

March 14, 2023

To

The Israel Securities Authority (ISA)

[www.magna.isa.gov.il](http://www.magna.isa.gov.il)

To

The Tel Aviv Stock Exchange Ltd.

[www.maya.tase.co.il](http://www.maya.tase.co.il)

Dear Sir/Madam,

**Re: Report in Accordance with the Securities Regulations (Private Offering of Securities in a Listed Company), 2000**

This report is issued in accordance with the decision of the Board of Directors of Bank Leumi le-Israel B.M. of March 13, 2023 (hereinafter - the “**Bank**” and the “**Date of Board of Directors’ Resolution**”, respectively) regarding the approval of a private offering - which is not material or extraordinary - of securities to 11 Bank employees and 2 Bank officers (hereinafter jointly - the “**Offerees**”)<sup>1</sup>, in accordance with an outline published by the Bank on August 16, 2022 (Ref. No.: 2022-01-103780) (hereinafter - the “**Outline**”), which is incorporated in this report by way of reference as described below.

1. The offered securities, their terms and their percentage of the Bank’s voting rights and issued and paid up share capital subsequent to the allocation

- 1.1. As part of the allocation, the Bank shall allocate the Offerees, without consideration, 239,502 non-marketable options (hereinafter - the “**Options**”) EXERCISABLE to up to 239,502 ordinary Bank shares of NIS 1 par value each (hereinafter - “**Ordinary Shares**”). Subject to adjustments, as detailed in Section 2 below. The actual award of the options is conditional upon receiving the approval of the Tel Aviv Stock Exchange (hereinafter -

---

<sup>1</sup> The Offerees are not interested parties in the Bank by virtue of their holdings, and will not become interested parties by virtue of holdings as a result of the allocation, which is the subject matter of this report. Furthermore, employer-employee relationships are in place between all Offerees and the Bank.

“TASE”). Unless expressly otherwise stated in this report, the Options will be subject to all the provisions set out in the Outline.

- 1.2. The allocation of the Options shall be carried out in accordance with the Bank's Compensation Policy, under the capital gains track (through a trustee) in accordance with Section 102 to the Income Tax Ordinance (New Version), 1961 (hereinafter - the “**Ordinance**”), and in accordance with the option plan adopted by the Bank on June 1, 2022 (hereinafter - the “**Option Plan**”).
- 1.3. Assuming all offered Options will be exercised, the Ordinary Shares that will be allocated to the Offerees as a result of the exercise of options shall constitute approx. 0.16% of the Bank's voting rights and issued and paid up share capital, and approx 0.15% of the Bank's voting rights and issued and paid up share capital on a fully diluted basis.
- 1.4. The exercise price of the Options shall be NIS 29.53 per share (hereinafter - the “**Exercise Price**”). The Exercise Price was set, as specified in Section 8.3 to the Outline, in accordance with the average closing price of the Bank's share in the thirty trading days that preceded the date of the Board of Directors' resolution.
- 1.5. It is noted that according to the terms of the Options, the exercise of the Options shall be performed in accordance with a net exercise mechanism, and therefore, the allocation to the Offerees against the exercise of the Options will not be 239,502 Shares, but a smaller quantity of Shares, all in accordance with Section 10.4 to the Outline. At the exercise date of the Options, the Offeree shall not pay the Bank, in practice, in respect of the exercise of the Options, and the Bank, inasmuch as required by law, shall capitalize into share capital the par value of the exercise shares allocated, out of profits, as defined in Section 302(B) of the Companies Law, 1999 (hereinafter - the “**Companies Law**”), from a premium on Shares, or from any other source included in its shareholders' equity stated in its most recent financial statements at the relevant date, all in accordance with and subject to the provisions of Section 304 of the Companies Law.
- 1.6. The Options shall not be listed on the TASE. The exercise shares that will be issued as a result of the exercise of the Options shall be listed on the TASE. In that context, the Bank will ask the TASE to list the exercise shares immediately after the publication of this report. In accordance with the TASE Rules and Regulations, the exercise shares shall be registered in the Bank's Register of Shareholders in the name of the nominee company.

- 1.7. The shares issued that will arise from the exercise of the Options will have the same rights as the Ordinary Shares for all intents and purposes.

1.8. Vesting

Unless otherwise determined by the Bank, subject to attainment of the performance targets for vesting (as detailed in Section 1.9 below), and to the Offeree's being employed at the Bank and/or at a company related to the Bank at the vesting date (subject to the provisions of the Option Plan with regard to the termination of employment, including in cases of the end of employment as a result of death or disability), the Options shall vest in three equal annual tranches (each tranche is equal to  $33\frac{1}{3}\%$  of the quantity of Options allocated to each Offeree), beginning at the allocation date, as follows:

- 1.8.1. The First Tranche shall vest when one year has elapsed from the allocation date, and shall expire 24 months later (hereinafter - the "**First Tranche**"). It is clarified that the exercise of the First Tranche is also subject to the lockup period and to the provisions of Section 102, all as detailed below;
- 1.8.2. The Second Tranche shall vest when two years have elapsed from the allocation date, and shall expire 24 months later (hereinafter - the "**Second Tranche**");
- 1.8.3. The Third Tranche shall vest when three years have elapsed from the allocation date, and shall expire 24 months later (hereinafter - the "**Third Tranche**").

At the end of the exercise period of each tranche, the Options of that tranche shall expire (if not previously expired or exercised according to the provisions of the Option Plan), and the Options shall not be exercisable as of that date.

The foregoing notwithstanding, if, at the last expiration date of the Options, the exercise thereof by the Offeree is prohibited due to lockup periods to be established, or periods in which restrictions apply according to the policy of the Bank concerning the prohibition of use of insider information (hereinafter, jointly - the "**Trading Prohibition Periods**"), the exercise period shall conclude at the end of an additional period of a number of days equal to the number of days comprising the Trading Prohibition Periods, in addition to and beyond the end of the Trading Prohibition Period. The Bank will inform the Offerees about the extension of the exercise period as stated above.

Any tranche of Options not exercised by the end of its relevant exercise period (and subject to the lockup period pursuant to Section 102 of the Ordinance), including vested Options, shall expire and shall be canceled, as noted, and the Options of that tranche shall revert to the Pool used by the Bank, from which the Bank shall be permitted to grant Options according to the provisions of the Option Plan and the Outline, at its sole discretion.

Subject to approvals in accordance with the law, the Board of Directors is authorized to decide, at its sole discretion, that certain circumstances justify the extension of the exercise period of all or part of the Options, with respect to all or some of the Offerees, subject to the compensation policy of the Bank.

1.9. Performance targets for vesting

In addition and subject to the statements in Section 1.8 **שגיאה! מקור ההפניה לא נמצא.** above, the vesting of the Options is contingent upon the fulfillment of the following condition: the total capital adequacy ratio and the common equity tier 1 capital adequacy ratio, according to the consolidated annual financial statements of the Bank, in the calendar year ended prior to the vesting date of the relevant tranche, shall not be lower than the minimum ratios set forth in the directives of the Banking Supervision Department.

Hereinafter - the **“Vesting Performance Target”**

If, at the relevant effective vesting date, as stated above, the Vesting Performance Target is not fulfilled, the vesting date of the relevant tranche of Options shall be deferred to the following year (hereinafter - the **“Deferred Vesting Date”**). At the Deferred Vesting Date, the fulfillment of the Vesting Performance Target shall be reexamined for the purpose of vesting of the tranche of Options, and the tranche of Options shall vest only subject to compliance with the Vesting Performance Target, provided that the Offeree remains an employee of the group at the Deferred Vesting Dates. In the event of non-fulfillment of the Vesting Performance Target at the Deferred Vesting Date, the vesting date of the tranche of Options shall be deferred for an additional year, and the statements in this section shall apply. The vesting date of the Options can be deferred in this manner until the expiration date of the relevant tranche of Options.

In the event that the expiration date of an Option of any tranche arrives before the Vesting Performance Target has been attained (without impairment of Options included in other tranches), the Offeree shall not be permitted to exercise any Option of the Options included in the relevant tranche. The Options shall revert to the Pool used by the Bank, from which the Bank shall be permitted to grant Options in accordance with the provisions of the Option Plan and the Outline, at its sole discretion.

2. Adjustment of rights and provisions for protecting the Offerees:

- 2.1. **Mergers and acquisitions** – If the Bank is a party to a share exchange agreement or arrangement (such as a merger transaction or restructuring) (hereinafter - the “**Exchange Transaction**”) in which it is proposed that the shareholders of the Bank exchange the Shares for securities of any other corporation (hereinafter - the “**Other Corporation**”), the Bank shall endeavor to cause the Other Corporation to undertake to allocate to the Offerees, if the Offerees exercised after the Exchange Transaction pursuant to the terms of the Options, the aforesaid securities offered to the shareholders of the Bank as though the Offerees had been the owners of the exercise shares on the date of record for the aforesaid Exchange Transaction.

In the event of such an Exchange Transaction, the Bank is permitted to obligate the Offerees to receive, in respect of all unexercised Options held by them or on their behalf, Options exercisable into shares of the Other Corporation in exchange for the Options of the Bank that they hold, according to the exchange ratio to be established for all shareholders of the Bank, provided that the sum total of the Exercise Price in respect of all of the exchanged Options to be allocated is equal to the sum total of the Exercise Price in respect of all such unexercised Options held by or on behalf of the Offerees.

- 2.2. **Liquidation** – If a decision is made regarding voluntary liquidation of the Bank, while there are unexercised Options under this allocation, in the event of voluntary liquidation each holder of an allocation letter shall be considered to have exercised their right to the exercise of the Option into a Share immediately upon the decision to liquidate, without the need for the condition of the exercise notice. The exercise increment shall be deducted from the payments to be transferred to the shareholders in the course of the liquidation.
- 2.3. **Technical changes in the capital of the Bank** – In any event of a change in the issued share capital of the Bank by means of a share split, share consolidation, change in structure of the capital of the Bank, or any similar event by or of the Bank, the number and type of Shares within this grant or the exercisable Shares as a result of the exercise of the Options

granted under this grant, and/or the exercise increment, shall be adjusted proportionally in order to preserve the number of Shares and the accrued exercise increment thereof, under the condition that no such adjustments are performed following the distribution of rights in respect of issued Shares.

- 2.4. **Distribution of bonus shares** - Should the Bank distribute bonus shares during the period in which the conversion right exists, the rights of the holders of the Options shall be maintained, such that the number of Shares arising from the conversion to which the Option holder is entitled upon conversion thereof shall increase or decrease by the number of shares of the same type to which the Option holder would be entitled as bonus shares if they had converted the Options.
- 2.5. **Dividend distribution** - If the Bank distributes a dividend, and the date of record for the distribution thereof precedes the exercise date of the Options, including Options the vesting date of which has not yet arrived, the exercise increment shall be reduced by the amount of the dividend distributed by the Bank, and the rights of the Offerees to the Options shall be preserved (hereinafter - "**Dividend Adjustment**"). It is clarified that in any case in which the Bank distributes a dividend, and at the date of record for distribution of the dividend the Trustee holds exercise shares on behalf of any of the Offerees, the Bank shall transfer, to the Trustee, amounts of the dividend in respect of the exercise shares held by the Trustee, as stated, for each Offeree; the Trustee shall deduct tax at source, in accordance with the law, if and as required, and shall then transfer the dividend amounts (after deduction of the tax) to the Offeree.
- 2.6. **Offer by way of rights** - If the Bank offers its shareholders any securities by way of an issuance of rights, in reference to Options not exercised by the date of record for the rights offering, the number of exercise shares shall be adjusted to the benefit component of the rights, as reflected in the ratio of the price of the Share on the TASE on the date of record to the base rate "ex-rights."

For this section, the "**benefit component**" – the difference between the price of the closing rate of the Share of the Bank on the TASE on the last trading day preceding the ex-date and the base rate of the Share of the Bank ex-rights. This adjustment shall be subject to the TASE Articles and guidelines, as they may be from time to time.

- 2.7. Notwithstanding the provisions of this section, under no circumstance will the exercise price of each option be lower than the par value or a minimum threshold that will be set in the TASE Rules and Regulations, should such a threshold be set (all subject to any law and the TASE Rules and Regulations).

2.8. For the avoidance of doubt, in any case of adjustments pursuant to this section, the Offerees shall not be entitled to receive part of one whole Share, and the number of Shares allocated to each Offeree shall be rounded upward to the closest Share, and the provisions of the Option Plan on this matter shall apply.

3. The consideration

The Options that shall be awarded to the Offerees shall be allocated without consideration.

4. Description of agreements, whether written or oral, between the Offerees and a Bank shareholder or between some all or of the Offerees, among themselves or between them and others, in connection with the purchase or sale of the Bank's securities or in connection with voting rights therein, to the best of the Bank's knowledge, after review and while describing the tests carried out:

To the best of the Company's knowledge, there are no agreements, whether written or oral, between any of the Offerees and another Bank shareholder or between some all or of the Offerees, among themselves or between them and others, in connection with the purchase or sale of the Bank's securities or in connection with voting rights therein.

5. Details of impediments or restrictions on transactions involving the offered securities that will apply to the Offerees to the best of the Bank's knowledge:

5.1. The allocation of the Options to the Offerees pursuant to this offering shall be subject to the provisions of Section 102 to the Income Tax Ordinance [New Version], under the capital gains tax track (through a trustee) (Section 102 referred to above, and the regulations promulgated thereunder shall be named hereinafter: the "**Provisions of Section 102**"), among other things:

5.1.1. In accordance with the Section 102 Provisions, the Options shall be allocated to the Trustee for the Offeree, and the Trustee shall act with respect to the Options and the exercise shares in accordance with the Section 102 Provisions, and in accordance with the provisions of the trust and the procedure for the exercise of the Options and sale of the exercise shares, as shall be determined between the Bank and the Trustee.

5.1.2. Any tax liability in connection with the Options (including in connection with the award, exercise, or sale of the Options or the shares arising upon their exercise) shall be borne exclusively by the Offerees.

- 5.1.3. The Trustee shall hold the Options for the Offerees throughout the period of existence of the Options, and shall hold the exercise shares until their sale or until payment of the tax applicable to the Offeree, whichever is earlier. If the Offeree seeks to sell the exercise shares before the applicable tax has been paid, the Offeree shall be permitted to do so through the Trustee, subject to the terms of an arrangement to be established, if established, with the Israel Tax Authority and subject to the payment of tax. The Trustee shall be permitted to deduct any amount from the consideration of the sale to ensure the payment of the tax.
- 5.2. Subject to the receipt of all approvals required in accordance with the law, in addition to the lockup period, within the offering of securities of the Bank to the public secured by an underwriting commitment or within an offering of securities of the Bank outside Israel, the Bank is permitted to decide, from time to time, that exercise shares are to be subject, in addition, to a lockup period of up to 280 consecutive days, or a longer period, as recommended by the Board of Directors of the Bank, during which the Offerees or some of them shall not be permitted to sell these Shares. The statements in this section are subject to the provisions of Section 102 of the Ordinance, the provisions of the Companies Law and the Securities Law, and the TASE Articles. It is noted that the Board of Directors of the Bank shall be authorized to impose, from time to time, general restrictions on the employees of the Bank, including the Offerees, concerning lockup periods near the end of a calendar quarter period, until the publication of the financial statements of the Bank in respect thereof, or close to the dividend distribution dates, during which they cannot sell the exercise shares (or exercise the Options).
- 5.3. Without derogating from the provisions of the Compensation Policy and this report, the Offerees shall be subject to the provisions and restrictions set in the applicable law, including the Securities Law and the regulations promulgated thereunder, and the Income Tax Ordinance; the Offerees will also be subject to the restrictions and provisions as set out by the Board of Directors from time to time, including restrictions regarding the use of inside information.

Bank Leumi le-Israel B.M.

Avivit Klein	Michal Alterman, Adv.
Head of the Human Resources Division	Chief Legal Counsel of the Bank

Tel Aviv, March 14, 2023.