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Bank Leumi Le-Israel B.M

Reg. No.: 520018078

Securities of the corporation are listed on the Tel Aviv Stock Exchange

Abbreviated Name: Leumi

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Transmitted in Magna: 31/03/2015

The Company Website: www.leumi.co.il

Reference: 2015-01-070090

To:

Israel Securities Authority

www.isa.gov.il

To:

Tel-Aviv Stock Exchange Ltd.

www.tase.co.il

Immediate Report

Explanation: This form is not to be used when there is an adapted form for the reported event

Issuance outcomes are to be reported with a T20 form and not on this form

A report on rating of bonds or rating of a corporation is to be submitted via a T125 Form

Nature of the Event: Updates in the Terms of Employment of Officeholders

Attached File: *Immediate Repot – Officeholders 31315isa.pdf*

The date on which the corporation was first informed about the event: 31/03/2015 at: 15:45

Reference numbers of previous documents on the matter (the reference does not constitute inclusion by way of a referral):

Previous names of the reporting entity:

Date of the Form Structure Update: 09/03/2015

31 March 2015

To:	To:
Tel Aviv Stock Exchange	Israel Securities Authority
2 Ahuzat Bayit Street	22 Kanfei Nesharim Street
<u>Tel Aviv 6525216</u>	<u>Jerusalem 95464</u>

Dear Sirs/Madams,

Re: **The Board of Directors Decision Concerning Updates in Terms of Employment of Officeholders, Including the Chief Executive Officer**

An Immediate Report is hereby given in accordance with Section 37A (3) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (“**The Regulations**”) regarding the decision of the Bank Board of Directors, following the decision of the Board of Directors’ Remuneration Committee, to immaterially update the terms of engagement between the Bank and the senior officeholders in the Bank, including the CEO, as specified below.

1. **Method of Approval of the Update of the Terms of Engagement Between the Bank and the Senior Officeholders in the Bank (Including the CEO):**

1.1. An immaterial update to the terms of employment of the officeholders in the Bank, who are not directors, including those of the CEO, in accordance with the remuneration policy of the Bank, was discussed and approved unanimously in the meetings of the Board of Directors’ Remuneration Committee and was afterwards discussed and approved unanimously by the Bank Board of Directors.

After the Remuneration Committee had made its decision and recommended to the Board of Directors to approve, the Board of Directors on 31 March 2015 approved the update to the terms of employment of certain officeholders in the Bank, who are not directors, including those of the CEO, in accordance with the remuneration policy of the Bank, as specified below.

1.2. The background material, which was presented to the aforesaid organs of the Bank prior to the decision making concerning update to the terms of employment of officeholders in the Bank as stated, included, inter alia, the Bank’s remuneration policy and the considerations and terms set in the remuneration policy for determining the fixed remuneration component of the Bank officeholders and of the CEO; comparative information relating to the remuneration levels that are acceptable in the Bank (over the years) and for senior officeholders in the banking and financial corporations and

other large public companies (to the extent that this information is available and public), the existing terms of employment of the CEO and the officeholders in the Bank; legal opinions on the subject, as well as financial data concerning the costs the Bank can expect due to the updating of the aforesaid terms of employment in accordance with the various alternatives examined.

2. The Terms of Employment were Updated as Follows:

2.1. Revocation of full eligibility of the officeholders and key employees in the Bank, including the CEO, for jubilee grants and jubilee leaves (benefits the officeholders in the Bank are entitled to according to the employment agreements between them and the Bank), effective as of December 31 2015, as follows:

2.1.1. The rights accrued for each officeholder and key employee for jubilee grants and jubilee leaves, during the period of their employment at the Bank and until the date of eligibility cancellation, i.e. until 31 December 2014, shall be reduced, without any compensation and / or return, at a rate of about 45% (similar to the reduction performed in the collective agreement for all the Bank employees). The remaining accrued rights as stated for the officeholder or the key employee, as applicable, shall be revoked against a one-time compensation payment, in an amount equal to the balance of the accounting provision that remains in the Bank's books, for the 31st of December 2014, after the reduction, for the same officeholder or key employee, as applicable.

2.1.2. Subject to the aforesaid, the eligibility of the officeholders and the key employees to jubilee grants and jubilee leaves shall be fully revoked and the employment agreements of the officeholders and key employees shall be amended accordingly. Accordingly, following the revocation of the eligibilities as stated, the Bank shall cease to record an ongoing expense for accrual of rights to jubilee grants and leaves for the officeholders, including the CEO as well as for the key employees.

2.1.3. As a result of the revocation of eligibility for jubilee grants and jubilee leaves, an income in the amount of 16 million NIS shall be recorded in the Bank's books and an ongoing annual expense totaling about 3 million NIS, for officeholders and key employees, shall be avoided.

2.2. An increase in the salaries of certain officeholders in the Bank, who are not directors, effective as of January 1 2015. As part of this, it was approved that the salary of the Bank CEO shall be raised at a rate of about 4% of the total cost of the CEO's terms of employment. The salary of the Bank CEO, after the aforesaid update, stands at 195,400 NIS.

- 2.3. Similar to that which is acceptable in the Bank for all employees, by virtue of the collective agreements, the increase in the rate of Bank provisions for remunerations (the employer's share) for officeholders in the Bank, who are not directors, including longstanding officeholders in the Bank who have previously waived their eligibility to be included in 1st Generation terms and have transitioned to 2nd Generation terms, including for the Bank CEO, so that the rate of Bank provisions for remunerations (the employer's share), for the part of the salary that is not included in the terms of the 1st Generation, stands at 7.5% of the employee salary for provisions. The increase in the rate of provisions for remunerations as stated is only for the part of the salary of officeholders that is not paid in 1st Generation terms (as may be relevant). In other words, the addition shall be added to an external fund without rights to a budgetary pension from the Bank (only regarding the part of the salary that is not included in the terms of the 1st Generation).
- 2.4. For an additional breakdown regarding the CEO's terms of tenure and employment, including in accordance with the sixth addition to the Regulations, see the Financial Reports of the Bank for 2014, which were published on March 31 2015.
3. Explanations of the Board of Directors' Remuneration Committee and the Bank Board of Directors for the Updating of the Terms of Tenure and Employment as Stated Above:
- 3.1. The decision to revoke the jubilee grants and jubilee leaves for officeholders in the Bank as stated above, was made while taking into account the stipulations of Directive 301A of the Proper Conduct of Banking Business Directives regarding remuneration policy in a banking corporation, which does not permit the providing of a variable grant that is not performance dependent and which is dependent upon work alone (for the officeholders in the Bank). Although it was possible, under the transitional directives to Directive 301A, to correct the employment agreements with the officeholders on this issue as required by Directive 301A by the end of 2016, it was decided, due to the settlement with the remaining Bank employees as part of the collective agreement signed recently in the Bank, within the framework of which the employees to which the agreement applies waived part of their eligibility for jubilee grants and jubilee leaves, that the eligibility of the officeholders in the Bank for jubilee grants and jubilee leaves be revoked already at this stage. In this regards, it should be noted that payment of the reduced compensation to officeholders, against revocation of their eligibility for jubilee grants and jubilee leaves, creates income for the Bank, as specified above, since a salary expense for the officeholders in the Bank for their eligibility for jubilee grants and jubilee leaves was recorded in the Bank's books over the years and as described above, the compensation mechanism shall provide the officeholders with payment that is about half of the accounting reserve recorded in the Bank's books. As stated, in view of the revocation of the eligibility for jubilee grants and jubilee leaves, the Bank shall cease recording an ongoing expense for accrual of the stated rights.

- 3.2. The Remuneration Committee and the Board of Directors examined the provisions of the Bank's remuneration policy, the cost of employment acceptable for counterpart officeholders in companies of similar size, and the contribution of the stated officeholders to the Bank's activity, and made sure, prior to making a decision regarding an update to the terms of employment of officeholders in the Bank as stated above (including those of the CEO), that the update is in accordance with the Bank's remuneration policy and that its approval benefits the Bank.

The Remuneration Committee and the Board of Directors believed that the updated terms of tenure and employment are reasonable and meet the standards practiced in the Bank and in the banking system in Israel, taking into account the size and scope of the Bank's activity and that approval of the stated updates benefits the Bank, taking into account the contribution of the stated officeholders and the importance of remunerating them in a way that motivates them to persist in their positions over time and taking into account the Bank's interest to keep the officeholders and the CEO in their positions, in view of their key contribution to the outcomes of the Bank's activities. The Remuneration Committee and the Board of Directors also believed that updating the terms of employment, as specified above, could encourage these officeholders to continue to invest their best efforts for the Bank's benefit, taking into account the challenges faced by the Bank Management in the short and long term, and considering the workload they are under as part of their ongoing handling of these challenges.

In their decision to approve the update in the salary of members of the Bank Management, as specified above, the Remuneration Committee and Board of Directors took into account, inter alia, the salary development of the Bank's senior employees over the years as well as the fact that in 2014 no salary updates were made for members of the Bank Management.

- 3.3. Regarding an immaterial update of the CEO's salary:

The Remuneration Committee and the Board of Directors examined the provisions of the Bank's remuneration policy, the cost of employment acceptable for counterpart officeholders in companies of similar size and the contribution of the CEO to the Bank's activity, and made sure, prior to making a decision regarding an update to the terms of her employment as stated above, that the update is in accordance with the Bank's remuneration policy and that its approval benefits the Bank.

The Remuneration Committee and the Board of Directors believed that the updated terms of tenure and employment of the CEO are reasonable and meet the standards practiced in the Bank and in the banking system in Israel, taking into account the size and scope of the Bank's activity and that approval of the stated updates benefits the Bank, taking into account the Bank's interest to keep the CEO in her position, in light of

her key contribution to the outcomes of the Bank's activities. The Remuneration Committee and the Board of Directors also believed that updating the terms of employment, as specified above, could encourage the CEO to continue to invest her best efforts for the Bank's benefit, taking into account the challenges faced by the Bank Management in the short and long term, and considering the workload she is under as part of the ongoing handling of these challenges.

In their decision to approve the update in the salary of the CEO, as specified above, the Remuneration Committee and Board of Directors took into account, inter alia, the CEO's waiver of 1st Generation rights, as of the date of waiver, the waiver of rights to jubilee grants and leaves, the salary development of the Bank's senior employees over the years as well as the fact that, since her appointment to the position of CEO about three years ago, no salary updates were made for the Bank CEO.

The decision to revoke the jubilee grants and jubilee leaves for the CEO as stated above, was made while taking into account the provisions of Directive 301A of the Proper Conduct of Banking Business Directives regarding remuneration policy in a banking corporation, which does not permit the providing of a variable grant that is not performance dependent and which is dependent upon work alone (for the officeholders in the Bank). Although it was possible, under the transitional directives to Directive 301A, to correct the employment agreement with the CEO on this issue as required by Directive 301A by the end of 2016, it was decided, due to the settlement with the remaining Bank employees as part of the collective agreement signed recently in the Bank, within the framework of which the employees to which the agreement applies waived part of their eligibility for jubilee grants and jubilee leaves, that the eligibility of the Bank CEO for jubilee grants and jubilee leaves be revoked already at this stage. In this regards, it should be noted that payment of the reduced compensation to the CEO, against revocation of her eligibility for jubilee grants and jubilee leaves, creates income for the Bank, since a salary expense for the CEO for her eligibility for jubilee grants and jubilee leaves was recorded in the Bank's books over the years and as described above, the compensation mechanism shall provide the CEO with payment that is about half of the accounting reserve recorded in the Bank's books. As stated, in view of the revocation of the eligibility for jubilee grants and jubilee leaves, the Bank shall cease recording an ongoing expense for accrual of the stated rights.

- 3.4. The increase in the rate of Bank provisions for remunerations (the employer's share) as stated above was carried out based on the acceptable practice in the Bank for all employees by virtue of the collective agreements. Increasing the rate of provisions as stated for officeholders was intended to align them with all of the Bank employees regarding the rate of Bank provisions for remunerations (the employer's share).

3.5. The Remuneration Committee and the Board of Directors confirmed that the update of the aforesaid terms of employment constitutes an immaterial update relative to the existing terms of tenure and employment of the officeholders in the Bank, including the CEO, as stated in Section 272(d) of the Companies Law, 5759-1999.

Sincerely,

Danny Cohen, Head of Human Resources Division

Hanan Friedman, Chief Legal Advisor