

July 4, 2019

## **Bank Leumi of Israel Ltd.**

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

### **Shelf Offering Report (also constituting a tender offer specification)**

#### **By way of two exchange tender offers unlimited in number**

Attention is drawn to the fact that the Subordinated Bonds (Series 404) 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 404) 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 non-viability”) that the Bank is not necessarily able to predict and/or that are not necessarily under its control, the Subordinated Bonds shall 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 17 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 non-viability (as the case may be) – a decrease that might continue even after the Bank issues a notice to the effect that such an event has taken 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 may receive shares whose market price may be significantly lower than the conversion rate of the Subordinated Bonds. Upon conversion of the Subordinated Bonds into Bank shares (if any), the holders of the Subordinated Bonds will no longer be considered as holders of the Bank’s bonds (as the term “bondholder” is defined in the Securities Law), but rather as shareholders of the Bank for all intents and purposes;
- (b) The terms of the Subordinated Bonds (Series 404) 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 for the Bank or a liquidation order is granted by a competent court for the Bank and the aforesaid appointment or order is not revoked within 30 days;
- (c) There shall be no option of immediate repayment of the Subordinated Bonds (Series 404) nor 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, unless advance approval is granted by the Banking Supervision Department (please see Sections 6 and 8 of the First Addendum of the Deed of Trust for the Subordinated Bonds (Series 404) attached as **Appendix A** to the Shelf Offering Report;
- (d) The rights of the holders of the Subordinated Bonds (Series 404) shall be inferior to the claims of all other creditors of the Bank of any type, other than the rights of other creditors of the Bank whose repayment has been or shall be expressly prescribed (by law or in another manner) as having an equal ranking to that of the Subordinated Bonds (please see Section 19 to the Shelf Offering Report);
- (e) The Bank may carry out early repayment of the Subordinated Bonds (Series 404), 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 18 to the Shelf Offering Report).

- (f) The Subordinated Bonds (Series 404) 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 thousand par value, and that the minimum size of a trading order in hybrid bonds shall 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 hereby addresses:

- I. All holders of the Bank’s Series 201 Subordinated Capital Notes (hereinafter – “**Series 201 Capital Notes**”) with an offer to purchase from them all Series 201 Capital Notes held by them (i.e., a number constituting 100% of the total fair value of the outstanding Series 201 Capital Notes as of the date of this report), by way of exchange tender offer unlimited in number, in consideration for the issuance of units, each comprising NIS 50,000 par value of the Bank’s Series 404 Subordinated Bonds (hereinafter – “**Series 404 Units**”), at a conversion rate of 49,262:50,000 (1 : 1.015), such that the Bank will issue to those eligible pursuant to the Shelf Offering Report one Series 404 Unit comprising NIS 50,000 par value of Series 404 Subordinated Bonds in respect of every NIS 49,262 par value of Series 201 Capital Notes, which the Bank will purchase pursuant to this shelf offering report (hereinafter – the “**Offering Report**”), all subject to the terms set out in the Offering Report. The validity of the exchange tender offer for the Series 201 Capital Notes is subject to the satisfaction of the Stock Exchange’s terms and conditions for listing the Series 404 Subordinated Bonds, as set out in Section 9.2 of the Offering Report.
- II. All holders of the Bank’s Series N Subordinated Bonds (hereinafter – “**Series N Bonds**”) with an offer to purchase from them all Series N Bonds held by them (i.e., a number constituting 100% of the total fair value of the outstanding Series N Bonds as of the date of this report), by way of exchange tender offer unlimited in number, in consideration for the issuance of Series 404 Units, at a conversion rate of 44,445:50,000 (1 : 1.125), such that the Bank will issue to those eligible pursuant to the Shelf Offering Report one Series 404 Unit comprising NIS 50,000 par value of Series 404 Subordinated Bonds in respect of every NIS 44,445 par value of Series N Bonds, which the Bank will purchase pursuant to this shelf offering report (hereinafter – the “**Offering Report**”), all subject to the terms and conditions set out in the Offering Report. The validity of the exchange tender offer for the Series N Bonds is subject to the satisfaction of the Stock Exchange’s conditions for listing the Series 404 Subordinated Bonds, as set out in Section 9.2 of the Offering Report.

It is hereby clarified that the exchange tender offer to holders of Series 201 Capital Notes and the exchange tender offer to holders of Series N Bonds (hereinafter – the “**Tender Offers**”), are two separate exchange tender offers, and that the bids for each of the Tender Offers shall be submitted separately.

The Series 201 Capital Notes and/or the Series N Bonds, as the case may be, shall be named hereinafter: the “**Existing Securities**”;

The Series 404 Subordinated Bonds shall be named hereinafter: the “**New Securities**”.

The holders of Series 201 Capital Notes and/or Series N Bonds, as the case may be, shall be named hereinafter: the “**Offerees**”).

In case of full acceptance of the two Tender Offers, and noting the Stock Exchange’s directives stipulating that a trading unit of the Series 404 Bonds is NIS 50,000 par value, that trading fraction of Series 404 Units is prohibited and that no fractions of Series 404 Units shall be allocated to participants, the maximum number of Series 404 Bonds that the Bank will be able to issue in consideration for the Existing Securities as part of the tender offer for the Series 201 Capital Notes is NIS 964,250 thousand par value (19,285 Series 404 Units), and the maximum number of Series 404 Bonds that the Bank will be able to issue in consideration for the Existing Securities as part of the tender offer for the Series N Bonds is NIS 2,104,600 thousand par value (42,092 Series 404 Units). This Offering Report also constitutes a tender offer specification pursuant to the Securities Regulations (Tender Offer), 2000 (hereinafter – the “**Tender Offer Regulations**”), *mutatis mutandis*.

For the removal of doubt, it is hereby clarified that the Tender Offers do not stem from a debt arrangement due to financial difficulties, as this term is defined in the Securities Regulations (Immediate and Periodic Reports), 1970.

# **1. Details about the Existing Securities, which are offered by the Bank as part of the Tender Offers**

## **1.1 Details about the Series 201 Subordinated Capital Notes**

1.1.1 The Series 201 Subordinated Capital Notes were issued pursuant to a shelf offering report published by the Bank on February 2 2010 (reference no. 373260-01-2010) and a deed of trust dated August 27 2009, which was attached as Appendix C to Chapter 11 of a shelf prospectus published by the Bank on August 27 2009 (reference no. 213840-01-2009)

The Series 201 Capital Notes were issued at no discount and are repayable (principal) in one installment on February 4 2060, unless the Bank

exercises, prior to that date, its right to repay the Series 201 Capital Notes in an early repayment as set out in Section 4.4 of the above-mentioned shelf offering report.

Through February 3 2021, the Series 201 Capital Notes bear variable interest equal to the interest of a one-year treasury bill (as defined in Section 2.13 of the above-mentioned shelf prospectus), with the addition of a 1.4% margin. Subsequent to February 3 2021, the Series 201 Capital Notes bear tiered interest to be determined by the trustee, as set out in Section 4.3.1 of the above-mentioned shelf offering report. Interest is paid 4 times a year: on February 4, May 4, August 4 and November 4 of each year. The Series 201 Capital Notes are not linked (principal and interest) to any index.

- 1.1.2 As of the date of publication of the Offering Report, there are NIS 950,000,000 par value outstanding Series 201 Capital Notes. If the tender offer is not accepted in full, the terms of the Series 201 Capital Notes that remain outstanding will not change.

Month / Year	High closing price		Low closing price	
	Date	Price	Date	Price
July 2019	Jul. 3 2019	102.25	Jul. 1 2019	101.83
June 2019	Jun. 27 2019	101.82	Jun. 5 2019	101.36
May 2019	May 26 2019	101.54	May 21 2019	101.37
April 2019	Apr. 29 2019	101.4	Apr. 4 2019	101.1611
March 2019	Mar. 18 2019	101.3602	Mar. 3 2019	101.0217
February 2019	Feb. 17 2019	101.0615	Feb. 26 2019	100.7927
January 2019	Jan. 1 2019	101.4781	Jan. 17 2019	100.8335
December 2018	Dec. 3 2018	102.0829	Dec. 25 2018	99.9312
November 2018	Nov. 29 2018	101.9739	Nov. 4 2018	101.25
October 2018	Oct. 8 2018	101.6058	Oct. 4 2018	101.2108
September 2018	Sept. 2 2018	101.2699	Sept. 4 2018	100.9934
August 2018	Aug. 8 2018	100.9934	Aug. 14 2018	100.7465
July 2018	Jul. 11 2018	101.2591	Jul. 2 2018	100.4227

- 1.1.1 Set forth below is a breakdown of the high and low adjusted closing prices of NIS 1 par value of Series 201 Capital Notes on the Stock Exchange in each of the twelve (12) months prior to the date of this Offering Report,

i.e., during the period from July 3 2018 to July 3 2019 (the last trading day that ended prior to the publication of the Offering Report), in accordance with data published by the Stock Exchange (in Agorot):<sup>1</sup>

- 1.1.2 The average adjusted closing prices of NIS 1 par value of Series 201 Capital Notes on the Stock Exchange during the (6) months prior to the date of this Offering Report, i.e., during the period from January 3 2019 to July 3 2019 (the last trading day that ended prior to the publication of the Offering Report) was 101.24 Agorot.
- 1.1.3 The adjusted value of NIS 1 par value of a Series 201 Capital Note (i.e., par value plus interest) on July 3 2019 (the last trading day that ended prior to the publication of the Offering Report) was 100.3 Agorot. The closing price of NIS 1 par value of Series 201 Capital Note on the above date was 102.25 Agorot.

## 1.2 Details about the Series N Subordinated Bonds

- 1.2.1 The Series N Subordinated Bonds were issued by Leumi Finance Company Ltd. (hereinafter – “**Leumi Finance**”)<sup>2</sup> in accordance with shelf offering reports published by Leumi Finance on November 9 2011 (reference no. 323166-01-2011) and on January 25 2012 (reference no. 025173-01-2012) and a deed of trust of May 11 2011, as amended on October 9 2011 as set out in Leumi Finance’s report of that date (reference no. 297741-01-2011) and on November 3 2011 as set out in Leumi Finance’s report of that date (reference no. 316395-01-2011).

The Series N Subordinated Bonds were issued at no discount (both in the first issuance and as part of the series’ expansion), and they are repayable (principal) in one installment on November 10 2020.

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<sup>1</sup> In accordance with data published by the Stock Exchange on its website <https://www.tase.co.il/he>. If the high or low closing price was identical over several days in one month, the first such date is noted.

<sup>2</sup> The merger of Leumi Finance with and into the Bank was completed on January 4 2015, and all of Leumi Finance’s obligations by virtue of bonds, subordinated bonds and subordinated capital notes that it issued to the public, including the Series N Subordinated Bonds, were transferred to the Bank.

The Series N Subordinated Bonds bear annual interest of 3.40% payable on November 10th of each of the years 2012 through 2020. The Series N Subordinated Bonds are linked (principal and interest) to the consumer price index; the basic index is the index in respect of September 2011.

1.2.2 As of the date of publication of the Offering Report, there are NIS 1,870,745,000 par value outstanding Series N Subordinated Bonds. If the tender offer is not accepted in full, the terms of the Series N Subordinated Bonds that remain outstanding after the completion of the Tender Offer will not change.

1.2.3 Set forth below is a breakdown of the high and low adjusted closing prices of NIS 1 par value of Series N Subordinated Bonds on the Stock Exchange in each of the twelve (12) months prior to the date of this Offering Report, i.e., during the period from July 3 2018 to July 3 2019 (the last trading day that ended prior to the publication of the Offering Report), in accordance with data published by the Stock Exchange (in Agorot):<sup>3</sup>

Month / Year	High closing price		Low closing price	
	Date	Price	Date	Price
July 2019	Jul. 3 2019	112.99	Jul. 1 2019	112.77
June 2019	Jun. 23 2019	112.62	Jun. 2 2019	111.82
May 2019	May 1 2019	111.96	May 13 2019	111.33
April 2019	Apr. 29 2019	112.1	Apr. 3 2019	111.48
March 2019	Mar. 18 2019	111.91	Mar. 3 2019	111.23
February 2019	Feb. 27 2019	111.2	Feb. 7 2019	110.34
January 2019	Jan. 31 2019	110.67	Jan. 3 2019	109.98
December 2018	Dec. 5 2018	110.68	Dec. 24 2018	109.41
November 2018	Nov. 18 2018	110.87	Nov. 27 2018	110.15
October 2018	Oct. 2 2018	111.2983	Oct. 31 2018	110.36
September 2018	Sept. 2 2018	111.3274	Sept. 6 2018	110.8719
August 2018	August 30 2018	111.3662	August 1 2018	110.7071
July 2018	July 25 2018	110.8428	July 1 2018	110.3389

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In accordance with data published by the Stock Exchange on its website <https://www.tase.co.il/he>. If the high or low closing price was identical over several days in one month, the first such date is noted.

- 1.2.4 The average adjusted closing prices of NIS 1 par value of Series N Subordinated Bonds on the Stock Exchange during the (6) months prior to the date of this Offering Report, i.e., during the period from January 3 2019 to July 3 2019 (the last trading day that ended prior to the publication of the Offering Report) was 111.41 Agorot.
- 1.2.5 The adjusted value of NIS 1 par value of Series N Subordinated Bonds (i.e., par value plus interest) on July 3 2019 (the last trading day that ended prior to the publication of the Offering Report) was 107.1 Agorot. The closing price of NIS 1 par value of Series N Subordinated Bonds on the above date was 112.99 Agorot.

## 2. **Details about the Consideration in the Exchange Tender Offers – Series 404 Subordinated Bonds**

- 2.1 The consideration to holders of Series 201 Capital Notes as part of the Exchange Tender Offer
- 2.1.1 Pursuant to the Offering Report and subject to the conditions thereof, the Bank offers holders of Series 201 Capital Notes to exchange all outstanding Series 201 Capital Notes in return for issuance of Series 404 Units, each of which comprising NIS 50,000 par value of Series 404 Subordinated Bonds, at a conversion rate of 49,262:50,000 (1 : 1.015), such that the Bank will issue one Series 404 Unit in respect of every NIS 49,262 par value of Series 201 Capital Notes, which the Bank will purchase pursuant to the Offering Report.
- 2.2 The consideration to holders of Series N Subordinated Bonds as part of the Exchange Tender Offer
- 2.2.1 Pursuant to the Offering Report and subject to the conditions thereof, the Bank offers holders of Series N Subordinated Bonds to exchange all outstanding Series N Subordinated Bonds in return for issuance of Series 404 Units, each of which comprising NIS 50,000 par value of Series 404 Subordinated Bonds, at a conversion rate of 44,445:50,000 (1 : 1.125), such that the Bank will issue one Series 404 Unit in respect of every NIS 44,445 par value of Series N Subordinated Bonds, which the Bank will purchase pursuant to the Offering Report.
- 2.3 The terms of the Series 404 Subordinated Bonds on offer

- 2.3.1 Series 404 registered Subordinated Bonds bearing annual interest of 1.85% (hereinafter – the “**Annual Interest**”).
- 2.3.2 The principal of the Subordinated Bonds (Series 404) shall be repayable in one lump sum on September 30 2029, unless the Bank exercises, prior to that date, its right to early repayment of the Subordinated Bonds (Series 404) as set out in Section 18 below.
- 2.3.3 The principal and interest of the Subordinated Bonds (Series 404) shall be linked to the consumer price index that was published on June 14 2019 in respect of May 2019 (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 404).
- 2.3.4 The interest in respect of the Subordinated Bonds (Series 404) shall be paid to the bondholders annually, on September 30 of each of the years 2020 through 2029, in respect of the twelve-month period ended on the day preceding the payment date, except for the payment in respect of that the First Interest Period, which shall be paid on September 30 2020 in respect of the period starting on the first day of trading after the end of the acceptance period (hereinafter - the “**First Trading Day**”) of the bid and end on September 29 2020.
- 2.3.5 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.
- 2.3.6 If the Bank does not exercise its right to redeem the Subordinated Bonds (Series 404) by way of early repayment in accordance with Section 18 below, then the Annual Interest Rate of the principal of the Subordinated



Bonds (Series 404) will be updated on September 30 2024, such that the Annual Interest Rate shall increase or decrease, as the case may be, according to the difference between the Benchmark Interest Rate (as defined below) on the Interest Rate Change Date and the Benchmark Interest Rate on the offering date pursuant to this Shelf Offering Report. It is clarified that if the Interest Difference is negative, the annual interest borne by the principal of the Subordinated Bonds (Series 404) will be reduced by the Interest Difference beginning on the Interest Change Date. For this purpose, the **“Benchmark Interest”** means – the average annual return on government bonds, the outstanding term 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 Benchmark Interest Rate (hereinafter in this Section - the **“Calculation Date”**). In the event of there being more than one such series of Government Bonds, the average return shall be calculated for all the series of Government Bonds whose term to maturity is five years at the Calculation Date. In the event of there being no series of outstanding Government Bonds whose term to maturity is exactly 5 years at the Calculation Date, a calculation will be made of the weighted average returns, as abovementioned, for two series of Government Bonds whose term to maturity is the closest to 5 years, with the maturity period of one of these being longer than 5 years and the second being less than 5 years. The aforesaid weighted average will be calculated according to the terms to maturity of the two abovementioned series, without taking into account the size of the series. 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 is repayable in full on a single date and whose issued par value is at least NIS 1 billion.

- 2.3.7 It is clarified that the said calculated interest may be lower than zero, i.e., negative. In such a case, the Bank shall 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 the Subordinated Bonds (Series 404) to that effect by way of publishing an immediate report. If, at the Interest Rate Change Date, the calculated interest rate that the Subordinated Bonds (Series 404) bear is less than zero, the Bank shall not collect negative interest from the holders of the Subordinated Bonds (Series 404), so long as all of the following conditions have not been fulfilled and the Bank has 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 404) may offset 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.

2.3.8 No later than the First Trading Day, the Bank shall publish an immediate report, in which the interest rate for the First Interest Period and the Benchmark Interest Rate as of the date of the offering of the Subordinated Bonds (Series 404) shall be detailed.

2.3.9 If the Bank does not exercise its right for early repayment of the Subordinated Bonds (Series 404) as described above, the Bank will publish the Benchmark Interest Rate on the Interest Change Date and the updated Annual Interest Rate of the Subordinated Bonds (Series 404) in an immediate report.

2.3.10 The Subordinated Bonds (Series 404) 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 404) 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 404) 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 404) attached to this offering as

**Appendix A** (hereinafter - the “**Series 404 Trust Deed**”), 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 Series 404 Trust Deed.

2.3.11 For more information regarding the rating of Subordinated Bonds (Series 404), please see Section 21 below.

2.3.12 For more information regarding Subordinated Bonds (Series 404), please see Sections 19 below.

## 2.4 The Trustee

2.4.1 The Trustee of Series 404 Subordinated Bonds is Mishmeret Trust Company Ltd. (hereinafter – the “**Trustee**”).<sup>4</sup>

2.4.2 On July 3 2019, the Bank and the Trustee entered into a Deed of Trust for Series 404, which is attached as **Appendix A** to this Offering Report.

2.4.3 It is clarified that in case the offering of the Subordinated Bonds (Series 404) is cancelled for any reason whatsoever, the Series 404 Trust Deed shall be null and void.

2.4.4 The Trustee has no substantial interest in the Bank and the Bank has no vested interest in the Trustee.

2.4.5 To the best of the Bank’s knowledge, as it was informed by the Trustee, the following legal proceedings are pending against the Trustee in connection with the performance of its duty as trustee:

- (a) On December 23 2013, a motion to approve a class action against the Trustee was served at the Trustee’s office on behalf of four individuals holding bonds that were issued by Pacifica Holdings Ltd. (hereinafter in this section – “**Pacifica**” or the “**Company**”) pursuant to a prospectus published by Pacifica on March 25, 2007. The applicants claim that the Trustee is liable to the damages caused to all holders of Pacifica’s bonds that were issued as part of the

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<sup>4</sup> Set forth below are the details of the contact person with the Trustee: Rami Sabati, telephone: +972-3-6374351 / +972-54-4448932, email: [RamiS@mtrust.co.il](mailto:RamiS@mtrust.co.il)

aforesaid prospectus, and which were purchased from March 25 2007 through August 13 2008. On January 21 2014, a third-party notice was served at the Trustee's office by four of the defendants in a derivative lawsuit filed by shareholders of Pacifica. The underlying claims made as part of the proceedings against the Trustee pertain to the transfer of funds by the Trustee in the past. On January 25 2016, Pacifica filed a restitution claim of NIS 400 thousand against the Trustee and those who served as Pacifica's Chief Executive Officer and Chairman of the Board of Directors. Pacifica claims that Company's representatives mistakenly transferred a total of NIS 400 thousand to the Trustee and that the Trustee collected its fees out of those funds, thereby allegedly committing unjust enrichment and unlawful preference. The Trustee's position in relation to all of the aforesaid claims is that it acted lawfully and was not negligent. The parties to the above-mentioned claims (including parties to other proceedings to which the Trustee is not a party) have recently reached understandings aimed to settle all claims relating to Pacifica by way of compromise; the parties currently work to formulate a compromise agreement that will be submitted for Court approval.

- 2.5 In case of a contradiction between the provisions specified in the Offering Report in respect of the securities offered thereunder, and the provisions of the Series 404 Trust Deed, the provisions of the Deed of Trust shall prevail. As of this date, the Bank is unaware of any such contradiction.

### 3. **Offering Coordinator; Acceptance Period**

- 3.1 Each bid for the purchase of the Units being offered in the tender is to be submitted to the Bank through the 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, tel. +972-76-8857292 (hereinafter - the "**Offering Coordinator**").
- 3.2 Acceptance notices relating to the Tender Offers can be submitted in the manner set out in Section 4 below as from the date of publication of the Shelf Offering Report through July 11 2019 (hereinafter – the "**Acceptance Period**", the "**Last Acceptance Day**" and the "**Last Acceptance Time**", respectively). Acceptance

notices shall be filed in each business day (Sunday to Thursday), between 09:00 to 16:30, as from the date of publication of the Shelf Offering Report through the Last Acceptance Date, except for the Last Acceptance Day, in which acceptance notices shall be filed between 09:00 to 17:30.

- 3.3 During the Acceptance Period, the Bank may postpone the Last Acceptance Time and the Last Acceptance Day by delivering a written notice to the Securities Authority and the Stock Exchange and by publishing the notice in newspapers within one business day from the date of sending such notice, pursuant to Securities Regulations (Publication of Notices in Newspapers), 2008 (hereinafter – the “**Publication Regulations**”), provided that such notice was delivered no later than one business day prior to the Last Acceptance Day and the deferred Last Acceptance Time is be set for a trading day which is also a business day, and no later than sixty (60) days after the Offering Report date. The deferred Last Acceptance Day as aforesaid shall be considered the “**Last Acceptance Day**” and 17:30 on that day shall be considered as the “**Last Acceptance Time**”; all days and times set in the Offering Report applicable after such deferred date shall be postponed accordingly.
- 3.4 Notwithstanding the above, the Bank may not postpone the Last Acceptance Day if the Offering Coordinator did not approve in writing that its undertaking as per Section 11.1 below shall also apply under the new terms, or if the Bank did not receive such undertaking from another Stock Exchange member.

#### 4. **Acceptance of the Exchange Tender Offers by holders of Existing Securities**

4.1 An Offeree's Acceptance of an Exchange Tender Offer through a Stock Exchange member<sup>5</sup> (hereinafter – "**Participant**") shall be carried out by delivering an Acceptance Notice to the Stock Exchange member, who manages that Participant's securities deposit (hereinafter – the "**Stock Exchange Member**"), with the notice being lawfully signed by the Participant or his representative (hereinafter – the "**Acceptance Notice**"). The Acceptance Notice shall be drafted in accordance with the wording attached as **Appendix B1** to the Offering Report (in respect of Series 201 Capital Notes) or **Appendix B2** (in respect of the Series N Bonds), as the case may be.

4.2 The Participant shall specify in the Acceptance Notice the number of Existing Securities he wishes to exchange as part of the relevant Tender Offer (hereinafter – the "**Quantity Offered for Exchange**").

Whereas the Stock Exchange's directives stipulate that the trading unit of the Series 404 Subordinated Bonds is NIS 50,000 par value, and whereas trading of fractions of Series 404 Subordinated Bonds is not allowed and the Participants shall not be allocated such fractions, they should ensure that the Quantity Offered for Exchange noted in the Acceptance Notices shall be sufficient for allocation of whole trading units of Series 404 Subordinated Bonds only, without any fractions, i.e., in multiples of NIS 49,262 par value of Series 201 Subordinated Capital Notes<sup>6</sup> or in multiples of NIS 44,445 par value of Series N Subordinated Bonds,<sup>7</sup> as the case

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<sup>5</sup> As of the date of publication of the Offering Report, all Existing Securities are registered in the name of the Nominee Company of Bank Leumi of Israel Ltd. and held thereby.

<sup>6</sup> Hence, for example,  
 NIS 49,262 par value of Series 201 Subordinated Capital Notes shall be exchanged for one whole Series 404 Unit;  
 NIS 98,524 par value of Series 201 Subordinated Capital Notes shall be exchanged for two whole Series 404 Units;  
 NIS 147,786 par value of Series 201 Subordinated Capital Notes shall be exchanged for three whole Series 404 Units; and so forth.

<sup>7</sup> Hence, for example,  
 NIS 44,445 par value of Series N Subordinated Bonds shall be exchanged for one whole Series 404 Unit;

may be. It is hereby clarified that any excess number of Existing Securities noted in the Acceptance Notice, which will not be sufficient for allocation of a whole Series 404 Unit, shall not be exchanged.

- 4.3 It should be clarified that all Acceptance Notices submitted by one Participant shall be considered as separate and independent Acceptance Notices and will not substitute one another.
- 4.4 An Acceptance Notice shall include the Participant's declaration and undertaking to the effect that the Existing Securities held by him, in respect of which the Acceptance Notice is issued, are owned by him and free from any pledge, foreclosure, undertaking, debt, lien or any third-party rights as of the date of such Acceptance Notice and subsequently; the Acceptance Notice shall also include the Participant's undertaking that he will not confer upon a third party any rights in the Existing Securities and will not conduct any disposition or transaction involving them, either on or off the floor – until they are registered in the name of the Bank pursuant to the Offering Report, including in the period from the last Acceptance Day through the allocation day, as defined in Section 8.1 below.
- 4.5 Acceptance Notices that will not be delivered to the Stock Exchange Member through the Last Acceptance Day shall not be accepted.
- 4.6 A Participant may retract his Acceptance Notice until the Last Acceptance Day. A Participant's Acceptance Notice shall be retracted by giving written notice of cancellation thereof, lawfully signed by the Participant or his representative and delivered to the Stock Exchange Member. The date and time of signing the cancellation notice shall be noted therein. It is hereby clarified that a Participant may only retract his Acceptance Notice by delivering the cancellation notice to the Stock Exchange Member no later than the Last Acceptance Day and as from the said date Participants may not retract Acceptance Notices they have issued.
- 4.7 As from the Last Acceptance Day, the Acceptance Notices are irrevocable and any Acceptance Notice shall be considered as an irrevocable undertaking on behalf of

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NIS 88,890 par value of Series N Subordinated Bonds shall be exchanged for two whole Series 404 Units;

NIS 133,335 par value of Series N Subordinated Bonds shall be exchanged for three whole Series 404 Units; and so forth.

the Participant to purchase from the Bank the New Securities allocated to him as a result of the execution of the Acceptance Notice, and to sell to the Bank the Existing Securities in respect of which he submitted the Acceptance Notice, all in accordance with the terms of the Offering Report.



**5. Delivering the Acceptance Notices by the Stock Exchange Members to the Offering Coordinator and the Bank**

- 5.1 On the Last Acceptance Day (no later than 19:30), each Stock Exchange Member shall deliver to the Offering Coordinator one notice in respect of all the Acceptance Notices of holders of Existing Securities delivered to him by his clients through the Last Acceptance Day (hereinafter – the “**Stock Exchange Member Notice**”). The Stock Exchange Member Notice shall be given in writing, using the wording attached to the Offering Report as **Appendix C1** (in respect of Series 201 Capital Notes) or **Appendix C2** (in respect of Series N Subordinated Bonds), as the case may be. Acceptance Notices shall be delivered to the Offering Coordinator by Stock Exchange Members by digitally transmitting the bids to the Offering Coordinator, through a virtual safe (or in any other acceptable way ordered by the Offering Coordinator).
- 5.2 The Stock Exchange Member Notice shall include the Stock Exchange Member’s declaration to the effect that the Existing Securities, in respect of which the said notice is issued, are free from any pledge, foreclosure, debt, undertaking, lien or any third-party rights as of the date of such notice and subsequently; the Stock Exchange Member Notice shall also include the Stock Exchange Member’s undertaking that he will not confer upon a third party any rights in the Existing Securities, which are included in his notice, and will not conduct any disposition or transaction involving them, either on or off the floor – until they are registered in the name of the Bank pursuant to the Offering Report, including in the period from the last Acceptance Day through the allocation day.
- 5.3 On the Last Acceptance Day (no later than 20:30), the Offering Coordinator shall deliver to the Bank one notice in respect of all Acceptance Notices he received. On the first trading day subsequent to the Last Acceptance Day, the Existing Securities included in the Stock Exchange Member Notice, which will be exchanged pursuant to the terms of this Offering Report, will be transferred to the Offering Coordinator’s account with the Stock Exchange’s clearing house; as of that date, the Offering Coordinator shall inform the Bank of the receipt of the Existing Securities in his account, noting the number of securities received. It is hereby clarified that the Offering Coordinator shall transfer the Existing Securities to the Bank immediately upon deposit by the Bank of the New Securities in his account.

- 5.4 Notwithstanding the above, as a backup plan in case that digitally transmitting the Acceptance Notices to the Offering Coordinator by Stock Exchange Members will not be possible, Stock Exchange Members may transfer the Acceptance Notices to the Offering Coordinator in closed envelopes that will remain closed until the Last Acceptance Day. The closed envelopes shall be placed in a sealed and locked box until the Last Acceptance Day has elapsed.

**6. Manner of allocating the Series 404 Units in consideration to the Existing Securities**

- 6.1 Acceptance Notices that specify a number of securities that is not sufficient to be exchanged for a single whole Series 404 Unit (hereinafter – the “**Minimum Number for Exchange**”) shall be rejected and no exchange will take place.
- 6.2 Acceptance Notices that specify a number of securities that is sufficient to be exchanged for whole Series 404 Units only (without any fractions) shall be fully accepted.
- 6.3 Acceptance Notices that specify a number of securities that is higher than the Minimum Number for Exchange, but do not comply with the provisions of Section 6.2 above, shall be partly accepted, such that the maximum number of Existing Securities that is sufficient to allocate whole Series 404 Units shall be exchanged, and the remaining balance of such securities will not be exchanged.

**7. Notice regarding the results of the Tender Offers**

- 7.1 On the first business day after the Last Acceptance Date, the Offering Coordinator shall issue, through Stock Exchange Members, notices to Participants, whose Acceptance Notices were fully or partly accepted. The notice shall specify the number of New Securities that will be allocated to each Participant and the number of Existing Securities he is required to deliver to the Bank in exchange for those New Securities.
- 7.2 Furthermore, no later than the first business day after the Last Acceptance Day, the Bank shall publish an immediate report that will specify, *inter alia*, the number of New Securities to be allocated to Participants in each of the Tender Offers. In addition, the Bank will publish within two additional business days a notice in the Hebrew language in two daily newspapers that are widely circulated in Israel regarding the results of the Tender Offers.

## 8. Listing of the Existing Securities

- 8.1 The consideration to the Participants, i.e., the Series 404 Subordinated Bonds, shall be transferred until the second trading day subsequent to the Last Acceptance Day (hereinafter – the “**Allocation Day**”), as set out below, provided that this takes place after the deposit of the Existing Securities with the Stock Exchange’s clearing house. Should the second business day subsequent to the Last Acceptance Day falls on a day which is not a trading day, then the Allocation Day shall be postponed to the next trading day, and this day will be the Allocation Day.
- 8.2 The Bank shall allocate the New Securities that should be transferred as consideration to the Participants pursuant to the terms of the Offering Report to the Nominee Company of Bank Leumi of Israel Ltd. (hereinafter – the “**Nominee Company**”).
- 8.3 Transfer of the consideration, i.e., Series 404 Subordinated Bonds that the Bank will allocate to Participants, as per the number of securities they should receive pursuant to the provisions of the Offering Report, shall be carried out through the Offering Coordinator and Stock Exchange Members. On Allocation Day, the Offering Coordinator shall credit the accounts of Stock Exchange Members through the Stock Exchange’s clearing house, and the Stock Exchange Members shall credit Participants’ accounts, in accordance with account details specified in the Acceptance Notices they submitted.
- 8.4 The Existing Securities purchased by the Bank pursuant to the Offering Report shall be cancelled and delisted. The Bank shall contact the Stock Exchange’s clearing house and request to immediately withdraw the Existing Securities to be purchased by the Bank as aforesaid. It is hereby clarified that the delisting of the Existing Securities shall only take place after receipt of the Existing Securities by the Offering Coordinator and the allocation of the New Securities (to the Nominee Company) in favor of the Offering Coordinator, pursuant to the Offering Report.
- 8.5 In the event that until Allocation Day the rate of Offerees that did not accept the Tender Offer, or who partly accepted it, is lower than 25% of the total par value of all outstanding Series 201 Capital Notes or all outstanding Series N Bonds (net of holdings of the Bank, its controlling shareholders and/or entities they control), or if the total value of the Series 201 Capital Notes or Series N Bonds in respect of which

the Tender Offers were not accepted was lower than twice the value that would have triggered the delisting of any of the above-mentioned series pursuant to the Stock Exchange's Rules and Regulations (amounting to NIS 3.2 million as of the date of this report) (each of the above-mentioned shall be named hereinafter: "**Date Extension Event**"), then those Offerees in the Tender Offer in respect of which a Date Extension Event has occurred who did not accept the Tender Offer as aforesaid or who partly accepted it, will be conferred the right to sell to the Bank all or some of their Existing Securities against the allocation of whole Series 404 Units (without any fractions), in accordance with the terms of the relevant Tender Offer; Offerees will be able to do so during three (3) additional trading days from the date of publication of the Tender Offers' results (hereinafter – the "**Additional Period**", under the terms set out in this Offering Report.

If a Date Extension Event occurs as aforesaid, the last day of the Additional Period shall be named hereinafter – the "**Delayed Last Acceptance Day**", the Existing Securities in respect of which Acceptance Notices will be delivered during the Additional Period shall be named hereinafter – the "**Additional Existing Securities**", and the Acceptance Notices that will be received during the Additional Period shall be named hereinafter – the "**Additional Acceptance Notices**". It is hereby clarified that a Participant that delivered an Acceptance Notice through the Last Acceptance Day may not retract his notice during the Additional Period.

If a Date Extension Event occurs, the Bank will issue an immediate report to that effect no later than 10:00 in the first business day after the Last Acceptance Day, specifying the Additional Period and the Delayed Last Acceptance Day; the Bank shall publish an immediate report regarding the Additional Existing Securities no later than the first business day after the Delayed Last Acceptance Day; furthermore, the Allocation Day (as defined in Section 8.1 of the Offering Report) in respect of all Series 404 Units that will be allocated pursuant to the Offering Report (in both Tender Offers) will be postponed until after the Additional Period and the provisions of Section 8.1-8.4 above will apply (*mutatis mutandis*) to all Series 404 Units that will be allocated pursuant to the Offering Report (in both Tender Offers).

- 8.6 It should be clarified that pursuant to the Stock Exchange's Rules, Regulations and Directives, if the value of the outstanding Series 201 Capital Notes or the

outstanding Series N Bonds, as the case may be, after the completion of the Tender Offer (including the Additional Period) (hereinafter – the “**Remaining Securities**”) is lower than the value that would have triggered the delisting of the said securities pursuant to the Stock Exchange’s Rules and Regulations or Directives (amounting to NIS 1.6 million as of the date of this report) (hereinafter – the “**Delisting Value**”), all Series 201 Capital Notes or Series N Bonds, as the case may be, will be delisted, in which case the Series 201 Capital Notes or Series N Bonds, as the case may be, will be early redeemed, as set out in the relevant Series’ Deed of Trust.

- 8.7 If as a result of the acceptance of the Tender Offers and provided that an Date Extension Event occurred – subsequent to the Additional Period the total par value of the outstanding Series 201 Capital Notes and/or the outstanding Series N Bonds, as the case may be, is higher than the Delisting Value but lower than NIS 3.2 million, then the number of securities purchased by the Bank from each of the Participants that accepted the relevant Tender Offer shall be reduced by as many securities required to exchange one whole Series 404 Unit or more, in order to ensure that the total fair value of the Remaining Securities of the relevant series exceeds NIS 3.2 million.

## **9. Conditions attached to the Bank’s undertaking to execute the Exchange Tender Offers**

- 9.1 The Bank shall be entitled to retract the Tender Offers before the Last Acceptance Day by giving notice to the Offering Coordinator, if circumstances occurred of which the Bank was not aware and was not supposed to know, or had not foreseen and was not supposed to foresee, and the terms of the Tender Offers in such circumstances would have been materially different from the terms that a reasonable offeror would have offered had he known of those circumstances as of the date of this Offering Report. If the Bank retracts the Tender Offers as aforesaid, it will not execute the Tender Offers pursuant to this Offering Report, this Offering Report will be cancelled, its provisions will not bind the Bank and the Bank will publish an immediate report in which it will list the special circumstances due to which the Bank retracted the Exchange Tender Offers.
- 9.2 The validity of the Exchange Tender Offers referred to in this Offering Report and the Bank’s undertaking to purchase the Existing Securities from the Participants as part of the Tender Offers are subject to the satisfaction of the conditions for listing

the Series 404 Subordinated Bonds, as set out in the Stock Exchange's Rules, Regulations and Directives, including the minimum value of public's holdings and the minimum spread of the New Securities, as set out in Section 22.1 below. It is hereby clarified that if the terms for listing the New Securities as set out in the Tender Offer are not fulfilled as a consequence of the allocation of the New Securities to Participants in the Tender Offers, then the Tender Offers shall be cancelled and not be executed.

- 9.3 If the Tender Offers are cancelled for any reason whatsoever, the Offering Coordinator shall send to the Stock Exchange Members a link to the Bank's immediate report regarding the cancellation of the Tender Offers no later than one business day (which is also a trading day) after receipt of notice regarding the cancellation of the Tender Offers, in which case this Offering Report shall be cancelled and the Acceptance Notices delivered by Participants through that date shall be null and void.
- 9.4 It is hereby clarified that if the Tender Offers are cancelled for any reason whatsoever, the Bank shall be entitled to publish additional Exchange Tender Offers for Series 201 Capital Notes and/or the Series N Bonds at any date, for any consideration and under any terms, without being bound by the cancelled Tender Offers as aforesaid, all subject to the provisions of any law.
- 9.5 The Tender Offers referred to in this Offering Report do not set a minimum rate of Participants' acceptance as a condition to execute the Tender Offers.

## 10. **Amendment of the Tender Offers by the Bank**

- 10.1 The Bank may amend the Tender Offer in a manner that improves their terms no later than one business day prior to the Last Acceptance Day, provided that it amends the Offering Report accordingly and files a copy of the amendment to Securities Authority and the Stock Exchange and provided that it publishes notice to that effect in accordance with the Publication Regulations within one business day from the date of filing such amendment (hereinafter – the “**Amendment Notice**”). If the Bank amended the Tender Offers as aforesaid during the three (3) business days that preceded the Last Acceptance Day, the Last Acceptance Day shall be postponed, such that the new Last Acceptance Day shall fall no earlier than 3 business days (3) and no later than five (5) business days from the amendment

date or sixty (60) days from the date of the Offering Report, whichever is the later. In such a case, the Last Acceptance Day and the Allocation Day shall be postponed accordingly. The notice about the postponement of the Last Acceptance Date shall be included in the Amendment Notice.

10.2 Up to one business day before the Last Acceptance Date, the Bank may make any amendment to the Offering Report that does not impact the considerations of the Offerees with regard to the profitability of the Exchange Tender Offers. Such amendment shall be filed to the Securities Authority and the Stock Exchange and notice to that effect shall be published as set out in Section 10.1 above.

10.3 Notwithstanding the aforesaid, the Bank shall not be entitled to amend the Tender Offers as aforesaid, if the Offering Coordinator did not confirm that his undertaking as per Section 11.1 below is also valid under the amended terms, or if the Bank has not received such an undertaking from another Stock Exchange Member.

#### **11. Offering Coordinator and Bank's undertaking**

11.1 The Offering Coordinator ensured the fulfillment of the Bank's undertaking to remit the consideration in accordance with the Offering Report.

11.2 The Bank has undertaken to fulfill its undertakings in connection with the allocation of the New Securities in accordance with terms of the Offering Report and according to the acceptance of Tender Offers, in order to enable the allocation of the New Securities to Offerees that accepted the Tender Offers, in accordance with terms of the Offering Report. The Offering Coordinator was satisfied with the Bank's undertaking to meet its undertakings pursuant to the Offering Report.

#### **12. Notices about Offerees' intention to accept or not to accept the Tender Offers**

Through the date of publication of the Offering Report, the Bank did not receive any notices from holders of the Existing Securities to the effect that they intend to accept or not to accept the Exchange Tender Offer.

#### **13. Taxation**

The following description in connection with tax aspects of the Existing and New Securities and the exchange thereof pursuant to the terms of the Tender Offers is a general description and does not purport to be a substitute to individual expert advice, that will take into account the unique circumstances of each investor. It is recommended that holders of the Bank's Existing Securities shall assess the tax aspects of the Tender Offers, the acceptance thereof or the actions that may follow as a result thereof, by, *inter alia*,

seeking specific professional advice on the aforesaid issues before accepting the Tender Offers, based the unique data and circumstances of each holder. The following description does not constitute an opinion and/or recommendation to any of the Offerees in accordance with the Tender Offers and/or an exhaustive discussion of the tax aspects of the aforesaid offers or actions that may follow as a result thereof.

The Bank requested from the Israel Tax Authority a tax ruling under the “Green Track” in connection with the two Tender Offers, which are the subject matter of this Offering Report; on May 26 2019, the Bank received the said tax rulings, whose principles are set out below:

- 13.1 The exchange of the Existing Securities in consideration for the New Securities as part of the Exchange Tender Offers constitutes a taxable event to all intents and purposes as far of the Offerees who accepted the Tender Offers are concerned, and the provisions of the Income Tax Ordinance, 1961 (hereinafter – the “**Ordinance**”) shall apply, as the case may be.
- 13.2 Such an exchange shall be viewed as a sale of the Existing Securities by the Offerees who accepted the Tender Offers. The consideration for the Existing Securities shall be calculated according to the value of the New Securities that will be received for them (hereinafter – the “**Consideration**”).
- 13.3 Tax will be withheld from the Consideration on the date of exchange as aforesaid in respect of the calculated capital gain on the sale of the Existing Securities, in accordance with the provisions of the Income Tax Regulations (Withholding from Consideration, Payment or Capital Gain on the Sale of Securities or in a Future Transaction), 2002 (hereinafter – the “**Withholding from Consideration Regulations**”).
- 13.4 For purposes of determining the Consideration, the value of the New Securities shall be calculated as the product of the number of New Securities to which the holder of Existing Securities is entitled multiplied by the closing price of the New Securities (Series 404 Subordinated Bonds) as of the end of the first trading day after the actual date of exchange.
- 13.5 The sale date shall be the actual date of exchange.
- 13.6 Upon sale of the New Securities that were received in the framework of the Exchange Tender Offers, the value determined in Section 13.4 above shall be viewed as the original price of these New Securities. Furthermore, the purchase day shall be as prescribed in Section 13.5 above.



- 13.7 An individual to whom the provisions of Section 125c(d) apply, shall be subject to tax in respect of the discount and interest income accrued on the Existing Securities that are purchased as of the actual date of exchange, in accordance with the provisions of the section. Such an individual shall report his income and pay the tax in accordance with the provisions of the said section upon filing the annual tax return.
- 13.8 The value of the issuance Consideration as stated in Section 13.4 above, shall be used to calculate the discount in respect of the New Securities.
- 13.9 The tax ruling described above relates to the manner of tax withholding from those Offerees who will exchange the Existing Securities as part of the Exchange Tender Offers; it is not an exhaustive calculation of the Offeree's tax liability.
- 13.10 The tax ruling does not determine the classification of the income received by holders of the Existing Securities, for all intents and purposes. Such classification may be assessed by the relevant assessment officers.
- 13.11 The Bank will publish in an immediate report, no later than the end of the first trading day after the actual date of exchange, the proceeds in respect of the Existing Securities, including the value and closing prices of the New Securities at the end of the first trading day after the actual date of exchange, the amount and rate of interest and/or discount accrued in respect of the Existing Securities and the discount rate in respect of the New Securities and amount of consideration upon redemption, if any.
- 13.12 For further details about the tax aspects of the Series 404 Subordinated Bonds, see **Appendix D** to the Shelf Offering Report.

**14. Board of Directors' reasons for execution of the Tender Offers**

**The Bank believes that the Tender Offers:** (1) Will meet the Bank's need to raise subordinated bonds with a loss absorption mechanism in accordance with the provisions of Proper Banking Management Directive No. 202; (2) will make available to the Bank savings on interest payments in respect of instruments that are not fully recognized for the purpose of the Bank's capital adequacy; (3) will improve the quality of the Bank's Tier 2 capital; (4) will focus on investors that have already been exposed to the Bank's Tier 2 capital instruments.

**15. Powers of the Israel Securities Authority**

- 15.1 The Bank is required to deliver to the Israel Securities Authority, in writing and at the request of the Israel Securities Authority or an employee thereof who was to do so, any explanations, details, information and documents in connection with the details included in the Offering Report, and any other things that the Israel Securities Authority believes should be included in this report pursuant to the Tender Offer Regulations. Furthermore, during the Acceptance Period, the Israel Securities Authority may order that the Last Acceptance Day be postponed; it may also order the Bank, after it is given an appropriate opportunity to present its arguments before it, to publish within one business day or within another period it shall stipulate – an amendment to the Shelf Offering Report or an amended Offering Report in the format and method it shall prescribe.
- 15.2 The Israel Securities Authority may prescribe the postponement of the Last Acceptance Day, if it deems fit to do so in order to protect the Offeree's interest. If it ordered to do so, the provisions of Section 15.1 above shall apply.
- 15.3 If the Israel Securities Authority issues any such instruction, the Tender Offers under this Offering Report shall be completed only after its instruction is complied with.
- 15.4 Should the Israel Securities Authority order the postponement of the Last Acceptance Day, the Offering Coordinator's undertaking as per Section 11.1 above shall apply to the Offering Report that includes the said postponement, unless the Offering Coordinator has announced otherwise in an immediate report to the Bank. If the Bank received such notice, it shall report it immediately, as prescribed in Regulation 25(a) to the Tender Offer Regulations.
- 16. Additional Terms and Conditions of the Subordinated Bonds (Series 404)**
- 16.1 The payments on account of the interest on the Subordinated Bonds (Series 404) shall be made to those eligible who are registered in the Subordinated Bonds register on September 24, in respect of the payments to be made on September 30, of each of the years 2020 through 2029 (hereinafter - the "**Record Date**"), except for the last interest payment, which shall be made on September 30 2029 upon repayment of the principal of the Subordinated Bonds (Series 404) and against delivery of the certificates of the Subordinated Bonds (Series 404) to the Bank; the last interest payment shall be made to those eligible who are registered in the Subordinated Bonds register (Series 404) as of the payment date.

- 16.2 It is clarified that those not registered in the Subordinated Bonds' register on the Record Date for payment of interest shall not be eligible for payment of interest in respect of the interest period that commenced prior to that date.
- 16.3 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 shall 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 shall not change as a result.
- 16.4 For more information regarding payments of principal and interest for the Subordinated Bonds, please see Sections 3, 4 and 7 of the terms listed overleaf of the Series 404 Trust Deed.
- 16.5 It is clarified that the Bank's obligations under the Series 404 Trust Deed are not secured by any collateral. For more information regarding the seniority of the Subordinated Bonds (Series 404), please see Section 19 below.
- 16.6 Pursuant to the guidelines to Part Three of the Rules and Regulations of the Stock Exchange, the Subordinated Bonds (Series 404) constitute "hybrid bonds". According to the Rules and Regulations, inter alia, 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 shall be subject to the Stock Exchange's directives 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 restrictions being placed with regard to a trading unit of hybrid bonds and/or in the event of restrictions being placed with regard to the trading order (buy and/or sell) that may 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.
17. Conversion into shares of the Subordinated Bonds (Series 404) into the Bank's Shares under Certain Circumstances
- 17.1 Definitions
- In Section 17, the terms listed below shall have the meaning set out opposite them:

<b>Subordinated Bonds</b>	- Subordinated Bonds (Series 404);
<b>Common Equity Tier 1 capital ratio of the Bank</b>	- 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 404, and pursuant to the provisions of PCB 201;
<b>Trigger Event for Principal Losses Absorption</b>	- The Bank's Common Equity Tier 1 capital ratio drops below 5%; <sup>8</sup>
<b>Trigger Event for Non-Viability</b>	- The earlier of the following two events:  A written notice to the Bank by the Banking Supervision Department whereby a conversion of the bonds is necessary since, otherwise, in the opinion of the Banking Supervision Department, the Bank would reach the point of non-viability; <sup>9</sup> or  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 non-viability, as determined by the Banking Supervision Department.

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<sup>8</sup> It should be noted that, in accordance with the Reporting to the Public Directives of the Banking Supervision Department applicable 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.

<sup>9</sup> It should be noted that PCB 202 does not include a definition of the term "point of non-viability." 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 may use its 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 banking corporation does not meet commitments whose repayment date is due or there is a real concern that it will be unable to meet such commitments; (c) The bank's level of capital is insufficient to support the risks involved in its activity, and the banking corporation 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

**Trigger Event** - A trigger event for principal loss absorption or a trigger event for non-viability.

17.2 If circumstances arise which 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:

17.2.1 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.

17.2.2 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 12.54 (1.254 agorot),<sup>10</sup> subject to adjustments as detailed in Section 17.3 below (hereinafter - the "**Floor Price**"). The Floor Price will be linked to the CPI according to the mechanism for linkage of the principal and interest of the Subordinated Bonds as set out in Section 2.3.3 above, mutatis mutandis.

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things, in a difficulty to obtain short-term financing or in a concern that the liquidity ratios will not be met.

<sup>10</sup> 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 July 2 2019 (inclusive).

- 17.2.3 On the Date of Conversion, all Subordinated Bonds will be repaid in full by way of conversion into the Bank's shares, in accordance with the Conversion Rate. The number of the 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.
- 17.2.4 The holders of the Subordinated Bonds will be entitled to any interest (calculated based on 365 days per year) and linkage difference that have accrued up to the day preceding the date of the Conversion Notice. The payment of the interest and linkage differences that have accrued, as aforesaid, if accrued, will be made in cash at the time of the Conversion, and paid to the entitled parties who hold the Subordinated Bonds as of the payment date.
- 17.2.5 As from the date of the Conversion Notice, the Subordinated Bonds will no longer bear interest and the Bank may not repay the principal of the Subordinated Bonds or any part thereof by way of early repayment.
- 17.2.6 It is clarified that, as of the Conversion Date, the holders of the Subordinated Bonds will no longer be considered bondholders (as the term "bondholder" is defined by the Securities Law), and will instead be considered shareholders of the Bank for all intents and purposes. Furthermore, the tenure of the Trustee for the Subordinated Bonds in accordance with the Deed of Trust shall end on the Conversion Date.
- 17.2.7 Despite 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 Conversion Date, the Subordinated Bonds shall not be converted into the Bank's shares, as aforesaid, and the seniority of the rights of the holders as compared with the rights of the shareholders of the Bank and with the rights of creditors that have inferior seniority to that of the Subordinated Bonds shall be maintained. It is clarified that nothing in the aforesaid detracts from the

provisions of Section 17.2.5 above, and the Subordinated Bonds shall 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 shares in accordance with the provisions of this Section 17 shall be resumed.

- 17.2.8 The Bank's shares allocated as a result of the Conversion shall bear equal rights to the rights of the ordinary shares that are a part of the Bank's issued capital as of the Conversion Date, and shall confer upon their owners the full amount of the dividends and any other distribution (if any), and shall also confer all other rights that are conferred at that time upon the Bank's shares, with the record date for receipt thereof being after the Conversion Date.
- 17.2.9 The conversion of the Subordinated Bonds into the Bank's shares, and the payment of the interest and linkage differences that have accrued in cash, as described in the Subordinated Bonds, shall be considered final and absolute repayment of all of the Bank's commitments towards the holders of the Subordinated Bonds. It is clarified and emphasized that the Conversion of the Subordinated Bonds into the Bank's shares, as aforesaid, constitutes an integral part of the terms and conditions of the Subordinated Bonds and accordingly, this will not constitute a breach of any term or condition whatsoever of the terms and conditions of the Subordinated Bonds or of the Subordinated Bonds Trust Deed and, in any event, no cause shall arise for a claim against or demand from the Bank by the Trustee and/or by the bondholders for the execution of the Conversion and no advance or retroactive agreement shall be required from the Trustee and/or bondholders for the purpose of executing the Conversion. Without derogating from the aforesaid, the holders of the Subordinated Bonds shall 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.

- 17.2.10 It is clarified that the Subordinated Bonds are not convertible into the Bank's shares by the bondholders, but rather by the Bank alone, in accordance with the terms and conditions of the Subordinated Bonds, and they shall not be redeemable in cash by the bondholders. Nothing in the aforesaid shall derogate from the bondholders' rights to make the Subordinated Bonds immediately repayable in the event of liquidation, in accordance with Section 7 of the Deeds of Trust.
- 17.2.11 The holders of the Subordinated Bonds shall be liable for any tax liability that may arise, if any arises, as a result of the Conversion of the Subordinated Bonds into Bank's shares.
- 17.2.12 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 the Bank's shares shall 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 required in that respect from the Governor of the Bank of Israel (hereinafter - the "**Governor**"), then some of the shares to which such a holder would be entitled shall be transferred to a trustee who will be appointed by the Bank. The Bank shall instruct the trustee to whom the said shares shall 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 will have been obtained from the Governor for the holding of the shares by said holder, the trustee shall seek, within an additional period of no more than 180 days, to sell shares on the Stock Exchange such that the number of the Bank's shares that the holder shall retain shall not exceed 5%. The trustee shall also seek to transfer the consideration of the sale, net of the applicable tax, to the said holder. Upon approval by the Governor, the Bank shall be entitled, but not bound, to extend the duration of all periods 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, an attorney or a trust company of an attorney, or a certified public accountant or a trust company of an accounting firm.

- 17.2.13 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 a 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 directives. The Bank's shares arising from the Conversion will be registered to the Nominee Company in favor of those who held the Subordinated Bonds that have been converted into shares.
- 17.2.14 Notwithstanding the provisions of 17.2, 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 capital ratio of the Bank to at least 5%.
- 17.2.15 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 capital is injected from the public sector, so that the capital received from the public sector shall not be diluted.

### 17.3 Adjustments

- 17.3.1 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.
- 17.3.2 If the Bank distributes a dividend to the Bank's shareholders, an adjustment will be made such that the Floor Price shall be multiplied by a ratio ranging between the base price of a Bank's share on the Stock Exchange "ex dividend", and the closing price of the Bank's share on the Stock Exchange on the last trading day before the "ex dividend" day.
- 17.3.3 If the Bank distributes bonus shares to the Bank's shareholders, an adjustment shall be made such that the number of the shares arising from the conversions to which a holder of the Subordinated Bonds shall be entitled upon their conversion shall increase by the 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 trading day before the ex-day.

- 17.3.4 If the Bank offers securities to the Bank's shareholders by way of a rights issue, then an adjustment shall be made such that the number of the shares arising 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 trading day before the "ex day" and the base price of the share "ex rights".
- 17.3.5 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 may not be changed subsequent to the listing of the shares on the Stock Exchange.
- 17.4 For more information about the conversion of the Subordinated Bonds into Bank's shares, please see Section 6 of the First Addendum to the Series 404 Trust Deed.
- 17.5 As of the Date of the Shelf Offering Report, the Bank's authorized share capital amounts to NIS 3,215,000,000, 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 1,524,527,267, divided into 1,524,527,267 ordinary shares of NIS 1 par value each. If all Subordinated Bonds (Series 404) offered pursuant to the Shelf Offering Report are allocated, then as a result of the Conversion of all Subordinated Bonds (Series 404) according to the Floor Price, assuming that no adjustments are made pursuant to Section 17.3 above, and that the relevant CPI at the Conversion Date is not lower than the Basic Index as defined in the Series 404 Trust Deed, up to 244,724,880 ordinary shares of the Bank will be allocated, that will constitute approximately 11.5% of the issued and paid up share capital of the Bank as of the date of the publication of the Shelf Offering Report,

with the addition of the shares that will arise from the Conversion of the Subordinated Bonds,<sup>11</sup> and approximately 11.5%, fully diluted.<sup>12</sup>

## **18. Early redemption of the Subordinated Bonds at the initiative of the Bank**

### **18.1 Early redemption of the Subordinated Bonds (Series 404) 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 discretion<sup>13</sup> and without giving the holders of the Subordinated Bonds and/or to the Trustee a right of choice, to carry out early redemption, in whole or in part, of the Subordinated Bonds, subject to the following terms and conditions:

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<sup>11</sup> 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), Subordinated Bonds (Series 401) and Subordinated Bonds (Series 402) of the Bank and Subordinated Bonds (Series 403), which have a conversion mechanism that is identical to the one included in Subordinated Bonds (Series 404), offered 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.

<sup>12</sup> As to non-tradable Performance Share Units (PSU) units that were allocated to office holders and are convertible into shares, see Section 3.2.2 of the Shelf Prospectus, note 9A to the Bank's periodic report for the first quarter of 2019 and the Bank's immediate report of June 13, 2019 regarding changes in the Bank's shareholders' register (reference no. 2019-01-058186). 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.

<sup>13</sup> It should be noted that, in accordance with the provisions of PCB 202, the Bank may not exercise an option for early redemption unless one of the following conditions has been met: (a) The Subordinated Bonds are exchanged for capital of identical or higher quality and the conversion shall be carried out under terms and conditions that the Bank is capable of meeting on all matters relating to the capacity of its revenues (alternative offerings may be carried out at the same time but not after the instrument has been redeemed); or (b) The Bank has proven that its capital ratio is significantly higher than the minimum capital ratio requirements, as stated in PCB 201, Introduction, Scope of Application and Calculation of Requirements, after the exercise of the early redemption.

- 18.1.1 The Bank will only be allowed to carry out one instance of early redemption.
- 18.1.2 The early redemption shall not be exercised before September 19 2024 or after September 30 2024.<sup>14</sup>
- 18.1.3 The Bank has obtained advance written approval from the Banking Supervision Department to exercise early redemption.
- 18.1.4 It is emphasized and clarified that the right to decide on the exercise of early redemption, as detailed above, is an exclusive right of the Bank, subject to the restrictions set out in this section, and that the holders of the Subordinated Bonds (Series 404) shall have no right to demand early redemption, under any circumstances whatsoever. Nothing in the aforesaid derogates from the rights of the holders to demand immediate repayment of the Subordinated Bonds in the event of liquidation in accordance with Section 7.1 to the Series 404 Trust Deed.
- 18.1.5 In the event that the Stock Exchange decides to delist the Subordinated Bonds (Series 404), pursuant to the provisions of the Rules and Regulations of the Stock Exchange and the directives thereunder, the Bank will not exercise early redemption of the Subordinated Bonds (Series 404) following a notice to that effect by the Stock Exchange. The Subordinated Bonds (Series 404) shall be delisted from the Stock Exchange and shall be subject, among other things, to the tax implications arising therefrom.
- 18.1.6 For more information regarding early redemption of the Subordinated Bonds (Series 404) at the initiative of the Bank, including in respect of the amounts that the Bank shall repay to holders of the Subordinated Bonds (Series 404), please see Section 8 of the terms and conditions listed overleaf of the Series 404 Trust Deed.

## **19. The Seniority of the Subordinated Bonds (Series 404)**

- 19.1 The rights of the holders of the Subordinated Bonds (Series 404) to the payment of principal and interest, as well as the other rights and claims deriving from the

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<sup>14</sup> In the event that early redemption is not carried out by the Bank by September 30 2024, the annual interest rate on the Subordinated Bonds will be updated, as described in Section 2.3.6 above.

Subordinated Bonds, including rights to receive compensation in respect of a breach of the terms and conditions of the Subordinated Bonds by the Bank, shall be inferior 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 shall exist in the future, whether or not they are collateralized, except for the rights of other creditors of the Bank in respect of which it shall be expressly determined (in accordance with the law or by some other means) that these shall have the same seniority as that of the Subordinated Bonds or shall be inferior to them. For this purpose, it is clarified that (a) the Subordinated Bonds (Series 404) have an equal seniority (*pari passu*) to that of the Bank's subordinated capital notes that were issued in the past and which have been recognized by the Banking Supervision Department as upper Tier 2 capital;<sup>15</sup> (b) The Subordinated Bonds (Series 404) will have a seniority equal or superior to that of any debt, bonds or capital notes 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;<sup>16</sup> and (c) The Subordinated Bonds (Series 404) are inferior to

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<sup>15</sup> This includes: (a) Tradable subordinated capital notes (Series 200 and 201) with a par value of approximately NIS 2.3 billion whose repayment date is in 2060; (b) Tradable 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 seniority of the Subordinated Bonds will be of significance only in the event that the Subordinated Bonds have not been converted into the Bank's shares in accordance with the terms and conditions set forth in the Deeds of Trust for the Subordinated Bonds.

<sup>16</sup> The Subordinated Bonds (Series 404) have the same seniority as that of the Subordinated Bonds (Series 400) of the Bank, at a par value of NIS 925 million, whose repayment date is in 2026, Subordinated Bonds (Series 401) of the Bank, at a par value of NIS 614 million, whose repayment date is in 2028, Subordinated Bonds (Series 402), at a par value of NIS 209 million, whose repayment date is in 2033 and Subordinated Bonds (Series 403) of the Bank, at a par value of NIS 1.441 million, whose repayment date is in 2030. It is clarified that the seniority of the Subordinated Bonds will be of significance only in the event that the Subordinated Bonds (Series 404) have not been converted into Bank's shares in accordance with the terms and conditions set forth in the Series 404 Trust Deed attached to the Shelf Offering Report as Appendix A.

the Bank's other capital notes and bonds 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 and conditions, should such provisions exist. It is clarified that the seniority of the Subordinated Bonds (Series 404) will be of significance only in the event that the Subordinated Bonds have not been converted into the Bank's shares in accordance with the terms and conditions set forth in the Deed of Trust.

- 19.2 All the Subordinated Bonds (Series 404) will have the same seniority (pari passu) as well as the same seniority as all of the Bank's other subordinated bonds or other commitments, which will have the same seniority as that of the Subordinated Bonds (Series 404), without any series having a right of seniority or preference over another.

**20. Refraining from engaging in arrangements**

- 20.1 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 to the bids and the distribution and spread to public of the offered and converted securities in the bids, and undertake to refrain from granting the bidders 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.
- 20.2 The Bank and the directors undertake, by signing this Shelf Offering Report, to notify the Israel Securities Authority of any arrangement with a third party that, as far as they are aware of, contradicts the undertaking as set out in Section 20.1 above.
- 20.3 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 the provisions of Section 20.1 above.

**21. Rating of the offered securities**

On July 4 2019 S &P Maalot (hereinafter – “**Maalot**”) announced the assigning of an “ilAA” rating to the issuance of the Subordinated Bonds (Series 404) in the amount of up to NIS 3.1 million par value.

The aforementioned rating report and Maalot's approval, dated July 4 2019, to include it in for the Shelf Offering Report are attached to the Shelf Offering Report as **Appendix D**.

## **22. Permits and approvals**

### **22.1 Approval by the Stock Exchange:**

- 22.1.1 The Bank has applied to the Stock Exchange requesting that it list the Subordinated Bonds (Series 404) offered by way of an exchange tender offer pursuant to the Shelf Offering Report as well as the Bank's shares that will arise from conversion of the Subordinated Bonds (Series 404), if and when such conversion is carried out, and the Stock Exchange has given its approval thereto.
- 22.1.2 The listing of the securities being offered pursuant to the Shelf Offering Report is subject to fulfillment of the terms and conditions set forth below:
  - א. The value of the public's holdings in the Subordinated Bonds (Series 404) shall not be less than NIS 36 million;
  - ב. The minimum spread required for the series is at least 35 holders, with each of the holders holding a minimum value of at least NIS 200,000 of the series.
- 22.1.3 Whereas the securities offered pursuant to this Shelf Offering Report have been rated as set forth in Section 21 above, there was no need to comply with the capital requirements prescribed in the guidelines of the Second Part of the Stock Exchange's Rules and Regulations.
- 22.1.4 The aforesaid approval by the Stock Exchange should not be construed as confirming the details presented in the Shelf Offering Report, their reliability or 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.

### **22.2 Approval by the Banking Supervision Department:**

- 22.2.1 Pursuant to the terms of the Existing Securities, the Bank submitted to the Banking Supervision Department an application to purchase the Series 201 Capital Notes and the Series N Bonds as part of the Tender Offers, and on June 12, 2019 this approval was granted.

- 22.2.2 The Bank will give the Supervision of Banks Department a notice regarding the offering of the Subordinated Bonds (Series 404), pursuant to this Shelf Offering Report, in accordance with the provisions of PCB 202, shortly before the listing of the Subordinated Bonds.

**23. 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.

**24. Proceeds of the offering and related costs**

- 24.1 The Bank will not generate any cash proceeds in respect of the allocation of the New Securities pursuant to the Shelf Offering Report.
- 24.2 In the opinion of the Bank, assuming full acceptance of the Tender Offers, the expenses relating to the publication of the Shelf Offering Report and to the completion of the Exchange Tender Offers amount to NIS 5,796 thousand. This amount includes, *inter alia*, the following payments:
- 24.2.1 Pursuant to an agreement signed with Leumi Partners Underwriters Ltd. (hereinafter – “**Leumi Partners**”), Leumi Partners and M.D Premium Issuances Ltd., Egoz Issuing & Finances Ltd., A.S. Bartman Investments Ltd., Alpha Beta Issuances Ltd., Inbar Issuances and Finance 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 Exchange Tender Offers pursuant to this Offering Report, totaling NIS 3,069 thousand plus VAT in accordance with the law.
- 24.2.2 Payment of fees to the Israel Securities Authority as per Section 23 above.
- 24.2.3 Registration fees of the Series 404 Subordinated Bonds to be issued and listed pursuant to this Offering Report.
- 24.2.4 Other related expenses.

**25. Details about the Bank**



- 25.1 As of the date of the Offering Report, the Bank is defined by law as a banking corporation without a controlling core.
- 25.2 For a list of interested parties and senior office holders' holdings in the Bank's securities, including the Existing Securities, to the best of the Bank's information, see the Bank's immediate report regarding the status of interested parties and senior office holders' holdings of April 7, 2019 (ref no: 2019-01-034138) and reports regarding changes in interested parties and senior office holders' holdings of June 6, 2019 (reference no.: 2019-01-056665) and of June 18, 2019 (reference no.: 2019-01-060763). Furthermore, see immediate report regarding the list of material holders of means of control in the Bank of April 7 2019 (reference no.: 2019-01-033928).
- 25.3 For details regarding the Bank's senior office holders as of the date of the Offering Report, see the Bank's immediate report of April 11, 2019 (reference no.: 2019-01-035989).
- 25.4 For further details about the Bank, see Section 28 below.
26. Details about the Bank's representatives for purpose of the Shelf Offering Report  
**The Banks representatives for handling the Shelf Offering Report are Adv. Ran Shalom and Adv. Reut Israelashvili of Agmon & Co., Rosenberg Hachohen & Co. Law Firm, of 98 Igal Alon St., Tel Aviv. Tel: +972-3-6078607 Fax: +972-3-6078666.**
27. **Underwriting**  
 The Subordinated Bonds (Series 404) pursuant to this Shelf Offering Report is not secured by underwriting.
28. **Material changes in the Shelf Prospectus**
- 28.1 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:
- 28.1.1 Motion to approve a class action in respect of collection exchange rate differences - a motion to approve a class action against the Bank and other banks was filed to the Tel Aviv District Court on June 5 2019. The motion concerns the applicants' claim whereby exchange rate differences constitute a "fee" that require fair disclosure by the banks and therefore, *inter alia*, they are collected unlawfully; the applicants also claim that the

Bank collects excess fee in respect of exchange rate differences. The damage that was allegedly caused to the whole group which the applicants purport to represent is NIS 8 billion (the applicants also claim that other damages were caused, which were not quantified), of which NIS 2.2 billion are attributed to the Bank. At this stage, the Bank is unable to assess the claim's chances of succeeding.

28.2 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](http://www.magna.isa.gov.il) and on the Stock Exchange's website at [www.maya.tase.co.il](http://www.maya.tase.co.il).

For further updates, should there be any during the Acceptance Period, see the Bank's current reports during the said period.

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

The Bank received a consent letter from the Bank's joint independent auditors, which features their consent to include in the Shelf Offering Report, including by way of reference, their auditors' reports and their review reports, as the case may be, which are included in the Shelf Offering Report by way of reference. Accordingly, the said consent letter is attached to the Shelf Offering Report as **Appendix F**.

**30. Actuary's consent letter to include an actuarial opinion regarding the pension benefits, 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 2018 and March 31 2019, which was attached to the Bank's financial statements for 2018 and to the Bank's financial statements as at March 31 2019, respectively. The said consent letter is attached to the Shelf Offering Report as **Appendix G**.

**31. Legal opinion**

The Bank received the following legal opinion regarding the securities offering by way of the Shelf Offering Report:



אגמון ושות' רוזנברג הכהן ושות'  
Agmon & Co. Rosenberg Hachohen & Co.

July 4, 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 Le-Israel Ltd. (hereinafter – the “Bank”) Dated July 4 2019**

With regard to the Bank's 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**”), we hereby express our opinion as follows:

1. The benefits 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.

Respectfully,

**Ran Shalom, Adv.      Reut Israelshvili, Adv.**

**Agmon & Co., Rosenberg Hachohen & Co. Law Firm**

**32. Signatures****The Bank**

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**Bank Leumi Le-Israel Ltd.****The Directors**

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**Brodet David**

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**Edelman Yitzhak**

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**Gottlieb Tamar**

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**Yoram Gabbay**

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**Samet Zipporah**

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**Dominissini Esther**

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**Haj Yehia Samer, PhD**

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**Levanon Esther**

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**Nardi Yoav**

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**Sharir Itzhak, PhD**

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**Ben Zvi Shmuel, PhD**

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**Marani Ohad**

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**Appendix B2** – Acceptance Notice for Holders of Series N Subordinated Bonds

**Appendix C1** – Stock Exchange Member’s Acceptance Notice in respect of the Series 201 Subordinated Capital Notes

**Appendix C2** - Stock Exchange Member’s Acceptance Notice in respect of the Series N Subordinated Bonds

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**Appendix A - The Deed of Trust for Subordinated Bonds (Series 404)**

## **BANK LEUMI OF ISRAEL LTD.**

### **Deed of Trust for the Subordinated Bonds (Series 404)**

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**BANK LEUMI OF ISRAEL LTD.**

**Deed of Trust for the Subordinated Bonds (Series 404)**

That was drawn up in Tel Aviv-Jaffa on July 3, 2019

**BETWEEN:**

**Bank Leumi of Israel Ltd., public company 52-001807-8**  
Of 34 Yehuda Halevi St., Tel Aviv 6513616  
(hereinafter – the “**Bank**”)

**As the First Party;**

**AND**

**Mishmeret - Trust Services Company Ltd. company 51-377133-7**

Of 48 Menachem Begin Road, Tel Aviv 6618001  
(hereinafter – the “**Trustee**”)

**As the Second Party;**

**WHEREAS:** The Bank published a shelf prospectus, bearing the date May 25, 2018 (hereinafter – the “**Shelf Prospectus**”), by virtue of which the Bank may offer to the public and issue, among other things, Subordinated Bonds by means of a shelf offering report, pursuant to the provisions of the Securities Law, 1968, in accordance with the Stock Exchange’s Rules and Regulations and guidelines and subject to the provisions of any law as they may be at that time.

**AND WHEREAS:** The Bank approached the Trustee with a request that it will serve as a trustee for the holders of the Subordinated Bonds (Series 404), which will be issued by the Bank under terms that are set out in this Deed of Trust, and the Trustee has agreed to sign this Deed of Trust and to act as Trustee for the holders of the Subordinated Bonds (Series 404);

**AND WHEREAS:** The Trustee declares that it is a company limited by shares that was incorporated in Israel under the Companies Law, 1999, and its main purpose is to engage in trusteeship and in other activities that are generally carried out by a trust company, and that it meets all the terms required pursuant with the Securities Law, 1968, to qualify as a trustee of the Subordinated Bonds which are the subject matter of this Deed;

**AND WHEREAS:** The Trustee declares that it is not precluded pursuant to any from engaging with the Bank in this Deed of Trust;

**AND WHEREAS:** On June 26 2019, “Maalot S&P” announced the assigning of an “ilAA” rating to the issuance of the Subordinated Bonds (Series 404) in the amount of up to NIS 3 million par value, to be issued by the Bank;

**AND WHEREAS:** The Bank declares that it is not precluded pursuant to any law and/or agreement from engaging with the Trustee in this Deed of Trust;

**AND WHEREAS:** The Trustee does not have substantial interest in the Bank and the Bank does not have a substantial interest in the Trustee;

**AND WHEREAS:** The Bank declares that it is not precluded pursuant to any law and/or agreement from engaging with the Trustee in this Deed of Trust and from issuing the Subordinated Bonds (Series 404), and that on the date of the issuance of the Subordinated Bonds (Series 404), all the necessary approvals for carrying out the issuance required under any law shall be granted and that if any of the said approvals has not been granted, the issuance shall not be carried out.

**Now, therefore, the Parties have agreed, represented and stipulated as follows:**

## **1. Preamble, interpretation and definitions**

- 1.1 The preamble to this Deed of Trust and the addenda and appendices attached thereto constitute a material and integral part thereof. In any event of a discrepancy between the Deed of Trust and the appendices attached thereto, the provisions of the Deed of Trust shall prevail.
- 1.2 The division of this Deed of Trust into sections and the section headings provided herein are for convenience and ease of reference only and shall not be used for interpretation.
- 1.3 Each term or expression in this Deed of Trust and its appendices shall have the meaning given to it in this Deed of Trust, unless they were expressly defined otherwise in the relevant appendix.
- 1.4 Anywhere in this Deed of Trust where the expression "subject to the provisions of any law" is used (or any other similar expression), the meaning is subject to any law that may not be conditioned upon, and anywhere in this Deed where the expression "despite any law" (or any similar expression) is used, the meaning is that the provision applies despite any law except for a law which may not be conditioned upon.
- 1.5 Reference in this Deed of Trust to the plural shall also mean the singular and vice versa, reference to the masculine shall also mean the feminine and vice versa, and reference to a person shall also mean a corporation, all provided that this Deed of Trust does not contain any expressed and/or implied contrary provision and/or unless the contents or the context require otherwise.
- 1.6 In any matter that is not referred to in this Deed of Trust and in any event of a discrepancy between the Securities Law and the regulations promulgated thereunder, or the provisions of the Rules and Regulations and Directives of the Tel Aviv Stock Exchange which may not be conditioned upon, as they may be from time to time, or between the provisions of Israeli law that may not be conditioned upon and the provisions of this Deed of Trust, the parties will act pursuant to the Securities Law, Rules and Regulations and Directives of the Tel Aviv Stock Exchange or other provisions of Israeli Law, as the case may be.
- 1.7 In any event of a discrepancy between the provisions described in the Prospectus and in the Shelf Offering Report in connection with this Deed of Trust and/or the Subordinated Bonds, the provisions of this Deed of Trust shall prevail. According to the Bank's review, there are no discrepancies between the provisions described in the Prospectus and in the Shelf Offering Report and the provisions described in this Deed of Trust and/or the Subordinated Bonds. If any such discrepancies arise, the provisions of this Deed shall prevail.
- 1.8 This Deed of Trust shall come into effect on the date of the actual allocation of the Subordinated Bonds by the Bank. It is hereby agreed that in the event that the issuance of the Subordinated Bonds is cancelled for whatever reason, this Deed of Trust shall be null and void without any of the parties to the Deed having any claim against the other party.
- 1.9 In this Deed of Trust, the following terms shall have the meaning set out opposite them, unless the content or context imply otherwise, or unless it is explicitly stated otherwise in this Deed of Trust.

<b>The Prospectus or Shelf Prospectus</b>	- The Bank's Shelf Prospectus dated May 25 2018;
<b>Subordinated Bonds or the Bonds</b>	- Registered Subordinated Bonds (Series 404) that will be issued by the Bank under the terms set out in this Deed;
<b>The Certificate of the Subordinated Bonds</b>	- The Certificate of the Subordinated Bonds, whose wording is set out in the First Addendum of this Deed, including the terms listed on the overleaf;
<b>Holder of the Subordinated Bonds</b>	- Each of the following: (1) anyone in favor of whom Subordinated Bonds are registered with a member of the Stock Exchange and those Subordinated Bonds are included among the Subordinated Bonds registered in the Register in the name of the nominee company (hereinafter - an " <b>Unregistered Holder</b> "); (2) anyone in whose name Subordinated Bonds are registered in the Register, other than the nominee company (hereinafter - a " <b>Registered Holder</b> ");
<b>The Trustee</b>	- Mishmeret - Trust Services Company Ltd. or any other trustee that will replace him pursuant to the provisions of the Deed of Trust for the Subordinated Bonds and to the provisions of the law;
<b>The Register</b>	- The register of the holders of the Subordinated Bonds as set out in Section 26 of this Deed;
<b>This Deed or the Deed of Trust</b>	This Deed of Trust including the appendices and addenda attached thereto and which constitute a material and an integral part thereof;
<b>The Companies Law</b>	- The Companies Law, 1999, as amended from time to time;
<b>The Securities Law</b>	- The Securities Law, 1968, and the regulations promulgated thereunder, as amended from time to time;
<b>Tel Aviv Stock Exchange (Stock Exchange)</b>	- The Tel Aviv Stock Exchange Ltd.;
<b>The Principal of the Subordinated Bonds</b>	- The total par value of the Subordinated Bonds outstanding;
<b>Business Day</b>	- Any day on which the majority of the banks in Israel are open to conduct transactions;
<b>Trading Day</b>	- Any day on which trading is carried out on the Stock Exchange;

**The Nominee Company** - The nominee company of Bank Leumi of Israel Ltd., or any other nominee company that will replace it, at the sole discretion of the Bank subject to any law;

**Special Resolution**

- A resolution passed by a general meeting of holders of the Subordinated Bonds which was attended, in person or by proxy, by holders of at least fifty percent (50%) of the balance of the par value of the Subordinated Bonds outstanding or at the adjourned meeting of this meeting, which was attended by holders of at least twenty percent (20%) of the said balance and which was passed (whether at the original meeting or at the adjourned meeting) by a majority of holders of two-thirds of the balance of the par value of the Subordinated Bonds represented in the vote, excluding abstainers;

**Resolution or Ordinary Resolution** - A resolution that was passed at a general meeting of the holders of the Subordinated Bonds, which was attended, in person or by proxy, by holders of at least twenty-five percent (25%) of the balance of the par value of the Subordinated Bonds outstanding or at an adjourned meeting, which was attended by any number of participants, unless the meeting was convened at the request of holders, in which case, the legal quorum at the adjourned meeting will be the holders of at least 5% of the said balance, and which was passed (whether at the original meeting or at the adjourned meeting) by a majority of the holders of at least 50% of all votes cast, excluding abstainers;

**Banking Supervision Department** - The Banking Supervision Department of the Bank of Israel;

**PCB 202 or PCB 299** - Proper Conduct of Banking Business Directive Nos. 202 or 299 (as the case may be), published by the Banking Supervision Department of the Bank of Israel.

1.10 The following addenda and appendices are attached to this Deed of Trust, and form a material and integral part thereof:

- a. **The First Addendum** – the wording of the Certificate of the Subordinated Bonds and the terms listed on the overleaf thereof;
- b. **The Second Addendum** – provisions regarding meetings of holders of Subordinated Bonds;
- c. **Appendix A** – the version of PBC 202 as of the date of signing of this Deed;

d. **Appendix B** – the version of PBC 299 as of the date of signing of this Deed.

**2. Issuance of the subordinated bonds**

- 2.1 The terms of the Subordinated Bonds shall be as listed in the Certificate of the Subordinated Bonds and in the terms listed on the overleaf, which are attached to the First Addendum of this Deed and constitute an integral part thereof.
- 2.2 The trusteeship for the holders of the Subordinated Bonds and the roles of the Trustee pursuant to the terms of this Deed shall come into effect on the date of allocation of the Subordinated Bonds by the Bank.
- 2.3 Upon completion of the issuance and subject to all terms and conditions for the listing of the Subordinated Bonds on the Stock Exchange, the Subordinated Bonds will be listed on the Stock Exchange.

**3. Appointment of the Trustee, his duties and roles**

- 3.1 The Bank hereby appoints Mishmeret - Trust Services Company Ltd. as a trustee for the holders of the Subordinated Bonds, pursuant to Section 35B of the Securities Law (hereinafter – the “**First Trustee**”). The term of office of the First Trustee will continue until the date of convening the first meeting of holders that shall be convened by the First Trustee no later than 14 days from the date of filing the second annual report on the affairs of the trust, pursuant to Section 35h1(a) of the Securities Law (hereinafter – the “**First Appointment Meeting**”). Should the First Appointment Meeting approve the continuation of the tenure of the First Trustee with a simple majority, the Trustee shall continue to serve as Trustee until the end of the additional appointment period which was determined in the resolution of the First Appointment Meeting (which may continue until the final repayment date of the Subordinated Bonds).
- 3.2 Should the First Appointment Meeting and/or any other meeting held thereafter specify an end-date for the Trustee’s additional appointment period, his tenure will end pursuant to the holders’ resolution regarding the continuation of his tenure and/or regarding the appointment of another trustee in his stead.
- 3.3 If the Trustee is replaced by another trustee, the other trustee shall serve as trustee for the holders of the Subordinated Bonds pursuant to the provisions of Chapter E1 of the Securities Law including for those who are entitled to payments pursuant to the Subordinated Bonds, which have not been paid despite their being past due.
- 3.4 The duties and powers of the Trustee and the manner in which his role will be carried out will be in accordance with this Deed and subject to the provisions of any law.
- 3.5 **The Trustee declares that as of the date of signing this Deed he is covered with professional liability insurance totaling USD 10 million for the period (hereinafter – the “Coverage Amount”). If the Coverage Amount is reduced to less than USD 8 million prior to the full repayment of the Subordinated Bonds, the Trustee shall inform the Bank of such reduction no later than 7 Business Days from the date on which he was informed by the insurer of such a reduction, in order to publish an immediate report on the matter. The provisions of this Section shall apply until such time as Securities Law Regulations regulating the Trustee’s insurance coverage obligation shall come into effect. Once such Regulations come into effect, the Trustee shall be required to inform the Bank only if it does not comply with the requirements of the Regulations.**



**4. The Bank's undertakings and declarations**

- 4.1 The Bank undertakes towards the Trustee to pay, as a Trustee for the holders of Subordinated Bonds and on the dates set for such payment, all amounts of principal, interest and linkage differences payable pursuant to the terms of the Subordinated Bonds and to comply with all other terms and obligations imposed thereon pursuant to the Subordinated Bonds and pursuant to this Deed.
- 4.2 The Bank's engagement in this Deed of Trust was approved by the Bank as required by law, in accordance with its incorporation documents and in accordance with the provisions of the Banking Supervision Department.
- 4.3 The Bank did not engage in any other agreement, nor did it make any other commitment that contradicts its undertakings pursuant to this Deed.
- 4.4 As of the date of this Deed, no application was filed against the Bank and/or by the Bank for the appointment of a receiver and/or a liquidator, and no order was issued regarding any of these matters and, to the best of the Bank's knowledge, no application for such appointment or order is about to be filed.
- 4.5 The Bank's issued and paid up share capital as of the date of signing this Deed is as specified in the Bank's immediate report dated June 13 2019 (ref. no.: 2019-01-058186).

**5. Absence of collateral for the Subordinated Bonds; repayment rights of the Subordinated Bonds; issuance of additional Subordinated Bonds, issuance of additional series**

- 5.1 The Subordinated Bonds are not secured by any security or collateral, and pursuant to Section 3 of Appendix D of PCB 202, are not covered by a guarantee of the Bank or of a related entity nor are they subject to other arrangements that legally or economically improve the seniority of the Subordinated Bonds compared with that of depositors and other creditors of the Bank.
- 5.2 The rights of the holders of the Subordinated Bonds to the payment of principal and interest, as well as the other rights and claims arising from the Subordinated Bonds, including rights to receive compensation in respect of a breach of the terms and conditions 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 equal seniority as that of the Subordinated Bonds or will be subordinate to them. For this purpose, it is clarified that (a) The Subordinated Bonds (Series 404) have equal seniority (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;<sup>1</sup> (b) The Subordinated

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<sup>1</sup> The Subordinated Bonds (Series 404) have the same seniority as that of the Subordinated Bonds (Series 400) of the Bank, at a par value of NIS 925 million, whose repayment date is in 2026, Subordinated Bonds (Series 401) of the Bank, at a par value of NIS 614 million, whose repayment date is in 2028, Subordinated Bonds (Series 402), at a par value of NIS 209 million, whose repayment date

Bonds (Series 404) will have seniority equal or superior to that of any debt, bonds or capital notes 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;<sup>2</sup> and (c) The Subordinated Bonds (Series 404) 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 and conditions, should such provisions exist.

- 5.3 The Subordinated Bonds will have equal seniority amongst themselves (*pari passu*) and between them and all of the Bank's other Subordinated Bonds or other obligations of the Bank, whose seniority will be equal to that of the Subordinated Bonds, without a right of seniority or preference of any one over the other.
- 5.4 The Bank will be entitled to pledge its assets and transfer them and to carry out transactions as it may deem fit without any restriction as to the amount or otherwise.
- 5.5 The Bank reserves the right to assume, at any given time, any further obligations of any type whatsoever, as it deems fit, including undertakings whose seniority is higher and/or equal to and/or lower than that of the Subordinated Bonds, without having to obtain the approval of the Trustee and/or the holders of the Subordinated Bonds.
- 5.6 For the avoidance of doubt, it is hereby clarified that the Trustee is under no obligation to examine, and the Trustee did not, in fact, examine, the need to provide collateral to secure the payments to the holders of the Subordinated Bonds; the Trustee did not conduct an economic, accounting or legal due diligence survey of the Bank's financial position. By entering into this Deed of Trust, and by agreeing to act as trustee for the holders of the Subordinated Bonds, the Trustee does not express an opinion, whether explicit or implicit, as to the ability of the Bank to meet its obligations towards the holders of the Subordinated Bonds. The aforesaid shall not derogate from the duties of the Trustee pursuant to the law or pursuant to this Deed of Trust, nor shall it derogate from the duty of the Trustee (where such duty applies to the Trustee by law) to examine the effect of changes at the Bank, as from the issuance date of the Subordinated Bonds and thereafter, insofar as such changes could adversely affect the ability of the Bank to meet its obligations to the holders of Subordinated Bonds. It is also clarified that the Trustee's signing the Deed of Trust

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is in 2033 and Subordinated Bonds (Series 403) of the Bank, at a par value of NIS 1.441 million, whose repayment date is in 2030. It is clarified that the repayment ranking of the Subordinated Bonds will be of significance only in the event that the Subordinated Bonds (Series 404) have not been converted into Bank's shares in accordance with the terms and conditions set forth in this Deed of Trust.

<sup>2</sup> This includes: (a) Tradable subordinated capital notes (Series 200 and 201) with a par value of approximately NIS 2.3 billion whose repayment date is in 2060; (b) Tradable subordinated capital notes (Series 300 and 301) with a par value of approximately NIS 2 billion, whose repayment date is in 2059. For further details, 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 and conditions set forth in this Deed of Trust.

should not be construed as expressing an opinion regarding the quality of the Subordinated Bonds or the advisability of the investment therein.

- 5.7 Without derogating from the generality of the aforesaid, subject to the provisions of any law, the Bank reserves the right to issue additional series of Subordinated Bonds, hybrid equity instruments, bonds, deferred capital notes and/or other financial instruments (hereinafter - "**Additional Series**"), at any time, under terms that the Bank may deem fit (whether as part of a private offering, a public offering or otherwise), which will have a superior and/or equal and/or inferior seniority to that of the Subordinated Bonds (Series 404), and also to expand each of the Additional Series from time to time, without having to obtain the approval of the Trustee and/or the holders of the Subordinated Bonds. The issuance of Additional Series as aforesaid shall be carried out subject to the Bank's giving advance written notice to the Trustee to that effect and approving as part of the said notice that the Bank has fulfilled all its material obligations pursuant to the Deed of Trust.
- 5.8 Furthermore, and in addition to the aforesaid, the Bank reserves the right, subject to obtaining the listing approval of the Stock Exchange and subject to the provisions of any law, without having to obtain the approval of the Trustee and/or the holders of the Subordinated Bonds, to expand the series of Subordinated Bonds (Series 404) at any time at its own discretion, and to offer additional Series 404 Subordinated Bonds (hereinafter - the "**Additional Subordinated Bonds**") as part of a private offering/s or as part of public offering/s pursuant to a prospectus(es), as the case may be. The Trustee undertakes to serve as Trustee for the holders of the Additional Subordinated Bonds, if any such Subordinated Bonds are issued as aforesaid, and all of the provisions applicable to the Subordinated Bonds shall also apply to the Additional Subordinated Bonds, which will be issued as aforesaid. The Bank reserves the right to issue Additional Subordinated Bonds at their par value, at a premium or at a discount, at its own discretion. The Subordinated Bonds (Series 404) outstanding and the Additional Subordinated Bonds (Series 404), which will be issued (if any), as aforesaid, shall constitute one series for all intents and purposes. The provisions of the Deed of Trust shall also apply to the Additional Subordinated Bonds that may be issued as aforesaid. For the avoidance of doubt, it is clarified that the holders of the Additional Subordinated Bonds will not be entitled to interest in respect of interest periods ended prior to the date of allocation thereof.

## **6. Banking Supervision Department**

- 6.1 The Subordinated Bonds (Series 404) 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. For details regarding the criteria for inclusion of equity instruments in a banking corporation's Tier 2 capital pursuant to PCB 202, please see **Appendix A** of this Deed.
- 6.2 It is clarified that if the Banking Supervision Department does not recognize the Bank's obligations pursuant to the Subordinated Bonds as part of the Bank's Tier 2 capital, or if the Supervisor of Banks ceases to recognize them as such, or if the Banking Supervision Department recognizes them as another type of capital, this will not have any effect whatsoever on the terms and conditions of the Subordinated Bonds or on the rights attached thereto, and subject to the provisions of any law, the provisions of this Deed of Trust shall apply with regard to their seniority, and in particular the provisions of Section **שגיאה! מקור ההפניה לא נמצא.** above.

- 6.3 Immediate repayment of the Subordinated Bonds 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, and any waiver of breach or non-fulfillment of any of the terms and conditions of the Deed of Trust as set out in Section 25.1 below and/or a change of the Deed of Trust as set out in Section 25.3 below, can only be effected subject to obtaining advance approval from the Banking Supervision Department.
- 6.4 The Bank and any other entity controlled by the Bank or in which the Bank has significant influence, shall not purchase Subordinated Bonds that were approved as Tier 2 capital of the Bank and as long as they constitute part of the Bank's Tier 2 capital. Furthermore, the Bank will not fund, whether directly or indirectly, the purchase of the Subordinated Bonds that constitute part of the Bank's Tier 2 capital.

## **7. The right to demand immediate repayment of the Subordinated Bonds**

- 7.1 The right to demand immediate repayment of the Subordinated Bonds is restricted only to cases 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 (thirty) days from the day on which it was issued. It is clarified that the Trustee or the holders of Subordinated Bonds may demand immediate repayment of the Subordinated Bonds, by means of an ordinary resolution, if one of the above causes is met only after the abovementioned 30 (thirty) days have elapsed and provided that the cause of immediate repayment has not been removed through that date. It is also clarified that the right to demand immediate repayment of the Subordinated Bonds shall only apply in the event that the Subordinated Bonds have not been converted into the Bank's shares in accordance with the terms and conditions set out in this Deed.
- 7.2 Without derogating from the other terms and conditions set out in the Deed of Trust for the purpose of demanding immediate repayment of the Subordinated Bonds, the Trustee and/or the holders of the Subordinated Bonds may only demand immediate repayment of the Subordinated Bonds after obtaining advance written approval from the Banking Supervision Department.
- 7.3 The Subordinated Bonds constitute an equity instrument issued by a bank, as set out in the Third Addendum A1 to the Securities Law, and therefore, the provisions of Section 35I1 of the Securities Law do not apply thereto.
- 7.4 If after the initial issuance of the Subordinated Bonds changes are made at any time to the Proper Conduct of Banking Business Directives of the Supervisor of Banks, such that the Subordinated Bonds (Series 404) may include further causes for immediate repayment without impairing the recognition of the Subordinated Bonds (Series 404) as Tier 2 capital of the Bank, the Bank will request from the Supervisor of Banks to approve a change in the terms and conditions of this Deed such that further causes will be added thereto for immediate repayment as aforesaid. It is clarified that the Banking Supervision Department's decision on this matter shall be final and that the Trustee and/or holders of the Subordinated Bonds may not appeal it.

## **8. Claims and proceedings by the Trustee**

- 8.1 Without derogating from any other provision, the Trustee may institute, at its own discretion, such legal proceedings as he may deem fit in order to exercise the rights

of the holders of the Subordinated Bonds or to protect their rights, or in order to enforce the fulfilment of any other undertaking of the Bank, in accordance with this Deed of Trust, after it has given an additional written notice of at least 7 days to the Bank; the Trustee may be required to do so if an Ordinary Resolution to that effect is passed. Regardless of the above, the Trustee has the right to bring those dates forward if the Trustee is of the opinion that any delay in demanding repayment of the Bank's debt places the rights of the holders of the Subordinated Bonds at risk. The Trustee will be allowed to institute legal proceedings and/or other proceedings even if the Subordinated Bonds have not been made immediately repayable - all in order to protect the rights of the holders of Subordinated Bonds and subject to any law.

- 8.2 For the avoidance of doubt, it is clarified that nothing in any of the provisions set out in Section 8 will infringe and/or derogate from the Trustee's right that is hereby conferred upon him, to apply, at any given time, at his own discretion and without having to inform the Bank, to the appropriate Court for guidance on any matter related to and/or which arises from this Deed and/or the performance of the trusteeship pursuant thereto, even before demanding the immediate repayment of the Subordinated Bonds.
- 8.3 The Trustee may, but is not obliged to, convene at any given time a general meeting of the holders of the Subordinated Bonds in order to discuss and/or receive its guidance on any matters pertaining to the Deed of Trust and may reconvene such a meeting.
- 8.4 The Trustee may, at his sole discretion, delay the performance of any action thereof pursuant to the Deed of Trust, for the purpose of addressing the meeting of the holders of the Subordinated Bonds and/or the Court until it receives from the meeting of the holders of Subordinated Bonds and/or the Court instructions on how to act, provided that this does not cause any damage to the holders of the Subordinated Bonds. Despite the aforesaid, the Trustee may not delay immediate repayment procedures resolved upon by a meeting of the holders of the Subordinated Bonds. It is clarified that under circumstances in which the Trustee is required to take urgent action, where refraining from taking such action prior to convening meetings of the holders of the Subordinated Bonds by the Trustee shall cause damage and/or material loss to the holders of the Subordinated Bonds, the Trustee may not refrain from taking such urgent action until the convening of a meeting of the holders of the Subordinated Bonds. For the avoidance of doubt, the aforesaid does not give the Trustee or the holders of Subordinated Bonds the right to delay the conversion of the Subordinated Bonds into the Bank's shares pursuant to the provisions on this matter as set out in the First Addendum.

## **9. Proceeds under trust**

- 9.1 All proceeds that will be received and/or held from time to time by the Trustee, except for his fees and the repayment of any debt owed to him in any way, including, but not only, as a result of demanding immediate repayment of the Subordinated Bonds and/or as a result of proceedings it will institute against the Bank, if any, will be held by him in trust and will be used by him for the following purposes and in accordance with the following order of preference: First – for the purpose of settling the expenses, payments, levies and obligations that were expensed by the Trustee, imposed upon him or in the course of or as a result of carrying out the trust activities

or otherwise in connection with the terms and conditions of the Deed of Trust, including his fees (provided that the Trustee did not receive his fees prior to that from the Bank or from the holders of the Subordinated Bonds), after the Trustee shall instruct the Bank in writing to transfer to the Trustee any payment owed to the Trustee by the Bank. It should be clarified that if the Bank was required to pay any of the expenses, including the Trustee's fees, but has not done so, the Trustee shall act to receive the said amounts from the Bank; if the Trustee manages to receive the said amounts, it will hold them in trust and will use them for the purposes listed in this Section in accordance with the order of preferences set out therein. The aforesaid does not exempt the Bank from its obligation to pay the expenses and fee payments as aforesaid where it is required to pay them in accordance with this Deed of Trust or in accordance with the law and the Trustee shall continue to act to collect them from the Bank.

Unless otherwise decided in a Special Resolution of the meeting of the holders of the Subordinated Bonds, the remaining balance shall be used in accordance with the following order of preference: First – to pay the holders of Subordinated Bonds who have borne the payments pursuant to Section 23.4 below; Secondly – to pay the holders of the Subordinated Bonds the past due interest owed to them pursuant to the terms and conditions of the Subordinated Bonds and subject to the linkage terms of the Subordinated Bonds, *pari passu*, and proportionately to the amount of past due interest owed to each of them, without giving preference or priority to any of them; Thirdly - to pay the holders of Subordinated Bonds the amount of interest due to them pursuant to the terms and conditions of the Subordinated Bonds, *pari passu* and subject to the linkage terms of the Subordinated Bonds; Fourthly – to pay the holders of Subordinated Bonds the principal amounts due to them pursuant to the Subordinated Bonds they hold, *pari passu* and subject to the linkage terms of the Subordinated Bonds and proportionately to the amounts payable thereto without giving any preference in connection with precedence in the issuance of the Subordinated Bonds by the Bank or otherwise; Fifthly – the remaining funds, if any, will be paid by the Trustee to the Bank or to its substitute, as the case may be. The payment of the amounts by the Trustee to holders of Subordinated Bonds is subject to the rights of other creditors of the Bank, pursuant to the provisions of the law. ]

- 9.2 Notwithstanding the provisions of Section 9.1 above, where the amount received as a result of instituting the said proceedings, which is distributable at any time whatsoever, as stated in that section, is less than NIS 1 million (hereinafter - the "**Minimum Amount**"), the Trustee will not be required to distribute it; rather, the Trustee may distribute the said amount or alternatively invest it, in whole or in part, in any of the investments permitted in accordance with Section 14 of the Deed of Trust; however, the Trustee will, in any event, distribute the remaining funds that have been deposited with him in accordance with the provisions of Section 9.1 above, at the earlier of the following: (1) When the balance of the amount deposited with the Trustee is NIS 1 million or more; (2) Together with the first payment of interest or principal to holders of the Subordinated Bonds, which is paid after receipt of the amount to be received as a result of instituting the said proceedings; (3) Immediately after the end of the calendar year following the last date on which funds were received by the Trustee for distribution; (4) When a meeting of the holders of the Subordinated Bonds passes a resolution with an ordinary majority that such a payment be made, all subject to the provisions of the Stock Exchange Rules and

Regulations, the directives promulgated thereunder, and the by-laws of the Stock Exchange's clearing house (as the case may be), as amended from time to time.

Despite the aforesaid, the Trustee's fees and his reasonable expenses shall be paid out of the said funds immediately when they become due (and with regard to the expenses that have already been paid by the Trustee, the amounts of those expenses shall be reimbursed to the Trustee immediately upon the receipt of the funds by the Trustee), even if the amounts received by the Trustee are lower than the Minimum Amount.

**10. Distribution notice**

The Trustee shall notify the holders of the Subordinated Bonds of the time and place of the payment of any of the payments set out in Section 9 above, in a notice to be delivered 14 (fourteen) days in advance in the manner specified in Section 24 below. After the date specified in the said notice, the holders of the Subordinated Bonds shall be entitled to interest thereon at the rate set in the Subordinated Bonds, but only in respect of the remaining balance of the principal (if any) after deduction of the amount that was paid to them or that payment thereof was proposed to them as aforesaid.

**11. Refraining from payment for reasons that are not under the control of the Bank**

- 11.1 Any amount payable to a holder of the Subordinated Bonds and which was not paid on the date on which it was due to be paid for reasons which are not under the control of the Bank, even though the Bank was willing to pay it on time, shall cease to bear interest and linkage differences as from the date on which it was due to be paid and the holder of the Subordinated Bonds shall be entitled to receive only the amounts he was entitled to on the date specified for such payment on account of the principal, interest and/or linkage differences, as the case may be.
- 11.2 Where such an amount was not paid within 14 (fourteen) days of the date set for the payment thereof, the Bank shall deposit the said amount with the Trustee, and such a deposit shall be deemed as the settlement of that payment and in case of settlement of all amounts payable in respect of the Subordinated Bonds, such a deposit shall also be deemed as redemption of that security.
- 11.3 All funds to be remitted to the Trustee by the Bank as set forth in Section 11.2 above, shall be deposited by the Trustee, in his name or to his order in securities of the Government of Israel or in any other securities, in which he is allowed to invest trust funds under the law of the State of Israel, all as the Trustee deems fit and subject to the provisions of any law and the provisions of Section 14 below. Once he has invested the said amounts, the Trustee shall not owe to the entitled parties the amount invested, but rather the consideration received from the disposal of the investments, net of the reasonable expenses relating to such an investment, including in respect of management of a trust account, should such an account be opened, the reasonable fees and net of the mandatory payments applicable to the trust account.
- 11.4 The Trustee shall hold the abovementioned amounts and shall invest them in the abovementioned manner until the end of one year from the redemption date of the Subordinated Bonds. After this date, the Trustee shall repay to the Bank the amounts it has accrued (including any earnings thereon), net of its reasonable expenses; the Bank shall hold those amounts in trust for the holders of the Subordinated Bonds for two additional years from the date they were remitted by the Trustee. The Bank shall confirm to the Trustee the repayment of the abovementioned amounts and such confirmation shall release the Trustee from any obligation whatsoever in connection with the amounts specified in the confirmation.
- 11.5 The Trustee shall transfer to each holder of Subordinated Bonds for whom amounts and/or funds due to holders of the Subordinated Bonds were deposited with the Trustee, those amounts payable to such holder of Subordinated Bonds out of those funds deposited as mentioned above, net of all reasonable expenses and mandatory payments applicable to the trust account in which the Trustee deposited the aforementioned funds, against presentation of the evidence required by the Trustee to his full satisfaction regarding that holder's right to receive those funds.



- 11.6 Where the repayment date or the specified date for any payment of interest and/or interest fall on a day which is not a Business Day, the date of that payment shall be postponed to the following Business Day without payment of any additional interest.
- 11.7 Any mandatory payment required by law shall be deducted from any payment in respect of the Subordinated Bonds.

## **12. Receipts as evidence**

- 12.1 A receipt signed by an individual Registered Holder of the Subordinated Bonds from among the holders who are registered jointly in the Subordinated Bonds or a reference of a member of the Stock Exchange regarding the performance of a transfer through the Stock Exchange's clearing house (in the case of an Unregistered Holder) in respect of any principal and interest amounts paid to him by the Bank and/or the Trustee with respect to the Subordinated Bonds shall constitute evidence for full settlement of any payment made by the Bank and/or the Trustee in respect of the Subordinated Bonds and will exempt the Bank and/or the Trustee (as the case may be) from any obligation whatsoever in connection with the payment of the amounts specified in the receipt.
- 12.2 A receipt from the Trustee regarding the deposit of the amounts of the principal, the interest and the linkage differences with the Trustee in favor of the holders of the Subordinated Bonds as set out in Section 11 above, shall be considered as a receipt from the Holder of the Subordinated Bonds for purpose of Section 12.1 above.

## **13. Presentation of the Subordinated Bonds to the Trustee and registration in connection with partial repayment**

- 13.1 The Trustee may demand that a Registered Holder present to it, at the time of any payment whatsoever made pursuant to the terms of the Subordinated Bonds, the certificates of the Subordinated Bonds in respect of which the payments are made, and such a Registered Holder shall be required to present to the Trustee the certificates of the Subordinated Bonds, provided that this will not subject the holder to any payment and/or expense, nor will it impose upon the holder any responsibility and/or liability.
- 13.2 The Trustee may write on the Subordinated Bonds a comment regarding the amounts paid and the date on which they were paid. In special cases, the Trustee shall be entitled, at his own discretion, to waive the requirement to present the certificates of the Subordinated Bonds after he was given an indemnification letter or a guarantee to his satisfaction in respect of damages that might be caused due to failure to write such a comment, all as he deems fit.
- 13.3 Notwithstanding the above, the Trustee may, as his own discretion, maintain records in some other manner, in respect of such partial repayments.

## **14. Investment of funds**

All funds which the Trustee may invest pursuant to the Deed of Trust, shall be invested and/or deposited by the Trustee in one of the four largest banks in Israel, excluding Bank Leumi Le-Israel Ltd., in its name or to its order, in NIS-denominated bank deposits or in securities of the Government of Israel, rated no lower than AA, as the Trustee will deem fit, and subject to the terms of the Deed of Trust and to any law. Where the Trustee has invested the funds as aforesaid, it shall only owe the entitled holders in respect of those amount the consideration that will be received upon the disposal of the investments, net of

the reasonable expenses relating to the said investment and to the management of the trust account, should such account be opened, the reasonable fees and net the mandatory payments applicable to the trust account.

**15. The Bank's obligations towards the Trustee**

The Bank undertakes the following obligations towards the Trustee, in its capacity at the Trustee for the Subordinated Bonds, for as long as the Subordinated Bonds are outstanding and amounts are due thereunder:

- 15.1 To consistently manage the Bank's businesses regularly and appropriately.
- 15.2 To provide the Trustee with copies of documents and information that the Bank delivered to holders of the Subordinated Bonds, if any. The Bank will also deliver to the Trustee or its authorized representative, who may be an attorney or certified public accountant by profession (and notification of the appointment of whom will be delivered to the Bank by the Trustee upon the appointment thereof) additional information in connection with the Bank, within a reasonable amount of time after the Trustee's demand to that effect, where such information may be essential and required in order to protect the rights of the holders of the Subordinated Bonds, and provided the Trustee has acted in good faith. Any information that is not in the public domain, which will be delivered to the Trustee or to its authorized representative, including an external authorized representative, as described above, will be held by the Trustee or by the representative in confidentiality and will not be delivered by them to others, and they will only use it if the disclosure or the use thereof is required for the purpose of carrying out their role pursuant to the Securities Law, in accordance with the Deed of Trust or under a Court order, and the external authorized representative on behalf of the Trustee will sign a letter of confidentiality for that purpose, as described in Section 22.3 below. It is hereby clarified that the delivery of information by the Trustee to the holders of the Subordinated Bonds will not constitute a breach of the Trustee's obligation to maintain confidentiality, provided that the Trustee delivers only the information required for the purpose of protecting the rights of the holders of the Subordinated Bonds and that the Trustee coordinates with the Bank the content and timing of the disclosure in advance, to the extent possible and permissible, in order to allow the Bank a reasonable amount of time to apply to a court of law in order to prevent the delivery of information as aforesaid, and in any event only the essential information will be delivered. Despite the aforesaid and subject to the provisions of any law which may not be conditioned upon, the Bank shall not deliver to the Trustee information that may impair the stability of the Bank, provided that in such a case, the Bank will provide the Trustee with a reason for non-delivery of such information. Documents and/or information which shall be provided to the Trustee pursuant to this subsection, shall be provided on the condition that their provision does not constitute an offense of "using inside information" as this term is defined in the Securities Law and subject to the undertaking of the Trustee and/or his representative as aforesaid to uphold confidentiality.
- 15.3 To conduct regular bookkeeping in accordance with the generally accepted accounting principles and in respect of these books, keep such books, including the documents that serve as references for these books (including Deeds of encumbrances, mortgage and invoices and receipts) and the other documents relating to his business, in his offices.

- 15.4 To inform the Trustee in writing and within two Trading Days, on the occurrence of an event listed in Section 7.1 above, all without taking into account the remediation period referred to in Section 7.1 above.
- 15.5 To inform the Trustee in writing, within two Trading Days, of any event in which foreclosure was imposed on a substantial part of the Bank's assets, or if a receiver was appointed to those assets, and to take all the reasonably required action to remove such foreclosure or receivership.
- 15.6 To provide to the Trustee the documents listed in Section 35I to the Securities Law. It is clarified that for the purpose of compliance with the provisions of this Section, publication of a report in the MAGNA system shall be regarded as the provision of this report to the Trustee.
- 15.7 Financial statements and a periodic report shall be provided to the Trustee by the Bank shortly after the publication thereof. It should be noted that any report posted by the Bank on the MAGNA system shall be considered as notice that was issued to the Trustee upon publication of such notice.
- 15.8 Proper Conduct of Banking Business Directive No. 332 of the Banking Supervision Department places restrictions on a banking corporation (and on a corporation under its control) on purchasing securities issued by it. Furthermore, it is clarified that, except as aforementioned, there are no restrictions on the Bank's right to distribute dividends to its shareholders and/or to carry out a buyback of its shares and/or to carry out any other distribution pursuant to the Companies Law. It is also clarified that the aforesaid does not give rise to any obligation of the Bank towards the holders of the Subordinated Bonds and it is presented here only for the purpose of fair disclosure.
- 15.9 To the extent that this will be under the control of the Bank, the Bank will take reasonable measures to ensure that the Subordinated Bonds shall be rated throughout their lives. The Bank does not undertake that it will not replace the rating agency over the life of the Subordinated Bonds. Where the bank replaces the agency that designates the rating of the Subordinated Bonds or terminates the work of that agency, including where there is more than one rating agency, the Bank shall publish an immediate report in which it will list the reasons for replacing such an agency or for the termination of its work, as the case may be.
- 15.10 If the Bank ceases to be a reporting corporation, it will deliver to the Trustee and the Registered holders in writing the reports required pursuant to the Consolidated Circular, as amended from time to time. For that purpose, the "**Consolidated Circular**" – the consolidated circular of the Commissioner of the Capital Market, Insurance and Savings, as amended from time to time. Notwithstanding the aforesaid, where it will be possible to continue publishing the said reports through the MAGNA system and/or the MAYA system, such reports will be published through those systems, instead of delivering those reports to the Registered holders as described above.
- 15.11 The Bank will maintain in its authorized and unissued share capital a sufficient number of ordinary shares as may be required for the purpose of converting the Subordinated Bonds in full pursuant to their terms and conditions.
- 15.12 The Bank shall refrain from distribution of bonus shares or from issuance of rights that may reduce the conversion rate (as defined in the First Addendum) below the par value of the Bank's share, and it will provide the Trustee with a written

confirmation regarding the aforesaid before any distribution of bonus shares or issuance of rights.

- 15.13 To deliver to the Trustee, at his request and no later than 30 days from the date of issuance of Subordinated Bonds pursuant to this Deed of Trust, a clearing schedule according to the Subordinated Bonds (principal and interest) in the form of an Excel file.

## **16. Additional obligations**

If an event listed in Section 7.1 above occurs and the Subordinated Bonds are called for immediate repayment, after obtaining the approval of the Supervisor of Banks as described in Section 7.2 above, the Bank shall take from time to time and at any time it is requested to do so by the Trustee, all the reasonable actions to enable the exercise of all the powers given to the Trustee.

- 16.1 Make the statements and/or sign all the documents and/or execute and/or cause the execution of all the necessary or required actions in accordance with the law, in order to validate the exercise of the Trustee's powers, authority and authorizations.
- 16.2 Give all the notices and instructions which the Trustee will deem to be beneficial in connection with the performance of the immediate repayment.

## **17. Applications to a Court**

The Trustee may, at any time and subject to any law, apply to the competent court in connection with the Trust. The Trustee may also give its consent or approval to any application to the Court, which is made at the request of a holder of the Subordinated Bonds, and the Bank will indemnify the Trustee in respect of all reasonable expenses he may incur as a result of such an application, or from actions carried out as a result of such application or in connection therewith. If the application to the Court is made pursuant to a resolution of the holders of Subordinated Bonds, the holders of the Subordinated Bonds will indemnify the Trustee for all reasonable expenses he may incur as a result of such an application, or from actions taken as a result of such application or in connection therewith, and pursuant to the provisions of the law, this indemnification will be taken out of the deposit which will be deposited pursuant to the provisions of the law.

## **18. Proxies**

- 18.1 The Bank hereby irrevocably appoints the Trustee as its proxy, to execute and carry out in its name and in its stead, all the actions that it will be required to take pursuant to the terms of this Deed, and generally to act in its name in relation to the actions that the Bank is required to take under this Deed and has not taken or to exercise some of the powers it was given, provided the Bank has not taken the actions it is required to take under the terms and conditions of this Deed within a reasonable amount of time from the Trustee's written demand, and provided that it has given the Bank advance notice of a reasonable amount of time, of its intention to exercise its powers pursuant to this Section.
- 18.2 An appointment pursuant to Section 18.1 above shall not obligate the Trustee to take any action and does not derogate from the Bank's undertaking pursuant to the Deed of Trust and the Bank hereby exempts the Trustee in advance in the event that it does not take any action or that it does not take such action on time or in the correct manner, and the Bank waives in advance any claim against the Trustee and its agents

in respect of any damage that was caused or may be caused to the Bank directly or indirectly, in respect thereof, based on any action taken or not taken as aforesaid.

**19. The Trustee's fees and expenses**

- 19.1 The Bank shall pay the Trustee a fee for its services as trustee in the first year of trust and as long as there will be Subordinated Bonds (Series 404) outstanding, and in respect of any consecutive year or part thereof, amounting to a total of NIS 6,000 plus VAT as required by law. The annual fees shall be paid to the Trustee at the beginning of every year of trust in respect of the next full year of trust.
- 19.2 The Trustee shall also be entitled to receive a special fee of NIS 300 per hour plus VAT as required by law, in respect of special events/tasks:
  - 19.2.1 Reasonable actions arising from breach of this Deed by the Bank;
  - 19.2.2 Reasonable actions in connection with demanding immediate repayment of the Subordinated Bonds or in connection with a concern for infringement of the holders' rights (including convening of holders' meetings) and/or actions in connection with the resolution of a meeting of holders to call for immediate repayment of the Subordinated Bonds.
  - 19.2.3 Special actions which are not included in the current activities of the Trustee or in its regular course of business (such as, but not only, work required due to restructuring of the Bank) or work arising from the Banks' demand or from future change of rules and/or regulations and/or other binding directives that will apply in connection with the activities of the Trustee and his undertakings pursuant to this Deed, provided that he obtains the Bank's advance approval, which will not be unreasonably withheld.
- 19.3 The Trustee will also be paid fees in respect of all actions relating to (including without derogating from the generality of the aforesaid, its participation) the meetings of holders of the Subordinated Bonds (excluding general and special meetings of the Bank's shareholders) at a rate of NIS 300 per hour plus VAT as required by law in respect of each meeting.
- 19.4 The payments set out in this Section shall be paid to the Trustee in respect of the period until the end of the trust period of the Subordinated Bonds (Series 404) that will be issued pursuant to the terms of the Deed of Trust and the appointment of a receiver to the Bank, the appointment of a managing receiver, the appointment of a liquidator for the Bank and/or the management of the Trust under the supervision of a Court, will not detract from the Trustee's right to the payment of his fees and expenses as set out in this Deed.
- 19.5 The Trustee will also be entitled to reimbursement of reasonable expenses it will incur as part of fulfilling his role and/or pursuant to the powers conferred upon him pursuant to this Deed, including in respect of publications in the press and the appointment of experts, so long as the Trustee obtains the Bank's advance approval, which will not to be unreasonably withheld.
- 19.6 If changes are made to legal provisions, whereby the Trustee will be required to take actions and/or carry out examinations and/or to prepare additional reports and/or incur additional expenses, which will be needed for the purpose of fulfilling its role as a reasonable trustee, the Bank will bear all the reasonable expenses incurred by the Trustee in respect thereof, including reasonable fees in respect of those actions,

provided that the Trustee obtain the Bank's approval in advance, which will not be withheld unreasonably.

- 19.7 All amounts stated in this Section will be linked to the Consumer Price Index published on June 14 2019.
- 19.8 If a trustee has been appointed to replace a Trustee, whose tenure has ended in accordance with Sections 35B(a1) or 35N(d) of the Securities Law, the holders of the Subordinated Bonds will pay the difference between the fees of the Trustee who has been appointed, as aforesaid, and the fees paid to the Trustee he replaces, if such a difference is unreasonable, and the relevant provisions of the law shall apply at the time of such a replacement. The holders will bear the said difference by offsetting the proportionate share of the difference from each payment that the Bank makes to holders of the Subordinated Bonds in accordance with the terms of the Deed of Trust and by remitting the said amount directly to the Trustee.
- 19.9 If the Bank will be required by law to deposit a deposit to secure the Bank's payment of special expenses of the Trustee, the Bank shall act in accordance with such provisions.
- 19.10 In the event that the Subordinated Bonds are converted into shares pursuant to the terms of this Deed, the Trustee's tenure pursuant to the Deed of Trust will end and the Trustee will be entitled to receive on that date all payments accrued as of the day that preceded the date of the conversion notice in respect of fees and/or expenses pursuant to the provisions of this Deed.
- 19.11 It is clarified that the Bank's undertakings to pay the Trustee's fees and expenses as set out in this Deed shall have seniority that is equal to the Bank's obligations towards its ordinary creditors including deposits by the public.

## **20. Special powers and responsibilities of the Trustee**

- 20.1 The Trustee may deposit all the notes and documents that serve as evidence, represent or establish its right in connection with any asset held by it at that time, in a safe or in any other place of its choosing, with any banker or any bank or with any attorney, insofar as this is reasonable and coordinated with the Bank. If the Trustee has done this, he will bear no responsibility for any loss that may be caused in connection with such deposit, provided that it did not act negligently.
- 20.2 As part of its execution of the trust's affairs pursuant to this Deed, the Trustee may act according to the opinion or advice of an attorney, an accountant, an appraiser, surveyor, broker or other expert. Regardless of whether such an opinion or advice were given at the request of the Trustee or at the request of the Bank or in any other manner, the Trustee shall bear no responsibility to any losses or damages that may be caused as a result of any action or omission by him in reliance on such advice and/or opinion, provided that it did not act negligently.
- 20.3 Any such advice or opinion may be given, sent, or delivered by letter, telegram, telephone, facsimile or any other electronic means for transfer of information, and the Trustee shall bear no responsibility for actions he carried out based on an advice or opinion or information delivered in one of the aforementioned manners, even if there were errors therein or if they were inauthentic, provided that the Trustee was unaware of it and did not act negligently.
- 20.4 The Trustee shall not be required to inform any party of the signing of this Deed and will not be allowed to interfere in any way with the management of the Bank's

business or affairs, subject to the provisions of any law which may not be conditioned upon, provided it is not expressly stated otherwise in this Deed.

- 20.5 The Trustee shall be entitled to receive a certificate that has been signed by two directors in the Bank, certifying that in their opinion, a transaction, a step, an action or anything whatsoever, are desirable and serve the interest of the Bank, as sufficient evidence that the transaction, the step, action or thing are indeed desirable and serve the interest of the Bank.
- 20.6 The Trustee shall use the trusteeship, the powers, authorizations and authority conferred upon him pursuant to this Deed, at his sole discretion, and - except in the event of fraud or negligence - will not bear responsibility for any damage caused due to errors in judgment made in good faith.
- 20.7 Any exemption from responsibility that was given to the Trustee pursuant to the provisions of this Deed, if any, is subject to the condition that the Trustee was not grossly negligent in carrying out the action (or omission), including in the exercise of judgment in respect of which the exemption was given, or did not act in malice, in breach of a fiduciary duty or in breach of the provisions of the Deed of Trust and the Subordinated Bonds.

## **21. The Trustee's power to engage agents**

As part of the management of the trust's business and if there is reasonable need to do so, the Trustee may appoint an agent that will act in his stead, whether such agent is a lawyer or another person, in order to perform or participate in the performance of special activities that should be performed in connection with the trust, including the institution of legal procedures, upon advance coordination with the Bank and provided that such actions are reasonable under the circumstances, and the Trustee shall have the agent sign a confidentiality letter in order for him to comply with the provisions set out in Section 15.2 above. The Trustee shall also be entitled to settle the reasonable fee of any such agent at the expense of the Bank, provided that he is allowed to do so pursuant to this Deed or pursuant to the fees agreement with the Bank, and the Bank will reimburse to the Trustee for any such reasonable expense upon receipt of demand to that effect from the Trustee, to the extent that the Trustee has given the Bank advance notice regarding the appointment of such agents and that the said expenses are reasonable under the circumstances. The appointment of an agent shall not detract from the Trustee's duties pursuant to this Deed or pursuant to any law, nor will it detract from the Trustee's responsibilities in respect of his actions and the actions of his agents.

## **22. The Trustee's powers**

- 22.1 The Trustee shall not be obliged to inform any party whatsoever of the signing of this Deed.
- 22.2 Subject to the provisions of any law, the Trustee is not required to act in a manner that is not expressly specified in this Deed of Trust in order to become aware of any information, including about the Bank and/or in connection with the Bank's ability to meet its obligations to the holders of the Subordinated Bonds and this is not part of its role as trustee.
- 22.3 Subject to the provisions of any law and to what is stated in this Deed of Trust, the Trustee undertakes, by signing this Deed, to maintain confidential any information provided to him by the Bank, not to disclose such information and not to use it for any purpose, unless such disclosure or use is required for the purpose of protecting

the rights of the holders of Subordinated Bonds and securing the Bank's undertakings pursuant to the Deed of Trust or a Court order.

- 22.4 As part of his trusteeship, the Trustee may rely on any written document including a letter of instruction, a notice, request, agreement or certificate, which is expected to be signed or issued by a certain person or entity, which the Trustee believes in good faith has been signed or issued by such person or entity.

## **23. Indemnification of the Trustee**

- 23.1 The Trustee's fees and expenses shall be paid by the Bank in accordance with the provisions of the Deed of Trust. In addition, with respect to special matters that do not fall within the scope of the Bank's obligation to pay the Trustee's fees and expenses as set out in Section 19 above and in cases where the Trustee incurs expenses that the Bank should incur pursuant to this Deed, the Trustee shall be entitled to be indemnified by the holders of the Subordinated Bonds or by the Bank, as the case may be, including in respect of reasonable expenses it incurred in connection with actions it performed pursuant to his obligations under the terms of this Deed or according to the law or at the demand of a competent authority or at the demand of the holders of the Subordinated Bonds, provided that:

- 23.1.1 He may not demand indemnification in advance in respect of a matter than may be delayed.

- 23.1.2 The indemnification obligation shall include indemnification in respect of a tort liability, imposed on the Trustee pursuant to a final ruling or pursuant to a compromise to which the indemnifying party agreed towards a third party that is not a holder of the Subordinated Bonds, provided that this indemnification undertaking shall apply subject to the following conditions:

(a) The expenses that were expensed and/or that will be expensed by the Trustee are reasonable.

(b) The Trustee acted in good faith and this activity was carried out in the course of fulfilling his role, provided that the Trustee was not grossly negligent in carrying out the action or has not acted with malice.

- 23.2 Without derogating the compensation rights conferred upon a Trustee by law and subject to what is stated in this Deed and/or in the Bank's obligations pursuant to this Deed, the Trustee, his proxy, manager, agent or another person who was appointed by the Trustee pursuant to this Deed, may receive indemnification out of the funds and investments to be received by the Trustee from the proceedings it instituted or which it obtained in any other manner, in connection with the obligations they have undertaken upon themselves, in connection with expenses that they expensed during the course of executing the trust or in connection with such actions, which in their opinion were required to execute the above and/or in connection with the use of the powers and permits given to them pursuant to this Deed as well as in connection with various legal proceedings, attorneys' opinion and other experts' opinions, negotiations, discussions, claims and demands with regard to any matter and/or thing that were carried out and/or were not carried out in any manner in connection with the matter under discussion, and the Trustee may withhold the funds he holds and pay out of those funds the amounts required for the payment of the said indemnification. All of the said amounts shall have preference over the rights of the holders of the Subordinated Bonds and subject to the provisions



of any law, provided that the Trustee has acted in good faith and in accordance with the obligations imposed upon it pursuant to any law and pursuant to this Deed, and provided that the Trustee did not act with gross negligence or malice.

- 23.3 Where expenses were expensed by the Trustee for the purpose of carrying out its role and the Bank is not required to pay those expenses pursuant to this Deed, the holders of the Subordinated Bonds shall indemnify the Trustee. If such expenses were expensed in connection with activities that pertain to several series of the Bank's Subordinated Bonds for which the Trustee serves as the trustee (including for the purpose of protecting the rights of the holders of the Subordinated Bonds), the Trustee shall act to collect the indemnification amount from holders of the Subordinated Bonds of the relevant series on a pro rata basis proportionately to the par value of the Subordinated Bonds outstanding from each and every series.
- 23.4 Notwithstanding the provisions of Section 23 above, whenever the Trustee sees fit, for the purpose of protecting and/or exercising the rights of the holders of the Subordinated Bonds and/or whenever the Trustee will be required, pursuant to the provisions of this Deed and/or a directive issued by a competent authority and/or pursuant to any law and/or at the demand of the Bank and/or at the demand of the holders of the Subordinated Bonds, to institute legal proceedings and various actions pursuant to its obligation according to the Deed of Trust, and if the Bank does fails to pay the indemnification amounts to the Trustee within a reasonable amount of time, the Trustee shall immediately convene a meeting of the holders of the Subordinated Bonds in order to confirm, with a Special Resolution, their responsibility for covering the expenses involved in the procedures and actions which the Trustee shall institute (including damages amounts that may be incurred by the Trustee or amounts that the Trustee may owe to any third party), in which case, the amount deposited by each holder shall bear annual interest at a rate equal to the interest payable on the Subordinated Bonds (as set out in the First Addendum) and shall take precedence in payment as set out in Section 9.1 above. In the event that the holders of the Subordinated Bonds refuse to bear the expenses involved in the institution of the proceedings and the various actions taken by the Trustee and in the event that the indemnification funds should be deposited in advance with the Trustee and such amounts were not deposited as required, the Trustee shall not be required to institute the proceedings and various actions, provided that the matter under discussion is not one that cannot be delayed. It is hereby clarified that the holders' agreement to bear the indemnification amounts does not exempt the Bank from its obligations, should there be such obligations, pursuant to this Deed and/or in accordance with the law, to bear and cover expenses involved in the institution of proceedings and actions as aforesaid, without the aforesaid stipulating that the Bank is liable to bear the expenses where the holders of the Subordinated Bonds refuse to bear the expenses involved in the institution of the proceedings. Furthermore, all funds to be received from disposal procedures and from various actions shall also be used to reimburse and cover the expenses which the holders of the Subordinated Bonds have undertaken to bear in accordance with the order of payment precedence set out in Section 9.1 above. The aforesaid does not detract from the Trustee's duty to act in order to collect the funds from the Bank, where the Bank should have had to pay these funds. It should be clarified that, under circumstances where the Trustee is required to take urgent action and refraining from taking such action before meetings of the holders of the Subordinated Bonds are convened by the Trustee shall cause material damage and/or loss to the holders of the Subordinated Bonds, the

Trustee shall not be entitled to refrain from taking urgent action as aforesaid until a meeting of the holders of the Subordinated Bonds is convened. It should be clarified that, with regard to this Section, an action of the Trustee which was approved by a Special Resolution of the holders of Subordinated Bonds shall be considered an action that was reasonably required. Where such a Special Resolution was passed as aforementioned, such resolution shall bind all the holders of the Subordinated Bonds, even if they objected to the resolution or did not take part in the vote.

## **24. Notices**

24.1 Any notice to the holders of the Subordinated Bonds on behalf of the Bank or the Trustee shall be issued by reporting through the Israel Securities Authority's MAGNA reporting system. The Trustee may instruct the Bank to post a report and the Bank will be required to post any such report on the MAGNA system in the name of the Trustee, as worded and delivered in writing by the Trustee to the Bank, at the demand of the Trustee. In cases where this is required by law, the notice will also be issued by way of publishing a notice pursuant to the provisions of the law. Any such notice published or sent as aforesaid shall be considered as having been delivered to the holders of the Subordinated Bonds, on the day of the publication of the notice or the posting of the report on the MAGNA system, as the case may be.

Notwithstanding the above, in cases where the Trustee is required by law to file certain reports, reporting will be carried out by the Trustee, in which case the reporting through the MAGNA system by the Trustee shall be considered as a notice that was received by the Bank upon publication thereof.

24.2 Any notice or demand on behalf of the Trustee to the Bank or on behalf of the Bank to the Trustee may be delivered by (1) Certified mail according to the address specified in the Deed of Trust, or according to another address on which the Bank shall inform the Trustee or the Trustee shall inform the Bank in writing; (2) Email or facsimile or (3) By courier. Any such notice or demand shall be considered to have been received: (a) If delivered by certified mail – three business days from the day on which it was delivered at the post office; (b) If delivered by email or facsimile (after verifying by phone that the notice was received) – after one business day from the day on which it was delivered; (c) If delivered by courier – when it was delivered to the addressee by the courier or when the addressee was presented with it, as the case may be.

24.3 Copies of notices and summons the Bank shall deliver to the holders of the Subordinated Bonds shall also be delivered by the Bank to the Trustee. It is clarified that, for the purpose of complying with the provisions of this Section, a publication of a report on the MAGNA reporting system shall be viewed as delivery thereof to the Trustee.

## **25. Waiver, compromise and changes in the Deed of Trust**

25.1 Subject to the provisions of any relevant law, the Trustee may waive - from time to time and at any time, if in his opinion this does not infringe the rights of the holders of the Subordinated Bonds - any breach of or non-compliance with any of the terms of the Deed of Trust by the Bank, except with respect to the repayment date of the principal of the Subordinated Bonds, the amount of the principal of the Subordinated Bonds, the interest rate in respect of the Subordinated Bonds, the dates of interest payments, demanding immediate repayment of the Subordinated Bonds, or a Trigger Event (as defined in the terms and set out overleaf).

- 25.2 Subject to the provisions of the Securities Law and the Companies Law and the regulations promulgated thereunder, including Section 350 to the Companies Law, and after obtaining the advance approval of the meeting of holders of the Subordinated Bonds, which was attended, in person or by proxy, by holders holding at least fifty percent (50%) of the outstanding par value of the principal of the Subordinated Bonds, or in an adjourned meeting which was attended by the holders in person or by proxy, holding at least twenty percent (20%) of the said balance, and which was passed with a majority of holders of at least two thirds of the par value of the Subordinated Bonds represented in the vote, the Trustee may, whether before or after the principal of the Subordinated Bonds becomes repayable, reach a compromise with the Bank in connection with any right or claim of the holders of the Subordinated Bonds, and reach any settlement regarding any of the rights of the holders of the Subordinated Bonds, or of the holders of the Subordinated Bonds towards the Bank and agree to the change of the terms of the Subordinated Bonds, provided that the aforementioned does not constitute a debt settlement agreement as defined in Section 350Q of the Companies Law.
- 25.3 Subject to the provisions of any law, the Trustee and the Bank may reach an agreement to change the Deed of Trust, before or after the principal of the Subordinated Bonds becomes payable, provided that one of the following conditions is met:
- 25.3.1 The Trustee is satisfied that the change does not harm the holders of the Subordinated Bonds, except in cases of changes to the identity of the Trustee or his fees as per the Deed of Trust or for the purpose of appointing a trustee instead of a trustee whose tenure has ended, and except with regard to the repayment date of the principal of the Subordinated Bonds, the amount of the principal of the Subordinated Bonds, the amount of interest payable on the Subordinated Bonds, the interest payment dates, demanding immediate repayment of the Subordinated Bonds and the Trigger Event (as defined in the terms set out overleaf) and with regards to the reports the Bank must provide to the Trustee pursuant to the provisions of this Deed.
- 25.3.2 The holders of the Subordinated Bonds have agreed to the proposed change by a resolution passed in a meeting of holders of the Subordinated Bonds attended by the holders of at least fifty percent of the outstanding par value of the Subordinated Bonds with a majority of at least two thirds of the par value of the Subordinated Bonds represented in the vote or by such a majority in an adjourned meeting of holders of the Subordinated Bonds attended by holders who hold at least twenty percent of the said outstanding balance.
- 25.3.3 The Bank will issue an immediate report regarding any change and/or waiver as aforesaid, immediately upon execution thereof.
- 25.4 Where the Trustee has reached a compromise with the Bank after obtaining advance approval of the meeting of the holders of the Subordinated Bonds as aforesaid, the Trustee shall be exempt from liability for this action, as approved by the general meeting, provided that by implementing the resolution of the general meeting the Trustee did not breach his fiduciary duty or acted in bad faith.
- 25.5 In any case where the Trustee uses his rights pursuant to this Section, he may demand from the holders of the Subordinated Bonds to deliver to him the certificates of the Subordinated Bonds for the purpose of entering a comment regarding any

compromise, waiver, change or amendment as aforesaid, and the Bank shall enter such a comment at the request of the Trustee.

- 25.6 Any waiver, compromise or change in the Deed of Trust as set out in this Section shall be subject to advance written approval of the Supervisor of Banks.

## **26. Register of holders of the Subordinated Bonds**

- 26.1 The Bank shall keep in its office a register of the Registered holders of the Subordinated Bonds (Series 404) (hereinafter - the “**Register**”) pursuant to the provisions of the Securities Law, which may be reviewed by any person whatsoever; the Bank will record in the Register the names of the holders of the Subordinated Bonds, the number of Subordinated Bonds they hold and their par value. The Bank will also record in the Register transfers of ownership of Subordinated Bonds pursuant to the provisions of this Deed. The Trustee and any holder of the Subordinated Bonds may review the Register by prior arrangement with the Bank.
- 26.2 The Subordinated Bonds (Series 404) issued pursuant to the Prospectus shall be allocated to the nominee company and registered in its name in the Register of the Subordinated Bonds holders.
- 26.3 The Register of the Subordinated Bonds holders shall serve as prima facie evidence as to the correctness of the records contained therein. In cases of discrepancy between the register of the holders of the Subordinated Bonds and a certificate of the Subordinated Bonds, the evidentiary value of the Register of the holders of the Subordinated Bonds is preferable to the evidentiary value of the certificate of the Subordinated Bonds.
- 26.4 The Bank shall not be required to record in the register of holders of Subordinated Bonds any notice of explicit, implicit or estimated trust, nor any encumbrance or charge of any type or any equitable right, claim or offset or any other right in connection with the Subordinated Bonds.
- 26.5 The Bank shall only recognize the ownership of the person in whose name the Subordinated Bonds were registered. The legal heirs, administrators of the estate or executors of the will of a Registered Holder and any person entitled to the Subordinated Bonds as a result of bankruptcy of a Registered Holder (and, in the case of a corporation – as a result of a liquidation thereof), may be registered as the holders of such Subordinated Bonds after providing evidence to the satisfaction of the Bank, of their right to be registered as the holders thereof.
- 26.6 The Bank may close the register of the holders of the Subordinated Bonds from time to time, at such times and for such periods as it deems fit, for periods that shall not exceed 30 days per year. The Bank will not record transfers at the said times and periods.
- 26.7 The Subordinated Bonds may be transferred in respect of any par value amount, provided that such amount is in whole New Israeli Shekels in accordance with a transfer letter drawn up in the format normally used by the Bank and properly signed by their Registered Holder, or his legal representatives.
- 26.8 The letter of transfer should be delivered to the Bank’s registered office to be recorded, together with the certificates of the Subordinated Bonds and any proof of identity or right that will be required by the Bank for the purpose of proving the transferor’s right to transfer them, as well as any the amount required for any mandatory payment imposed by the government in respect of the transfer, if any.

Where taxes or any other mandatory payment is imposed on a transfer letter of the Subordinated Bonds, the Bank will be provided with evidence regarding the payment thereof, to the satisfaction of the Bank.

- 26.9 The Bank may retain the letter of transfer.
- 26.10 Where only part of the principal amount specified in the said Subordinated Bonds is transferred, the certificate of the Subordinated Bond will be first split into several certificates, in accordance with the following provisions, such that the aggregate amount of all principal amounts specified in those certificates shall be equal to the principal amount specified in the said security's certificate.
- 26.11 All expenses involved in the transfer, including stamp duty and other levies, if any, shall be payable by the party requesting the transfer.
- 26.12 Any Subordinated Bond certificate can be split by means of filing an application for a split of the said certificate into several Subordinated Bonds, whose aggregate principal amount is equal to the principal amount specified in the certificate whose split is requested, against the delivery of that certificate to the Bank at its registered office for the purpose of carrying out the split; the application for a split signed by the registered owner of the said Subordinated Bonds shall be attached to the certificate delivered to the Bank.
- 26.13 The split shall be carried out within three months from the date on which the certificate was delivered at the Bank's registered office as aforementioned.
- 26.14 The certificates of the new Subordinated Bonds issued as a result of the split shall each have a par value in whole New Israeli Shekels.
- 26.15 All expenses involved in the split, including levies, if any, shall be payable by the party requesting the split.
- 26.16 The provisions included in this Section shall also apply to waiver of certificates of Subordinated Bonds, mutatis mutandis.

## **27. Replacing the Trustee and expiry of his tenure**

- 27.1 The termination of the tenure of the Trustee or its expiry (as the case may be) and the appointment of a new Trustee shall be subject to the provisions of the Securities Law.
- 27.2 Subject to the provisions of any law, holders' resolution regarding the termination of the Trustee's tenure and his replacement with another trustee shall be passed in a meeting attended by at least two holders who hold 50% of the outstanding par value of the Subordinated Bonds or in an adjourned meeting attended by at least two holders who hold at least 10% of the outstanding par value of the Subordinated Bonds; such resolution shall be passed with a majority required to pass a Special Resolution.
- 27.3 Subject to the provisions of any law, the Trustee whose tenure has expired shall continue to serve until the appointment of another trustee. The Trustee shall transfer to the new trustee all documents and amounts which it has collected in connection with the trust that is the subject matter of the Deed of Trust and shall sign any documents required for this purpose.
- 27.4 Each new trustee shall have the same powers, duties and authority and will be able act, for all intents and purposes, as if he was appointed Trustee from the outset.

27.5 The Bank will publish an immediate report in any case where a trustee resigns and/or a new trustee is appointed.

**28. Meeting of holders of the Subordinated Bonds**

The meetings of the holders of the Subordinated Bonds shall be conducted in accordance with the provisions of the Second Addendum of this Deed.

**29. Reporting to the Trustee**

29.1 As long as there will be outstanding Subordinated Bonds for which the Trustee serves as trustee and as long as any payment is to be made thereunder, the Bank will provide to the Trustee with:

29.1.1 Audited financial statements of the Bank for the fiscal year ended on December 31 of the previous year, shortly after the publication thereof and no later than the dates specified in the Securities Law.

29.1.2 Every quarterly report, shortly after the publication thereof, to which the Bank will attach the review report of its independent auditor in connection with the quarterly report.

29.1.3 No later than two weeks after the publication of the annual financial statements, a confirmation from the Bank regarding the execution of the interest payments due prior to the date of the confirmation and the date of payment thereof, as well as a breakdown of the outstanding Subordinated Bonds at the interest payment date, and a confirmation from the Bank that in the period subsequent to the publication date of the previous annual financial statements through the confirmation date, there was no material breach of the Deed by the Bank.

29.1.4 Every immediate report that submitted to the Securities Authority, on the date in which the report is filed with that authority, and where the report is a public report, the transmission of the report through the MAGNA reporting system shall be considered as delivery to the Trustee.

29.1.5 A copy of every document delivered by the Bank to the holders of the Subordinated Bonds and the details of any information that the Bank delivers to them in any other manner, and any additional information pursuant to a reasonable demand by the Trustee and subject to the provisions of any law and the commitment to confidentiality.

29.1.6 Any other report which the Bank is required to deliver to the Trustee pursuant to the law.

29.1.7 A report will be provided regarding any change in the rating of the Subordinated Bonds or the discontinuance of rating, by the rating agency.

29.2 It is clarified that, for the purpose of complying with the provisions of this Section, a publication of a report on the MAGNA reporting system shall be viewed as delivery thereof to the Trustee.

**30. Addresses**

For purposes of this Deed, the addresses of the parties shall be as set forth in the preamble to this Deed, or any other address in respect of which a proper notice was given in writing.

**31. Electronic signature**

By signing this Deed, the Trustee authorizes the Bank's authorized electronic signatories to sign in his name and in his stead an electronic copy of the Deed of Trust for the purpose of transmission thereof on the MAGNA as required in the Securities (Electronic Signature and Reporting) Regulations, 2003.

### **32. Exercise of rights pursuant to the Deed and the Subordinated Bonds**

Unless stated otherwise, the provisions of the Deed of Trust shall apply to Subordinated Bonds that will be held from time to time by any holder of Subordinated Bonds (Series 404).

Subject to the provisions of any law, the holders of the Subordinated Bonds may exercise their rights pursuant to the Subordinated Bonds and the Deed of Trust only through the Trustee or pursuant to a resolution of a general meeting of the holders of the Subordinated Bonds, in the manners listed in the certificate of the Subordinated Bonds and in the Deed of Trust. Despite the aforesaid, where the Trustee does not comply with the provisions with the Deed of Trust and the provisions of the certificate of the Subordinated Bonds, holders of the Subordinated Bonds will be entitled to exercise their rights, including pursuant to a resolution of the general meeting.

### **33. The Trustee's liability**

33.1 Notwithstanding the provisions of any law and the provisions of the Deed of Trust, insofar as the Trustee has acted to execute his role in good faith and within a reasonable amount of time, and also clarified the facts that a reasonable trustee would have clarified under the circumstances, he shall not be held liable toward a holder of the Subordinated Bonds for damage caused to such holder as a result of the Trustee's exercising his judgment pursuant to Sections 35H(d1) or 35I1 of the law, unless the plaintiff proves that the Trustee acted in gross negligence. It is hereby clarified that where a discrepancy arises between the provisions of Section 33.1 and other provisions in the Deed of Trust, the provisions of Section 33.1 shall prevail.

33.2 Where the Trustee acted in good faith and without negligence pursuant to the provisions of Sections 35H(d2) or 35H(d3) of the Law, he shall not be held liable for the execution of such action.

### **34. General**

34.1 Without detracting from any other provision in this Deed, any waiver, extension, discount, silence, refraining from taking action (hereinafter, each - "**Waiver**") on the part of the Bank and/or on the part of the Trustee, regarding the non-compliance or partial compliance or incorrect compliance with any of the parties' undertakings pursuant to this Deed, shall not be considered a waiver on the part of the Bank and/or the Trustee, as the case may be, of any right but rather as a limited consent for the special circumstances under which it was given.

34.2 Without derogating from any other provision of this Deed, any change in the Bank's or the Trustee's undertakings requires the advance written consent of the counterparty. Any other consent, whether given orally or by way of waiver and refraining from taking action, or in any way other than in writing, shall not be considered as consent of any type whatsoever.

### **35. Other agreements**

Subject to the provisions of any law and the limitations imposed on the Trustee by law, the execution of the Trustee's duties pursuant to this Deed, or his very status as trustee, shall not prevent the Trustee from engaging in various contracts with the Bank, or from entering into transactions with the Bank in the ordinary course of the Trustee's business.

**36. Governing law and jurisdiction**

36.1 This Deed of Trust and its appendices and addenda shall be governed solely by Israeli law. In any matter that is not referred to in this Deed and in any case of a discrepancy between the provisions of the law and the provisions of this Deed, the parties shall act in accordance with the provisions of Israeli law.

36.2 The only Court that will have jurisdiction to discuss matters pertaining to the Deed of Trust shall be the competent Court of Tel Aviv-Jaffa.

**In witness whereof the parties have signed:**

\_\_\_\_\_  
**Mishmeret - Trust Services Company Ltd.**

\_\_\_\_\_  
**Bank Leumi of Israel Ltd.**

I the undersigned, Lihi Shapira, legal counsel of Bank Leumi Le-Israel Ltd. (hereinafter – the “**Bank**”), hereby confirm that this Deed was lawfully signed by the authorized signatories of the Bank.

\_\_\_\_\_  
**Lihi Shapira, Adv.**

I the undersigned, Nurit Segal, legal counsel of Mishmeret - Trust Services Company Ltd. (hereinafter – the “**Trustee**”), hereby confirm that this Deed has been lawfully signed by the authorized signatories of the Trustee.

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**Nurit Segal, Adv.**



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**First Addendum to the Deed of Trust – Subordinated Bond (Series 404)**

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**Bank Leumi Le-Israel Ltd.**

**Registered Subordinated Bond (Series 404)**

Number \_\_\_\_ par value \_\_\_\_\_

1. This certificate attests that Bank Leumi Le-Israel Ltd. (hereinafter – the “**Bank**”) shall pay any entitled party (as defined in the terms overleaf) the amounts it has undertaken to pay as set out in the terms overleaf and in the Deed of Trust dated July 3 2019 drawn up and signed by the Bank on the one hand and Mishmeret - Trust Services Company Ltd. as the Trustee on the other hand (hereinafter – the “**Deed of Trust**”) and its appendices.
2. The Subordinated Bonds are not secured by any securities and/or collateral, as described in Section 5 of the Deed of Trust.
3. The repayment ranking of the Subordinated Bond shall be as set out in Section 5 of the Deed of Trust.
4. This Subordinated Bond is issued subject to the terms set out overleaf and in the Deed of Trust. It is hereby clarified that the provisions of the Deed of Trust shall constitute an integral part of the provisions of the First Addendum and shall bind the Bank, the Trustee and the holders of the Subordinated Bonds.
5. The Subordinated Bonds may not be called for immediate repayment and no changes may be made therein or in the Deed of Trust, unless advance written approval has been granted by the Supervisor of Banks and pursuant to all the terms set out in the Deed of Trust.
6. Any transfer of a Subordinated Bonds’ certificate is subject to the restrictions listed in Section 26 of the Deed of Trust.

Signed with the Bank’s stamp, which was stamped on: \_\_\_\_\_

\_\_\_\_\_  
**Bank Leumi Le-Israel Ltd.**

**Attorney's Certification**

I the undersigned, Lihi Shapira, Adv., legal counsel of Bank Leumi Le-Israel Ltd. (hereinafter – the “**Bank**”), hereby confirm that this Deed was lawfully signed by the authorized signatories of the Bank.

\_\_\_\_\_  
Lihi Shapira, **Adv.**

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## Terms Written Overleaf

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### 1. **General**

- 1.1 This Series 404 Subordinated Bond is issued pursuant to a Deed of trust drawn up and signed on July 3 2019 between the Bank on the one hand and Mishmeret - Trust Services Company Ltd. as a trustee on the other hand (hereinafter – the “**Deed of Trust**”).
- 1.2 The terms of the Subordinated Bonds (Series 404) (the terms written overleaf) are a material and integral part of the provisions of the Deed of Trust and the provisions of the Deed of Trust shall be deemed to have been expressly included in the terms of these Subordinated Bonds. In the event of a discrepancy between that which is stated in this Subordinated Bond and that which is stated in the Deed of Trust, the provisions of the Deed of Trust shall prevail.

### 2. **Definitions**

- 2.1 The terms in this Subordinated Bond shall have the meaning given to them in the Deed of Trust, unless the content or context imply otherwise, or if they were expressly defined otherwise in this Subordinated Bond.
- 2.2 Reference in this Subordinated Bond to the plural shall also imply the singular and vice versa, reference to the masculine shall also imply the feminine and vice versa, and reference to a person shall also imply a corporation, all provided that this Subordinated Bond does not contain any contrary explicit or implicit provision or unless the content or the context require otherwise.
- 2.3 In this Subordinated Bond, the following terms shall have the meaning set out opposite them:

<b>Entitled Party</b>	-	Holder of the Subordinated Bond, who is entitled to payment of principal and/or interest, pursuant to the terms of the Subordinated Bonds;
<b>Government Bond</b>	-	A government bond issued by the Government of Israel and listed on the Stock Exchange, denominated in Israeli currency, linked to the consumer price index, bearing annual fixed interest, which is repayable in one lump sum and whose issued par value is at least NIS one (1) billion;
<b>The First Offering Report</b>	-	The first Shelf Offering Report according to which the Subordinated Bonds (Series 404) will be offered and issued for the first time;

<b>Consumer Price Index or Index</b>	-	<p>The price index known as the “Consumer Price Index” which includes vegetables and fruit and is published by the Israel Central Bureau of Statistics and including such index even if it is published by any other official entity or institution that will replace the Israel Central Bureau of Statistics, and including any other official index which shall replace the aforementioned index, whether or not based on the same data and calculations on which the existing index is based;</p> <p>If the Index is replaced by any such entity or institution, such entity or institution shall determine the ratio between the other index and the replaced index, and where such ratio was not determined as aforesaid, it will be determined by the Israel Central Bureau of Statistics, and where that ratio is not determined as aforesaid, it will be determined by the Trustee, in consultation with economic experts he shall select and whose identity shall be approved by the Bank;</p>
<b>Basic Index</b>	-	The Consumer Price Index published on June 14 2019 in respect of May 2019;
<b>Known Index</b>	-	The last known Index;
<b>Payment Index</b>	-	The Known Index on payment date;
<b>First Trading Day</b>	-	The first day of trading in the Subordinated Bonds (Series 404) after the end of the acceptance period, as defined by the

### 3. **Date of repayment of the principal of the Subordinated Bonds**

- 3.1 The principal of the Subordinated Bonds shall be repaid in one lump sum on September 30 2029 to Entitled Parties whose names appear on record on the Payment Date in the Register of the Subordinated Bonds (Series 404).
- 3.2 Repayment of the principal as aforesaid shall be carried out against delivery to the Bank of the certificates of the Subordinated Bonds on the payment date, at its registered office or any other location on which the Bank will give notice. The Bank’s notice as aforementioned shall be published no later than five (5) business days prior to the payment date.
- 3.3 The payments of the principal of the Subordinated Bonds shall be made subject to the linkage terms set out in Section 5 below.

### 4. **Interest on the Subordinated Bonds**

The outstanding balance of the principal of the Subordinated Bonds shall bear annual interest at a rate that will be set in the First Offering Report (hereinafter – the “**Annual Interest**”), as described below:

- 4.1 The interest in respect of the Subordinated Bonds shall be paid to the bondholders annually, on September 30 of each of the years 2020 through 2029, in respect of the twelve-month period ended on the day preceding the payment date, except for the payment in respect of that the First Interest Period, which shall be paid on September 30 2020 in respect of the period starting on the first day of trading and ending on September 29 2020 (hereinafter - the “**First Interest Payment**”).
- 4.2 The interest rate in respect of the First Interest Payment shall be calculated in accordance with the number of days in this period, which shall begin on the First Trading Day and end on September 29 2020, on the basis of 365 days per year (hereinafter – the “**Interest Rate on the First Interest Payment**”).
- 4.3 If the Bank does not exercise its right to repay the Subordinated Bonds by early repayment in accordance with Section 8 below, the Annual Interest Rate on the Subordinated Bonds will be updated on September 30 2024 (hereinafter - the “**Interest Change Date**”), such that the Annual Interest Rate will increase or decrease, as the case may be, according to the difference between the Benchmark Interest Rate (as defined below) on the Interest Change Date and the Benchmark Interest rate on the offering date of the Subordinated Bonds pursuant to First Offering Report (hereinafter - the “**Interest Difference**”). It is clarified that if the Interest Difference is negative, the Annual Interest borne by the principal of the Subordinated Bonds will be reduced by the amount of the Interest Difference beginning on the Interest Change Date.

For this purpose, the “**Benchmark Interest Rate**” means – the average annual return on a Government Bond, the remaining term to maturity of which is five years, during the 30 trading days the last of which falls five trading days prior to the date of calculating the Benchmark Interest Rate (hereinafter - 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 term to maturity is five years at the Calculation Date. In the event of there being no series of outstanding Government Bonds whose term to maturity is exactly five years 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 term to maturity is the closest to five years, with the maturity term of one being greater than five years and of the second - less than five years. The aforesaid weighted average will be calculated according to the maturity terms of the two abovementioned series, without taking into account the size of the series.<sup>3</sup>

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3 The weighted average will be calculated as follows: Of the series of outstanding government bonds on the Calculation Date, two series will be selected whose term to maturity is the closest to 5 years, provided that the term to maturity of one series (hereinafter - “**Series A**”) is lower than 5 years, and the term to maturity of the second series (hereinafter - “**Series B**”) is greater than 5 years. When calculating the weighted average, each of the said series will be given a different proportionate weight, such that the average term to maturity will be exactly 5 years. For instance, assuming that the term to

- 4.4 It is clarified that the calculated interest rate may be less than zero, i.e., 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 404) to that effect by way of publishing an immediate report.

If, at the Interest Change Date, the calculated interest rate that the Subordinated Bonds (Series 404) bear is less than zero, the Bank shall not collect negative interest from the holders of the Subordinated Bonds (Series 404), so long as all of the following conditions have not been fulfilled and the Bank has reported their fulfillment at least 30 days prior to the Interest Calculation Date:

4.4.1 A tax ruling is received from the Israel Tax Authority whereby the holders of the Subordinated Bonds (Series 404) may offset the negative interest against other income.

4.4.2 The Stock Exchange and members of the Stock Exchange will make arrangements regarding the payment of negative interest.

- 4.5 On the First Trading Day, the Bank will publish an immediate report regarding the results of the offering, which will detail the following: (a) The Interest Rate on the First Interest Payment; (b) The Benchmark Interest Rate on the offering date.

- 4.6 Within 2 business days after the Interest Change Date, the Bank shall publish an immediate report which will details the following: (a) The Benchmark Interest Rate on the Interest Change Date; and (b) The updated Annual Interest Rate of the Bonds.

- 4.7 The interest payments shall be made to people whose names appear in the Register of the Subordinated Bonds (Series 404) on September 24, in respect of the payments to be made on September 30 of each of the years 2020 through 2029 (hereinafter - the "**Record Date**"), except for the last interest payment, which shall be made on September 30 2029 to people whose names appear in the Register on the payment date, and which shall be made at the same time as the repayment of the principal of the Subordinated Bonds and against delivery of the certificates of the Subordinated Bonds to the Bank, as specified in Section 3.2 above.

- 4.8 Any tax that would be withheld pursuant to the provisions of any law shall be withheld from any interest payment, unless the Bank is presented with a tax withholding exemption.

- 4.9 The interest payments for the Subordinated Bonds shall be made subject to the linkage terms set out in Section 5 below.

5. **Linkage of the principal and interest**

The principal and interest of the Subordinated Bonds shall be linked to the Basic Index as defined above, as follows: 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 over the Basic

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maturity of Series A is 4.75 years and that the term to maturity of Series B is 5.75 years, the proportionate weighting given to Series A will be 0.75 and the proportionate weighting given to Series B will be 0.25.

Index. It should be noted that pursuant to the Stock Exchanges' guidelines, the linkage method of the principal and interest shall not change throughout the life of the Subordinated Bonds.

## 6. **Conversion of the Subordinated Bonds into the Bank's shares in certain cases**

### 6.1 **Definitions**

In Section **שגיאה! מקור ההפניה לא נמצא.**, the terms listed below shall have the meaning set out opposite them in the Subordinated Bonds:

<b>The Bank's Common Equity Tier 1 Capital Ratio</b>	- The Bank's Common Equity Tier 1 capital ratio pursuant to PCB 202 and the transitional provisions set out in PCB 299 ( <b><u>Appendix A</u></b> and <b><u>Appendix B</u></b> of the Deed of Trust, respectively), and pursuant to the provisions of PCB 201;
<b>Trigger Event for Principal Loss Absorption</b>	- The Bank's Common Equity Tier 1 Capital Ratio drops below 5%; <sup>4</sup>
<b>Trigger Event for Non-Viability</b>	- 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 non-viability <sup>5</sup> ; 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 equivalent support, without which the Bank would reach the point of non-viability, as determined by the Banking Supervision Department.

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4 It should be noted that, in accordance with the Reporting to the Public Directives of the Banking Supervision Department applicable 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.

5 It should be noted that PCB 202 does not include a definition of the term "point of non-viability". 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 cases in which the Banking Supervision Department might use its discretion to 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 banking corporation fails to meet past due commitments or there is a real concern that it will not be able to meet such commitments;

**Trigger Event** - A Trigger Event for Principal Loss Absorption or a Trigger Event for Non-Viability;

**The Bank's Shares** - Ordinary shares of NIS 1 par value each.

6.2 If circumstances arise that constitute a Trigger Event, the Bank will publish an immediate report and will perform a conversion of the Subordinated Bonds (Series 404) into the Bank's shares (hereinafter - "**Conversion**") in accordance with the provisions set forth below:

6.2.1 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 6.2.4 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.

6.2.2 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 12.54 (1.254 Agorot),<sup>6</sup> subject to adjustments as detailed in Section 6.3 below (hereinafter - the "**Floor Price**"). The Floor Price will be linked to the Index according to the principal and interest linkage mechanism of the Subordinated Bonds as set out in Section 5 above, mutatis mutandis.

6.2.3 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 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

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- c. The banking corporation's level of capital is insufficient to support the risks involved in its activity, and the banking corporation 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 banking corporation's liquidity position, which is reflected, among other things, in its difficulty to obtain short-term funding or in a concern that the liquidity ratios will be breached.

6 The denominated 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 July 2 2019 (inclusive).

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 the paid amount will be no less than NIS 30.

- 6.2.4 The holders of the Subordinated Bonds will be entitled to any interest (calculated based on 365 days per year) and linkage differences that have accrued 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.
- 6.2.5 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.
- 6.2.6 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 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 pursuant to the Deed of Trust will end on the Conversion Date.
- 6.2.7 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 the 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 6.2.5 above, and the Subordinated Bonds shall 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 **שגיאה! מקור ההפניה לא נמצא.** will be renewed.
- 6.2.8 The Bank's shares that shall be allocated as a result of the Conversion shall 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 shall confer upon their owners the full amount of the dividends and any other distribution (insofar as there may be one), and shall 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.
- 6.2.9 The conversion of the Subordinated Bonds into the Bank's shares, and the payment of the interest and linkage differences that have accrued in cash, as described in the Subordinated Bonds, will be considered the final and absolute repayment of all of the Bank's commitments towards the holders of the Subordinated Bonds. It is clarified and emphasized that the conversion of the Subordinated Bonds into the 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 demand from the Bank on the part of the Trustee and/or on the part of the holders and no advance or retroactive agreement by the Trustee and/or holders shall be required 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.

6.2.10 It is clarified that the Subordinated Bonds are not convertible into the Bank's shares by the holders, but rather by the Bank alone, in accordance with the terms of the Subordinated Bonds, nor are they 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 8 of the Deed of Trust.

6.2.11 The holders of the Subordinated Bonds shall be liable for any tax liability that may arise, if any arises, as a result of the Conversion of the Subordinated Bonds into Bank's shares.<sup>7</sup>

6.2.12 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 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% and to transfer the proceeds of the sale, less the tax required by law, to the holder. Upon approval by the Governor, the Bank shall be entitled, but not bound, to extend all the periods 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.

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<sup>7</sup> It should be noted that 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 bonds holders. To the best of the Bank's knowledge, as of the date of signing this Deed of Trust, the position of the Israel Tax Authority is the same as detailed in the said decision.

- 6.2.13 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.
- 6.2.14 The Bank's shares arising from the Conversion will be registered to the Nominee Company in favor of those who held the Subordinated Bonds that have been converted into shares.
- 6.2.15 Notwithstanding the provisions of 6.2, 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 capital ratio of the Bank to at least 5%.
- 6.2.16 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.

### 6.3 Adjustments

- 6.3.1 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.
- 6.3.2 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 trading day before the "ex dividend" day.
- 6.3.3 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 Conversion to which a holder of the Subordinated Bond 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 trading day before the ex-day.
- 6.3.4 If the Bank offers securities to the holders of the Bank's shares by way of a rights issue, 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 is entitled upon the Conversion will increase by the ratio between the closing price of the share on the Stock Exchange on the last trading day before the "ex day" and the base price of the share "ex rights".
- 6.3.5 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).
- 6.3.6 The Bank shall publish an immediate report in respect of each adjustment carried out as described above.

## 7. Provisions regarding the payments

- 7.1 Any payment payable pursuant to the terms of the Subordinated Bonds to Entitled Parties who are Unregistered Holders shall be transferred by the Bank to the Nominee Company, in order for it to be transferred to the Entitled Parties through the Stock Exchange's clearing house and through Stock Exchange members.
- 7.2 Any payment payable pursuant to the terms of the Subordinated Bonds to Entitled Parties who are Registered Holders shall be made by way of bank transfer to the bank account of the Entitled Party, whose details shall be delivered to the Bank by the Entitled Party in a written notice to be posted by certified mail; this notice shall bind the Bank only with respect to payments, the record date for settlement of which shall be 30 days after the date on which the notice was received at the Bank's registered office.

Where the Registered Holder has not provided to the Bank, in time, a written notice regarding the details of its bank account to which payments should be transferred pursuant to the Subordinated Bonds, any such payment will be made by check, which will be posted by certified mail to the last address recorded in the register of holders of the Subordinated Bonds. Posting a check to an Entitled Party by certified mail, as aforesaid, will be considered, for all intents and purposes, as payment of the amount that is specified therein, on the date on which it was posted as aforesaid, provided that it was paid upon its proper presentation for collection. Any amount payable to a holder of the Subordinated Bonds and which was not paid on the date on which it was due to be paid for reasons which are not under the control of the Bank, even though the Bank was willing to pay it on time, shall cease to bear interest and linkage differences as from the date on which it was due and the holder of the Subordinated Bonds shall be entitled to receive only the amounts he was entitled to on the date specified for such payment on account of the principal and interest.

- 7.3 Where any payment date falls on a day which is not a business day, the date of that payment shall be postponed to the following Business Day without payment of any additional interest and the record date for purpose of determining the entitlement for payment shall not change due to that.
- 7.4 Any mandatory payment required by law shall be deducted from any payment in respect of the Subordinated Bonds.
- 7.5 If the Bank is unable, for any reason whatsoever which is not under its control, to make a payment to Entitled Parties, it shall deposit this amount with the Trustee pursuant to Section 11 of the Deed of Trust.
- 7.6 For the avoidance of doubt, it is clarified that whoever does not hold the Subordinated Bonds on the day on which entitlement to any payment pursuant to the Subordinated Bonds is determined, will not be entitled to that payment.

8. **Early redemption of the of the Subordinated Bonds 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 discretion<sup>8</sup> and without giving the holders of the Subordinated Bonds

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<sup>8</sup> 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 the follow conditions is met:

and/or to the Trustee a right of choice, to carry out Early Redemption, in whole or in part, of the Subordinated Bonds (hereinafter – “**Early Redemption**”), subject to the following terms and conditions:

- 8.1 The Bank shall be entitled to perform a single Early Redemption only.
- 8.2 The Early Redemption shall not be exercised before September 19 2024 or after September 30 2024.<sup>9</sup>
- 8.3 The Bank shall obtain advance written approval for the execution of the Early Redemption from the Banking Supervision Department.
- 8.4 The amount to be paid to holders of the Subordinated Bonds in the event of Early Redemption will be the value of the debt pursuant to the Subordinated Bonds that are up for Early Redemption, i.e., the principal of the Subordinated Bonds, plus any interest and linkage differences through the date on which Early Redemption is performed.
- 8.5 The Bank shall inform the holders of the Subordinated Bonds of the performance of the Early Redemption no less than seventeen (17) days and no more than forty-five (45) days before the date of performing the Early Redemption.
- 8.6 Any amount to be paid by way of Early Redemption by the Bank shall be repaid to all holders of the Subordinated Bonds on a pro rata basis according to the par value of Subordinated Bonds held on the relevant date for such Early Redemption.
- 8.7 The record date for entitlement to receive payment in respect of Early Redemption shall be the record date for entitlement to receive payment in respect of interest.
- 8.8 The minimum amount of the Early Redemption shall be no less than NIS 1 million. In addition, Early Redemption shall not be performed for part of a series of Subordinated Bonds if the final redemption amount is lower than NIS 3.2 million. In the event of partial Early Redemption, the interest accrued until the partial Early Redemption date shall be only paid according to the par value redeemed by way of Early Redemption. In the case of partial Early Redemption, if any, the Bank shall issue an immediate report, announcing: (1) The percentage of the Early Redemption in terms of the outstanding balance; (2) The percentage of the partial redemption in terms of the original series; (3) The interest rate to be paid as part of the partial redemption on the redeemed portion; (4) The interest rate to be paid as part of the partial

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- 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 is able to meet on all matters relating to the capacity of its revenues (alternative offerings may be carried out simultaneously but not after the instrument has been redeemed); or
  - b. The Bank has proven that its equity ratio is much higher than the minimal equity requirements as stated in PCB 201, Introduction, Scope of Application and Calculation of Requirements, after the exercise of the Early Redemption.

<sup>9</sup> In the event that the Early Redemption is not carried out by the Bank by September 30 2024, the Annual Interest rate on the Subordinated Bonds will be updated, as described in Section **שגיאה! מקור** **ההפניה לא נמצא** above.

redemption, calculated in relation to the outstanding balance; (5) The record date for eligibility for Early Redemption of the principal of the Subordinated Bonds in terms of the original series; and (6) The record date for entitlement for receiving the Early Redemption of the principal of the Subordinated Bonds which will take place six (6) days prior to the date set for the Early Redemption.

- 8.9 It is emphasized and clarified that the right to decide on Early Redemption, as described above, is an exclusive right of the Bank, subject to the restrictions set out in Section 8 above, and that the holders of the Subordinated Bonds shall have no right to demand Early Redemption, under any circumstances whatsoever. Nothing in the aforesaid derogates from the rights of the holders to make the Subordinated Bonds repayable immediately upon the occurrence of one of the events described in Section 7.1 of the Deed of Trust.
- 8.10 In the event that the Stock Exchange decides to delist the Subordinated Bonds, pursuant to the provisions of the Rules and Regulations of the Stock Exchange and the guidelines set thereunder, since the value of the public's holdings in Subordinated Bonds is lower than the amount prescribed by the Stock Exchange's Rules and Regulations and guidelines regarding delisting, the Bank will not carry out Early Redemption of the Subordinated Bonds due to the said notice of the Stock Exchange. The Subordinated Bonds shall be delisted from the Stock Exchange and shall be subject, among other things, to the tax implications arising therefrom.

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**Second Addendum to the Deed of Trust**  
**Meetings of holders of the Subordinated Bonds**

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The following provisions shall apply to the meetings of the holders, subject to the provisions of any law:

1. The Trustee will convene a holders' meeting at the demand of one or more holders, holding at least five percent of the outstanding par value of the Bonds. Furthermore, the Trustee or the Bank may, if they deem it necessary, invite the holders of the Subordinated Bonds to a meeting of holders of the Subordinated Bonds. If the Bank convenes such a meeting, it is required to immediately notify the Trustee, in writing, of the place, date and time at which the meeting is to be held, as well as of the matters that will be discussed therein, and the Trustee or a representative on his behalf may participate in such a meeting without having a voting right. Where the meeting is convened at the request of holders of the Subordinated Bonds, the Trustee may demand from those who requested the convening of the meeting indemnification for the reasonable costs involved therein.

It is clarified that an indemnification demand by the Trustee will not have an adverse effect on the convening of a meeting convened for the purpose of carrying out an action which is intended to prevent the infringement of the rights of the holders of the Subordinated Bonds and such an indemnification demand will not detract from the Bank's duty to bear the expenses involved in the convening of the meeting.

A Trustee who was asked to convene a holders' meeting by holders as described above, shall convene the meeting within 21 days from the day on which the request to convene such meeting was made, for a date as set out in the summons, provided that the date of the meeting shall not be earlier than 7 days and not later than 21 days from the date of the summons; however, the Trustee may bring forward the meeting to a date that is at least one day after the date of the summons, if he believes that such action is required in order to protect the holders' rights.

2. A summons for a meeting issued on behalf of the Trustee solely for the purpose of consultation with the holders of the Subordinated Bonds shall be issued at least one day before the date on which such meeting is to convene.
3. A summons for such a meeting, for consultation with the Subordinated Bonds holders only, shall be published at least one day before the convening of said meeting. No agenda shall be published for such a consultation meeting, no resolutions shall be passed at the meeting and no legal quorum shall be required in respect of this meeting.
4. No resolution lawfully passed in a meeting convened as aforesaid shall be disqualified, even if due to error, if notice thereof was not given to all holders of the Subordinated Bonds, or if such notice was not received by all holders of the Subordinated Bonds. The provisions of this Section shall apply if the summons for the meeting (or for an adjourned meeting, as the case may be) was also delivered through the MAGNA system.
5. The persons holding the Subordinated Bonds on the record date specified in the summons to the holders' meeting shall be entitled to participate and vote in the holders' meeting.

6. A holder who is a controlling shareholder of the Bank, a relative thereof or any corporation controlled by any of them (hereinafter – a **“Related Holder”**) shall not be taken into account for the purpose of determining the legal quorum at a meeting of holders, and their votes shall not be counted in the number of votes cast in such a meeting.
7. If, within half an hour from the time designated for the commencement of such meeting, no legal quorum is present, the meeting shall be adjourned to another date no sooner than two Business Days after the date set for the original meeting, or one Business Day, if the Trustee believes this is required to protect the rights of the holders; if the meeting was adjourned, the Trustee shall give the reasons for the adjournment in the report regarding the convening of the meeting and it may do so in the notice of convening the original meeting.
8. The Trustee may declare that the original meeting and/or the subsequent meeting will be split into class meetings for discussion purposes. The classes shall be determined at the Trustee's sole discretion.
9. Where a holders' meeting was adjourned without changing its agenda, summons for the new date for the subsequent meeting shall be issued as soon as possible and no later than 12 hours before the subsequent meeting.
10. A person or persons who will be appointed by the Trustee, the Bank and any other person or persons who will be authorized for this purpose by the Bank, may attend the meetings of holders of the Subordinated Bonds without any voting rights. If, at the Trustee's discretion, a discussion in part of the meeting should be held without the presence of the Bank's representatives, the Bank's representatives or anyone acting on its behalf shall not attend that part of the meeting. Notwithstanding the provisions of this Section, the Bank may attend the opening of the meeting in any event in order to express its position regarding any topic on the agenda of the meeting, and/or in order to present a particular issue (as the case may be).
11. Any resolution will be passed by counting the votes cast.
12. At every meeting of holders, the Trustee or anyone appointed by the Trustee shall serve as the chairman of that meeting. The chairman may determine that votes will be cast by using voting ballots or by voting during the course of the meeting. Where the chairman determined that votes will be cast using voting ballots, the Trustee will ensure that the text of the voting ballot shall be posted on the MAGNA system and will set the time at which the vote will be closed and by which the holders should send to the Trustee their ballots, after they have filled them out and signed them according to law. The Trustee may demand that holders declare within the ballot whether or not they have conflicting interests. A holder who will not fill out the ballot in full and/or will not prove his entitlement to participate and vote in the meeting in accordance with provisions and dates set by the chairman of the meeting shall be considered as not having delivered a ballot and therefore as having opted not to vote on the matter(s) included in the ballot.
13. Accordingly, the Trustee may, at his own discretion and subject to any law, hold meetings by ballots and without convening them, as well as to hold votes by ballots in an adjourned meeting not attended by the legal quorum required to pass a resolution, provided that

through the date set for that purpose in a notice on convening the meeting or on holding a vote, as the case may be, the Trustee will receive ballots from holders who constitute the legal quorum required to pass a resolution in an original meeting or in an adjourned meeting, as the case may be.

14. Where a meeting of the holders of the Subordinated Bonds is convened (regardless of whether it was convened by the Bank, the holders or the Trustee), the Trustee will examine whether the holders of the Subordinated Bonds have a conflict of interests between an interest that stems from their holding of the Subordinated Bonds and any other interest they may have, as determined by the Trustee (hereinafter – a **“Different Interest”**). The Trustee may demand that a holder who participates in the meeting inform the Trustee, prior to voting, of any Different Interest he has and also whether he has such a conflict of interests.
15. Without derogating from the generality of the above, any of the following shall be considered to have a conflicting interest:
  - 15.1. A holder who served as an officeholder in the Bank close to the date of the event that underlies the resolution to be voted on in the meeting;
  - 15.2. Any holder in respect of whom the Trustee determined that he has a “conflicting interest” pursuant to the aforesaid and subject to any law and/or any provision of a competent authority including: Any holder that will provide to the Trustee a written statement to the effect that he has any material personal interest that deviates from the interest of all the holders of the Subordinated Bonds in the relevant meeting of holders of the Subordinated Bonds. A holder who shall not provide such a written statement after he has been asked to do so by the Trustee, shall be considered as someone who has declared that he has such a personal interest and the relevant trustee shall determine in respect of them that they have a conflicting interest. Without derogating from the provisions of Section 18, the Trustee shall examine whether a holder has a “conflicting interest” after considering the holder’s holdings in other securities of the Bank and/or securities of any other corporation which is relevant to the resolution presented for the approval of the meeting (as described in the ballot), in accordance with that holder’s statement.
16. It should be clarified that such an assessment of conflict of interests, where the Trustee believes it is necessary, shall be held separately for each and every resolution on the agenda of the meeting as well as separately for each and every meeting. It should also be clarified that declaring a holder as having a Different Interest in any resolution or meeting does not, in and of itself, indicate that the holder has a different interest in another resolution on the agenda of the meeting or that he has a Different Interest in other meetings.
17. For the purpose of assessing conflict of interests as aforesaid, the Trustee may rely on a legal opinion that he commissions, and the provisions of the Deed of Trust regarding bearing of expenses shall apply to such an opinion.
18. When counting the votes cast in a holders’ meeting, the Trustee shall not take into account the votes of holders that did not comply with its demand as set out in Section 14 above or the votes of holders in respect of whom he found that a conflict of interest exists as stated



in that Section. Despite the aforesaid, where the total holdings of the holders who participate in the vote and who do not have a conflicting interests is lower than five (5) percent of the outstanding par value of the Subordinated Bonds of the relevant series, the Trustee shall also count the votes of the holders who have conflicting interests.

19. Each holder, whether attending the meeting in person or by proxy, will have one vote in respect of NIS 1 par value of the total outstanding principal of the Subordinated Bonds by virtue of which he is entitled to vote.
20. Where a bond is jointly held, only the vote of the person who is registered first in the holders' register shall be counted.
21. An holder of a Bond may use some of his votes to vote in favor of a proposed resolution, another portion of his votes to vote against the proposed resolution and another portion of his votes to abstain, all as he deems fit.
22. For purposes of counting abstaining votes in resolutions passed in a meeting, no distinction will be made between those having a "conflicting interest" and those not having a "conflicting interest".
23. An instrument of appointment of an agent shall be drawn up in writing and signed by the appointer or by his proxy who was duly authorized in writing to do so. Where the appointer is a corporation, the appointment will be drawn out in writing, stamped with the corporation's stamp and signed by the authorized signatories of the corporation, and the appointee may act on behalf of the corporation he represents. The instrument of appointment of an agent will be drawn up in any form that will be acceptable to the Trustee. The agent does not have to be a holder of the Subordinated Bonds. The instrument of appointment and the power of attorney or the other certificate according to which the instrument of appointment or a certified copy of such power of attorney shall be delivered to the Trustee by the time of opening of the meeting, unless otherwise determined in the notice regarding the convening of the meeting.
24. A vote cast pursuant to the terms set out in the document that appoints an agent shall be valid even if the appointer has passed away, or was declared legally incompetent prior to the vote, or if the instrument of appointment was revoked, or if the Subordinated Bond in respect of which the vote was cast was transferred, unless a notice was received at the Bank's registered office prior to the meeting regarding the death of the appointer, or a declaration regarding legal incompetency, the revocation or transfer, as the case may be.
25. The Trustee shall draw up minutes of the meeting of the holders of the Subordinated Bonds, which shall be recorded in the register of minutes and kept in the Trustee's registered office for a period of seven years from the date of the meeting. The minutes of each such meeting shall be signed by the meeting's chairman, and each such signed minute shall serve as a prima facie evidence of what is stated therein, and unless there is evidence to the contrary, any resolution that was passed in such a meeting shall be deemed to have been duly passed. The Trustee may draw up minutes of a meeting or parts thereof by means of a recording.
26. The register of minutes of the holders' meetings shall be maintained at the Trustee's office and shall be available for perusal by the Bank and the holders of the Subordinated Bonds.

Notwithstanding the above, the Trustee may, in special cases, withhold the delivery of a certain portion of the minutes to any entity, if, at the Trustee's sole discretion, this will be reasonability required in order to prevent infringement of the rights of the holders of the Subordinated Bonds; however: (a) Under no circumstances will the Trustee withhold the delivery of any part of the minutes of meeting if the Bank submits it with a written demand whereby the receipt of the full minutes is required to meet the requirements and/or directives of a competent authority and/or in order to meet the provisions of any law.

- 27.** The announcement of the chairman of the meeting that a resolution had been passed or rejected, and the entry made to that effect in the register of minutes, shall be prima facie evidence thereof.

**Appendix B1 – Acceptance Notice for Holders of Series 201  
Subordinated Capital Notes**

To:

Bank Leumi of Israel Ltd., via Stock Exchange Member: \_\_\_\_\_ Ltd.  
(hereinafter – the “**Stock Exchange Member**”).

Dear Madam/Sir,

Re: **Exchange Tender Offer – Series 201 Subordinated Capital Notes of Bank  
Leumi of Israel Ltd.**

Whereas on July 4 2019, Bank Leumi of Israel Ltd. (hereinafter – the “**Bank**”) published a shelf offering report that also constitutes a tender offer specification (hereinafter – the “**Shelf Offering Report**”), whereby the Bank offered to purchase from holders of the Bank’s Series 201 Subordinated Capital Notes all outstanding Series 201 Subordinated Capital Notes in consideration for issuance of units, each comprising NIS 50,000 par value of the Bank’s Series 404 Subordinated Bonds (hereinafter – “**Series 404 Unit**”), at a conversion rate of 49,262:50,000 (1 : 1.015), such that every NIS 49,262 par value of Series 201 Capital Notes will be exchanged for one Series 404 Unit (hereinafter – the “**Conversion Ratio**”), subject to all the terms set out in the Shelf Offering Report (hereinafter – the “**Exchange Tender Offer**”);

And whereas I am the owner and holder through the Stock Exchange Member of deposit/account no. \_\_\_\_\_ held at branch no. \_\_\_\_\_, of the Stock Exchange Member, of NIS \_\_\_\_\_ par value of the Bank’s Series 201 Subordinated Capital Notes;

And Whereas I know that pursuant to the Stock Exchange’s directives, the trading unit of Series 404 Subordinated Bonds is NIS 50,000 par value, the trading of fractions is Series 404 Units will be forbidden and the Bank will not allocate fractions of Series 404 Units;

And whereas I know that any excess number of Series 201 Subordinated Capital Notes specified in this Acceptance Notice, which will not be sufficient for allocation of a whole Series 404 Unit shall not be exchanged, and I know that I should specify in this Acceptance Notice a number of Series 201 Subordinated Capital Notes that will be sufficient for allocation of whole Series 404 only (without any fractions), i.e., in multiples of NIS 49,262 par value of Series 201 Subordinated Capital Notes,<sup>17</sup> all in accordance with the Shelf Offering Report (and in

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<sup>17</sup> Hence, for example,  
NIS 49,262 par value of Series 201 Subordinated Capital Notes shall be exchanged for one whole Series 404 Unit;  
NIS 98,524 par value of Series 201 Subordinated Capital Notes shall be exchanged for two whole Series 404 Units;

particular in Sections 4.2 and 6 of the report);

And whereas I wish to accept the Exchange Tender Offer in respect of NIS \_\_\_\_\_ par value Series 201 Subordinated Capital Notes of the Bank held by me, which, based on the Conversion Ratio, will be exchanged for \_\_\_\_\_ whole Series 404 Units (without any fractions), in accordance with the terms of the Exchange Tender Offer (hereinafter – the “**Existing Securities**”);

Therefore, Acceptance Notice in respect of the Existing Securities is hereby given, as defined in the Shelf Offering Report, as well as an undertaking to transfer the Existing Securities (subject to the allocation limit, if any, as set out below).

**Option to limit the number of Bank’s Series 404 Subordinated Bonds allocated (hereinafter – the “Allocation Limit”** – should you wish that the number of Series 404 Subordinated Bonds to be allocated to you pursuant to this report not to exceed 25% of all Series 404 Subordinated Bonds to be allocated pursuant to this Tender Offer Report (hereinafter – the “**Total Number of Series 404 Subordinated Bonds**”), please tick the appropriate box below:

- ☐ Despite what is said above in this Acceptance Notice, we wish to limit the number of Subordinated Bonds that will be allocated to me, as follows

The overall number of the Bank’s Series 404 Subordinated Bonds that will be allocated to me pursuant to the Exchange Tender Offer (pursuant to this notice and to other Acceptance Notices I submitted (if any) and in which an Allocation Limit was specified) shall not exceed 25% of the Total Number of Series 404 Subordinated Bonds of the Bank.

Accordingly, I hereby declare and undertake by signing this Acceptance Notice that I know that this Allocation Limit shall be valid provided that I deliver a copy thereof to the Offering Coordinator together with other acceptance notices I submitted (if any), in which an Allocation Limit was specified. Furthermore, by signing this Acceptance Notice I agree to the delivery of this Acceptance Notice’s details to the Offering Coordinator directly and through the Stock Exchange Member.

I know that in the event that I did not tick the above box, i.e., I did not ask to apply an Allocation Limit, or if not all details required in this Acceptance Notice are delivered, this section will be cancelled and will not constitute part of this Acceptance Notice, and the Acceptance Notice shall be viewed as a notice that does not include an Allocation Limit, such that the entire number of capital notes specified above shall be viewed as the transferred capital notes.

In the event that the above box is ticked and in so far as the Bank will, in effect, be required to execute a partial allocation of the Bank’s Series 404 Subordinated Bonds to me through the Offering Coordinator in accordance with the Allocation Limit, then the partial allocation shall be carried out on a pro-rata and pari-passu basis in relation to all Acceptance Notices delivered by me that include an Allocation Limit, taking into account the other Acceptance Notices received from other holders of Series 201 Subordinated Capital Notes.

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NIS 147,486 par value of Series 201 Subordinated Capital Notes shall be exchanged for three whole Series 404 Units;  
and so forth.



**Accordingly, by signing this Acceptance Notice, I hereby declare and undertake as follows:**

1. I am the sole owner of the Existing Securities, and they are free from any pledge, foreclosure, undertaking, debt, lien or any third-party rights as of the date of this Acceptance Notice and will be so when transferred in the name of the Bank.
2. I hereby undertake not to confer upon a third party any rights in the Existing Securities and not to conduct any disposition or transaction involving them, either on or off the floor – until they are registered in the name of the Bank, including in the period from the last Acceptance Day through the allocation day, as these terms are defined in the Shelf Offering Report.
3. I know that a condition precedent for the purchase of the Existing Securities by the Bank and for the payment of the consideration thereof pursuant to the Shelf Offering Report is the correctness of this declaration.

Please remit the consideration for the Existing Securities to my account no. \_\_\_\_\_, with \_\_\_\_\_, branch \_\_\_\_\_.

\_\_\_\_\_  
Date

\_\_\_\_\_  
Full name

\_\_\_\_\_  
I.D. no. / corporation no.

\_\_\_\_\_  
Signature / Corporation's stamp and signature

## **Appendix B2 – Acceptance Notice for Holders of Series N Subordinated Bonds**

To:

Bank Leumi of Israel Ltd., via Stock Exchange Member: \_\_\_\_\_ Ltd.  
(hereinafter – the “**Stock Exchange Member**”).

Dear Madam/Sir,

Re: **Exchange Tender Offer – Series N Subordinated Bonds of Bank Leumi of Israel Ltd.**

Whereas on July 4 2019, Bank Leumi of Israel Ltd. (hereinafter – the “**Bank**”) published a shelf offering report which also constitutes a tender offer specification (hereinafter – the “**Shelf Offering Report**”), whereby the Bank offered to purchase from holders of the Bank’s Series N Subordinated Bonds all outstanding Series N Subordinated Bonds in consideration for issuance of units, each comprising NIS 50,000 par value of the Bank’s Series 404 Subordinated Bonds (hereinafter – “**Series 404 Unit**”), at a conversion rate of 50,000 : 44,445 (1 : 1.125), such that every NIS 44,445 par value of Series N Subordinated Bonds will be exchanged for one Series 404 Unit (hereinafter – the “**Conversion Ratio**”), subject to all the terms set out in the Shelf Offering Report (hereinafter – the “**Exchange Tender Offer**”);

And whereas I am the owner and holder through the Stock Exchange Member of deposit/account no. \_\_\_\_\_ held at branch no. \_\_\_\_\_, of the Stock Exchange Member, of NIS \_\_\_\_\_ par value of the Bank’s Series N Subordinated Bonds;

And Whereas I am aware that pursuant to the Stock Exchange’s directives, the trading unit of Series 404 Subordinated Bonds is NIS 50,000 par value, the trading of fractions in Series 404 Units will be forbidden and the Bank will not allocate fractions of Series 404 Units;

And whereas I know that any excess number of Series N Subordinated Bonds specified in this Acceptance Notice, which will be insufficient for allocation of a whole Series 404 Unit shall not be exchanged, and I am aware that I should specify in this Acceptance Notice the number of Series N Subordinated Bonds that will be sufficient for allocation of whole Series 404 only (without any fractions), i.e., in multiples of NIS 44,445 par value of Series N Subordinated Bonds,<sup>18</sup> all in accordance with the Shelf Offering Report (and in particular in Sections 4.2 and

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<sup>18</sup> Hence, for example,  
NIS 44,445 par value of Series N Subordinated Bonds shall be exchanged for one whole Series 404 Unit;  
NIS 88,890 par value of Series N Subordinated Bonds shall be exchanged for two whole Series 404 Units;  
NIS 133,335 par value of Series N Subordinated Bonds shall be exchanged for three whole Series 404 Units;  
and so forth.

6 of the report);

And whereas I wish to accept the Exchange Tender Offer in respect of NIS \_\_\_\_\_ par value Series N Subordinated Bonds of the Bank held by me, which, based on the Conversion Ratio, will be exchanged for \_\_\_\_\_ whole Series 404 Units (without any fractions), in accordance with the terms of the Exchange Tender Offer (hereinafter – the “**Existing Securities**”);

Therefore, Acceptance Notice in respect of the Existing Securities is hereby given, as defined in the Shelf Offering Report, as well as an undertaking to transfer the Existing Securities (subject to the allocation limit, if any, as set out below).

**Option to limit the number of Bank’s Series 404 Subordinated Bonds allocated (hereinafter – the “Allocation Limit”** – should you wish that the number of Series 404 Subordinated Bonds to be allocated to you pursuant to this report not to exceed 25% of all Series 404 Subordinated Bonds to be allocated pursuant to this Tender Offer Report (hereinafter – the “**Total Number of Series 404 Subordinated Bonds**”), please tick the appropriate box below:

- ☐ Despite what is said above in this Acceptance Notice, we wish to limit the number of Subordinated Bonds that will be allocated to me, as follows

The overall number of the Bank’s Series 404 Subordinated Bonds that will be allocated to me pursuant to the Exchange Tender Offer (pursuant to this notice and to other Acceptance Notices I submitted (if any) and in which an Allocation Limit was specified) shall not exceed 25% of the Total Number of Series 404 Subordinated Bonds of the Bank.

Accordingly, I hereby declare and undertake by signing this Acceptance Notice that I know that this Allocation Limit shall be valid provided that I deliver a copy thereof to the Offering Coordinator together with other acceptance notices I submitted (if any), in which an Allocation Limit was specified. Furthermore, by signing this Acceptance Notice I agree to the delivery of this Acceptance Notice’s details to the Offering Coordinator directly and through the Stock Exchange Member.

I know that in the event that I did not tick the above box, i.e., I did not ask to apply an Allocation Limit, or if not all details required in this Acceptance Notice are delivered, this section will be cancelled and will not constitute part of this Acceptance Notice, and the Acceptance Notice shall be viewed as a notice that does not include an Allocation Limit, such that the entire number of capital notes specified above shall be viewed as the transferred capital notes.

In the event that the above box is ticked and in so far as the Bank will, in effect, be required to execute a partial allocation of the Bank’s Series 404 Subordinated Bonds to me through the Offering Coordinator in accordance with the Allocation Limit, then the partial allocation shall be carried out on a pro-rata and pari-passu basis in relation to all Acceptance Notices delivered by me that include an Allocation Limit, taking into account the other Acceptance Notices received from other holders of Series 201 Subordinated Capital Notes.

**Accordingly, by signing this Acceptance Notice, I hereby declare and undertake as follows:**



4. I am the sole owner of the Existing Securities, and they are free from any pledge, foreclosure, undertaking, debt, lien or any third-party rights as of the date of this Acceptance Notice and will be so when transferred in the name of the Bank.
5. I hereby undertake not to confer upon a third party any rights in the Existing Securities and not to conduct any disposition or transaction involving them, either on or off the floor – until they are registered in the name of the Bank, including in the period from the last Acceptance Day through the allocation day, as these terms are defined in the Shelf Offering Report.
6. I know that a condition precedent for the purchase of the Existing Securities by the Bank and for the payment of the consideration thereof pursuant to the Shelf Offering Report is the correctness of this declaration.

Please remit the consideration for the Existing Securities to my account no. \_\_\_\_\_, with \_\_\_\_\_, branch \_\_\_\_\_.

\_\_\_\_\_  
Date

\_\_\_\_\_  
Full name

\_\_\_\_\_  
I.D. no. / corporation no.

\_\_\_\_\_  
Signature / Corporation's stamp and signature

**Appendix C1 – Stock Exchange Members’ Acceptance Notice in  
respect of Series 201 Subordinated Capital Notes**

To:

Bank Leumi of Israel (hereinafter – the “**Bank**”)

Via: Bank Leumi of Israel Ltd. – Israeli Securities Department (hereinafter – the “**Offering Coordinator**”)

Dear Madam/Sir,

Re: **Exchange Tender Offer – Series 201 Subordinated Capital Notes of Bank Leumi of  
Israel Ltd.**

Whereas on July 4 2019, Bank Leumi of Israel Ltd. (hereinafter – the “**Bank**”) published a shelf offering report that also constitutes a tender offer specification (hereinafter – the “**Shelf Offering Report**”), whereby the Bank offered to purchase from holders of the Bank’s Series 201 Subordinated Capital Notes all outstanding Series 201 Subordinated Capital Notes in consideration for issuance of units, each comprising NIS 50,000 par value of the Bank’s Series 404 Subordinated Bonds (hereinafter – “**Series 404 Unit**”), at a conversion rate of 49,262 : 50,000 (1 : 1.015), such that every NIS 49,262 par value of Series 201 Capital Notes will be exchanged for one Series 404 Unit (hereinafter – the “**Conversion Ratio**”), subject to all the terms set out in the Shelf Offering Report (hereinafter – the “**Exchange Tender Offer**”);

And whereas the Stock Exchange’s directives stipulate that the trading unit of the Series 404 Subordinated Bonds is NIS 50,000 par value; and whereas trading of fractions of Series 404 Subordinated Bonds is not allowed and the Participants shall not be allocated such fractions; and whereas according to the terms of the Exchange Tender Offer specified in the Shelf Offering Report, the quantity participants may specify in the Acceptance Notice shall be one that is sufficient to allocate only entire Series 404 Units (without any fractions), i.e., in multiples of NIS 49,262 par value of Series 201 Subordinated Capital Notes; accordingly, we are aware that any excess number of Series 201 Subordinated Capital Notes specified in Participants’ Acceptance Notices, which will be insufficient for allocation of a whole Series 404 Units, shall not be exchanged.

Therefore, by signing this Acceptance Notice, we hereby declare and undertake as follows:

1. We received a total of \_\_\_\_\_ Acceptance Notices from holders of the Bank’s Series 201 Subordinated Capital Notes (hereinafter – the “**Acceptance Notices**”), asking to exchange, as part of the Exchange Tender Offer, a total of NIS \_\_\_\_\_ par value of Series 201 Subordinated Capital Notes, for \_\_\_\_\_ whole Series 404 Units (without any fractions) (hereinafter – the “**Existing Securities**”), in accordance with the Conversion Ratio.

Set forth below is a table specifying the number of Existing Securities referred to in the Acceptance Notices we received.

2. Copies of Acceptance Notices in which the Allocation Limit option was ticked are attached as appendix to this notice and constitute an integral part thereof.
3. This notice should be deemed as -
 

‘Stock Exchange Member’s Notice’ as defined in the Shelf Offering Report, and an undertaking to transfer the Existing Securities referred to in the Acceptance Notices we received as per Section 1 above; and

A declaration that the Existing Securities are free from any pledge, foreclosure, debt, undertaking, lien or any third-party rights as of the date of receipt of this Acceptance Notice; and

An undertaking that the Existing Securities shall be free of the above when transferred in the name of the Bank in accordance with the Shelf Offering Report.
4. We hereby undertake not to confer upon a third party any rights in the Existing Securities and not to conduct any disposition or transaction involving them, either on or off the floor – until they are registered in the name of the Bank, including in the period from the last Acceptance Day through the allocation day, as these terms are defined in the Shelf Offering Report.
5. We know that a condition precedent for the purchase of the Existing Securities by the Bank and for the payment of the consideration thereof pursuant to the Shelf Offering Report is the correctness of this declaration.

Please transfer the consideration for the Existing Securities to our account with the Stock Exchange’s clearing house.

The number of Existing Securities:

<b>The number of Acceptance Notices relating to the Existing Securities (*)</b>	<b>The number of Existing Securities to which the Acceptance Notices referred</b>	<b>Total (**)</b>

(\*) This number refers to all notices we received, which noted a specific number of Series 201 Subordinated Capital Notes. For example: if we received in total 10 notices, each relating to exchange of 49,262 Series 201 Subordinated Capital Notes, then the number 10 will be written in this column.

(\*\*) This refers to the number of notices we received, which noted a specific number of Series 201 Subordinated Capital Notes that Participants wish to exchange, multiplied by the number of Series 201 Subordinated Capital Notes.

\_\_\_\_\_  
Date

\_\_\_\_\_  
Name of Stock Exchange member

\_\_\_\_\_  
No. of Stock Exchange member

\_\_\_\_\_  
Stamp and signature

## **Appendix C2 - Stock Exchange Member's Acceptance Notice in respect of the Series N Subordinated Bonds**

To:

Bank Leumi of Israel (hereinafter – the “**Bank**”)

Via: Bank Leumi of Israel Ltd. – Israeli Securities Department (hereinafter – the “**Offering Coordinator**”)

Dear Madam/Sir,

Re: **Exchange Tender Offer – Series N Subordinated Bonds of Bank Leumi of Israel Ltd.**

Whereas on July 4 2019, Bank Leumi of Israel Ltd. (hereinafter – the “**Bank**”) published a shelf offering report which also constitutes a tender offer specification (hereinafter – the “**Shelf Offering Report**”), whereby the Bank offered to purchase from holders of the Bank’s Series N Subordinated Bonds all outstanding Series N Subordinated Bonds in consideration for issuance of units, each comprising NIS 50,000 par value of the Bank’s Series 404 Subordinated Bonds (hereinafter – “**404 Unit**”), at a conversion rate of 50,000 : 44,445 (1 : 1.125), such that every NIS 44,445 par value of Series N Subordinated Bonds will be exchanged for one 404 Unit (hereinafter – the “**Conversion Ratio**”), subject to all the terms set out in the Shelf Offering Report (hereinafter – the “**Exchange Tender Offer**”);

And whereas the Stock Exchange’s directives stipulate that the trading unit of the Series 404 Subordinated Bonds is NIS 50,000 par value; and whereas trading of fractions of Series 404 Subordinated Bonds is not allowed and the Participants shall not be allocated such fractions; and whereas according to the terms of the Exchange Tender Offer specified in the Shelf Offering Report, the quantity participants may specify in the Acceptance Notice shall be one that is sufficient to allocate only entire Series 404 Units (without any fractions), i.e., in multiples of NIS 44,445 par value of Series N Subordinated Bonds; accordingly, any excess number of Series N Subordinated Bonds specified in Participants’ Acceptance Notices, which will be insufficient for allocation of a whole Series 404 Units, shall not be exchanged.

Therefore, by signing this Acceptance Notice, we hereby declare and undertake as follows:

1. We received a total of \_\_\_\_\_ Acceptance Notices from holders of the Bank’s Series N Subordinated Bonds (hereinafter – the “**Acceptance Notices**”), asking to exchange, as part of the Exchange Tender Offer, a total of NIS \_\_\_\_\_ par value of Series N Subordinated Bonds, for \_\_\_\_\_ whole Series 404 Units (without any fractions) (hereinafter – the “**Existing Securities**”), in accordance with the Conversion Ratio.

Set forth below is a table specifying the number of Existing Securities referred to in the Acceptance Notices we received.

2. Copies of Acceptance Notices in which the Allocation Limit option was ticked are attached as appendix to this notice and constitute an integral part thereof.

3. This notice should be deemed as -

‘Stock Exchange Member’s Notice’ as defined in the Shelf Offering Report, and an undertaking to transfer the Existing Securities referred to in the Acceptance Notices we received as per Section 1 above; and

A declaration that the Existing Securities are free from any pledge, foreclosure, debt, undertaking, lien or any third-party rights as of the date of receipt of this Acceptance Notice; and

An undertaking that the Existing Securities shall be free of the above when transferred in the name of the Bank.

4. We hereby undertake not to confer upon a third party any rights in the Existing Securities and not to conduct any disposition or transaction involving them, either on or off the floor – until they are registered in the name of the Bank, including in the period from the last Acceptance Day through the allocation day, as these terms are defined in the Shelf Offering Report.
5. We know that a condition precedent for the purchase of the Existing Securities by the Bank and for the payment of the consideration thereof pursuant to the Shelf Offering Report is the correctness of this declaration.

Please remit the consideration for the Existing Securities to our account with the Stock Exchange’s clearing house.

The number of Existing Securities:

<b>The number of Acceptance Notices relating to the Existing Securities (*)</b>	<b>The number of Existing Securities to which the Acceptance Notices referred</b>	<b>Total (**)</b>

(\*) This number refers to all notices we received, which noted a specific number of Series N Subordinated Bonds. For example: if we received in total 10 notices, each relating to exchange of 44,445 Series N Subordinated Bonds, then the number 10 will be written in this column.

(\*\*) This refers to the number of notices we received, which noted a specific number of Series N Subordinated Bonds that Participants wish to exchange, multiplied by the number of Series 201 Subordinated Capital Notes.

\_\_\_\_\_  
Date

\_\_\_\_\_  
Name of Stock Exchange member

\_\_\_\_\_  
No. of Stock Exchange member

\_\_\_\_\_  
Stamp and signature

## **Appendix D – Tax Aspects Relating to the Series 404 Subordinated Bonds on Offer**

As is the practice when making decisions on investments, one should consider the tax implications associated with investment in the convertible securities (Subordinated Bonds (Series 404)). The provisions included in this section regarding taxation of the converted 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 converted securities should seek professional advice that will suit the investor's specific needs.

1. Pursuant to current law, the New Securities being offered to Offerees as set out in this report are subject to the following provisions of the law and tax rulings:

### **1.1 Overview**

- 1.1.1** 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**”). The Amendment 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, some new regulations that are expected to be published as a result of the Amendment have yet to be published. 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.
- 1.1.2** 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.
- 1.1.3** 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 shareholder<sup>19</sup> - from 25% to 30%.

- 1.1.4** 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 shall 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 **"Arrangement 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 (as of 2019), 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 sale amount 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.
- 1.1.5** The Efficiency Law for the years 2017-2018 reduced the corporate tax rate set in Section 126(a) of the Ordinance to 23% as from January 1 2018.
- 1.1.6** It should be clarified that the following applies to the taxation of investors who are Israeli residents. It should be noted that an "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

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<sup>19</sup> An individual who holds, whether directly or indirectly, by himself or jointly with others (as this term is defined in Section 88 of the Ordinance) at least 10% of one or more means of control in 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.

different than those described below; it is suggested that such residents seek specific advice to assess their entitlement to tax benefits in Israel. It should also be noted that investors who will be considered as “controlling shareholders”<sup>20</sup> or as “substantial shareholders”,<sup>21</sup> as defined in the Ordinance, may be subject to further tax implications in addition to those described below.

## **1.2 Capital gain from sale of the offered securities**

**1.2.1** Pursuant to Section 91 of the Income Tax Ordinance [New Version], 1961 (hereinafter – the “**Ordinance**”), a real capital gain<sup>22</sup> 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 deduct financing expenses. As to the sale of securities by an individual who is a “substantial shareholder” in a company, i.e., holder of at least 10% of one or more of the company’s means of control,<sup>23</sup> directly or indirectly, by himself or jointly with others,<sup>24</sup> during the 12 months that preceded such a sale - the tax rate applicable to the real capital gains earned by such an individual shall not exceed 30%. For the purpose of calculating real capital gain on a sale, by an individual, of a bond whose value is linked to or denominated in foreign currency, the exchange rate of the foreign currency shall be viewed as an index. As to an individual who deducted 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 provisions and conditions for the deduction of real interest expenses under Sections 101A(a)(9) and 101A(b) of the Ordinance have been

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<sup>20</sup> As this term is defined in Section 3i of the Ordinance.

<sup>21</sup> As this term is defined in Section 88 of the Ordinance.

<sup>22</sup> As defined in Section 88 of the Ordinance.

<sup>23</sup> As this term is defined in Section 88 of the Ordinance.

<sup>24</sup> As this term is defined in Section 88 of the Ordinance.

determined. 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 which case, the individual shall 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.

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

1.2.2.1 The linkage differences are not partial linkage differences.

1.2.2.2 The individual did not deduct interest expenses or linkage differences in respect of the asset.

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

**1.2.3** 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.

**1.2.4** As a 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 enterprise 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.

- 1.2.5** 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 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 has been made) shall be regarded as betterment expenses. Furthermore, for tax purposes, the purchase date of the Subordinated Bonds shall be deemed the purchase date of such shares.
- 1.2.6** Regulation 4 of the Income Tax Regulations (Calculation of Capital Gain on Sale of a Security Listed on a Stock Exchange, Government Loan, or a Mutual Fund Unit), 2002 stipulates that upon redemption of a bond traded on the Stock Exchange that also involves the payment of discount fees, the consideration plus the discount fees shall be viewed as the redemption consideration, provided that all of the following conditions are met: (1) the capital gain earned from the sale of the bond is not tax-exempt; (2) a capital loss arises on redemption date; and (3) redemption is not by the controlling shareholder or by the person/entity who held the bond since the date of allocation or issuance thereof; all up to the amount of the capital loss. The discount fees which are viewed as a consideration pursuant to these provisions shall not be deemed as income pursuant to Section 2(4) of the Ordinance.
- 1.2.7** 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 on 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.
- 1.2.8** As a general rule, if the securities converted 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).

**1.2.9** 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 the aforementioned Regulations, hereinafter – a “**Person Liable to Tax**”), 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% of the real capital gain. If the seller is a body of persons, the rate of tax to be deducted from the real capital gain 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 Tax Authority and subject to offsetting of losses that the Person Liable to Tax may apply by law. Tax shall 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 to the seller.

### **1.3** Tax rate applicable to interest income from the converted securities

**1.3.1** 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 index,<sup>25</sup>

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<sup>25</sup> As this term is defined in Section 125c to the Ordinance – the most recent Consumer Price Index published by Israel Central Bureau of Statistics prior to the relevant date, and in the case of an asset whose value is linked to a foreign currency or denominated in a foreign currency – the exchange rate.

and this income will be regarded as the highest bracket in the scale of his taxable income.<sup>26</sup>Pursuant to Section 89(e) to the Ordinance, income from linkage differences arising from redemption of a bond or a tradable security, where the income therefrom does not constitute income from a “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 Consumer Price Index published by the Israel Central Bureau of Statistics shall be viewed as an index for purposes of Section 125c of the Ordinance – and as to an asset whose value is linked to or denominated in foreign currency – the exchange rate of the foreign currency shall be viewed as an index.

- 1.3.2** Pursuant to Section 125c(d) of the Ordinance, tax rates as stated above shall not apply, inter alia, 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 deducted 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 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

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<sup>26</sup> Pursuant to Section 89(e) to the Ordinance, the linkage differences arising from redemption of a bond or a tradable security, where the income therefrom does not constitute an income from a “business” or “profession”, shall be liable to tax pursuant to the provisions of Part E of the Ordinance.

accordance with the provisions of Section 121 of the Ordinance as set out above.

**1.3.3** 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 set out in Section 126 of the Ordinance.

**1.3.4** Pursuant to Section 9(15d) of the Ordinance, interest, discount fees or linkage differences paid to a foreign resident<sup>27</sup> 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 enterprise of the foreign resident in Israel.<sup>28</sup>

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 relationship therewith, unless it is proven that the interest rate or discount fees

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<sup>27</sup> A foreign resident – someone who is a foreign resident on the date of receipt of the interest or linkage differences as the case may be, excluding one of the following (1) A substantial shareholder in the offering body of persons; (2) A relative of the offering body of persons as the term relative is defined in Paragraph (3) of Section 88 of the Ordinance; (3) An employee, service provider, or seller of products to the offering body of persons or someone who has a special relationship therewith, unless it is proven that the interest rate or discount fees are determined in good faith and without being influenced by the existence of such special relationship; (4) A foreign resident company that is held by Israeli residents as set out in Section 68A of the Ordinance.

<sup>28</sup> A foreign resident is a person who was a foreign resident on the date of receipt of interest, discount fees or linkage differences, as the case may be.

are determined in good faith and without being influenced by 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, if 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.

**1.3.5** 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.

**1.3.6** 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)<sup>29</sup> paid on the offered securities is as follows:

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<sup>29</sup> 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.



- (a) As to fully linked securities - 25% 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 transmitted to the Israel Tax Authority by a member of the stock exchange in lieu of the offering companies, subject to the said guidelines.

#### **1.4 Tax rate applicable to dividend income in respect of the Bank’s shares**

As a rule, individuals who are Israeli residents shall pay tax at a 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 at a rate 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 at a rate 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 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 set rate.

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

### **1.5 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 bonds 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 the Bank's shares.

#### **1.6 Offering of additional Subordinated Bonds (Series 404) as part of the expansion of a series**

If the discount rate to be set for additional Subordinated Bonds (Series 404) (Series 404) 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 404), a uniform discount rate based on a formula which weights the different discount rates for the Subordinated Bonds (Series 404) 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 404) 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 404) 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 404), 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 applicable statutory provisions with regard to the taxation of discount fees. 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 404) is expanded, if the discount rate set as part of the offering of the Subordinated Bonds (Series 404) 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 404) 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.

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 404), should such an offering take place.

## **1.7 Offsetting of losses**

**1.7.1** 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 tradable 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).

**1.7.2** 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, on sale of tradable securities, mutual fund units and futures (hereinafter – “**Tradable Securities**”) for purposes of withholding tax at source in respect of the capital gains, the tax payer shall offset the capital loss arising from the sale of Tradable Securities under his management, provided that the capital gain was generated in the same tax year in which the loss was incurred, regardless of whether the capital gain was generated - whether before the capital loss or after the said date. The said Amendment came into effect on January 1 2012.

**1.7.3** 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 seller 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 seller is an individual. The offsetting 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 incurred 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.

- 1.7.4** A loss which cannot be so offset may be offset consecutively in the tax years subsequent to the year in which the loss was incurred, 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 incurred was filed with the Assessing Officer.
- 1.7.5** Pursuant to the Court ruling in the Moses case,<sup>30</sup> if the seller is an individual: insofar as the security is denominated in or linked to a foreign currency and the exchange rate was viewed as an index when calculating the capital gain, and insofar as during the period from acquisition date to sale date the exchange rate of the foreign currency has fallen and the said security is sold at a loss, the amount of the loss arising from the decrease in exchange rate shall be deducted from the loss.
- 1.7.6** When calculating the capital gain for purposes of tax deduction, the Person Liable to Tax shall offset capital loss on securities in accordance with the provisions of Section 92 of the Ordinance, provided that all of the following conditions are met:
- 1) The loss was incurred on the sale of a security that was under management of the Person Liable to Tax;
  - 2) The gain was earned during the same tax year in which the loss was incurred, whether before or after the date on which the loss was incurred.

## **Appendix E - Consent Letter from the Bank's Independent Auditors**

To:  
The Board of Directors of  
Bank Leumi Le-Israel Ltd.  
34 Yehuda Halevy Street  
Tel Aviv

July 3 2019

Dear Madam/Sir,

Re: **Shelf Offering Report of Bank Leumi Le-Israel Ltd. (hereinafter – “the Bank”), which will be published in July 2019**  
**(hereinafter: the “Shelf Offering Report”)**

We hereby inform you that we agree to the inclusion (including by way of reference) in the Shelf Offering Report, based on the Bank's prospectus published on May 25 2018, our following reports:

- (1) Report of the Independent Auditors dated March 5 2018 regarding the Bank's Consolidated Financial Statements dated December 31 2017 and 2016 and for each of the three years ended on December 31 2017.
- (2) Report of the Independent Auditors Dated March 5 2018 regarding Audit of Components of Internal Control over Financial Reporting of the Bank as at December 31 2017.
- (3) Independent Auditors' Review Report dated May 23 2018, on the Condensed Consolidated Financial Information of the Bank as of March 31 2018 and for the three-month period then ended.
- (4) Independent Auditors' Review Report dated August 13 2018, on the Condensed Consolidated Financial Information of the Bank as of June 30 2018 and for the three and six month-periods then ended.
- (5) Independent Auditors' Review Report dated November 12 2018, on the Condensed Consolidated Financial Information of the Bank as of September 30 2018 and for the three and nine month-periods then ended.
- (6) Report of the Independent Auditors dated March 6 2019 regarding the Bank's Consolidated Financial Statements dated December 31 2018 and 2017 and for each of the three years ended on December 31 2018.
- (7) Report of the Independent Auditors Dated March 6 2019 regarding Audit of Components of Internal Control over Financial Reporting of the Bank as at December 31 2018.



(8) Independent Auditors' Review Report dated May 26 2019, on the Condensed Consolidated Financial Information of the Bank as of March 31 2019 and for the three-month period then ended.

We draw attention to Section 28 of the Shelf Offering Report regarding a petition filed to approve a class action against the Bank and against other banks. The Bank is unable to assess the implications of such a class action on the Bank, its financial position and financial performance, and whether they shall be material.

We consent to this opinion being included in the Shelf Offering Report.

**Somekh Chaikin**  
CPAs

**Kost Forer Gabay Kasierer**  
CPAs

Joint independent auditors

**Appendix F – Consent Letter for Attachment of Rating Reports**

July 4, 2019

To

Bank Leumi of Israel Ltd.

Dear Sirs/Madams,

**Re: Setting an ilAA Rating to Issuance of Series 404 Subordinated Bonds  
with a Loss Absorption Mechanism**

Standard & Poor's Maalot Ltd. (hereinafter – "S&P Maalot") hereby announces the setting of 'ilAA' rating for the issuance of a new series of subordinated bonds with a loss absorption mechanism - Series 404 of up to NIS 3.1 billion par value (hereinafter – the "Rating") to be issued to the public by Bank Leumi Le-Israel Ltd. (hereinafter – the "Company"). The issuance will be carried out by way of an exchange tender offer for the Series 201 subordinated capital notes rated 'ilAA' and an exchange tender offer for Series N subordinated bonds rated 'ilAA+'.

In connection with the above, we wish to emphasize that the rating of the bonds was set, *inter alia*, based on the Company's shelf prospectus of May 25, 2018 (hereinafter – the "Prospectus"), the draft shelf offering report delivered to us on July 3, 2019 (hereinafter – the "Draft Shelf Offering Report") and based on the issuance's structure and purpose as provided to us by yourselves.

Should the final shelf offering report include changes in the structure or purpose of the issuance and/or other changes compared to the wording of the Draft Offering Report, or if any material changes have occurred in any factor that may impact the rating in anyway whatsoever, S&P Maalot reserves the right to re-assess the issue and amend the aforesaid rating (hereinafter – the "Changes and Additions"). We therefore request that you notify us and deliver us in writing details concerning all the Changes and Additions. The aforesaid rating is conditional upon receipt of your written approval, prior to the publication of the Final Shelf Offering Report, to the effect that the Final Shelf Offering Report does not include any Changes and Additions.

Our consent for the inclusion of the Rating in the shelf offering report is in effect for 60 days from the date of this letter, i.e., until September 4, 2019. The Company should not include the Rating in the Final Shelf Offering Report without our prior written consent.

Subject to the above, we agree that the Rating Report of July 4, 2019 will be included in full in the Final Shelf Offer Report (including by way of reference).

It is hereby clarified that for the purpose of determining the Rating, S&P Maalot reviews only the Prospectus and the Shelf Offering Report and does not review additional documents related to the issuance, including a description of the documents as stated in the Prospectus and in the Shelf Offering Report.

Sincerely,

Standard & Poor's Maalot Ltd.

[www.maalot.co.il](http://www.maalot.co.il)

**Bank Leumi of Israel Ltd.**

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**July 4, 2019**

**New Issuance**

**Granting 'ilAA' rating to issuance of bonds with a loss absorption mechanism, of up to NIS 3.1 billion par value.**

**Primary Credit Analyst:**

Lena Schwartz, Ramat Gan 972-3-7539716 [lena.schwartz@spglobal.com](mailto:lena.schwartz@spglobal.com)

**Secondary Contact person:**

Stephanie Mery, Paris 33-144-207344 [stephanies.mery@spglobal.com](mailto:stephanies.mery@spglobal.com)

## **New Issuance**

### **Granting 'ilAA' rating to issuance of bonds with a loss absorption mechanism, of up to NIS 3.1 billion par value.**

S&P Maalot hereby announces the granting of 'ilAA' rating to bonds with a loss absorption mechanism, of up to NIS 3.1 billion par value, by way of issuing a new series (Series 404) by Bank Leumi of Israel Ltd. (ilAA/Stable). This amount includes the NIS 3 billion par value framework that was approved on June 26, 2019.

The issuance will be carried out by way of exchange tender offer for the Series 201 subordinated capital notes rated 'ilAA' and an exchange tender offer for Series N subordinated bonds rated 'ilAA+'.

When setting the rating of the Series 404 bonds we implement, *inter alia*, the methodology for rating of banks' hybrid instruments and the methodology for setting ratings in the domestic scale. The starting point for the rating is the assessment of the Bank's Stand-Alone Credit Profile (SACP) rather than the Bank's Issuer Credit Rating (ICR), which incorporates government support, since we do not expect that those instruments will be impacted by government support. We deduct two notches, as follows:

- One notch to reflect the loss absorption mechanism that is incorporated into the instrument through the conversion of bonds into the Bank's shares upon the occurrence of one of the trigger events defined in its terms, i.e., "trigger event for principal loss absorption", when the Bank's Tier 1 common equity ratio dips below 5%, or a "trigger event for non-viability", which is defined as the earlier of the Banking Supervision Department's written notice to the Bank to the effect that the conversion of the bonds is necessary, since without it, in the Banking Supervision Department's opinion, the Bank will reach the point of non-viability; or the Banking Supervision Department's written notice to the effect that it was decided to inject capital from the public sector, or support of equal value, without which the Bank will reach the point of non-viability as set forth by the Banking Supervision Department (insolvency).
- One notch to reflect the contractual subordination of the instrument to senior obligations of the Bank.

The first notch is deducted from the Bank's rating as per the global scale and reflects the instruments' insolvency risk in accordance with our methodology for rating banks' hybrid instruments. We then carry out a conversion to the domestic rating using the conversion tables. After the conversion to the domestic rating scale, we deduct the rating by one further notch in order to reflect the contractual subordination of the instrument to reach the instrument's rating according to the domestic scale.

After assessing the instrument based on our methodology for hybrid instruments, we believe that there are no further insolvency risks that justify the deduction of further notches beyond those noted above. We wish to note specifically that the Bank's current creditworthiness does not lead us to think that the probability of regulatory intervention in connection with the Series 404 bonds, as described above, requires the deduction of further notches.

## Bank Leumi of Israel Ltd.

For further details about Bank Leumi's rating and further regulatory requirements, see [Rating Report of November 7, 2018](#). For further details about the instrument's rating methodology, please refer to the methodology articles list in the aforesaid Rating Report and to the Q&A document [Rating of Banks' Hybrid Instruments – Q&A](#), published on November 29, 2015.

### General details (as of July 4, 2019)

#### Bank Leumi of Israel Ltd.

##### Issuer's Rating(s)

Long term	ilAAA\Stable
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##### Issuance's Rating(s)

###### Hybrid subordinated debt

Subordinated bonds with loss absorption mechanism Series 400, 401, 402, 403, 404	ilAA
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Leumi subordinated capital notes Series 200, 201	ilAA
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Subordinated capital notes Series 300, 301	ilAA
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###### Unsecured senior debt

Bonds – Series 177, 178, 179	ilAAA
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Bonds – Series 180	ilAAA
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###### Subordinated debt

Subordinated bonds Series N	ilAA+
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##### Issuer's Rating History

Long term	
October 07, 2014	ilAAA\Stable
May 5, 2010	ilAA+\Stable
April 30, 2009	ilAA+\Negative
June 21, 2007	ilAAA\Stable
May 14, 2006	ilAAA
February 1, 2003	ilAA+
May 1, 1998	ilAAA

##### Additional details

Date and time on which the event took place	04/07/2019 07:58
Date and time on which the event first became known	04/07/2019 07:58
Entity that initiated the rating	The rating company

## **Credit rating monitoring**

We monitor developments that may impact the credit rating of issuers or specific bond series rated by us on an ongoing basis. The purpose of monitoring is to ensure that the rating will be up-to-date on a current basis and to identify the parameters that may trigger a change in rating.

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**Bank Leumi of Israel Ltd.**

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**November 7, 2018**

**Primary Credit Analyst:**

Lena Schwartz, Tel Aviv, 972-3-7539716 [lena.schwartz@spglobal.com](mailto:lena.schwartz@spglobal.com)

**Secondary Contact person:**

Stephanie Mery, Paris, 33-144-207344 [stephanies.mery@spglobal.com](mailto:stephanies.mery@spglobal.com)

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**Strengths and weaknesses**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Strong business position and brand as one of the two largest Israeli banking groups, with strong presence in all lines of business and in digital banking.</li> <li>• Ongoing improvement in efficiency ratios.</li> <li>• Extensive depositor base that supports adequate funding and liquidity ratios.</li> <li>• Indicators reflecting high quality of assets.</li> </ul>	<ul style="list-style-type: none"> <li>• Regulatory attempts to restrict the market share, as reflected in the forced separation from the subsidiary Leumi Card.</li> <li>• Exposure to the domestic real estate sector.</li> <li>• Restricted ability to diversify or increase revenues from commissions.</li> </ul>

**Rating outlook: Stable**

The stable rating outlook reflects our opinion that the improvement in the operating environment and the domestic economy will further support the Bank's rating in the next 12-24 months. Therefore, we estimate that the Bank shall continue strengthening its capital base such that it reaches risk adjusted capital (RAC) ratio of 10% in the next couple of years, which may lead to higher capital and earnings estimate and improve its independent credit profile. Nevertheless, we also take into account steps that were taken recently that reduce the Bank's capital, such as buyback of 2% of share capital up to a total of NIS 700 million and the Bank's dividend policy. We believe that the Bank shall continue maintaining conservative underwriting standards while moderately increasing its loans portfolio and improving its relatively modest efficiency ratios.

**The negative scenario**

We may consider a negative rating action in the event of reversal of the positive economic trends, such as in the event of imbalance in the housing market. We shall also consider such action if we see larger than expected pension provisions that will reduce capital.

**Main considerations for rating**

Bank Leumi's rating reflects the exposure to the domestic market, where the benefits from good positioning and extensive business distribution. The forced separation from the subsidiary Leumi Card may slightly reduce the diversity and scope of non-interest revenues. However, this will have a limited impact on the business positioning the next three-four years in terms of loss of market share. We estimate the Bank's capital as 'adequate' and predict that its Risk Adjusted Capital (RAC) ratio will approach 10% in the next couple of years. The Bank has recently adopted a dividend policy that benefits shareholders and includes a distribution of a dividend amounting to 40% of the profit; the Bank also took further steps that reduce capital, specifically a buyback of 2% of the share capital at an amount of up to NIS 700 million dollars. We note favorably the continued improvement in the quality of the Bank's assets and its cautious risk management policy, despite its sensitivity to unexpected risks (tail risks) which stem mainly from sectoral concentration due to the exposure to real estate. We estimate the Bank's funding profile as 'average' since it is supported by an extensive and distributed depositor base. We estimate the Bank's liquidity as 'adequate' since we believe that its inventory of liquid assets comfortably covers its liquidity needs and therefore reduces reliance on short-term wholesale funding.

The Bank's Issuer Credit Rating (ICR) is one notch higher than its Stand-Alone Credit Profile (SACP), since we estimate that there is a fairly high probability that extraordinary support will be rendered by the State of Israel (AA-/Stable/A-1+), where required. We classify Bank Leumi as a systematically important bank and the State of Israel as supporting the domestic banking sector.

**Anchor: Reflects the focus on the Israeli activity**

S&P Global's rating methodology for banking institutions is based on our assessment of the Israeli banking sector from a global perspective (BICRA –Banking Industry Country Risk Assessment), as an anchor for bank ratings, i.e. a starting point rating. This assessment combines the economic risk assessment and the sectoral risk assessment. The BICRA score of the Israeli banking sector is 4 on a 1 to 10 scale, with 1 reflecting the lowest risk.

We base our assessment on the geographic distribution of the Bank's credit portfolio, of which 95% is related to Israel and 5% is related to the USA as of June 30, 2018. We estimate that this distribution shall remain stable over the next 24 months, although the Bank's presence in the USA may expand.

We believe that the improvement in the Israeli economy with adequate resilience and no major imbalances, is supportive to the domestic banking sector. However, market conditions may deteriorate quickly given the geopolitical risks. We believe that the credit risks in the Israeli economy reflect the banks' increasing exposure to the real estate sector, that was characterized by price fluctuations over the last 24 months.

As to the sectoral risk, the Israeli banking sector has an adequate institutional framework with a high and stable share of core retail deposits. We expect competition to remain intensive with significant presence of non-bank credit providers, mainly in the field of corporate borrowing and in the future probably also in the field of retail credit. The increased competition is a result of the Government and regulator's policy of intensifying competition, particularly on the part of credit card companies.

**Table 1.**

**Bank Leumi Le-Israel B.M. Key Figures (Mil. ILS)**

	H1/2018	2017	2016	2015	2014
Adjusted assets	458,760	450,822	438,586	416,481	397,154
Customer loans (gross)	276,118	271,931	266,092	265,523	256,996
Adjusted common equity	34,254	30,269	29,301	27,948	25,055
Operating revenues	6,703	13,474	12,934	13,404	12,540
Noninterest expenses	4,151	8,501	8,580	8,831	9,313
Core earnings	1,657	3,141	2,787	2,753	1,454

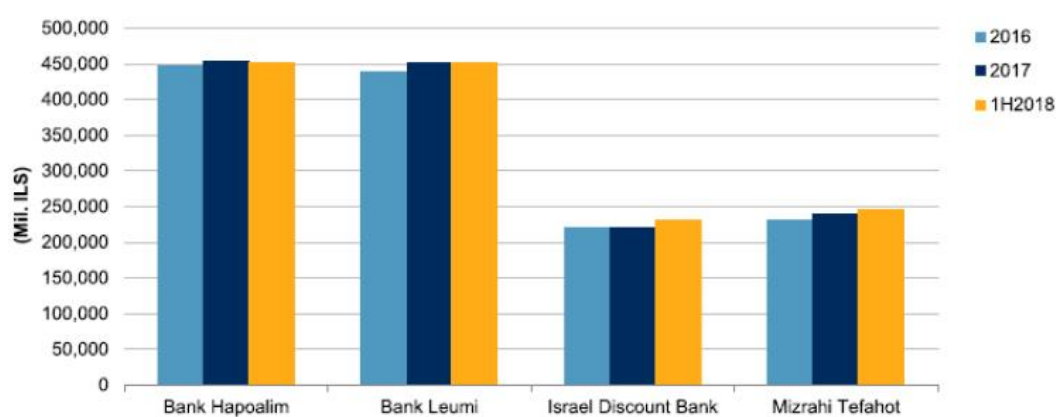
Data are based on S&P Global Ratings adjusted number and ratios

**Business position: Strong position as one of the two largest banks in the Israeli economy**

Our assessment of the Bank's business position as 'strong' reflects its leading position in Israel as one of the country's two largest banking groups. As of June 30, 2018, Leumi's total assets amounted to NIS 450 billion, holding 29% of total public's deposits and bank credit in the Israeli economy and a stable market share in recent years. Bank Leumi is supported by a high level of brick & mortar branches and forward-looking innovation, with 197 retail branches, 24 business branches charged with the activity of medium commercial companies and the Leumi-Tech business center, through which the Bank runs its activity with high-tech companies (a significant market share in the high-tech sector, which is still moderate in size).

**Chart 1**

**Israeli Banks -- Total Assets**



ILS—Israeli shekel.

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Bank Leumi has a diversified mix of lines of business, which is supported by the Bank's presence in all segments of the Israeli banking sector, including complementary activities such as services to capital market investors and investment banking with a focus on investment in equity of non-financial companies. We believe that the Bank's business diversity reflects a better ability to cope with sectoral challenges compared to peers facing a similar sectoral risk, such as smaller banks and banks in Austria, the Czech Republic and Denmark. This business diversity also balances out the Bank's high level of geographical concentration.

We expect the Bank to record higher than average sectoral growth in credit extended, especially mortgages, due to its temporary advantage in terms of its capital, which renders it with a greater room to maneuver than that of some of its peers which are more hard-pressed for capital. Currently, the Bank aspires to maintain its position through traditional and alternative distribution channels, specifically through Pepper, its mobile banking platform and through the promotion of its payment app Pepper Pay, both of which are targeted at younger clients.

Moreover, as a consequence of the tax investigation by US authorities and stricter global regulation applied to foreign accounts, we see a decrease in the Bank's appetite to expand its international activities, which are mainly focused in the USA (where 5% of the Bank's activities took place in 2017 and 2018). The Bank has recently sold 15% of its holdings in its US subsidiary to two strategic investors, in order to utilize their expertise with a view to expand the field of business credit to medium US companies. In our opinion, Bank Leumi continues to pursue a cautious expansion policy outside Israel, including in terms of its large-scale purchases. Instead, it focuses on improving the earnings of its existing activities, specifically in sub-segments expected to contribute towards its bottom line.

## Bank Leumi of Israel Ltd.

On the other hand, we estimate that the maturity of the domestic market and the high levels of competition therein, in combination with the constant monitoring of banks' activities by regulators and political groups, may restrict the Bank's growth. The forced separation from Bank's holdings in its subsidiary Leumi Card may have an adverse impact on its business position in the next three-four years, since the bank may lose market share in the field of consumer credit, and the scope and diversity of non-interest revenue may decrease significantly. Leumi Card's activity constitutes 3% of the Bank's total credit and 8% of the Group's net income. Nevertheless, almost 33% of the Leumi Card's pending credit balances are intra-month balances of credit cards issued by the Bank.

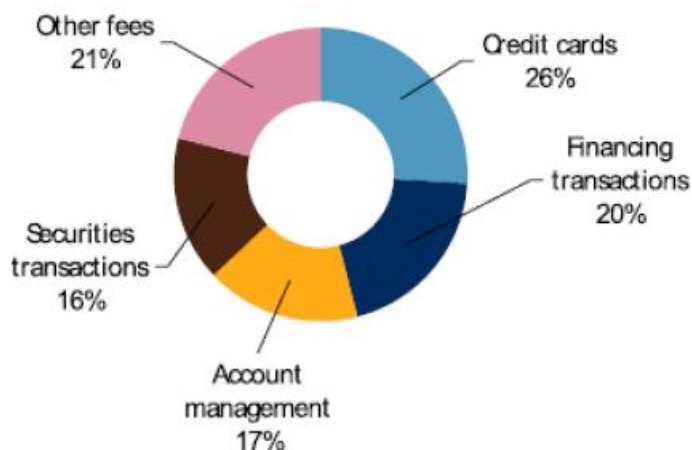
Bank Leumi and the Azrieli Group reached an agreement for the sale of Leumi Card to the private American fund Warburg Pincus. Leumi Card's value as per the transaction is NIS 2.5 billion, 30% above its carrying amount; this amount will be paid in three installments over three years.

In the first half of 2018, revenues from clearing fees constituted 26% of the Bank's total fees revenues. The sale will have a certain impact on fees revenues. At this stage, it is still unknown which share of this loss will be offset by interchange fees, card fees and distribution fees, since the Bank will now be able to work with several credit card companies. On August 12, 2018, Bank Leumi and the credit card company CAL (currently owned by Discount Bank) announced that they signed an agreement for issuance and distribution of Visa, MasterCard and Diners credit cards to Bank Leumi's clients. It is, therefore, too early to estimate whether the separation from Leumi Card will significantly undermine Bank Leumi prominent position in consumer and retail banking.

We believe that the Bank's management is experienced and professional. The Bank has a robust mechanism of balances and controls embedded into its decision-making process, as well as independent directors that contribute towards its strategy.

**Chart 2**

### Bank Leumi le-Israel B.M. -- Fee And Commission Revenues As Of 1H2018



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Table 2.

Bank Leumi Le-Israel B.M. Business Position (%)					
	H1/2018	2017	2016	2015	2014
Total revenues from business line (currency in millions)	6,715	13,566	13,000	13,592	12,610
Commercial banking/total revenues from business line	43.7	40.6	38.4	39.6	44.5
Retail banking/total revenues from business line	36.7	35.7	36.9	37.0	42.2
Commercial & retail banking/total revenues from business line	80.4	76.3	75.3	76.6	86.7
Other revenues/total revenues from business line	19.6	23.7	24.7	23.4	13.3
Return on average common equity (%)	9.6	9.8	9.3	10.3	5.4

Data are based on S&P Global Ratings adjusted number and ratios

### Capital and earnings: maintaining a moderate increase in risk assets

We view the Bank's capital and earnings as 'adequate'. We estimate that Bank Leumi shall continue strengthening its capital base and reach Risk Adjusted Capital (RAC) ratio of almost 10% in the next couple of years.

We believe that the Bank's limited ability to generate capital does not play a significant role in its rating, since management does not aim to aggressively increase the Bank's credit portfolio. We expect that credit loss expenses will remain significantly lower than our estimate of normalized credit loss expenses in the next couple of years.

Our outlook for the Risk Adjusted Capital (RAC) takes into account the impact of the sale of Leumi Card on the Bank's capital, earnings and risk assets. Bank Leumi is expected to report a post-tax profit of NIS 234 million from the sale. Pursuant to the agreement, the Bank may also earn a long-term revenue of NIS 273 million on top of the selling price, based on Leumi Card's future earnings. Earnings from the sale may lead to the distribution of an extraordinary dividend or to the upgrading of the IT systems; other alternatives are also being considered.

Our base scenario also takes into account the fact that the Bank's policy towards its shareholders has become more favorable, which was reflected in a distribution of a NIS 653 million dividend (40% of quarterly earnings) during the first half of 2018. Bank Leumi has also implemented a buyback plan and aims to purchase 2% of its shares, up to a total amount of NIS 700 million. Nevertheless, we believe that the Bank will maintain some flexibility in terms of its future dividend distribution policy, since it operates without a principal controlling shareholder.

Our calculation of the Risk Adjusted Capital (RAC) does not take into account significant changes in the actuarial valuation of the liabilities for employees' pension. We believe that the Bank's regulatory capital ratio will be impacted to a larger extent than that of its principal domestic peers by changes in the consumer price index and the discount rates due to its liability for employees' pension. This is despite the fact that the regulator moderated this effect by allowing the Bank to use a moving capitalization rate calculated over eight consecutive quarters in its calculation of its pension liabilities.

Pursuant to the provisions of the Bank of Israel, Israeli banks (unlike their counterparts in many developed countries) use the standard approach to calculate risk assets. This approach is more conservative than other more advanced models. This is reflected in Israeli banks' having lower regulatory capital ratios than those of their foreign counterparts (Tier 1 capital ratio of 11.7% as of June 30, 2018), and a relatively low capital surplus above the regulatory minimum threshold. The Bank aims to reach a Tier 1 capital ratio of 50 base points above the 10.5% regulatory threshold in the next few years. However, we do not consider this to be a risk, since the regulator is satisfied with these narrow margins. We do not believe that this will change in the near future.

We predict a certain acceleration in credit growth, which is currently fairly moderate (predicted annual growth of 5% in 2018), mainly in credit extended to medium businesses and real estate. This is due to the fact that the Bank's capital cushions in excess of the regulatory threshold requirements continue to expand.

We estimate that credit losses shall continue to increase from their current low levels, which we do not regard as sustainable in the next couple of years, since the Bank continued to recover some of the debts it had previously written-off. We expect that the rate of credit loss expenses, which was set at 9 base point during the first half of 2018, shall increase and stabilize at 20-30 base points in 2018-2020.

Given the high rate of mortgages and real estate credit out of the Bank's entire business mix, any negative developments in the real estate market – although not factored into our base scenario – may put the capital forecast at risk. We also expect that the continued low interest rate environment will continue to put a squeeze on the Bank's overall interest margins. However, we believe that the basic core margin will slightly benefit from the transition to operating segments with larger margins.

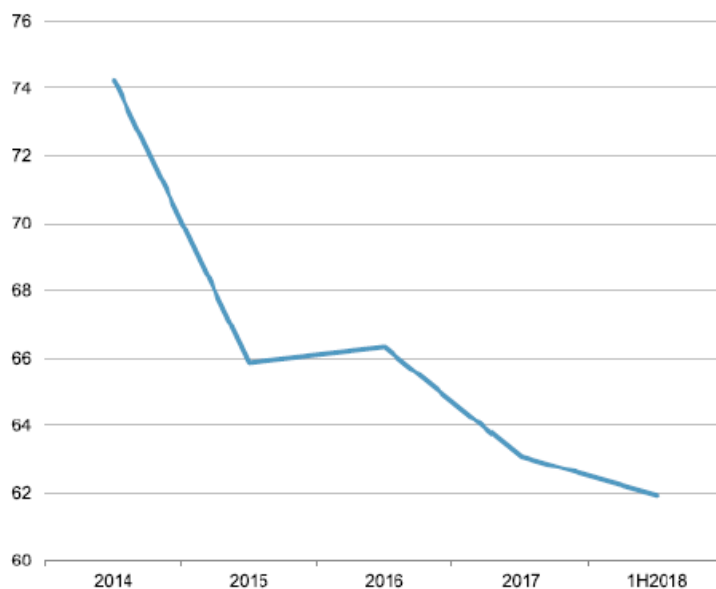
The continued improvement of operational efficiency is an important management target, and the Bank has made progress in achieving that target. In recent years, the Bank implemented streamlining plans that significantly decreased the number of employees and improved its operational efficiency. The ratio between operating expenses and revenues improved from 70% in 2013 to slightly more than 60% in the first half of 2018.

On the other hand, the trade union of the Bank's employees has historically obtained wage agreements, which are more favorable than the sectoral average. Therefore, further improvement of this ratio is conditional upon the Bank's ability to leverage the significant investment it made in IT in recent years, both in core systems and in external facing systems. We also expect that some of the profits generated from the sale of Leumi Card will be invested in upgrading the IT systems.

Our base scenario regarding the Bank's earnings is cautious when it comes to predicting trading earnings and investment banking revenues from sale of non-financial companies' shares. This is since those earnings may fluctuate and have a major impact on results. We estimate that the Bank will report an annual profit of more than NIS 3 billion in the next couple of years, but emphasize that this outlook is sensitive to changes in credit loss expenses and in market-sensitive revenues.

Chart 3

Bank Leumi le-Israel B.M. -- Cost-To-Income Ratio (%)



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Table 3.

**Bank Leumi Le-Israel B.M. Capital and Earnings (%)**

	H1/2018	2017	2016	2015	2014
Tier 1 capital ratio	11.2	11.4	11.2	9.6	9.2
S&P RAC ratio before diversification	N/A	9.4	N/A	9.0	7.6
S&P RAC ratio after diversification	N/A	8.4	N/A	8.9	7.4
Net interest income/operating revenues	65.9	59.7	58.2	53.1	58.7
Fee income/operating revenues	31.1	30.7	30.7	30.5	33.2
Market-sensitive income/operating revenues	2.1	6.8	9.9	11.9	6.1
Noninterest expenses/operating revenues	61.9	63.1	66.3	65.9	74.3
Preprovision operating income/average assets	1.1	1.1	1.0	1.1	0.8
Core earnings/average managed assets	0.7	0.7	0.7	0.7	0.4

Data are based on S&amp;P Global Ratings adjusted number and ratios



Table 4.

**Bank Leumi Le-Israel B.M. RACF [Risk-Adjusted Capital Framework] Data (Mil. ILS)**

	<b>Exposure*</b>	<b>Basel III RWA</b>	<b>Average Basel III RW (%)</b>	<b>S&amp;P Global RWA</b>	<b>Average S&amp;P Global RW (%)</b>
Government and central banks	140,886	5,263	4	3,476	2
Of which regional governments and local authorities	10,675	3,518	33	636	6
Institutions and CCPs	25,994	4,766	18	8,291	32
Corporate	177,227	163,909	92	168,266	95
Retail	125,010	79,259	63	69,686	56
Of which mortgage	77,625	43,519	56	28,789	37
Securitization§	1,950	441	23	438	22
Other assets†	7,027	22,031	314	16,943	241
Total credit risk	478,093	275,670	58	267,100	56
Credit valuation adjustment					
Total credit valuation adjustment	--	1,424	--	0	--
Market risk					
Equity in the banking book	3,265	0	0	24,490	750
Trading book market risk		4,464		6,696	
Total market risk		4,464		31,186	
Operational risk					
Total operational risk	--	20,834	--	25,264	--
		<b>Basel III RWA</b>		<b>S&amp;P Global RWA</b>	<b>% of S&amp;P Global RWA</b>
Diversification adjustments					
RWA before diversification		302,392		323,550	100
Total					
Diversification/Concentration Adjustments		--		35,947	11
RWA after diversification		302,392		359,497	111
		<b>Tier 1 capital</b>	<b>Tier 1 ratio (%)</b>	<b>Total adjusted capital</b>	<b>S&amp;P Global RAC ratio (%)</b>
Capital ratio					
Capital ratio before adjustments		34,653	11.5	30,269	9.4
Capital ratio after adjustments‡		34,653	11.4	30,269	8.4

\*\*Exposure at default. §Securitisation Exposure includes the securitisation tranches deducted from capital in the regulatory framework. †Other assets includes Deferred Tax Assets (DTAs) not deducted from ACE.

‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons).

RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. ILS--New Israeli Shekel. Sources: Company data as of Dec. 31, 2017, S&P Global.



**Risk profile: capital cushions covering the risks**

As is the case with other large Israeli banks, we believe that Bank Leumi's risk profile is 'adequate'. In our opinion, the risks to which the Bank is exposed correspond to those of Israeli banks with a similar economic model and those of foreign banks with the same weighted economic risk.

We predict that credit growth shall remain moderate in 2018-2020, although slightly higher than recently. This growth is no longer restricted by the need to increase the Bank's capital; however, it will be restricted by the new dividend policy and the capital management measures.

The State of Israel is taking steps to reduce house prices, mainly through the "Mechir Lamishtaken" scheme, and the banking sector has, indeed, experienced a certain slowdown in construction loans and mortgages. Housing prices in Israel have increased significantly mainly in 2007-2016 (more than 128% according to the Bank of International Settlements). However, this increase has been somewhat moderated recently as a result of a cautious combination of macro-stabilizers and government initiatives to increase the supply in the housing market. Nevertheless, mortgages are expected to remain an important driver of credit growth in a period during which the government sells land at a price lower than its market price. Therefore, the high exposure to credit extended to the real estate sector continues to be a primary risk for Bank Leumi and its peers in the domestic market, while for Bank Leumi the credit mainly involves loans to residential projects. This exposure may adversely impact the Bank's capital and earnings if asset prices experience a material correction or if the Israeli economy deteriorates. However, these scenarios are not part of our base scenario. 49% of Bank Leumi's credit risk is concentrated in real estate (including mortgages) and the Bank makes extensive use of insurance to mitigate this risk. Steps taken by the Bank of Israel also help to mitigate the risks arising from a large exposure to mortgages, since the loan to value (LTV) rates in Israel are very low compared to other developed countries. Macro-stabilizers also include means test and limit the amounts of variable interest loans a borrower may receive.

Construction contractors have recently suffered a decrease in earnings and financial problems stemming, *inter alia*, from the market's transition to "Mechir Lamishtaken" projects. However, the legal framework of residential construction projects, which includes collaterals provided by banks to apartment buyers as security in the event that the contractor enters bankruptcy, causes a situation where banks are mainly exposed to credit at individual project level. Contractors are required to inject capital to projects, and bank funding is provided based on the percentage of completion of construction work and the number of apartments sold, such that in the event of contractors' entering insolvency, the banks' losses are not big.

Consumer credit is another growth engine for the domestic banking sector in general and for Bank Leumi in particular. We believe that the risk involved in this type of credit is higher; it is reflected in higher interest margins and leads to larger provisions for credit losses. Specifically, the new Insolvency Law may interrupt the recovery process, and the high growth of consumer credit extended by non-bank entities may have an adverse effect on the quality of retail credit. We expect that the leverage level of households (which is relatively low as a percentage of GDP), the introduction by the Bank of stricter underwriting terms for this segment lately and the slowdown in loans extended shall significantly decrease the credit risk. We also note that Bank Leumi's retail credit is mortgages-oriented and the Bank's losses from consumer credit and small businesses were lower lately than sectoral average.

Considering the small size of the domestic economy, Bank Leumi's positioning as one of the two largest lenders means exposure to large borrowers, which constitutes another risk compared to banks in larger countries with decentralized economies. Nevertheless, Bank Leumi has always had a presence in the medium companies' market segment, where the risk spread is more significant. The gradual breakdown of domestic holding companies and an active market for transfer of risks to institutional investors and to the bonds market also give Bank Leumi flexibility in its management of its exposure to corporate credit.

The rate of the Bank's Non-Performing Loans (NPLs) continues to decrease to 1.4% of total loans as of June 30, 2018. This is a very good rate in global terms and an adequate rate compared to domestic peers. The rate of provisions for credit losses was very low of late, since the Bank continued to recover debts that were previously written-off. These metrics improved in recent years, both in Bank Leumi and in the entire sector, as a result of a supportive economic environment, decrease in corporations' leverage level and the use of alternative funding sources to refinance debts. The rate of credit losses expenses is expected to stabilize at 20-30 based point over the economic cycle. The Bank's coverage ratio of Non-Performing Loans or loans which are 90 days in arrears was 85% as of June 30, 2018, similar to the global average.

Significant changes in the actuarial valuation of pension benefits offered to Bank's employees through the end of 1999 is one of the main risks, which are not credit risks. Previously, the amount of the principal and the decrease in the discount rate had an adverse effect on the banks' capital accumulation. However, given the current low interest rates environment, an adjustment of the valuation may actually strengthen the capital, should interest rate rise.

The Bank's operational risks are significant, but not unique to the Bank. They mainly relate to geopolitical issues in the region and to the potential damage to the Bank in the event of stress scenarios. These risks are reflected in our BICRA assessment. In our opinion, Bank Leumi has adequate defenses against cyber risks.

**Table 5.**

**Bank Leumi Le-Israel B.M. Risk Position (%)**

	H1/2018	2017	2016	2015	2014
Growth in customer loans	1.5	2.2	0.2	3.3	4.8
Total managed assets/adjusted common equity (x)	13.2	14.9	15.0	14.9	15.9
New loan loss provisions/average customer loans	0.1	0.1	(0.0)	0.1	0.2
Net charge-offs/average customer loans	0.1	0.1	0.0	0.2	0.1
Gross nonperforming assets/customer loans + other real estate owned	1.4	1.4	1.8	1.8	2.2
Loan loss reserves/gross nonperforming assets	84.8	85.0	75.7	75.3	69.3

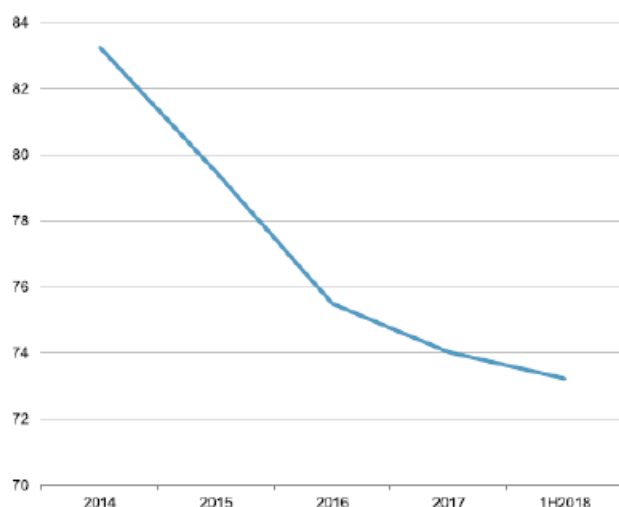
**Funding and liquidity: Adequate liquidity supported by extensive domestic funding base and good liquidity metrics**

In our opinion, Bank Leumi's funding profile is 'average' and its liquidity is 'adequate'.

During the first half of 2018, the loans were fully funded by public's deposits, with a loan to deposits ratio of 73%, which is not materially different than the average in the sector and even better than some of its peers.

Chart 4

Bank Leumi Le-Israel B.M. -- Customer Loans To Deposits (%)



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During the first half of 2018, Leumi's stable funding ratio was 130%, close to the average of the domestic banking sector. In our opinion, the Bank's funding profile, as that of the entire domestic banking sector, is stable. This is a factor that we view as a strength in our BICRA assessment.

Leumi benefits from a stable liquidity profile, supported by its diversified and extensive domestic funding base, which is mainly based on retail deposits, with moderate price competition.

Liquid assets constitute a large proportion of the Bank's assets: as of June 30, 2018, Bank's cash, its deposits with the Bank of Israel and with other banks and its securities (two third of which were bonds issued by the Israeli Government and by foreign governments) constituted about a third of total assets. Bank Leumi is a net depositor of funds in the interbank market.

In addition to funding through deposits, the Bank also uses wholesale funding and bonds, subordinated bonds and hybrid instruments in the domestic capital market. During the first half of 2018 those issuances constituted app. 6% of the Bank's funding sources. The ratio between the Bank's liquid assets and its short-term wholesale funding was x30 as of June 30, 2018, which indicates a relatively low reliance by the Bank on this funding channel.

Table 6.

**Bank Leumi Le-Israel B.M. Funding and Liquidity (%)**

	H1/2018	2017	2016	2015	2014
Core deposits/funding base	94.5	94.5	92.9	92.7	91.2
Customer loans (net)/customer deposits	73.2	74.0	75.5	79.5	83.3
Long term funding ratio	99.0	97.9	98.6	98.3	97.7
Stable funding ratio	130.1	130.2	131.1	124.4	118.5
Short-term wholesale funding/funding base	1.1	2.3	1.5	1.8	2.5
Broad liquid assets/short-term wholesale funding (x)	29.8	14.5	21.7	15.8	10.1
Net broad liquid assets/short-term customer deposits	40.1	40.9	42.2	36.1	31.1
Short-term wholesale funding/total wholesale funding	19.2	41.2	21.3	24.6	28.2
Narrow liquid assets/3-month wholesale funding (x)	N/A	N/A	29.3	18.9	N/A

Data are based on S&amp;P Global Ratings adjusted number and ratios

**External support: One notch above the Stand-Alone Credit Profile (SACP) due to potential government support**

The Bank's Issuer Credit Rating (ICR) is one notch higher than its Stand-Alone Credit Profile (SACP), which reflects its systematic importance in Israel and the government 'supportive' policy towards the domestic banking sector. We estimate that there is a fairly high probability that extraordinary support will be rendered by the Israeli government.

**Additional rating factors**

As of June 30, 2018, Leumi Card's business is presented in the balance sheet as a disposal group. This means that assets and liabilities related to Leumi Card are classified separately and presented as a single figure in the balance sheet as of that date, and no comparative figures are presented. This slightly distorts the growth data and the comparative analysis for the first half of 2018. However, Leumi Card's total assets constitute 2% of total Group assets and a little less than 3% of its total loans; therefore, they do not constitute a primary rating factor.

**Rating adjustments**

Business position	Strong
Capital and earnings	Adequate
Risk profile	Adequate
Funding and liquidity	Average and adequate

**Methodology and related articles**

- [Methodology – General: Use Of CreditWatch And Outlooks](#), September 14, 2009
- [Methodology: Bank Rating Methodology](#): November 9, 2011
- [Methodology: Banking Sector Risk Assessment Methodology](#), November 9, 2011
- [Methodology: Quantitative Metrics for Rating Banks Globally](#): July 17, 2013
- [Methodology: Timelines of Payments: Grace Periods, Guarantees, And Use of 'D' \(Default\) and 'SD' \(Selective Default\) Ratings](#): October 24, 2013
- [Methodology: Group Rating Methodology](#): November 19, 2013
- [Methodology: Methodology for Rating Hybrid Capital and Subordinated Debt](#): January 29, 2015
- [Methodology: Methodology For Linking Long-Term And Short-Term Ratings](#): April 7, 2017
- [Methodology: Methodology For Assessing the Risk-Adjusted Capital of Financial Institutions](#): July 20, 2017
- [Methodology – General: National and Regional Scale Credit Ratings](#): June 25, 2018
- [S&P Global Ratings Definitions](#): October 31, 2018
- [Opinions and interpretation: The Relationship Between the Global Rating Scale and the Israeli Rating Scale](#): June 26, 2018

## General details (as of November 7, 2018)

**Bank Leumi of Israel Ltd.****Issuer's Rating(s)**

Long term	ilAAA\Stable
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**Issuance's Rating(s)**Hybrid subordinated debt

Subordinated bonds with loss absorption mechanism Series 400, 401, 402	ilAA
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Leumi subordinated capital notes Series 200, 201	ilAA
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Subordinated capital notes Series 300, 301	ilAA
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Unsecured senior debt

Bonds – Series 177, 178, 179	ilAAA
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Subordinated debt

Subordinated bonds Series N	ilAA+
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**Issuer's Rating History**

Long term	
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October 07, 2014	ilAAA\Stable
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May 5, 2010	ilAA+\Stable
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April 30, 2009	ilAA+\Negative
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June 21, 2007	ilAAA\Stable
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May 14, 2006	ilAAA
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February 1, 2003	ilAA+
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May 1, 1998	ilAAA
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**Additional details**

Date and time on which the event took place	07/11/2018 13:39
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Date and time on which the event first became known	07/11/2018 13:39
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Entity that initiated the rating	The rating company
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## **Credit rating monitoring**

We monitor developments that may impact the credit rating of issuers or specific bond series rated by us on an ongoing basis. The purpose of monitoring is to ensure that the rating will be up-to-date on a current basis and to identify the parameters that may trigger a change in rating.

S&P Maalot is the trading name of “S&P Global Ratings Maalot Ltd.”. To view the list of the most up-to-date ratings and for further information about the credit rating monitoring policy, please go to S&P Global Ratings Maalot Ltd.’s website at [www.maalot.co.il](http://www.maalot.co.il).

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**Appendix G – Actuary’s Consent Letter**



אלן דובין פ.ס.א. בע"מ  
ACTUARIAL CONSULTING יעוץ אקטוארי

03.07.2019

To  
Bank Leumi of Israel Ltd.

Dear Sirs/Madams,

Re: **Shelf Offering Report of Bank Leumi of Israel Ltd. (hereinafter – the “Bank”)**  
**which is Due to be Published in July 2019**

I, the undersigned, hereby give my consent for the inclusion of the opinion signed by me on 06/03/2019 regarding actuarial valuation of pensions rights, bonuses and special leave to employees as of 31/12/2018, that was attached to the Bank's financial statements as of 31.12.2018, and the opinion signed by me on 23/05/2019 regarding actuarial valuation of pensions rights, bonuses and special leave to employees as of 31/03/2019, that was attached to the Bank's financial statements as of 31/03/2019, in the Bank's Shelf Offering Report, which is due to be published in July 2019 (including by way of reference).

Sincerely,

[signature]

Alan Dubin F.S.A, FII.A.A

Consultant Actuary

רחוב שאולסון 16  
ת.ד. 43102 ירושלים 91430  
P.O.B. 43102 Jerusalem, Israel 91430

טל. 02-6519034  
טל. 02-6529358  
טלפקס. 02-6529077

dubin@netvision.net.il