

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
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10 September 2012
Reference: 2012-01-234537

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

Immediate Report

Nature of the Event: Non-Material Merger

See attached Annex.

Date and time at which the corporation first became aware of the matter being the subject of the report: 10 September 2012 Time: 09:00.

The report was signed on behalf of the corporation, in accordance with regulation 5 of the Securities (Periodic and Immediate Reports), 1970, by Mr. Kobi Haber, Head of the Finance and Economics Division, and by Mr. Baruch Lederman, Head of the Banking Division.

Reference numbers of previous documents in this regard (does not constitute incorporation by reference): 2012-01-020724

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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/>

Bank Leumi le-Israel B.M. ("Bank Leumi")

[Date 10.9.2012]

To:

Israel Securities Authority

Tel Aviv Stock Exchange Ltd.

Dear Sir/Madam,

Re: **Immediate Report on Non-Material Merger**

Bank Leumi hereby respectfully submits an immediate report pursuant to the provisions of Chapter C1 of the Securities Regulations [Periodic and Immediate Reports] - 1970 (hereinafter, the "**Regulations**") concerning a non-material merger within which Leumi Mortgage Bank Ltd. (hereinafter, "**LMB**" or the "**Target Company**") shall be merged with and within Bank Leumi (hereinafter, the "**Merger**"), as set forth below:

1. **Names of Parties to Merger**

The parties to the Merger are:

- 1.1 Bank Leumi – the Absorbing Company, within the meaning of this term in the Companies Law – 1999 (the "**Companies Law**").
- 1.2 LMB – the Target Company, within the meaning of this term in the Companies Law.

Bank Leumi holds 1,018,547 ordinary shares of NIS 1 nominal value each in LMB, constituting approximately 99.16% of the issued and paid up share capital of LMB (the holding is carried out by means of the Nominee Company of Bank Leumi) and the Trust Company of Bank Leumi le-Israel (the "**Trust Company**"), which is fully owned by Bank Leumi, holds 8,609 ordinary shares of NIS 1 nominal value each in LMB, constituting approximately 0.84% of the issued and paid up share capital of LMB.

2. **Main Points of Merger Agreement**

- 2.1 Under the merger agreement (hereinafter, the "**Merger Agreement**"), LMB, which is a fully owned and controlled subsidiary of Bank Leumi (directly and by means of the aforementioned Trust Company), shall be merged with and within Bank Leumi (hereinafter, the "**Absorbing Company**"). The Absorbing Company and the Target Company shall hereinafter also be referred to as the "**Merging Companies**".
- 2.2 Pursuant to the Merger Agreement, subject to the full and complete fulfillment of the conditions determined for the performance of the Merger, as stated in Section 7 below, and completion of performance of all the activities set forth

in the Merger Agreement, and pursuant to the provisions of Chapter One of Part VIII of the Companies Law and the provisions of Part E2 of the Income Tax Ordinance [New Version] (hereinafter, the "**Income Tax Ordinance**"):

- 2.2.1 On the Merger Date (as defined in the Merger Agreement), all assets and liabilities of LMB under any law or agreement, as they shall be on the Merger Date, shall be transferred gratuitously to Bank Leumi, all including any contingent or non-contingent, existing or future, known or unknown assets and liabilities, including letters of indemnification granted by LMB to the Senior Corporate Officers and Directors of LMB, as well as powers of attorney granted to or by LMB, and Bank Leumi shall be regarded as having succeeded LMB for all intents and purposes in relation to the aforementioned transferred assets and liabilities;
- 2.2.2 Bank Leumi shall be regarded as if it were LMB in all legal proceedings (including bailiff's office proceedings) to which LMB is a party on the Merger Date.
- 2.2.3 LMB shall cease to exist as a separate legal personality and the board of directors of LMB shall cease its office.
- 2.2.4 Pursuant to any request to be submitted to the Registrar of Companies, the Registrar of Companies shall transfer the Register of Charges (within the meaning in Section 181 of the Companies Ordinance [New Version]-1983) of the Target Company to the Register of Charges of the Absorbing Company under Section 323(3) of the Companies Law.
- 2.2.5 The Registrar shall deliver to Bank Leumi a certificate attesting to performance of the Merger and shall register the fact of the Merger in Bank Leumi's records.
- 2.2.6 LMB will be terminated without been liquidated and erased from the records of the Companies Registrar, according to the provisions of the Companies Law.
- 2.2.7 The remaining relevant provisions under the Companies Law shall apply.

3. **Tax Implications of Merger on Absorbing Company**

As stated in Section 7.4.3 below, completion of the Merger is contingent on obtaining approval from the income tax authority for the Merger being exempt from tax pursuant to the provisions of Chapter E2 of the Income Tax Ordinance and subject to the conditions determined in these provisions, excluding liability for acquisition tax as required under the Law, with respect to the real estate assets of LMB to be

transferred to Bank Leumi within the scope of the Merger. For further information on the restrictions applying to the Bank and holders of rights therein under the Income Tax Ordinance, see Section 8 below.

4. **Quantity and Volume of Holdings of Interested Parties in Absorbing Company in Issued and Paid Up Share Capital and Voting Rights**

4.1 Prior to the Merger: the holdings of interested parties in Bank Leumi in the issued and paid up share capital and voting rights in Bank Leumi (including upon full dilution) are as set forth in the report concerning the holdings of interested parties in Bank Leumi dated September 9, 2012 (supporting document no. 2012-01 232530).

4.2 After the Merger: to the best knowledge of the Bank, no changes are expected to apply to the holdings of interested parties in Bank Leumi following the Merger (including upon full dilution). Moreover, there are no securities of LMB which are convertible or exercisable into shares of LMB.

5. **Merger Consideration**

As stated in Section 2.2.1 above, the Merger shall be performed without the payment of any consideration whatsoever.

6. **Position of Board of Directors on Whether There is Reasonable Concern That Following the Merger the Absorbing Company Will be Unable to Fulfill its Undertakings to its Creditors After the Merger**

On September 9, 2012 the Board of Directors of Bank Leumi approved the performance of the Merger and determined, with attention to the financial condition of the Merging Companies that in its view there is no reasonable concern that following the Merger the Absorbing Company will be unable to fulfill its undertakings to its creditors after the Merger. On September 10, 2012, the Board of Directors of LMB approved the performance of the Merger and determined, with attention to the financial condition of the Merging Companies that in its view there is no reasonable concern that following the Merger the Absorbing Company will be unable to fulfill its undertakings to its creditors after the Merger.

7. **Approvals Required for Merger or Conditions Determined for Performance of Merger**

7.1 The Merger under the Merger Agreement does not require the approval of the General Meetings of the Merging Companies because the Merger is in compliance with the conditions determined in Section 320(A1) of the Companies Law.

7.2 On August 30, 2012, the audit committee of Bank Leumi approved the performance of the Merger under the Merger Agreement and on September 9,

2012, as stated, the Board of Directors of Bank Leumi approved the performance of the Merger under the Merger Agreement.

- 7.3 On August 23, 2012 the audit committee of LMB approved the performance of the Merger under the Merger Agreement and on September 10, 2012, as stated, the Board of Directors of LMB approved the performance of the Merger under the Merger Agreement.
- 7.4 The Merger under the Merger Agreement is contingent on the cumulative fulfillment of all the contingent terms set forth below:
 - 7.4.1 Receipt of approval of the Bank of Israel for the revocation of LMB's banking license following the Merger;
 - 7.4.2 Receipt of approval of the Bank of Israel for Bank Leumi to control Maalot Insurance Agency Ltd., which is a fully owned subsidiary of LMB, under the Banking (Licensing) Law – 1981 (hereinafter, the "**Banking Law**");
 - 7.4.3 Receipt of approval from the Director of the Tax Authority for the Merger to be exempt from tax pursuant to the provisions of Chapter E2 of the Income Tax Ordinance, under conditions which will be acceptable to Bank Leumi;
 - 7.4.4 (a) Receipt of approval of the Supervisor of Insurance for the transfer of LMB's shares in Maalot Insurance Agency Ltd. to Bank Leumi, incidental to performance of the Merger, and also (b) receipt of a control permit for Bank Leumi in Maalot from the Supervisor of Insurance;
 - 7.4.5 The gratuitous transfer of the holdings of the Trust Company in LMB to Bank Leumi;
 - 7.4.6 The fulfillment of all the conditions for the Merger pursuant to Chapter One of Part VIII of the Companies Law;
 - 7.4.7 Prior to the Merger Date no decision shall have been received from a competent court ordering a delay in the Merger or preventing the performance thereof, including as determined in Section 319 of the Companies Law;
 - 7.4.8 Receipt of additional approvals if required under the provisions of any law.
- 7.5 If the contingent terms determined in the Merger Agreement are not fulfilled prior to the expiration of twelve months from the date of Merger Agreement's signing or a later date to be determined upon the consent of the Parties, or in

the event in which the joint consent of the Parties is obtained not to act for the performance of the Merger and to rescind the Merger Agreement, the Merger Agreement shall be null and void and no party whatsoever to the Merger Agreement shall have any claim or contention whatsoever against the other party with respect to the rescission of the Merger Agreement. Notwithstanding the above, Bank Leumi may waive the fulfillment of the contingent terms set forth in Sections 7.4.2 and 7.4.4(b) above, and in such case the Merger shall be performed even without the fulfillment of the aforesaid contingent terms.

- 7.6 In the event that after the fulfillment of the contingent terms and completion of performance of the activities required for completion of the Merger under the Merger Agreement, a significantly detrimental change shall apply with respect to any party whatsoever, including with respect to its assets, liabilities, financial, business or economic condition, which could alter the conclusion that there is no reasonable concern that following the Merger, Bank Leumi as Absorbing Company will be unable to fulfill its undertakings to its creditors after completion of the Merger – such party shall deliver a notice thereof in writing to the other party.
- 7.7 The Merging Companies are unable to estimate the date on which the contingent terms required to complete the Merger shall be fulfilled, however, they intend to act to receive these approvals promptly.
8. **New Restrictions Exist or are Likely to Apply, to Bank Leumi's Best Knowledge, to Bank Leumi Following the Merger**
- 8.1 To Bank Leumi's best knowledge, as a result of the Merger, no demand is anticipated for early payment of loans provided to Bank Leumi and/or LMB.
- 8.2 To Bank Leumi's best knowledge, as a result of the Merger, restrictions on creation of charges beyond those restrictions existing immediately prior to the Merger under the provisions of any law, are not anticipated to apply to Bank Leumi.
- 8.3 To Bank Leumi's best knowledge, as a result of the Merger, no change in the credit ranking/liabilities ranking of LMB and/or Bank Leumi is anticipated to apply.
- 8.4 Following the Merger, restrictions under the Income Tax Ordinance shall apply to Bank Leumi for the period starting on the merger date and terminating two years after the expiration of the tax year from the merger date (hereinafter, the "**Required Period**"). The main restrictions are as set forth below:
- 8.4.1 The majority of the fixed assets in the possession of Bank Leumi and LMB immediately prior to the Merger whose market value exceeds 50% of the market value of all the assets of Leumi or LMB (as the

case may be) shall not be sold (excluding an involuntary sale) in the Required Period.

- 8.4.2 During the Required Period, the main economic activities which were at Leumi and LMB immediately prior to the Merger shall continue at Bank Leumi.
- 8.4.3 For at least two years after the transfer of the holdings of the Trust Company in LMB to Bank Leumi, there shall be no change in Bank Leumi's rights in the Trust Company.
- 8.4.4 Each of the holders of rights in Bank Leumi shall hold in the Required Period all the rights it had in Bank Leumi immediately after the Merger, subject to the limitations set forth in the Income Tax Ordinance, including an involuntary sale of rights and a voluntary sale of less than 10% of the rights which the holder of rights had in Bank Leumi.

It is clarified that non-compliance with the conditions prescribed in the Income Tax Ordinance and/or the prior approval for the Merger to be given by the Tax Authority is likely to render a situation whereby the Merger shall be considered a tax event and in consequence thereof, Bank Leumi and LMB shall be made liable for the taxes and compulsory payments with respect to which an exemption was given, plus linkage differentials and interest from the Merger Date.

Notwithstanding the above, according to the Income Tax Ordinance, the Director of the Tax Authority may determine that the breach of such continuing term does not prevent the grant of an exemption, if he is convinced that the breach is caused due to a unilateral act of the minority shareholders of Bank Leumi, without the knowledge or not under the control of the majority shareholders of Bank Leumi, or if the non-fulfillment of the condition was caused without the knowledge or not under the control of the shareholders of Bank Leumi.

9. **No Personal Interest in Merger**

Bank Leumi is defined, under Section 11B(c) of the Banking Ordinance 1941 as a bank without a controlling core and there is no shareholder defined as a controlling shareholder of Bank Leumi. To the best knowledge of Bank Leumi, the Directors and interested parties in Bank Leumi have no personal interest in the Merger.

10. **Approval of Merger Under Section 320(c) or (d) of the Companies Law**

The Merger does not require approval under Section 320(c) or (d) of the Companies Law.

11. **Plans of Absorbing Company With Respect to Securities Convertible or Exercisable into Shares of Target Company**

There are no securities of LMB which are convertible or exercisable into shares of LMB.

12. **The Reasons For the Merger Being Non-Material**

In Bank Leumi's opinion, the Merger between Bank Leumi and LMB is a non-material merger, although the condition determined in Regulation 37C(a)(1) of the Regulations are satisfied, *inter alia* for the reasons set forth below:

- 12.1 This concerns a merger between a parent company and a subsidiary, since LMB is a fully owned and controlled company of Bank Leumi.
- 12.2 The majority of LMB's sources of financing rely on Bank Leumi within which LMB will be merged.
- 12.3 The Merger has no effect on the state of Bank Leumi's assets or liabilities in its consolidated financial statements because LMB's financial statements are currently consolidated within Bank Leumi's financial statements.
- 12.4 The Merger does not require the grant of any consideration by Bank Leumi and/or the dilution of the shareholders of Bank Leumi because, as stated, LMB is a fully owned and controlled subsidiary of Bank Leumi.

In light of all the above reasons, the Bank believes that this is a merger which is non-material.

13. **The Board of Directors' Main Reasons for Approval of Merger**

- 13.1 There is no reasonable concern that following the Merger, Bank Leumi will be unable to fulfill its undertakings to its creditors.
- 13.2 The Merger is designed for a business and economic purpose and will enable the Leumi Group to deepen the level of group synergy between its retail activity and activity in the area of mortgages and expand the potential for increasing Leumi Group's profit.
- 13.3 This measure will enable Bank Leumi to grant a retail customer a valuable proposal according to all its requirements, *inter alia*, in light of the improved product standard offered to the customer, with emphasis on the provision of a diverse basket of services to the customer while reducing the expenses of the Group and more effective utilization of the sales floor.

- 13.4 Bank Leumi anticipates that the LMB Merger with and within Bank Leumi is likely to lead, *inter alia*, to a saving in expenses and operating costs.
- 13.5 In light of the fact that LMB is a fully owned subsidiary of Bank Leumi, the Merger does not require any consideration, allotment of shares or dilution of the existing shareholders of Bank Leumi.
14. **Place and Date of Convening General Meeting, Quorum and Majority Required Thereat and at an Adjourned General Meeting for Approval of Merger**

As stated in Section 7.1 above, the Merger does not require the approval of the General Meeting of Bank Leumi and of LMB.

Bank Leumi le-Israel B.M.

The Report was signed on behalf of Bank Leumi pursuant to Regulation 5 of the Securities Regulations (Periodic and Immediate Reports) – 1970 by Mr. Kobi Haber, Head of Finance and Economics Division and Mr. Baruch Lederman, Head of Banking Division.