

January 30 2019

Bank Leumi of Israel Ltd.

(hereinafter – the “**Bank**” or the “**Company**”)

Shelf Offering Report

Attention is drawn to the fact that the Subordinated Bonds (Series 403) being offered pursuant to this Shelf Offering Report are equity instruments, which are classified as tier 2 capital for the purpose of their inclusion in the regulatory capital of the Bank in accordance with Proper Conduct of Banking Business Directive No. 202 (hereinafter – “**PCB No. 202**”) and, accordingly, have special characteristics and investment therein involves, inter alia, by the following unique risks:

- (a) The Subordinated Bonds (Series 403) include a principal loss absorption mechanism, within the framework of which – when certain circumstances arise (a "trigger event for principal loss absorption" and/or "a trigger event for unsustainability") that the Bank is not necessarily able to predict and/or that are not necessarily under its control, the Subordinated Bonds will be converted into ordinary shares of the Bank in accordance with a pre-determined conversion formula, which includes a floor price, without giving the holders thereof a right of choice (please see Section 7 to the Shelf Offering Report). Since under the said circumstances the market price of the Bank's shares may decrease prior to a trigger event for principal loss absorption or a trigger event for unsustainability (as the case may be) – a decrease that might continue even after the Bank issues a notice to the effect that such an event takes place, then the price of the Bank's shares as of the conversion date may be lower than the conversion rate of the Subordinated Bonds, such that as a result of the conversion of the Subordinated Bonds the holders of the Subordinated Bonds might receive shares whose market price might be significantly lower than the conversion rate of the Subordinated Bonds. Upon conversion of the Subordinated Bonds into Bank's shares (if any), the holders of the Subordinated Bonds will no longer be considered as holders of the Bank's bonds (as the term "bond holder" is defined in the Securities Law), but rather as shareholders of the Bank for all intents and purposes;
- (b) The terms of the (Series 403) do not confer upon the holders of the Subordinated Bonds a right to demand immediate repayment of the Subordinated Bonds in any case whatsoever, except for a situation where a permanent liquidator is appointed to the Bank or an order is granted by a competent court for the liquidation of the Bank and the aforesaid appointment or order is not revoked within 30 days;
- (c) Immediate repayment of the Subordinated Bonds (Series 403) and any compromises and/or changes to the terms of the Subordinated Bonds, including with regard to matters pertaining to the conversion and repayment of the Subordinated Bonds can only be effected subject to obtaining advance approval from the Banking Supervision Department (please see Sections 6 and 8 of the first addendum of the deed of trust for the Subordinated Bonds (Series 403) attached as **Appendix A** of the Shelf Offering Report);
- (d) The rights of the holders of the Subordinated Bonds (Series 403) shall be subordinate to the claims of all other creditors of the Bank of any type, apart from the rights of other creditors of the Bank whose repayment has been or will be expressly prescribed (by law or in another manner) as having an equal ranking to that of the Subordinated Bonds (please see Section **שגיאה! מקור ההפניה לא נמצא.** to the Shelf Offering Report);
- (e) The Bank may carry out early repayment of the Subordinated Bonds (Series 403), subject to the fulfillment of certain conditions, without giving the holders thereof any right of

choice. The Bank alone has the power to give notice of such full or partial early repayment (please see Section 8 of the Shelf Offering Report).

- (f) The Subordinated Bonds (Series 403) constitute “hybrid bonds”, as defined in the guidelines to Part Three of the Rules and Regulations of the Tel Aviv Stock Exchange, which prescribe, inter alia, that the trading unit of a hybrid bond is NIS 50,000 par value, and that the minimum size of a trading order in hybrid bonds will be one trading unit.

Pursuant to a shelf prospectus of the Bank dated May 25 2018 (the “**Shelf Prospectus**”), and in accordance with the provisions of the Securities Regulations (Shelf Offering of Securities), 2005 (hereinafter – the “**Shelf Offering Regulations**”), the Bank is hereby publishing a Shelf Offering Report for the issuance and listing on the Tel Aviv Stock Exchange Ltd. (hereinafter – the “**Stock Exchange**”) of the securities set forth below (hereinafter - the “**Shelf Offering Report**”).

1. **The offered securities**

1.1 **Subordinated Bonds (Series 403) (hereinafter - the “Subordinated Bonds”)**

1.1.1 Up to NIS 750 million par value of registered Subordinated Bonds (Series 403) that are being offered in consideration for their par value. The principal of the Subordinated Bonds (Series 403) shall be repayable in one lump sum on February 28 2030, unless the Bank exercises, prior to that date, its right to early repayment of the Subordinated Bonds (Series 403) as set out in Section 8 below.

1.1.2 The principal and interest of the Subordinated Bonds (Series 403) shall be linked to the consumer price index that published on January 15 2019 in respect of December 2018 (hereinafter – the “**Basic Index**”). If it transpires on the date of any payment of principal or interest, as the case may be, that the payment index has increased or decreased compared to the Basic Index, the Bank will increase or decrease the payment of principal or interest, proportionately to the rate of increase or decrease of the payment index compared to the Basic Index. It should be noted that pursuant to the Stock Exchange’s guidelines, the linkage method of the principal and interest shall not change throughout the term of the Subordinated Bonds (Series 403).

1.1.3 The Subordinated Bonds (Series 403) shall bear annual fixed interest at a rate that will be determined in a tender and which will

not exceed 2.42% (hereinafter in this Section 1.1 - the “**Annual Interest Rate**”).

- 1.1.4 The interest in respect of the Subordinated Bonds (Series 403) shall be paid to the bondholders annually, on February 28 of each of the years 2020 through 2030, in respect of the twelve-month period ended on the day preceding the payment date, except for the first interest payment, which shall be paid on February 28 2020 in respect of the period starting on the first day of trading after the tender date and ending on February 27 2020 (hereinafter in Section 1.1 - the “**First Interest Period**” and the “**First Interest Payment**”, respectively).
- 1.1.5 The rate of interest that will be paid on each interest payment date, except for the First Interest Payment, shall be equal to the Annual Interest rate. The interest payment in respect of the First Interest Period shall be calculated in accordance with the number of days in this period, on the basis of 365 days per year.
- 1.1.6 If the Bank does not exercise its right to redeem the Subordinated Bonds (Series 403) in an early repayment in accordance with Section 8.1 below, then the Annual Interest Rate of the principal of the Subordinated Bonds (Series 403) will be updated on February 28 2025 (please see Section 1.1 below) (hereinafter - the “**Interest Rate Change Date**”), such that the Annual Interest Rate shall increase or decrease, as the case may be, by the amount of the difference between the Anchor Interest rate (as defined below) on the Interest Change Rate Date and the Anchor Interest rate on the offering date pursuant to this Shelf Offering Report (hereinafter in Section 1.1 - the “**Interest Rate Differential**”). It is clarified that if the Interest Rate Differential is negative, the annual interest borne by the principal of the Subordinated Bonds will be reduced by the amount of the Interest Rate Differential with effect from the Interest Rate Change Date.
- For this purpose, the “**Anchor Interest**” means –the average annual return on government bonds, the outstanding period to maturity of which is 5 years, during the 30 trading days the last of

which falls five trading days prior to the date of calculating the Anchor Interest (hereinafter in this Section - the “**Calculation Date**”). In the event of there being more than one such series of Government Bonds, the average return will be calculated for all the series of Government Bonds whose period to maturity is five years at the Calculation Date. In the event of there being no series of Government Bonds whose period to maturity is exactly 5 years in circulation at the Calculation Date, a calculation will be made of the weighted average returns, as referred to above, for two series of Government Bonds whose period to maturity is the closest to 5 years, with the maturity period of one of these being greater than 5 years and the second being less than 5 years. The aforesaid weighted average will be calculated according to the maturity periods of the two abovementioned series, without taking the scope of the series into account. For this purpose, a “**Government Bond**” signifies - A government bond issued by the Government of Israel and listed on the Stock Exchange, which is denominated in Israeli currency, linked to the consumer price index, bears annual fixed interest, and which is repayable in full on one date and whose issued par value is at least NIS 1 billion.

- 1.1.7 It is clarified that the calculated interest may be less than zero, i.e., it may be negative. The Bank will apply to the Tax Authority for a tax ruling on the issue of deducting or crediting tax in respect of negative interest and shall inform the trustee and the holders of Subordinate Bonds (Series 403) to that effect by way of publishing an immediate report.

If, at the Interest Rate Change Date, the calculated interest that the Subordinated Bonds (Series 403) bear is less than zero, the Bank will not collect negative interest from the holders of the Subordinated Bonds (Series 403), so long as all the following conditions have not been fulfilled and the Bank reported their fulfillment at least 30 days prior to the Interest Calculation Date:

- a. A tax ruling is received from the Israel Tax Authority whereby the holders of the Subordinated Bonds (Series 403) may set off the negative interest against other income.
 - b. The Stock Exchange and the members of the Stock Exchange will make arrangements regarding the payment of negative interest.
- 1.1.8 The Annual Interest Rate that will be determined in a tender, the rate of interest in respect of the First Interest Period and the rate of the Anchor Interest as of the date of offering of the Subordinated Bonds (Series 403) will be listed in the immediate report the Bank will publish regarding the results of the offering by the end of the first day of trading following the Tender Date. If the Bank does not exercise its right for early repayment of the Subordinated Bonds (Series 403) as described above, the Bank will publish the Anchor Interest Rate on the Interest Change Date and the updated Annual Interest Rate of the Subordinated Bonds (Series 403) as part of an immediate report.
- 1.1.9 The Subordinated Bonds (Series 403) that will be issued by the Bank and will be fully repaid were drawn up in accordance with the criteria for inclusion in the Bank's Tier 2 capital, as this term is defined in PCB 202. Non-recognition by the Banking Supervision Department of the Bank's obligations pursuant to the Subordinated Bonds (Series 403) as part of the Bank's Tier 2 capital, or if the Banking Supervision Department ceases to recognize them as such, shall have no effect whatsoever on the terms of the Subordinated Bonds (Series 403) or on the rights attached thereto, and subject to the provisions of any law, the provisions of this Deed of Trust of the Subordinated Bonds (Series 403) attached to the Shelf Offering Report as **Appendix A** shall apply with regard to the ranking of their repayment, and in particular the provisions of Section 5.2 to the Deed of Trust. For more information regarding the criteria for inclusion of equity instruments in a banking corporation's Tier 2

capital pursuant to PCB 202, please see Appendix A to the Deed of Trust of Series 403.

1.1.10 For more information regarding the rating of Subordinated Bonds (Series 403), please see Section 13 below.

1.1.11 For more information regarding Subordinated Bonds (Series 403), please see Sections 6–9 below.

1.2 Bonds (Series 180) (hereinafter - the “**Bonds**”)

1.2.1 Up to NIS 1,850 million par value registered bonds (Series 180) of the Bank, of NIS 1 par value. each, bearing a fixed annual interest rate that will be determined in a tender and which will not exceed 2.02% (hereinafter in Section 1.2 - the “**Annual Interest Rate**”).

1.2.2 The principal of the Bonds (Series 180) shall be repaid in two equal installments on February 28 2023 and on February 28 2025, such that each of the payments will be at a rate of 50% of the Bonds’ principal.

1.2.3 The principal and interest of the bonds are not linked to any linkage basis.

1.2.4 The interest in respect of the Bonds shall be paid to the bondholders annually, on February 28 of each of the years 2020 through 2025, in respect of the twelve-month period ended on the day preceding the payment date, except for the payment in respect of the first interest period, which shall be paid on February 28 2020 in respect of the period starting on the first day of trading after the Tender Date and ending on February 27 2020 (hereinafter in Section 1.2 - the “**First Interest Payment**” and the “**First Interest Period**”, respectively).

1.2.5 The rate of interest that shall be paid on each interest payment date, except for the First Interest Payment, shall be equal to the Annual Interest rate. The interest payment in respect of the First Interest Period shall be calculated in accordance with the number of days in this period, on the basis of 365 days per year.

1.2.6 The Annual Interest Rate that will be determined in a tender and the rate of interest in respect of the First Interest Period will be

provided in the immediate report the Bank will publish regarding the results of the offering by the end of the first day of trading following the Tender Date.

1.2.7 For more information regarding the rating of the Bonds (Series 180), please see Section 13 below.

1.2.8 For more information regarding the terms of the Bonds (Series 180), please see Section 6 to the Shelf Offering Report.

1.3 In case of a contradiction between the provisions specified in the Shelf Offering Report in respect of the securities offered thereunder, and the provisions of the Deeds of Trust, the provisions of the Deeds of Trust shall prevail. As of this date, the Bank is unaware of the existence of such a contradiction between the provisions of the Shelf Offering Report and the provisions of the Deeds of Trust.

2. **The Trustee**

2.1 The trustee for the Subordinated Bonds (Series 403) and the Bonds (Series 180) is Strauss, Lazer Trust Company (1992) Ltd.¹ (hereinafter – the “**Trustee**”).

2.2 On January 29 2019, the Bank entered into a Deed of Trust for the Subordinated Bonds (Series 403) and into a Deed of Trust for the Bonds (Series 180). The full text of these deeds of trust is attached to the Shelf Offering Report as **Appendix A** and **Appendix B**, respectively (hereinafter - the "**Deed of Trust for Series 403**" and "**Deed of Trust for Series 180**", respectively).

It is clarified that in case the offering of the Subordinated Bonds (Series 403) and/or the offering of the Bonds (Series 180) is cancelled for any reason whatsoever, the relevant deed of trust shall be null and void.

2.3 The Trustee has no substantial interest in the Bank and the Bank has no substantial interest in the Trustee;

¹ An individual who holds, whether directly or indirectly, by himself or together with others (as this term is defined in Section 88 of the Ordinance) at least 10% of one or more than one of the means of control of a company (as this term is defined in Section 88 of the Ordinance), at the time of the sale of the security or at any time during the 12 months that preceded such sale.

2.4 To the best of the Bank's knowledge, as it was informed by the Trustee, there are no legal proceedings pending against the Trustee in connection with the performance of its duty as a trustee.

3. **Manner of offering the securities**

3.1 **Subordinated Bonds (Series 403) – uniform offering by way of tender on the interest rate [Tender No.: 6040406]**

Up to NIS 750 million par value of Subordinated Bonds (Series 403) are offered to the public (hereinafter - "**Quantity of Subordinated Bonds Offered to the Public**") in a uniform offering, as defined in the Securities Regulations (Manner of Offering Securities to the Public), 2007 (hereinafter - the "**Uniform Offering**" and the "**Public Offering Regulations**", respectively), by way of a tender on the Annual Interest Rate that the Subordinated Bonds (Series 403) will bear, which will not exceed 2.42% (hereinafter - the "**Maximum Interest Rate of the Subordinated Bonds (Series 403)**", in 15,000 units, each comprising NIS 50,000 par value of Subordinated Bonds (Series 403), at a price of NIS 50,000 per unit (hereinafter - the "**Series 403 Units**").

Every bidder taking part in the tender will note in his bid the number of Series 403 Units he wishes to purchase in the tender, as well as the interest rate he offers, which will not exceed the Maximum Interest Rate of the Subordinated Bonds (Series 403). A bid for the purchase of Series 403 Units that will be submitted as part of the tender, where the interest rate specified therein is higher than the Maximum Interest Rate of the Subordinated Bonds, will be viewed as a bid that has not been submitted.

At part of the tender, each bidder is allowed to submit up to three (3) bids at different interest rates, none of which will exceed the Maximum Interest Rate of the Subordinated Bonds, and which will be denoted in interest levels of 0.01%, i.e., 2.42%, 2.41%, 2.40%, etc. An interest rate specified in a bid which is not equal to one of the interest levels will be rounded up to the next interest level.

3.2 **Bonds (Series 180) – uniform offering by way of tender on the interest rate [Tender No.: 6040414]**

Up to NIS 1,850 million par value of Bonds (Series 180) are offered to the public (hereinafter - "**Quantity of Bonds Offered to the Public**") in a uniform offering, as defined in the Public Offering Regulations, by way of a tender on the Annual Interest Rate that the Bonds (Series 180) will bear, which will not exceed 2.02% (hereinafter - the "**Maximum Interest Rate of the Bonds (Series 180)**"), in 1,850,000 units, each comprising NIS 1,000 par value of Bonds (Series 180), at a price of NIS 1,000 per unit (hereinafter - the "**Series 180 Units**").

Every bidder taking part in the tender will note in his bid the number of Series 180 Units he wishes to purchase in the tender, as well as the interest rate he offers, which will not exceed the Maximum Interest Rate of the Bonds (Series 180). A bid for the purchase of Series 180 Units that will be submitted as part of the tender, where the interest rate specified therein is higher than the Maximum Interest Rate of the Bonds (Series 180), will be viewed as a bid that has not been submitted.

At part of the tender, each bidder is allowed to submit up to three (3) bids at different interest rates, none of which will exceed the Maximum Interest Rate of the Bonds (Series 180), and which will be denoted in interest levels of 0.01%, i.e., 2.02%, 2.01%, 2.00%, etc. An interest rate specified in a bid which is not equal to one of the interest levels will be rounded up to the next interest level.

- 3.3 It should be clarified that the tenders for the purchase of the Subordinated Bonds (Series 403) and the Bonds (Series 180) are separate and independent tenders, the bids for each of the tenders shall be submitted separately, and the results of the offering shall be determined separately in respect of each of the tenders. Should one of the aforementioned tenders be canceled, the securities offered therein shall not be allocated or listed for trading on the Stock Exchange, but this shall not result in the cancellation of the other tender in accordance with the Shelf Offering Report.
- 3.4 The period for submitting bids for the Units being offered to the public pursuant to the Shelf Offering Report will commence on Wednesday, January 30 2019 (hereinafter – the "**Tender Date**") at 10:00 AM (hereinafter – the "**Commencement of the Period for Submitting of Bids**") and will end on the same day at 17:00 o'clock (hereinafter – the "**Time of Closing the List of Subscriptions**"), provided that at least

seven (7) hours will have elapsed from the time of publication of the Shelf Offering Report until the end of the period of the submission of bids, of which at least five (5) are to be Stock Exchange trading hours.

- 3.5 Each bid for the purchase of the Units being offered in the tender is to be submitted to the Bank through Israeli Securities Department of Bank Leumi of Israel Ltd., whose address is 9 Ahad Ha'am Street, Tel Aviv, Shalom Tower West Entrance, 12th floor (hereinafter - the "**Offering Coordinator**"), or through branches of the Bank or other members of the Stock Exchange. (hereinafter - the "**Parties Authorized to Receive Bids**"), no later than the Time of Closing the List of Subscriptions, using forms that can be obtained from the Parties Authorized to Receive Bids.
- 3.6 A bidder that has submitted a bid may retract his bid up to the end of the period for submitting bids, i.e., until the Time of Closing the List of Subscriptions.
- 3.7 For more information about the manner of offering the offered securities and submitting the bids to purchase the offered Units, the tender procedures, the publication of the tender's result, the payment of consideration in respect of the offered securities, the manner of determining the interest rate in the tenders, the allocation of the Units and the listing of the offered securities, please see Section 1.3 ("Submitting bids in the tender stage"), Section 1.4 ("The tender procedures"), Section 1.5 ("Determining the interest rate and allocating the units to bidders"), Section 2 ("Notice on the results of the offering"), Section **שגיאה! מקור ההפניה לא נמצא.** ("The special account and allocation of the units") and Section **שגיאה! מקור ההפניה לא נמצא.** ("Approval of listing of the offered securities"), respectively, of **Appendix C** of the Shelf Offering Report.

4. **Qualified investors**²

² A "**Qualified Investor**" is any of the following - (1) a portfolio manager, as defined in Section 8(b) of the Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Law, 1995, who makes discretionary purchases on behalf of a client; (2) a corporation that is wholly-owned by one or more Qualified Investors, who makes purchases for itself or for another Qualified Investor; (3) an investor listed in Section 15a(b)(2) of the Securities Law, 1968; (4) an investor listed in Sections (1) through (9) or (11) of the First Schedule of the Securities Law, who makes purchases for itself. Furthermore, a Qualified Investor must undertake to purchase securities at a scope of at least NIS 800,000.

- 4.1 Of the Units being offered to the public, regarding 13,144 Units of Subordinated Bonds (Series 403), constituting approximately 87.63% of the total Units of Subordinated Bonds (Series 403) being offered to the public and regarding 1,686,334 Units of Bonds (Series 180), constituting approximately 91.15% of the total Units of Bonds (Series 180) being offered to the public, advance purchase undertakings were received from Qualified Investors, as defined in Regulation 1 of the Public Offering Regulations, whereby the Qualified Investors will submit bids for the purchase of Units as set forth in Section 4.4 below.
- 4.2 In this Section 4.2, the terms listed below shall have the meaning set out opposite them:
- 4.2.1 **“Outstanding Number of Units for Distribution”** (in each of the tenders) – the number of Units offered in the tender, net of the number of Units in respect of which bids were made at an interest rate which is lower than the interest rate that will be determined in the tender.
- 4.2.1 **“Oversubscription”** (in each of the tenders) – the ratio between the number of securities in respect of which bids were made at the interest rate determined in the tender and the Outstanding Number of Units for Distribution, provided that this is more than one.
- 4.3 In accordance with the Public Offering Regulations, in the event of oversubscription, the allocation to Qualified Investors will be as follows:
- a. Where the oversubscription does not exceed 5, each Qualified Investor will be allocated 100% of the quantity it had undertaken to purchase.
 - b. Where the oversubscription exceeds 5, each Qualified Investor will be allocated 50% of the quantity it had undertaken to purchase.
 - c. If the Outstanding Number of Units for Distribution is insufficient to make the aforesaid allocation, then the Outstanding Number of Units for Distribution will be allocated to the Qualified Investors in accordance with the proportionate share of each advance purchase undertaking out of the total advance purchase undertakings that were submitted with the same interest rate. For the purpose of determining

the interest rates in the tenders, the bids of the Qualified Investors shall be considered as bids submitted by the public.

- d. The allocation to Qualified Investors of the offered Subordinated Bonds and Bonds shall be at the interest rates determined in the bids.
- e. Where there is no oversubscription, bids from the Qualified Investors will be treated as bids submitted by the public for the purpose of distributing the Units to bidders.

4.4 Each of the Qualified Investors listed below has undertaken, under an advance purchase undertaking for the purchase the units offered pursuant to this Shelf Offering Report, to submit bids for the purchase of Units as set out below:

4.4.1 Advance purchase undertakings to purchase the Subordinated Bonds (Series 403) at an interest rate that will not exceed the interest rate specified in the table:

		Name of qualified investor	Number of Subordinated Bonds Units (Series 403)	Interest rate
1.		Mifal Hapais	20	1.50%
2.	*	Derivatives Ltd.	36	2.02%
3.	*	Arakamba Israel Ltd.	52	2.02%
4.		Priority Asset Management Ltd.	16	2.03%
5.		Migdal Nostro Insurance Company Ltd.	500	2.10%
6.		Halman-Aldubi Gemel Provident Funds	415	2.12%
7.	*	Proxima Investment Management Ltd.	20	2.12%
8.	*	Orcom Strategies Ltd.	80	2.18%
9.	*	RIL Spirit Management & Investments Ltd.	210	2.20%
10.	*	Arbitrage Global LP	60	2.20%
11.		Meitav Dash Provident Funds and Pension Ltd.	1,000	2.21%
12.		Halman-Aldubi Investment Portfolio Management (2007) Ltd.	23	2.22%
13.		Clal Insurance Company Ltd. for institutional investors under its control	2,400	2.22%
14.		Investment House Verdun Ltd.	58	2.22%
15.		Final Capital Ltd.	193	2.25%
16.	*	Proxima Investment Management Ltd.	60	2.27%
17.		Shekef Maof Investments Ltd.	121	2.28%
18.		Shibolet Providence Fund Ltd.	98	2.28%
19.		Phoenix Insurance Company	100	2.28%
20.		Menora Mivtachim non-government bonds basket tradable in Israel	1,000	2.30%

21.		Shomera Insurance Company Ltd.	40	2.30%
22.		Menora Mivtachim Insurance Ltd.	160	2.30%
23.		Harel Finance Investment Management Ltd.	16	2.30%
24.		Halman-Aldubi IEC Gemel Ltd.	1,000	2.30%
25.	*	Orcom Strategies Ltd.	50	2.35%
26.	*	Monavaz Fund Limited Partnership	60	2.36%
27.		Meitav Dash Provident Funds and Pension Ltd.	1,210	2.36%
28.	*	Barak Capital Investments 2006 Ltd.	30	2.36%
29.	*	Ametrine 2 Limited Partnership	80	2.36%
30.	*	Ametrine 2 Limited Partnership	100	2.36%
31.		Shekef Maof Investments Ltd.	110	2.36%
32.		Shekef Maof Investments Ltd.	180	2.39%
33.		Migdal - Basket of exposure to financial bonds in Israel	1,000	2.40%
34.		Migdal Insurance Company Ltd.	600	2.40%
35.		Phoenix Insurance Company Ltd.	100	2.40%
36.		Harel Insurance Company Ltd.	400	2.41%
37.		Harel Insurance Company Ltd. – Members	600	2.42%
38.		Clal Insurance Company Ltd. for institutional investors under its control	800	2.42%
39.		IBI Amban Investment Management Ltd.	146	2.42%
		Total units	13,144	

(*) Distributor in the offering or a Qualified Investor related to a distributor in the offering.

4.4.2 Advance purchase undertakings to purchase the Bonds (Series 180) at an interest rate that will not exceed the interest rate specified in the table:

		Name of qualified investor	No. of Bonds (Series 180)	Interest rate
1.		Mifal Hapais	800	1.50%
2.		Ayalon Mutual Funds Ltd.	11,790	1.84%
3.	*	Proxima Investment Management Ltd.	16,100	1.84%
4.		Shekef Maof Investments Ltd.	15,450	1.85%
5.	*	Inbar Derivatives Ltd.	69,000	1.85%
6.		Final Capital Ltd.	12,992	1.90%
7.		Aviv Segev Investment Management Ltd.	1,790	1.90%
8.		Profound Investment House Ltd.	11,487	1.90%
9.		Alumot Mutual Fund Management Ltd.	43,850	1.90%
10.	*	Arbitrage global, L P	40,000	1.90%
11.	*	RIL Spirit Management & Investments Ltd.	19,000	1.92%
12.	*	Monavaz Fund Limited Partnership	35,000	1.93%
13.		Phoenix Marketable Corporate Bonds Partnership – Phoenix Members	75,000	1.93%
14.		KSM Mutual Funds Ltd.	37,550	1.94%
15.	*	Barak Capital Investments 2006 Ltd.	12,500	1.94%

16.	*	Ametrine 2 Limited Partnership	67,000	1.94%
17.	*	Ametrine 2 Limited Partnership	23,500	1.94%
18.		Priority Asset Management Ltd.	5,000	1.94%
19.		Migdal Mutual Funds Ltd.	7,000	1.94%
20.		IBI Amban Investment Management Ltd.	60,107	1.94%
21.		Phoenix Insurance Company Ltd.	10,500	1.94%
22.		Harel Finance Investment Management Ltd. – Managed Client	4,800	1.95%
23.	*	Derivatives Ltd.	5,000	1.96%
24.	*	Arakamba Israel Ltd.	5,000	1.96%
25.		First International Bank of Israel Ltd.	15,000	1.96%
26.	*	RIL Spirit Management & Investments Ltd.	16,000	1.96%
27.		Investment House Verdun	56,509	1.97%
28.		Alfi Benedek	2,000	1.97%
29.	*	Derivatives Ltd.	5,000	1.98%
30.	*	Arakamba Israel Ltd.	5,000	1.98%
31.		Clal Insurance Company Ltd. for institutional investors under its control	200,000	1.98%
32.		Sphera fixed income strategies GP L.P	10,000	1.98%
33.		Bank of Jerusalem Nostro	10,000	1.98%
34.		Bina Capital (2016) Ltd.	5,000	1.98%
35.		Migdal Mutual Funds Ltd.	3,100	1.98%
36.	*	RIL Spirit Management & Investments Ltd.	29,500	1.98%
37.		Phoenix Marketable Corporate Bonds Partnership – Phoenix Members	75,000	1.98%
38.	*	Altris Finance Ltd.	61,000	1.99%
39.		Shekef Maof Investments Ltd.	19,750	1.99%
40.		Halman-Aldubi Investment Portfolio Management (2007) Ltd.	8,665	1.99%
41.		Priority Asset Management Ltd.	3,000	1.99%
42.		Halman-Aldubi Gemel Provident Funds	33,756	1.99%
43.	*	Monavaz Fund Limited Partnership	40,000	1.99%
44.		IBI Amban Investment Management Ltd.	3,510	1.99%
45.		Phoenix Insurance Company Ltd.	7,500	1.99%
46.		First International Bank of Israel Ltd.	10,000	2.00%
47.		The Custodian General and Official Receiver	9,000	2.00%
48.		Menora Mivtachim Pension Bond Track	5,000	2.00%
49.		Menora Mivtachim Insurance for members of the Menorah Mivtachim Group	100,000	2.00%
50.		Menora Mivtachim Holdings Ltd.	14,000	2.00%
51.		Menora Mivtachim Insurance Ltd.	12,000	2.00%
52.		Shomera Insurance Company Ltd.	4,000	2.00%
53.	*	Orcom Strategies Ltd.	24,000	2.00%
54.		Final Capital Ltd.	12,992	2.01%
55.		Shekef Maof Investments Ltd.	12,300	2.01%
56.		The Custodian General and Official Receiver	9,000	2.01%
57.	*	Arbitrage global, L P	30,000	2.01%
58.	*	Derivatives Ltd.	5,000	2.02%
59.	*	Arakamba Israel Ltd.	6,000	2.02%

60.		Sphera fixed income strategies GP L.P	10,000	2.02%
61.		Meitav Dash Mutual Funds Ltd.	25,136	2.02%
62.		Beeri Printing Limited Partnership	800	2.02%
63.		IDI Insurance Company - Nostro	6,000	2.02%
64.		First International Bank of Israel Ltd.	10,000	2.02%
65.		IBI Mutual Funds Ltd.	12,600	2.02%
66.		The Custodian General and Official Receiver	6,000	2.02%
67.	*	Inbar Derivatives Ltd.	38,000	2.02%
68.	*	Bazelet Fund	50,000	2.02%
69.		Phoenix Marketable Corporate Bonds Partnership – Phoenix Members	75,000	2.02%
		Total units	1,686,334	

(*) Distributor in the offering or a Qualified Investor related to a distributor in the offering.

- 4.5 Advance purchase undertakings by the Qualified Investors on the eve of the publication of the Shelf Offering Report were accepted in accordance with the principles prescribed in the Public Offering Regulations.
- 4.6 The Qualified Investors may bid for a number of Units that exceeds the number of Units specified in their advance undertaking; however, bids for surplus Units will not be considered as bids submitted by Qualified Investors for the purpose of the Shelf Offering Report, but rather as bids submitted by the public for all intents and purposes.
- 4.7 The consideration to be paid by the Qualified Investors will be transferred to the Offering Coordinator through members of the Stock Exchange on the first day of trading after the Tender Date, by 12:30 PM, and will be deposited by the Offering Coordinator in a special account as defined in Section **שגיאה!** **מקור ההפניה לא נמצא.** **Appendix C** of the Shelf Offering Report.
- 4.8 The Qualified Investors will be entitled to receive an advance undertaking fee at a rate of 0.7% of the total consideration that will be received in respect of the Subordinated Bonds (Series 403) Units in relation to which the Qualified Investors have undertaken to submit bids as part of the advance undertaking, and an advance undertaking fee at a rate of 0.5% of the total consideration that will be received in respect of the Bonds (Series 180) Units in relation to which the Qualified Investors have undertaken to submit bids as part of the advance undertaking.
- 4.9 On the Tender Date (through the end of the period for submitting the bids), a Qualified Investor may reduce the interest rate which he had specified in

the advance undertaking to purchase the offered Units by interest rate increments of 0.01%, by giving written notice to the Offering Coordinator, which shall be delivered to him no later than 17:30 on the Tender Date (Time of Closing the List of Subscriptions).

5. **Additional allocations subsequent to the tender**

No additional allocations of the securities, which are offered pursuant to the Shelf Offering Report, will be made subsequent to the tender to qualified investors and/or to all bidders.

6. **Additional terms of the Subordinated Bonds (Series 403)**

6.1 The payments on account of the interest on the Subordinated Bonds (Series 403) will be registered in the Subordinated Bonds register on February 22 of each of the years 2020 through 2030, except for the last interest payment, which will be made in February 28 2030 upon repayment of the principal of the Subordinated Bonds (Series 403) and against delivery to the Bank of the certificates of the Subordinated Bonds (Series 403) to the Bank; the last interest payment will be paid to beneficiaries in the Subordinated Bonds register (Series 403) as of the payment date.

6.2 It is clarified that those not registered in the Subordinated Bonds' register on the record date for payment of interest will not be eligible for payment of interest in respect of the interest period that commenced prior to that date.

6.3 If the date on which payment on account of principal and/or interest is due on a day which is not a business day, the payment date will be postponed to the next business day thereafter, without any interest being added, and the record date for the purpose of determining entitlement to redemption or interest will not change as a result of this.

6.4 For more information regarding payments of principal and interest of the Subordinated Bonds, please see Sections 3, 4 and 7 of the terms listed overleaf of the Deed of Trust for Series 403.

6.5 The Subordinated Bonds (Series 403) offered pursuant to this Shelf Offering Report shall be issued at their par value, and accordingly at no discount. For more information regarding the rate of discount on Subordinated Bonds (Series 403) in case the Bank issues additional Subordinated Bonds (Series

403) in the future, please see Section 6.4 to **Appendix C** of the Shelf Offering Report.

- 6.6 It is clarified that the Bank's obligations under the Deed of Trust for the Subordinated Bonds (Series 403) are not secured by any collateral. For more information regarding the repayment ranking of the Subordinated Bonds (Series 403), please see Section **שגיאה! מקור ההפניה לא נמצא.** below.
- 6.7 Pursuant to the guidelines to Part Three of the Rules and Regulations of the Stock Exchange, the Subordinated Bonds (Series 403) constitute "hybrid bonds". According to the Rules and Regulations, the par value of a trading unit of a hybrid bond is NIS 50,000 and the minimum size of a trading order in hybrid bonds shall be one trading unit. It is clarified that trading in the Subordinated Bonds will be subject to the Stock Exchange's guidelines and to the aforementioned limits in regard to a trading unit of a hybrid bond, as updated or changed from time to time, including in the event of other or additional limits being placed with regard to a trading unit of hybrid bonds and/or in the event of limits being placed with regard to the trading order (buy and/or sell) that can be carried out in relation the Subordinated Bonds and/or in the event of the size of the trading unit of the hybrid bond being changed, should any such changes, revisions and updates be made in relation to the Subordinated Bonds offered pursuant to the Shelf Offering Report.
7. **Conversion into shares of the Subordinated Bonds (Series 403) into the Bank's shares under certain circumstances**

7.1 **Definitions**

In Section 7, the terms listed below shall have the meaning set out opposite them:

- Subordinated Bonds** - Subordinated Bonds (Series 403);
- Common Equity Tier 1 capital ratio of the Bank** - The Bank's Common Equity Tier 1 capital ratio pursuant to PCB 202 and the transitional provisions set out in PCB 299 which are attached as Appendix A and Appendix B to the Deed of Trust of Series 403, and pursuant to the provisions of PCB 201;
- Trigger event for principal losses absorption** - The Bank's Common Equity Tier 1 capital ratio drops below 5%;³
- Trigger event for unsustainability** - The earlier of the following two events:
 - (a) A notice in writing to the Bank from the Banking Supervision Department that a conversion of the bonds is necessary since if this were not to take place, in the opinion of the Banking Supervision Department, the Bank would reach the point of unsustainability⁴; or
 - (b) A notice in writing to the Bank from the Banking Supervision Department about a decision to inject capital from the public sector, or an equivalent support, without which the Bank would reach the point of unsustainability, as determined by the Banking Supervision Department.
- Trigger Event** - A trigger event for principal loss absorption or a trigger event for unsustainability;

³ It should be noted that in accordance with the Reporting to the Public Directives of the Banking Supervision Department that apply to the Bank, the Bank is required to immediately notify the Banking Supervision Department in the event that its minimum Common Equity Tier 1 capital ratio or its minimum total capital ratio falls below the ratios set by the Banking Supervision Department, and therefore a trigger event for principal loss absorption might occur at any time and not necessarily on the date in respect of which the financial statements of the Bank are being prepared.

⁴ It should be noted that PCB 202 does not include a definition of the term "point of unsustainability". The FAQ document dated February 28 2018, which was prepared by the Bank of Israel, sets out several examples that do not necessarily exhaust all occurrences in which the Banking Supervision Department might use his discretion and order a conversion of the Subordinated Bonds, as follows: (a) the Bank's assets do not provide adequate protection to depositors and creditors; (b) the Bank does not meet obligations whose repayment date is due or there is a real concern that it will not be able to meet such obligations; (c) the Bank's level of capital is insufficient to support the risks involved in its activity, and the Bank does not take measures to increase the capital or is unable to increase the capital due to market conditions or due to material damage to its reputation; (d) there is significant deterioration of the Bank's liquidity position, which is reflected, among other things, in a difficulty to obtain short-term funding or in a concern that the liquidity ratios will be breached.

7.2 If circumstances arise that constitute a trigger event, the Bank will publish an immediate report and will perform a conversion of the Subordinated Bonds into the Bank's shares (hereinafter - "**Conversion**") in accordance with the provisions set forth below:

7.2.1 The Bank will publish an immediate report and shall notify the Trustee regarding the occurrence of the Trigger Event (hereinafter - the "**Conversion Notice**") that will list (a) the date on which the Conversion will take place, which will be no less than twenty-one (21) days after the date of the Conversion Notice (hereinafter - the "**Conversion Date**") and no more than forty-five (45) days after that date; (b) the conversion rate according to which the Conversion will be carried out on the Conversion Date (hereinafter - the "**Conversion Rate**"); and (c) the number of Bank's shares that will be issued in respect of the Conversion; and (d) the interest and linkage differences to be paid according to Section 7.2.4 below. It is clarified that giving a Conversion Notice to be published by the Bank shall constitute preponderant evidence that will obligate the Trustee and the holders regarding the occurrence of a Trigger Event.

7.2.2 The Conversion Rate will be the higher of (a) the average of the closing prices that have been set for the Bank's shares on the Stock Exchange in the last 14 consecutive trading days before the day on which the Conversion Notice was delivered and (b) a floor price of NIS 11.53 (1.153 Agorot),⁵ subject to adjustments as detailed in Section 7.3 below (hereinafter - the "**Floor Price**"). The Floor Price will be linked to the index according to the mechanism for linkage of the principal and interest of the Subordinated Bonds as set out in Section **שגיאה! מקור ההפניה לא נמצא.** above, with the required changes.

7.2.3 On the Date of Conversion, all Subordinated Bonds will be repaid in full by way of conversion into Bank's shares, in accordance with the

⁵ The abovementioned price equals half (50%) of the average of the closing prices that have been set for the Bank's shares on the Stock Exchange in the last 14 consecutive trading days before January 23 2019 (inclusive).

Conversion Rate. The number of Bank's shares to which a holder of the Subordinated Bonds will be entitled at the time of the Conversion will be calculated by dividing the outstanding balance of the principal of the Subordinated Bonds by the Conversion Rate. If fractions of shares arise as a result of such a division, they will be sold and the consideration in respect thereof will be paid to the holders, provided that an amount of less than NIS 30 will not be paid.

- 7.2.4 The holders of the Subordinated Bonds will be entitled to any interest (calculated based on 365 days per year) and linkage difference that have accumulated up to the day preceding the date of the Conversion Notice. The payment of the interest and linkage differences that have accumulated, as aforesaid, if any such interest and linkage difference have accumulated, will be made in cash at the time of the Conversion, and paid to the entitled parties who hold the Subordinated Bonds on the payment date.
- 7.2.5 As from the date of the Conversion Notice, the Deferred Bonds will no longer bear interest and the Bank will not be allowed to repay the principal of the Subordinated Bonds or any part thereof by way of early repayment.
- 7.2.6 It is clarified that as of the Conversion Date, the holders of the Subordinated Bonds will no longer be considered to be holders of the Bank's Subordinated Bond (as the term "Holder of Bonds" is defined in the Securities Law), and they will instead be considered to be shareholders in the Bank for all intents and purposes. Furthermore, the tenure of the Trustee for the Subordinated Bonds in accordance with the Deed of Trust will end on the Conversion Date.
- 7.2.7 Despite that which is stated in the previous paragraphs, if until to the Conversion Date a temporary or permanent liquidator is appointed to the Bank by a competent court, and that appointment is not cancelled by the time of the conversion, the Subordinated Bonds will not be converted into Bank's shares, as aforesaid, and the

preferential nature of the rights of the holders as compared with the rights of the shareholders of the Bank and with the rights of the creditors that have inferior repayment ranking than that of the Subordinated Bonds will be maintained. It is clarified that nothing in the aforesaid detracts from the provisions of Section 7.2.5 above, and the Subordinated Bonds will not, in any event, bear interest and linkage differences after the date of the Conversion Notice. It is further clarified that in the event of the cancellation of the appointment of a liquidator, as aforesaid, before the Conversion Date, the procedure for the Conversion of the Subordinated Bonds into Bank's shares in accordance with the provisions of this Section 7 will be renewed.

- 7.2.8 The Bank's shares that will be allocated as a result of the Conversion will bear equal rights to the rights of the ordinary shares that are a part of the Bank's issued equity as of the Conversion Date, and they shall confer upon their owners the full amount of the dividends and any other distribution (insofar as there may be one), and they will also confer all other rights that are conferred at that time upon the Bank's shares, the record date for receipt thereof is after the Conversion Date.
- 7.2.9 The conversion of the Subordinated Bonds into Bank's shares, and the payment of the interest and linkage differences that have accumulated in cash, as described in the Subordinated Bonds, will be considered to be the final and absolute repayment of all of the Bank's obligations towards the holders of the Subordinated Bonds. It is clarified and emphasized that the conversion of the Subordinated Bonds into Bank's shares, as aforesaid, constitutes an integral part of the terms of the Subordinated Bonds and accordingly, this will not constitute a breach of any term whatsoever of the terms of the Subordinated Bonds or of the Deed of Trust, and in any event, no ground will arise for a claim or a demand towards the Bank on the part of the Trustee and/or on the part of the holders for the execution of the Conversion. Without derogating from the aforesaid, the holders of the Subordinated Bonds will be deemed to

have agreed to the Conversion of the Subordinated Bonds, as aforesaid, and as having irrevocably waived their rights in accordance with the Subordinated Bonds to payments of principal, interest and linkage differences in respect of the Subordinated Bonds, as well as any other rights arising therefrom.

- 7.2.10 It is clarified that the Subordinated Bonds are not convertible into Bank's shares by the holders, but rather by the Bank alone, in accordance with the terms of the Subordinated Bonds, and they are not redeemable in cash by the holders. Nothing in the aforesaid will derogate from the holders' rights to make the Subordinated Bonds immediately repayable in the event of liquidation, in accordance with Section 7 of the Deeds of Trust.
- 7.2.11 The holders of the Subordinated Bonds will bear any tax liability that may arise, if any arises, as a result of the Conversion of the Subordinated Bonds into Bank's shares.
- 7.2.12 Accordingly, and subject to the provisions of the Banking Law (Licensing), 1981, in the event that on the Conversion Date, the conversion of the Subordinated Bonds into Bank's shares will lead to an individual holder of the Subordinated Bonds holding more than 5% of the Bank's issued and paid up share capital, and that holder has not received the approval that is required in that respect from the Governor of the Bank of Israel (hereinafter - the "**Governor**"), then some of the shares to which such holder would be entitled will be transferred to a trustee who will be appointed by the Bank. The Bank will instruct the trustee to whom the said shares will be transferred to hold them for a period of no more than 180 days, such that if until the end of the said period no approval has been received from the Governor for the holding of the shares by said holder, the trustee will act within an additional period, which may not exceed 180 days, to sell shares on the Stock Exchange, such that the number of the Bank's shares that remain in that holder's hands will not exceed 5%. The trustee will also act to transfer the consideration of the sale, net of tax in accordance with the law, to the said holder. At the approval of the Governor, the Bank will be

entitled, but not bound, to extend the duration of all periods that are mentioned above.

For the purpose of this paragraph, the term "**trustee**" shall mean – a trust company whose parent company or sister company is a bank or a member of the Stock Exchange or, an attorney or a trust company of an attorney, or a certified public accountant or a trust company of a certified public accountant.

7.2.13 The Bank has received approval from the Stock Exchange for listing the shares that will arise from the conversion of the Subordinated Bonds, if and when such conversion shall be carried out. The Stock Exchange's approval is subject to the fulfillment of the conditions set out in the Stock Exchange's Rules and Regulations and guidelines. The Bank's shares that will arise from the conversion will be registered in the name of the Nominee Company of Bank Leumi of Israel Ltd., in favor of those who held the Subordinated Bonds that have been converted into shares.

7.2.14 Despite what is stated in this Section 7.2, if circumstances arise that constitute only a trigger event for principal losses absorption, the bank may (but is not bound) to carry out a partial conversion of the Subordinated Bonds into Bank's shares, at a Conversion Rate that will increase the Tier 1 shareholders' equity ratio of the Bank to 5% at the very least.

7.2.15 Pursuant to the provisions of PCB 202, the offering of the Bank's shares as a result of the Trigger Event must take place before equity is injected from the public sector, so that the equity received from the public sector will not be diluted.

7.3 Adjustments

7.3.1 If the Bank carries out a split in its capital, a consolidation of its capital or a reduction of its capital, an adjustment will be made to the Floor Price.

7.3.2 If the Bank distributes a dividend to the Bank's shareholders, an adjustment will be made such that the Floor Price will be multiplied by the ratio between the base price of a Bank's share on the Stock

Exchange "ex dividend", and the closing price of a Bank's share on the Stock Exchange on the last day of trading before the "ex dividend" day.

- 7.3.3 If the Bank distributes bonus shares to the Bank's shareholders, an adjustment will be made such that the number of the shares arising from the conversions to which a holder of the Subordinated Bonds will be entitled upon their conversion will increase by a number of shares of that class that the holder would have been entitled to as bonus shares, had the Subordinated Bonds been converted on the last day of trading before the ex-day.
- 7.3.4 If the Bank offers securities to the holders of the Bank's shares by way of a rights issue, then an adjustment will be made such that the number of the shares that will arise from the conversion to which the holder of a Subordinated Bond will be entitled upon the conversion will increase in line with the ratio between the closing price of the share on the Stock Exchange on the last day of trading before the "ex day" and the base price of the share "ex rights".
- 7.3.5 Apart from the adjustments described above, no adjustments whatsoever will be made to the Floor Price or to the number of Bank's shares that will arise from the conversion of the Subordinated Bonds, including in the event of any offerings whatsoever (including offerings to interested parties). Furthermore, pursuant to the Rules and Regulations and guidelines of the Stock Exchange, the above adjustment provisions cannot be changed subsequent to the listing of the shares.
- 7.4 For more information about the conversion of the Subordinated Bonds into Bank's shares, please see Section 6 of the first addendum to the Deeds of Trusts for Series 403.
- 7.5 As of the Date of the Shelf Offering Report, the Bank's authorized share capital amounts to NIS 3,215,000,000 par value, which is divided into 3,215,000,000 ordinary shares of NIS 1 par value each. The issued and paid up share capital as of the date of the Shelf Offering Report is NIS 1,524,021,394, divided into 1,524,021,394 ordinary shares of NIS 1 par

value each. If all Subordinated Bonds (Series 403) offered pursuant to the Shelf Offering Report are allocated, then as a result of the Conversion of all Subordinated Bonds (Series 403) according to the Floor Price, assuming that no adjustments are made pursuant to Section 7.3 above, and that the relevant Index at the Conversion Date is not lower than the Basic Index as defined in the Deed of Trust to the Subordinated Bonds), up to 65,047,702 ordinary shares of the Bank will be allocated, that will constitute approximately 3.59% of the issued and paid up share capital of the Bank as of the date of publication of the Shelf Offering Report, with the addition of the shares that will arise from the Conversion of the Subordinated Bonds,⁶ and approximately 3.59%, fully diluted.⁷

8. **Early redemption of the of the Subordinated Bonds at the initiative of the Bank**

8.1 **Early redemption of the Subordinated Bonds (Series 403) at the initiative of the bank**

Subject to the provisions of the Stock Exchange's Rules and Regulations and the Directives issued thereunder, and to the Directives issued by the Israel Securities Authority, the Bank will be entitled, at its discretion⁸ and without giving the holders of the Subordinated Bonds and/or to the Trustee a right

⁶ In the above calculation, the issued and paid up share capital of the Bank includes the shares that will arise from the conversion of the Subordinated Bonds (Series 400), the Subordinated Bonds (Series 401) and the Subordinated Bonds (Series 402) of the Bank, which have a conversion mechanism that is identical to the one included in Subordinated Bonds (Series 403), in accordance with the Shelf Offering Report, as part of which conversion will take place upon the occurrence of a "Trigger Event" that is defined in the same manner in the Deed of Trust of each of the said series.

⁷ As to non-negotiable Performance Share Units (PSU) units that were allocated to office holders and are convertible into shares, please see Section 3.2.2 of the Shelf Prospectus, note 25A to the Banks annual financial statements for the year 2017 and the Banks immediate report of July 8 2018 regarding the status of capital, award of rights to purchase shares and the Bank's securities' registers and changes therein (Ref. No. 2018-01-061401). It should also be noted that the dormant shares held by the Bank as detailed in the Bank's financial statements were also taken into account in calculating the dilution.

⁸ It should be noted that in accordance with the provisions of PCB 202, the Bank may not exercise an option for an early redemption, unless one of these conditions is met: (a) the Subordinated Bonds will be replaced with equity of identical or higher quality and the replacement will be carried out under terms that the Bank can meet on all matters relating to the capacity of its revenues (replacement offerings can be carried out at the same time but not after the instrument has been redeemed); or (b) the Bank has proved that its equity ratio is much in excess of the minimal equity requirements as stated in PCB 201 on the subject of "Introduction, application and the calculation of the requirements", after the exercise of the early redemption.

of choice, to carry out early redemption, in whole or in part, of the Subordinated Bonds, subject to the following conditions:

- 8.1.1 The Bank will only be allowed to carry out an early redemption once.
- 8.1.2 The early redemption may be carried out not before January 31 2025, and no later than February 28 2025.⁹
- 8.1.3 The Bank has obtained advance written approval from the Banking Supervision Department for the execution of the early redemption.
- 8.1.4 It is emphasized and clarified that the right to decide on the performance of an early redemption, as detailed above, is an exclusive right of the Bank, subject to the restrictions that are set out in this section, and that the holders of the Subordinated Bonds (Series 403) shall have no right to demand an early redemption, under any circumstances whatsoever. Nothing in the aforesaid derogates from the rights of the holders to make the Subordinated Bonds (Series 403) repayable immediately in the event of liquidation in accordance with Section 7.1 of the Deed of Trust for Series 403.
- 8.1.5 In the event that the Stock Exchange decides to delist the Subordinated Bonds (Series 403), pursuant to the provisions of the Rules and Regulations of the Stock Exchange and the guidelines set by virtue thereof, the Bank will not carry out early redemption of the Subordinated Bonds (Series 403) due to the said notice of the Stock Exchange. The Subordinated Bonds (Series 403) shall be delisted from the Stock Exchange and they will be subject, among other things, to the tax implications arising therefrom.
- 8.1.6 For more information regarding the early redemption of the Subordinated Bonds (Series 403) at the initiative of the Bank,

⁹ This includes: (a) negotiable subordinated capital notes (Series 200 and 201) with a par value of approximately NIS 2.3 billion whose repayment date is in 2060; (b) non-negotiable subordinated capital notes with a par value of NIS 1.0 billion whose repayment date is in 2058; (c) negotiable subordinated capital notes (Series 300 and 301) with a par value of approximately NIS 2 billion, whose repayment date is in 2059. For more information, please see Section 1.4 of the Bank's shelf prospectus. It is clarified that the repayment ranking of the Subordinated Bonds will be of significance only in the event that the Subordinated Bonds have not been converted into Bank's shares in accordance with the terms that are set forth in the Deeds of Trust for the Subordinated Bonds.

including in respect of the amounts that the Bank will pay to holders of the Subordinated Bonds (Series 403), please see Section 8 of the terms listed overleaf of the Deed of Trust for Series 403.

9. **The repayment ranking of the Subordinated Bonds (Series 403)**

9.1 The rights of the holders of the Subordinated Bonds (Series 403) to the payment of principal and interest, as well as the other rights and claims deriving from the Subordinated Bonds, including rights to receive compensation in respect of a breach of the terms of the Subordinated Bonds by the Bank, will be subordinate to the claims of all other creditors of the Bank of any kind, including the public's deposits which are deposited with the Bank from time to time, both those existing on the date of the Subordinated Bonds' issuance and those that will exist in the future, whether collateralized or not collateralized, except for the rights of other creditors of the Bank in respect of which it will be expressly determined (in accordance with the law or by some other means) that these will have an equal repayment ranking of that of the Subordinated Bonds or will be subordinate to them. For this purpose, it is clarified that (a) the Subordinated Bonds (Series 403) have an equal repayment ranking (pari passu) to that of the Bank's capital notes that were issued in the past and which have been recognized by the Banking Supervision Department as upper Tier 2 capital;¹⁰ (b) the Subordinated Bonds (Series 403) will have a repayment ranking equal or superior to that of any debt, bonds or capital note that were issued and/or will be issued by the Bank in the future and recognized as Tier 2 capital, as this term is defined in PCB 202;¹¹ and (c) the Subordinated Bonds (Series 403) are subordinate to the Bank's other capital notes and bonds of the Bank, which have been issued in the past and/or that will be issued in the future, notwithstanding any provision to the contrary that has been set out in their terms, should such provisions exist. It is

clarified that the repayment ranking of the Subordinated Bonds (Series 403) will be of significance only in the event that the Subordinated Bonds have not been converted into Bank's shares in accordance with the terms that are set forth in the Deed of Trust.

- 9.2 The Subordinated Bonds (Series 403) will have an equal repayment ranking amongst themselves (*pari passu*) and between them and all of the Bank's other Subordinated Bonds or other obligations of the Bank, for which a repayment ranking will be determined that is equal to that of the Subordinated Bonds (Series 403), without a right of seniority or preference of one over the other.

10. **Bonds (Series 180) - Additional Information**

- 10.1 The payments on account of the interest on the Bonds (Series 180) will be paid to the persons whose names are registered in the register of the Bonds (Series 180) on February 22 of each of the years 2020 through 2025, except for the last principal and interest payment, which shall be paid to the persons whose names are registered in the register on the payment date; payment shall be made against submission of the Bonds (Series 180) certificates to the Bank on the payment date.
- 10.2 It is clarified that those not registered in the register of the Bonds (Series 180) on the record date for the Bonds (Series 180) shall not be eligible for payment of interest in respect of the interest period that commenced prior to that date.
- 10.3 If the date on which payment on account of principal and/or interest is due on a day which is not a business day, the payment date will be postponed to the next business day thereafter, without any payment being added, and the record date for the purpose of determining entitlement to redemption or interest will not change as a result of this.
- 10.4 For more information regarding payments of principal and interest of the Subordinated Bonds (Series 180), please see Section 6 of the terms listed overleaf of the Deed of Trust for Series 180.
- 10.5 The Bonds (Series 180) have an ordinary repayment rank equal to the repayment rank of all deposits by the public deposited with the Bank from time to time.

- 10.6 The Bank's obligations under the Deed of Trust for the Subordinated Bonds Series 180 are not secured by any collateral.
- 10.7 If the Stock Exchange decides to delist the Bonds (Series 180) because the value of the series of the Bonds (Series 180) is less than the amount stipulated in the Stock Exchange's Rules and Regulations regarding the delisting of bonds, the Bank shall not exercise early redemption.
- 10.8 The Bank shall not be entitled to initiate early redemption of the Bonds (Series 180).
- 10.9 The Deed of Trust to Series 180 includes grounds for immediate repayment. For more information, please see Section 7 to the Deed of Trust for Series 180.
- 10.10 The Bonds (Series 180) issued pursuant to this Shelf Offering Report are issued for the first time, and accordingly - at no discount. For more information regarding the discount rate for the Bonds (Series 180) in the event that the Bank issues additional bonds for this series in the future, please see Section 5 to the Deed of Trust for Series 180.
- 10.11 For more information regarding the other terms of the Bonds (Series 180), please see the Deed of Trust for Series 180 attached as Appendix B to the Shelf Offering Report.

11. **Tax**

For more information regarding the tax implications in respect of the offered securities, please see Section 6 of **Appendix C** of the Shelf Offering Report.

As is expected when making decisions on investments, it is necessary to consider the tax implications of an investment in the securities offered pursuant to the Shelf Offering Report. The provisions included in this Shelf Offering Report regarding taxation of the offered securities do not purport to constitute an authoritative interpretation of the provisions of the law, and do not purport to substitute expert advice, based on the special and the unique circumstances of each investor. Anyone who wishes to purchase the offered securities should seek professional advice in order to clarify

the tax consequences that will apply to that investor bearing in mind the unique circumstances of the investor and the offered securities.

Furthermore, the Shelf Offering Report reflects the provisions of the law as of the date of that report; those provisions may change in the future.

12. **Refraining from engaging in arrangements**

12.1 The Bank and the directors undertake, by signing the Shelf Offering Report, to refrain from engaging in arrangements which are not set out in the Shelf Offering Report, in connection with the offering of the securities pursuant with the Shelf Offering Report and their distribution and public spread, and undertake to refrain from granting the purchasers of the securities pursuant to the Shelf Offering Report the right to sell the securities they shall have purchased, other than as set forth in the Shelf Offering Report.

12.2 The Bank and the directors undertake, by signing this Shelf Offering Report, to notify the Securities Authority of any arrangement they are aware of with a third party that contradicts the undertaking as set out in Section 12.1 above.

12.3 The Bank and the directors undertake, by signing the Shelf Offering Report, to refrain from entering into engagements in connection with the securities offered pursuant to the Shelf Offering Report with any third party, which, to the best of their knowledge, engaged in arrangements contrary to what is said in Section 12.1 above.

13. **Rating of the offered securities**

On January 29 2019, S&P Maalot (hereinafter – “**Maalot**”) announced it had issued a “iAA” rating to the issuance of the Subordinated Bonds (Series 403) in the amount of up to NIS 750 million par value, and a “iAA” rating to the issuance of the Bonds (Series 180) in the amount of up to NIS 1.85 billion par value. For more information, please see the Bank’s immediate report dated January 29 2019 (Ref. No.: 2019-15-010644).

The aforementioned rating report and Maalot's approval, dated January 29 2019, for the report’s inclusion in the Shelf Offering Report is attached as **Appendix D** to the Shelf Offering Report.

14. **Permits and approvals**

14.1 The Bank has applied to the Stock Exchange requesting that it list the securities offered pursuant to the Shelf Offering Report as well as the Bank's shares that will arise from conversion of the Subordinated Bonds (Series 403), if and when such conversion is carried out, and the Stock Exchange has given its approval thereto.

14.2 The listing of the securities being offered pursuant to the Shelf Offering Report is subject to fulfillment of the terms set forth below:

- a. The value of the public's holdings in the Subordinated Bonds (Series 403) and the Bonds (Series 180), in each of the series, shall be no less than NIS 36 million;
- b. The minimum spread required for the series is at least 35 holders (for each of the two series), with each of the holders holding a minimum value of at least NIS 200,000 of the series. (for more information regarding the manner of allocation for the purpose of achieving minimum spread, please see Section 1.5 of Appendix C of the Shelf Offering Report).

14.3 Since the Subordinated Bonds offered pursuant to this Shelf Offering Report have been rated as set forth in Section 13 above, there was no need to comply with the shareholders' equity requirements prescribed in the guidelines of the Second Part of the Stock Exchange's Rules and Regulations.

14.4 The aforesaid approval from the Stock Exchange should not be construed as confirming the details presented in the Shelf Offering Report, their reliability or their integrity, nor should it be construed as expressing an opinion regarding the Bank or the quality of the securities being offered in the report or the price at which they are being offered.

15. **Payment of a fee**

In accordance with the provisions of Regulation 4A of the Securities Regulations (Application Fee for the Grant of Permission to Publish a Prospectus), 1995, the Bank will pay the Securities Authority the additional fee for the securities being offered as part of the Shelf Offering Report.

16. **The consideration of the issuance**

16.1 The consideration expected to be received by the Bank from this offering, assuming that all units being offered to the public will be purchased, net of associated issuance expenses, will be as described below:

Expected immediate consideration, gross	NIS 2,600,000,000
Less - advance undertaking and distribution fees	Approx. NIS 16,074,000
Less – other expenses totaling	Approx. NIS 1,847,000
	<hr/>
Expected immediate consideration, net	Approx. NIS 2,582,079,000

16.2 Pursuant to an agreement signed with Leumi Partners Underwriters Ltd. (hereinafter – “**Leumi Partners**”), Leumi Partners and Barak Capital Underwriting Ltd., Inbar Issuing & Finance Ltd., Alpha Beta Issuances Ltd., Egoz Issuing & Finances Ltd., A.S. Bartman Investments Ltd., M.D. Premium Issuances Ltd. Y.A.Z. Investments and Assets Ltd. and Unique Distribution and Finance Ltd. (hereinafter, jointly - the “**Distributors**”) will receive a consulting and distribution fee in respect of issuing the securities offered pursuant to this Offering Report, at a rate of 0.1% of the (gross) immediate consideration of the issuance of the Subordinated Bonds (Series 403) and at a rate of 0.1% of the (gross) immediate consideration of the issuance of the Bonds (Series 180) plus VAT in accordance with the law (hereinafter – the “**Distribution Fee**”). Leumi Partners will be allowed, at their sole discretion, to pay fees to third parties out of the Distribution Fees, where such third parties declare that they qualify to serve as distributors pursuant to the Securities Regulations (Underwriting), 2007, for assisting in the marketing, selling and distribution of the securities offered pursuant to this Shelf Offering Report, provided that those amounts shall not be paid to an end purchaser of a security in the Shelf Offering. All of the said fees shall be divided at the sole discretion of Leumi Partners. It is hereby clarified that in no event will a distributor be entitled to a distribution fee in respect

of securities that he actually purchased as a result of fulfilling advance undertakings submitted by that distributor as part of the tender for Qualified Investors.

- 16.3 No minimum has been set for the amount to be raised in this offering.
- 16.4 The funds of the offering's consideration will be used by the Bank at its own discretion.
- 16.5 The Bank shall deem the receipt of the consideration by the Offering Coordinator as if the consideration has been received by it.

17. **Underwriting**

This offering of securities pursuant to this Shelf Offering Report is not secured by being underwritten.

18. **Material changes from the date of publication of the shelf prospectus through the date of publication of the Shelf Offering Report**

18.1 Set forth below are material changes that occurred in the Bank's business with regard to any matter that should be described in the shelf prospectus through the date of publication of the Shelf Offering Report:

18.1.1 Leumi Card - An update regarding a class action on interchange fees: With respect to an application to approve a class action filed against Leumi Card and other credit card companies, described in Note 26.C.2.B. to the Bank's financial statements for 2017, which were included in the Bank's periodic report for 2017, published on March 6 2018 (Ref. No. 2018-01-021430); and an update regarding a lawsuit filed with the Antitrust Court in October 2017 - On October 16 2018, the court dismissed *in limine* the claim filed with the Antitrust Court, and on November 29 2018, the petitioner appealed the decision to the Supreme Court.

18.1.2 Leumi Card - Plea filed with the High Court of Justice regarding interchange fees: On December 9 2018, a plea was filed with the Supreme Court sitting as the High Court of Justice (hereinafter - the "**HCJ**") by the Consumer Movement to Promote a Fair Economic Society ("Success") and by the Financial Justice Association, against the Bank of Israel, the Antitrust Commissioner and the credit card

companies. The petitioners ask the HCJ to issue two orders: One instructing the Bank of Israel to explain its decision whereby as of 2023, the interchange fee for debit cards shall be 0.5% on deferred debit transactions and 0.25% on immediate debit transactions, turning the interchange fees into a source of immense profit for the credit card companies; and the second instructing the Bank of Israel to explain why the interchange fee is not subject to approval under the Antitrust Law, since according to the petitioners, the interchange fee is clearly a cartel arrangement, setting a minimum price between competitors. As of the date of the report, no decision has been handed down regarding the said petition. According to the Bank's management and based on the opinion of the relevant subsidiary's management, which is based on legal opinions as to the odds of these petitions being accepted – it is impossible to estimate their odds at this stage. For this reason, no provisions have been made in respect of these petitions.

18.2 Pursuant to the provisions of Section 4(a) to the Shelf Offering Regulations, any reports issued by the Bank subsequent to the publication of the Shelf Prospectus are included in this Report by way of reference. The full text of the Bank's reports can be viewed on the Securities Authority's distribution website at www.magna.isa.gov.il and on the Stock Exchange's website at www.maya.tase.co.il.

19. **Consent letter from the Bank's independent auditors**

The Bank was provided with a consent letter of the Bank's joint independent auditors, which includes their consent to include in the Shelf Offering Report, including by way of reference, their auditor's reports and their review reports, as the case may be, which are included in the Shelf Offering Report by way of reference. The said consent letter is attached to the Shelf Offering Report as **Appendix E**.

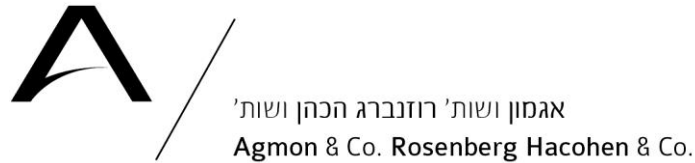
20. **Actuary's consent letter for the inclusion of an actuarial opinion regarding the pension rights, grants and special holidays of the Bank's employees**

The Bank has a consent letter provided by its actuary, which features his consent to include in the Shelf Offering Report, including by way of reference, his actuarial opinion regarding the pension benefits, grants and special holidays of the Bank's employees as of December 31 2017 and September 30 2018, which was attached to the Bank's financial statements for 2017 and the Bank's financial statements as at September 30 2018, respectively. Accordingly, the said consent letter is attached to the Shelf Offering Report as **Appendix F**.

21. The Bank will give the Supervision of Banks Department a notice regarding the offering of the Subordinated Bonds (Series 403), pursuant to this Shelf Offering Report, in accordance with the provisions of PCB 202, shortly before the listing of the Subordinated Bonds.

22. Legal opinion

Regarding the securities offering by way of the Shelf Offering Report, the Bank received the following legal opinion:



January 29 2019

To:
Bank Leumi of Israel Ltd.
Leumi House, 34 Yehuda Halevi St.
Tel Aviv

Dear Madam/Sir,

Re: Shelf Offering Report of Bank Leumi of Israel Ltd. (hereinafter – the “Bank”)

With regard to the shelf prospectus dated May 25 2018 (hereinafter – the “**Shelf Prospectus**”) and the Shelf Offering Report that is about to be published by virtue thereof (hereinafter – the “**Shelf Offering Report**”), regarding an offering to the public of the Subordinated Bonds (Series 403) and Bonds (Series 180) of the Bank (hereinafter – the “**Offered Securities**”), we hereby express our opinion as follows:

1. The rights associated with the Offered Securities are, in our opinion, correctly described in the Shelf Offering Report.
2. In our opinion, the Bank has the power to issue the Offered Securities in the manner proposed in the Shelf Offering Report.
3. The directors of the Bank have been duly appointed and their names are included in the Shelf Prospectus and in the Shelf Offering Report.

We consent to this opinion being included in the Shelf Offering Report that will be published in January 2019.

Sincerely,

Ran Shalom, Adv. Reut Israelshvili, Adv.

Agmon & Co., Rosenberg Hacoheh & Co. Law Firm

23. **The Bank's Signatures:**

Bank Leumi of Israel Ltd.**The Directors**

Brodet David

Idelman Yitzhak

Gottlieb Tamar

Yoram Gabbay

Samet Zipporah

Dominissini Esther

Haj Yehia Samer, PhD

Levanon Esther

Nardi Yoav

Sharir Itzhak, PhD

Ben Zvi Shmuel, PhD

Marani Ohad

Appendix A to the Shelf Offering Report

The Deed of Trust for Subordinated Bonds (Series 403)

Appendix B to the Shelf Offering Report
The Deed of Trust for Bonds (Series 180)

Appendix C to the Shelf Offering Report

Details of Manner of Offering the Securities

The provisions of this appendix apply separately to the Subordinated Bonds (Series 403) and the Bonds (Series 180) which are offered pursuant to the shelf offering report (in this appendix – “**the Shelf Offering Report**”). Accordingly, in this appendix “Units” shall mean the units of the Subordinated Bonds (Series 403) and/or units of the Bonds (Series 180), as the case may be, and accordingly it is clarified that the tenders for the purchase of the Subordinated Bonds (Series 403) and the Bonds (Series 180) are separate and independent tenders, the bids for each of the tenders shall be submitted separately, and the results of the offering shall be determined separately in respect of each of the tenders.

1. Manner of offering the Subordinated Bonds to the public

The Subordinated Bonds (Series 403) and the Bonds (Series 180) shall be offered to the public in a uniform offering by way of a tender on the annual interest rate that each of the series of bonds will bear, with the composition of each unit and the maximum interest rates being described in the Shelf Offering Report.

1.1 The list of subscriptions

The list of subscriptions for the purchase of the Units shall be opened on the day and time set out in the Shelf Offering Report (hereinafter – the “**Tender Day**” or the “**Day of Submission of Bids**”) and shall be closed on the day and time set out in the Shelf Prospectus Report (hereinafter – “**Closing Time of the Subscriptions List**”).

1.2 Through the Closing Date of the Subscriptions List, the Bank may cancel the offering without the investors having any claim and/or right in connection therewith. In such a case, all bids that have been submitted in connection with the offering shall be considered to be void.

1.3 Submitting the bids in the tender stage

1.3.1 The bids for the purchase of the offered securities (hereinafter – “the “**Bids**”) will be submitted to the Bank on the forms used for this purpose, through the Offering Coordinator (as defined in the Shelf Offering Report), directly or through banks or through other

members of the Stock Exchange (hereinafter - the “**Parties Authorized to Accept Bids**”), no later than the Closing Time of the Subscriptions List.

Each bid submitted to a Party Authorized to Accept Bids on the Tender Date will be considered as being submitted on the same day, if received by the Party Authorized to Accept Bids by the Closing Time of Subscriptions List and provided that it is delivered to the Offering Coordinator by the Party Authorized to Accept Bids, and received by the Offering Coordinator, by the end of one hour from the Closing Time of the Subscriptions List (hereinafter – the “**Deadline for Submission to the Coordinator**”). A Bid submitted to the Offering Coordinator after the Deadline for Submission shall not be accepted by the Bank.

- 1.3.2** In each tender, each bidder is allowed to submit up to three bids at different interest rates in accordance with the interest levels specified in the bids, as set out in the Shelf Offering Report. An interest rate specified in a bid, which is not equal to one of the interest levels that were set out in the Shelf Offering Report, will be rounded up to the next interest level.
- 1.3.3** Every bidder will specify in his bid the number of Units that he wishes to purchase in the tender, as well as the interest rate he offers, which will not exceed the maximum interest rate set out in the Shelf Offering Report. A bid where the interest rate specified is higher than the maximum interest rate will be viewed as a bid that has not been submitted.
- 1.3.4** A bidder that has submitted a bid to purchase Units may retract his bid up to the Date of Closing the Subscriptions List by giving written notice to a Party Authorized to Accept Bids. Each bid that was submitted and which was not retracted by the bidder through the Date of Closing the Subscriptions List shall be considered as an irrevocable obligation on behalf of the bidder to receive the securities that will be allocated to him as a result of full or partial acceptance of the bid and to pay, through the Offering Coordinator, the full price, under the Shelf Offering Report, of the securities

allocated thereto due to the acceptance of his bid pursuant to the terms of the Shelf Offering Report.

- 1.3.5** Bids may only be submitted for the purchase of whole Units. A bid submitted for any fraction of a Unit will be treated as a bid only for the number of whole Units specified in such bid, and any fraction of a Unit denoted in the bid will be treated as never having been included therein. A bid in which the number of Units specified therein is less than one Unit will not be accepted.
- 1.3.6** The total number of Units requested by a single bidder in each of the tenders (in respect of each of the bids he will submit and up to three bids as aforementioned) shall not exceed the offered number of the offered securities as set out in the Shelf Offering Report, should such a number be set (hereinafter – the “**Maximum Number of Units**”), all subject to the provisions of any law. If a bidder as aforesaid shall submit one or more bids to Units at the total number that exceeds the Maximum Number of Units, all of his bids shall be viewed to have been submitted to purchase the Maximum Number of Units only in the following manner (for each of the tenders separately):
- (a) First will be taken into account the Units that are included in the bid which states the lowest interest rate, up to the Maximum Number of Units (hereinafter in this subsection - the “**First Bid**”);
 - (b) where the number of Units included in the First Bid is lower than the Maximum Number of Units, additional units will be taken into account from the bid which states the lowest interest rate out of the remaining bids (hereinafter in this subsection - the “**Second Bid**”), up to the Maximum Number of Units cumulatively;
 - (c) where the number of units included in the First Bid and in the Second Bid is lower than the Maximum Number of Units, additional Units will be taken into account from the remaining third bid, up to the Maximum Number of Units cumulatively.

Where no limit is set for the Maximum Number of Units, any bid which states a number of ordered units which is higher than the offered number of offered securities shall be deemed to be a bid that stated the number offered pursuant to the Shelf Offering Report.

1.3.7 The Parties Authorized to Receive Bids will be accountable and liable towards the Bank and towards the Offering Coordinator for the payment of the full consideration due to the Bank with respect to bids submitted through them and which were accepted, in full or in part.

1.3.8 A "**bidder**" or a "**subscriber**" – together with a relative living with him and including a qualified investor that has provided an advance undertaking to purchase units and with whom the Bank entered into an advance engagement to purchase units as set forth in the Shelf Offering Report.

1.4 Tender's procedures

1.4.1 The bids will be delivered by the Parties Authorized to Receive Bids to the Offering Coordinator by digitally transmitting the bids to the Offering Coordinator, through a virtual safe. Furthermore, bids that will be submitted directly to the Offering Coordinator will be delivered in sealed envelopes that will remain sealed.

1.4.2 On the Tender Date, immediately after the Deadline for Submission to the Coordinator, the bids in the safes will be presented, including bids that were submitted directly to the Offering Coordinator, in the presence of the Bank's representatives and its independent auditor, who will oversee the proper implementation of the tender procedures and the tender's results will be summarized and processed at the same time.

1.5 Setting the interest rate and the allocation of Units to bidders

In each of the tenders pursuant to the Shelf Offering Report, all units, the bids for the purchase of which are accepted, will be issued at a uniform interest rate (hereinafter - the "**Uniform Interest Rate**"), which will be the lowest interest rate such that the bids which stated it as the interest rate,

together with the bids which stated lower interest rates, will suffice to allocate all Units that are offered to the public (including to Qualified Investors) pursuant to the Shelf Offering Report.

The units will be allocated as follows:

- 1.5.1** If the total number of Units included in the bids received (including Units the bids in respect of which were received from Qualified Investors that entered into advance engagement with the Bank) is lower than the total number of Units offered pursuant to the Shelf Offering Report, all bids will be accepted in full, subject to compliance with the relevant Stock Exchange guidelines as set out below, in which case the Uniform Interest Rate will be the Maximum Interest Rate prescribed in the Shelf Offering Report. The remaining units, for which no bids were received, will not be issued.
- 1.5.2** If the total number of Units included in the bids received (including Units the bids in respect of which were received from Qualified Investors), is equal to or higher than the total number of Units offered to the public, the following provisions shall apply:
- a. Bids which state an interest rate which is higher than the Uniform Interest Rate – will not be accepted.
 - b. Bids which state an interest rate which is lower than the Uniform Interest Rate – will be accepted in their entirety.
 - c. Bids (excluding undertakings received from Qualified Investors) which state an interest rate which equals the Uniform Interest Rate – will be proportionally accepted, such that each bidder will receive, out of the total number of offered Units outstanding for distribution after the acceptance of bids stating an interest rate which is lower than the Uniform Interest Rate (less the accepted bids of the Qualified Investors who have undertaken to purchase Units at the Uniform Interest Rate), a share which equals the ratio of the number of Units which the bidder ordered in the bid in which he had stated the Uniform Interest Rate, to the total number of Units

included in all the bids submitted to the Bank that stated the Uniform Interest Rate (less the share of the Qualified Investors, as mentioned above).

- d. The allocation of units to Qualified Investors will be made as prescribed in the Shelf Offering Report.

1.5.3 If an allocation as aforesaid in Section 1.5.2 above does not lead to the fulfillment of the minimum spread requirements of the offered securities, as set out in the Shelf Offering Report, then the preference of the allocation to the Qualified Investors will be revoked and the offered Units will be allocated as follows:

- a. Bids which state an interest rate which is higher than the Uniform Interest Rate – will not be accepted.
- b. Bids which state an interest rate which is lower than the Uniform Interest Rate – will be accepted in their entirety.
- c. Bids (including undertakings received from Qualified Investors) which state an interest rate which equals the Uniform Interest Rate – will be proportionally accepted, such that each bidder will receive, out of the total number of offered Units outstanding for distribution after the acceptance of bids stating an interest rate which is lower than the Uniform Interest Rate, a share which equals the ratio of the number of Units which the bidder ordered in the bid in which he had stated the Uniform Interest Rate, to the total number of Units included in all the bids submitted to the Bank that stated the Uniform Interest Rate (including Units in respect of which undertakings were received from Qualified Investors).

1.5.4 If an allocation as aforesaid in Section 1.5.3 above does not lead to the fulfillment of the minimum spread requirements of the offered securities, then the offered Units will be allocated as follows:

- a. Bids which state an interest rate which is higher than the Uniform Interest Rate – will not be accepted.

- b. Bids (including undertakings received from Qualified Investors) which state an interest rate which equals and/or lower than the Uniform Interest Rate – will be proportionally accepted, such that each bidder will receive, out of the total number of offered Units a share which equals the ratio of the number of Units which the bidder ordered in the bid in which he had stated the Uniform Interest Rate and/or a lower interest rate, to the total number of Units included in all the bids submitted to the Bank that stated the Uniform Interest Rate and/or a lower interest rate (including Units in respect of which undertakings were received from Qualified Investors).

- 1.5.5** If an allocation as aforesaid in Section 1.5.4 above does not lead to the fulfillment of the minimum spread requirements of the offered securities, a reallocation will be made to determine a new Uniform Interest Rate, which will not exceed the Maximum Interest Rate, and this interest rate will be the lowest interest rate at which the offered Units can be allocated such that the requirements for minimum spread will be complied with, provided that a bidder will not be allocated Units in a number which is higher than the number ordered by the bidder or at a lower interest rate than the rate he has stated in his bid (hereinafter - the "**New Uniform Interest Rate**").

Where a New Uniform Interest Rate is set, as referred to in this paragraph, the allocation will be made as provided in Section 1.5.4 above, and instead of "the Uniform Interest Rate" it shall be deemed to have referred to "the New Uniform Interest Rate".

- 1.5.6** If the allocation pursuant to Section **שגיאה! מקור ההפניה לא נמצא.** above also fails to lead to the fulfillment of the minimum spread requirements of the Offered Securities, then Section 4.4 below shall apply.
- 1.5.7** A bidder shall be deemed to have undertaken in its bid to purchase all Units allocated to him as a result of the partial or full acceptance of his bid, according to the rules set out above.

1.6 Additional allocations subsequent to the Tender Date and treatment of fractions of Units

1.6.1 No additional allocations of the offered securities will be made subsequent to the tender to qualified investors and/or to all bidders.

1.6.2 Treatment applied to fractions of units

Should fractions of Units arise from the allocation of the offered securities pursuant to the acceptance in the relevant tender, as stated above, they shall be rounded off, insofar as practicable, to the nearest whole Unit. Surpluses of Units that shall remain as a consequence of such rounding off shall be purchased by the Offering Coordinator at the Unit price that will be set in the tender.

2. Notice of the offering's results

2.1 By 10:00 AM on the first day of trading after the Tender Date, a notice will be delivered by the Offering Coordinator and through the Parties Authorized to Receive Bids, to bidders whose bids were accepted, in full or in part. The notice will state the number of Units allocated to each subscriber and the consideration payable in respect thereof. By 12:30 PM on the first day of trading after the Tender Date, the bidders will transfer to the Issuance Coordinator, to the special account as provided in Section 4 below, through the Parties Authorized to Receive Bids, the full consideration payable by them for the Units with respect to which their bid was accepted as provided in the said notice.

2.2 By the end of the first day of trading after the Tender Date, the Bank will announce the tender results in an immediate report and if required by law will publish within two additional business days a notice in the Hebrew language in two daily newspapers that are widely circulated in Israel.

3. The special account and the allocation of the Units

3.1 Immediately prior to the Tender Date the Offering Coordinator shall open a special trust account in the name of the Bank (hereinafter – the “**Special Account**”) and will submit to the Parties Authorized to Receive Bids the details of the Special Account. The Special Account shall be managed exclusively by the Offering Coordinator in the name of the Bank and on its behalf.

- 3.2** Funds accumulated in the trust account will be invested by the Offering Coordinator in liquid, unlinked deposits, which bear interest on a daily basis.
 - 3.3** The Parties Authorized to Receive Bids will deposit in the Special Account all the amounts paid in respect of the offered securities, the bids for the purchase of which were accepted pursuant to the terms of the Shelf Offering Report, and the Offering Coordinator will deal with such amounts and act in accordance with the terms of the Shelf Offering Report.
 - 3.4** If the requirements for minimum spread and the requirements for the value of the public's holdings as set out in the Shelf Offering Report are complied with, the Offering Coordinator will transfer to the Bank, by no later than 12:30 of the second day of trading after the bids submission date, any funds remaining in the Special Account, together with any return accrued thereon, less the amounts due to the Qualified Investors and the Parties Authorized to Receive Bids (insofar as such amounts are due pursuant to the Shelf Offering Report and as the case may be), against the transfer of the certificates with respect to the offered securities to the Nominee Company of Bank Leumi of Israel Ltd. (hereinafter – the “**Nominee Company**”).
 - 3.5** If, at the end of the Tender Date it transpires that the requirements for minimum spread and/or the requirements for the value of the public's holdings as set forth in the Shelf Offering Report, are not complied with, the issuance of the Units to the public will be cancelled and no funds will be collected from the subscribers and the provisions of Section 4.4 below shall apply.
4. **Approval of the listing of the offered securities**
- 4.1** After the Time of Closing the List of Subscriptions, the Bank will apply to the Stock Exchange within 3 business days requesting the listing of the securities offered pursuant to the Shelf Offering Report.
 - 4.2** Trading in the offered securities shall commence immediately after the listing thereof.
 - 4.3** The listing of the offered securities is subject to the satisfaction of the directives of the Stock Exchange, including requirements for minimum

spread and requirements for the value of the public's holdings, as set out in the Shelf Offering Report.

4.4 Should it transpire that the preliminary requirements for listing, as stated in Section **מקור ההפניה לא נמצא**, above, have not been satisfied, then the offering of the Units being offered shall be cancelled, and the securities being offered shall not be allocated and shall not be listed and no funds shall be collected from the subscribers in respect thereof. In the event of the cancellation of the Offering as aforesaid, on the first day of trading after the Tender Date, the Bank shall give notice thereof in an immediate report (in accordance with the dates set forth by law), and within two additional trading days thereafter, the Company shall publish notice in the Hebrew language in connection therewith in two daily newspapers that are widely circulated in Israel, if it is required by law to do so. The Bank may issue the securities, the issuance of which was cancelled as aforesaid, pursuant to the next Shelf Offering Reports, if such reports are published, subject to the provisions of any law, to the Stock Exchange's guidelines and to the provisions of the shelf prospectus.

5. **Certificates in respect of the securities**

Where the Bank has accepted a bid, in full or in part, the Bank will allocate certificates in respect of the securities included in the Units, the bids with respect to which were accepted, by delivering certificates in respect of the securities to the Nominee Company, against the transfer of the funds deposited in the Special Account by the Offering Coordinator as aforesaid in Section **מקור ההפניה לא נמצא**, above, provided that the allocation will not be made before the Offering Coordinator has verified that the Stock Exchange's requirements were fully met, as stated in Section 4 above.

6. **Taxation**

As is expected when making decisions on investments, it is necessary to consider the tax implications of an investment in the offered securities. The provisions included in this section regarding taxation of the offered securities do not purport to constitute an authoritative interpretation of the provisions of the law referred to in this section, and do not purport to substitute expert advice, based on the special and the unique circumstances of each investor. Therefore, any investor

who considers the purchase of the offered securities should seek professional advice that will suit the investor's specific needs.

Under existing laws, the securities that are offered to the public pursuant to the Shelf Offering Report, provisions of the the law and tax arrangements which are described in brief below.

6.1 General

- 6.1.1** On July 25 2005, the Knesset passed the Law for the Amendment of the Income Tax Ordinance (No. 147), 2005 (hereinafter in this Section – the “**Amendment**”), which changed significantly the provisions of the Income Tax Ordinance [New Version], 1961 (hereinafter in this section – the “**Ordinance**”), relating to taxation of securities listed on the Stock Exchange. Furthermore, on the date of publication of this Shelf Offering Report, not all new amendments have been published that are expected to be published as a result of the Amendment. In addition, on the publication date of this Shelf Offering Report, there is no accepted practice regarding some of the provisions of the Amendment, and there is no case law that interprets the new tax provisions of the Amendment.
- 6.1.2** In addition, on December 29 2008, the Knesset approved Amendment No. 169 of the Ordinance, which was published in the Official Gazette on December 31 2008 (and came into effect on January 1 2009), and caused further changes with respect to the taxation of securities.
- 6.1.3** On December 6 2011, the Tax Burden Distribution Law (Legislative Amendments), 2011 was published in the Official Gazette (hereinafter - the “**Tax Burden Distribution Law**”). Under this law, which came into effect in 2012, the tax rate payable by individuals on capital gains for linked channels, interest and dividends increased from 20% to 25% and for a substantial

shareholder¹² from 25% to 30%; the tax rate payable for unlinked channels remained unchanged - at 15%.

- 6.1.4** On August 6 2012, the Knesset passed Amendment No. 195 of the Ordinance, which was published in the Official Gazette on August 13 2012 (and came into effect on January 1 2013). Pursuant to this amendment, Section 121b was added to the Ordinance, which provided that as from 2013, an individual's taxable income in excess of an amount specified in this section of the Ordinance will be subject to additional tax. This section was updated on December 29 2016 upon publication of the Economic Efficiency Law (Legislative Amendments for Achieving the Budget Targets for the 2017 and 2018 Budgets), 2016 (hereinafter - the "**Efficiency Law for the years 2017 and 2018**"). Pursuant to the updated Section 121b, an individual whose taxable income in the tax year 2019 exceeded a total of NIS 649,560, shall be subject to additional tax at a rate of 3% in respect of that portion of his income that exceeded the said amount (hereinafter – "**Surtax**"). The taxable income includes all income types, including capital gain and real estate betterment (the sale of a right to real estate in a residential apartment will only be included if the value of its sale is greater than NIS 4 million and the sale is not exempt from tax under any law), excluding an inflationary amount as defined in Section 88 of the Ordinance, and an inflationary amount as defined in Section 47 of the Land Taxation Law.
- 6.1.5** The Efficiency Law for the years 2017 and 2018 reduced by 1% the corporate tax rate set in Section 126(a) of the Ordinance (to 24%) as from January 1 2017, and by further 1% (to 23%) as from January 1 2018.
- 6.1.6** It should be clarified that what is stated below refers to the taxation of investors who are Israeli residents. It should be noted that an
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“individual that became and Israeli resident for the first time” and “a senior returning resident” as defined in the Ordinance, may be subject to tax implications that are different to those described below; it is suggested that such residents seek specific advice to check their entitlement to tax benefits in Israel. It should also be noted that investors who will be considered as “controlling shareholders”¹³ or as “substantial shareholders”¹⁴, as defined in the Ordinance, may be subject to further tax implications in addition to those described below.

6.2 Capital gain from sale of the offered securities

6.2.1 Pursuant to Section 91 of the Income Tax Ordinance [New Version], 1961 (hereinafter – the “**Ordinance**”), a real capital gain¹⁵ on the sale of securities by an individual will be subject to tax at the marginal tax rate applicable to the individual under Section 121 of the Ordinance, subject to a maximum of 25%, and the capital gain will be regarded as the highest bracket in the scale of his taxable income. The above will be applicable provided that the sale of the securities does not constitute a business income of the individual and that the individual did not claim financing expenses. As to the sale of securities by an individual who is a “substantial shareholder” of the Company, i.e., holder of at least 10% of one or more than one of the company’s means of control¹⁶, directly or indirectly, by himself or together with others¹⁷, during the 12 months that preceded such sale - the tax rate regarding real capital gains earned by such an individual will not exceed 30%. Notwithstanding the foregoing, a capital gain by an individual in the sale of a bond and an unlinked commercial paper shall be taxed at a maximum rate of

¹³ As defined in Section 88 of the Ordinance.

¹⁴ As this term is defined in Section 88 of the Ordinance.

¹⁵ As this term is defined in Section 88 of the Ordinance.

¹⁶ As the term “bond” is defined in Section 91 of the Ordinance.

¹⁷ As this term is defined in Section 125c to the Ordinance – the Consumer Price Index as was recently published by Israel Central Bureau of Statistics prior to the relevant day, and in the case of an asset whose value is linked to a foreign currency or denominated in a foreign currency – the exchange rate.

15%, or 20% for a substantial shareholder, and all capital gains shall be regarded as real capital gain.¹⁸ As to an individual who claimed real interest expenses and linkage differences in respect of the securities, the capital gain from the sale of the securities shall be subject to tax at the rate of 30%, until the determination of provisions and conditions for the deduction of real interest expenses under Sections 101A(a)(9) and 101A(b) of the Ordinance. The aforementioned reduced tax rate shall not apply to an individual whose income from the sale of securities constitutes "business" income, in accordance with the provisions of Section 2(1) of the Ordinance. In this case, the individual will be charged a marginal tax rate in accordance with the provisions of Section 121 of the Ordinance (as of 2019 – 47% is the highest tax bracket). An individual whose taxable income in the tax year exceeds NIS 649,560 (as of 2019) shall be liable to additional tax of 3% for that portion of his taxable income that exceeds the said amount.

6.2.2 An individual will be exempt from linkage differences he received in respect of an asset, provided that all of the following are met:

6.2.2.1 The linkage differences are not partial linkage differences.

6.2.2.2 The individual did not claim deduction of interest expenses or linkage differences in respect of the asset.

6.2.2.3 The linkage differences do not constitute an income pursuant to Section 2(1) of the Ordinance and are not recorded in his books of accounts or require such recording.

6.2.3 A body of persons shall be liable to tax on real capital gains on the sale of securities at the corporate tax rate prescribed in Section 126 of the Ordinance.

- 6.2.4** As a general rule, a foreign resident (an individual or a body of persons) is exempt from tax on capital gains from the sale of securities listed on the Stock Exchange in Israel, if the capital gain is not attributed to a permanent establishment of the foreign resident in Israel and subject to the provisions and restrictions of Section 97 of the Ordinance. This exemption shall not apply to a foreign body of persons, if Israeli residents are the controlling shareholders or beneficiaries of such body of persons, or if Israeli residents are entitled to 25% or more of the income or profits of the foreign body of persons, directly or indirectly, as provided in Section 68A of the Ordinance.
- 6.2.5** Where the shares sold are shares arising from the conversion of Subordinated Bonds into shares, the original price of those Subordinated Bonds shall be deemed as the original price of those shares (the cost for the purpose of calculating the capital gain) and the payment paid upon conversion thereof into shares (if any such payment was made) shall be regarded as betterment expenses. Furthermore, for tax purposes, the purchase date of the Subordinated Bonds shall be deemed as the purchase date of such shares.
- 6.2.6** A tax-exempt mutual fund as well as tax-exempt provident funds and entities under Section 9(2) of the Ordinance are exempt from tax on capital gain earned from the sale of such securities. The income of a taxable mutual fund from the sale of securities as aforementioned will be liable to the tax rate applicable to the income of an individual which is not income from a "business" or "profession," unless it is expressly determined otherwise. If no special tax rate was determined in respect of the income, then the income shall be taxed at the maximum tax rate set out in Section 121 of the Ordinance.
- 6.2.7** As a general rule, if the securities that are offered pursuant to this Shelf Offering Report are delisted, the tax rate that will be withheld at source upon the sale of those securities (after they are delisted)

will be thirty percent (30%) of the consideration, so long as no certificate is presented that was issued by the Assessing Officer according to which a different withholding tax rate applies (including tax withholding exemption).

6.2.8 As to withholding at source from capital gains upon the sale of the offered securities, tax will be withheld pursuant to the Income Tax Regulations (Withholding from Consideration, Payment or Capital Gain on the Sale of Securities, Sale of a Mutual Fund Unit or a Future Transaction), 2002. A person liable to tax (as this term is defined in aforementioned Regulations) who pays consideration for the sale of securities to a seller who is an individual is required to deduct tax at a rate of 25% from the real capital gain and for an unlinked security - 15% of the capital gain; if the seller is a body of person, the rate of tax to be withheld will be the corporate tax rate pursuant to Section 126(a) of the Ordinance. The above is subject to tax withholding exemption certificates issued by the Israel Tax Authority and subject to offsetting of losses that the withholder may perform. Tax will not be withheld at source for provident funds, mutual funds and other entities which are exempt from withholding tax at source by law, after the applicable certificates are provided by them. Tax will not be withheld by a bank or a stock exchange member in respect of a foreign resident if certain conditions set out in the regulations are met. It is noted that if at the time of the sale the full amount of tax was not withheld from the real capital gain, the provisions of Section 91(d) of the Ordinance and the provisions included therein regarding reporting and payment of an advance in respect of such a sale will apply.

6.3 Tax rate applicable to interest income from the offered securities

6.3.1 Pursuant to Section 125C(b) to the Ordinance, an individual shall be subject to a tax rate of no more than 25% in respect of interest or discount fees arising from bonds that are fully linked to the

consumer price index¹⁹, and this income will be regarded as the highest bracket in the scale of his taxable income.²⁰Pursuant to Section 89(e) to the Ordinance, the linkage difference arising from redemption of a bond or a negotiable security, where the income therefrom does not constitute an income from business or profession, shall be liable to tax pursuant to the provisions of Part E of the Ordinance. Linkage differences accrued on the interest shall be subject to the same tax rate applicable to the interest. It should be noted that the index published by the Israel Central Bureau of Statistics shall be regarded as the index for purposes of Section 125c of the Ordinance.

- 6.3.2** Pursuant to Section 125c(c) of the Ordinance, an individual shall be liable at a tax rate of 15% on the interest income (including partial linkage differentials as defined in Section 3(e6) of the Ordinance) or discount fees originating in an unlinked bond, or partially linked to the CPI's increase, in whole or in part.
- 6.3.3** Pursuant to Section 125c(d) of the Ordinance, tax rates as stated above shall not apply, among other things, if one of the following conditions is met: (1) the interest constitutes income from a "business" in accordance with Section 2(1) of the Ordinance or is recorded or required to be recorded in the individual's books of account; (2) the individual claimed a deduction of interest expenses and linkage differences in respect of the Bonds; (3) the individual is a substantial shareholder as defined in Section 88 to the Ordinance as aforesaid in the body of persons paying the interest; (4) the individual is an employee of the body of persons paying the interest or provides services or sells products to that body of persons, or has some other special relationship with it, unless it shall be proven to

¹⁹ Pursuant to Section 89(e) to the Ordinance, the linkage difference arising from redemption of a bond or a negotiable security, where the income therefrom does not constitute an income from business or profession, shall be liable to tax pursuant to the provisions of Part E of the Ordinance.

the satisfaction of the Assessing Officer that the interest rate was set in good faith and was not influenced by the existence of such a relationship between the individual and the paying body of persons; (5) some other condition set by the Minister of Finance with the approval of the Knesset Finance Committee is fulfilled. In such cases, the individual will be subject to tax in respect of the interest or discount fees at the marginal tax rate in accordance with the provisions of Section 121 of the Ordinance as set out above.

6.3.4 The tax rate applicable to interest income (including linkage differences) or discount fees of an Israeli-resident body of persons other than a body of persons regarding which the provisions of Section 9(2) of the Ordinance apply to the determination of its income, excluding accrued interest in accordance with Section 3(h) of the Ordinance arising from bonds listed on the stock exchange, is the corporate tax rate as described above.

6.3.5 Pursuant to Section 9(15d) of the Ordinance, interest, discount fees or linkage differences paid to a foreign resident²¹ on bonds listed on the Stock Exchange in Israel that are issued by an Israeli-resident body of persons are exempt from tax, provided that the income is not generated in a permanent establishment of the foreign resident in Israel.²²

The exemption will not apply to foreign residents in the following cases:

- (a) The foreign resident is a substantial shareholder of the issuing body of persons; or
- (b) the foreign resident is a relative of the offering body of persons, as the term relative is defined in paragraph (3) in Section 88 of the Ordinance; or
- (c) the foreign resident is an employee, service provider, or seller of products to the offering body of persons or has a special

²¹ A foreign resident is someone who was a foreign resident on the date of receipt of interest, discount fees or linkage differences, as the case may be.

²² Interest – interest and linkage differences which are not tax exempt under any law, including partial linkage differences, as defined in Section 9(13) of the Ordinance and discount fees.

relationship therewith, (unless it is proven that the interest rate or discount fees are determined in good faith and without being impacted from the existence of the special relationship between the foreign resident and the offering body of persons).

The above exemption shall not apply to a foreign-resident company, in the event that Israeli residents are its controlling shareholders, beneficiaries, or entitled to 25% or more of the income or profits of the foreign-resident body of persons, directly or indirectly, as provided in Section 68A of the Ordinance.

In the event that the exemption as stated above does not apply, the tax rate applicable to interest income of a foreign resident (individual and body of persons) arising from securities will be charged in accordance with the provisions of the Ordinance, as explained above.

- 6.3.6** A tax-exempt mutual fund as well as tax-exempt provident funds and entities under Section 9(2) of the Ordinance are exempt from tax on interest income or discount fees as described above, subject to the provisions of Section 3(h) of the Ordinance regarding interest or discount fees that were accrued during a period of holding by another party. The income of a taxable mutual fund from interest or discount fees will be liable to the tax rate applicable to the income of an individual which is not income from a "business" or "profession," unless it is expressly determined otherwise. If no special tax rate was determined for the income, then the income shall be taxed at the maximum tax rate set out in Section 121 of the Ordinance.
- 6.3.7** Pursuant to the provisions of the Income Tax Regulations (Withholding from Interest, Dividend and Certain Profits) 2005 and the provisions of Sections 164 and 170 of the Ordinance, the tax rate that should be withheld at source from interest income (as

defined in the aforesaid regulations)²³ paid on the offered securities is as follows:

- (a) As to linked securities - 25% in a case of an individual (including a foreign resident) who is not a substantial shareholder in the body of persons that pays the interest. As to interest in respect of unlinked bonds - 15% in a case of an individual (including a foreign resident) who is not a substantial shareholder in the body of persons paying the interest. In case of an individual who is a substantial shareholder or an individual who works at the body of persons that pays the interest or provides services thereto or sells products to that body of persons, the maximum tax rate set forth in Section 121 of the Ordinance will apply.
 - (b) For a body of persons (an Israeli resident and foreign resident), tax will be deducted at the corporate tax rate prescribed in Section 126(a) of the Ordinance.
 - (c) It should be noted that no tax will be withheld at source from interest that is subject to the provisions of Section 9(15d) to the Ordinance as set out above.
 - (d) The Interest and Dividend Deduction Regulations will not apply to an entity defined as a “mutual fund” in accordance with Section 88 of the Ordinance, and therefore, no tax will be withheld at source in respect of interest distributed to a mutual fund.
 - (e) It is noted that in accordance with the guidelines of the Israel Tax Authority dated December 27 2010, tax will be withheld at source from interest paid in respect of a security listed on the Tel Aviv Stock Exchange and will be transferred to the Israel
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Tax Authority by a member of the stock exchange instead of the offering companies, subject to the said guidelines.

6.4 Tax rate applicable to dividend income in respect of the Bank's shares

As a general rule, individuals who are Israeli residents shall pay tax at the rate of 25% on dividend paid on the Bank's shares out of income that was taxed at the corporate tax rate, except for an individual who is a substantial shareholder of the Bank on the date of receipt of the dividend or at any time during the 12 months preceding that date; such substantial shareholder will pay tax of 30% in respect of such dividend. Dividend paid to a family company shall be subject to tax at the rate of 25%; however, if the assessee, as defined in Section 64A to the Ordinance, is a direct or indirect substantial shareholder of the Bank, the dividend shall be taxable at a rate of 30%. A dividend distributed to an Israeli-resident company shall not be included in the company's taxable income, provided that the dividend did not originate in income that was accrued or generated outside Israel, in which case the tax rate will be in accordance with the provisions of Section 126(a) and subject to the provisions of Section 126(c) of the Ordinance. The tax rate payable by a foreign resident (an individual or a company) who is not a substantial shareholder shall be 25%, subject to the tax treaties signed by the State of Israel. As to a foreign resident who is a substantial shareholder of the Bank on the date of receipt of the dividend or at any time during the 12 months preceding that date; such substantial shareholder will pay tax of 30% in respect of the dividend. As to a taxable mutual fund, the tax rate payable on the dividend will be in accordance with the tax rates applicable to individuals, unless expressly determined otherwise. A tax-exempt mutual fund as well as tax-exempt provident funds and entities under Section 9(2) of the Ordinance are exempt from tax on dividend as aforesaid, provided that such income is not income from a "business" or "profession". As to dividend paid to a public institution or provident fund which is not tax-exempt, such dividend will be subject to tax at a rate of 25%.

Pursuant to the provisions of the Income Tax Regulations (Withholding from Interest, Dividend and Certain Profits), 2005, the tax rate that should be withheld at source from a dividend originating in the Bank's shares and

originating in income taxable by corporate tax paid to an Israeli-resident individual and to a foreign resident in respect of the Bank's shares, including in a distribution to a substantial shareholder of the Bank on the date of receipt of the dividend or at any time during the 12 months preceding that date and whose shares are registered with and held by a Nominee Company shall be 25%. In addition, as to dividend paid to an Israeli-resident individual or body of persons, or to a foreign resident individual or body of persons, where a limited tax rate is determined by law in respect of such dividend, the tax withheld from the dividend will be at the rate that was set.

No tax will be withheld at source in respect of payments to other entities which are exempt from tax withholdings in Israel by law.

6.5 Conversion of the Subordinated Bonds into shares

In accordance with the decision of the Israel Tax Authority dated May 20 2013 entitled "Tax Implications of the Issue of Financial Instruments Issued in Accordance with Basel III Principles", automatic conversion of Subordinated Bonds into shares upon the occurrence of a trigger event shall not constitute a taxable event for subordinated bond holders. To the best of the Bank's knowledge, as of this date, the position of the Israel Tax Authority is the same as detailed in the said decision.

The holders of the Bonds Certificates shall bear any tax liability that may arise, if any arises, as a result of the Conversion of the Subordinated Bonds into Bank's shares.

6.6 Offering of additional Subordinated Bonds and/or bonds as part of the expansion of a series

If the discount rate to be set for additional Subordinated Bonds (Series 403) and/or additional Bonds (Series 180) that will be issued by the Bank in the future as part of a series expansion is different from the discount rate set for such a series (including no discount), the Bank will apply, prior the expansion of the series, to the Israel Tax Authority in order to obtain its approval to set, for the purpose of the tax withheld from the discount fees with respect to the Subordinated Bonds (Series 403) and/or Bonds (Series 180), a uniform discount rate based on a formula which weights the different discount rates for the Subordinated Bonds (Series 403) and/or

Bonds (Series 180) issued (hereinafter - the “**Weighted Discount Rate**”). Where the said approval is received, the Bank will calculate the Weighted Discount Rate for the Subordinated Bonds (Series 403) and/or Bonds (Series 180) immediately after the date of expansion of the series pursuant to the said approval, and will submit an immediate report, in which it will announce the Weighted Discount Rate for the entire series, and tax will be deducted at the redemption dates of the Subordinated Bonds (Series 403) and/or Bonds (Series 180) at the Weighted Discount Rate as described above and pursuant to statutory provisions. In such an event, all the other statutory provisions with regard to the taxation of discount fees will apply. If the said approval is not received from the Israel Tax Authority, tax will be withheld from the discount fees in respect of the Subordinated Bonds (Series 403) and/or Bonds (Series 180), at the highest discount rate determined with respect to the series. In this case, the Bank will submit an immediate report immediately after the expansion of the series, in which it will announce the discount rate determined for the entire series and all other statutory provisions with regard to the taxation of discount fees will apply. Tax at source shall be deducted as at the date of the series’ redemption, according to the rate to be reported as aforesaid.

Whenever a series of the Subordinated Bonds (Series 403) and/or Bonds (Series 180) is expanded, if the discount rate set as part of the offering of the Subordinated Bonds (Series 403) and/or Bonds (Series 180) is higher than the discount rate of the series prior to its expansion (including no discount), cases could occur where tax with respect to the discount fees is withheld at a higher rate than the discount fees set for whoever held the Subordinated Bonds (Series 403) and/or Bonds (Series 180) prior to the expansion of the series (hereinafter - the “**Surplus Discount Fees**”), whether or not approval was received from the Israel Tax Authority to set a uniform discount rate for the series. An assessee that held the Subordinated Bonds (Series 403) and/or Bonds (Series 180) prior to the expansion of the series and until the repayment of the Subordinated Bonds (Series 403) and/or Bonds (Series 180) held by him, may submit a tax filing to the Israel Tax Authority and receive a tax rebate in the amount deducted from the Surplus Discount Fees, if the said assessee is entitled to receive such a rebate by law.

It should be emphasized that such approval from the Israel Tax Authority for determining a Weighted Discount Rate, is issued as a one-off approval for each future offering of that series of Subordinated Bonds (Series 403) and/or Bonds (Series 180), should such an offering take place.

6.7 Offsetting of losses

- 6.7.1** As a rule, losses from the sale of the Offered Securities may be offset only where the capital gains would have been taxable. Capital gain from the sale of securities by an individual or a company may be offset against real capital gain according to the principles set in Section 92 of the Ordinance, regardless of whether the loss or gain had arisen from an asset (including a negotiable security) in Israel or abroad (with the exception of a taxable inflationary capital gain that will be offset at a ratio of 1 to 3.5).
- 6.7.2** On August 31 2011, an Amendment to the Income Tax Regulations (Withholding from Consideration, Payment or Capital Gain on the Sale of Securities, Sale of a Mutual Fund Unit or a Future Transaction), 2011 was published. Pursuant to the amendment, when calculating capital gain for purposes of withholding tax from sale of negotiable securities, mutual fund units and future transactions (hereinafter – “**Negotiable Securities**”), the tax payer shall offset the capital loss arising from the sale of negotiable securities that were under his management, provided that the capital gain was generated in the same tax year in which the loss was generated, regardless of whether the capital gain was generated before the capital loss or after the said date. The said Amendment came into effect on January 1 2012.
- 6.7.3** Capital loss generated in the tax year from the sale of the securities may also be offset against dividend or interest income on that security. Capital loss incurred in the tax year from the sale of the securities may also be offset against dividend or interest income from other securities, provided that the tax rate applicable to the interest or the dividend does not exceed the corporate tax rate where the tax payer is a body of persons, or the rate set in Sections 125b(1) or 125c(b) of the Ordinance, as the case may be, where the tax payer is an individual. The offset of

losses shall be carried out by way of offsetting capital loss against capital gains or against interest or dividend income as aforementioned. It should be noted that as a result of the Tax Burden Distribution Law, the tax rate applicable to a dividend paid to an individual who is a substantial shareholder is 30%. Therefore, a capital loss that was generated in the tax year from sale of securities may not be offset against dividend or interest income from other securities by an individual who is defined as a substantial shareholder.

- 6.7.4** A loss which cannot be so offset may be offset consecutively in the tax years subsequent to the year in which the loss was generated, only against capital gains and real estate betterment, as set forth in Section 92(b) of the Ordinance, provided that a tax filing for the tax year in which the loss was generated was filed to the Assessing Officer.

Appendix D to the Shelf Offering Report
Consent for Attachment of the Rating Reports

Appendix E to the Shelf Offering Report
Independent Auditors' Consent Letter

Appendix F to the Shelf Offering Report
Actuary's Consent Letter

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/>