

**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

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11 November 2014

Reference: 2014-01-192870

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

**Immediate Report**

Nature of Event: Immediate Report Regarding a Merger

See attached Annex.

Date and time at which the corporation first became aware of the matter being the subject of the report: 11 November 2014 Time: 16:00.

**Bank Leumi Ltd.**

**Leumi Finance Co. Ltd.**

11 November, 2014

To

Tel Aviv Stock Exchange  
Ahuzat Bayit Street 2  
Tel Aviv 6525216

To

Israel Securities Authority  
Kanfei Nesharim Street 22  
Jerusalem 95464

Re: **Immediate Report Regarding Merger**

Dear Sir or Madam:

Bank Leumi Le-Israel Ltd. (“**Bank Leumi**” or “the **Absorbing Company**”) and Leumi Finance Co. Ltd. (“**Leumi Finance**” or “the **Target Company**”) are pleased to submit this joint immediate report, in accordance with the provisions of Chapter C-1 of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (“the **Regulations**”), regarding a merger in which Leumi Finance will be merged with and into Bank Leumi (“the **Merger**” or “the **Merger Transaction**”).

## **1. The parties to the Merger**

The parties to the merger are:

- 1.1 Bank Leumi – the Absorbing Company as that term is defined in the Companies Law, 5759-1999 (the “**Companies Law**”).
- 1.2 Leumi Finance Co. Ltd. – the Target Company as that term is defined in the Companies Law.

## **2. Main points of the merger agreement**

- 2.1 According to the merger agreement (hereinafter: “the **Merger Agreement**”), Leumi Finance, which is a wholly-owned and wholly controlled subsidiary of Bank Leumi, will merge with and into Bank Leumi. The Absorbing Company and the Target Company will be referred to hereinafter as “the **Merging Companies**”.
- 2.2 According to the Merger Agreement, and subject to the full and complete satisfaction of the conditions established for the execution of the merger as stated in para. 7 below, and to the completion of all the actions specified in the Merger Agreement, and in accordance with the provisions of Chapter 1 of Part 8 of the Companies Law:
  - 2.2.1 On the Merger Day (as defined in the Merger Agreement), all the conditional or unconditional, present or future, and known or unknown assets and liabilities of Leumi Finance pursuant to any law or agreement – as they are on the Merger Day – will be transferred to Bank Leumi without consideration. Bank Leumi will take the place of Leumi Finance for all matters and purposes relating to the assets and liabilities that are transferred as stated above;

- 2.2.2 In all legal proceedings to which Leumi Finance is a party as of the Merger Day (including any execution of judgment proceedings) Bank Leumi will be viewed as the equivalent of Leumi Finance;
- 2.2.3 Leumi Finance will cease to exist as a separate legal entity, and the Board of Directors of Leumi Finance will cease to serve as a board of directors.
- 2.2.4 In accordance with a request that will be submitted to the Companies Registrar, the Companies Registrar will transfer the liens register (as defined in section 181 of the Companies Ordinance [New Version], 5743-1983 of the Target Company to the liens register of the Absorbing Company, pursuant to s. 323(3) of the Companies Law.
- 2.2.5 The Registrar will provide Bank Leumi with a certificate indicating that the merger has been executed and will record the merger in Bank Leumi's registration.
- 2.2.6 Leumi Finance will be eliminated without liquidation, and will be stricken from the records maintained by the Companies Registrar, in accordance with the provisions of the Companies Law.
- 2.2.7 The relevant provisions of the Companies Law will apply.

### **3. Tax consequences of the merger for the Absorbing Company**

No substantive tax consequences are expected to arise from the merger for the Absorbing Company.

### **4. Quantity and percentage of the holdings of interested parties in the Absorbing Company, in the issued and paid-up capital and in the voting rights**

- 4.1 Prior to the merger: The holdings of the Bank Leumi interested parties in the issued and paid-up capital and in the voting rights of Bank Leumi (including fully diluted rights), are as described in the Report of Holdings of Interested Parties in Bank Leumi, dated 9 November 2014 (Reference No. 2014-01-191094).
- 4.2 After the merger: To the best of Bank Leumi's knowledge, no changes are expected to occur with respect to the holdings of the interested parties in the Bank following the merger (including with respect to fully diluted rights). Additionally, there are no Leumi Finance securities that are convertible into or which can be realized as shares of Bank Leumi.

### **5. Proceeds of the merger**

As stated in para. 2.2.1 above, the merger will be carried out without the payment of any consideration whatsoever.

**6. The position of the Board of Directors regarding the question of whether there is a reasonable concern that, due to the merger, the Absorbing Company will not be able to meet its obligations to its creditors, after the merger**

On 11 November 2014, the Board of Directors of Bank Leumi approved the execution of the merger and determined, taking note of the financial condition of the Merging Companies, that in its view, there is no reasonable concern that the Absorbing Company will not be able to satisfy its obligations to its creditors, after the merger.

On 11 November 2014, the Board of Directors of Leumi Finance approved the execution of the merger and determined, taking note of the financial condition of the Merging Companies, that in its view, there is no reasonable concern that the Absorbing Company will not be able to meet its obligations to its creditors, after the merger.

**7. Required approvals for the merger or conditions stipulated for its execution**

7.1 The merger, pursuant to the Merger Agreement, does not require the approval of the general meetings of the Merging Companies, as the merger satisfies the conditions set out in s. 320(1a) of the Companies Law.

7.2 On November 9, 2014, Bank Leumi's audit committee approved the execution of the merger pursuant to the Merger Agreement, and the Board of Directors, as stated, approved the execution of the merger pursuant to the Merger Agreement, on 11 November 2014.

7.3 The Committee for the Examination of Transactions with Affiliated Persons of Leumi Finance, and its Board of Directors, approved the execution of the merger on 11 November 2014.

7.4 The merger pursuant to the Merger Agreement is conditioned on the fulfillment of all the conditions precedent specified below, cumulatively:

7.4.1 Receipt of an exemption from withholding tax for the exchange, due to the merger, of the certificates of indebtedness held by the public.

7.4.2 Fulfillment of all the conditions for a merger in accordance with the provisions of Chapter 1 of Part 8 of the Companies Law.

7.4.3 That no decision has been issued by a competent court, as of the Merger Day, ordering a delay of the merger or enjoining its execution, including as provided in section 319 of the Companies Law.

7.5 The Merging Companies will cooperate in order to promptly carry out all the actions required and submit all the applications that may be required for the purpose of satisfying all the conditions precedent, in full.

**8. Existing or expected new restrictions that will, to the best of Bank Leumi's knowledge, apply to Bank Leumi as a result of the merger**

- 8.1 To the best of the knowledge of the Merging Companies, it is not expected that there will be any demand for early payment of loans provided to Bank Leumi and/or to Leumi Finance as a result of the merger.
- 8.2 To the best of the knowledge of the Merging Companies, it is not expected that any restrictions will apply to Bank Leumi with respect to the creation of liens – beyond those that existed prior to the merger – pursuant to any relevant law.
- 8.3 To the best of the knowledge of the Merging Companies, it is not expected that there will be any change in the credit rating/ratings of obligations of either Leumi Finance and/or of Bank Leumi as a result of the merger.

**9. Absence of a personal interest in the merger**

Pursuant to Section 11b(c) of the Banking Ordinance, 1941, Bank Leumi is defined as a bank without a controlling core and there is no shareholder who is defined as being the controlling shareholder of Bank Leumi. To the best of Bank Leumi's knowledge, neither Bank Leumi's directors nor its interested parties have any personal interest in the merger.

Bank Leumi is the controlling shareholder of Leumi Finance. To the best of Leumi Finance's knowledge, other than the personal interest that Bank Leumi has by virtue of being the controlling shareholder of Leumi Finance, the Directors of Leumi Finance have no personal interest in the merger.

**10. Approval of the merger pursuant to section 320(c) or (d) of the Companies Law**

The merger does not require an approval pursuant to section 320(c) or (d) of the Companies Law.

**11. Leumi Finance Financial Statements and Board of Directors' Explanations of the Financial Statements**

The financial statements of Leumi Finance and the Board of Directors' explanations of the financial statements, as described below, are attached to this merger report by way of reference:

- 11.1 On 11 March 2014, Leumi Finance published a Periodic Report covering the period up to 31 December 2013, as amended on 2 April 2014 (Reference No. 2014-01-036687).
- 11.2 On 19 May 2014, Leumi Finance published a Quarterly Report covering the period up to 31 March 2014, as amended on 30 June 2014 (Reference No. 2014-01-103524).
- 11.3 On 11 August 2014, Leumi Finance published a Quarterly Report covering the period up to 30 June 2014, (Reference No. 2014-01-131826).

In addition, Leumi Finance hereby refers to immediate reports that it published since the date of the Periodic Report for 2013 and through the date of this merger report, as specified in Appendix A attached to this merger report, and which are attached to this merger report by way of reference.

## **12. Description of Leumi Finance**

For a description of Leumi Finance and the development of its business, see Chapter A “Description of the Corporation’s Business” in the Leumi Finance Periodic Report as of 31 December 2013, which was published on 11 March 2014, as amended on 2 April, 2014 (Reference No. 2014-01-036687). The information appearing in that report is included in this report by way of reference.

## **13. Bank Leumi Financial Statements and Board of Directors’ Explanations of the Financial Statements**

The financial statements of Bank Leumi and the Board of Directors’ explanations of the financial statements, as described below, are attached to this merger report by way of reference:

- 13.1 On 31 March 2014, Bank Leumi published a Periodic Report covering the period up to 31 December 2013 (Reference No. 2014-01-030807). The information appearing in that report is included in this report by way of reference.
- 13.2 On 22 May 2014, Bank Leumi published a Quarterly Report covering the period up to 31 March 2014 (Reference No. 2014-01-069975). The information appearing in that report is included in this report by way of reference.
- 13.3 On 21 August 2014, Bank Leumi published a Quarterly Report covering the period up to 30 June 2014, (Reference No. 2014-01-138822). The information appearing in that report is included in this report by way of reference.

In addition, Bank Leumi refers to immediate reports that it published since the date of the Periodic Report for 2013 through the date of this merger report, as specified in Appendix B attached to this merger report.

## **14. The Absorbing Company’s plans regarding securities that can be converted or exercised into shares of the Target Company**

Leumi Finance has not issued and has not undertaken to issue securities that can be converted or exercised into its shares.

## **15. The merger is not substantial**

In the view of the Merging Companies, the merger between Bank Leumi and Leumi Finance is a merger that is not substantial. This is because none of the conditions stated in Regulation 37c(a) of the Regulations. Additionally, since Leumi Finance is a private company which is a wholly owned and controlled subsidiary of Bank Leumi, the merger

has no effect on the status of the assets or liabilities of Bank Leumi in its consolidated financial statements.

**16. The main reasons given by the Board of Directors for the approval of the merger**

The following are the main reasons that the Board of Directors of Leumi Finance has given for its approval of the merger

- 16.1 There is no reasonable cause for concern that, due to the merger, Bank Leumi will not be able to satisfy its obligations to its creditors and to the creditors of Leumi Finance.
- 16.2 The Board of Directors of Leumi Finance has noted the declaration of Bank Leumi that the merger is intended to serve a business and financial purpose and that it is likely to lead to, *inter alia*, savings with respect to operational expenses and costs.
- 16.3 Since Leumi Finance is a wholly owned subsidiary of Bank Leumi, the significance of the merger is only an internal structural change, in the context of which no consideration is paid.

The following are the main reasons that the Board of Directors of Bank Leumi has given for its approval of the merger

- 16.4 There is no reasonable cause for concern that, due to the merger, Bank Leumi will not be able to satisfy its obligations to its creditors.
- 16.5 This is a merger between a parent company and subsidiary, which is wholly owned and controlled by the Bank.
- 16.6 The merger will have no effect on Bank Leumi's assets and liabilities in its consolidated financial statements, as the financial statements of Leumi Finance are already consolidated with Bank Leumi's financial statements.
- 16.7 Since Leumi Finance is a wholly-owned subsidiary of the Bank, as stated above, the merger will mean a change in the internal structure, for which no consideration has been paid by Bank Leumi, and there is no allocation of shares or dilution of the Bank Leumi shareholders.
- 16.8 The merger of Leumi Finance with and into Bank Leumi is intended to serve an economic business purpose and it is likely to lead to, *inter alia*, savings with respect to operational expenses and costs.
- 16.9 In accordance with the terms of the certificates of indebtedness (debentures, subordinated notes and subordinated capital notes) issued by Leumi Finance (hereinafter, together: "the **Certificates of Indebtedness**"), it is Bank Leumi that is liable to the trustees of the Certificates of Indebtedness and to the holders of the Certificates of Indebtedness, for the payment of the entire amounts owed pursuant to the terms of those Certificates of Indebtedness. The proceeds received from the issuance of the Certificates of Indebtedness that were issued by Leumi Finance have been deposited in the Bank, for the Bank's use, in accordance with its judgment.

Thus, the execution of the merger, if it does take place, will not change any of the rights of the holders of the Certificates of Indebtedness nor does it change any of the Bank's obligations.

16.10 In accordance with the principles of Basel 3, it will no longer be permitted, in the future, to issue non-convertible debentures for the purpose of satisfying capital requirements.

**17. The location for the convening of the general meeting and the date thereof, and the legal forum required at the meeting or at a postponed meeting for the approval of the merger**

As stated in section 7.1 above, the merger does not require the approval of the general meetings of Bank Leumi and of Leumi Finance.

Very sincerely,

**Bank Leumi Le-Israel Ltd.**

By:

Itai Ben Z'ev, Head of Capital Markets Division

Hanan Friedman, Legal Adviser

**Leumi Finance Co. Ltd.**

By:

Mr. Yohanan Marmari, Chairman of the Board of Directors

Ms. Ofra Shlusman, CEO