

Translation of Immediate Report

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Public

Bank Leumi le-Israel B.M.
Registration No. 520018078
Securities of the Corporation are listed on The Tel Aviv Stock Exchange
Abbreviated Name: Leumi
34 Yehuda Halevi Street, Tel Aviv 651316
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28 July 2018
Reference: 2018-01-069768

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

Immediate Report

Nature of Event: Sale of Leumi Card

See attached Annex – [277182Immediatereport Leumi Card isa.pdf](#).

The company is not an envelope company as defined in the Stock Exchange bylaws.

Date and time at which the corporation first became aware of the matter being the subject of the report: 27 July 2018 Time: 17:00.

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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July 28 2018

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

Dear sir/madam,

Re: **Sale of Leumi Card**

Bank Leumi Le-Israel Ltd. (hereinafter: the “Bank”) is hereby announcing as follows:

1. Pursuant to the Law for Increasing Competition and Reducing Concentration in Israel’s Banking Market (Amendments), 2017, the Bank is required to sell its holdings in its subsidiary, Leumi Card Ltd. (hereinafter: “**Leumi Card**”) by February 1 2020.
2. The Bank indirectly holds, through wholly-owned corporations, 80% of Leumi Card. To dispose of its holdings, pursuant to the provisions of the Law, the Bank explored several alternatives to sell its holdings, including conducting a sale procedure with various potential acquirers as well as preparations for an offering to the public, which would include a sales offer.
3. At the end of the sale process conducted by the Bank, and exploring various alternatives, and following approval by the Board of Directors of the Bank in the evening of July 26, 2018, the Bank - together with the Azrieli Group (the Bank and Azrieli Group will hereinafter be called, together: the “**Sellers**”), which holds 20% of Leumi Card’s share capital, entered into an agreement for the sale of their entire holdings in Leumi Card to a corporation controlled by Warburg Pincus Financial Holdings (Israel LTD.) (hereinafter: the “**Acquirer**”).
4. According to information provided to the Bank by Warburg Pincus, the Fund has \$45 billion in assets under management, \$11 billion of which have been invested in various financial

entities, including companies engaged in payments. To invest in some of the abovementioned financial entities, the Fund holds approvals from financial regulators in the said companies' countries of operation.

5. Following are the main points of the agreement:

5.1. The consideration to be paid to the Sellers for their entire holdings in Leumi Card is NIS 2,500 million (with the Bank's share being NIS 2 billion).

5.2. Except for adjustment in respect of dividend distribution, if and to the extent Leumi Card shall distribute dividends to its shareholders before the transaction has been finalized, the consideration amount shall not be adjusted.

5.3. The consideration shall be paid in three installments. The two deferred payments which shall be made after the completion date shall be secured by way of an autonomous bank guarantee (or an equivalent autonomous guarantee issued by an insurer), which shall be provided to the Sellers to secure the payments, at the completion date, as aforesaid:

5.4. The installments shall be as follows:

5.4.1. A total of NIS 1,047 million shall be paid on finalizing the transaction.

5.4.2. A total of NIS 342 million shall be paid on the first anniversary of the finalization of the transaction.

5.4.3. A total of NIS 1,111 million shall be paid on the second anniversary of the finalization of the transaction.

5.5. The agreement includes several conditions precedent, including obtaining the regulatory approvals required by law. A period of three months was set for fulfillment of the conditions precedent, with an extension option [extension by 3 additional months at any of the parties' request, following which the Bank alone shall be entitled to extend the period by three additional months. A mechanism for shortening the period and cancelling the agreement should it become apparent that it is reasonable that the regulatory approvals cannot be obtained. If the transaction shall not be finalized by December 31 2018, the consideration amount shall bear an annual interest rate of 8% from January 1 2019 until the transaction has been finalized.

5.6. The agreement includes representations as is customary in transactions for the sale of companies as well as an indemnity mechanism in respect of breach of representations. The indemnity mechanism determines a minimum of 1.5% of the transaction

consideration for activating the mechanism and is restricted to a maximum total indemnity of 10% of the transaction consideration (excluding in respect of breach of material representations or in case of fraud).

- 5.7. The agreement includes an appendix describing the main financing terms and conditions the Bank may agree to grant Leumi Card for its ongoing activity, after the closing of the transaction, taking into account, inter alia, regulatory easements granted by the Bank of Israel for granting financing to credit card companies which shall be separated from the banks. The actual granting of financing is subject to entering a separate agreement between Leumi Card and the Bank, and to obtaining the approval of the authorized company organs at Bank Leumi and at Leumi Card.
6. As part of the negotiations with the Acquirer, and due to the importance the Acquirer attaches to the scope of the issuing of bank credit cards for the Bank's customers via Leumi Card, the Bank has agreed to include several terms and conditions in the operating agreement to be signed between the Bank and Leumi Card (hereinafter: the "**Operational Agreement**"). In consideration for the Bank's agreement to include these conditions, the Bank shall be paid – at the end of six years from the effective date of the operating agreement - a total of NIS 50 million to NIS 128 million.
7. Subject to exceeding the results of Leumi Card as outlined in the business model presented to the Acquirer as part of the sale procedure, the Bank shall be paid - five years after the operation agreement came into effect - a total of up to NIS 145 million. Under certain circumstances, the said payment, if and to the extent owing to the Bank, may be postponed for a period of up to two years, and shall bear interest.
8. The Acquirer granted Leumi Partners, a wholly-owned subsidiary of the Bank, an option to acquire up to 20% of the corporation through which the Acquirer shall acquire Leumi Card, under the same terms and conditions in which the Acquirer shall acquire Leumi Card provided that if the option is exercised, Leumi Partner's holding would be a passive financial holding, with no influence on directing the activity of Leumi Card. As aforesaid, the exercise of the option is subject, inter alia, to obtaining the requisite regulatory approvals. The exercise or non-exercise of said option or completion of the transaction in accordance with the option shall have no effect on the execution of Leumi Card's sale agreement.

9. Subject to the completion of the transaction and under the assumption that the sale shall meet the necessary terms and condition for accounting recognition at the finalization date, following the receipt of autonomous bank guarantee for the postponed payments, and taking into account the transaction costs, including bonuses expected to be paid in connection with the transaction, the Bank is expected to record a post-tax profit of circa NIS 234 million.
10. Due to the agreement's conditions precedent, there is no certainty in respect to its completion.

Respectfully,

Bank Leumi Le-Israel Ltd.

By:

Hanan Friedman, Head of Strategy and Regulation