the period for delivery of securities, to a date not earlier than three business days and not later than fourteen business days after publication of the amended outline. The outline shall be amended pursuant to provisions of the aforementioned regulations.

## **5. Participants**

- 5.1. The offering pursuant to the plan is made to all of the participants.
- 5.2. As of the effective date, the participants are not interested parties in the Bank and shall not become interested parties in the Bank as a result of accepting the offer, with the exception of the Chairman of the Bank's Board of Directors (due to his being a Director of the Bank) and with the exception of the Bank's President and CEO (due to her being the Bank's President and CEO).
- 5.3. Shortly after publication of the outline, the State, through the Bank and other companies (as the case may be), shall deliver a notification to participants (as defined in Section 8.2 below), to include, *inter alia*, details of the number of shares offered to each individual participant under the plan.

## **6. Offered securities**

- 6.1. As of the effective date, the Bank's issued and paid-in share capital would amount to NIS 1,473,551,221, divided into 1,473,551,221 shares.

- 6.2. Under the plan, 6,734,777 shares would be offered to participants, in accordance with and subject to agreements and provisions set forth in this outline, which, as of January 19, 2011, constitute 0.457% of the Bank's issued and paid-in share capital. For the sake of clarity, the number of shares mentioned in this section: (a) would be adjusted for any bonus share distribution during the period from January 19, 2011 through the actual payment date of consideration for said shares; and (b) would not be modified by any potential dilution due to conversion of any convertible subordinated notes into Bank shares, issued by the Bank in 2002.

As to eligibility of the shares offered pursuant to the outline to participate in distribution of dividends or bonus shares by the Bank, to be declared subsequent to the date of this outline – see Section 9 below.

- 6.3. Share distribution among participants and determination of the number of shares offered to each participant would be pro-rated to the base salary for social benefits of said participants for January 2011. Should the number of shares offered to any participant based on the aforementioned distribution not be an integer, the number of shares offered to said participant would be rounded down to the next integer. Accordingly:

6.3.1. 6,712,326 shares are offered to participants, except for the Chairman of the Bank's Board of Directors and the Bank's President and CEO.

6.3.2. 9,442 shares are offered to the Chairman of the Bank's Board of Directors, subject to approval by the General Meeting of Bank shareholders, as set forth in Section 4.5 above.

6.3.3. 13,009 shares are offered to the Bank's President and CEO.

The number of shares offered to each participant is referred to hereinafter as "**overall number of shares offered to participant**".

**7. Share Price**

The shares are offered to participants at a price of NIS 13.20825 per share<sup>2</sup>, as of January 19, 2011 ("**the price per share**"). For the sake of clarity, the price per share is the share price at which the State sold the Bank shares it owned on January 19, 2011 less 25%. CPI linkage differentials using the "most recent known CPI" method shall be added to the price per share, with the base CPI being the CPI for December 2010 (published on January 14, 2011), and the new CPI being the most recent known CPI prior to the actual payment date ("**the exercise price**"). The exercise price shall be adjusted for dividend distributions from January 28, 2011 through the actual payment date, and linkage differentials using the "most recent known CPI" method shall be added, calculated from the dividend distribution date through the actual payment date.

**8. Proceeding for share offering to employees**

8.1. In accordance with approval by the Tax Authority of the applicability of Section 102 of the Ordinance to each participant, the shares purchased by those participants who accept the offer shall be subject to the taxation track of trustee holding pursuant to Section 102. For the sake of clarity, the capital gains track pursuant to Section 102 shall only apply to some of the participants, and each participant is responsible for verifying applicability of Section 102 to him or herself.

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<sup>2</sup> The price per share shall be subject to adjustment as set forth in this outline.

- 8.2. After filing the outline with the ISA and with the Stock Exchange (but not prior to fourteen business days after filing the outline with the ISA and with the Stock Exchange, and after thirty days from the date of filing the outline for approval by the Tax Authority), the State shall send to each participant, via the Bank and other companies (as the case may be), a letter listing, *inter alia*, the number of shares offered thereto and the amount payable with respect thereto, should the participant decide to order these shares ("**notice to participants**"). Enclosed with the notice to participants would be an order form, wording of which is to be agreed upon by the Bank and the State, for purchase of the offered shares ("**order form**"), which the participant would be requested to sign. The order form would include, *inter alia*, a statement by the participant, in which he or she consents to being subject to the ruling described in this outline, and confirming that he or she is aware of provisions of Section 102 and the possible taxation tracks. The order form shall also include an irrevocable instruction to the Bank and other companies (as the case may be) to debit the participant's account for the consideration for the shares. For the purpose of this outline, the term "**consideration for the shares**" means the product of the exercise price (as defined above) and the number of shares ordered by the participant (out of the overall number of shares offered to the participant (as this term is defined above)).
- 8.3. Should any of the participants not receive the notice to participants, this would not disqualify the offering pursuant to this outline, and would not prevent such participant from ordering the shares offered to him or her, provided that such participant delivers the order form as described below. Failure to deliver the notice to participants shall not confer on participants any right not conferred to other participants who have received such notice. Failure to deliver the "notice to participants" to any participant shall not confer the right to extend the deadline for submission of the order form pursuant to this outline.

- 8.4. Any participant who wishes to purchase the shares offered, shall return to the State the order form signed by him or her or by an authorized representative (subject to the participant's signing a power-of-attorney to be delivered by the Bank) via the Bank. The order form shall list the number of shares which the participant wished to purchase, as well as an irrevocable order to debit the participant's account for the consideration for the shares. The participant should return the order form by the deadline specified in the notice to participants ("**deadline for order form delivery**"). Any participant, who does not list on the order form the number of shares he or she wishes to purchase, shall be deemed to have agreed to purchase the overall number of shares offered to the participant (as this term is defined in Section 6.2 above).

Participants who fail to return the duly signed order form, as set forth above, by the specified deadline shall be deemed not to have ordered any shares, and to have rejected the offer to purchase the shares, in whole or in part.

- 8.5. Participants may order the full number of shares offered to them, or a portion thereof. Participants may only submit one order form.
- 8.6. A participant's right to purchase shares, as described above, may not be transferred – even to another participant.
- 8.7. A copy of the outline shall be available for viewing by participants at the Bank Secretary's office and on the Bank's Knowledge Management website, within 21 days from the date of the decision by the Bank's Board of Directors.
- 8.8. Shortly before the deadline for order form delivery, the State shall open a dedicated trust account with a bank corporation ("**employee account**"). The employee account shall be administered by the State pursuant to provisions of Section 28 of the Securities Law, 1968. Funds deposited to the employee account shall be invested in non-linked, liquid deposits bearing daily interest.

- 8.9. On the first business day following the deadline for order form delivery, as set forth in Section 8.4 above, the Bank and other companies (as the case may be) shall debit the bank account of each participant for the relevant consideration for the shares for said participant, and shall deposit to the employee account the total consideration for shares ordered by participants.
- 8.10. The total consideration for shares ordered by participants shall be transferred, by an irrevocable instruction issued by the State, from the employee account to the account of the Accountant General with the Bank of Israel, pending the effective date (as defined in Section 3.16 above).

## **9. Trust and lock-up**

- 9.1. The shares ordered and purchased by each participant ("**the shares purchased by the participant**") shall be locked-up, as described below, and shall be deposited in trust for lock-up with the Trustee appointed by the Bank on behalf of participants, pursuant to an agreement between the Trustee and the Bank ("**Trust Agreement**"), subject to approval by the Bank's Board of Directors and to approval by the State with regard to provisions of the Trust Agreement that refers to the power-of-attorney provided to the State (as defined below) or to participants, as the case may be. The main points of the Trust Agreement are set forth in Section 11 below. During the lock-up period and for as long as the State's holding of Bank shares is higher than 5% – an irrevocable power-of-attorney shall be provided to the State's representative to vote the shares deposited with the Trustee ("**power-of-attorney to the State**") and to exercise the right to appoint Bank Directors conferred by said shares. Upon such date as the State holding of Bank shares first drops below 5% – the power-of-attorney provided to the State shall expire, and the Trustee shall provide, via the Bank, a power-of-attorney to participants who file a request with the Bank ahead of time, to vote the shares deposited with the Trustee and to exercise the right to appoint Directors conferred by said shares.

For as long as the power-of-attorney is provided to the State as described, the State (via its representative, as stated in the power-of-attorney) shall vote the shares at its sole discretion, and the State, its representative or anyone acting on behalf of the State shall not be required to consult with the Trustee, the participants or any employee of Leumi Group or representative thereof prior to voting, and the State, M. I. Holdings Ltd., employees, managers and anyone acting on behalf thereof shall not be liable to any of the participants with regard to voting these shares.

- 9.2. The shares shall be locked-up during the lock-up period.
- 9.3. The Bank shall provide to the Trustee and to the State, within seven days after the deadline for order form delivery, a list of participants who purchased shares, their personal information (including bank account information) and the number of shares purchased by each participant, as well as all information required to be reported pursuant to Section 102.
- 9.4. The State shall deposit with the Trustee, within three days from receiving the list described in Section 9.3 above ("**the effective date**"), the shares thus purchased by participants, in the Trustee's name, subject to transfer in full by said date of the total consideration for shares thus purchased from the employee account to the Accountant General's account with the Bank of Israel, as set forth in Section 8.10 above, provided that said date would be at least 30 days after submission of this outline for approval by the Tax Authority pursuant to Section 102, and provided it is at least 14 business days after filing of this outline with the ISA, and that the ISA has not issued any orders with regard to the outline pursuant to Securities Regulations (Details of Outline Offering of Securities to Employees), 2000.

- 9.5. Shares purchased by participants shall be held by the Trustee pursuant to provisions of the Trust Agreement, provisions of Section 102 and instructions of the Bank pursuant to the loan agreement until the end of the lock-up period. The lock-up period shall also apply to participants who are and/or will no longer be employed by the Bank, Bank Leumi Mortgage Bank, Arab Israel Bank or the non-profit entity (as the case may be) prior to the end of the lock-up period.
- 9.6. Heirs of any participant deceased during the lock-up period, and their statutory representatives, should the participant become legally incompetent during the lock-up period, shall be deemed to be participants.
- 9.7. The shares transferred to participants pursuant to the outline, and the rights conferred thereby, constitute personal rights of the participants. Prior to the end of the blocking period or prior to payment of the applicable tax as set forth in Section 9.8 below, whichever is later, the shares may not be transferred, assigned, placed under lien, otherwise voluntarily pledged, encumbered or seized pursuant to statutory provisions, and no power-of-attorney or transfer letter shall be provided with regard thereto, whether immediately effective or whether effective at a future date, other than transfer pursuant to a last-will-and-testament or by law, and except for pledging them to the Bank under a lien to become effective only after payment of the applicable tax, and except for provision of a power-of-attorney to the State or to participants, as set forth in Section 9.1 above. For the sake of clarity (including in case of transfer of rights pursuant to a last-will-and-testament or by law or by lien provided to the Bank as set forth above), the shares shall not be released by the Trustee prior to the end of the lock-up period, and shall be subject to provisions of this outline, including with regard to the provision of a power-of-attorney to the State or to participants, as the case may be.

- 9.8. After the end of the lock-up period, each participant may demand to take possession of the shares purchased by him or her, provided that shares are not to be delivered to such participant prior to: (a) payment of applicable tax pursuant to Section 102, as set forth below, and the Trustee has confirmation from the Bank that tax payment for purchase and transfer of the shares belonging to the given participant has been made; and (b) confirmation has been received from the Bank that the given participant has repaid the loan provided to them for purchase of the shares and payment of tax (if any such loan has been provided).
- 9.9. Payment of the applicable tax may be made by the participant or by the other person, as the case may be, by one or more of the following: banker's check, wire transfer or letter of authorization to the Bank, or by any other means approved by the Bank from time to time.
- 9.10. Should provisions of Section 102 not apply for any reason, the participant or the other person, as the case may be, shall pay the tax applicable to them (including by way of tax withholding by the Bank) as a pre-condition for transfer of the shares from the Trustee to the participant. Without prejudice to provisions of Section 9.7 above, the shares may only be delivered to the participant after: (a) the applicable tax has been paid and the Trustee has confirmation from the Bank that tax payment was made with respect to purchase and transfer of the shares to the given participant; and (b) Bank confirmation has been received that the given participant has repaid the loan extended to them (if any), and that there is no reason to prohibit release of the shares pursuant to provisions of this outline and/or by law.
- 9.11. Subject to receiving confirmations as set forth in Sections 9.8 or 9.10 above, as the case may be, the shares will be transferred by the Trustee at the end of the lock-up period to participants' security accounts and shall be subject to provisions of Section 52I of the Securities Law, 1968.

- 9.12. Should the Bank distribute any bonus shares with an effective date for such distribution being prior to the end of the lock-up period, the Bank shall transfer to the Trustee the number of shares appropriate for the number of shares held by the Trustee in trust on behalf of participants, and these shall be locked-up through the end of the lock-up period and shall be subject to provisions of this outline, with mandated changes.
- 9.13. Should the Bank issue securities by way of rights to shareholders thereof, with an effective date for such distribution being prior to the end of the lock-up period, participants may sell these rights, provided that proceeds from such sale is invested in Bank shares, which would then be deposited with the Trustee and which participants may not sell before the end of the lock-up period. Participants may also exercise these rights, provided that purchased securities would be deposited with the Trustee, would be locked-up through the end of the lock-up period and would be subject to provisions of this outline, with mandated changes.
- 9.14. Should the Bank distribute any cash dividends with respect to shares held by the Trustee on behalf of any participant, where the effective date for such distribution is before the end of the lock-up period, these dividends, after deduction of any tax applicable by law, shall be applied to repayment of the loan granted to said participant, if granted, based on its outstanding balance as of the dividend distribution date. After such loan repayment, or if no loan was granted to the given participant, dividends would be paid to the participant.

- 9.15. Any shares not released to the participant at the end of the lock-up period, whether because of conditions set forth in Sections 9.8 or 9.10 above, as the case may be, have not been met and any shares which for any other participant-related reason cannot be delivered to the participant, shall be sold immediately after the end of the lock-up period, but no later than one month after the end of the lock-up period, by the Trustee via the Bank. The tax payable with respect to the shares shall be withheld from the proceeds from such sale of shares, and the outstanding debt balance with respect thereto (if any) shall be repaid, based on the Bank's records. The remaining amount after the aforementioned deductions would be transferred to the participant's bank account. If this is not possible (because the participant's bank account cannot be identified or for any other reason), the remaining amount shall be transferred to the Bank which shall hold it in trust on behalf of the participant, and which shall deduct from the transferred amount any expenses with respect to such holding.
- 9.16. The Bank (with consent of the State, in as far as this concerns the State) may modify from time to time the proceeding for share offering, as required at the Bank's discretion, in order to facilitate, improve and enhance the proceeding for share offering to employees, purchase of shares by participants and release of locked-up shares, and may adapt them to changes in applicable law – provided that rights of participants as described in this outline are not prejudiced. The changes would be made in coordination with the Trustee and subject to provisions of Section 102, and the Bank shall inform participants of such changes.

## **10. Loans for financing share purchase**

- 10.1. Any participant who files a request to purchase shares would be eligible to receive from the Bank or from the other companies (as the case may be), subject to signing a loan agreement, financing for purchase of the shares offered to the participant (in whole or in part), up to the amount of consideration for these shares applicable to said participant and the tax applicable (if any) with respect to purchase of these shares ("**the loan**").
- 10.2. Provision of such loans to participants has been approved by the Bank of Israel.

- 10.3. Terms and conditions of the loans shall be identical for all participants. The loan principal shall be linked to increases in the CPI, with the base CPI being the known CPI upon obtaining the loan and the new CPI being the known CPI upon repayment of the loan. The loan shall bear annual interest at 1.55% or, alternatively as chosen by the borrower participant, the loan principal shall bear interest at the Prime lending rate (of Bank Leumi) less 0.75%, and not linked to the CPI.
- 10.4. The maximum total amount of loan principal for purchase of shares would be NIS 89,385,395<sup>3</sup>, as of April 6, 2011. The loan term would be four years, and the loan would be repayable at the end of said term.
- 10.5. Participants may repay the loan, in full or in part, at any time prior to the loan's maturity as specified in the loan agreement, but the shares, in any case, shall remain locked-up until the end of the lock-up period.

A participant who leaves his or her job prior to the end of the lock-up period, except for participants who retire and receive a monthly pension from the Bank, shall repay the loan upon departure, but the shares, in any case, shall remain non-transferable until the end of the lock-up period.

- 10.6. Shares purchased by participants and financed by the loan shall be pledged to the Bank to secure loan repayment, as per Section 9.7 above. For the sake of clarity, the loan shall not be a non-recourse loan, and in case of failure by any participant to repay the loan in accordance with terms and conditions thereof, the Bank may collect the outstanding loan balance from the participant, and may take action to collect any debt, including offset of loan amounts payable against amounts payable by the Bank to the participant, all subject to legal provisions.

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<sup>3</sup> This amount would be adjusted in line with adjustment of the price per share, as described in this outline.

- 10.7. As per Section 1.7 above and subject to all other conditions specified in this outline, should, for any reason, any tax payment with respect to purchase of the shares by any participant be due upon the share purchase date, and should the participant so choose, the Bank would provide financing for payment of said tax payment. For the sake of clarity, in no case would the Bank provide financing for payment of any tax due at the end of the lock-up period.

## 11. **Trust Agreement**

- 11.1. Pursuant to provisions of Section 102, all shares ordered and purchased by participants shall be transferred in the name of the Trustee on behalf of the participants. The shares will be deposited in a securities account in the name of the Trustee.
- 11.2. The Bank and the Trustee have entered into an agreement ("**Trust Agreement**"), and the provisions of the trust agreement shall be binding on all participants. The Trust Agreement includes, *inter alia*, the following provisions:
- 11.2.1. The Trustee shall hold all shares in trust on behalf of the participants, for a period ending not before the end of the lock-up period, and shall act with regard thereto pursuant to: this outline, the provisions of Section 102 and the Trust Agreement.
- 11.2.2. Prior to ensuring payment of the applicable tax and to full repayment of the loan, the shares may not be transferred, assigned, pledged under a lien, seized or otherwise voluntarily pledged and no power-of-attorney may be issued with respect thereto (except for the power-of-attorney to the State or to participants, as the case may be, as set forth in Section 9.1 above), and no deed of transfer may be issued with respect thereto, except for transfer of participant rights to shares pursuant to a last-will-and-testament or by law, provided that in no case shall the shares be released by the Trustee prior to the end of the lock-up period, and except for pledging of the shares to the Bank, as set forth in Section 9.7 above.

- 11.2.3. Participants may view a copy of the most recent periodic report of the Bank and the most recent un-audited financial statements of the Bank during normal business hours at the Bank Secretary's office. A copy of these reports would be sent to any participant upon written request.
- 11.2.4. Through the end of the trust period, the Bank would be required to provide confirmation of payment of the applicable tax with regard to release of shares from trust, as set forth above, as well as of repayment of the loan to the Bank (if granted). After obtaining these confirmations, all participants on behalf of whom shares are held by the Trustee would be required to transfer said shares to their bank account, pursuant to Section 52I(c) of the Securities Law, 1968. Should the Bank not provide such confirmation of tax payment for any of the participants, the Trustee shall act with regard to such participants as per Section 9 above.

## 12. **Rights associated with Bank shares**

- 12.1. **General** – the rights associated with Bank shares are in accordance with the Bank's Articles of Association, whose provisions are subject to the Companies Law, 1999, to the Banking Law (Licensing), 1981 and to the Banking Ordinance – as amended.

For the full text of the Articles of Association, see the Bank's Articles of Association on the distribution website (MAGNA website of the ISA at [www.magna.isa.gov.il](http://www.magna.isa.gov.il)).

Your attention is drawn, on this matter, to the potential impact on said rights of the Bank Shares (Arrangement Shares) (Temporary Provision) Law, 1993 ("**the Bank Share Law**"), which stipulates that provisions of this act would take precedence over the Bank's Articles of Association, and that some provisions of this Law would be deemed to be included in such Articles of Association.

Your attention is further drawn to the proposed Banking Law (Legislation Amendments), 2011, published on January 5, 2011, which proposes to amend the Banking Law (Licensing), 1981 and the Banking Ordinance (hereinafter: "**the proposed amendment of banking laws**"). These amendments, if enacted, would have significant implications for banks with no controlling shareholder group and on rights of shareholders of such banks.

- 12.2. **General Meeting and voting rights** – The Companies Regulations (Notice and Advertising of General Meeting and Class General Meeting of a Public Company), 2000 stipulate, *inter alia*, that an advertisement should be published and notice should be given of any General Meeting at least 21 days prior to convening a General Meeting of shareholders (35 days for certain matters). The advertisement concerning the convening of a General Meeting of shareholders shall be published in at least two widely-read Hebrew-language daily newspapers and the notice shall also be published on the bank's website. The notice should indicate, *inter alia*, the meeting type, place and time of the meeting, details of issues on the agenda, summary of proposed resolutions, the majority required for adoption of said resolutions, the record date for eligibility of all shareholders to vote at the General Meeting of shareholders, and if it had been announced that an adjourned meeting shall be held one week after the original meeting, the notice shall indicate the time of the adjourned meeting. In the case of a notice of a General Meeting where items on the agenda may be voted on by voting form, the following shall be listed, *inter alia*: address of the ISA distribution website open for public viewing of reports by reporting entities ("the distribution website") and of the Stock Exchange website, where the text of the voting form and position papers may be found; that voting shall be carried out using Part 2 of the voting form as published on the distribution website; that shareholders may apply directly to the company to receive the voting form and position papers; that stock exchange members would send at no cost by email a link to the voting form and position papers on the distribution website to any shareholder not registered in the Shareholders' Register and whose shares are registered with said Stock Exchange member, unless the shareholder has given notice that he or she was not interested in receiving this information, provided that the notice has been given for a specific securities account and prior to the record date; that any shareholder whose shares are registered with said Stock Exchange member, is entitled to receive the ownership certificate from the Stock Exchange member holding his or her shares, at the Stock Exchange member's office or by mail to his or her address for payment of the postage fee only, if requested, and that a request on this matter shall be given in advance for a specific securities account; the

deadline for providing position papers and voting forms to the company and details of voting methods at the company which allow for online voting.

As for convening a General Meeting of shareholders for appointment of Directors, see also the Bank's immediate report dated February 18, 2010 with regard to cancellation of a special General Meeting (reference no. 2010-01-389280).

The advertisement should list, *inter alia*, the meeting type, place and time of the meeting, details of issues on the agenda, the record date for eligibility of all shareholders to vote at the General Meeting of shareholders, and if it had been announced that an adjourned meeting would be held one week after the original meeting, the notice shall indicate the time of the adjourned meeting. The advertisement should refer to the immediate report filed on the distribution website, containing further information about the General Meeting. Advertisement for a General Meeting where there are issues on the agenda which may be voted using voting forms, would also indicate the deadline for providing position papers, the deadline for providing voting forms to the company and information about online voting, if available.

Any motion submitted to the General Meeting shall be determined by a majority of votes, by open voting or ballot voting, as instructed by the Chairman of the General Meeting.

Subject to special conditions with regard to voting rights provided to all shares to be issued or held at that time, each shareholder present or by proxy shall have one vote for each share owned thereby. Voting using voting forms shall be carried out pursuant to Article 74a – 81 of the Bank's Articles of Association.

Three shareholders present shall constitute a legal quorum at a General Meeting. If no such legal quorum is present within thirty minutes after the scheduled time for the General Meeting, the General Meeting would be adjourned to the same day of the week during the following week, at the same time and same place – unless otherwise announced by the Board of Directors to shareholders. If no legal quorum is present at the adjourned General Meeting, then two shareholders present would constitute a legal quorum at the adjourned General Meeting.

Any motion at the General Meeting shall be determined by open voting, unless ballot voting is requested as set forth below. Ballot voting may be requested by the Chairman of the General Meeting or by three or more shareholders present and eligible to vote at the General Meeting – prior to open voting or immediately after the outcome of open voting is announced.

The Chairman of the Board of Directors, or in his absence, the Deputy Chairman, if any, may chair any General Meeting. If there is no Chairman or Deputy Chairman, or if they are not present at the General Meeting within 15 minutes from the scheduled time of said General Meeting, or should they be unwilling to act, the Directors present may elect a Chairman or, should they not do so, the shareholders may elect any of the Directors as Chairman, and should none of the Directors wish to chair the General Meeting, then shareholders may elect one shareholder to chair the meeting.

The Chairman of the General Meeting may, with consent of the General Meeting, adjourn the meeting to another time and place, but such an adjourned meeting may only discuss matters whose discussion was not concluded at the meeting that had been adjourned.

Pursuant to Chapter F of the Bank Shares Law, the Bank's Share Committee ("**Share Committee**") must participate and vote at General Meetings of shareholders. The Share Committee was appointed pursuant to provisions of the Bank Shares (Arrangement Shares) (Temporary Provision) (Appointment of other committees and their terms), 2009, for a three-year term through October 31, 2011. However, the Share Committee shall conclude its term of office prior to the three-year term, if: (1) the State shareholding stake in the Bank would be lower than 5% and no other shareholder of the Bank has received a Controlling Permit for the Bank pursuant to Section 34(b) of the Banking Law (Licensing), 1981; or (2) a shareholder of the Bank has received a Controlling Permit for the Bank pursuant to the aforementioned Section 34(b).

The aforementioned Chapter F contains special directives with regard to voting on amendments of documents of incorporation, on terms of Directors' tenure and as instructed by the Minister of Finance to achieve certain goals. The Law stipulates, *inter alia*, that:

The Share Committee shall vote against any amendment of the Bank's documents of incorporation that may prejudice, directly or indirectly, rights associated with shares or the ability to sell the shares, or Government policy with regard to sale of the shares or to structural reform of the banking sector. Under certain circumstances, the Share Committee may consult with the Minister of Finance or with any person appointed thereby.

The Share Committee shall not vote for an increase in remuneration of Directors over and above the national average pay increase, unless business results of the Bank would justify this.

The Minister of Finance, with approval of the Government or of a ministerial committee authorized by the Government, may instruct the Share Committee to convene a General Meeting of shareholders and to vote thereat in accordance with the Minister's instructions on any matter, including amendment of incorporation documents, should the Minister consider this necessary in order to conclude sale of the shares, to reduce or avoid prejudice of rights associated with shares, the ability to sell them or the consideration payable upon their sale, re-structuring, setting dividend distribution policy and delegation of authority to the General Meeting of shareholders on these matters.

The Minister of Finance may also instruct the Share Committee to apply to the Court, pursuant to the shares, *inter alia*, for the Court to instruct that meetings be convened or agreements be approved or for any application that Bank shareholders may make, should the Minister consider this necessary for achieving objectives of the Law.

Pursuant to the Banking Law (Licensing), 1981, no person may agree with another person on their voting at a General Meeting of shareholders on appointment of a Board member of a banking corporation or a bank holding corporation, except by permit granted by the Governor of the Bank of Israel after consulting with the Licensing Committee. This prohibition does not apply to any holder of a means of control who agreed with another party that the other party would vote on his or her behalf for the candidate indicated by the holder of the means of control, provided that the other party not vote on behalf of more than one other holder.

In accordance with the Banking Ordinance, 1941, voting on appointment of Directors at a General Meeting of shareholders of a banking corporation with no controlling shareholder, shall be for each candidate separately, the Board of Directors may not nominate or appoint Directors of the banking corporation, and officers of the banking corporation may not act to have a certain Director appointed or not appointed – other than nominating them for to serve as a Director.

The proposed amendment to banking laws proposes that banking corporations that are public companies would be required to give advance notice (21 days in advance) when convening a General Meeting where appointment or termination of Directors is on the agenda.

As for a bank with no controlling shareholder, the proposed amendment to the banking laws proposes, *inter alia*, that voting on appointment or termination of Directors shall only be made at the Annual General Meeting of shareholders or at a specially convened General Meeting in case of failure to appoint the appropriate number of Directors, unless otherwise approved by the Supervisor of Banks. The proposed legislation further stipulated, with regard to a bank with no controlling shareholder, that the number of Directors replaced annually at the General Meeting of shareholders shall not exceed half of the number of Directors in office.

- 12.3. The right to appoint Directors, as per the Bank's Articles of Association, provides that the following may be nominated for election as Directors at the General Meeting of shareholders: an outgoing Director seeking re-election; any person nominated by the Directors (in as much as Directors may, by law, nominate others to serve as Directors); or, a Bank shareholder nominated by another Bank shareholder.

Pursuant to the Bank Share Law, the Share Committee shall vote at a General Meeting of Bank shareholders on any matter voted upon by the General Meeting, including the election of Directors nominated by the Share Committee to the General Meeting drawn from the persons on the list compiled by the Public Commission.

In accordance with Section 11a of the Banking Ordinance, appointment of a Director requires approval (or absence of objection) by the Supervisor of Banks.

For as long as the Share Committee is in office, the Bank's Board of Directors may not appoint a Director of the Bank, and election of the Chairman of the Bank Board of Directors is subject to approval by the Share Committee, after consultation with the Supervisor of Banks and the Minister of Finance. The Chairman of the Board of Directors is elected by the Board from among its Directors.

Bank Directors are elected at a General Meeting by a regular majority (except for external Directors, who are elected as set forth in the Companies Law). The number of Bank Directors serving is fifteen. At each Annual General Meeting of shareholders, one third of the number of Directors retires, or if their number is not a multiple of three, the closest number to one third but not more than one third. The outgoing Directors are those who have been in office longest, and they may be re-elected. If two or more Directors have been in office for an equal period of time, the issue of which one should retire, if they cannot agree on this matter, would be decided by lot.

Should the number of candidates nominated for election as Directors at the General Meeting, and who received a simple majority of votes based on voting rights of shareholders eligible to vote and who voted (in person, by representative or by proxy vote) at the General Meeting, be higher than the number of vacant Director positions whose appointment is on the agenda of the General Meeting, then those candidates who receive a larger number of votes than other candidates shall be elected by the General Meeting. In case of the need for a deciding vote among multiple candidates who received an equal number of votes, the issue of who shall be elected Director will be decided by lot.

Notwithstanding the Bank's Articles of Association, an external Director (for the purpose of the Companies Law or directives of the Supervisor of Banks, as the case may be), the appointment thereof, the required majority for appointment thereof, their term in office, rights and expiration thereof – are subject to provisions of the Companies Law or directives of the Supervisor of Banks, as the case may be. Subject to provisions of the Companies Law or directives of the Supervisor of Banks, as the case may be, the provisions of the Bank's Articles of Association also apply as stated.

- 12.4. The proposed amendment to banking laws proposes to stipulate, with regard to nomination of candidates to serve as Directors of a banking corporation with no controlling shareholder, *inter alia*, that in addition to a committee composed of five members who are retired Justices, two relevant members from the economic sector or from academia, and two external Directors of the relevant banking corporation, which would nominate candidates to serve as Directors in the same number of vacant positions on the Board of Directors (hereinafter: "**the committee**"), candidates for Directors of such banking corporation may be nominated by any shareholder holding more than 2.5% of some type of means of control of the banking corporation, as well as by two or three shareholders who join together specifically for this purpose, where each shareholder holds more than 1% but less than 2.5% of some type of means of control of the banking corporation, and who jointly hold not less than 2.5% and not more than 5% of such means of control (hereinafter: "**group of shareholders**"). Note that any such shareholder or group of shareholders, including any member of a group of shareholders, may only nominate one candidate to serve as a Director, unless a special permit is received from the Governor of the Bank of Israel.

The proposed amendment to the banking laws further proposes to stipulate that a Director of a banking corporation with no controlling shareholder may nominate him- or herself as a Director to the committee, but may not nominate him- or herself directly to the General Meeting of shareholders.

12.5. Your attention is drawn to the entire proposed Banking Law (Legislation Amendments), 2011, published on January 5, 2011.

12.6. **Rights to dividends** – all Bank ordinary shares confer equal rights with regard to dividend distribution. General Meetings may declare a dividend distribution to shareholders, subject to rights assigned to any other class of shares outstanding at that time; based on the ratio of paid-in amounts, or credited as paid-in, over their par value.

Unless otherwise stipulated by terms and conditions of the share issuance, all dividends for shares not fully paid-in within a certain period for which the dividends are paid, shall be paid pro-rated to amounts paid-in, or credited as paid-in, over the par value of the shares in any portion of said period. Dividend distribution by the Bank is subject to Directive 331 of the Supervisor of Banks on "Dividend distribution by banking corporations" and is further subject to provisions of the Companies Law.

Pursuant to the Bank Share Law, the Minister of Finance, with approval of the Government or of a ministerial committee authorized by the Government, may instruct the Share Committee to convene a General Meeting of shareholders and to vote thereat on setting a policy with regard to dividend distribution out of the Bank's earnings, subject to restrictions specified by the Supervisor of Banks for maintaining bank stability.

As for dividend distribution, see also Section 9.14 above. For further provisions with regard to dividends, see the chapter "Dividends in kind and capitalization of earnings" in the Bank's Articles of Association.

- 12.7. **Capitalization of earnings and bonus share distribution** – the General Meeting of Bank shareholders may decide upon capitalization of any undistributed earnings available in reserves or distributable as dividends, or which constitute a share premium, and the distribution thereof as bonus shares, to be of an identical class for all shareholders, or if approved by different General Meetings of holders of different share classes – of the same class already owned thereby. For further provisions on capital, earnings and share distribution – see further provisions in the Bank's Articles of Association.

**Capital increase and issuing new shares** – the General Meeting of shareholders may increase from time to time the Bank's capital by creating new shares in the amount deemed beneficial thereby. New shares shall be issued under the same terms and conditions, and with the same rights and privileges, as instructed by the General Meeting of shareholders that decided to create them, and if no such instructions were given – as determined by the Directors. Shareholders have no precedence in signing up for further Bank shares, unless otherwise decided by the General Meeting of shareholders that decided to issue the new shares.

- 12.8. **Share transfer** – Directors may refuse to register in the Bank's Register of Shareholders any transfer of shares not fully paid-in.

Bank shares are listed for trading on the Stock Exchange.

In addition to restrictions on transferability of the shares pursuant to the plan, such share transfer may be restricted by provisions of the Banking Law (Licensing), 1981, whereby acquiring more than 5% of any type of means of control in a banking corporation (i.e., voting rights at the General Meeting, or the right to appoint Directors, or the right to share in earnings, or the right to excess assets upon dissolution) is contingent on obtaining prior approval from the Governor of the Bank of Israel.

Furthermore, since the Bank is a controlling shareholder of overseas banking corporations, transfer of control of the Bank may be subject to approval in various jurisdictions, based on the laws applicable to these banking corporations controlled by the Bank.

- 12.9. **Rights upon dissolution** – in case of dissolution of the Bank, its excess assets, considering rights conferred by any other share class outstanding at that time, would belong to holders of ordinary shares and shall be distributed pro-rata to the amount paid-in, or credited as paid-in, over the par value of these shares.
- 12.10. **Modification of rights** – the rights associated with shares of different classes, unless the issuance terms of shares of that class stipulate otherwise, may be modified, amended or cancelled only with written consent of all holders of outstanding shares of said class, or if approved by an extraordinary resolution passed by a majority vote of three quarters of votes of shareholders of shares of this class present, in person or by representative, and voting at an extraordinary General Meeting of such shareholders, convened and conducted lawfully and attended by two or more persons who own at least one third of the shares of that class. Any such modification, amendment or cancellation is also subject to a special resolution by the General Meeting of shareholders. Any modification of rights, as set forth in the Bank's Articles of Association, would be subject to proceedings stipulated in Section 350 of the Companies Law (Authority to compromise or reach agreement), when the modification of rights is conducted in conjunction with proceedings under said Section 350.

13. **Taxation**

- 13.1. The Bank has applied for and received confirmation from the Tax Authority that the tax ruling in the agreement shall also apply to the offering to employees pursuant to this outline, subject to no changes being made to the framework and to the outline of offering by the State to employees, as described in the tax ruling in the agreement, and subject to strict compliance with all provisions of the tax ruling in the agreement. Pursuant to this confirmation, provisions of Section 102 (as defined above) shall apply to the plan. Participants shall bear all taxes, levies, mandatory payments if and to the extent imposed upon them, pursuant to any statutory provisions with respect to the shares and/or any other charges incurred by the participant and/or the Trustee in conjunction with the plan, and the Bank or other companies shall not gross-up these expenses in a participant's payroll. The Bank and/or the Trustee are not responsible for tax implications applicable to participants due to the purchase of the shares.
- 13.2. The Bank and/or the Trustee shall deduct taxes in accordance with statutory provisions, including tax withholding, as required by this outline. If at any stage of conducting this plan, a tax payment would be due from a participant and the Bank and/or the Trustee would not be in possession of the required amount for tax withholding out of amounts due or payable to the participant from the Bank and/or from the Trustee, the Bank and the Trustee would be eligible not to carry out that stage and/or portion of the plan, unless the participant would provide to the Bank or to the Trustee, immediately upon demand, the required amount for tax payment.
- 13.3. Provisions of this outline would not detract from any charge imposed and/or to be imposed on the participant pursuant to provisions of Section 102 or provisions of any section replacing and/or adding thereto.
- 13.4. Participants are encouraged to seek professional advice and to consider the tax implications applicable to them due to sale of the shares, and each participant should review and consider the tax implications arising from application of provisions of Section 102 to this outline and to said participant.

13.5. By signing the order form, the participant consents in advance to the tax ruling in the agreement with regard to the plan, and to the taxation track applicable to the participant, and consents to the fact that the tax ruling in the agreement requires the participant to act pursuant thereto and to pay all applicable taxes.

**14. Stock Exchange prices of Bank shares**

Below is information about high and low prices of Bank shares on the Stock Exchange for the period from January 1, 2009 through the date of this outline:

Bank share price	2009		2010		2011 <sup>4</sup>	
	Date	NIS per share	Date	NIS per share	Date	NIS per share
Highest	31.12.2009	16.789737	30.12.2010	17.822933	3.1.2011	18.146629
Lowest	9.3.2009	6.157841	30.6.2010	13.383682	2.3.2011	16.26

The Bank share price on the Stock Exchange as of April 6, 2011 was NIS 17.84.

All of these prices are closing prices, adjusted for dividends.

**15. Plan administration**

15.1. The Bank shall administer the plan, subject to provisions of this outline, and in doing so may exercise the authority given to the Bank pursuant to this outline, and may take any additional actions required or beneficial for administration of the plan, including interpretation and supervision of plan execution.

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<sup>4</sup> As of April 6, 2011.

- 15.2. The Bank Board of Directors may stipulate any provisions with regard to any matter concerning the plan, its interpretation, terms and conditions and execution, in as much as these have not been explicitly set forth in this outline, subject to consent of the State, in as much as this concerns the State, and subject to consent of employee representation, in as much as this concerns the identity of participants.

**16. Labor laws**

- 16.1. All revenue accrued by participants due to purchase of shares, transfer thereof in their name or sale thereof, and all associated issues, shall not be taken into account when calculating the basis for entitlement of the participant to any social benefits vis-à-vis the Bank. Without limitation to generality of the foregoing, such revenue would not be taken into account for calculation of retirement insurance, study fund, provident fund, severance pay, vacation pay and similar social benefits.
- 16.2. Nothing in the outline and/or in the share offering documents shall confer on participants any right with regard to their continued employment by the Bank, and shall not in any way prejudice the Bank's right to terminate any participant at any time.

**17. Expenses and receipts**

The Bank shall incur all costs involved with plan administration and execution, including expenses and costs associated with services provided by the Trustee pursuant to this plan.

**18. Failure to comply with terms and conditions of the outline**

In addition to other remedies available to the Bank, failure by any participant to comply with provisions of this outline or of other documents to be issued by the Bank and/or by the State with regard to the share offering, if not corrected by the participant within thirty days of delivery of notice on this matter by the Bank, shall be cause for cancellation and forfeiture of the shares yet to be transferred to the Trustee on behalf of the participant (in whole or in part), as decided by the Bank's Board of Directors or any person authorized thereby, at their sole discretion.

**19. Reference to financial statements and immediate reports**

The Bank draws the attention of participants to additional information about the Bank, which is available in the Bank's 2010 periodic report published on March 30, 2011 (reference no. 2011-01-098910), which includes the financial statements, as well as to immediate reports issued by the Bank after publication of said periodic report, as set forth in the Appendix to this outline. These reports may be viewed on the MAGNA website at [www.magna.isa.gov.il](http://www.magna.isa.gov.il) or at the Bank Secretary's office during normal business hours upon prior scheduling by telephone :03- 5149419.

**Bank Leumi Le-Israel Ltd.**

April 6, 2011

Date

**Bank Leumi Le-Israel Ltd.**

By:

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Miryam (Miri) Katz, Adv.

Director

\_\_\_\_\_  
Moshe Dovrat

Director

Data as of April 6, 2011 at 11:24:33 (MAGNA Server Time)

Results 1-6 out of 6

April 5, 2011	17:33	Bank Leumi le-Israel B.M	T078	Immediate Report regarding someone who became an interested party in the corporation due to holdings		2011-01- 111441
April 3, 2011	13:46	Bank Leumi le-Israel B.M	T097	Immediate Report regarding status report of senior officers		2011-01- 107088
April 3, 2011	08:28	Bank Leumi le-Israel B.M	T094	Immediate Report regarding a senior officer who ceased to hold a position		2011-01- 106185
March 31, 2011	17:13	Bank Leumi le-Israel B.M	T053	Immediate Report regarding an event or matter which is outside of the ordinary course of business – Promotions	Annex	2011-01- 103932
March 30, 2011	09:06	Bank Leumi le-Israel B.M	T081	Immediate Report regarding distribution of a cash dividend	Annex	2011-01- 098937
March 30, 2011	08:35	Bank Leumi le-Israel B.M	T031	Periodic/Quarterly Report of a banking corporation	Annex	2011-01- 098910