

**Bank Leumi Le'Israel B.M.**

**("the Bank")**

March 30, 2017

Dear Sir/Madam,

**Re: Report pursuant to the Securities Regulations (Private Offering of Securities  
in a Registered Company), 5760-2000**

This report is given pursuant to a resolution of the Board of Directors of the Bank dated March 29, 2017, regarding the approval of a private offering of 578,969 blocked performance share units which constitute a deferred and contingent right to receive ordinary shares of NIS 1 par value each of the Bank (hereinafter: "**the PSU units**"), from which will be allotted 43,112 PSU units to the Chairman of the Board of Directors of the Bank, 75,791 PSU units to the President and Chief Executive Officer of the Bank and 460,066 PSU to other office-holders in the Bank as outlined below.

**1. General**

- 1.1 On February 11, 2014, the General Meeting of the Bank, after obtaining the approval and recommendation of the Remuneration Committee of the Board of Directors and of the Board of Directors of the Bank, approved a remuneration policy, applicable, inter alia, to the Chairman of the Board of Directors of the Bank, the President and Chief Executive Officer of the Bank, the rest of the members of management and the other office-holders in the Bank (hereinafter: "**the previous remuneration policy**").

For further details regarding the previous remuneration policy, see the report convening the meeting published by the Bank on January 5, 2014 (Ref. no. 2014-01-003985) with its appendices.

- 1.2 On November 3, 2016, the General Meeting of the Bank, after obtaining the approval and recommendation of the Remuneration Committee of the Board of Directors and of the Board of Directors of the Bank, approved a new remuneration policy regarding the conditions of service and employment of office-holders in the Bank, in effect from October 12, 2016 and thereafter (hereinafter: "**the new remuneration policy**").

Pursuant to the provisions of the new remuneration policy, the entitlement of office-holders in the Bank to a variable bonus in respect of 2016 will not be computed on a calendar basis, but proportionally, as follows: in respect of the first three quarters for 2016, the entitlement of the office-holders in the Bank to a variable bonus will be in accordance with the provisions of the previous remuneration policy<sup>1</sup>, while in respect of the last quarter for 2016, the entitlement of the office-holders in the Bank to a variable bonus will be in accordance with the new remuneration policy<sup>2</sup>. Furthermore, pursuant to the new remuneration policy, the variable bonuses in respect of 2016 (both in respect of the first three quarters for 2016 and in respect of the last quarter for 2016) will be paid to the office-holders, as far as the office-holders have entitlement to receive them, wholly or partly, immediately after the publication of the Immediate Report of the Bank for 2016, with the instructions and conditions for payment of each variable bonus being in accordance with the provisions of the remuneration policy according to which that variable bonus has been computed.

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<sup>1</sup> With, in respect of the Chairman of the Board of Directors, the entitlement to a bonus in respect of 2016, according to the previous policy being until July 22, 2016.

<sup>2</sup> Pursuant to the new remuneration policy and according to the provisions of Proper Conduct of Banking Management Directive no 301A, the Chairman of the Board of Directors will no longer be entitled, with effect from July 22, 2016, to a variable annual bonus.

**The new remuneration policy further provides that the instructions stipulated in the new remuneration policy regarding the vesting terms of the deferred parts of the annual bonuses will be applied, respectively, also in relation to the share-based instruments which are allotted (and will, if any, be allotted) to the office-holders in the Bank (including the Chairman of the Board of Directors and the President and Chief Executive Officer) by virtue of the previous remuneration policy, notwithstanding the provisions of the previous remuneration policy.**

For further details regarding the new remuneration policy, see the report for convening the meeting published by the Bank on October 21, 2016 (Ref. no. 2016-01-066408) with its appendices.

The previous remuneration policy and the new remuneration policy, as applicable, will be called together below: **"the remuneration policy"**.

- 1.3 Pursuant to and further to the abovementioned, on March 29, 2017, the Board of Directors of the Bank, after obtaining the approval and recommendation of the Remuneration Committee of the Board of Directors and of the Board of Directors of the Bank, approved the amounts of the annual variable bonuses to the Chairman of the Board of Directors, the President and Chief Executive Officer and the rest of the office-holders in the Bank in respect of 2016, in accordance with the remuneration policy (the new remuneration policy in respect of the first three-quarters of 2016 and the new remuneration policy of the last quarter of 2016<sup>3</sup>).

For further details regarding the method of computing the variable annual bonus – see the provisions in the previous remuneration policy and in the new remuneration policy, as applicable.

- 1.4 As far as the conditions for deferring the bonus in respect of the first three-quarters of 2016 are fulfilled in connection with any of the office-holders in the Bank, as set forth in the previous remuneration policy<sup>4</sup>, half (50%) of the aforesaid bonus will be paid in cash and half (50%) will be granted via blocked performance share units which constitute a deferred and contingent right to receive ordinary shares of NIS 1 par value each of the Bank (hereinafter: **"A PSU units"**). The PSU units will vest to shares in accordance with and subject to the conditions stated in the new remuneration policy and as set forth below.
- 1.5 As far as the conditions for deferring the bonus in respect of the last quarter of 2016 are fulfilled in connection with any of the office-holders in the Bank, as set forth in the new remuneration policy<sup>5</sup>, half (50%) of the aforesaid bonus will be paid in cash and half (50%) will be granted via blocked performance share units which constitute a deferred and contingent right to receive ordinary shares of NIS 1 par value each of the Bank (hereinafter: **"B PSU units"**). The PSU units will vest to shares in accordance with and subject to the conditions stated in the new remuneration policy and as set forth below. It is clarified that, pursuant to the new remuneration policy, the various remuneration, wholly or partly, can be made in the form of shares and/or share-based instruments, the entitlement to which vests over a number of years.
- 1.6 The aggregate amount of A PSU units that will be allotted to all of the office-holders who are offerees pursuant to this report, and the aggregate amount of B PSU units that will be allotted to all of the office-holders who are offerees pursuant to this report constitute, together, the total of all the PSU units allotted pursuant to this report.

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<sup>3</sup> Excluding in respect of the Chairman of the Board of Directors – see above.

<sup>4</sup> The amount of the bonus in respect of the first three-quarters of 2016 for the office-holder exceeds 1/6 of the fixed remuneration of that office-holder in the first three-quarters of 2016.

<sup>5</sup> The amount of the bonus in respect of the last quarter of 2016 for the office-holder exceeds 40% of the fixed remuneration of that office-holder in the last quarter of 2016.

- 1.7 The allotment of the PSU units in respect of 2016 was made in accordance with and subject to the provisions of the remuneration policy, subject to other approvals which are required by law and set forth in this report below.

2. Identity of the offerees

The offerees with regard to the allotment of the PSU units (hereinafter in this paragraph: "**the offerees**") are the office-holders who are entitled to a bonus in respect of 2016 and in respect of whom the conditions for the deferral of some of the relevant bonus are fulfilled in accordance with the provisions of the remuneration policy (the previous and the new, as applicable), including the Chairman of the Board of Directors of the Bank and the President and Chief Executive Officer of the Bank.

The entitlement of all the offerees to the bonus is in respect of their period of office in the Bank in 2016, in which there are employee-employer relations between them and the Bank. There will also be employee-employer relations between the offerees and the Bank at the allotment date<sup>6</sup>.

The Chairman of the Board of Directors, Mr. David Brodet, and the President and Chief Executive Officer, Ms. Rakefet Russak-Aminoach, are considered, by virtue of their position, interested parties in the Bank<sup>7</sup>.

3. Terms of the PSU units, their amounts and the rate in percentages which will arise from the voting rights and from the issued and paid-up capital of the Bank after their conversion to shares and on a fully diluted basis:

- 3.1 Pursuant to the allotment, the Bank will allot to the Chairman of the Board of Directors, to the President and Chief Executive Officer and to the rest of the office-holders in the Bank, without consideration, 578,969 PSU units, constituting a contingent right to receive 578,969 ordinary shares of NIS 1 par value each of the Bank. From the PSU units that will be allotted as aforesaid, 43,112 PSU units will be allotted to the Chairman of the Board of Directors, 75,791 PSU units to the President and Chief Executive Officer and 460,066 PSU units to the rest of the office-holders.
- 3.2 The allotment of the PSU units will be made in accordance to that set forth in the remuneration policy, in the capital gain (with trustee) track pursuant to section 102 to the Income Tax Ordinance (New Version), 5721-1961 (hereinafter: "**the Ordinance**").
- 3.3 The amount of the PSU units that will be allotted to each of the offerees as stated in paragraph 3.1 above is determined by means of an amount representing fifty percent (50%) of the bonus to which each of the offerees is entitled in respect of the first three-quarters and/or the last quarter for 2016, as applicable, at NIS 16.03, which is the average price (according to the daily closing prices) of one share of the Bank in the period commencing 1 January 2017 and ending on the day of trading which preceded the publication date of the annual financial statements of the Bank in respect of 2016 (that is, March 29, 2017).
- 3.4 The vesting of the PSU units that will be allotted pursuant to this report to each of the offerees is contingent on the fact that the Bank will comply with the capital adequacy ratio required pursuant to the directives of the Supervisor of Banks in accordance with the last financial statements which the Bank will publish immediately prior to each of the vesting dates (i.e., in accordance with the annual financial statements which will be published by the Bank in respect of each of the years 2017, 2018 and 2019), with each PSU unit being automatically converted to one share of NIS 1 par value of the Bank, on reaching each vesting date and subject to compliance with the above condition in relation to that vesting date.

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<sup>6</sup> Excluding three of the offerees who retired from the Bank during the year and whose entitlement is in respect of the period in which there were employee-employer relations between them and the Bank.

<sup>7</sup> For the sake of good order, it is clarified that, with the exception of the Chairman of the Board of Directors, there are no directors in the Bank among the offerees.

In the event that the Bank is not in compliance with the capital adequacy ratio required pursuant to the directives of the Supervisor of Banks as to the vesting dates, the vesting of the relevant tranche of the PSU units will be deferred to the date on which the Bank does comply, according to its annual financial statements, with the capital adequacy ratio as aforesaid.

3.5 The vesting of the PSU units that will be allotted will be made, as far as the condition for their vesting is fulfilled, in three equal tranches, as follows:

3.5.1 A third (approx. 33%) of the number of PSU units to be allotted to each of the offerees as aforesaid will vest to ordinary shares of NIS 1 par value each of the Bank, immediately prior to the reporting of the financial results of the banking system for 2017, with the shares being blocked for a period of one additional year;

3.5.2 A third (approx. 33%) of the number of PSU units to be allotted to each of the offerees as aforesaid will vest to ordinary shares of NIS 1 par value each of the Bank, immediately prior to the reporting of the financial results of the banking system for 2018; and

3.5.3 A third (approx. 33%) of the number of PSU units to be allotted to each of the offerees as aforesaid will vest to ordinary shares of NIS 1 par value each of the Bank, immediately prior to the reporting of the financial results of the banking system for 2019.

The allotment of the shares in respect of the PSU units as aforesaid can be made out of Treasury Stocks of the Bank<sup>8</sup>. It is clarified that all of the provisions of this report, above and below, in connection with the shares that will derive from the vesting of the PSU units, including for the purpose of any condition or restriction which will apply to the shares, as aforesaid, will apply, mutatis mutandis, also with regard to shares that will be allotted from Treasury Stocks of the Bank, as aforesaid.

3.6 On the assumption that the conditions for the vesting of all the PSU units that will be allotted pursuant to this report are fulfilled, the shares that will derive from the vesting of the PSU units to shares will constitute, after their allotment and based upon the share capital data of the Bank as of the date of this report<sup>9</sup>:

Offeree	Number of PSU units allotted	Percentage of the issued and paid-up capital of the Bank <sup>10</sup> after and subject to the vesting of all the PSU units
		In capital and voting
Chairman of the Board of Directors	43,112	0.003%
President and Chief Executive Officer	75,791	0.005%
Rest of the offerees	460,066	0.030%
Total	578,969	0.038%

<sup>8</sup> As of the date of this report, the capital of the Bank includes 8,084 Treasury stock shares. For details regarding the formation of Treasury stock in the issued share capital of the Bank, see the Immediate Report of the Bank dated June 27, 2016 (Ref. no. 2016-01-0066943).

<sup>9</sup> Not including the holdings of each of the offerees at the date of this report – for details regarding the holdings of offerees who are the interested parties in the Bank, see Appendix B to the report.

<sup>10</sup> Including the Treasury stock shares

And on a fully diluted basis:

Offeree	Number of PSU units allotted	Percentage of the issued and paid-up capital of the Bank <sup>11</sup> after and subject to the vesting of all the PSU units on a fully diluted basis <sup>12</sup>
		In capital and voting
Chairman of the Board of Directors	43,112	0.003%
President and Chief Executive Officer	75,791	0.005%
Rest of the offerees	460,066	0.030%
Total	578,969	0.038%

3.7 The PSU units that will be allotted pursuant to this report will not be tradable marketable and will not be listed on the Tel Aviv Stock Exchange Ltd. (hereinafter: "**the Stock Exchange**"). However, subject to the approval of the Stock Exchange, the shares that will derive from their vesting will be registered for trading in the name of Bank Leumi Le'Israel Nominees Ltd. and will be, commencing the date of their allotment, equal in their rights for all intents and purposes to the existing ordinary shares of NIS 1 par value each of the Bank, except for the restrictions on resale as provided in section 15C to the Securities Law, 5728-1968 (hereinafter: "**the Securities Law**") and Regulation 5 of the Securities Regulations (Details regarding Sections 15A to 15C of the Law), 5760-2000 or other restrictions that may be imposed according to law<sup>13</sup>.

#### 4. Adjustment of rights and provisions to protect offerees

- 4.1 If the Bank allots bonus shares and the determining date for their distribution (hereinafter "**the bonus date**") occurs after the date of granting the PSU units, but before the date of their conversion to shares, the number of the PSU units of each offeree will be increased by the number reflecting the number of shares to which the offeree would be entitled as bonus shares, were the PSU units converted on the day preceding the bonus date and the provisions of the remuneration policy as regards the PSU units will also apply to the additional units which will be allotted. Similar adjustments will be made in the event of a split (or consolidation) of the shares of the Bank. The additional units that are allotted as aforesaid will be deposited with a trustee and a capital gain with trustee track will apply to them pursuant to section 102 of the Ordinance.
- 4.2 In the event of the offer of rights by the Bank to its shareholders after the date of granting the PSU units, but before the date of their conversion to shares, the number of the PSU units of each offeree will be increased such that it will reflect the bonus component inherent in the rights. The provisions of the remuneration policy with regard to the PSU units will also apply to the additional units that will be allotted. The additional units that are allotted as aforesaid will be deposited with a trustee and a capital gain with trustee track will apply to them pursuant to section 102 of the Ordinance.
- 4.3 Notwithstanding the aforesaid in paragraphs 4.1 and 4.2, it is clarified that it will not be permitted to convert PSU units to a fraction of a share, and that in the case of an incomplete number, the number of shares that are converted will be rounded to the nearest complete number.

<sup>11</sup> Including the Treasury stock shares

<sup>12</sup> The computation assumes that, in addition to the allotment of the PSU units and their vesting to shares of these units and of all the PSU units which have been allotted to date by the Bank, all of the RSU units which have been allotted to date by the Bank will also vest to shares. The computation does not take into account NIS 400,000,000 of deposits/index-linked subordinated notes (unquoted), which were issued in June and July 2002, which are repayable in 2101 and which were recognized by the Bank of Israel as Upper Tier 2 capital of the Bank, and are convertible, under specific circumstances, which were defined by the Supervisor of Banks, in accordance with the conversion formula as provided in the terms of the deposit/ subordinated note, at 151,121,833 ordinary shares of the Bank, as at the date of the periodic report of the Bank for 2016. In addition, the computation does not take into account NIS 925,750,000 par value of subordinated notes (Series 400) which were issued by the Bank on January 21, 2016, and are convertible, in specific circumstances to a total of 147,492,625 ordinary shares of the Bank

<sup>13</sup> Including instructions and directives of the Supervisor of Banks

4.4 The distribution of a dividend by the Bank (in cash and/or in kind) will not in any way affect the number of shares that will derive from the conversion of the PSU units and will not compel the Bank to make any adjustment in connection with the PSU units and/or the converted shares, except as set forth below:

4.4.1 If the Bank distributes a dividend prior to reaching the vesting date of any PSU units, the offeree will be entitled to the payment of a contingent bonus, in cash, in an amount equal (gross) to the amount of the dividend that will be paid to that offeree had he held the number of shares of the Bank equal to the number of the PSU units as aforesaid on the determining date for distributing the dividend, subject to the vesting of the PSU units to shares and the adjustments as set forth in this paragraph 4.4 (hereinafter "**the amount of the dividend-like bonus**"). Tax at source will be deducted from the amount of the dividend-like bonus in accordance with the law or according to the decision of the Israel Tax Authority.

4.4.2 **The offeree will not be entitled to the amount of the dividend-like bonus as aforesaid, other than subject to the vesting of the PSU units to shares.** The amount of the dividend-like bonus with its fruits will be paid as part of the salary which is expected to be paid to the offeree immediately following each of the vesting dates of the PSU units to shares, as far as they will vest, this, immediately following the date on which it is known whether the PSU units have vested in accordance with and subject to the provisions of the remuneration policy.

4.4.3 Any income or profit that will accrue to the offeree in respect of the PSU units, including in respect of the payment of the amount of the dividend-like bonus, will not be considered as part of the salary of the offeree for all intents and purposes and will not be brought into account for the purpose of any social rights (including severance pay, social provisions, pension, etc.) or for rights or other benefits deriving from employment relations. Notwithstanding the aforesaid, the taxes and other compulsory deductions in respect of income or profit that will accrue to the offeree in respect of the PSU units, as aforesaid, will be deducted as required by law.

4.5 Notwithstanding all of the aforesaid, no conversion of the PSU units to shares will be made on the determining date for the distribution of bonus shares, for an offer by way of shares, for a distribution of a dividend, for a capital split or for a reduction in capital (each of the aforementioned will be called hereinafter: "**company events**").

If the ex-date of a company event occurs before the determining date, no conversion will be carried out on the ex-date as aforesaid.

4.6 It is clarified, to avoid all doubt, that as far the Bank is required to allot additional PSU units in respect of adjustments as stated above in this paragraph 4, the Bank will apply to receive the approval of the Stock Exchange for the registration for trading of the shares that will arise from the vesting of the additional PSU units that will be allotted as aforesaid.

5. Price of the PSU units and the price on the Stock Exchange on the day preceding the publication date of the Immediate Report and the ratio between them in percentages

The PSU units are non-tradable and are not listed on the Stock Exchange. The shares which derive from the conversion of the PSU units will be registered for trading on the Stock Exchange, subject to the approval of the Stock Exchange. The closing rate of the Bank's shares on the Stock Exchange on March 29, 2017 is NIS 16.08.

6. Fair value of the PSU units being offered

6.1 The fair value of each PSU unit was calculated in accordance with the conditions of the remuneration policy and pursuant to the International Financial Reporting Standard no. 2 "Share-based payments", regarding the recording of expenses in respect of share-based payment transactions in the financial statements at their economic value on the date of

grant, and assuming that all of the PSU units that have been allotted pursuant to this report will vest to shares.

- 6.2 The fair value of each PSU unit is estimated at NIS 16.08 based on the price of one share of the Bank immediately prior to the publication of this report as mentioned above. The value was determined according to the terms of the PSU units, including the conversion of the units to shares without consideration and a compensation mechanism for the distribution of a dividend as set forth in paragraph 4.4 above.
- 6.3 For the method of computing the number of the PSU units to be allotted pursuant to this report, see paragraph 3.3 above.
- 6.4 Based on the terms of the PSU units (which include, inter alia, conversion to shares without consideration and the inclusion of a mechanism for compensation for the distribution of a dividend), the fair value of the PSU units as of the publication date of this report is as set forth below:
  - 6.4.1 The cumulative fair value of the PSU units that will be allotted pursuant to this report to all of the offerees is approx. NIS 9.3 million.
  - 6.4.2 The cumulative fair value of the PSU units that will be allotted pursuant to this report to the Chairman of the Board of Directors is approx. NIS 0.7 million.
  - 6.4.3 The cumulative fair value of the PSU units that will be allotted pursuant to this report to the President and Chief Executive Officer is approx. NIS 1.2 million.
  - 6.4.4 The cumulative fair value of the PSU units that will be allotted pursuant to this report to the rest of the office-holders is approx. NIS 7.4 million.

The computation of the fair value of the PSU units as aforesaid does not take into account the fact that the PSU units will not be registered for trading on the Stock Exchange, and also does not take into account the vesting and blocking periods of the PSU units as set forth in this report and the tax that might apply on the sale of the converted shares.

7. Issued share capital in the Bank, amount and percentage holding of the offerees, the interested parties in the Bank and the total holdings of the rest of the shareholders in the issued and paid-up capital and in the voting rights in the Bank before the allotment and after the allotment.

The authorized share capital of the Bank as of the date of this immediate report is comprised of 3,125,000,000 ordinary shares of NIS 1 par value each. The issued and paid-up capital of the Bank as of the date of this immediate report is comprised of 1,522,973.205<sup>14</sup> shares as aforesaid. The table below sets forth data regarding the effect of the allotment of the PSU units pursuant to this report on the authorized capital of the Bank in the event of the vesting of all of the PSU units that will be allotted pursuant to this report to shares:

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<sup>14</sup> Includes 8,084 Treasury stock shares

Authorized capital (Ordinary shares of NIS 1 par value each)	Issued and paid-up capital of the Bank (number of shares)		
	At the date of the report	On a diluted basis from the allotment of the number of PSU units according to this report	On a fully diluted basis <sup>15</sup>
3,215,000,000	1,522,973,205	1,523,552,174	1,524,728,348

For details regarding the shareholdings of the Chairman of the Board of Directors and of the President and Chief Executive Officer in the shares of the Bank at the date of the report, after the allotment of the PSU units pursuant to this report and on a fully diluted basis, see **Appendix A** to this report.

8. Details of the consideration and the way in which the consideration is determined

The allotment of the PSU units and their vesting to shares of the Bank will be effected without consideration.

It is clarified that the shares that will vest from the PSU units which are allotted pursuant to this report will be paid in full. As aforesaid in paragraph 4.1, the Bank will allot to the offerees PSU units of an amount of half of the annual bonus to which there are entitled, as applicable. The amount of half of this bonus will be carried to the capital reserve of the Bank in its financial statements, and in future years, on the vesting of the PSU units to shares, the relevant part (according to the number of PSU units which will vest to shares) of the amount of half of the bonus (which has been saved on the Bank's capital reserve) will be recorded against the nominal value of the shares to be issued in favor of the offerees.

9. Name of each significant shareholder or office-holder in the Bank who has, to the best of the Bank's knowledge, a personal interest in the consideration, and the nature of the personal interest of each of them:

To the best of the Bank's knowledge, the significant shareholders in the Bank do not have any personal interest in the offering of the PSU units pursuant to this report. The Chairman of the Board of Directors, the President and Chief Executive Officer and the office-holders who are the other offerees participating in the plan of bonuses according to the remuneration policy have a personal interest in this private offering.

10. Approvals required or conditions stipulated for making the allotment pursuant to the offering, whether received or fulfilled, and if not, on what date are they expected to be received or fulfilled:

The allotment of the PSU units that will derive from them is, subject to the provisions of the remuneration policy and the contents of this report, including subject to the receipt of the approvals pursuant to any law for making the allotment, as set forth below:

- 10.1 The remuneration policy and the inception of the remuneration policy as regards the annual bonuses in relation to the Chairman of the Board of Directors and in relation to the President and Chief Executive Officer have been approved by the General Meeting of the Bank, following the receipt of the approval and recommendation of the Remuneration Committee and the Board of Directors of the Bank.
- 10.2 The Board of Directors and the Remuneration Committee of the Bank have approved the allotment of the PSU units and that all of the conditions for granting the annual bonus to the offerees in respect of 2016 have been fulfilled.
- 10.3 The vesting of the shares deriving from the PSU units which are being allotted pursuant to this report is contingent on fulfilling the conditions for the vesting of the PSU units as set forth in the new remuneration policy.

<sup>15</sup> Assuming the exercise of all the PSU units which have been allotted to date by the Bank to shares and assuming the exercise of all the RSU units which have been allotted to date by the Bank to shares. The computation does not take into account NIS 400,000,000 of deposits / index-linked subordinated notes (unquoted), which were issued in June and July 2002, which are repayable in 2101 and which have been recognized by the Bank of Israel as Upper Tier 2 capital of the Bank, and which are convertible under defined circumstances specified by the Supervisor of Banks, in accordance with a conversion formula provided in the terms of the deposit / deferred note, at 151,121,833 ordinary shares of the Bank, as of the date of the immediate report of the Bank for 2016. In addition, the calculation does not take into account NIS 935,750,000 par value of subordinated notes (Series 400), which were issued by the Bank on January 21, 2016, and are convertible under certain circumstances to 147,492,625 ordinary shares of the Bank.



- 10.4 The approval of the Stock Exchange must be received for the registration for trading of the shares that will derive from the vesting of the PSU units to be allotted as aforesaid. At the same time as the furnishing of this report, the Bank intends to apply to the Stock Exchange in a request to receive the abovementioned approval.
- 10.5 The Israel Tax Authority in Israel has confirmed that the allotment of the PSU units will be subject to the provisions of section 102 of the Income Tax Ordinance under the capital gain with trustee track and will be also be subject to the regulations, rules, circulars and directives which are issued by virtue thereof (hereinafter and above: "**the decision of the Israel Tax Authority**").
11. Details of agreements, oral and written, between the offerees and a holder of shares in the Bank or between the offerees, in whole or in part, among themselves or between them and others, relating to a purchase or sale of securities of the Bank or relating to voting rights therein, to the best of the Bank's knowledge, after it has examined and while detailing the examinations that it conducted:  
  
To the best of the Bank's knowledge, there are no agreements, written or oral, between any of the offerees and another holder of shares in the Bank, or between the offerees, in whole or in part, among themselves, or between them and others relating to a purchase or sale of securities of the Bank or relating to the voting rights therein.
12. Details of prevention or restriction on making transactions in the securities being offered that will apply to the offerees, pursuant to the articles of the Stock Exchange in Israel, pursuant to any law or pursuant to an obligation assumed by the offerees, to the best of the Bank's knowledge:
  - 12.1 The allotment of the PSU units to all of the offerees will be made after receipt of the approval of the Stock Exchange for the registration for trading of the shares that will derive from the vesting of the PSU units.
  - 12.2 Close to the date of the allotment, a granting document will be delivered to each of the offerees, denoting, inter alia: the number of the PSU units granted to him/her, the dates and conditions of their vesting, the method of conversion and any other condition connected to the granting of the PSU units as aforesaid, as will be decided by the Remuneration Committee and/or by the Board of Directors (hereinafter "**the granting document**").
  - 12.3 The granting of the PSU units to each offeree is contingent on the fact that that offeree signs the granting document, including a declaration that he/she is aware of the provisions of section 102 of the Income Tax Ordinance, the provisions of the decisions of the Israel Tax Authority and the capital gain with trustee track and that he/she agrees to the contents of the trust deed which has been signed by the Bank and the trustee, a copy of which will be furnished to him/her.
  - 12.4 In accordance with the approval of the Israel Tax Authority for the allotment according to the remuneration policy pursuant to section 102 of the Income Tax Ordinance, by the capital gain with trustee track, subject to provisions of the decision of the Israel Tax Authority (if there will be any) and subject to the relevant tax laws applicable to each of the offerees, as they are updated, from time to time, the following provisions will apply:
    - 12.4.1 The PSU units to be allotted to the offerees pursuant to this report and/or the shares to be converted from the PSU units, as applicable, will be deposited in favor of the offerees with a trustee appointed by the Bank (hereinafter "**the Trustee**"), for the duration of the period required in section 102 to the Income Tax Ordinance and the regulations enacted by virtue thereof (hereinafter: "**the tax blocking period**").
    - 12.4.2 For this purpose, the Bank will furnish the trustee with a list of those who are entitled to the PSU units according to the remuneration policy, their personal details (including details of their bank accounts), the number of the PSU units to which each of the said offerees is entitled, a copy of the granting document and all of the other details required in reporting pursuant to section 102 of the Income Tax Ordinance.

- 12.4.3 After the approval of the Remuneration Committee of the Board of Directors and of the Board of Directors that the condition for the vesting of the PSU units to shares as set forth in the new remuneration policy has been fulfilled, on each of the vesting dates, the relevant tranche of the PSU units will be automatically converted to shares of the Bank (hereinafter: "**the converted shares**").
- 12.4.4 The blocking period will terminate on the later of these dates: (a) after two years from depositing the PSU units with the Trustee; or (b) on the date of the Board of Directors' confirmation of the fact that the condition for the conversion of the PSU units to shares, as set forth in the remuneration policy, has been fulfilled.
- 12.4.5 The PSU units and the converted shares (the shares before the end of the tax blocking period or before the applicable tax in respect thereof has been paid, whichever is later) will not be available for transfer, assignment, pledge, for other voluntary encumbrance, lien or foreclosure by virtue of the provisions of any law, and no power of attorney or deed of transfer due to them will be given, whether effective immediately or effective at a future date (hereinafter, together: "**the Transfer**"), except a transfer by virtue of a will or according to law.

If the PSU units or the converted shares are transferred, by virtue of a will or according to a law as aforesaid, the provisions of section 102 to the Income Tax Ordinance, the rules and provisions of the remuneration policy will apply to the heirs or transferees pursuant to law of that offeree. It is clarified that in any event (including in a case of the transfer of the rights by virtue of a will or according to law), the converted shares or the PSU units, as applicable, will not be released from the holding of the Trustee before the end of the tax blocking period and the payment of the tax in respect thereof, and they will be subject to the abovementioned and to the conditions stipulated in the remuneration policy, and in the provisions of the law. It is clarified that the tax blocking period will also apply to the offerees who have ceased and/or will cease to work or serve in the Bank, as applicable, before the end of the tax blocking period. Notwithstanding the aforesaid, if a sale or transfer of the converted shares or the PSU units as aforesaid is made, the taxation implications pursuant to section 102 of the Income Tax Ordinance and the rules stipulated by virtue thereof will apply only to the offeree. Nothing in the aforesaid derogates and/or prejudices the prohibition on the transfer of the converted shares as stated above in this paragraph.

- 12.4.6 After the end of the relevant blocking period, each offeree will be entitled to demand that the converted shares will be transferred to his custody, providing that they have not been transferred to the offeree, except after the applicable tax pursuant to section 102 of the Income Tax Ordinance has been paid and the payment of the tax as aforesaid has been arranged.
- 12.4.7 Subject to the provisions of any law, the status of the heirs of a deceased offeree and the status of his/her legal representatives, if he becomes a person who does not possess full legal capacity, shall be as the status of the offeree.
- 12.5 Without prejudicing the provisions of paragraph 4.4 above, the offeree will not have rights of a shareholder, as long as the PSU units have not been converted to shares.
- 12.6 Without derogating from the aforesaid, the PSU units and the shares that will be converted from the PSU units and to which a blocking period (which is not a blocking period by virtue of section 102) applies will be subject to the following provisions: they will not be available for transfer, neither for consideration or without consideration, for an assignment, pledge, for other encumbrance, lien, and no power of attorney or deed of transfer due to them will be given, whether they are effective immediately or effective at a future date, except for the transfer by virtue of a will or pursuant to law. If the PSU units and/or the blocked converted shares are transferred, by virtue of a will or pursuant to law as aforesaid, the heirs or transferees of that offeree will be subject to the provisions of the remuneration policy. It is clarified that the abovementioned blocking period will

also apply to offerees who have ceased and/or will cease to work or serve in the Bank, as applicable, before the end of the blocking period.

- 12.7 The PSU units that have not been converted to shares as aforesaid on any of the vesting dates, for any reason that has not been fulfilled, according to a written resolution of the Board of Directors, the condition stipulated in the remuneration policy for their vesting, including any right related to the abovementioned PSU units, will not expire and will not be nullified, and their vesting will be deferred to the next date on which the Bank, according to its annual financial statements, fulfils the condition stipulated in the remuneration policy for their vesting.

12.8 The converted shares will be equal in their rights vis-à-vis the Bank to the existing shares in the Bank's capital for all intents and purposes and will be subject to the provisions of the Bank's Articles of Association, except for restrictions on resale as provided in section 15C of the Securities Law and in Regulation 5 of the Securities Regulations (Details regarding Sections 15A to 15C of the Law), 5760 – 2000. In this regard, the converted shares will be entitled to any dividend or other benefit, all subject to restrictions imposed pursuant to any law<sup>16</sup>. Notwithstanding the aforesaid, it is clarified that as far as the converted shares are held by the Trustee for a beneficiary, the voting rights in respect of these shares will be in the hands of the Trustee. The Trustee will not vote in respect of the converted shares held by him for the beneficiary, and the beneficiary will be entitled to vote in respect of the converted shares at meetings of the shareholders in the Bank only in accordance with a power of attorney from the Trustee, which will be given at the request of the beneficiary, all subject to the restrictions of any law<sup>16</sup>.

- 12.9 The Bank will take steps to register the converted shares with the nominee company on behalf of the trustee, through the release date of the converted shares from the Trustee.
- 12.10 Without derogating from the provisions of the remuneration policy and this report, the offerees will be subject to the provisions and restrictions provided by the applicable law<sup>16</sup>, including the Securities Law and the regulations enacted by virtue thereof and the Income Tax Ordinance, and will be subject to the restrictions and provisions as will be determined, from time to time, by the Board of Directors, including restrictions regarding the use of insider information.

13. Date of allotment of the PSU units

The allotment of the PSU units to the Chairman of the Board of Directors, the President and Chief Executive Officer and the rest of the office-holders who are offerees will be made immediately following the publication of this report, subject to the receipt of the approval of the Stock Exchange for the registration for trading of the shares which will derive from the vesting of the PSU units.

Bank Leumi Le'Israel B.M.

Hanan Friedman, Adv. – Chief Legal Counsel

Livnat Ayin-Shai Vilder – Bank and Group Secretary

Tel Aviv, March 30, 2017

**Note:** English translations of Immediate Reports of Bank Leumi are for convenience purposes only. In the case of any discrepancy between the English translation and the Hebrew original, the Hebrew will prevail.

The original Hebrew version is available on the distribution website of the Israel Securities Authority: <http://www.magna.isa.gov.il/>

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<sup>16</sup> Including regulations and directives of the Banking Supervision Department

**Appendix A**

	Holder	Number of PSU units allotted pursuant to this report	Number and percentage of holding <u>before</u> the allotment of the PSU units as stated in this report				Number and percentage of holding <u>after</u> the allotment of the PSU units as stated in this report and subject to the vesting of all the aforesaid PSU units to shares		Number and percentage of holding after allotment and vesting <u>on a fully diluted basis</u> <sup>17</sup>	
			Number of PSU units	Number of RSU units	Number of shares	% in capital and voting	Number of shares	% in capital and voting	Number of shares	% in capital and voting
Offerees	Chairman of the Board of Directors	43,112	127,623		107,317	0.01%	150,429	0.01%	278,052	0.02%
	President and Chief Executive Officer	75,791	159,173		434,517	0.03%	510,308	0.03%	669,481	0.04%
	Rest of the offeree office-holders (1)	357,412	578,507	18,754	1,693,817	0.11%	2,051,229	0.13%	2,648,490	0.17%
Interested parties (2)	Government of Israel on behalf of the State of Israel				88,830,769	5.83%	88,830,769	5.83%	88,830,769	5.83%
	Public (3)	102,654	283,733	8,384	1,431,898,701	94.02%	1,432,001,355	94.00%	1,432,293,472	93.94 %
	<b>Total</b>	<b>578,969</b>	<b>1,149,036</b>	<b>27,138</b>	<b>1,522,973,205<sup>(4)</sup></b>	<b>100%</b>	<b>1,523,552,174<sup>(4)</sup></b>	<b>100%</b>	<b>1,524,728,348<sup>(4)</sup></b>	<b>100%</b>

(1) Except for offerees who retired from the Bank before the date of this report.

(2) Except for the Chairman of the Board of Directors and the President and Chief Executive Officer, who are included on the list of offerees and are considered interested parties in the Bank by virtue of their office.

(3) Including offerees who are office-holders at the publication date of this report, and except for interested parties.

(4) Including 8,084 shares of Treasury Stock.