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Translation of Immediate Report

Bank Leumi le-Israel B.M.

Registration No. 520018078

Securities of the Corporation are listed on The Tel Aviv Stock Exchange

Abbreviated Name: Leumi

Leumi House, 34 Yehuda Halevi Street, Tel Aviv 65546

Phone: + 972 3 5148111, + 972 3 5149419; Facsimile: + 972 3 5149732

Electronic Mail: Yaelru@bll.co.il

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To: Israel Securities Authority (www.isa.gov.il)
The Tel Aviv Stock Exchange (www.tase.co.il)

Immediate Report

Nature of Event: Bonus Program for Senior Managers

See Annex Attached hereto.

Date and time at which the corporation first became aware of the matter being the subject of the report: 9 March 2010 Time: 16:30.

Name of Electronic Reporter: Yael Rudnicki, Position: Group Secretary
POB 2 Tel Aviv 61000, Phone: + 972 3 5149419, Facsimile: + 972 3 5149732,
Electronic Mail: Yaelru@bll.co.il

Immediate Report

Bank Leumi le-Israel B.M. (the “**Bank**”) is pleased to announce the following:

1. **General**

On 9 March 2010, the Bank’s Board of Directors, following the approval of the Audit Committee of 2 March 2010 and after obtaining the recommendation of the Board of Directors’ Administration Committee, as described below, approved a long-term bonus program for the Bank’s senior managers: the Chairman of the Board of Directors (subject to the approval of the General Meeting), the President and Chief Executive Officer and all the other members of the Bank’s Management (11 managers) (the “**Senior Managers**”), for the year 2009 and onwards (the “**Bonus Program**”).

2. **Manner of Determining the Bonus Program and its Approval**

2.1 The Bonus Program was discussed at a number of meetings of the Board of Directors and of its committees, including the Audit Committee and the Administration Committee of the Board of Directors, and of the Senior Managers Compensation Team, which is composed of directors who are members of the Committee. The Bonus Program was also discussed and approved on 2 March 2010 by the Board of Directors’ Audit Committee, and thereafter by the Board of Directors on 9 March 2010. With respect to the Chairman of the Board of Directors, the Bonus Program is also subject to the approval of the Bank’s General Meeting of Shareholders.

2.2 CPAs Uri Cohen and Dror Hakini, of the firm Yitzchak Suari Ltd. was appointed as an external professional consulting team. The professional team assisted in the formulation of the Bonus Program, which was discussed by the Committees and by the Board of Directors, and also prepared and presented possible simulations for the implementation of the program and its implications. The team also provided the Directors with background material regarding accepted practice in public companies of a size similar to that of the Bank, and within the banking system.

Additional background material provided to the above-mentioned Bank entities included, *inter alia*: the draft of the proposed program for the compensation of Senior Managers for 2008, which was prepared at the time by Yitzchak Suari Ltd.; the Board of Directors resolution regarding the Bank’s risk appetite; a letter from the Bank of Israel of 5 April 2009 regarding the

compensation policy of banking corporations; the Board of Directors resolution regarding the Bank's bonus policy for 2009; the Bank's overall Balance Score Card ("BSC")¹ for 2008, the Bank's overall BSC for the third quarter of 2009; the Bank's financial results, and of the banking system, for the last few years; financial data regarding the terms of employment and bonuses granted to the Senior Managers in previous years, and data, to the extent that such have been made public, regarding bonuses, salaries and benefits granted to chairmen of boards of directors, CEO's and members of management of the five largest banks in Israel and in other large companies in the capital market.

2.3 After the recommendations of the Board of Directors' Administration Committee were examined, the Audit Committee and the Board of Directors held discussions regarding the Bonus Program, taking into consideration, *inter alia*, the background material presented to them. The Audit Committee and the Board of Directors resolved to approve the Bonus Program, as described below:

3. The Bonus Program

3.1 General

The Bonus Program determines the manner in which the annual bonus for the Senior Managers will be determined in respect of 2009 and onward. The Bonus Program is based on, *inter alia*, the annual net profit of the Leumi Group (the Bank and/or Leumi Group, whichever is relevant, is referred to hereinafter as the "**Bank**") in respect of ordinary operations only, the annual return on capital from ordinary operations after tax (the "Return on Capital"), the Bank's annual performance in relation to targets set by the Bank's Board of Directors and in relation to the other banking groups (the "**Other Banks**"), and it is also affected by the development, over time, of the Bank's business results. The program and its components will be re-examined by the Board of Directors after the first year of its operation and its implementation will be monitored on an ongoing basis.

¹ The BSC is a score card which integrates a scoring of quantitative and qualitative subjects, including financial indices (such as return on capital, capital adequacy, etc.) and others (such as customer satisfaction, etc.), and which is used to assess the performance of the Bank's and its units.

3.2 The Manner in which a Bonus is Determined according to the Bonus Program – General Description

The bonus of the Senior Managers will be determined in accordance with the following description:

3.2.1 Determination of the Scope of the Overall Annual Bonus to the Senior Managers – the scope of the overall bonus (the “**Overall Bonus**”) will be determined by the Board of Directors on the basis of the adjusted rate of return, which is obtained by multiplying the actual return on capital by the Bank’s weighted grade (divided by 100), as described in section 3.2.3 below (the “**Adjusted Rate of Return**”).

Only an Adjusted Rate of Return which is equal to or higher than 8% will create an entitlement to a (positive) bonus. If the Adjusted Rate of Return is 8%, the scope of the Overall Bonus will be 0.5% of the adjusted net profit.² If the Adjusted Rate of Return is 9%, the scope of the Overall Bonus will be 0.68% of the adjusted net profit. If the Adjusted Rate of Return is 10%, the scope of the Overall Bonus will be 0.85% of the adjusted net profit, and if the Adjusted Rate of Return is 12% or more, the scope of the Overall Bonus will be 1.00% of the adjusted net profit. In any case, on calculation of the bonus, the Adjusted Rate of Return will not exceed 15%.

To the extent the Adjusted Rate of Return is within a range which is between the values described above, the size of the bonus will be determined in a linear manner between the two values. In any event, the scope of the Overall Bonus will not exceed NIS 30 million.

3.2.2 The Overall Bonus will be divided among the Senior Managers as described below in section 3.2.4. Thereafter, 10% of the total share of the Senior Managers (other than the Chairman of the Board and the CEO) of the Overall Bonus will be set aside and held as a reserve. This reserve will first be used for the payment of the positive differentials (to the extent that such exist) between the total bonuses to the Internal

² The adjusted net profit will be calculated as the product of the Bank’s Adjusted Rate of Return multiplied by the Bank’s weighted capital (which is used for the calculation of the return on capital in the Consolidated Financial Statement in accordance with the public reporting directives) during the assessed year.

Auditor, the Chief Accountant and the CRO (the individual responsible for risk management within the company, when a CRO is appointed for the Bank), decided upon by the Audit Committee as stated in section 3.2.4.3 below, and the total bonuses to which the above-mentioned officers would have been entitled if this Bonus Program were implemented with respect to them. The balance of the reserve following payment of the said bonus differentials will serve as a "CEO reserve" and will be divided among the Senior Managers (other than the Chairman of the Board and the CEO), in accordance with the CEO's recommendation - which shall be submitted for the Board of Directors' approval - in respect of outstanding performances of any of the said Senior Managers during the course of the assessed year.

3.2.3 Determination of the Bank's Standard Grade for the Purpose of Calculating the Adjusted Yield - the Bank's performance will be measured on the basis of five parameters, for which grades shall be given in a range of 70-120 for each parameter. The following are the parameters and the weights attributed to them: (a) 30% - a comparison of the actual return on capital for the assessed year, compared with a multi-year return of 10%; (b) 30% - a comparison of the actual return on capital for the assessed year compared with the adjusted return on capital (according to the weighted shareholders' equity for the year) at the other four large banks in Israel for the same assessed year; (c) 10% - a comparison of the Bank's capital adequacy (ratio of capital to risk assets) compared with the Bank's targets as established from time to time. The Bank's target for 2009 is 12.3%; (d) 10% - a comparison of the Bank's capital adequacy (ratio of capital to risk assets) compared with the weighted ratio (according to the weighted shareholders' equity for the year) at the other four large banks in Israel for the assessed year; (e) 20% - the Bank's adjusted BSC (Balanced Score Card) grade for the assessed year.

3.2.4 The Manner of Calculating the Personal Bonus for each of the Senior Managers

3.2.4.1 Chairman of the Board of Directors- The size of the bonus for the Chairman of the Board of Directors will be determined on the basis of: (1) the weighted personal grade, which is comprised as follows: 60% based on the Bank's BSC grade and 40% based on the personal evaluation grade given to him by the Board of Directors, and (2) the

Chairman's relative normative³ share of the Overall Bonus, established by the Board of Directors, at the rate of 16.7%.

3.2.4.2 CEO- The size of the bonus for the CEO will be determined on the basis of: (1) the weighted personal grade, which is comprised as follows: 60% based on the Bank's BSC grade and 40% based on the personal evaluation grade given to him by the Board of Directors, and (2) the relative normative share of the Overall Bonus, established by the Board of Directors, at the rate of 20.8%.

3.2.4.3 The remaining Senior Managers- The size of the bonus for the remaining Senior Managers will be determined on the basis of: (1) the weighted personal grade, which is comprised as follows: 60% based on the BSC grade of the unit headed⁴ by the Senior Manager and 40% based on the personal evaluation grade given to him by the CEO. The following may be examined, among the criteria to be used for the purpose of determining the personal evaluation grade for the senior management: the contribution to ongoing business activity and results; the contribution to the control of the risk level; fulfillment of targets regarding compliance with laws, regulations and regulatory provisions; audit reports; contribution to the Bank's strategic planning and implementation, execution and promotion of strategic plans and targets; leading efficiency programs and compliance with targets derived from them; implementation, execution and promotion of significant investment and/or acquisition plans (including acquisitions which may reduce current profitability); leading, implementation, promotion and execution of projects regarding maintenance of environmental protection and safety; leading, implementation and execution of various types of enforcement programs including processes and standards with which the company is required to comply

³ The relative normative share - the Senior Manager's share of the overall bonus, assuming that all of the Senior Managers received a grade of 100.

⁴ Other than the BSC for the Senior Deputy CEO, for whom the Bank's entire BSC grade will be used.

(SOX, offerings, etc.); and leading of projects and processes in the field of the Bank's ethics and guidelines.

(2) The relative normative share of the Overall Bonus, established in advance by the Board of Directors, according to the CEO's recommendation, with the relative normative share of the remaining Senior Managers being 62.5%.

It should be noted that the bonus to the Chief Internal Auditor, the Chief Accountant and the CRO (when one is appointed) will be determined separately by the Audit Committee, which may rely on, *inter alia*, the calculation according to this Bonus Program.

- 3.2.4.4 The weighted personal grade (divided by 100) will be multiplied by the particular Senior Manager's relative normative share.
- 3.2.4.5 The Overall Bonus will be divided pro-rata among the Senior Managers according to the proportions obtained by the multiplication of the said parameters.
- 3.2.4.6 The Bonus Program has been established with respect to 13 Senior Managers. If the number of Senior Managers is less than 13, the program will be adjusted and the scope of the bonus will be reduced by the value of the normative bonuses of the Senior Managers no longer holding the positions. If the number of Senior Managers exceeds 13, the program will be adjusted pursuant to a resolution of the Board of Directors.

3.3 Events upon the Occurrence of which No Positive Bonus will be Granted

Upon the occurrence of one of the following events during the assessed year, the Senior Managers will not be granted a positive annual bonus:

- 3.2.1 The adjusted return for the assessed year is less than 8%.
- 3.2.2 Failure to comply with the ratio of capital to risk assets set in Directive 311 of the Proper Banking Management Directives, or in any other directive which replaces it.

Additionally, a Senior Manager will not be entitled to a positive annual bonus upon the occurrence of an event which would allow the Bank to dismiss him without severance pay, and such a Senior Manager will not be entitled to receive the balance of the as yet unpaid (net) positive bonus from previous years.

3.4 Negative bonus

In the event that the Bank's adjusted rate of return is less than 7%, a negative bonus will be charged to the Senior Managers, as described below:

3.4.1 The Overall Negative Bonus to all of the Senior Managers – The scope of the overall negative bonus will be set at 1% of the “determinative return differential” as stated below, multiplied by the Bank's weighted capital.

The scope of the overall negative bonus in respect of a calendar year shall not in any event exceed NIS 20 million.

The Determinative Return Differential shall be Determined as follows:

- (a) If the actual return on capital is negative, the determinative return differential will be calculated as follows: (1) the differential between the actual return and 7%; (2) the Bank's weighted grade will be adjusted through its deduction from a fixed number – 200 (such that a grade of 70 will become a grade of 130); and (3) the negative differential will be adjusted by multiplying it by the Bank's weighted grade, adjusted as stated above.
- (b) If the actual return on capital before the adjustment is higher than 7%, but less than 7% afterwards, the determinative return differential will be the differential between the adjusted rate of return and 7%.
- (c) If the actual return on capital is positive and less than 7%, the determinative return differential will be the higher (in absolute values) of the calculations described in sub-sections (a) and (b) above.

However, it is noted that if the actual return after the adjustment is higher than 7%, no negative bonus will be calculated, even if the unadjusted rate of return is less than 7%.

3.4.2 As stated above, it is noted that there is a reasonable possibility that the Senior Managers will be charged with a negative bonus even if the actual return on capital is higher than the minimum return (7%).

3.4.3 Determination of the Scope of the Personal Negative Bonus Rate for Each of the Senior Managers:

(a) The weighted grade of each Senior Manager will be determined in accordance with section 3.2.4 above. Because of the negative bonus, the weighted grade will be converted into an adjusted weighted grade, through its deduction from a fixed number – 200 (such that, for example, a grade of 80 will become a grade of 120). The reversal is required such that to the extent that a particular Senior Manager’s grade is lower, his share of the negative bonus will be greater.

(b) The adjusted weighted grade (divided by 100) will be multiplied by the particular Senior Manager’s relative normative grade, as described in section 3.2.4 above.

(c) The negative bonus will be divided pro-rata among the Senior Managers according to the proportions obtained by the multiplication of the said parameters.

3.5 Payment of the Bonus to be Spread Out over the Long-Term

3.5.1 The payment of a bonus for a particular year will be spread out over three years, as follows:

3.5.1.1 50% of the bonus will be paid close to the reporting of the financial results for the relevant year (the “**Bonus Year**”).

3.5.1.2 25% of the bonus will be paid close to the reporting of the financial results for the year following the Bonus Year (the “**Second Year**”).

3.5.1.3 25% of the bonus will be paid close to the reporting of the financial results for the year following the Second Year.

3.5.2 The deferred payments in respect of the bonus will be linked to the Consumer Price Index, such that the base index will be the known CPI at the time of the first payment.

3.5.3 A negative bonus which is determined in respect of a particular year will be offset from any positive bonus payment to which a Senior Manager will be entitled in a particular year in respect of previous years, and if necessary, it will be offset against any positive bonus to which the Senior Manager is entitled in later years. The amount of the negative bonus will be linked to the Consumer Price Index, beginning at the time of its having been charged.

3.6 Retirement of a Senior Manager

3.6.1 A Senior Manager who retires from the Bank upon reaching retirement age, or who retires from the Bank other than on his own initiative, will receive, at the time of his retirement, the balance of the as yet unpaid (net) positive bonus in respect of previous years. In addition, if the Senior Manager served in his position for a period of at least six actual work months during the calendar year in which he retired (the “**Retirement Year**”), the Board of Directors will conduct a detailed examination of his entitlement to a partial bonus in respect of the period during which he served, and will determine the amount of the bonus to be paid for such, if any bonus is to be paid at all. The bonus amount, to the extent one is determined, will be paid in full at the closest time established for the purpose of the payment of the bonus to the Senior Managers. Note that a member of Management who retires will not be entitled to a bonus in respect of an actual period of work during the Retirement Year which was shorter than six months. If the balance of the bonus in respect of the previous years is negative, it will be offset against amounts owed to the Senior Manager from the Bank, beyond the amounts that are owed to him by law, provided that the offset amount does not exceed the bonus amounts that the Senior Manager received during the two years preceding his retirement, and against the bonus amount which is determined for him in respect of the period of his service in his position during the Retirement Year. A Senior Manager who was dismissed due to the occurrence of an incident which allows him to be dismissed without severance pay will not be entitled to a positive annual bonus in respect of that year and will not be entitled to receive the balance of the as yet unpaid (net) positive bonus in respect of previous years.

3.6.2 A Senior Manager who retires voluntarily (other than upon reaching retirement age) will not be entitled to the balance of the as yet unpaid positive bonus in respect of previous years and/or to the bonus in

respect of the period of his service during the Retirement Year. If the bonus balance is negative, it will be offset against amounts owed to the employee beyond the amounts to which he is entitled by law, provided that the offset amount does not exceed the bonus amounts that the Senior Manager received during the two years preceding his retirement.

- 3.7 The Bonus Program and its components will be re-examined by the Bank's Board of Directors in 2010 in order to examine the need to make changes and adjustments to the program. Additionally, the Board of Directors may at any time change the conditions established in the Bonus Program or its components.

In the context of the re-examination of the Bonus Program, the possibility will be examined of using the "risk adjusted profit" index and/or of using other alternative indices such as the return on the shareholders' equity required according to the Bank's risk assets and according to the capital adequacy rates required pursuant to the Basel II directives.

4. Justifications for Approval of the Bonus Program

- 4.1 The following, *inter alia*, are the considerations and justifications that guided the Board of Directors, the Audit Committee and the Administration Committee of the Board of Directors in their decision to approve the Bonus Program:

4.1.1 The implementation of the Basel II Committee's recommendations concerning the strengthening of corporate governance in banking corporations, according to which the Bank should ensure that the compensation policy is consistent with the Bank's organizational culture, with its long-term objectives and strategies and with the Bank's control environment.

4.1.2 The implementation of the principles of an appropriate employee compensation policy detailed in the letter of 5 April 2009 from the Bank of Israel's Supervisor of Banks, including the adjustment of the compensation incentives to overall organizational profitability, to the Bank's long-term objectives and to its results over time, and the establishment of compensation incentives on the basis of risk and capital cost adjusted profit.

- 4.1.3 The creation of an incentive structure for the members of the senior management, such that the taking of risks beyond the Bank's risk appetite will not be encouraged. This is done by spreading out the payment of the bonuses over three years, by charging a negative bonus to the Senior Managers and through the establishment of a 15% ceiling for the adjusted return, for the purpose of calculating the bonus.
 - 4.1.4 The need to maintain the stability of the Bank's senior Management, while examining compensation within the banking system, maintaining a public standard and taking into consideration the public's sensitivity to the compensation levels at the banks.
 - 4.1.5 The desire to maintain the senior Management at the Bank over many years, and to provide a positive incentive in respect of continued service at the Bank – by spreading the payment of the positive bonus over several years, with a Senior Manager who departs voluntarily not being entitled to a bonus in respect of the year in which he served, and not being entitled to the balance of the positive bonuses in respect of preceding years.
 - 4.1.6 The fact that there is no share-based compensation plan at the Bank designated for the senior Management. It is noted that the Bank had an options plan in connection with its privatization program, which included all Bank employees, including the senior Management, but there is no designated program for the senior Management, as is standard in other banks and other large financial entities.
 - 4.1.7 The method for the calculation of the bonus for the Bank's Senior Managers was also established against the background of an acceptable level of bonuses to senior managers in parallel positions in the banking system, and in other large financial entities.
 - 4.1.8 The significant increase in the scope of the activity of the members of the Bank's senior Management in light of the economic situation, and the substantial participation that is required of the Bank's management.
 - 4.1.9 The desire to provide incentives for the members of the senior Management on the basis of examining their actual performance.
- 4.2 The Administration Committee of the Board of Directors, the Audit Committee and the Board of Directors believe that the Bonus Program which

they have approved is appropriate and reasonable, in accordance with all the data available to them, and in comparison with the entire banking system.

- 4.3 For the removal of doubt, it is clarified that the Bonus Program does not constitute a commitment on the part of the Bank to grant bonuses, and does not create any obligation and/or absolute right for any of the Senior Managers to receive bonuses in respect of the year 2009 or for any other year.
- 4.4 For the removal of doubt, it is clarified that the bonus for Senior Managers pursuant to this Bonus Program, to the extent that the Senior Managers are entitled to bonuses pursuant to this Bonus Program, does not constitute a part of the salary paid to any of the Senior Managers, and will not be taken into consideration for the purpose of deducting social benefits, severance pay, or retirement allowances, and will not be considered to be an accompanying condition of employment of any kind whatsoever for any of the Senior Managers.
- 4.5 This resolution does not refer to bonuses for extraordinary activities. The Board of Directors reserves the right either to grant or not to grant, at its discretion, special bonuses in respect of extraordinary activities.
- 4.6 Neither the Chairman of the Board of Directors, the President and Chief Executive Officer nor any members of Management were present at the discussions at which the Administration Committee, the Audit Committee and the Board of Directors approved their resolutions.
- 4.7 There were no objections to the approval of the Bonus Program.
5. **Simulation on the Basis of the Bank's Financial Results for the years 2007-2008**

In accordance with the Securities Regulations (Periodic and Immediate Reports), 1970, the following is a simulation of the determination of the scope of the Overall Bonus to the Senior Managers at the Bank which would have been paid according to the Bonus Program, on the basis of the Bank's financial data for the years 2007 and 2008:

- 5.1 The scope of the Overall Bonus to all the Senior Managers for the year 2007, if the Bonus Program had been implemented for that year, would have been some NIS 29 million. The Overall Bonus amount for all the Senior Managers that was actually paid for that year was NIS 29 million.

5.2 The scope of the Overall Bonus to all the Senior Managers for the year 2008, if the Bonus Program had been implemented for that year, would have been a negative bonus of some NIS 16 million, compared to the fact that no bonus was paid for that year.

It is noted that the size of the personal bonus for the Senior Managers in respect of the years 2007 and 2008 may not be presented, since the determination of the size of the said bonus, according to the provisions of the Bonus Program, is dependent on data, parameters and information that the Bank does not have, and any assumption whatsoever regarding this matter would be arbitrary and would not properly reflect the bonus that would have been paid to any particular Senior Manager, if this program had been implemented during those years.