



Bank Leumi Le-Israel B.M.

("The Bank")

Shelf Prospectus

By virtue of this Shelf Prospectus (hereinafter: "**the Prospectus**"), the Bank may issue ordinary registered shares of NIS 1 par value each of the Bank and / or other securities of the Bank, including subordinated notes, including a mechanism for absorbing losses of principal, under which the subordinated notes may be converted into ordinary shares of the Bank without giving any choice to the option holders.

The offering of the securities pursuant to a prospectus shall be made in accordance with the provisions of Section 23A (a) of the Securities Law, 5728-1968, through Shelf Offering Reports, in which all the special details of the Offering will be completed, in accordance with the provisions of any law and in accordance with the regulations and guidelines of the Tel Aviv Stock Exchange, as they will be at the time (each of these reports will be referred to hereinafter as a "**Shelf Offering Report**").

The risk factors to which the Bank is exposed include, inter alia, the following main risks: overall credit risk, quality risk of borrowers and collateral, large borrower concentration and group of borrowers risk, sectoral and segmental concentration risk, overall market risk, base risk, interest rate risk, spread and share price risk, liquidity risk, operational risk (including risk of loss due to deficiencies or failures of internal processes, large projects, persons or systems or external events, including cyber risks), legal and regulatory risk, compliance risk, reputational risk, pension risk, strategic risk, fair banking conduct risk and risks caused by global or domestic external events that may result in the occurrence of a number of risks simultaneously.

For details of these risks, see the section on Risk Review - Exposure to Risks and Risk Management in the Periodic Report of the Bank for the year 2017, which is included in the Shelf Prospectus by way of reference.

The ability of the Bank to distribute a dividend is subject to the provisions of the law that apply to the distribution of dividends, including the provisions of the Companies Law and directives of the Bank of Israel, and the Bank's compliance with its capital adequacy targets, even after distribution of the dividend. For additional details, see Note 25A to the financial statements of the Bank for the year 2017, which are included in Chapter 8 of the Prospectus by way of reference.

The Bank is a "**banking corporation**" as defined in the Banking (Licensing) Law, 5741-1981. In this framework, the Bank is subject to various provisions by virtue of the laws applicable to banking corporations.

As of the date of this Prospectus, the Bank's subordinated notes are rated by Standard & Poor's Maalot Ltd. and by Midroog Ltd. For further details regarding the rating given to the Bank's bonds, see Chapter 1 of the Prospectus.

The prospectus can be viewed on the website of the Israel Securities Authority, at www.magna.isa.gov.il and on the website of the Tel Aviv Stock Exchange Ltd., at www.maya.tase.co.il.

Date of the Prospectus: May 25, 2018

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Chapter 1 - Introduction

1.1 General

Bank Leumi Le-Israel B.M. (hereinafter: "**the Bank**") was incorporated in Israel in 1950 as a public company under the Companies Ordinance. The Bank is a banking corporation with a banking license under the provisions of the Banking (Licensing) Law, 5741-1981 (hereinafter: "**the Banking Law**").

1.2 Permits and approvals

The Bank has received all the permits, approvals and licenses required by law to publish this Prospectus. This Prospectus is a Shelf Prospectus, as defined in Section 23A of the Securities Law, 5728-1968 (hereinafter: "**the Securities Law**") and an offering of securities pursuant to which a Shelf Offering Report will be filed in accordance with the Securities Law and the Securities Regulations (Shelf Offering of Securities), 5766-2005, (hereinafter: "**Shelf Offering Regulations**"), in which the special details of that offering will be completed (hereinafter: **the "Shelf Offering Report"**).

The permit of the Israel Securities Authority does not include publishing the Shelf Prospectus due to the verification of the particulars contained therein or confirmation of their reliability or integrity, and does not constitute an expression of an opinion as to the nature of the securities offered under it.

The Bank received from the Tel Aviv Stock Exchange Ltd. (hereinafter: "**the Stock Exchange**") an approval in principle for the listing of securities offered under this Shelf Prospectus, if so offered, according to a Shelf Offering Report.

The approval in principle of the Stock Exchange shall not be considered as confirmation of the details presented in the Shelf Prospectus or of their reliability or integrity, and does not constitute an expression of opinion on the Bank or the nature of the securities offered under this Shelf Prospectus or the price at which they will be offered in a Shelf Offering Report.

The granting of the approval in principle by the Stock Exchange does not constitute an approval for the listing for trading of the securities offered under the Shelf Prospectus, and the listing for trading of said securities will be subject to obtaining approval to list securities for trading according to a Shelf Offering Report to be submitted in accordance with the Securities Law and Shelf Offering Regulations. The granting of the approval in principle by the Stock Exchange does not constitute an undertaking to grant approval for the listing for trading of the securities that will

be offered pursuant to a Shelf Offering Report. The approval of an application for listing of securities for trading according to a shelf offering report will be subject to the provisions of the Stock Exchange Regulations and the directives thereunder, as will be in effect at the time of filing the application for registration for trading under the Shelf Offering Report.

1.3 Share capital

1.3.1 The authorized share capital of the Bank is NIS 3,215,000,000 par value divided into 3,215,000,000 ordinary shares of NIS 1 par value each. The issued and paid-up share capital of the Bank as at the date of the Shelf Prospectus in nominal values is NIS 1,524,021,394, divided into 1,524,021,394 ordinary shares of NIS 1 par value each¹. The issued and paid up share capital of the Bank on a fully diluted basis² is NIS 1,524,720,264, divided into 1,524,720,264 ordinary shares of NIS 1 par value each.

1.3.2 The Bank's capital as of December 31, 2017 (in NIS millions):

Share capital	7,110
Premium	1,729
Share-based payment transactions and others	38
Accumulated other comprehensive loss	(3,051)
Accumulated retained earnings	27,341
Loans to employees for the purchase of shares of the Bank	-
Non-controlling interests	386
	<hr/>
Total capital	33,553

¹ All the shares issued by the Bank are registered to the shareholder. The shares issued and that will be issued, that were converted or will be converted into regular stock, can be transferred in units of NIS 1 each. The words "**shares**" and "**shareholder**" in this Shelf Prospectus include "Stock" and "Stockholder" respectively, and one ordinary share of NIS 1 means NIS 1 par value or regular stock.

² Regarding unquoted PSU-type units convertible into shares allocated to office holders, see section 3.2.2 of the Prospectus. Upon fulfillment of the condition for realization of the above PSU units on each vesting date, the 2016 PSU and 2017 PSU units will vest into 312,882 and 385,988 ordinary shares of NIS 1 par value each of the Bank, respectively.

NIS 925,750,000 par value of Subordinated Notes (Series 400) of the Bank issued in January 2016 and which were recognized by the Supervisor of Banks as capital instruments classified as Tier II capital, include a mechanism under which, in certain circumstances defined by the Supervisor of Banks, a forced conversion will be made of the Subordinated Notes to up to 147,492,625 ordinary shares of the Bank. For further details, see the Deed of Trust for the Subordinated Notes (Series 400) attached to the Shelf Offering Report of the Bank dated January 20, 2016 (Ref. No.: 2016-01-014872) (hereinafter: "**the Deed of Trust for the Series 400**").

It should be noted that the above full dilution data do not relate to the scenario of forced conversion of the Subordinated Notes as stated.

1.4 Liability certificates issued by the Bank and subsidiaries (under the Bank's responsibility or guarantee) and still in circulation as at the date of the Shelf Prospectus:

Series		Stock Exchange Security No.	Date of issuance	Repayment date	Nominal value (in NIS)			Interest amount accumulated until 31.12.2017 ³	Value in the financial statements as at 31.12.2017 ⁴	Market cap (of traded series only) as at 31.12.2017	Annual interest	Linkage (principal and interest) ⁵		Trustee
					At the date of the Prospectus	At 31.12.2017	Revalued at 31.12.2017 according to terms of linkage ⁶					Type	Basis	
Bonds	177	6040315	21.07.2015	30.06.2020	5,338,151,000	5,338,151,000	5,338,151,000	-	5,265,276,575	5,375,518,057	0.59 %	Index	Jun-15	Reznik Paz Nevo
	178	6040323	21.07.2015	31.03.2024	1,150,000,000	1,150,000,000	1,150,000,000	8,653,750	1,158,653,750	1,260,745,000	3.01%	None	-	Reznik Paz Nevo
Deferred Liabilities	200	6040141	03.02.2010	04.02.2060	1,349,998,000	1,349,998,000	1,449,258,665	9,017,609	1,458,276,275	1,621,752,597	4.0%	Index	Dec-09	Mishmeret
	201	6040158	03.02.2010	04.02.2060	950,000,000	950,000,000	950,000,000	2,168,639	952,168,639	969,665,000	Variable	None	-	Mishmeret
	N	6040299	10.11.2011	10.11.2020	1,870,745,000	1,870,745,000	1,897,672,005	9,041,507	1,908,000,65	2,103,278,604	3.40%	Index	Sep-11	Mishmeret
	300	6040257	16.08.2009	10.08.2059	999,999,000	999,999,000	1,092,213,520	7,584,816	1,099,798,336	1,233,898,766	5.0%	Index	Jun-09	Mishmeret
	301	6040265	16.08.2009	10.08.2059	999,999,000	999,999,000	999,999,000	2,919,442	1,002,918,442	1,035,198,965	Variable	None	-	Mishmeret
	400	6040331	24.01.2016	21.01.2026	925,750,000	925,750,000	925,750,000	-	925,750,000	980,369,065	3.25%	None	-	Mishmeret
Unquoted		4-5.2009		4-5.2058	1,000,000,000	1,000,000,000	1,158,354,908	47,815,029	1,206,169,937	-	6.20%	Index	Mar-09	
		20.8.2003		20.8.2018	16,000,000	16,000,000	19,693,119	387,496	20,080,615	-	5.4%	Index	Jul-03	
		15.1.2008		15.1.2035	100,000,000	100,000,000	116,481,525	71,987,947	188,469,472	-	4.95%	Index	Nov-07	
		5.4.2005		5.4.2020	4,365,500	4,365,500	5,367,782	194,564	5,562,346	-	4.9%	Index	Feb-05	
		22.7.2008		23.7.2023	100,000,000	100,000,000	113,150,311	2,221,001	115,371,312	-	4.45%	Index	Jun-08	
		23.12.2010		23.12.2025	75,000,000	75,000,000	78,718,628	56,613	78,775,241	-	3.75%	Index	Nov-10	
		16.4.2007		17.4.2022	50,000,000	50,000,000	60,007,419	1,745,805	61,753,224	-	4.10%	Index	Mar-07	

	12.2002-1.2003		1.2021-71.202	172,150,000	82,404,350	100,203,013	5,874,977	106,077,990	-	6.60%	Index	Nov-02	
	2.1.2001		2.1.2022	3,000,000	1,250,000	1,640,163	106,026	1,746,189	-	6.50%	Index	Noc-00	
	30.1.2001		30.1.2022	2,000,000	833,338	1,094,474	63,787	1,158,261	-	6.35%	Index	Dec-00	
	1.4.2004		1.4.2019	11,500,000	11,500,000	14,120,403	687,715	14,808,118	-	5.17%	Index	Feb-04	
	14.4.2004		14.4.2019	5,000,000	5,000,000	6,063,734	373,891	6,437,625	-	5.15%	Index	Feb-04	

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- ³ In the liability certificates linked to the CPI, the interest amount includes the linkage component on the accrued interest (subject to and in accordance with the linkage terms of the series).
- ⁴ The value in the financial statements, as shown in the Table, includes the nominal value, revalued as at December 31, 2017 according to linkage terms plus the amount of interest accrued up to December 31, 2017 (as these two appear in the two columns to the left of the column of the value in the financial statements in the Table), as applicable, with addition or deduction of the balance of premium or discount as at December 31, 2017.
- ⁵ The word "index" denotes linkage to the Consumer Price Index, with the base index being the index for the month appearing under the "basis" subheading. In a Series with a number of offerings, the correct index appears on the date of the first allocation.
- ⁶ The liability certificates, which according to their linkage terms are fully linked to the Consumer Price Index, were linked according to the index for November 2017. The revaluation includes all principal payments that had to be made by December 31, 2017.

(a) General

- (1) In accordance with the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (hereinafter: the "**Reports Regulations**"), a series of liability certificates will be considered material if the Bank's total liabilities according to it as at the reporting date constitute five percent or more of total liabilities of the Bank at the reporting date. According to this definition, none of the series of liability certificates listed in the above Table is material.
- (2) The Bank complies with all terms and liabilities under the Trust Deeds, and there are no conditions that provide grounds for calling for immediate repayment or realization of collateral of the liability certificates listed in the Table.
- (3) If the Stock Exchange decides to terminate trading in one of the series of quoted liability certificates listed in the Table, as a result of the value of the public's holdings in that series being less than the amount determined and / or will be determined from time to time in the Stock Exchange directives regarding deregistration, the Bank will act as specified in this matter in the Prospectus and / or the Shelf Offering Report by virtue of which the series was issued, including setting a date for early redemption, as detailed in the said Prospectus and / or Shelf Offering Report.

(b) Below are additional details regarding the series in the table:

- (1) Below are further details regarding the series of liability certificates in which more than one allocation was made:

Series	No. of allocations	Date of allocation	Amount of allocation (par value in NIS)
177	2	19.7.2015	1,700,000,000
		21.1.2016	3,638,151,000
N	2	14.11.2011	860,745,000
		30.01.2012	1,010,000,000
Unquoted 2009	5	7.4.2009	300,000
		27.4.2009	500,000
		11.5.2009	35,000
		10.5.2009	134,200
		12.5.2009	30,800
Unquoted 2002	5	26.12.2002	10,000,000
		1.1.2003	10,000,000
		25.12.2002	137,500,000
		31.12.2002	10,000,000
		31.12.2002	5,000,000

Series	Final payment (principal and interest)	No. of payments of principal	Details of payments on account of principal (in series in which there is more than one payment)			Details of payments on account of interest	
			First payment	Payment frequency	Last payment	First payment	Payment frequency
177	30.06.2020	1	-	-	-	31.12.2015	Semi-annual
178	31.03.2024	1	-	-	-	30.09.2015	Semi-annual
200	4.02.2060	1	-	-	-	4.05.2010	Quarterly
201	4.02.2060	1	-	-	-	4.05.2010	Quarterly
N	10.11.2020	1	-	-	-	10.11.2012	Annual
300	10.08.2059	1	-	-	-	10.11.2009	Quarterly
301	10.08.2059	1	-	-	-	10.11.2009	Quarterly
400	21.01.2026	1	-	-	-	30.06.2016	Quarterly
Unquoted 4-5.2009	April - May 2058	1	-	-	-	April – May 2010	Annual
Unquoted 20.8.2003	20.8.2018	1	-	-	-	20.08.2004	Annual
Unquoted 15.1.2008	15.1.2035	1	-	-	-	15.1.2035	Bullet
Unquoted 5.4.2005	5.4.2020	1	-	-	-	5.04.2006	Annual
Unquoted 22.7.2008	23.7.2023	1	-	-	-	22.07.2009	Annual
Unquoted 23.12.2010	23.12.2025	1	-	-	-	23.12.2011	Annual
Unquoted 16.4.2007	17.4.2022	1	-	-	-	16.04.2008	Annual
Unquoted 12.2002-1.2003	1.2021-1.2027	14-20	January 2008	Annual	1.2021-1.2027	January 2004	Annual
Unquoted 2.1.2001	2.1.2022	12	2.1.2011	Annual	2.1.2022	2.01.2002	Annual
Unquoted 30.1.2001	30.1.2022	12	30.1.2011	Annual	30.1.2022	30.01.2002	Annual
Unquoted 1.4.2004	1.4.2019	1	-	-	-	1.04.2005	Annual
Unquoted 14.4.2004	14.4.2019	1	-	-	-	14.04.2005	Annual

- (2) Below are additional details regarding the maturity dates of the series of liability certificates. It is hereby clarified that the information presented below is subject to the full and binding provisions regarding the principal and interest repayment dates as they appear in the Prospectus for the issue of the relevant series or the Shelf Prospectus and in the Shelf Offering Report relating to the relevant series, as applicable:
- (3) Below are additional details regarding the Subordinated Capital Notes Series 200 and 201:
- a. The Bank has an option for early repayment of the Capital Notes of these Series on February 4, 2021. If the Bank has not redeemed on this date, it may redeem them or redeem any part thereof every February 4 of each subsequent year. The interest on these series will be paid four times a year, on February 4, May 4, August 4 and November 4 of each year.
 - b. The Subordinated Capital Notes (Series 200) bear fixed annual interest at a rate of 4% until February 3, 2021. After that date and to the extent that they will not be redeemed by early redemption, they will bear a graduated rate of interest to be determined by the Trustee. The graduated interest rate and the mechanism for determining it are set out in the Shelf Offering Report of February 2, 2010.
 - c. The Subordinated Capital Notes (Series 201) bear variable annual interest at a margin of 1.4% above the yield on one-year Treasury bills as published by the Bank from time to time through Immediate Reports. As of December 31, 2017, the interest rate for the period was calculated on the basis of an interest rate of 1.4940% per annum (see Immediate Report dated November 6, 2017, Ref. No.: 2017-01-097069). After February 3, 2021, and to the extent that they will not be redeemed by early redemption, they will bear variable interest to be calculated by the Trustee. The variable interest rate and the mechanism for determining it are set out in the Shelf Offering Report of February 2, 2010.
- (4) Below are additional details regarding the Subordinated Capital Notes (Series 300 and 301):
- a. The Bank has an option to redeem the Subordinated Capital Notes of these Series by early repayment commencing from August 10, 2020, as stated in Section 3.2.10 of the Shelf Prospectus dated August 6, 2009 and in Section 4.4 of the Shelf Offering Report of August 12, 2009.
 - b. The Capital Notes (Series 300) bear annual interest at the rate of 5% per annum until August 10, 2020. At the end of this period, if they are not redeemed at an early redemption, they will bear a graduated interest rate, to be determined in advance by the Trustee, as stated in the Shelf Offering Report of Leumi Finance dated August 12, 2009.
 - c. Up to August 10, 2020, the Subordinated Capital Notes (Series 301) bear variable interest at the rate of the yield on one-year Treasury

bills, calculated every three months, plus a margin of 2% per annum, as published by the Bank from time to time through Immediate Reports. As of December 31, 2017, the interest rate was calculated for the period based on an interest rate of 2.1020% per annum (see Immediate Report dated November 14, 2017, Ref. No.: 2017-01-099472), and after August 10, 2020, if they are not redeemed by early redemption, the Subordinated Capital Notes (Series 301) will bear annual interest at the rate of the yield on one-year Treasury bills, plus a rate to be determined in advance by the Trustee, as stated in the Shelf Offering Report of Leumi Finance dated August 12, 2009.

(5) Below are additional details regarding the Subordinated Capital Notes (Series 400):

The Bank has the right to redeem the Subordinated Notes (Series 400) by early redemption not before January 21, 2021, and no later than February 21, 2021, as specified in Section 7 of the Deed of Trust for Series 400. If the Bank does not exercise its right to early redemption, the annual rate of interest of the Subordinated Notes (Series 400) will increase or decrease, as applicable, by the amount of the difference between the "anchor" interest rate as defined in the Deed of Trust on the date of the change in the interest rate compared with the "anchor" interest rate on the date of their initial issuance. For further details, see the Deed of Trust for Series 400.

(6) Details of the Trustees

Below are additional details regarding the Trustees of the Series of liability certificates and their contact details:

Trustee	Reznik Paz Nevo Trusts Ltd. (for Series 177, 178)	Mishmeret – Trust Services Co. Ltd. (for Series 200, 201, 300, 301, 400, N)
Contact person	Yossi Reznik	Rami Sabati
Address	14, Yad Haruzim St., Tel-Aviv 677007	46-48, Derekh Menachem Begin, Tel-Aviv 6618001
Telephone	03-6389200	03-6374354
Fax	03-6389222	03-6374344
E-mail	trust@rpn.co.il	trusts@bdo.co.il

(7) Rating of the Bank's liability certificates

The liability certificates issued by the Bank are rated by Standard & Poor's Ma'alot Ltd. (hereinafter: "**Ma'alot**") and by Midroog Ltd. (hereinafter: "**Midroog**") on the date of their issuance, and in the framework of rating reports published from time to time.

Below are details regarding the rating of the liability certificates issued by the Bank and by Leumi Finance on the date of their issuance and as at the date of the Prospectus:

	At the date of publication of the Prospectus		At the date of issuance	
	Ma'alot	Midroog	Ma'alot	Midroog
Subordinated Capital Notes – Series 200	ilAA	Aa2 Stable	ilA+/Negative	Aa2 Stable
Subordinated Capital Notes – Series 201	ilAA	Aa2 Stable	ilA+/Negative	Aa2 Stable
Bonds (Series 177, 178)	ilAAA / Stable	Aaa Stable	ilAAA	Aaa Stable
Subordinated Notes (Series N)	IlAA+ / Stable	Aa1 Stable	ilAA	Aa1 Stable
Subordinated Capital Notes (Series 300, 301)	ilAA / Stable	Aa2 Stable	ilA+	Aa2 Stable
Subordinated Capital Notes (Series 400)	ilAA	-	ilAA	-

For further details regarding the rating of securities issued by the Bank by Ma'alot in the previous three years, see the Immediate Report dated October 24, 2017 (Ref. No. 2017-01-093406).

For further details regarding the rating of the Bank by Moody's, the parent company of Midroog, in the previous three years, see the Immediate Report dated January 21, 2018 (Ref. No. 2018-01-007462).

Chapter 2 - Offer of Securities under the Shelf Prospectus

Pursuant to this Shelf Prospectus, there may be offered to the public, through Shelf Offering Reports, ordinary shares of the Bank and / or other securities of the Bank, including subordinated notes, including a mechanism for absorbing losses of principal, under which the subordinated notes may be converted into ordinary shares of the Bank without giving any choice to their holders (hereinafter: **"the securities"**).

The offering of the securities pursuant to this Shelf Offering shall be made in accordance with the provisions of Section 23A (a) of the Securities Law, through Shelf Offering Reports, in which all the special details of that Offering will be completed, including details of the securities offered and their terms, in accordance with the regulations and guidelines of the Tel Aviv Stock Exchange, as they will be at the time and the provisions of any law.

Chapter 3 - Share capital and holders

3.1 The Share Capital of the Bank as at the date of the Prospectus

For details of the Bank's authorized, issued and paid-up share capital as at the date of the Prospectus, see the report of the Bank dated April 11, 2018 (Ref. No. 2018-01-036880). For details regarding the Bank's authorized, issued and paid-up share capital as of December 31, 2017, see Note 25 A to the financial statements of the Bank as at December 31, 2017, which are included in the Periodic Report of the Bank for 2017, published on March 6, 2018 (Ref. 2018-01-021430) (hereinafter in this chapter: "**the financial statements**" and "**the Periodic Report for 2017**", respectively).

3.2 The Changes in the Bank's authorized, issued and paid up share capital over the past three years

3.2.1 Changes in the authorized capital

There were no changes in the authorized share capital of the Bank in the three years preceding the publication date of this Prospectus.

3.2.2 Changes in the issued and paid up capital

- A. In the three years prior to publication of this Prospectus, no changes were made in the issued and paid-up share capital of the Bank, except as detailed in the following table:

Date of change	Nature of change	Amount	New balance
14.4.2015	Vesting and conversion into shares of RSU-2014 units	27,138	1,473,797,649
13.3.2016	Vesting and conversion into shares of PSU-2014	210,381	1,474,008,030
20.3.2016	Allocation of shares to employees	48,938,037	1,522,946,067
14.4.2016	Vesting and conversion into shares of RSU-2014 units	27,138	1,522,973,205
3.4.2017	Vesting and conversion into shares of PSU-2014 and PSU-2016 units	523,270	1,523,496,475
14.4.2017	Vesting and conversion into shares of RSU-2014 units	27,138	1,523,523,613
5.3.2018	Vesting and conversion into shares of PSU-2016 and PSU-2017 units	497,781	1,524,021,394

- B. The remaining PSU-2016 units and PSU-2017 units that have not yet vested and converted into shares of the Bank, as at the date of the Prospectus, are 312,882 and 385,988, respectively. Upon fulfillment of the condition for realization of the above PSU units on each vesting date, the PSU-2016 and PSU-2017 units will vest into 312,882 and 385,988 ordinary shares of NIS 1 par value each of the Bank, respectively. As at the date of the Prospectus, all the RSU-2014 Units have vested and converted into shares of the Bank. For additional details regarding the PSU units and the RSU units issued by the Bank to the Chairman of the Board of Directors, the President and CEO and other office-holders of the Bank, and the conditions under which they will vest and convert into shares of the Bank, see Note 25 to the financial statements.
- C. On March 20, 2016, the Bank issued 48,938,037 shares (approximately 3.21% of the issued and paid up share capital of the Bank after the allotment) to employees and office-holders of the Bank, pursuant to an outline published on February 18, 2016 (Ref. No.: 2016-01-030628), which was amended on February 23, 2016 (Reference No. 2016-01-033361). For additional details, see Note 25A to the financial statements.
- D. On March 5, 2008, the Board of Directors of the Bank approved a plan for the buy-back of shares of the Bank in an amount not to exceed NIS 700 million, commencing from April 1, 2018 until March 31, 2019. For additional details, see Note 25E to the financial statements, (Reference No.: 2018-01-021433) and Section 21) in the Events Report below.

3.3 Holdings of interested parties in the Bank's securities

For information regarding the holdings of interested parties in the Bank's securities, to the best of the knowledge of the Bank and its Directors, see the Report of the Bank regarding the holdings of interested parties and senior office-holders from April 10, 2018 (Reference No.: 2018-01-036208)⁷.

3.4 Prices of the Bank's shares on the Tel-Aviv Stock Exchange

Below are details regarding the lowest and highest closing price (in agorot) of the Bank's shares (adjusted for dividends and benefits) in the years 2016 and 2017 and during 2018 (up to the date of publication of the Prospectus):

	2016		2017		2018	
	Price	Date	Price	Date	Price	Date
Lowest price	1,568.84	20.12.2016	2,079.5	31.12.2017	2,301	21.5.2018
Highest price	1,203.74	16.2.2016	1,491.36	6.2.2017	2,027.02	20.2.2018

⁷ It should be noted that according to the agreements regarding the privatization of the Bank, the employees of the Bank were granted by the State the right to purchase shares of the Bank from the State. As of the date of the Prospectus, the number of shares that the employees are entitled to purchase from the State amounts to 7,407,550 shares, constituting 0.5% of the Bank's issued share capital.

3.5 Control of the Bank

As of the date of the Shelf Prospectus and commencing on March 24, 2012, after the Bank's Shares Committee (which operated by virtue of the Bank Shares in Arrangement (Temporary Provisions) Law, 5763-1993) ended its term of office on March 23, 2012, the Bank is defined, pursuant to the provisions of section 11B(C) of the Banking Ordinance, 1941, as a banking corporation without a controlling core and the provisions of the law applying to it in this regard, and there is no shareholder who is defined as a controlling shareholder of the Bank.

3.6 The rights attached to the shares of the Bank

3.6.1 The rights attached to the shares of the Bank are set forth in the provisions of the Articles of Association of the Bank (hereinafter: the "**Articles**"). A complete and updated version of the Articles was attached to the report regarding changes in the Articles of Association dated November 3, 2016 (Reference No. 2016-01-072234), which is included in this Prospectus by way of reference.⁸

In addition, the Bank convenes General Meetings in accordance with the provisions of the Banking Ordinance, the Companies Law, and the regulations enacted thereunder, including the Companies Regulations (Notice and Announcement of a General Meeting and Class Meeting in a Public Company and Addition of a Topic on the Agenda), 5760-2000, the Companies Regulations (Voting in Writing and a Position Notice), 5759 - 2005 and in accordance with the provisions of the Company's Articles of Association, in so far as there is no contradiction between it and the laws detailed above.

3.6.2 **The following are details of the provisions of the Bank's Articles of Association regarding the legal quorum at General Meetings, the appointment of the Chairman of a General Meeting and a majority at General Meetings:**

Legal Quorum at the General Meeting:

- (a) In accordance with Article 59, three members present in person shall constitute a quorum at a General Meeting and shall not engage in any matter at a General Meeting unless the required legal quorum is present at the commencement of the discussions therein.
- (b) In accordance with Article 61, if no legal quorum is present within half an hour of the time set for the meeting, it shall be adjourned to the same day in the next week and at the same time and place, or to any other day, hour or place as the directors shall determine in a notice to the shareholders, whether the meeting was convened at the initiative of the Board of Directors or otherwise. If no legal quorum is present at the adjourned meeting as aforesaid, two members present in person shall constitute

⁸ In any case of contradiction between the provisions of the Articles of Association and provisions that cannot be made contingent in the Companies Law, 5759-1999 (hereinafter: "**the Companies Law**") and / or the Securities Law and / or the Banking Law (Legislative Amendments), 5772-2012 (hereinafter: "**the Banking Law (Legislative Amendments)**") and / or the Banking Ordinance, 1941 (hereinafter: "**the Banking Ordinance**") and / or the Banking (Licensing) Law and / or the Bank Shares (Temporary Provision) Law, 5754-1993 (hereinafter: "**the Bank Shares Law**") and / or a provision in the Proper Conduct of Banking Business Directives or in any regulation by virtue thereof, the aforesaid provisions (i.e. the provisions which cannot be made contingent as aforesaid) will prevail over the provisions of the Articles of Association. Special attention is drawn to the provisions of the Banking (Licensing) Law and the Banking Ordinance which explicitly stipulate preference for their provisions over the Bank's founding documents.

a legal quorum and they shall be entitled to deal with the matters for which the meeting was called.

Appointment of the Chairman of the General Meeting:

- (c) In accordance with Article 60, the Chairman of the Board of Directors, or in his absence, the Vice Chairman (if any) shall be entitled to preside over any General Meeting. In the absence of a Chairman or a Vice Chairman, or if they are not present at a General Meeting 15 minutes after the time set for the meeting or if they do not wish to act, the directors present may elect a Chairman, and if they fail to do so, the members shall elect one of the directors as Chairman and if none of the directors present wish to preside, one of them shall be elected as Chairman.

Voting in the General Meeting:

- (d) In accordance with Article 62 of the Articles of Association, any question submitted to the meeting shall be decided by voting by a number of votes and, first and foremost, by a show of hands or in the manner that the Chairman of the meeting shall decide. In the event of an equal number of votes, in a show of hands of personal vote, the Chairman will have a casting vote, in addition to the vote or votes to which he is entitled as a member.
- (e) In accordance with Article 63 of the Articles of Association, unless a personal vote is required, before or upon the announcement of the results of the vote by a show of hands by the Chairman or by at least three members present and entitled to vote at the meeting, then at any General Meeting the Chairman's declaration that a resolution was adopted by a certain majority of votes and put on record in the book of minutes of the Company shall be decisive evidence of this, and there will be no need to prove the number of votes or the ratio of votes recorded for or against such a decision. It was further determined that the minutes of the General Meeting will be executed subject to the provisions of the Banking Ordinance.
- (f) In accordance with Article 64 of the Articles of Association, if such a personal vote is required, the vote shall be held in the same manner and at the same time and place as decided by the Chairman of the Meeting, either immediately or after a break or deferment, and the results of the personal vote shall be deemed as the decision of the General Meeting in which it was required. A person requiring a personal vote, is entitled to withdraw from this requirement. If a dispute arises regarding the eligibility of a vote or the disqualification of a vote, the Chairman shall decide on it, and his decision in good faith shall be final and conclusive.
- (g) For details of further instructions regarding the right to receive notices of General Meetings of the shareholders of the Bank, the right to participate and voting and the legal quorum, see Articles 54-75 of the Articles of Association.

3.6.3 Distribution of a dividend:

- (a) Articles 112-113 of the Articles of Association stipulate that the Board of Directors may declare a dividend to be paid to members in accordance with their rights and benefits in profits and set the date of payment. No dividend shall be paid except from the profits of the Company and no dividend shall bear interest to the Bank.
- (b) For further details regarding the conditions and rates for participating in the distribution of dividends and the issuance of bonus shares, see Article 5 and Articles 111-124 of the Articles of Association.

3.6.4 Additional provisions

- (a) For details regarding the rights of a shareholder upon liquidation, see Article 5 and Articles 141-142 of the Articles of Association.
- (b) For details regarding the Bank's shares, increase in capital and changes in share capital, see Articles 44-50 of the Articles of Association.
- (c) For details regarding the transfer of shares and their conversion, see Articles 34-42 of the Articles of Association.
- (d) For details regarding change in the rights attached to shares, see Articles 6-7 of the Articles of Association.
- (e) For details regarding the appointment of directors and their term of office, see Chapter 6 below.

3.7 Special restrictions on holdings in shares of the Bank and reporting requirements on means of control

Under the Banking (Licensing) Law, special provisions apply to holders of means of control in the Bank. The following are the main points:

- 3.7.1 It is prohibited to hold more than 5% of a certain type of means of control in a banking corporation (i.e. voting rights at a General Meeting and / or the right to appoint directors and / or the right to participate in profits and / or the right to the remainder of assets on liquidation), unless by special permit of the Governor of the Bank of Israel.
- 3.7.2 In addition, a shareholder who holds more than 1% of a certain type of means of control in a banking corporation without a controlling core must report to the banking corporation on his holdings.
- 3.7.3 The banking corporation is obligated to report to the public regarding a shareholder who holds more than 2.5% of a certain type of means of control in the banking corporation. The obligation to report to the public shall also apply to a shareholder holding 1% and up to 2.5% of a certain class of means of control in the banking corporation if the aforesaid shareholder has agreed to the aforesaid publication to the public. If he did not agree to this, he will not be permitted to join a body of shareholders for purpose of proposing candidates for the office of directors in the Bank (for details regarding the right of a shareholder to propose candidates for the office of directors in the Bank, see section 6.4.3 below).⁹
- 3.7.4 Notwithstanding all the above, the Supervisor of Banks may instruct the Bank to publish details of the holders of the means of control therein above a rate to be determined, provided that this rate shall not be less than 1%, even if they objected to the disclosure of their

⁹ With regard to additional restrictions applicable to shareholders of the Bank, it should be noted that Proper Conduct of Banking Business Directive No. 312 stipulates provisions regarding the approval of transactions with related persons, where a "related party" is defined, inter alia, as holding 5% of any type of means of control in a banking corporation that controls the banking corporation and their relative, except for a person who received a permit to hold, subject to the terms set out in the letter of the Supervisor of Banks dated June 16, 2016, on the subject of "Permits for Holdings in Banks for Entities Managing Customer Funds – Policy Update", and in a banking corporation without a controlling core, a person proposing (by himself or as a member of a body of holders) a candidate for the office of director, as long as the director proposed by him is serving in his position. Proper Conduct of Banking Business Directive No. 312 also prescribes a limitation on the scope of the liabilities of related parties, where this applies inter alia to a "related party" as defined above.

holdings as stated in section 3.7.3 above, provided that such instruction shall become effective at least six months from the date the instruction was given to the Bank.

- 3.7.5 In addition, the Law for the Promotion of Competition and Reduction of Concentration, 5743-2013 (hereinafter: **the "Concentration Law"**) requires separation between significant non-banking corporations and significant financial entities and sets restrictions on the holding of a significant financial entity and of a significant non-banking corporation (as defined in the Concentration Law) by the same controlling shareholder, restrictions on the holding of a significant non-banking corporation in a significant financial entity, a restriction on the holding of a significant banking corporation in a significant non-banking corporation and an insurer that is a significant financial entity.

Chapter 4 – The Proceeds of the Issuance and its Designation

The Proceeds of the Issuance

On the date of this Shelf Prospectus, the Bank does not offer any securities and therefore there will be no immediate proceeds following the publication of the Shelf Prospectus.

Chapter 5 – Description of the Bank's Business

5.1 **General**

In accordance with Regulation 44 (A1) and Regulation 6B of the Securities Regulations (Details of a Prospectus and a Draft Prospectus - Structure and Form), 5729-1969, the Periodic Report of the Bank for 2017, published on March 6, 2018 (Reference No. 2018-01-021430) (hereinafter: **"the Periodic Report for 2017"**), and the interim reports for the period ended March 31, 2018, which were published on May 24, 2018 (Ref. No.: 2018-01-042177) (hereinafter: **the "First Quarter Report"**) are included in this Prospectus by way of reference

- 5.2 For details regarding material changes and innovations that occurred in the Bank's business, see the Events Report attached to Chapter 8 of the Prospectus.

5.3 **Explanations of the Board of Directors and Management**

For explanations of the Board of Directors on the state of the Bank's business for the year ended December 31, 2017, see the Report of the Board of Directors and Management included in the Periodic Report for 2017.

For explanations of the Board of Directors on the state of the Bank's business for the period ended March 31, 2018, see the Report of the Board of Directors and Management included in the First Quarter Report.

5.4 **Details regarding subsidiary and related companies**

For details regarding the Bank's holdings in the principal subsidiary and related companies held by the Bank at December 31, 2017, and the condensed data of these companies, including with respect to their main businesses, noting their profits, before and after the provision for taxes, the dividend, interest and management fees received by the Bank or to which it was entitled to receive from any aforesaid company in any of the years 2016 and 2017, see Note 15 to the financial statements of the Bank as of December 31, 2017 and December 31, 2016, and the details presented in accordance with Regulations 11 and 13 of the Reports Regulations, which are included in the Periodic Report for 2017 and in the Periodic Report for 2016 of the Bank, published on March 30, 2017 (Reference No.: 2017-01-033063), which is included in this Prospectus by way of reference.

5.5 **Holders of Main Subsidiaries and Related Companies**

To the best of the knowledge of the Bank and its directors, there are no other holders, other than the Bank, who hold more than 25% of the issued share capital or voting rights or the authority to appoint directors in the Bank's major subsidiaries or affiliates.

Chapter 6 – Management of the Bank

6.1 The Board of Directors of the Bank

The Board of Directors of the Bank consists of 13 directors, of whom 7 are classified as external directors under Proper Conduct of Banking Business Directive No. 301 (hereinafter: "**External Director**" and "**Directive 301**" respectively), 4 of which are also classified as external directors pursuant to the provisions of the Companies Law (hereinafter: "**E.D.**"), and 6 ordinary directors, i.e. in the status of "**other director**"- a director who is not an external director and an E.D., as stated above and in section 11D (2) of the Banking Ordinance). The legal quorum for discussions of the Board of Directors is 7 directors, at least one third of whom are external directors. The seven external directors are also classified as independent directors, in accordance with the provisions of the Companies Law. For details regarding the Bank's directors, see details under Regulation 26 of the Reports Regulations in the Periodic Report of the Bank for 2017, which is included in this Prospectus by way of reference.

6.2 Senior Office Holders

For details regarding the senior office holders of the Bank, who are not directors, who serve as of the date of the Shelf Prospectus, see details under Regulation 26A of the Reports Regulations in the Periodic Report of the Bank for 2017, which is included in this Prospectus by way of reference.¹⁰

6.3 Provisions of the Bank's Articles of Association with respect to the Board of Directors

In the Bank's Articles of Association, there are provisions relating to the Board of Directors (hereinafter: "**the Articles of Association**"). A complete and updated version of the Articles of Association was attached to the Report regarding Changes in the Articles of Association dated November 3, 2016 (Reference No. 2016-01-072234), which is included in this Prospectus by way of reference.

6.3.1 For provisions regarding the maximum and minimum number of directors, see Article 76 of the Articles of Association.

6.3.2 Details of the provisions of the Articles of Association on the appointment, selection and term of office of the Directors:¹¹

¹⁰ It should be noted that on May 8, 2008, the Bank's Board of Directors approved an organizational change and appointments at the Bank that will take effect after the date of the Shelf Prospectus. For further details, see the Immediate Report of the Bank dated May 9, 2018 (Ref. No.: 2018-01-046273), which is included here by way of reference.

¹¹ In any case of contradiction between the provisions of the Articles of Association and provisions that cannot be made contingent in the Companies Law and / or the Securities Law and / or the Banking Law and / or the Banking Ordinance and / or the Banking (Licensing) Law and / or the Bank Shares Law and / or a provision in the Proper Conduct of Banking Business Directives or in any regulation by virtue thereof, the aforesaid provisions (i.e. the provisions which cannot be made contingent as aforesaid) shall prevail over the provisions of the Articles of Association. In particular, attention is directed to the provisions of the Banking (Licensing) Law and the Banking Ordinance, which explicitly stipulate preference for their provisions over the Bank's founding documents.

Articles 82 - 89 of the Articles of Association stipulate provisions regarding the appointment or termination of office of directors in the Bank, the duration of their term of office and the manner of making decisions in the General Meeting, where Article 83A of the Bank's Articles of Association stipulates that as long as the Bank is a bank without a controlling core, the proposal of candidates, appointments, their term of office and the termination of their term of office, including the maximum number of directors who may be proposed and the maximum number of directors that can be replaced at a General Meeting, will be executed in accordance with the Banking Ordinance, and these provisions will prevail over any conflicting provision in the Articles of Association. Below are details of the Articles:

(a) Term of office of directors in the Bank

In accordance with Articles 82 and 83 of the Articles of Association, at the ordinary General Meeting of each year, one third of the directors who have extended their term of office, or the number closest to one third and not more than one-third (if their number is not a multiple of three) and they may be re-elected (subject to law). Between two or more directors who have held office for an equal period of time, the question shall be decided who shall retire - in the absence of an agreement between them - by a lottery. The period of time a director has held office shall be considered from the time of his election or his latest appointment if he vacated his position earlier. A director who retires can be re-elected and act as a director during the Meeting in which he retires.

(b) Appointment of directors

- (1) Article 84 of the Articles of Association stipulates that subject to the provisions of the Articles of Association, the Bank may, at a General Meeting, appoint from time to time new directors, increase or reduce the number of directors serving at the time and to change the conditions of their eligibility.
- (2) Article 84A of the Articles of Association provides that decisions of the General Meeting regarding the appointment of directors or the termination of their term of office shall be passed by a majority vote of those participating in the vote. In counting the votes of the participants in the vote, abstentions shall not be taken into account. Voting at the General Meeting on the appointment of directors and on the termination of their term of office shall be for each candidate for office or for any director, as the case may be, separately.
- (3) Article 84A of the Articles of Association further stipulates that a person shall not agree with another person as to their vote for the appointment of a director of the Bank, including in the matter of their voting for the termination of the office of a director, except in accordance with the provisions of the Banking (Licensing) Law and the Banking Ordinance.
- (4) Article 85 of the Articles of Association stipulated that in every General Meeting in which directors retire from their office in turn, the Bank may supplement the vacant positions by the election of an equal number of persons as directors.
- (5) In accordance with Article 85A of the Articles of Association, the term of office of a director shall commence on the date of appointment, unless a later date was set for the commencement of the term of office.

- (6) Article 85B of the Articles of Association determines that if the number of persons who were candidates for election as directors at the General Meeting and who received a simple majority of the total voting rights of the shareholders entitled to vote and who voted (by themselves, by power of attorney or by a voting paper) at the General Meeting, exceeded the number of vacant directors' positions that are to be filled on the agenda of the General Meeting, then those candidates will be selected as directors to the number of vacant positions who received the highest number of votes for support at the General Meeting that was higher than the other candidates ("the directors elected"). In the event that a decision is required between several candidates who received an equal number of votes, the question as to which of them will be elected as a director will be decided by a lottery.
- (7) Article 85C of the Articles of Association states that if before the actual term of office of any of the elected directors has begun, it is clarified that he shall not commence office for any reason whatsoever, one of the other candidates with the same class of eligibility (E.D., external director or other director) who received the required majority in the vote will be considered as elected in his place by the General Meeting; and if a number of candidates have been found to have received the required majority as aforesaid, then the person who received the highest number of votes between them in favor in the vote ("next in line") at the General Meeting will be elected. The aforesaid in this section will also apply with reference to the next in line.
- (8) Article 86 of the Articles of Association stipulates that subject to the provisions of the Banking Ordinance and the Banking (Licensing) Law, and subject to the provisions of section 85c above, the position of a director who has resigned in turn has not been filled by the same General Meeting at which the directors are to be elected, the resigning director will continue, if he so wishes, until the Ordinary Meeting next year, and from year to year until his position is filled, unless it is decided by the Meeting to reduce the number of directors.
- (9) Article 87 of the Articles of Association stipulates that apart from the resigning director, no person shall be elected as a director at a General Meeting, unless he or another member who intends to propose him has submitted to the office, on the date determined by prior notice (issued by the Bank regarding the intention to convene a General Meeting whose agenda includes election of directors) written notice duly signed and announcing his candidacy for the position.
- (10) Article 87A of the Articles of Association provides that the Board of Directors shall not be entitled to appoint directors to the Bank, and will not be allowed to propose candidates for the office of director to the Committee for the Appointment of Directors. Notwithstanding the above, Article 88 provides that the Board of Directors shall be entitled to appoint directors to the Bank, if a position on the Board of Directors become vacant after the prior Annual Meeting, or with the approval of the Supervisor, provided that the term of office of a director appointed as aforesaid shall end not later than at the forthcoming Annual General Meeting, and provided that the total number of Directors shall not at any time exceed the maximum fixed amount.

- (11) Article 89 of the Articles of Association stipulates that subject to the provisions of section 84A above, the Bank may, by a simple majority resolution of the General Meeting, remove a director from office before the end of his tenure and appoint another suitable person in his place. The person appointed for this purpose shall hold office only for the time remaining for the director who has been removed from office.
- (c) As mentioned above, when the bank is a banking corporation without a controlling core, the provisions of Article 83A in the Articles of Association will apply, which will take precedence over any conflicting provision in the Articles of Association, as follows:
- (1) Proposal of candidates, appointment and termination of their office, including the maximum number of directors that can be proposed and the maximum number of directors that may be replaced at the General Meeting, shall be carried out in accordance with the provisions of the Banking Ordinance.
 - (2) Without derogating from the generality of the aforesaid, an office holder of the Bank, with the exception of a director who is a member of the Committee for the Appointment of Directors, shall not act to appoint a specific director or to prevent his appointment; however, a director may propose his candidacy for the office of director.
 - (3) The length of the term of office of a director who is not an E.D. and is not an external director, will be as stipulated in the Banking Ordinance, and the number of terms of office shall not exceed the periods set out in the Banking Ordinance.
 - (4) A person who does not meet the conditions set out in the Banking Ordinance, will not be appointed and will not serve as a director, and with regard to directors serving in the Bank prior to its becoming a banking corporation without a controlling core, the following special provisions stipulated in the Banking Ordinance shall apply regarding them.
- (D) In addition to the above, the provisions of the Banking Ordinance shall apply to the appointment of directors as follows:
- (1) Decisions of the General Meeting on the appointment of a director or the termination of his office shall be passed by a majority vote of those participating in the vote; in counting the votes of the participants in the vote, abstentions shall not be taken into account. The voting at the General Meeting on the appointment of directors and on the termination of their term of office shall be for each candidate for office or for any director, as the case may be, separately.
 - (2) The Board of Directors may not appoint directors to the Bank and may not propose candidates for the office of director to the Committee for the Appointment of Directors. However, if the Bank is a bank with a controlling core, the Board of Directors may appoint directors to the Bank if a vacancy occurred on the Board of Directors after the previous Annual Meeting or with the approval of the Supervisor, provided that the term of office of a director appointed as aforesaid shall end no later than the next Annual Meeting.

- (3) If the number of candidates for office as directors who obtained the majority of the votes cast in the General Meeting exceeds the number of vacancies available for such office, the candidates shall be elected who received a higher number of votes than the other candidates.
- (4) A General Meeting on whose agenda the appointment of directors or the termination of their office shall not be convened unless the Bank has given advance notice thereof in the manner in which the notice of convening a General Meeting is published, at least 21 days prior to the publication of the notice of summoning the General Meeting, and the advance notice was also given to the Supervisor.

6.3.3 For provisions regarding filling the place of the directors, see Article 102 of the Articles of Association.

6.3.4 For provisions regarding the termination of the directors' term of office, see Articles 80, 80A, 82, 83, 83A and 84A of the Articles of Association.

6.3.5 With regard to voting at the meetings of the Board of Directors, Article 97 of the Articles of Association stipulates that questions arising at a meeting of directors shall be decided by a majority vote, and in the case of equal votes, the Chairman shall have a second or casting vote.

6.3.6 In the matter of the transfer of powers between organs in the Bank, Article 92 of the Articles of Association stipulates that directors may from time to time deliver and grant to a business manager who is an office holder at such time such powers as they may have under the Articles of Association, as they see fit, and may grant such powers for the same period and the same goals and purposes and under the same conditions and the same restrictions they deem to be useful, and may grant such powers without relinquishing the powers of the directors on this issue, or in stead of them and in their place, in whole or in part, and may from time to time cancel, deny and modify these powers, in whole or in part.¹²

6.3.7 For provisions regarding committees of the Board of Directors and the powers that may be granted to them, see Articles 99-99B of the Articles of Association and the details below in this chapter.

6.3.8 For provisions regarding the remuneration of directors and provisions regarding exemption, insurance and indemnification, see Articles 77-78 and 143 of the Articles of Association and Chapter 7 below.

6.4 **Legislative provisions regarding the Board of Directors**

6.4.1 The Banking Ordinance sets forth provisions regarding the appointment of directors at the Bank. On March 19, 2012, the Banking Law (Legislative Amendments) (hereinafter in this section: "**the Law**") was published in the Official Gazette, the main purpose of which is to further adapt the Banking Law and the Banking Ordinance to the required supervisory framework in the event that all the holders of means of control in the Bank are not required to obtain a permit under section 34 (B) of the Banking Law, since the holding of each of them does not exceed 5% (hereinafter: "**banking corporation without a controlling core**"). The law focuses mainly on the manner of proposal of the appointment and tenure of the Bank's directors, while balancing the right of the holders of the means of control to propose candidates for the office of directors and acting for their election, and the desire to

¹² Insofar as this does not contradict the provisions of the Companies Law.

prevent actual control of the banking corporation without obtaining a permit from the Governor of the Bank of Israel. Below are provisions regarding the appointment and term of office of directors. It should be emphasized that the aforesaid specification does not detail all the provisions in full relating to the entirety of the said legislation.

6.4.2 Pursuant to Section 36A (a) of the Banking (Licensing) Law, a committee was established to appoint directors in banking corporations (hereinafter: "**the Committee**"), whose function is to appoint directors in banking corporations, if the circumstances are met that are set out in section 35A of the Banking (Licensing) Law, and also to propose candidates for office as directors to the General Meeting of a banking corporation without a controlling core.

6.4.3 Proposal of directors

Pursuant to the provisions of the Banking Ordinance, in a banking corporation without a controlling core, the following only shall be entitled to propose to the General Meeting candidates for election as a director:

- (1) The Committee, where the number of candidates it proposes shall be the number of vacant positions required for the completion of the maximum number of directors, pursuant to the Proper Conduct of Banking Business Directives, and an additional candidate for each of the classes of eligibility to be appointed, E.D., external director, and other director.
- (2) A person who holds over 2.5% of a certain class of means of control in the banking corporation (hereinafter: "**a holder**");
- (3) A group of holders amounting to two or three holders means of control in a banking corporation, each of which holds more than 1% and not more than 2.5% of a certain type of means of control in the banking corporation, and together holding no less than 2.5% and no more than 5%, of the said certain type of means of control (hereinafter: "**a group of holders**"), provided that each member of the group of holders gave the banking corporation a report on its holdings as stated in section 36 (b) (1) of the Banking (Licensing) Law and for at least 3 months prior to the notice of convening of the General Meeting there was no opposition by that member of the group of holders to the disclosure as stated in section 36 (b) (1) (c) of the Banking Law.¹³
- (4) A holder or a group of holders, including any member of the group of holders, shall not propose, pursuant to the provisions of paragraphs (2) and (3) above, more than one candidate for the office of director and shall not propose additional candidates for the office of director as long as the director proposed by them is serving, except pursuant to a permit granted by the Governor after consultation with the Licenses Committee. This provision shall not apply to the proposal of a candidate who will replace a serving director appointed in accordance with the proposal of the holder or a group of holders, as the case may be.

¹³ In this regard, it should be noted that in the framework of an amendment to Proper Conduct of Banking Business Directive No. 312 concerning the Bank's business with related parties, the definition of "related party" was expanded, inter alia, to apply also to a person who proposed a candidate for the office of director of a banking corporation without a controlling core and his relatives (as long as the director proposed by him is serving in his position).

6.4.4 Rules regarding absence of affiliation

In accordance with the Banking Ordinance, in a banking corporation without a controlling core, a candidate for the office of director is subject to certain restrictions with respect to the prohibition of affiliation, which are added to the instructions that apply to an E.D., with certain changes. Inter alia, it is stipulated that the following will not be appointed and will not serve as a director in a banking corporation without a controlling core:

- (a) A person who or his relative holds means of control of any kind in the banking corporation, in a corporation controlled by the banking corporation or in a material holder as defined in the Ordinance, excluding holdings in quoted shares in a percentage not exceeding one quarter of one percent of the issued and paid-up capital of any of them;
- (b) A person who in the two years preceding the date of appointment or from the date of appointment and thereafter, or a person with whom he has a close relationship, has an affiliation with the banking corporation or corporation under the control of the banking corporation, with an office holder of the banking corporation or a material holder, and whoever from the date of appointment and thereafter has an affiliation with a relative of an office holder of the banking corporation, a relative of a material holder or a partner of a material holder (for this purpose, holding office as a director of a bank without a controlling core by a candidate for an additional term shall not be regarded as an affiliation).
- (c) An individual who has, or someone who is in a close relationship with him, business or professional relations with the banking corporation or with a corporation controlled by the banking corporation, with an office holder of the banking corporation or with a material holder, who proposed that candidate for the office of director, even if such relationships are not the general rule, with the exception of negligible relationships.
- (d) A person whose candidacy was proposed by the Committee under section 11D (a) (1) of the Banking Ordinance, and who has an affiliation with a member of the Committee at the time of appointment;
- (e) A person whose candidacy has been proposed by the Committee under section 11D (a) (1) of the Banking Ordinance and which is a Minister, Deputy Minister or Member of Knesset, or a personal, business or political associate to a Minister, Deputy Minister or a government employee of an employee of a corporation established by law.
- (f) A person whose candidacy was proposed by the Committee under section 11D (a) (1) of the Banking Ordinance and was convicted of an offense that due to its nature, severity or circumstances is not fit to serve in the office or has an indictment pending against him for such an offense.
- (g) A person whose candidacy has been proposed by the Committee under section 11D (a) (1) of the Banking Ordinance and whose other functions or occupations create or are likely to create a conflict of interests with his position as a director or if they affect his ability to serve as a director.

The Supervisor of Banks has the right to approve the appointment or service as a director of a person who in the two years preceding the date of appointment or from the date of appointment and thereafter, or a person in a close relationship with him has an affiliation with a material holder, a relative of a material holder or a partner of a material holder even if this affiliation is not negligible, if he finds that in the circumstances of the case this affiliation does not raise a suspicion of conflict of interests in office.

The Banking Ordinance also prescribes transitional provisions regarding a director who served in the banking corporation prior to its becoming a banking corporation without a controlling core.

- 6.4.5 The Banking Ordinance further establishes additional restrictions regarding the appointment of directors in a banking corporation and determines that no person shall be appointed, or will serve as a director in a banking corporation that is a significant financial entity, who controls or is related to one who controls a significant non-banking corporation or is an office holder in a significant non-banking corporation, as defined in the Concentration Law.

6.4.6 **Additional provisions regarding the appointment and termination of the term of office of directors under the Banking Ordinance**

The Banking Ordinance provides additional special provisions regarding the appointment of directors, their term of office and the termination of their term of office, which shall apply to a banking corporation without a controlling core, notwithstanding any other provision of the law. Among other things, a provision was determined stating that the vote on the appointment of directors or the termination of their term of office shall be only at the Annual Meeting or at a meeting convened under section 35A of the Banking (Licensing) Law, unless the Supervisor approves such a vote at a Special Meeting; a provision prohibiting office holders in a banking corporation (excluding an external director or E.D. serving on the Committee) to act to appoint a director or to prevent his appointment, but allows a director to propose his candidacy for a term of office; a provision limiting the term of office of a director who is not an external director or E.D. to three years, and his cumulative term of office for nine years (unless the bank becomes a banking corporation without a controlling core), and then a director who serves prior to its becoming a banking corporation without a controlling core may continue to serve until the next Annual Meeting even if his cumulative term of office exceeds nine years); a provision stipulating that the number of directors to be replaced each year shall not exceed half of the directors who served immediately after the previous Annual Meeting, unless approval of this is given by the Supervisor; it was further determined that under certain circumstances, the Supervisor may authorize a director whose term of office has ended to continue in office for a period of six months or until certain events occur, whichever is earlier.

The Banking Ordinance requires prior notice to be given to the Supervisor before the appointment of certain office holders, including directors, and the appointment is contingent on the Commissioner's consent. The Supervisor shall also be entitled to order the termination of the term of office of a director in certain cases specified in the Ordinance.

6.5 **Directives of the Supervisor of Banks regarding the Board of Directors**

The Supervisor of Banks has prescribed methods of action for the Board of Directors of a banking corporation. These provisions are intended to add to the provisions of the Companies Law and the Articles of Association and Incorporation of the bank, the relevant legislation, guidelines of any other regulatory authority to which the bank is subject, and the resolutions of the Board of Directors.

In Directive 301, the Supervisor prescribed provisions regarding the Board of Directors, including the functions of the Board of Directors and its powers, the composition of the Board of Directors, qualifications for the office of director and Chairman of the Board of Directors, committees of the Board of Directors, meetings of the Board of Directors, practices for the efficient operation of the Board of Directors and reporting to the Supervisor of Banks.

The following is a summary of the main points of Directive 301:

6.5.1 The functions of the Board of Directors

The Board of Directors is responsible for the business and financial strength of the banking corporation. The Board of Directors shall take the reasonable steps necessary to fulfill its functions in accordance with the law and in accordance with the provisions of Directive 301.

- (a) The Board of Directors shall outline the strategy of the banking corporation, including the risk strategy and risk appetite, and shall approve the policy of the banking corporation that will guide it in its ongoing activities.
- (b) The Board of Directors shall supervise the actions of Management and their consistency with the policy of the Board of Directors.
- (c) The Board of Directors shall ensure that there are clear areas of responsibility and accountability in the Bank.
- (d) The Board of Directors shall outline an organizational culture at the bank that requires the implementation of high standards of professionalism and integrity.
- (e) The Board of Directors shall ensure that the bank complies with law and regulation.

6.5.2 Matters on which the Board of Directors must hold discussions and make decisions:

The Board of Directors will discuss, decide, approve and set instructions, as the case may be, on the following matters:

(a) Overall strategy and policy

- (1) The objectives of the overall strategy of the banking corporation, of controlled corporations and of its offices (controlled corporations, branches, representative offices and roving representatives outside Israel), including the main lines of action, the business model and the sources of profit, operational efficiency, overall risk strategy and the risk appetite, as detailed in Proper Conduct of Banking Business Directive 310.

The discussion of strategy objectives will be conducted against the background of the macroeconomic, business and regulatory environment in which the bank operates. The Board of Directors of a controlled corporation must take into account the group's overall strategy objectives, as determined by the Board of Directors of the controlling banking corporation, insofar as they are consistent with the interests of the controlled corporation and with the provisions of section 11 of the Companies Law.

- (2) The organizational structure of the banking corporation and the structure of the group. The Board of Directors will examine that the structure of the banking corporation and the group are consistent with its business strategy, relating, inter alia, to the types of corporations in the group and the way they are held and controlled, and the ability of the banking corporation to identify, control and manage risks at the group level, including surplus risks deriving from complex structures. For this purpose, the Board of Directors shall ensure that the structure of the banking corporation and the structure of the group include appropriate communication and reporting channels.

For purposes of this subsection – "group" – a banking corporation and corporations controlled by it.

- (3) The risk management framework, including the approval of the policy and the manner of risk management for each of the different risks of the banking corporation (including credit risks, market risks, operational and technological risks, liquidity risks, compliance risks, legal risks, etc.) as detailed in Section 15 of Proper Banking Management Directive No. 310.

The Board of Directors of a controlled corporation is to take into account the overall risk management framework of the group, as determined by the Board of Directors of the controlling banking corporation, as long as they are in line with the interest of the controlled corporation and with the provisions of section 11 of the Companies Law.

- (4) Approval of a new product policy and the examination and prior approval of significant new products prior to their activation.
- (5) The banking corporation's credit policy and objectives, as detailed in Proper Conduct of Banking Business Regulation No. 311.
- (6) The information technology and online banking policy and strategy of the banking corporation.
- (7) The process of assessing capital adequacy against the level of exposure to risks determined, capital policy, capital structure and changes therein
- (8) Objectives for implementation in the coming year and their suitability to the banking corporation's policy and the approval of a work plan in accordance with these objectives.
- (9) The overall budget of the banking corporation (revenue, expenses and investments) and follow up of its actual performance.

(b) Supervision and control

- (1) Reports on the banking corporation's business condition.
- (2) Material deviation, as defined by the Board of Directors, from the limits set in the policy framework approved by it.
- (3) The types of exceptional events to be discussed by the Board of Directors and a discussion of material exceptional events.
- (4) Supervision and control mechanisms over controlled corporations.
- (5) Work of the audit and control functions.

- (6) Material audit reports that the Audit Committee, in consultation with the Chairman of the Board of Directors, submitted for discussion in the plenum of the Board of Directors.
 - (7) Approval of the annual and quarterly reports to the public of the banking corporation.
 - (8) Notices by the external auditor: (1) Notice of non-correction of deficiencies under section 3 (b) of Proper Conduct of Banking Business Directive No. 304; (2) notice of doubts regarding the continued existence of the banking corporation as a going concern under section 6 (c) of Proper Conduct of Banking Business Directive No. 302.
- (c) Personnel and Remuneration Policy
- (1) Appointment of the CEO, his dismissal and evaluation of his performance.
 - (2) Policy of appointment and evaluation of performance of the executive level.
 - (3) Rotation policy for certain office holders in the banking corporation, periodically as set forth in Proper Conduct of Banking Business Directive 360.
 - (4) The remuneration policy, as defined in Proper Conduct of Banking Business Directive No. 301A, after considering the recommendations of the Remuneration Committee.
 - (5) The banking corporation's engagement with senior office holders regarding their remuneration (as defined in Proper Conduct of Banking Business Directive No. 301A), after approval of the Remuneration Committee and before the approval of the General Meeting when required. Regarding the engagement of the banking corporation with the internal auditor, the approval of the Board of Directors will also be following the recommendation of the Audit Committee.
 - (6) The principles of the remuneration agreements of employees of the banking corporation who are not senior officers
- (d) Miscellaneous:
- (1) Issuance of shares (including options and convertible securities) by a controlled corporation, both in Israel and abroad, and another issuance of a controlled corporation guaranteed by the banking corporation, except for an issuance of a corporation in which all the means of control are held by the parent corporation and the issuance is to the banking corporation itself or to a corporation controlled by the banking corporation.
 - (2) Making changes in the control structure of the banking corporation and a controlled corporation whose activity is material for the activity of the banking corporation.
 - (3) Execution and realization of fixed investments, including investment in a controlled corporation, whether domiciled in Israel or abroad, according to criteria as determined by the Board of Directors when the investment amount will be one of the criteria; the criteria shall be determined in a manner that will prevent the Board of Directors from engaging in the day-to-day management of the banking corporation.

- (4) Code of ethics for the banking corporation.
- (5) Policy for preventing conflicts of interest and controls in respect of them.
- (6) "Absence of transparency activities" policy.
- (7) Any other matter of material importance for the activity of the banking corporation or for supervision and control of its management.

(e) Meetings without the presence of Management

At least once a year, the Board of Directors shall hold a discussion without the presence of members of Management, which will discuss the following issues:

- (1) Evaluation of the performance of the CEO and the functioning of Management.
- (2) Evaluation of the quality of the information received from the Management in the meetings of the Board of Directors, including the scope, type and frequency of the information.
- (3) Salary and remunerations of the executive level.
- (4) Evaluation of audit and control functions and effectiveness of controls in the banking corporation.
- (5) Other issues related to the relationship between the Management and the Board of Directors.

Every two years, the Board of Directors will have a discussion on evaluating the effectiveness of the work of the Board of Directors, as stipulated in Directive 301.

- (f) Directive 301 includes various other subjects specified therein.
- (g) In addition, Directive 301 specifies the frequency of discussions by the Board of Directors on matters detailed in the Directive.

6.5.3 Composition of the Board of Directors

- (a) The Board of Directors shall consist of a number of members who will encourage efficiency and a substantive strategic discussion, provided that the number of directors shall not be less than 7 and not more than 10. A banking corporation that believes that for the proper functioning of the Board of Directors a larger number of directors is required, may, with the approval of the Supervisor, appoint a larger number of members of the Board of Directors.¹⁴
- (b) The employees of the banking corporation shall not be appointed as directors.
- (c) At least one third of the directors shall be external directors.
- (d) Notwithstanding the provisions of section 245 (b) of the Companies Law, the Supervisor may terminate the office of an external director, other than an E.D., in accordance with section 11A(e) of the Banking Ordinance, and also authorize a banking corporation to present to the agenda of the General Meeting a proposal by a shareholder to terminate the term of office of such external director, if the shareholder is entitled to do so according to the Companies Law and the Articles of Association of the banking corporation.
- (e) The Supervisor may, in exceptional cases, approve a candidate for the position of external director, even if all the conditions required by Directive 301 have not been fulfilled, provided that if this is an E.D. or an independent director appointed under the Companies Law, all the conditions stipulated in this matter have been fulfilled.

6.5.4 Competence of the Board of Directors

In addition to the qualifications applicable to each of the directors as detailed below, the Board of Directors shall have the appropriate knowledge and skills, training and experience in a collective manner consistent with the strategy and characteristics of the banking corporation's activity, provided that the following conditions are met:

- (a) At least one third of all the directors shall have "banking experience" as defined in Directive 301, or whoever has been approved by the Supervisor as having equivalent experience.¹⁵
- (b) At least one-fifth of all the directors shall have accounting and financial expertise, within the meaning thereof under section 240 of the Companies Law.

¹⁴ As at the date of this Prospectus, the Board of Directors of the Bank has 13 members. In accordance with the directives of the Supervisor of Banks, in 2018 their number will be reduced to 12. The aforesaid limitation in Regulation 301 regarding the maximum number of directors was set as part of an amendment from July 2017, and in accordance with the transitional provisions prescribed therein, the Bank is required to reduce the number of directors to 10 by July 1, 2020.

¹⁵ The following eligibility requirements reflect the updated version of Directive 301 published in July 2017. In accordance with the transitional provisions that were set forth, the following changes will take effect on July 1, 2020: (a) the change according to which the amount of directors with banking experience has increased from one-fifth to one-third; (B) The change whereby at least half of the directors are required to have "professional eligibility" as defined in the Companies Regulations (Conditions and Tests for a Director with Accounting and Financial Expertise), 5766-2005, and (c) the change whereby at least one director will have proven knowledge and experience in the field of information technology.

- (c) At least half of all the directors shall have professional eligibility as defined in Directive 301.
- (d) At least one director shall have proven knowledge and experience in the areas of information technology. This condition shall not apply to banking corporations that are subsidiaries of banking corporations and receive information technology services from them.
- (e) For the avoidance of doubt, a director who meets several qualifications, as required in this section, may be counted as part of the required amount under those sections.

6.5.5 Knowledge of the Hebrew language:

The directors will be fluent in the Hebrew language, at least in the level of reading and speaking, in a way that allows for reading the background material for meetings and active participation in discussions. In exceptional cases, the Supervisor may exempt a director from this requirement.

6.5.6 The Chairman of the Board of Directors:

The Chairman of the Board of Directors is the party responsible for the proper functioning of the Board of Directors and for the fulfillment of the duties imposed on it. The Chairman has a significant contribution to maintain the checks and balances in the corporate governance of the banking corporation between the Board of Directors, senior management, the controlling shareholders and other interested parties. The Chairman of the Board of Directors is required to have appropriate experience, abilities and personal qualities in order to fulfill his duties.

- (1) The duties of a director shall apply to the Chairman of the Board of Directors.
- (2) The Chairman shall encourage the holding of free discussions that allow the expression of different opinions and ensure that decisions are made on the basis of appropriate information.
- (3) In the absence of the Chairman of the Board of Directors, one of the directors shall replace him.
- (4) A controlling shareholder or his relative shall not serve as Chairman of the Board of Directors.
- (5) An external director shall not serve as Chairman of the Board of Directors of a banking corporation with a controlling core.
- (6) No person shall serve as Chairman of the Board of Directors unless he participates regularly in meetings of the Board of Directors.
- (7) The Board of Directors shall set a policy for the maximum term of office of the Chairman of the Board of Directors.

6.5.7 Eligibility of Director:

- (a) A director of a banking corporation shall be an individual.
- (b) Each of the directors shall have appropriate qualifications for his position, and specifically: education, knowledge, experience or expertise in one or more of the following areas: banking, finance, economic or business activity, law, finance,

accounting, risk management, regulatory compliance, information technology, information security (including cyber) or any other area approved by the Supervisor.

- (c) A person shall not serve as a director if his other occupations do not leave sufficient time for him to carry out his functions as such.

6.5.8 Conflict of interests on a permanent basis

Directive 301 provides rules for the prevention of a permanent conflict of interest of directors, including the prohibition on a parallel tenure as a director / member of an investment committee / member of the credit committee / employee of another banking corporation that is not part of the same banking group or its controlling parties, as well as in a financial entity or corporation controlling a financial entity, in accordance with the conditions set forth in Directive 301. In addition, pursuant to Directive 301, the Board of Directors will set guidelines for cases where a director has the potential for permanent conflict of interest, and guidelines for cases in which a director has a personal interest.

In this regard it should be noted that Proper Conduct of Banking Business Directive No. 312 further prescribes guidelines on the business of a banking corporation with "related persons", limits the scope of the indebtedness of the "related persons" to the banking corporation and requires that transactions between the banking corporation and "related persons" will be made subject to strict rules of corporate governance and according to business considerations and conditions that do not deviate from the accepted conditions for similar transactions with non-related persons.

6.5.9 Meetings of the Board of Directors

- (a) Directive 301 prescribes rules regarding the frequency of meetings of the Board of Directors, attendance at meetings of the Board of Directors, notices and background material for meetings, legal quorum and voting, agenda, minutes, participation of the internal auditor in meetings, meetings by telecommunications and making decisions without convening.
- (b) It was also prohibited to appoint a substitute director or an observer on the Board of Directors of a banking corporation. However, a director may participate in a meeting of a committee of the Board of Directors of which he is not a member, provided that his participation is not permanent.

6.5.10 Practices for the effective functioning of the Board of Directors

In Directive 301, rules were prescribed regarding practices for the effective functioning of the Board of Directors, including the determining of work procedures, the requirements from a director, the right of a director to receive information, professional assistance to the Board of Directors, signing authority, sectoral conflict of interest, personal interest, contact with employees of the banking corporation outside the meetings, training and professional expertise and evaluating the effectiveness of the work of the Board of Directors. In addition, Directive 301 provides rules regarding reporting to the Supervisor of Banks.

For the methods of action of the directors according to the Articles of Association, see Articles 94 to 101 of the Articles of Association.

6.6 Committees of the Board of Directors

The Board of Directors of the Bank operates, inter alia, through subcommittees. As a rule, the committees are permanent committees, some of which were established in accordance with the requirements of the relevant legislation, some were established according to Proper Conduct of Banking Business Directives, and some were established at the decision of the Board of Directors, in light of the needs and activity of the Bank. From time to time ad hoc committees are set up for certain issues. The composition of the committees, their functions and methods of work are determined in accordance with the relevant legislation, Proper Conduct of Banking Business Directives and in accordance with the Bank's internal procedure regarding the work of the Board of Directors and its committees. In accordance with the Board of Directors' procedure, subject to the Companies Law and the directives of the Supervisor of Banks, the Chairman of the Board of Directors may bring any matter for discussion and the decision of the plenum of the Board of Directors only, even if the Board of Directors' procedure stipulates that this matter will be brought before a specific committee, and that, according to the circumstances of the case, to decide that matters which, according to the Board of Directors' procedure, should be brought for discussion and / or decision of a particular committee, should be brought for discussion and / or decision of another committee of the Board of Directors.

The Board of Directors is not entitled to delegate its powers to a Board of Directors Committee on certain matters as prescribed in the Companies Law and in Directive 301. The above does not apply to matters in which a decision is made by a committee pursuant to any law or on matters regarding which the Board of Directors has received advance and written approval from the Supervisor.

Below are the committees operating in the Bank, their functions and powers:

6.6.1 Audit Committee¹⁶

The Committee's main functions and powers are summarized below:

- (a) To identify deficiencies in the business management of the Bank and the Group, and to suggest ways of rectifying them. In this framework, inter alia, the Committee will discuss and decide on the findings of internal and external audit reports presented to it, and will submit material audit reports for discussion by the plenum of the Board of Directors. The Committee shall also ensure that Management has taken timely and appropriate actions to correct the deficiencies noted in the audit reports and shall discuss periodic reports submitted to it by the Internal Auditor.
- (b) To supervise the Chief Internal Auditor of the Bank, including to recommend to the Board of Directors on his appointment or removal from office, to make recommendations to the Remuneration Committee on the salary and remuneration of the Chief Internal Auditor and his promotion, to recommend to the plenum of the Board of Directors the approval of the Internal Auditor's work plan, including the scope and frequency of the audits, to impose on the internal audit function the conducting of special examinations, beyond those set forth in the internal audit work plan, to examine the activity of the Internal Audit Division and the resources allocated to it.
- (c) To discuss an independent review of the internal audit on the matter of ICAAP.
- (d) To supervise the work of the Bank's independent auditors, including making recommendations to the General Meeting on appointments, to discuss every three

¹⁶ On December 31, 2007, the Board of Directors of the Bank resolved to consolidate the Audit Committee and Remuneration Committee so that the Audit Committee will also serve as a Remuneration Committee.

years the possibility of replacing them and to make recommendations to the General Meeting and / or the Board of Directors regarding their remuneration.

- (e) To examine the Bank's annual and quarterly reports to the public, to discuss and recommend their approval to the Board of Directors, including to discuss and recommend to the Board of Directors on various matters, including matters relating to internal control over financial reporting, as well as matters relating to provisions for doubtful debts and legal claims, appropriateness of provisions and classification of debts, appropriateness of the disclosure in the financial statements, accounting policy and valuations.
- (f) To establish arrangements regarding the manner of handling complaints by employees of the Bank in connection with deficiencies in the conduct of its business and with respect to the protection to be given to the employees who complained as aforesaid.
- (g) To use the work of the audit functions in order to examine the effectiveness of the key internal controls at the Bank.
- (h) To discuss transactions with "related persons" as required by Proper Conduct of Banking Business Directive 312, as well as actions and transactions requiring the approval of the Audit Committee under the Companies Law, and to determine, once a year, criteria for an exceptional transaction with an office holder or in which an office holder has an interest, and criteria for an exceptional action by an office holder.
- (i) To discuss and make recommendations to the Board of Directors regarding policy of compliance, enforcement, prohibition of money laundering and prevention of terrorist financing, and the Bank's enforcement program, to discuss and approve the multi-year work plan of the Compliance and Enforcement Officer, and to conduct a semi-annual follow-up on its execution, and to hold a discussion on the periodic reports of the Compliance Officer. In addition, to recommend to the Board of Directors the appointment or removal of a Compliance Officer.
- (j) To discuss the annual report of the Bank's Ombudsman and the Public Complaints Policy.
- (k) To discuss and recommend to the Board of Directors a policy regarding the prevention of conflicts of interest and the control thereof, and to review from time to time the disclosure made by the directors regarding their serving in positions outside the Bank and the existence of a potential risk of conflict of interest in connection with their tenure at the Bank.
- (l) To hold a bi-annual discussion with each of the audit and control functions separately, as well as with the Chairman of the Board of Directors and the Head of the Human Resources Division, in the presence of the Committee members and the relevant officer only.
- (m) To maintain a working interface with the Risk Management Committee on material matters relevant to its areas of responsibility. A quarterly meeting will be held between the Committees.

In addition, the Committee is authorized to discuss and recommend to the Board of Directors the following matters:

- (a) The remuneration policy for Bank employees and officers, including criteria for assessing and measuring performance. The remuneration policy will be consistent with the organizational and managerial culture of the Bank and the Group, with the objectives and strategy of the Bank and the Group in the long term and with the control environment. The audit committee will ensure that the remuneration policy promotes compliance with the goals of the Bank and the Group, established and effective risk management, does not encourage the taking of extraordinary risks or beyond the risk appetite of the Bank and the Group, does not contradict the credit management strategy of the Bank and the Group and facilitates the maintenance of a strong capital base.
- (b) Evaluating the performance and implementation of the remuneration policy, regarding the effectiveness of the remuneration policy and the remuneration mechanisms included therein, and the compliance of the said remuneration mechanisms with the supervisory requirements, and checking that they reflect all types of risks relevant to the activity of the Bank and the Group and the levels of capital and liquidity.
- (c) The need to make changes in the remuneration policy (for example, if there has been a material change in the circumstances that existed at the time of its establishment).
- (d) To discuss and approve the terms of engagement of the Bank with its senior office holders regarding the terms of their tenure and employment.
- (e) The application of personal contracts to a particular sector or levels of employees of the Bank and the general terms of these contracts.
- (f) A framework for granting a bonus and granting a bonus to employees of the Bank to whom the Labor Agreement applies in accordance with the remuneration policy for Bank employee, and taking into consideration, among other things, the objectives of the work plan for the coming year.
- (g) A framework for granting a bonus and granting a bonus to key employees who are not office holders in accordance with the remuneration policy and taking into account, among other things, the objectives of the work plan for the coming year.
- (h) Granting a bonus to the Chairman of the Board of Directors, to the President and CEO and to other senior office holders and its amount, in accordance with the remuneration policy for senior executives of the Bank.

In addition, the Committee is authorized to discuss and recommend (through the President & CEO) to the authorized organs of subsidiary companies regarding the remuneration of their directors, in accordance with the Board of Directors' working procedures, and to discuss the terms of employment of the CEOs of the material subsidiary companies, including bonuses.

Consolidation of the Audit Committee and Remuneration Committee

On December 31, 2017, the Board of Directors of the Bank decided to consolidate the Remuneration Committee with the Audit Committee, in accordance with the amendment made in Directive 301 in this matter in July 2017, so that as at the date of this Prospectus, the composition of the Remuneration Committee is the composition of the Audit Committee.

In the work procedure of the Board of Directors of the Bank, additional functions were stipulated for the Audit Committee. For further details regarding the functions of the Board of Directors and the Remuneration Committee with respect to the remuneration policy of a banking corporation, see Proper Conduct of Banking Business Directive No. 301A on the subject of remuneration policy in the Directors' Report included in the Periodic Report of the Bank for 2017.

Composition of the Audit Committee:

Every E.D. will be a member of the Audit Committee. The Chairman of the Committee will be an E.D. Most of the members of the Committee will be independent directors (who are also qualified as external directors), the terms of office and employment of all members of the Audit Committee will be in accordance with the provisions prescribed under section 244 of the Companies Law which deals with rules of remuneration and the refund of expenses to an external director. All the members of the Audit Committee will have the ability to read and understand financial statements. At least three directors among the members of the Committee will have accounting and financial expertise, and that at least one of them will be an E.D., at least one of the members of the Audit Committee shall have expertise in accounting and financial expertise, and at least one of the members of the Audit Committee shall have expertise and experience in risk management and control activities.¹⁷ The Chairman of the Board of Directors may not be a member of the Audit Committee. However, in accordance with the approval of the Supervisor of Banks, Mr. David Brodet, Chairman of the Board of Directors, may participate in meetings of the Audit Committee when it discusses matters relating to the financial statements as an observer. The legal quorum for holding a meeting and making decisions of the Committee is the majority of its members, provided that the majority of those present are external directors and / or E.D., and at least one of them is an E.D.

As of the date of this Shelf Prospectus, the members of the Committee are: Chairman of the Committee - Haim Samet – E.D., Yitzhak Idelman – E.D., Shmuel Ben Zvi - External Director, Tamar Gottlieb – E.D., Ohad Marani – External Director, Zipora Samet - External Director who meets the qualification conditions of an E.D. and Yedidya Stern - External Director.

6.6.2 Risk Management Committee

Below is a summary of the main issues on which the Committee is authorized to discuss and recommend to the Board of Directors:

- (a) The overall risk strategy, including the current and future risk appetite, and the overall risk management framework, which is anchored in the ICAAP document and in policy documents that specify the internal exposure limits and the manner of managing the risk for each type of risk of the Bank, including all the corporations controlled by it and its offices (such as: credit risks, market risks, operational risks, liquidity risks, legal risks), in accordance with the overall risk appetite of the Bank and the Group.
- (b) The overall risk appetite of the Bank and the Group and the capital adequacy assessment process, which are anchored in the ICAAP document.

¹⁷ According to Proper Conduct of Banking Business Directive 301, the requirement that at least one of the committee members have expertise and experience in risk management and control activities is not obligated when the Audit Committee also serves as the Remuneration Committee.

- (c) Writing the risk document for the various risks inherent in the activity of the Bank and the Group, including reference to new or emerging risks, and ensuring that these risks are managed as required and that the Bank's management has allocated appropriate resources for them.
- (d) Group policy for the approval of new products, which regulates the review and approval processes required prior to their activation, as well as the approval of certain new products.
- (e) Holding an annual discussion on the organizational preparations of the Bank and the Group for management and control of the overall exposure to the various risks and the examination of qualitative tools for the management and control of the risks of each type and in each area of activity.
- (f) An evaluation of the degree of effectiveness of the management of the compliance risk and the management of the risk of money laundering and the prohibition on financing terrorism by the Bank.
- (f) Discussion of the findings of risk surveys (including operational risks) carried out by the Bank's management regarding the various risks inherent in the Bank's operations, including discussion of the mapping of risk focuses for embezzlement and fraud and of the control mechanisms relating to them, which the Bank is required to perform once every three years.
- (h) Discussion as necessary regarding the purchase of a bank insurance policy.

The committee will also convene as the US Risk Management Committee, as required by the Board of Directors' work procedure.

In addition, the Committee maintains a working interface with the Audit Committee on material matters relevant to its areas of responsibility, and maintains regular contact with the Chief Risk Manager and with other audit and control functions, in order to be updated on the current risk profile, risk appetite, limitations and deviations from them and plans for reducing risks, as set forth in the Board of Directors' procedure.

The Bank's Board of Directors' working procedures prescribe additional functions of the Risk Management Committee. As of the date of this Shelf Prospectus, the composition of the Committee is as follows: Chairman of the Committee - David Brodet - Other Director, Itzhak Eidelman – E.D., Shmuel Ben Zvi - External Director, Esther Levanon – Other Director, Yoav Nardi – Other Director, Zipora Samet - External Director who meets the qualification conditions of an E.D. and Yitzhak Sharir - Other Director.

6.6.3 Credit Committee

The Credit Committee, inter alia, discusses the granting of credit to a borrower or group of borrowers within the scope of its authority and is authorized to approve credit applications brought before it. The Committee is also authorized to supervise and monitor the granting of credit at the Bank, the credit situation and the credit portfolios of the Bank's large groups of borrowers, by receiving immediate and periodic reports on credit, and makes recommendations to the Board regarding debt collection policies from private customers and small businesses.

As of the date of this Shelf Prospectus, the composition of the Committee is as follows: Chairman of the Committee - David Brodet - Other Director, Tamar Gottlieb – E.D., Esther

Dominissini - Other Director, Samer Haj Yahya - Other Director, Ohad Marani - External Director and Yedidya Stern - External Director.

6.6.4 Strategy Committee

Following is a summary of the main issues on which the Committee is authorized to discuss and make recommendations to the Board of Directors:

- (a) Strategic objectives of the Bank and the Group, updating them and monitoring their implementation.
- (b) The organizational structure of the Bank.
- (c) The Bank's policy regarding branches and transition to online banking, which will be consistent with the Bank's strategy.
- (d) The principles of remuneration agreements with employees who are not senior office holders.

In addition, the Committee holds a discussion on the human resources of the Bank, including the number of employees, the corporate social responsibility management of the Bank and the Group, and its suitability to the overall strategy of the Bank, and business issues related to the establishment and ongoing operation of the digital bank and its routine operation.

As of the date of this Shelf Prospectus, the composition of the Committee is as follows: Chairman of the Committee - David Brodet - Other Director, Shmuel Ben Zvi - External Director, Esther Dominissini - Other Director, Samer Haj Yihye - Other Director, Esther Levanon - Other Director, Haim Samet – E.D. and Zipora Samet – E.D.

6.6.5 Investment Committee

Below is a summary of the main issues on which the Committee is authorized to discuss and make decisions:

- (a) The execution or realization of non-banking investments, nostro investments, the taking of an underwriting undertaking and the sale of real estate, equipment or other assets, all of these with the conditions and beyond the threshold set by the Board of Directors.
- (b) Acquisition, establishment, sale or merger between themselves, or between them and the Bank, under certain conditions, of subsidiary companies.

In addition, the Committee will discuss and recommend to the Board of Directors on the Bank's investment budget (excluding IT investments), and will receive periodic reports regarding real estate transactions and investments.

As of the date of this Shelf Prospectus, the composition of the Committee is as follows: Chairman of the Committee - David Brodet - Other Director, Itzhak Eidelman – E.D., Yoav Nardi - Other Director, Zipora Samet - External Director who meets the E.D. qualification conditions and Yitzhak Sharir - Other Director.

6.6.6 Technology Committee

The Technology Committee will, inter alia, discuss and recommend to the Board of Directors a policy on technology-related issues and an IT investments budget, as well as discuss developments, trends, opportunities and risks related to information technologies, will monitor ongoing business risks and accompany technological projects.

As of the date of this Shelf Prospectus, the Committee is comprised of: Chairman of the Committee - David Brodet - Other Director, Itzhak Eidelman – E.D., Shmuel Ben Tzvi - External Director, Tamar Gottlieb – E.D., Esther Levanon - Other Director, Yoav Nardi - Other Director and Yitzhak Sharir - Other Director.

6.6.7 Other committees and ad hoc committees

In addition to the above committees, the Bank has permanent committees for specific purposes such as the Procedure Committee and the Prospectuses Committee, which meet when necessary. In addition, the Board of Directors establishes ad hoc committees from time to time for specific purposes, such as the Committee for the Implementation of the Strom Recommendations.

6.7 Authorized Signatories of the Corporation

The Corporation does not have an independent authorized signatory as defined in Section 37 (d) of the Securities Law.

6.8 Additional Details

6.8.1 The Bank's Auditors:

Somekh Chaikin, 17 Ha'arba'a Street, Millennium Tower, Tel Aviv.

Kost Fohrer Gabbay & Kasierer, 144A Menachem Begin Street, Tel Aviv.

6.8.2 The Bank's Registered Office:

34 Yehuda Halevy Street, Leumi House, Tel Aviv.

Chapter 7 – Interested Parties in the Bank

- 7.1. As stated in Section 3.5 above, as of March 24, 2012, the Bank is defined as a banking corporation without a controlling core and no shareholder is defined as the controlling shareholder of the Bank.

7.2 **Remuneration to Senior Office Holders**

For details regarding the remuneration granted in respect of the years 2016 and 2017, the five highest paid employees of the Bank from the senior office holders in the Bank or in a corporation under its control, as well as the three senior office holders with the highest remuneration in the Bank in connection with their position in the Bank itself, including a description of the main conditions of their employment, see the section "Remuneration of Senior Office Holders" in the Corporate Governance Report included in the Periodic Report of the Bank for 2017, as well as Note 23 to the financial statements included in the Periodic Report for 2017 (hereinafter: "**the Financial Statements**" and "**the Periodic Report for 2017**", respectively).

7.3 **Indemnification, exemption and insurance**

For details regarding indemnity, exemption from liability and insurance for directors and office holders of the Bank, see Note 26 (F) to the financial statements and see also information under Regulation 29A of the Reports Regulations in the Periodic Report for 2017.

Regarding the exemption for office holders, it should be noted that Article 143 of the Articles of Association states that the Bank may give exemption in advance to a senior officer from his liability, in whole or in part, for damage caused by a breach of his duty of prudence. Notwithstanding the foregoing, the Bank is not entitled to exempt a director from his liability to it in advance for breach of the duty of prudence in "division" (as defined in the Companies Law).

7.4 **Directors' remuneration**

For details regarding the total amount of the remuneration of the members of the Board of Directors (except for the Chairman of the Board of Directors, for which the details are included as stated in Section 7.2 above), and the expenses paid to them or they were entitled to receive from the Bank that do not deviate from the accepted practice, see information under Regulation 21 of the Reports Regulations in the Periodic Report for 2017.

For further details regarding the directors' remuneration, see Articles 77 and 78 of the Bank's Articles of Association.

The remuneration paid to all the directors of the Bank, except for the Chairman of the Board of Directors, is annual remuneration and remuneration for participation in meetings, in the amount of the maximum amount for an external director or for an expert external director, as the case may be, in accordance with the provisions of the Companies Regulations (Rules Regarding Remuneration and Expenses for an External Director) 5560-2000, according to the versions from time to time.

7.5 **Holdings of interested parties and senior office holders**

For details regarding the holdings of interested parties and senior office holders in the securities of the Bank or the securities of subsidiaries or of its related companies, if their activities are material to the activity of the Bank, as of March 29, 2018, see the Immediate Report of the Bank dated April 10, 2018 (Reference No. 2018-01-036208). For details regarding the list of holders of

material means of control in the Bank, in accordance with Regulation 33 (d) of the Financial Statements Regulations, see the Bank's Immediate Report dated April 10, 2018 (Reference No. 2018-01-036136).

Chapter 8 - Financial Statements and Events Report

8.1 Financial Statements

In accordance with the provisions of Section 60B and 6B of the Securities Regulations (Details of Prospectus and Draft Prospectus - Structure and Form), 5729-1969 (hereinafter: "**Prospectus Details Regulations**"), the following reports are included in this Prospectus by way of reference:

8.1.1 The annual financial statements of the Bank as at December 31, 2017, which were included in the Periodic Report of the Bank for 2017, published on March 6, 2018 (Ref. No.: 2018-01-021430) (hereinafter: "**the Periodic Report for 2017**").

8.1.2 The financial statements of the Bank as of March 31, 2018, which were included in the Bank's first quarter report for 2018, as published on May 24, 2018 (Reference No: 2018-01-042177) (the "**First Quarter Report**").

8.2 Declaration by the President and CEO and the Chief Financial Officer of the Bank

In accordance with the provisions of Section 60E and 6B of the Prospectus Details Regulations, this Prospectus includes by way of reference the declarations of the President and CEO and the Chief Financial Officer of the Bank, required by Regulation 9B (g) of the Reports Regulations, that were included in the Periodic Report for 2017, and the declarations of the President and CEO and the Chief Financial Officer of the Bank in accordance with Regulation 38C (d) of the Reports Regulations, which were included in the first quarter report.

8.3 Letters of consent of the Bank's external auditors

Attached to this prospectus are letters of consent of the Bank's external auditors, including their consent to include in the Shelf Prospectus, including by way of reference, the External Auditors' Report to the financial statements of the Bank for 2017, the Auditors' Report regarding internal control and the External Auditors' Review Report of the auditors for in the first quarter report.

8.4 Letter of consent of the actuary to include an actuarial opinion of the pension rights, bonuses and special vacations for Bank employees

Attached to this Prospectus is a letter of consent of the actuary containing his consent to include in this Prospectus his actuarial opinion regarding pension rights, bonuses and special vacations of Bank employees as at December 31, 2017 and March 31, 2018, which were attached to the Bank's financial statements for 2017 and the first quarter report.

8.5 Events Report

In accordance with Regulation 60B (b) of the Prospectus Details Regulations, an events report, as defined in Section 56 of the Prospectus Details Regulations, is attached to this Prospectus with respect to events that occurred after the date of the financial statements, i.e. from March 5, 2018 up to the date of granting the permit for the Prospectus.

Events Report

In accordance with Regulation 60B (b) of the Securities Regulations (Details of the Prospectus and Draft Prospectus - Structure and Form), 5729-1969, the following is an Events Report detailing material events in the period following the date of the financial statements of the Bank as of December 31, 2017 (signed on March 5, 2018)) and published in MAGNA on March 6, 2018 (Reference No.: 2018-01-021430) (hereinafter: "**the Financial Statements**") up to the date of the granting of the permit for this Shelf Prospectus. Some of the information in this Events Report includes "forward-looking information". For the meaning of this subject and the results deriving from this meaning - see the section "Forward-looking information" in the financial statements for 2017, page 11.

Legal Proceedings

- 1) Further to that stated in Note 26C.1., 3.1.13, to the financial statements regarding a petition to approve a class action filed on December 8, 2016, against the Bank and against other banks, in which it was argued that the banks charge minimum fees for the transfer of foreign currency by size, and not only one minimum fee, that the petitioner claims is required by the Banking Rules, it should be noted that on March 13, 2018, a ruling was handed down that approved the withdrawal of the petitioner from the proceeding, and thus the claim came to an end.
- 2) Further to that stated in Note 26C.1, 1.1D to the financial statements regarding a petition to approve a class action filed on September 11, 2017 against the Bank, in which it was claimed, inter alia, that the Bank opens accounts in the name of the house committee, instead of an account in the name of the condominium, as required under the Property Law. In addition, it was argued that the Bank charges commissions in these accounts unlawfully, does not comply with the provisions of the Checks Without Cover Law for identification of customers, and does not allow apartment owners access to information regarding the bank account. It should be noted that on March 25, 2018, a ruling was issued approving the petitioner's withdrawal from the proceeding, and thus the claim came to an end.
- 3) In Note 26C.1 3.1.A to the financial statements, information was presented regarding a petition to approve a class action that was filed against the Bank (in respect of the activity of Leumi Mortgage Bank Ltd. that was merged into the Bank) and against other banks. The amount of the class action claimed against all the respondent banks was approximately NIS 927 million as of January 1, 2010, and the amount of the class action claimed against the Bank was NIS 327 million. The plaintiffs claim that the banks charged the recipients of housing loans "compound interest in advance," contrary to the law and contrary to the provisions of the loan agreements. On December 7, 2015, the petitioners filed an appeal against the court's decision in the Supreme Court. On March 14, 2018, a ruling was handed down by the Supreme Court that rejected the appeal. Thus the claim came to an end.
- 4) In Note 26C.1. 2.1.A to the financial statements, information was presented regarding a petition to approve a class action that was filed against the Bank and against other banks. The Supervisor of Banks, the Governor of the Bank of Israel and the Antitrust Commissioner were included as formal respondents. The subject of the petition was a claim regarding the alleged unlawful charging of commissions in connection with the activity of the conversion and delivery of foreign currency, without proper disclosure being given. The damage that the plaintiffs claim was caused to the customers (as updated in the "abridged" petition submitted by the petitioners) was about NIS 2.6 billion (the plaintiffs claimed additional damages that were not quantified). On January 20, 2015, the court decided to consolidate the hearing with a petition for approval of a class action that was filed in a similar matter, in the amount of NIS 200 million, also against the credit card companies (including against Leumi Card). On March 21, 2018, the Bank was informed that the plaintiffs had filed an appeal against the ruling of the Tel Aviv District Court dated March 1, 2018, rejecting the petitions for approval of a class action and requiring the petitioners to pay the respondents' costs.
- 5) In Note 26C.1. 1.1.D to the financial statements information was presented regarding a petition to approve a class action filed on May 15, 2017 against the Bank (concurrently with similar claims being conducted against other banks) and a claim on the same grounds that was filed against the Bank on February 12, 2017 and is still pending). According to the petitioners, the Bank does not classify businesses as "small businesses" and as a result unlawfully charges them commissions that are not based on the price list that applies to a

small business. The amount of the alleged damage was estimated by the petitioner for all the respondents together at about NIS 462 million. On April 17, 2018, the Tel Aviv District Court ruled to delete the petition for approval of a class action dated May 15, 2017. The court ruled that the claim which will continue to be conducted against the Bank, will be the petition for approval of a class action filed on February 12, 2017, in which the amount of the alleged damage is NIS 100 million.

- 6) On May 6, 2018, a petition was filed to approve a class action against the Bank. The petitioner's claim is that the Bank allegedly does not fulfill its duty to make a reasonable effort to locate holders of inactive accounts that are above the amount of the investment obligation under the Banking Order "Inactive Deposits", 5760-2000, and that the revaluation of the accounts that the Bank executes under the provisions of the Order is insufficient, but the Bank has to revalue the accounts with higher amounts. According to the petitioner, the total damage of the members of the group cannot be estimated.
- 7) There were no material changes regarding claims against subsidiary companies of the Bank in relation to that set forth in the financial statements, except as detailed below:

On July 8, 2014, a petition was filed for approval of a class action against a number of credit card companies, including Leumi Card. For details regarding this petition, see section 4 above. On March 21, 2018, the Bank learned that the plaintiffs filed an appeal against the ruling of the Tel Aviv District Court on March 1, 2018, which rejected the petition for approval of a class action and required the petitioners to pay the respondents' expenses.
- 8) On May 1, 2018, a petition was filed for approval of a class action against Leumi Card and another credit card company. The Bank was added as a defendant in light of its holdings in the shares of Leumi Card. The petitioner claims that the companies that issue credit cards do not give their customers who executed credit transactions of basket deferment transactions, a periodic / annual confirmation detailing financing expenses (total interest and expenses paid in respect of credit transactions). According to the petitioner, failure to disclose this information to private customers is misleading, and regarding business customers, failure to disclose also prevents them from deducting these expenses vis-à-vis the tax authorities. The amount of the alleged damage is estimated by the petitioner, for all the respondents together, at about NIS 180 million.

Additional Matters

- 9) In the chapter on "Material Agreements" in the financial statements, the agreement is described for providing computer services to Union Bank. Further to the contacts held with Union Bank regarding the date of termination of the agreement between the Bank and Union Bank for the provision of computer services to Union Bank, against the background of the transaction for the purchase of Union Bank by Mizrahi Tefahot Bank Ltd., on March 29, 2018, the Board of Directors of Union Bank approved Bank Leumi's offer to extend the separation period for an additional 18 months, i.e. no later than June 30, 2021, provided that in any case in which the Union Bank seeks to bring forward the end of the period of separation before the aforementioned date, Bank Leumi will be given advance notice of at least 24 months. Insofar as there is a regulatory restriction to extend the separation period, this will not exempt Union Bank from its obligation to pay Bank Leumi in consideration for the cost of the services in respect of a period of 24 months from the date of the notice. The extension of the engagement is subject to obtaining the approval of the Antitrust Commissioner and the Supervisor of Banks.
- 10) As detailed in the chapter "Principal Investee Companies" in the financial statements, in accordance with the provisions of the Law for Increasing Competition and Reducing Concentration in the Israeli Banking Market (Legislative Amendments), 5767-2017, the

Bank is required to sell its holdings in the subsidiary - Leumi Card Ltd. (hereinafter: "Leumi Card"), within the time prescribed by law. As part of the preparations for the realization of the above, the Bank is working on a number of alternatives, including the option to sell the holdings and the option of an issuance of Leumi Card shares to the public, which may include an Offer of Sale. On March 28, 2018, Leumi Card submitted to the Israel Securities Authority a first draft of a Supplementary Prospectus - Initial Public Offering, an Offer of Sale and a Shelf Prospectus. The terms of the issuance and the said Offer of Sale offer have not yet been determined, and there is no certainty at this stage that such issuance will take place. Accordingly, Leumi Card is presented on an accounting basis as a realization group held for sale.

- 11) Further to that stated in the chapter "Principal Investee Companies" in the financial statements, on August 29, 2017, Shufersal Ltd. (hereinafter: "Shufersal") notified Leumi Card that it does not wish to renew the agreement between them from 2006 to issue credit cards to Shufersal customers, and subsequently Shufersal reported to the Tel-Aviv Stock Exchange that it had signed a memorandum of understanding with another company for the issuance and operation of the credit cards for Club Customers. In accordance with the agreement between Shufersal and Leumi Card, the agreement ended on January 18, 2018, and Leumi Card continues to operate Club cards until the card expires or is canceled by the customers, whichever is earlier. As at March 31, 2018, the number of valid credit cards held by Club Customers is approximately 395 thousand cards.

In addition, on October 19, 2017, Shufersal announced its intention to take action to exercise a Call option for the acquisition of all the Leumi Card holdings in Shufersal Finances in accordance with the valuation of Shufersal Finance Limited Partnership Ltd., in which the activities related to Shufersal credit cards were concentrated, which will be carried out by an agreed appraiser. Leumi Card and Shufersal are conducting legal proceedings in connection with the exercise of the option, including in respect of a dispute with respect to the identity of the appraiser and the valuation on the basis of which payment will be determined for the purchase.

- 12) Further to that stated in the chapter "Principal Investee Companies" in the financial statements, on May 13, 2018, Leumi Partners Ltd. (hereinafter: "**Leumi Partners**"), a subsidiary of the Bank, signed an agreement (hereinafter: "**the Agreement**") with Indorama Ventures Spain S.L., a private company incorporated in Spain (hereinafter: "**the purchaser**") for the sale of all the holdings of Leumi Partners in Avgol Industries 1953 Ltd. (hereinafter: "**the Company**"), which constitute 14.96% of the Company's capital and voting rights. Leumi Partners entered into an agreement at the same time as HFH International BV, the controlling shareholder of the Company, entered into an agreement with the purchaser for the sale of all of its shares in the Company (hereinafter: "**the HFH Agreement**"). The closing of the transaction under the agreement and the closing of the transaction under the HFH agreement are contingent on one another and will be executed simultaneously.

The sale transaction will be completed subject to the existence of several conditions precedent as set forth in the Immediate Report of May 13, 2018. As of this date, there is no certainty as to the completion of the aforesaid sale agreement.

If and when the transaction is completed, the Bank is expected to record a pre-tax profit in the amount of NIS 118 million. See the Immediate Report dated May 13, 2018 (Reference No.: 2018-01-037635).

- 13) Further to that stated in the chapter "Legislation and Regulation Related to the Banking System", proposals were published in the financial statements for regulatory changes and changes in various legal provisions that may have an effect on the characteristics of the

activity of the Group, the volume of activity in some of the Group's areas of activity, the rate of profitability in some of the Group's activities, and the credit risks and operating and legal risks to which the Group is exposed. Most of the directives are in various stages of discussions and therefore it is not possible to assess whether they will be published as binding instructions and what final provisions will be published. Therefore, it is not possible at this stage to estimate the effect that the said directives may have on the Group's overall activity, if any. This chapter details provisions that took effect during the reporting period and instructions that are expected to take effect, the effect of which on the Bank is expected to be significant.

Legislation

The Insolvency and Economic Recovery Law, 5768-2018

The Law was published in the Official Gazette on March 15, 2018. The Law includes a reform of the insolvency proceedings of individuals and corporations, which includes provisions relating to all types of debtors, together with provisions dealing with the unique aspects of different types of debtors - individuals and corporations. The law stipulates, inter alia, that a secured creditor with a floating charge will be entitled to repayment of his secured debt from the floating charge only up to an amount equal to 75% of the value of the assets to which the lien applies. The balance of the pledged assets will be used to pay the general debts. This provision will impact the value of floating charges held by the Bank. The Law shall come into force 18 months from the date of its publication, and will apply to legal proceedings that commences from the date of application and thereafter.

The Law for the Reduction of Use of Cash, 5768 - 2018

The Law was published in the Official Gazette on March 18, 2018. The Law provides for restrictions on the use of cash and negotiable checks in order to reduce unreported capital and assist in the fight against criminal activity, including serious crime, tax evasion, money laundering and terror financing. The Law implements the recommendations of the inter-ministerial committee for examining the issue of reducing the use of cash (the Locker Committee). Among other things, the Law includes restrictions on the use of cash in various amounts, while making a distinction between payment providers and payment recipients who are "traders" and payment providers and payment recipients of "non-trader" payments, and various types of transactions (such as salary, donation, gift, and loan). In addition, the Law provides restrictions on the use and endorsement of checks, including restrictions that apply to banks that pay checks. The Law will enter into force on January 1, 2019, and with regard to the conduct of the banks in relation to checks on July 1, 2019. The Bank is required to prepare for the implementation of the Law in all its aspects.

The Directives of the Banking Supervision Department

The Amendment to Proper Conduct of Banking Business Directives 367 and 420 on the subject of online banking

On March 22, 2018, amendments were published to the above directives including various reliefs. Including in this, an additional option was stipulated for the identification of a customer opening an online account through the use of technology for remote visual identification and verification. The use of this technology will enable the Bank, among other things, to open online accounts for minors from age 16 and for customers who do not have an existing account. It was also determined that subject to the performance of suitable risk assessment, the Bank will be permitted to make use of unencrypted e-mail. The implementation of the various reliefs in the Directive will enable the Bank to promote and expand the use of digital banking in order to continue improving the customer experience, optimizing the management of operational risks, promoting efficiency processes and reducing costs.

Draft Proper Conduct of Banking Business Directive on Outsourcing and Proper Conduct of Banking Business Directive No. 363 regarding the Management of Cyber Risks in the Supply Chain

The draft directive on outsourcing was published on March 26, 2018. The draft was intended to enable banking corporations to make use of outsourcing, in order to increase accessibility and availability to customers and to continue processes for efficiency and enhancement of competition in banking and payments. This is carried while determining the principles according to which banking corporations are required to act in order to reduce their exposure to potential risks inherent in outsourcing.

Among other things, the directive determines what outsourcing is, a list of actions that are prohibited from being outsourced, the need to perform due diligence on the service provider and the manner in which it is performed, and reporting requirements to the Supervisor of Banks regarding outsourcing certain activities. In addition, the draft directive allows outsourcing the initiated contact to households for the purpose of providing credit by the banking corporation, such as referring the customer to the bank when purchasing a product (such as car dealerships), subject to the conditions stipulated in the draft directive.

In addition, on April 24, 2018, the Banking Supervision Department issued a directive regarding the management of cyber risks in the supply chain. The directive is intended to clarify the responsibility of the banking corporation for maintaining a secure working configuration vis-à-vis material external suppliers and its obligations to manage appropriate cyber risks in the operations of these suppliers in their premises, on the premises of the banking corporation and in their interfaces with the corporation, including, inter alia: a requirement to establish principles for the liabilities of material suppliers in relation to the management of cyber risks; the obligation to define specific reference to the matter of managing cyber risks in agreements with material suppliers in accordance with the risk assessment, and the obligation to ensure that the supplier complies with the defined principles; as well as conducting various periodic examinations regarding the compliance of the suppliers with the requirements of the banking corporation.

The application of the Directive is no later than 6 months from the date of its publication.

This Directive will be integrated later with the Directive regarding "Outsourcing".

The Bank is preparing to examine the possible effect of the Directives and is preparing to implement them.

Directives in the area of credit cards

Draft Amendments of Proper Conduct of Banking Business Directives pursuant to the Law for Increasing Competition and Reducing Concentration in the Israeli Banking Market (the Strum Law):

On April 22, 2018, the Bank of Israel published draft amendments to the Proper Conduct of Banking Business Directives, aimed at giving reliefs to credit card companies on the day following their separation from the banks.

Below are the principal proposed amendments:

1. Proper Conduct of Banking Business Directive No. 203 (Measurement and Capital Adequacy - Credit Risk - Standardized Approach):

For the purposes of measurement and capital adequacy, the banks will give a weighting credit granted to credit-card companies in a manner similar to that granted to banks.

2. Proper Conduct of Banking Business Directive No. 313 (Restrictions on the Indebtedness of a Borrower and a Group of Borrowers):

The exposure of a bank to a "credit card company group of borrowers" is not to exceed 15% of the banking corporation's capital, similar to the limit applicable to exposure to a "banking group of borrowers". This directive shall take effect gradually within three years from the date of the credit-card company's separation from the banking corporation.

3. Proper Conduct of Banking Business Directive No. 221 (Liquidity Coverage Ratio):

A lenient regulatory requirement was determined regarding liquidity risk management, so that credit-card companies will be required to manage their liquidity risk according to an internal model, but will not be obliged to meet the supervisory liquidity coverage ratio.

4. Proper Conduct of Banking Business Directive No. 470 (Debit Cards):

- It was determined that the consideration for all transactions executed on a bank issuer's debit card will be transferred from the bank issuer to the issuance operator, on the date the issuance operator is required to transfer the money to the acquirer, regardless of the customer's billing date, and regardless of the identity of the acquirer. The arrangement will enter into force on February 1, 2019.
- New operating agreements between a banking issuer (which is a bank with a wide scope of activity) and an issuance operator that are signed until January 31, 2022, require approval of the Supervisor.

The Antitrust Authority's decision regarding the Interchange Arrangement

On April 25, 2018 the Antitrust Authority published its decision regarding an exemption from approval of a restrictive arrangement regarding the Interchange Arrangement. Among other things, the decision stipulated that the transfer of monies between an issuer and an acquirer in respect of transactions executed in one payment, shall take place no later than one day after the date of transmission of the transaction from the merchant. The Arrangement will take effect on July 1, 2021.

The aforementioned directives in the area of debit cards affect the Bank's preparations for the implementation of the provisions of the Law for Increasing Competition and Reducing Concentration in the Israeli Banking Market; and are expected to affect the debit-card market in the the next few years.

Adoption of Updates to Generally Accepted Accounting Principles in US Banks - Provisions for expected credit losses and other provisions

On March 28, 2018, the Banking Supervision Department published a circular concerning the adoption of updates of generally accepted accounting principles in US banks with regard to provisions for expected credit losses (CECL) as of January 1, 2021, financial instruments, including derivative instruments and hedging activities as from January 1, 2019, and the accounting treatment of the leases as from January 1, 2020. It is also noted that the Banking Supervision Department intends to adapt the Public Reporting Directives as soon as possible.

International Regulation

General Data Protection Regulation - The European Privacy Protection Regulation

The European Privacy Protection Regulation (GDPR) is regulation in the area of privacy that replaces Directive 95/46/EC, which has been used as the basis for the legislation of data protection laws by countries of the European Union.

The GDPR is a comprehensive privacy regulation, which specifies, inter alia, obligations and conditions for the processing of personal information, rights of information carriers, etc. This regulation will take effect on May 25, 2018.

Bank Leumi is preparing for the entry into force of the regulation and is examining the significance of the GDPR and its implications for the Bank's operations.

Other Issues

Various legislative initiatives in the area of increasing competition in the retail credit market

Recently, special emphasis has been placed on legislation that encourages competition, especially with regard to retail credit. This trend is reflected in various legislative directives and initiatives intended to facilitate the entry of new players into the market; inter alia, by increasing the resources available to them, setting lenient regulatory steps, and granting relief in joining payment and acquiring systems.

Below are a number of examples of directives and initiatives intended to encourage such competition:

- The Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments), 5771-2011, which requires banks with a large volume of activity (Leumi and Hapoalim) to separate from the credit card companies that they own within a specified period of time; prohibits the said banks from engaging in the operation of issuance operations and acquiring of transactions in debit cards and holding means of control in corporations engaged in such activity; requires the Bank, within a defined transition period, to perform issuance operation through operating companies, establishes various restrictions on a bank with a broad scope of activity regarding contacting the customer regarding the "renewal of a credit card"; and also requires, within a defined period of time, to reduce the credit facilities of the Bank's customers. As a result of the aforementioned provisions of the law, the Bank must sell the subsidiary, Leumi Card Ltd., within the period prescribed for this purpose in the Law.
- The Supervision of Financial Services (Regulated Financial Services) Law, 5766 - 2016, which came into effect on June 1, 2017, and establishes a comprehensive framework for regulating the non-bank and non-institutional credit market in Israel;
- Regulation of the policy of banking corporations' activity with regulated financial service providers and bid coordinators;
- The decision of the Antitrust Authority regarding the transfer of the communications protocol used to carry out transactions in debit cards to all market players;

- Regulation of the status and operation of a hosted acquirer;
- Setting general criteria for the applicant for a permit to control and to hold means of control in an acquirer and in a credit card company;
- Amendment of the Securities Regulations regarding the offering of securities through a bid coordinator for the purpose of allowing the financing of "crowd" loans to corporations that is exempt from a prospectus (Peer to Business Lending P2B);
- A proposal for updates in the investment rules applicable to financial institutions;
- Amendment No. 27 to the Banking (Customer Service) Law, published on March 22, 2018, as part of the Economic Plan (Legislative Amendments to Implement Economic Policy for Fiscal Year 2019) Law. In this Amendment, it states that a bank will allow a customer who wishes to transfer his financial activity from the bank where it is carried out to another bank, to do so in an online, convenient, reliable, and secure manner and without charging the customer, all within seven business days from the date on which the original bank received notice of approval of the customer's request by the bank to which the customer requested to transfer his activity, or by another date that the Governor set, with the consent of the Minister of Finance. The Governor, with the consent of the Minister of Finance, may determine that the aforesaid shall not apply to a small bank (the value of whose assets does not exceed 5% of the value of the assets of all the banks in Israel) or a digital bank, or that it will apply at the end of a period which he determined. The Supervisor of Banks will determine implementation instructions to implement the requirement of mobility.

This amendment shall take effect three years from the date of its publication. The Minister of Finance, with the consent of the Governor and with the approval of the Economics Committee of the Knesset, may postpone the said date by two additional periods of no more than six months each.

These changes, together with initiatives led by the Bank of Israel, such as the setting up of a credit data database, the encouragement of streamlining of the banking system, and the promotion of regulation that supports the transition to digital banking through direct channels, are expected to affect the Israeli banking market in the coming years.

ABS - Exemption from the approval of a restrictive arrangement - the decision of the Antitrust Authority of September 24, 2017

On September 24, 2017, the Antitrust Authority granted an exemption from the conditions for approval of a restrictive arrangement between the ABS Company and the shareholders of the Company, including Bank Leumi. The exemption stipulated, among other things, that:

- In early 2018 and without consideration, ABS will transfer all of its rights in the EMV protocol to an association to be established by ABS and other users who will be added as members of the association. Commencing from the date of transferring rights in the protocol, ABS will cease dealing with the activity in the protocol (except operating services for a limited period of time).
- The requirements for connecting to the ABS systems will be egalitarian. ABS will not refuse the request of any entity to connect to its systems if it complies with the connection requirements.
- The restriction is cancelled on the distribution of dividends to ABS shareholders. As of the end of 2019, or from the date on which ABS will cease to provide any services to the association, whichever is earlier, ABS may distribute dividends to its shareholders if the following conditions are met: the rights of ABS in the protocol have been transferred to the association and there is no shareholder holding more

than 10% of the means of control. The decision sets out a special arrangement regarding the distribution of surpluses accumulated by ABS as of the date of the decision, which will be transferred to the existing shareholders.

In accordance with the aforesaid, and subject to the special arrangement determined in the decision of the Antitrust Authority regarding the distribution of surpluses, on September 28, 2018, ABS distributed a dividend to its shareholders. The amount of the dividend received by the Bank amounts to NIS 71.5 million, of which NIS 64.5 million is held in trust in accordance with the terms of the Antitrust Authority's approval.

- 14) Further to that stated in Note 26G.1 to the financial statements regarding credit cards, in March 2018, the Bank signed an issuance and credit card issuance operation with Isracard Ltd. and Europay (Eurocard) Israel Ltd. and a memorandum of understanding with Israel Credit Cards Ltd. and Diners Club Israel Ltd. (of the ICC Group).

According to the aforesaid system of agreements, the parties will issue debit cards starting from February 2019 and the above companies will carry out issuance operations. The aforementioned agreements determine the distribution of revenues between the parties, as well as their rights and obligations with respect to issuance and issuance operation. Further to the aforesaid engagements, the parties are working to sign detailed agreements.

Concurrently, the Bank is conducting negotiations with Leumi Card prior to the signing of an agreement for the issuance and credit card issuance operation, which will replace the existing agreement and by virtue of which the parties will issue debit cards as of January 2019.

- 15) Further to that stated in Note 36(f), and to the chapter on Legislation and Regulation Relating to the Banking System in the financial statements, regarding the agreement of the Bank to the request of the Tel Aviv Stock Exchange Ltd. ("**the Stock Exchange**") to its shareholders for the sale and transfer of all of the Bank's holdings in the Stock Exchange, constituting 9.3% of the share capital of the Stock Exchange ("**the Offered Shares**" and "**the Bank's Offer**", respectively), on April 16, 2018, the Stock Exchange notified the Bank of the acceptance of its offer to sell all the Offered Shares ("**the Acceptance Notice**"). Pursuant to the acceptance notice, all the offered shares will be sold and transferred to a transferee or to several transferees. In the Acceptance Notice, it was clarified that the consideration in respect of the Offered Shares would exceed the price set in the Bank's offer, but the excess amount between the consideration actually paid and the total price stated in the Bank's offer for the Offered Shares will be transferred to the Stock Exchange as required by the provisions of the Securities (Amendment No. 63) Law 5777-2017. In the Acceptance Notice it was clarified that completion of the transaction was subject to regulatory approvals and the completion of the transaction.

In accordance with the Acceptance Notice, the effective date for completing the transaction was set for June 19, 2018, subject to the possibility of its postponement with the consent of the parties ("**the Determining Date**"). If the required approvals are not received by the determining date or the transaction is not completed by that date, the transaction will be canceled

- 16) As set forth in Note 23 to the financial statements of the Bank, the Bank's retirement and pension rights are determined according to the classification of the various periods of employment at the Bank. For employees who began their employment with the Bank as of January 1, 1999, there are current deposits for severance pay and benefits, and the Bank has no pension liability except for supplementing severance pay for employees who commenced their employment with the Bank prior to January 1, 1999. Those retiring from

their employment in the Bank at the retirement age, have the right to choose to receive severance pay and provident funds or to receive a pension from the Bank, all in accordance with and subject to the provisions of the various agreements applicable to the employees. For these employees, the Bank deposits monies for severance pay and severance pay in a provident fund for benefits and severance pay of Bank employees, which is managed by a management company that is held by the members of the fund (hereinafter: "Ye'uda"). In recent years, the Bank has taken a series of steps to mitigate the impact of these liabilities on the financial statements. Further to these steps, the Bank began examining alternatives in relation to the current situation, according to which all of the monies are deposited in the said Ye'uda. At this stage, it is not possible to assess whether the said examination will lead to the formulation of a plan that will be approved and actually implemented and it is not possible to assess whether it will be possible to reach the necessary agreements for the implementation of the aforesaid.

- 17) Further to that stated in Note 36 (c) to the financial statements regarding an agreement with Hermetic Trust (1975) Ltd. ("**Hermetic**") for the sale of the controlling interest in Bank Leumi le-Israel Trust Company Ltd. to Hermetic, on April 17, 2018, the transaction was completed. The completed of the transaction is not expected to have a material effect on the financial results.
- 18) Further to that stated in the chapter "Annual General Meeting and Election of Directors" in the financial statements, further to the decision of the Board of Directors of the Bank on March 25, 2018, on March 26, 2018, an Immediate Report was published regarding the intention to convene an Annual General Meeting of the shareholders of the Bank, the agenda of which is expected to include the following issues: (1) Discussion of the annual financial statements; (2) appointment of external auditors and delegation in determining their remuneration; (3) the appointment of two external directors in accordance with the provisions of Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks (hereinafter: "**External Director**", "**Directive 301**"); and (4) appointment of two external directors in accordance with the provisions of the Companies Law, 5759-1999 (hereinafter: "**E.D.**", "**Companies Law**").

For further details, see the Amended Immediate Report regarding an advance notice regarding the intention to convene an Annual General Meeting, the agenda of which includes a number of matters, including the appointment of directors published on March 26, 2018 (Reference No.: 2018-01).

Further to the advance notice published by the Bank as aforesaid and pursuant to sections 11D(a)(1), (2) and (3) of the Banking Ordinance, 1941, the Bank received:

- a. A notice from the Committee for the Appointment of Directors in Banking Corporations appointed under section 36A of the Companies (Licensing) Law, 5741-1981, in the framework of which a list was detailed of candidates for the office of directors in the Bank for election at the Annual General Meeting of the Bank for the year 2018, as detailed below:
 - Three candidates for the position of external director under the Companies Law: Mr. Gabbai Yoram, Ms. Gottlieb Tamar and Mr. Kaplan Yair.
 - Three candidates for the position of external director under Directive 301: Mr. Ben Zvi Shmuel Nir, Mr. Turbowicz Yoram and Mr. Marani Ohad.
- b. Notice from the Altshuler Shaham Group, a shareholder holding, to the best of the Bank's knowledge, at the date of filing the notice with the Bank, 76,797,152 shares of the Bank, constituting approximately 5.04% of the issued capital and the voting rights of the Bank, according to which they proposed Mr. Avi Ziegelman as a

candidate for the office of external director in accordance with the provisions of the Companies Law in the Board of Directors of the Bank.

Additional details regarding the candidates will be given as part of the report of convening an Annual General Meeting to be published by the Bank in accordance with the provisions of the law.

For further details, see the Immediate Report regarding notices of candidates for the office of directors in the Bank that was published on April 30, 2018 (Reference No.: 2018-01-042874).

- 19) Further to that stated in the chapters "Appointments and Retirement" and "Organizational Structure", on May 8, 2018, the Board of Directors of the Bank approved an organizational change and appointments at the Bank, as follows:
- a. Mr. Shmulik Arbel, currently serving as a member of Management and Head of the Commercial Department, will be appointed to the position of Head of the Corporate - Commercial Banking Division as of June 1, 2018 in place of Mr. Yaacov Haber, who announced his retirement from the Bank. The appointment of Mr. Arbel as Head of the Corporate - Commercial Division is subject to Bank of Israel approval for the appointment.
 - b. All the operating units within the various divisions of the Bank will be transferred to the responsibility of Mr. Danny Cohen, who, in addition to his position as Head of the Banking Division, will be responsible for the establishment of the Operations Division.
 - c. In addition to the changes described above, the Investment Advisory Department will be transferred to the Strategy and Regulation Division and the Special Credit Department will be transferred to the Risk Management Division.

For additional information, see the Immediate Report dated May 9, 2018 (Reference No.: 2018-01-046273).

- 20) Further to Note 25A to the financial statements regarding the share-based remuneration plan, in accordance with the Bank's remuneration plan, the condition for the vesting of the second tranche of the PSU units (which were allocated to the Chairman of the Board of Directors, the President and CEO and other office holders of the Bank) (hereinafter: **"Office Holders in the Bank"**) as part of the approval of the performance-contingent annual bonus for half of the bonus for the year 2016 (hereinafter: **the "PSU 2016 Units"**) and the vesting of the first tranche of the PSU units allocated to office holders in the Bank as part of the approval of the performance-contingent annual bonus for half of the bonus for the year 2017 (hereinafter: **the "PSU 2017 Units"**) into shares took place, accordingly the second tranche of the PSU 2016 units and the first tranche of the PSU 2017 units vested into shares. Accordingly, on March 5, 2018, the office holders of the Bank were allocated shares according to the number of PSU 2016 units and the PSU 2017 units that vested as of that date. In accordance with that stated in the remuneration policy, the shares allocated due to the vesting of the 2016 PSU units, and the PSU 2017 units, were deposited with the trustee of the remuneration plan, Isop Management and Trust Services Ltd. The shares allocated for the PSU 2016 units as stated above were blocked until March 14, 2018, and the first of the three tranches of shares allocated for the vesting of the 2017 PSU units, which vested as aforesaid, is blocked for a period of one additional year, up to the end of two years from the date of allocation of the PSU 2017 units, i.e. until April 5, 2019. Moreover, in this framework, the Board of Directors of the Bank approved the transfer of 8,084 dormant shares of the Bank to the holders of the PSU units that vested, and upon the

transfer of the dormant shares to the offerees as stated, the dormant shares of the Bank became regular shares (not dormant).

- 21) Further to the Immediate Report dated March 6, 2018 (Reference No.: 2018-01-021433) regarding the approval of a plan to buy back shares of the Bank in an amount of up to NIS 700 million, up to March 31, 2019, the Bank completed its preparations for a buy-back according to the Safe Harbor Protection Mechanism published by the Israel Securities Authority (Legal Position No. 199-8), subject to conditions set forth in the Israel Securities Authority staff position. In order to execute the purchases, the Bank entered into an agreement with a stock exchange member outside of the Bank that does not have a material business relationship with it. In the first stage, a sum of about NIS 350 million will be transferred to the Stock Exchange member for the purpose of the buy-back, with the planned date for commencing this part of the total amount of the buy-back as May 27, 2018, and it will be in effect until the occurrence of one of the following events, whichever is the earlier: (a) August 2, 2018 (b) upon completion of the purchase of the shares of the Bank in the said amount; (c) the existence of a legal impediment to the continued existence of the agreement with the stock exchange member; (d) The Bank's announcement that the condition of the Bank of Israel's approval of the acquisition plan regarding capital adequacy requirements of the Bank has ceased to exist.
- 22) Further to the assimilation of a designated system for the handling of problem debts, development has recently been carried out for a better mechanized identification of debts that were restructured in place of normal or problem debts, following which the Bank updated the amount of the restructured debts.

As a result of the above, in the framework of the Notes to the financial statements for the first quarter of 2018, the balances of credit to private individuals were reclassified (excluding housing loans), so that the amount of NIS 223 million and NIS 224 million was reclassified from non-problematic debts to problematic debts, as of March 31, 2017 and December 31, 2017 respectively.

Total classifications to impaired debts stood at NIS 319 million as of March 31, 2017 (approximately NIS 223 million classification as non-problematic debts and about NIS 96 million classification of non-impaired debts) and a total of NIS 301 million at December 31, 2017 (about NIS 224 million classification from non-problematic debt and approximately NIS 77 million classification of non-impaired debts). For further information, see Note 6 to the financial statements of the Bank as of March 31, 2018.

It should also be noted that as a result, the allowance for credit losses was updated as of March 31, 2018. The effect of this update on the financial results for the reported period is not material.

- 23) In Note 36D to the financial statements and the Immediate Report published by the Bank on January 22, 2018 (Reference No. 2018-01-008101), the Bank reported an agreement to the introduction of strategic partners to BLUSA ("**the agreement**"). Under the terms of the agreement, each of the partners purchased a 7.5% stake in Bank Leumi Corporation, US corporation through which the Bank holds control in BLUSA. On May 22, 2018, the transaction was completed, after fulfillment of the conditions precedent stipulated in the agreement for its completion. Pursuant to the terms of the agreement, the consideration paid for the shares sold is approximately US\$ 141 million. The transaction will be accounted for as a capital transaction and the difference between the consideration for the minority share in the equity will be recorded directly in equity.
- 24) On May 15, 2018, Ma'alot Insurance Agency Ltd., which is wholly owned by the Bank (the "**Agency**") signed an agreement with Harel Insurance Company Ltd. ("**Harel**") and

Standard Insurance Ltd. of the Harel Group ("**Standard**"), pursuant to which it was determined that commencing on September 2, 2018, the Agency will receive outsourcing services from Standard and will continue to engage in insurance brokerage with Harel as a sole insurer for the new policies to be marketed during the agreement period, according to the terms set forth in the agreement signed. Following the agreement, the Histadrut declared a labor dispute in Ma'a lot. The management of Maalot is in contact with the employees and the representatives of the Histadrut.

- 24) Further to that stated in the chapter "Capital and Capital Adequacy" - "Dividend Distribution Policy"), in accordance with the updated dividend distribution policy, on May 23, 2018, the Board of Directors approved, in respect of the first quarter of 2018, a dividend of 40% of the net profit for the quarter. The amount of the approved dividend amounted to about NIS 292 million, representing 19.15 agorot per share of NIS 1 par value. The Board of Directors set June 5, 2018 as the determining date for payment of dividends and June 19, 2018 as the payment date.

David Brodet

Chairman of the Board of
Directors

Rakefet Russak-Aminoach

President and CEO

Omer Ziv

Head of the Finance Division

Date of Approval of the Events Report: May 23, 2018.



The Board of Directors
Bank Leumi Le-Israel B.M.
Yehuda Halevy 34
Tel Aviv

Dear Sirs,

Re: **Shelf Prospectus of Bank Leumi le-Israel BM (hereinafter: "the Bank")**
which will be published in May 2018

We hereby inform you that we agree to the inclusion (including by way of reference) in the above Shelf Prospectus our reports as set out below:

- (1) The External Auditors' Report of March 5, 2018 on the Consolidated Financial Statements of the Bank as of December 31, 2017 and 2016, and for each of the three years in the period ended December 31, 2017.
- (2) The External Auditors' Report dated March 5, 2018 on the audit of the internal control over the financial reporting of the Bank as of December 31, 2017.
- (3) The External Auditors' Review Report dated May 23, 2018, on the condensed financial information of the Bank only as of March 31, 2018 and for the three-month period ended on that date.

We agree that our declaration will be included in the Bank's Shelf Prospectus.

Somekh Chaikin
Certified Public Accountants (Israel)

Kost Forer Gabbay & Kasirer
Certified Public Accountants (Israel)

Joint External Auditors



May 23, 2018

Bank Leumi Le-Israel B.M.

Dear Sirs,

Re: **Shelf Prospectus of Bank Leumi le-Israel BM (hereinafter: "the Bank")**
which will be published in May 2018

I, the undersigned, hereby agree that the opinion signed by me on February 26, 2018 regarding an actuarial valuation of pension rights, bonuses and special vacations for employees as of December 31, 2017, which was attached to the financial statements of the Bank as at December 31, 2017, and the opinion signed by me on May 21, 2018, regarding an actuarial valuation of pension rights, bonuses and special vacations for employees as at March 31, 2018, which was attached to the financial statements of the Bank as at March 31, 2018, will be included (including by way of reference) in the Bank's Shelf Prospectus, which is due to be published in May 2018.

Sincerely,

Alan Dubin FSA, FILA

Consultant Actuary

Chapter 9 – Legal Opinion



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

May 24, 2018

Bank Leumi Le-Israel B.M.
Leumi House, Yehuda Halevy Street 34
Tel Aviv

Dear Sirs,

Re: **Shelf Prospectus of Bank Leumi le-Israel B.M.**

At your request, we hereby confirm that, in our opinion, the directors of the Bank have been duly appointed and their names are included in the Shelf Prospectus in question.

We agree that this opinion will be included in the Shelf Prospectus to be published by May 2018.

Sincerely,

Ran Shalom, Adv.

Mati Goldberg, Adv.

Chapter 10 – Additional Details

10.1 **Fee for an Application to Grant a Permit to Publish a Prospectus**

In accordance with Regulation 4A of the Securities Regulations (Fee for Application to Grant a Permit to Publish a Prospectus), 5766-2005, the Bank has paid the Israel Securities Authority a fee for the granting of a permit to publish a Shelf Prospectus. A fee increment for securities offered under the Shelf Prospectus, if offered, shall be paid on the date of publication of the Shelf Offering Report in the amounts and at dates stipulated in the said regulations.

10.2 **Examination of Documents**

A copy of the Prospectus, of the permit to publish it, and a copy of any approval, report or opinion included or mentioned in the Shelf Prospectus are available for examination at the offices of the Bank during normal working hours. A copy of the Prospectus is published on the website of the Israel Securities Authority at: www.magna.isa.gov.il and on the website of the Tel Aviv Stock Exchange Ltd. at: www.maya.tase.co.il.

Signatures

The Bank:

Bank Leumi Le-Israel B.M.

The Directors:

Brodet David

Idelman Yitzhak

Gottlieb Tamar

Samet Haim

Samet Zipporah

Dominissini Esther

Haj Yehia Samer, Dr.

Levanon Esther

Nardi Yoav

Sharir Yitzhak, Dr.

Ben Zvi Shmuel, Dr.

Marani Ohad

Stern Yedidia, Prof.

Note: English translations of Immediate Reports of Bank Leumi are for convenience purposes only. In the case of any discrepancy between the English translation and the Hebrew original, the Hebrew will prevail.

The original Hebrew version is available on the distribution website of the Israel Securities Authority: <http://www.magna.isa.gov.il>.