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Mizrahi Tefahot Bank Ltd.

(the "Bank" or the "Company")

Outline of an Offer to Employees

Pursuant to Section 15b(1)(a) of the Securities Law, 5728-1968 and pursuant to the Securities Regulations (Details of an Outline of an Offer of Securities to Employees), 5760-2000

of

up to 11,494 registered D option warrants, unlisted for trade on the stock exchange, which shall be granted to bank managers employed under individual contracts (as stated in Section 2.1.1a below) and exercisable at up to 11,494 ordinary shares of ILS 0.1 par value each of the Bank, subject to that which is stated in Section 1.1.3d below and subject to adjustments, as stated in Section 2.20 below, pursuant to Option Plan D (hereinafter: the "**Plan**" or "**Option Plan D**"), which was approved by the Bank's Board of Directors (after accepting the recommendation of the Remuneration Committee, as stated in Section 1.1.1d below), and subject to meeting the entitlement terms set out in Option Plan D, as provided in Chapter 2 below;

and of

up to 218,496 registered E option warrants, unlisted for trade on the stock exchange, which shall be granted to Bank managers who are employed under collective agreements (as noted in Section 2.1.1b. below), which are exercisable at up to

218,496 ordinary shares of ILS 0.1 par value each of the Bank, subject to that which is stated in Section 1.1.3d below and subject to adjustments, as stated in Section 2.20 below, pursuant to Option Plan E (hereinafter: the "**Plan**" or "**Option Plan E**"), which was approved by the Bank's Board of Directors (after accepting the recommendation of the Remuneration Committee, as stated in Section 1.1.1d below), and subject to meeting the entitlement terms set out in Option Plan E, as provided in Chapter 2 below;

All of the abovementioned option plans shall be hereinafter referred to as the "**Plans**" or the "**Option Plans**".

It is hereby clarified that no option warrants shall be granted, pursuant to any of the Plans, to Bank officers, including directors at the Bank, the Chairman of the Board of Directors of the Bank or to the Bank's CEO, nor will Option Warrants be granted, pursuant to any of the Plans, to controlling shareholders or interested parties at the Bank or whomever will become a controlling shareholder or an interested party at the Bank, as provided in Section 1.4.1 below.

It shall be emphasized that the quantity of the exercisable shares, as aforesaid, is the maximum quantity of shares derived from the exercising of all option warrants which can be issued pursuant to the Option Plans. Nonetheless, the quantity of the option warrants which the offerees shall be entitled to exercise, in practice, pursuant to the terms and conditions of each of the abovementioned Plans, shall be derived from the entitlement terms set out in the framework of each of the abovementioned Plans, all as provided in Chapter 2 below.

Additionally, the allotment of the full quantity of exercisable shares is theoretical only, since, in practice, the full quantity of exercisable shares derived from the option warrants which the offerees are entitled to exercise, pursuant to the terms and conditions of each of the abovementioned Plans, shall not be issued to the offerees, but only shares at a quantity reflecting the financial benefit amount incorporated in said option warrants, considering the closing rate cap, as provided in Section 2.21 below.

Outline date: August 3, 2015

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Chapter 1 – Introduction

1.1 General

1.1.1 Background

- a. On June 10, 2014, after obtaining the approval of the Board of Directors and the recommendation of the Remuneration Committee, the general meeting of the Bank's shareholders approved an updated remuneration policy for officers at the Bank (hereinafter: the "**Remuneration Policy for Bank Officers**"), in the form attached as Annex A to the Immediate Report which released by the Bank on May 4, 2014 (ref. no. 2014-01-056838).

The Remuneration Policy for Bank Officers combines the provisions of the Companies Law, 5759-1999 and the Remuneration Directives released by the Supervisor of Banks (hereinafter: "**Remuneration Directives**"), with the broad-based principles which the Bank's Board of Directors saw fit to adopt regarding remuneration for officers at the Bank, after obtaining the recommendation of the Remuneration Committee.

On June 19, 2014, after obtaining the approval of the Remuneration Committee, the Board of Directors, approved the remuneration program for officers of the Bank, including a monetary bonus and a capital remuneration by way of offering option warrants issued by the Bank and retirement terms, in accordance with the principles set out in the remuneration policy for officers of the Bank (hereinafter: "**Remuneration Plan for Officers**").

- b. Pursuant to the approval of the Remuneration Policy and Remuneration Plan for Officers, as aforesaid, after accepting the recommendation of the Remuneration Committee, on June 19, 2014, the Board of Directors approved a remuneration plan for all Bank employees, excluding the Officers to whom the Remuneration Plan for Officers shall apply, as aforesaid (hereinafter: "**Remuneration Plan for Bank Employees Who Are Not Officers**"). The principles in the matter of the total

remuneration package for bank employees who are not officers – including the performance-dependent monetary bonus and capital remuneration – have been detailed under the Remuneration Policy for Bank Employees Who Are Not Officers.

- c. (1) Pursuant to the approval of the Remuneration Plan for Bank Officers and the Remuneration Plan for Bank Employees Who Are Not Officers, as aforesaid, after obtaining the approval of the Remuneration Committee on June 16, 2014, on June 19, 2014, the Board of Directors approved the offering of option warrants to officers at the Bank, principal employees at the Bank and other managers in the Bank and the Bank's subsidiaries, under the outline published by the Bank on June 19, 2014 (reference number: 2014-01-095031) (hereinafter: "**2014 Outline**") and pursuant to the terms and conditions thereof, all in accordance with Section 15b(1)(a) of the Securities Law.

(2) On September 4, 2014, the Bank allotted 11,893,823 option warrants, according to the 2014 Outline.

The Bank did not assign additional options according to the 2014 Outline.

It is hereby clarified that no option warrants have been granted under the 2014 Outline to bank directors, including the Chairman of the Board of Directors; and likewise, no option warrants were granted to the CEO of the Bank.

- d. Based on the Remuneration Policy For Bank Employees Who Are Not Officers, and in accordance with the format and principles of the option plan for employees of the Bank and the Bank's subsidiaries, approved by the Bank in Board of Directors' decisions, as stated in Section 1.1.1 above, after obtaining the recommendation the Remuneration Committee from July 20, 2015, on August 3, 2015, the Board of Directors decided in the matter of the principles of the option plans, to approve option plans

(hereinafter: "**Plans**" or "**Options Plan**") to managers at the Bank, as detailed below in this outline.

1.1.2 **Definitions**

In this outline, the terms detailed below shall have the definition stated alongside:

- a. "**average equity**" – the average equity of the Bank, as computed for the purpose of the calculation of the return on equity, for the bonus year, pursuant to the Public Reporting Directives of the Supervisor of Banks;
- b. "**subsidiary**" – a company which half or more of the issued capital thereof or the voting rights thereat are held by the Bank;
- c. The "**Companies Law**" – the Companies Law, 5759-1999;
- d. The "**Securities Law**" – the Securities Law, 5728-1968;
- e. "**efficiency ratio**" – the ratio of the total operating and other expenses to the total amount of operating and financial income, before provisions for credit losses, of the Bank;
- f. "**Option Warrants D**" and "**Option Warrants E**" – within the meaning thereof in Section 2.1.1 below;
- g. "**deposits to loans ratio**" – the ratio of the total deposits of the public to the total loans to the public, after provisions for credit losses;

"**deposits to loans average ratio**" – an average of the deposits to loans ratio as of March 31, June 30, September 30, and December 31, as published in the Bank's quarterly or annual (consolidated) financial statements, as the case may be, for each bonus year;
- h. "**Tel Aviv-Banks index**" – within the meaning thereof in the Directives of the Tel Aviv Stock exchange Ltd., including its Rules or the Regulations pursuant thereto (including dividend), as shall be from time to time;
- i. "**date of the employment relations' termination**" – the date on which the employment relations come to an end, pursuant to the law;

- j. **"branch, department and extension managers"** – branch managers, department heads or extension managers and those in the personal status of a branch manager, department head or extension manager;
- k. **"managers at the Bank who are employed according to individual contracts"** – this group includes Bank employees as follows: deputy department managers, some of the deputies of the area managers, business focus center managers, and some of the business center managers;
- l. **"managers at the Bank who are employed in the framework of collective agreements"** – this group includes Bank employees as follows: some of the deputies of the area managers, some of the business center managers, as well as branch managers, department heads or extension managers;
- m. **"personal status"** – the status of an employee of the Bank, which corresponds to the ranking of a group of employees of the Bank, all as set out with regard to certain employees of the Bank, by the management of the Bank;
- n. **"officer"** – an officer, as defined in the Companies Law, other than a director at the Bank or the Bank's CEO;
- o. **"exceptional cause"** – with regard to the termination of employment relations – cause or basis for termination of the employment in exceptional circumstances, including, but not limited to, dishonesty towards the Bank or its subsidiary, insubordination, wilful misconduct, breach of fiduciary duty, disclosure of confidential information regarding the business of the Bank or its subsidiary, conduct that impairs the business of the Bank or its subsidiary, or a material breach of the employment agreement or any other undertaking towards the Bank or its subsidiary;

- p. **"principal employees"** – Bank employees who report directly to officers at the Bank¹ as well as sector managers and sector managers at the Bank, even if they do not report to officers at the Bank;
- q. **"net profit from ordinary activities"** – the profit reported in the Bank's consolidated profit and loss statement, for the year ending December 31 of the bonus year, as appearing in the "net profit attributable to equity holders of the bank" line; notwithstanding the aforesaid, if in the Bank's consolidated profit and loss statement for the bonus year, the Bank publishes a "net profit from ordinary activities attributed to the banking corporation's shareholders", this profit shall be considered net profit from ordinary activities;
- r. **"extraordinary profits or losses"** – profits or losses deriving from one-time or extraordinary events, net of the tax implication recorded in respect thereof in the Bank's annual (consolidated) financial statements for the bonus year;

extraordinary profits or losses for the purpose of the Option Plans under this outline shall be defined as such by the Remuneration Committee and the Board of Directors, at the end of the bonus year in which they were recognized in said financial statements;
- s. **"return on equity rate"** – the rate in percentages equal to the net profit from ordinary activities, divided by the average equity for the bonus year, multiplied by 100, neutralizing extraordinary profits or losses, as provided in Section 1.1.2u. above, as calculated by the Bank;
- t. **"bonus year"** – each of the following calendar years: 2015 and 2016;
- u. **"return on the Bank's share relative to the benchmark index"** – the return on the Bank's share (including dividend) net of the return of the "Tel Aviv-Banks index", for the period measured.

¹ Other than employees who are not deemed principal employees, pursuant to exceptions set out for this matter in the Supervisor of Bank's directives.

1.1.3 The Option Plans

- a. On August 3, 2015, after obtaining the approval of the Remuneration Committee in the matter of the principles of the Options Plans, the Board of Directors resolved to approve plans for the allotment of option warrants to managers who are employees of the Bank, as provided below in this outline (hereinafter: "**this outline**"):

The first – Option Plan for managers at the Bank who are employed according to individual contracts, as provided below in this outline;

The second – Option Plan for managers at the Bank who are employed according to collective agreements, as provided below in this outline;

(The abovementioned options plans shall be hereinafter referred to, collectively, as the "**Plans**" or the "**Option Plans**".)

It is hereby clarified that no option warrants shall be granted, pursuant to any of the Plans, to officers at the Bank including directors at the Bank, the Chairman of the Board of Directors of the Bank or to the Bank's CEO. Additionally, no option warrants shall be granted, pursuant to any of the Plans, to controlling shareholders or interested parties at the Bank or a person who will become a controlling shareholder or an interested party at the Bank, as provided in Section 1.4.1 below.

- b. In the scope of the resolution provided in Section 1.1.3a. above, the Board of Directors resolved, after obtaining the recommendation of the Remuneration Committee in the matter of the Option Plans' principles, to issue pursuant to this outline up to 229,990 option warrants which are exercisable into up to 229,990 ordinary shares of the Bank (hereinafter: the "**Exercisable shares**"), subject to that which is stated in Section 1.1.3d below and subject to adjustments,

as provided in Section 2.20 below, to employees of the Bank, pursuant to the Option Plans, as provided in Section 2.1.1 below.

The offerees pursuant to the Option Plans, or any one thereof, shall be hereinafter referred to as the "**Offerees**" or the "**Offeree**", respectively.

- c. The approval of the Board of Directors, as aforesaid, was obtained after obtaining the recommendations of the Bank's CEO for this matter.
- d. The quantity of the Exercisable shares, as aforesaid, is the maximum quantity of shares derived from the exercising of all option warrants which can be issued pursuant to all of the Plans. Nonetheless, the quantity of the option warrants which the Offerees shall be entitled to exercise, in practice, pursuant to the terms and conditions of each of the abovementioned Plans, shall be derived from the entitlement terms and conditions set out for each of the Plans, all as provided in Chapter 2 below.

Additionally, the issue of the full quantity of Exercisable shares is merely theoretical, since, in practice, the full quantity of Exercisable shares derived from the option warrants which the Offerees are entitled to exercise shall not be issued to the Offerees, pursuant to the terms and conditions of each of the abovementioned Plans, but only shares at a quantity reflecting the financial benefit amount incorporated in said option warrants, considering the closing rate cap, as provided in Section 2.21 below.

It is hereby clarified that option warrants to which an Offeree shall not be entitled pursuant to the terms set forth in this outline, shall expire and shall not entitle any right whatsoever.

- e. Any consideration, income or profit that shall be charged to the Offeree or received thereby (if and insofar as such exist) due to the offering pursuant to each of the Plans, including the issue of the Exercisable shares, the transfer thereof in his name or the sale thereof and all such as related thereto, shall not be deemed a

portion of such employee's salary and shall not be taken into account for the purpose of the calculation of any social benefits or other rights or benefits or for all other intents and purposes (other than for the purpose of the deduction of taxes and other compulsory payments).

- f. The Option Plans or the issue of the option warrants pursuant thereto do not confer to the Offeree any right with regard to his continued employment at the Bank, nor do they create a defined term work contract with any of the Offerees, nor do they impair or restrict in any manner the right of the Bank to terminate the employment of any Offeree at any time.
- g. The offering of the option warrants to the Offerees, pursuant to the Option Plans, shall be executed pursuant to the provisions of Section 15b(1)(a) of the Securities Law, in the scope of a remuneration plan for employees, in this outline, which includes the terms and conditions of all the Option Plans, pursuant to the Securities Regulations (Details of an Outline of an Offer of Securities to Employees), 5760-2000 (hereinafter: the "**Outline Regulations**").

1.2 Permits and approvals

The issue of option warrants under the Option Plans is subject to obtaining the following approvals:

- 1.2.1 The approval of the Bank's Board of Directors, after obtaining the recommendation of the Remuneration Committee; this approvals was granted on August 3, 2015;
- 1.2.2 The approval of the Tel Aviv Stock exchange Ltd. (hereinafter: the "**stock exchange**") to list for trade the shares which derived from the exercise of the option warrants under each of the Plans;

The Bank shall apply to the stock exchange shortly after the publication of this outline, requesting the listing for trade of the

ordinary shares derived from the exercise of the option warrants under the Option Plans.

1.2.3 As provided in Section 2.24 below, the option warrants pursuant to each of the Plans shall be issued according to the work income track, pursuant to the provisions of Section 102 of the Income Tax Ordinance (New Version) 5721-1961 (hereinafter: the "**Income Tax Ordinance**"). Consequently, the Bank shall apply to the Income Tax Authority shortly after the publication of this outline, requesting the approval thereof for each of the Plans. If the Income Tax Authority's response to the request is not obtained within 90 days from the date of filing the request, the request shall be deemed approved.

1.3 Listing the Exercisable shares in a nominee company's name

Pursuant to the stock exchange's regulations, the Exercisable shares that shall be issued as a result of the exercise of the option warrants under this outline shall be listed in a nominee company's name.

1.4 Granting option warrants pursuant to this outline

1.4.1 The Bank may issue option warrants in the name of the trustee for the Offerees, pursuant to the terms and conditions of each of the Plans, under this outline, after obtaining all the necessary approvals, as aforesaid in Section 1.2.

It is hereby clarified that no option warrants shall be granted, pursuant to any of the Plans, to an Offeree who is a controlling shareholder at the Bank or who will become a controlling shareholder at the Bank, within the meaning thereof in Section 268 of the Companies Law, after the Option Warrants are granted thereto pursuant to any of the Plans, even assuming that he would exercise all of them. Additionally, no option warrants shall be granted, pursuant to any of the Plans, to an Offeree who serves as an officer at the Bank, including as a director at the Bank, or to the Bank's CEO, or to an Offeree who is an interested

party at the Bank, within the meaning thereof in the Companies Law, or who will become an interested party at the Bank after said Option Warrants are granted thereto, even assuming that he would exercise all of them.

1.4.2 The period for granting option warrants to the Offerees pursuant to each of the Plans, under this outline, shall begin on the later of: (a) obtaining all the necessary approvals, as aforesaid in Section 1.2 or (b) 14 business days from the date of filing this outline; and shall end on the sooner of: the date of filing of the periodic report for 2015 or the fixed date of filing thereof.

1.4.3 It is assumed that all the option warrants under this outline shall be granted shortly after the publication thereof.

1.5 The authority of the Israel Securities Authority

Pursuant to Regulation 9 of the Outline Regulations, the Israel Securities Authority may, within fourteen business days from the date of filing this outline, to instruct the Bank to provide an explanation, details, notices and documents regarding this outline, as well as instruct the Bank to amend this outline within a date set forth thereby. If the Israel Securities Authority instructs the amendment of this outline, it may instruct the postponement of the date of commencement of the period for granting the offered option warrants to a date that shall not be sooner than the lapse of three business days and no later than fourteen business days from the publication data of the amendment of this outline.

The amendment of this outline and the postponement of the date of commencement of the period for granting the offered option warrants shall be executed pursuant to the provisions of the Outline Regulations.

Chapter 2 – Details of the Offer and the Securities

2.1 Details of the securities

2.1.1 a. Up to 11,494 registered option warrants, unlisted for trade on the stock exchange (hereinafter: "**Option Warrants D**"), which shall be granted to managers at the Bank who are employed according to individual contracts, and which are exercisable into up to 11,494 ordinary shares of ILS 0.1 par value each of the Bank (subject to that which is stated in Section 1.1.3d and subject to adjustments, as provided in Section 2.20 below), pursuant to Option Plan D, which was approved by the Bank's Board of Directors after obtaining the recommendation of the Bank's Remuneration Committee in the matter of the principles of Option Plan D, and subject to meeting the entitlement terms and conditions set forth in Option Plan D, as provided in this Chapter 2 below.

b. Up to 218,496 registered option warrants, unlisted for trade on the stock exchange (hereinafter: "**Option Warrants E**"), which shall be granted to managers at the Bank who are employed according to collective agreements, and which are exercisable into up to 218,496 ordinary shares of ILS 0.1 par value each of the Bank (subject to that which is stated in Section 1.1.3d and subject to adjustments, as provided in Section 2.20 below), pursuant to Option Plan E, which was approved by the Bank's Board of Directors after obtaining the recommendation of the Bank's Remuneration Committee in the matter of the principles of Option Plan E, and subject to meeting the entitlement terms and conditions set forth in Option Plan E, as provided in this Chapter 2 below.

(Option warrants that shall be granted under this outline shall be hereinafter referred to as the "**Option Warrants**".)

The Offerees under each of the Plans shall be entitled to the Option Warrants offered pursuant to the Plan and to the exercise thereof, pursuant to the terms and conditions of said Plan and subject to meeting the entitlement terms and conditions set forth therein, as provided in Chapter 2 below.

2.1.2 The issue of the Option Warrants, under the Option Plans, subject to the terms and conditions set forth in each Plan, shall be executed shortly after the day in which the last of the required approvals has been obtained pursuant to Section 1.2 above, provided that such day falls after the lapse of 14 business days from the date of filing this outline and the lapse of the necessary periods under Section 102 of the Income Tax Ordinance, and within the period set forth in the stock exchange's approval, as provided in Section 1.2.2 above.

2.1.3 It is hereby emphasized that the quantity of the Option Warrants which an Offeree shall be entitled to exercise, in practice, pursuant to the terms of this outline, shall be derived from meeting the prerequisites as well as the indices and terms set forth in Chapter 2 below; therefore, said quantity may be lower than the maximum quantity of the Option Warrants that can be issued under this outline.

Additionally, the allotment of the full quantity of Exercisable shares is merely theoretical, since, in practice, the full quantity of Exercisable shares derived from the Option Warrants which the Offerees are entitled to exercise, pursuant to the terms and conditions of each of the abovementioned Plans, shall not be issued to the Offerees, but only shares at a quantity reflecting the financial benefit amount incorporated in said Option Warrants, considering the closing rate cap, as provided in Section 2.21 below.

2.1.4 Assuming full exercise of all the Option Warrants offered pursuant to the Option Plans and assuming issue of the possible maximum quantity of Exercisable shares, all the Option Warrants offered under this outline shall confer approx. 0.04% of the Bank's issued capital and of the voting rights therein (after issue of the full quantity of Exercisable shares), and assuming full dilution, approx. 0.03% of the Bank's issued capital and of the voting rights therein; in such regard, "full dilution" – assuming exercise of all the Option Warrants that are not listed for trade on the stock exchange, which were allotted for employees and officers of the Bank and its subsidiaries (which have not yet been exercised or have not yet expired), according to their terms and conditions, taking into account the financial benefit amount incorporated in said Option Warrants, which shall be calculated according to the closing rate cap, as set for them (if and as long as set for them) including exercise of all the Option Warrants that were allotted for the Bank's CEO, pursuant to the Immediate Report released by the Bank on May 4, 2014, taking into account the financial benefit amount incorporated in said Option Warrants which shall be calculated in accordance with the closing rate cap, as provided in said Immediate Report), and assuming issue of the maximum quantity of shares that may be issued in the event that the deferred capital notes (series "A") issued by the Bank (which constitute Tier 2 capital of the Bank) are converted into shares on the terms and conditions stipulated by the Bank, in such regard; it is hereby clarified that the above figures were calculated assuming that all the Option Warrants that shall be offered under this outline shall be exercised, and that the full quantity of Exercisable shares derived from the Option Warrants shall not be issued to the Offerees, but only shares at a quantity reflecting the financial benefit amount incorporated in said Option Warrants, which shall be calculated according to the closing rate cap, as provided in Section 2.21 below and

pursuant to the terms stipulated therein; it shall be noted that such figures may be lower, since, in practice, Exercisable shares shall be issued for the Offerees only at a quantity reflecting the financial benefit amount incorporated in the Option Warrants, which shall be calculated according to the closing rate on the stock exchange on the trading day preceding the exercise date or the closing rate cap, whichever is lower, all as provided in Section 2.21 below.

The above figures were calculated on the basis of the "Status of Capital and Registers of Securities of the Corporation and the Changes Therein" report, released by the Bank on July 29, 2015. It is clarified that for the purpose of the calculation, dormant shares held by the Bank were not taken into account.

- 2.1.5 If as a result of the provisions of any of the Plans, the Bank is required to issue share fractions, it shall not issue share fractions as aforesaid and the number of shares issued to the Offeree shall be rounded down to the nearest whole share.

2.2 Listing for trade on the stock exchange

The Option Warrants that shall be offered to the Offerees pursuant to each of the Plans shall not be listed for trade on the stock exchange. The Exercisable shares derived from the exercise of the Option Warrants shall be listed for trade on the stock exchange. The Bank shall apply to the stock exchange, shortly after the filing of this outline, requesting the listing for trade of the ordinary shares derived from the exercise of the Option Warrants offered under this outline (for this matter, see also Section 1.2.2 above).

2.3 Trustee arrangements

- 2.3.1 Pursuant to the provisions of Section 102 of the Income Tax Ordinance, the Bank shall issue all the Option Warrants, under each of the Plans, in the name of a trustee to be appointed by

the Bank (hereinafter: the "**Trustee**"), according to the terms of the work income track, via a Trustee; for further details regarding this taxation track, see Section 2.24 below.

2.3.2 The Exercisable shares as well as other rights or shares that shall be issued to the Trustee for the Offerees, under each of the Plans, shall be held by the Trustee for a period no longer than five (5) years from the end of the exercise periods of the Option Warrants, under each of the Plans, as provided in Section 2.13.2 below; the plan administrator, within the meaning thereof in Section 2.8 below, shall instruct the Trustee with regard to the manner of transfer of the aforesaid shares and additional rights.

2.3.3 The Bank and the Trustee shall sign a trust agreement (hereinafter: the "**Trust Agreement**"). Subject to the provisions of Section 2.3.2 above, the terms and conditions of the Trust Agreement shall be applicable to and will bind each Offeree, so long as the Trustee holds Option Warrants, Exercisable shares, other shares or any rights for an Offeree, under each of the Plans.

2.3.4 The Bank may replace the Trustee at any time, at its discretion, subject to obtaining the required approvals pursuant to Section 102 of the Income Tax Ordinance.

2.3.5 During the period where the Trustee holds the Exercisable shares for the Offeree, the Offeree (and not the Trustee) may vote by the virtue thereof, as he deems fit.

2.4 Non tradability or transferability of the Option Warrants

2.4.1 The Option Warrants granted pursuant to the terms and conditions of each of the Plans may not be transferred, assigned, pledged, charged or attached, except for a transfer to heirs, pursuant to the law. In the event of a transfer to heirs, as

aforesaid, the terms and provisions of each of the Plans shall bind such heirs, for all intents and purposes.

2.4.2 To remove any doubt, it is hereby clarified that, subject to the provisions of each of the Plans, only the Offeree shall have rights with regard to the Option Warrants issued to the Trustee, for him, under each of the Plans, pursuant to the provisions and terms and conditions thereof, and each of the Plans shall not confer any rights to any other person.

2.4.3 The Trustee shall not transfer Option Warrants to any third party, other than in accordance with the terms and conditions of each of the Plans, as the case may be, pursuant to instructions received thereby from the plan administrator.

2.5 The Offerees

Subject to the provisions of each of the Plans, the Bank shall grant, under this outline, Option Warrants which are exercisable into ordinary shares of ILS 0.1 par value each of the Bank (hereinafter: the "**Shares**"), pursuant to the terms and conditions of each of the Plans, as follows:

2.5.1 Up to 11,494 Option Warrants D shall be granted under Option Plan D to up to one (1) manager at the Bank who is employed under an individual contract;

2.5.2 Up to 218,496 Option Warrants E shall be granted under Option Plan E to up to eighteen (18) managers at the Bank who are employed under a collective agreement.

2.6 The Offerees' undertakings

As a condition for the grant of Option Warrants pursuant to each of the Plans, an Offeree is required to sign authorization and undertaking letters (hereinafter: the "**Undertaking Letters**") that shall include, *inter alia*, the following principal provisions:

- 2.6.1 An Offeree's declaration of his consent to accept the Option Warrants offered to him pursuant to any of the Plans and his consent to all the terms and conditions contained in said Plan and in the granting letter, within the meaning thereof in Section 2.7.3 below, his consent to bear all the tax liabilities and other compulsory payments deriving from the offer and issue of the Option Warrants, the exercise thereof or the sale of the Exercisable shares, including his consent and the his authorization to the Bank's to deduct tax at source (including, insofar as necessary – from the number of Option Warrants or Exercisable shares) of any tax applicable;
- 2.6.2 An Offeree's undertaking in connection with receipt of a benefit in the framework of Section 102 of the Income Tax Ordinance, including his undertaking to comply with the provisions of Section 102 of the Income Tax Ordinance and the provisions of the regulations, rules and circulars issued by virtue thereof, including the provisions regarding the tax track chosen by the Bank, and the Offeree's undertaking to comply with the trust agreement;
- 2.6.3 An Offeree's undertaking to comply with all the provisions of the Israeli law in connection with the prohibition on the use of inside information of the Bank;
- 2.6.4 An Offeree's undertaking not to create private hedging arrangements cancelling the effect of risk sensitivity incorporated in his remuneration, including in the Option Warrants granted to him under this outline; in this scope, but without derogating from the generality of the aforesaid, the Offeree shall undertake to abstain from pledging his rights in Option Plans granted to him under this outline, and to also abstain from performing any action that might be deemed a derivative action in the Bank's shares, including short sale of

the Bank's shares or an engagement that can create protection from a decrease in the price of the Bank's share or can create profit from such decrease;

2.6.5 An Offeree's undertaking to comply with the Bank's directives and procedures in connection with the Plans' management, including the procedure with regard to issue of the Option Warrants, determining the entitlement to the Option Warrants, exercise of the Option Warrants, sale of the Exercisable shares, and all the other actions required for the purpose of the Plans' operation.

2.7 The granting of Option Warrants and a granting letter

2.7.1 The granting of Option Warrants to the Offeree, under each of the Plans, shall be executed without receiving any payment therefrom.

2.7.2 The granting of Option Warrants to the Offeree, under each of the Plans, shall only be executed after receiving the Undertaking Letters in the Bank's offices, with said letters signed by the Offeree.

2.7.3 The granting of the Option Warrants shall be executed by a Granting Letter that shall be furnished to each Offeree (hereinafter: the "**Granting Letter**"), in the form set forth by the plan administrator, within the meaning thereof below.

2.8 The plans administrator

The plans administrator is the Bank's CEO (hereinafter: the "**Plans Administrator**").

Subject to the provisions of the law, including the provisions of the Companies Law, the Bank's articles of association and any other resolution of the Bank's Board of Directors, the Plans Administrator shall be authorized to enact all the powers and authorities for the

purpose of the management of each of the Plans and the interpretation thereof, provided that the Plans Administrator's resolution shall be in respect of certain Offerees, and shall not be an overarching resolution in respect of all the Offerees or in respect of any group of Offerees under each of the Plans (hereinafter: the "**overarching resolution**"); an overarching resolution is under the power of the Board of Directors, or under the power of a board of directors committee that will be formed for this purpose, subject to the provisions of any law. In accordance with the aforesaid, the Plans Administrator may, *inter alia*:

- 2.8.1 resolve whether the termination of employment relations (pursuant to Section 2.16 below) resulted from an "exceptional cause", within the meaning thereof Section 1.1.2r. above;
- 2.8.2 interpret each provision included in each of the Plans and perform any action that shall be required as a result of such interpretation, and:
 - a. stipulate procedures and (technical) provisions for the purpose of executing each of the Plans, including, with regard to the issue of the Option Warrants, the manner of exercise of said Option Warrants and the sale of the Exercisable shares under each of the Plans;
 - b. interpret any prior stipulation of the Plans Administrator.

The Plans Administrator shall report to the Bank's Board of Directors, from time to time, as to the use made thereby of the powers conferred thereupon under this Section.

Without derogating from the aforesaid, and subject to the provisions of the law, the Bank's Board of Directors, or the committee that the Bank's Board of Directors authorized for this matter, shall be authorized to enact all the powers and authorities provided in this Section 2.8 above, including with

regard to resolutions that pertain to a certain group of Offerees or to all the Offerees under each of the Plans.

2.9 The consideration of the offered securities and the exercise price

2.9.1 The Option Warrants are offered to the Offeree for no consideration.

2.9.2 The Exercise Price of each of the Option Warrants issued under each of the Plans is ILS 47.76, plus CPI linkage differences, commencing from the known CPI as of the date on which the Board of Directors approved the issue of the Option Warrants to the Offeree (hereinafter: the "**Date of Approval by the Board of Directors**") and up to the known CPI on the Exercise Date (within the meaning thereof in Section 2.21.2 below) of an Option Warrant by the Offeree under each of the Plans (hereinafter: the "**Exercise Price**").

2.9.3 The Exercise Price has been calculated based on the average of the closing rate of the Bank's ordinary share on the stock exchange during the thirty (30) trading days prior to the Date of Approval by the Board of Directors.

2.9.4 Pursuant to the aforesaid, it is hereby clarified that on the Exercise Date, an Offeree shall not be required to pay the Exercise Price, and the Exercise Price shall only be used for the purpose of stipulating the financial benefit amount and the quantity of the Exercisable shares that shall be issued to the Offeree in practice, as provided in Section 2.21 below.

2.10 The issue of the option warrants

2.10.1 The Option Warrants issued in the Trustee's name for each officer, under Option Plan D or Option Plan E, as the case may be, shall be divided into two (2) annual lots, for each of the bonus years.

An annual lot to be issued for an Offeree, for the year 2015, to be called hereinafter: "**First Lot**" or "**Annual Lot**";

An annual lot to be issued for an Offeree, for the year 2016, to be called hereinafter: "**Second Lot**" or "**Annual Lot**".

- 2.10.1 a. All the Option Warrants included in all two (2) Annual Lots granted to each Offeree, shall be issued under the terms and conditions of the Option Plans, as the case may be, at one time, shortly after the date on which the last of the approvals required pursuant to Section 1.2 above is obtained, but not before the necessary periods have elapsed in accordance with Section 102 of the Income Tax Ordinance and within the period stipulated in the stock exchange's approval, as detailed in Section 1.2.2 above.
- b. All the Option Warrants granted to the Offerees under each of the Plans shall be issued in the Trustee's name for the Offerees.
- c. The issue date of Option Warrants shall be deemed the date on which the Bank gives written notice to the Trustee that the Option Warrants have been issued in his name, for an Offeree, in accordance with the provisions of any of the Plans (hereinafter: the "**Issue Date**").

The Issue Date shall be specified in the Granting Letter given to the Offeree, as provided in Section 2.7 above.

- d. The Bank shall issue Option Warrants in the Trustee's name, for an Offeree, only if on the Issue Date, the Offeree shall be an employee of the Bank.
- e. It is hereby clarified as follows:

- (1) All the option warrants issued in the Trustee's name pursuant to the terms and conditions of this outline shall not vest any right whatsoever, for all intents and purposes, so long as all the conditions stipulated for such purpose in this outline have not been fulfilled;
- (2) All the option warrants issued in the Trustee's name pursuant to the terms and conditions of this outline, to which the Offeree is not entitled pursuant to the terms and conditions of this outline, shall expire and shall not vest any right whatsoever, for all intents and purposes;
- (3) The Option Warrants' exercise into shares for the Offeree shall be executed by the Trustee, only if all the conditions stipulated for such purpose in this outline are fulfilled; discretion in respect of the Option Warrants' exercise shall be vested in the Offeree.

2.11 The prerequisites for entitlement to the Option Warrants

An Offeree's entitlement to Option Warrants granted under this outline for any bonus year is conditional upon fulfillment of all the following prerequisites in the bonus year:

- 2.11.1 The return on equity rate in the bonus year is not less than 9%;
- 2.11.2 The Bank's total capital adequacy and core capital adequacy ratios, according to the Bank's (consolidated) annual financial statements for the bonus year, shall not be less than the minimum ratios stipulated in Bank of Israel's directives.

It is hereby clarified that if in any bonus year any of the above prerequisites is not fulfilled, an Offeree shall not be entitled to the Option Warrants included in the Annual Lot of Option Warrants granted thereto pursuant to any of the Plans, in respect of that bonus year.

It is hereby clarified that Option Warrants to which the Offeree is not entitled pursuant to the terms and conditions of any of the Plans shall expire and shall not vest any right whatsoever.

2.12 2.12.1 **Conditions of entitlement to Option Warrants D or Option Warrants E**

- a. Offerees' entitlement according to Option Plan D, for Option Warrants D, due to any bonus year, shall be determined on the basis of four (4) criteria constituting "company-wide goals" that can be measured, as detailed in Subsection C (hereinafter: "**quantitative indices**").
- b. Offerees' entitlement according to Option Plan E, for Option Warrants E, due to any bonus year, shall be determined according to the quantitative indices, as detailed in Subsection C below, and according to the quality level that shall be established for each Offeree as aforesaid, as detailed in Section 2.12.7 below.
- c. The weight of each quantitative index, relative to the Annual Lot of Option Warrants D or Option Warrants E, shall be as follows:

The index	Quantitative indices				Total
Weight of the index relative to the Annual Lot of Option Warrants D or E (%)	Return of equity rate 60%	Return on the Bank's share relative to the Benchmark Index 14%	Efficiency ratio 14%	Deposits to loans average ratio 12%	100%

2.12.2 Quantitative indices – general

For the purpose of calculating any Offeree's entitlement to any Annual Lot, under any of the Option Plans, the following goals have been set for each quantitative index: minimum goal, target goal, and maximum goal; an Offeree's entitlement to the Annual Lot for any bonus year shall be determined on the basis of compliance with these goals, as detailed below:

- a. Achievement of the minimum goal in any bonus year shall entitle any Offeree to 15% of the weight of the index relative to the Annual Lot of Option Warrants.
- b. Achievement of the target goal in any bonus year shall entitle each Offeree to 100% of the weight of the index relative to the Annual Lot of Option Warrants.
- c. Achievement of a goal between the minimum goal and the target goal shall entitle any Offeree to a proportionate part, which shall be calculated in the range between 15% to 100% of the weight of the index relative to the Annual Lot of Option Warrants (as provided in Sections 2.12.3c, 2.12.4c., 2.12.5c., and 2.12.6c. below).
- d. Achievement of the maximum goal in any bonus year shall entitle any Offeree to 120% of the weight of the index relative to the Annual Lot of Option Warrants.
- e. Achievement of a goal between the target goal and the maximum goal shall entitle each Offeree to a proportionate part, which shall be calculated linearly in the range between 100% to 120% of the weight of the index relative to the Annual Lot of Option Warrants (as provided in Sections 2.12.3c, 2.12.4c., 2.12.5c., and 2.12.6c. below).
- f. It is hereby clarified that compliance with a goal exceeding the maximum goal in any bonus year shall entitle each Offeree to 120% of the weight of the index relative to Annual Lot of Option Warrants, save in respect of the

deposits to loans average ratio index, in respect of which the provisions of Section 2.12.6 below shall apply.

- g. It is hereby clarified that the number of Option Warrants to which an Offeree shall be entitled for any bonus year, in respect of all the quantitative indices, shall not exceed 100% of the quantity of Option Warrants included in the Annual Lot of Option Warrants granted to the Offeree for that bonus year.
- h. To remove any doubt, it is hereby clarified that if the Bank does not comply with the minimum goal set for any quantitative index, in any bonus year, the Offeree shall not be entitled to any part of the weight of such index relative to the Annual Lot of Option Warrants for that bonus year.

2.12.3 Return on equity rate

- a. The weight of the return on equity rate index relative to the Annual Lot of Option Warrants is 60%.
- b. The goals set in the framework of the Option Plan, for the purpose of the "return on equity rate" index, are as follows:
Minimum goal: 9%;
Target goal: 12%;
Maximum goal: 14.5%;
- c. The part of the Annual Lot to which each Offeree shall be entitled in respect of the return on equity rate index (in this Section, the "**index**") shall be calculated as follows:
 - (1) if the return on equity rate for the bonus year is less than 9%, the Offeree shall not be entitled to any part of the Annual Lot in respect of the index;
 - (2) if the return on equity rate for the bonus year is between 9% to 10%, the Offeree shall be entitled to a proportionate part, which shall be calculated linearly in the range between 15% to 27% of the weight of the index relative to the Annual Lot;

- (3) if the return on equity rate for the bonus year is between 10% to 11%, the Offeree shall be entitled to a proportionate part, which shall be calculated linearly in the range between 27% to 57% of the weight of the index relative to the Annual Lot;
- (4) if the return on equity rate for the bonus year is between 11% to 11.5%, the Offeree shall be entitled to a proportionate part, which shall be calculated linearly in the range between 57% to 76% of the weight of the index relative to the Annual Lot;
- (5) if the return on equity rate for the bonus year is between 11.5% to 12%, the Offeree shall be entitled to a proportionate part, which shall be calculated linearly in the range between 76% to 100% of the weight of the index relative to the Annual Lot;
- (6) if the return on equity rate for the bonus year is between 12% to 14.5%, the Offeree shall be entitled to a proportionate part, which shall be calculated linearly in the range between 100% to 120% of the weight of the index relative to the Annual Lot.

2.12.4 Return on the Bank's share relative to the benchmark index

- a. The weight of the return on the Bank's share relative to the benchmark index, relative to the Annual Lot of Option Warrants, is 14%.
- b. The goals set in the framework of the Option Plan for the purpose of the return on the Bank's share relative to the benchmark index are as follows:
Minimum goal: -6%;
Target goal: +1%;
Maximum goal: +6%;
- c. The part of the Annual Lot that each Offeree shall be entitled to in respect of the return on the Bank's share

relative to the benchmark index (hereinafter, in this Section, the "**index**") shall be calculated as follows:

- (1) if the annual return on the Bank's share (including dividend) (hereinafter: the "**return on the Bank's share**") for the bonus year is more than 6% less than the yield of the Tel Aviv-Banks index (that is to say, the return on the Bank's share relative to the benchmark index falls short by more than -6%), the Offeree shall not be entitled to any part of the Annual Lot in respect of the index;
- (2) if the return on the Bank's share for the bonus year is between 5% to 6% less than the yield of the Tel Aviv-Banks index (that is to say, the return on the Bank's share relative to the benchmark index falls short by between -6% to -5%), the Offeree shall be entitled to a proportionate part, which shall be calculated linearly in the range between 15% to 27% of the weight of the index relative to the Annual Lot;
- (3) if the return on the Bank's share for the bonus year is between 3.5% to 5% less than the yield of the Tel Aviv-Banks index (that is to say, the return on the Bank's share relative to the benchmark index falls short by between -5% to -3.5%), the Offeree shall be entitled to a proportionate part, which shall be calculated linearly in the range between 27% to 57% of the weight of the index relative to the Annual Lot;
- (4) if the return on the Bank's share for the bonus year is between 1.5% to 3.5% less than the yield of the Tel Aviv-banks index (that is to say, the return on the Bank's share relative to the benchmark index falls short by between -3.5% to -1.5%), the Offeree shall be entitled to a proportionate part, which shall be calculated linearly

in the range between 57% to 76% of the weight of the index relative to the Annual Lot;

- (5) if the return on the Bank's share for the bonus year is between 1.5% less than the yield of the Tel Aviv-Banks index and 1% more than the yield of the Tel Aviv-Banks index (that is to say, the return on the Bank's share relative to the benchmark index is between a short yield of -1.5% and an excess yield of 1%), the Offeree shall be entitled to a proportionate part, which shall be calculated linearly in the range between 76% to 100% of the weight of the index relative to the Annual Lot;
- (6) if the return on the Bank's share for the bonus year is 1% to 6% higher than the yield of the Tel Aviv-Banks index (that is to say, the return on the Bank's share relative to the benchmark index is an excess yield of between 1% to 6%), the Offeree shall be entitled to a proportionate part, which shall be calculated linearly in the range between 100% to 120% of the weight of the index relative to the Annual Lot.

2.12.5 Efficiency ratio

- a. The weight of the efficiency ratio index, relative to the Annual Lot of Option Warrants, is 14%;
- b. The goals set for the purpose of the efficiency ratio index are as follows:
Minimum goal: 65%;
Target goal: 60%;
Maximum goal: 55%;
- c. The part of the Annual Lot that each Offeree shall be entitled to in respect of the efficiency ratio index (hereinafter, in this Section: the "**index**") shall be calculated as follows:

- (1) if the efficiency ratio for the bonus year is higher than 65%, the Offeree shall not be entitled to any part of the Annual Lot in respect of the index;
- (2) if the efficiency ratio for the bonus year is between 65% to 64%, the Offeree shall be entitled to a proportionate part, which shall be calculated linearly in the range between 15% to 27% of the weight of the index relative to the Annual Lot;
- (3) if the efficiency ratio for the bonus year is between 64% to 63%, the Offeree shall be entitled to a proportionate part, which shall be calculated linearly in the range between 27% to 57% of the weight of the index relative to the Annual Lot;
- (4) if the efficiency ratio for the bonus year is between 63% to 62%, the Offeree shall be entitled to a proportionate part, which shall be calculated linearly in the range between 57% to 76% of the weight of the index relative to the Annual Lot;
- (5) if the efficiency ratio for the bonus year is between 62% to 60%, the Offeree shall be entitled to a proportionate part, which shall be calculated linearly in the range between 76% to 100% of the weight of the index relative to the Annual Lot;
- (6) if the efficiency ratio for the bonus year is between 60% to 55%, the Offeree shall be entitled to a proportionate part, which shall be calculated linearly in the range between 100% to 120% of the weight of the index relative to the Annual Lot.

2.12.6 Deposits to loans average ratio

- a. The weight of the deposits to loans average ratio index, relative to the Annual Lot of Option Warrants, for any bonus year, is 12%.

- b. The goals set in the scope of the Option Plan for the purpose of the deposits to loans average ratio index are as follows:
Minimum goal: 85% or 115%;
Target goal: 93% or 110%;
Maximum goal: the range between 95% and 105%.
- c. The part of the Annual Lot that each Offeree shall be entitled to in respect of the deposits to loans average ratio (hereinafter, in this Section: the "**index**") shall be calculated as follows:
- (1) if the deposits to loans average ratio for the bonus year is less than 85%, the Offeree shall not be entitled to any part of the Annual Lot in respect of the index;
 - (2) if the deposits to loans average ratio for the bonus year is between 85% to 89%, the Offeree shall be entitled to a proportionate part, which shall be calculated linearly in the range between 15% to 27% of the weight of the index relative to the Annual Lot;
 - (3) if the deposits to loans average ratio for the bonus year is between 89% to 92%, the Offeree shall be entitled to a proportionate part, which shall be calculated linearly in the range between 27% to 57% of the weight of the index relative to the Annual Lot;
 - (4) if the deposits to loans average ratio for the bonus year is between 92% to 92.5%, the Offeree shall be entitled to a proportionate part, which shall be calculated linearly in the range between 57% to 76% of the weight of the index relative to the Annual Lot;
 - (5) if the deposits to loans average ratio for the bonus year is between 92.5% to 93%, the Offeree shall be entitled to a proportionate part, which shall be calculated linearly in the range between 76% to 100% of the weight of the index relative to the Annual Lot;

- (6) if the deposits to loans average ratio for the bonus year is between 93% to 95%, the Offeree shall be entitled to a proportionate part, which shall be calculated linearly in the range between 100% to 120% of the weight of the index relative to the Annual Lot;
- (7) if the deposits to loans average ratio for the bonus year is between 95% to 105%, the Offeree shall be entitled to 120% of the weight of the index relative to the Annual Lot;
- (8) if the deposits to loans average ratio for the bonus year is between 105% to 110%, the Offeree shall be entitled to a proportionate part, which shall be calculated linearly in the range between 120% to 100% of the weight of the index relative to the Annual Lot;
- (9) if the deposits to loans average ratio for the bonus year is between 110% to 110.5%, the Offeree shall be entitled to a proportionate part, which shall be calculated linearly in the range between 100% to 76% of the weight of the index relative to the Annual Lot;
- (10) if the deposits to loans average ratio for the bonus year is between 110.5% to 111%, the Offeree shall be entitled to a proportionate part, which shall be calculated linearly in the range between 76% to 57% of the weight of the index relative to the Annual Lot;
- (11) if the deposits to loans average ratio for the bonus year is between 111% to 113%, the Offeree shall be entitled to a proportionate part, which shall be calculated linearly in the range between 57% to 27% of the weight of the index relative to the Annual Lot;
- (12) if the deposits to loans average ratio for the bonus year is between 113% to 115%, the Offeree shall be entitled to a proportionate part, which shall be calculated linearly in the range between 27% to 15% of the weight of the index relative to the Annual Lot;

(13) if the deposits to loans average ratio for the bonus year is higher than 115%, the Offeree shall not be entitled to any part of the Annual Lot in respect of the index.

2.12.7 The qualitative rank determined for Offerees according to Option Plan E

- a. **In this outline: "quality rank"** – a quality rank which is determined, from time to time by the Bank's management, for each employee in the group of managers at the Bank who are employed in the framework of collective agreements; said quality ranks are arranged based on a scale determined for this matter, such that the highest quality rank is the best, whereas the lowest quality rank indicates the lowest contribution of the Offeree to the fulfilment of his duties or to the Bank (hereinafter: the "**lowest quality rank**").
- b. Notwithstanding the aforesaid in this outline, if the quality rank which has been determined for an Offeree included in the group of managers at the Bank who are employed in the framework of collective agreements, in respect of any bonus year, shall be the lowest quality rank, such Offeree shall not be entitled to Option Warrants E, included in the Annual Lot of Option Warrants granted thereto in respect of that bonus year (this even if such Offeree is entitled to Option Warrants, pursuant to the indices provided in Section 2.12 above); in such case, all the Option Warrants included in the Annual Lot granted to such Offeree in respect of that bonus year shall expire and shall not vest any right whatsoever.

2.12.8 The total entitlement to Option Warrants for a bonus year

It is hereby clarified that the total entitlement of an Offeree to Option Warrants, for any bonus year, in respect of all the quantitative indices, shall not exceed a rate of 100% of the quantity of Option Warrants included in the Annual Lot of Option Warrants granted to such Offeree in respect of that bonus year.

In accordance therewith, insofar as the quantity of Option Warrants to which an Offeree is entitled in respect of any bonus year (based on the above calculations) exceeds a rate of 100% of the quantity of Option Warrants included in the Annual Lot of Option Warrants granted to such Offeree in respect of that bonus year, the quantity of Option Warrants to which such Offeree shall be entitled in respect of that bonus year shall be reduced such that it shall not exceed the quantity of Option Warrants included in such Annual Lot.

2.12.9 The date for determining an Offeree's entitlement to Option Warrants

An Offeree's entitlement to Option Warrants included in any Annual Lot shall be calculated shortly after publication of the Bank's financial statements for the bonus year in respect of which the Annual Lot is granted, in accordance with the provisions and indices detailed in Section 2.12 above, as the case may be; in accordance with the aforesaid calculation the adjusted Annual Lot, within the meaning thereof in Section 2.13.1 below, for that bonus year, shall be determined.

It is hereby clarified that any Option Warrant to which an Offeree shall not be entitled pursuant to the terms of this outline shall expire and shall not vest any right whatsoever.

2.13 The Option Warrants' vesting dates and exercise periods

2.13.1 Definitions

In this Plan:

"**vesting date**" – the date on which the exercise period of the Option Warrants shall commence;

"**adjusted Annual Lot**" – the part of the Annual Lot to which an Offeree is entitled, pursuant to the indices provided in Section 2.12 above, as the case may be;

"**exercise period**" – each of the periods during which Option Warrants offered under this outline may be exercised.

2.13.2 The vesting dates and exercise periods

The adjusted Annual Lot for Option Warrants D and E (to be issued under Option Plan D and Option Plan E, respectively), to which an Offeree shall be entitled according to the provisions of Sections 2.11 and 2.12 above, shall be exercisable according to the terms of the aforesaid Plans, at the following times:

- a. The adjusted Annual Lot for 2015 shall be exercisable after the end of one (1) year from the Option Warrants' issue date and until after three-and-a-half (3.5) years from the Option Warrants' issue date;
- b. The adjusted Annual Lot for 2016 shall be exercisable after the end of two (2) years from the Option Warrants' issue date and until after three-and-a-half (3.5) years from the Option Warrants' issue date.

2.13.3 Expiration of Option Warrants not exercised during the exercise period

Each Option Warrant that is not exercised during the exercise period stipulated in respect thereof under this outline shall expire and shall not vest any right whatsoever, at 17:00 hours (Israel time) on the last day of the exercise period (unless it expired prior thereto, in accordance with the terms and conditions of any one of the Option Plans).

2.14 The employment relations' commencement or employment relations' termination by reason of a cause that is not exceptional

- 2.14.1 a. Notwithstanding the aforesaid in this outline above, the provisions stipulated in this Section 2.14 below shall apply in the event of the employment relations' commencement or employment relations' termination of by reason of a cause that is not exceptional.

- 1) If the employment relations between the Offeree and the

Bank commenced after January 1, 2015 but not after July 1, 2015, under the terms of the Plan, the Bank will issue an amount of Option Warrants due to 2015, for the Offeree's de-facto employment period in 2015.

If an Offeree, as aforesaid, will terminate his employment at the Bank before the end of 2015, he shall not be entitled to exercise the Option Warrants produced for him for 2015 or any part thereof.

2) An Offeree who has terminated his employment at the Bank, save by reason of exceptional cause, during any bonus year (which is not the bonus year in which he commenced working at the Bank) and has worked de-facto for at least six (6) months in that bonus year, until the termination of the employee-employer relations between the Offeree and the Bank, shall be entitled to a proportionate part of the adjusted Annual Lot for the bonus year (subject to the terms and conditions of the Option Plan) for the period in which he worked de-facto, during the aforesaid bonus year (that is to say, until the date of the employment relations' termination).

It is hereby clarified that if the abovementioned conditions are not fulfilled in respect of the Offeree, he shall not be entitled to exercise the Option Warrants issued therefor in respect of that bonus year.

b. The calculation of the entitlement to Option Warrants due to the bonus year in which employee-employer relations began or ended, as aforesaid, shall be done as aforesaid in Section 2.12.9 above.

c. Option Warrants issued under the name of a trustee for an Offeree, according to this outline, which the Offeree is not entitled to exercise according to this Section 2.14.1 above, shall expire on the date of the ending of the employee-employer relations between the Offeree and the Bank, and shall not grant any right.

2.14.2 Notwithstanding the aforesaid in Section 2.13.2 above, upon the employment relations' termination between the Offeree and the Bank, such Offeree shall not be entitled to exercise Option Warrants to which he is entitled under this outline, the vesting date of which has not yet occurred on the date of the employment relations' termination (even if entitlement exists to exercise such Option Warrants under this outline, including pursuant to Sections 2.12 and 2.13 above, as the case may be), unless the employment relations between the Offeree and the Bank terminated by reason of a cause that is not exceptional, and conditional upon fulfillment of one or more of the following conditions with regard to such Offeree:

- a. employment relations between such Offeree and the Bank terminated upon the Offeree's reaching retirement age or thereafter;
- b. employment relations between such Offeree and the Bank terminated not by such Offeree's own initiative;
- c. such Offeree completed at least five (5) years of employment at the Bank until the date of termination of the employment relations between such Offeree and the Bank.

It is hereby clarified that if one or more of the abovementioned conditions has not been fulfilled with regard to the Offeree, such Offeree shall not be entitled to exercise Option Warrants the vesting date of which has not yet occurred on the date of the employment relations' termination; such Option Warrants shall expire on the date of termination of the employment relations between the Offeree and the Bank and shall not vest any right whatsoever.

2.14.3 To remove any doubt and subject to the provisions of Section 2.14.1 and 2.14.2 above, it is hereby clarified as follows:

- a. The termination of the employment relations between an Offeree and the Bank in any bonus year, for any reason, save for exceptional cause, shall not prejudice such

Offeree's entitlement to Option Warrants for previous bonus years, and such Offeree shall be entitled to exercise the Option Warrants to which he is entitled (that have not yet been exercised or that have not yet expired) in accordance with this outline and subject to its terms and conditions, provided that the conditions provided in Sections 2.14.1 and 2.14.2 above are fulfilled, as the matter may be;

- b. If the employment relations between the Offeree and the Bank terminate in any bonus year, as a result of death (G-d forbid), the Option Warrants to which such Offeree is entitled, pursuant to the terms and conditions of this outline, may be exercised by such Offeree's heirs or the administrators of his estate, pursuant to the terms and conditions stipulated in this outline and subject to its terms and conditions, including subject to the conditions provided in Sections 2.14.1 and 2.14.2 above.
- c. It is hereby clarified that Option Warrants exercisable as aforesaid that are not exercised by the end of the period stipulated for the exercise thereof in accordance with the terms and conditions stipulated in this outline shall expire and shall not vest any right whatsoever.

2.15 Change of employment

Subject to the provisions of Section 102 of the Income Tax Ordinance and to obtaining the required approvals from the Income Tax Authority (insofar as required), the rights of an Offeree to Option Warrants under this outline or to the exercise thereof shall not expire solely due to the change of employment of an Offeree from the Bank to a subsidiary of the Bank or from a subsidiary of the Bank to the Bank.

2.16 Employment relations' termination by reason of exceptional cause

Notwithstanding the provisions of this outline, if employment relations between the Offeree and the Bank are terminated by reason of

exceptional cause, all the Option Warrants issued under this outline that have not yet been exercised shall expire on the date of termination of the employment relations between such Offeree and the Bank or on the date of the dismissal letter's delivery to the Offeree, whichever is earlier; this even if said Option Warrants have vested and even if the Offeree is entitled to exercise them pursuant to the terms and conditions stipulated in this outline.

2.17 The Board of Directors' power to reduce the quantity of Option Warrants D

The Board of Directors may, for special reasons, reduce the quantity of Option Warrants D to which the Offerees, all or some, are entitled for any bonus year, and even determine that said Offerees shall not be entitled to all or some of the Option Warrants D issued in respect of any bonus year; this for the purpose of maintaining the Bank's stability.

2.18 The expiration of Option Warrants D and refund of their financial benefit

If it transpires that an Offeree's entitlement to Option Warrants D was determined on the basis of figures that turned out to be mistaken and were restated in the Bank's (consolidated) financial statements during the three (3) years following the end of the bonus year in respect of which the Option Warrants D were issued but no later than the end of three (3) years from the date of termination of the employment relations between such Offeree and the Bank (hereinafter: the "**Option Warrants that the entitlement thereto was determined on the basis of mistaken figures**"), the following provisions shall apply:

- a. the Option Warrants D that the entitlement thereto was determined on the basis of mistaken figures that have not yet been exercised shall expire and shall not vest any right whatsoever;
- b. the Offeree shall return to the Bank, within sixty (60) days, the amount of the financial benefit, within the meaning thereof in Section 2.21 below, in respect of the Option Warrants D that the

entitlement thereto was determined on the basis of mistaken figures and that have been exercised thereby.

2.19 Inapplicability of certain provisions to Option Warrants E that have been issued pursuant to Option Plan E

The provisions of Sections 2.17 and 2.18 above shall not apply to Option Warrants E that have been issued pursuant to Option Plan E.

2.20 Provisions for the Offerees' protection during the period of the Option Plan

2.20.1 If the Bank distributes a cash dividend, the record date, as defined in the stock exchange Rules (hereinafter: the "**record date**") for the purpose of distribution thereof falls after the date of the Board of Directors' approval but prior to the Option Warrants' exercise or expiry, on the "ex date" as defined in the stock exchange Rules (hereinafter: the "**ex date**"), the exercise price of any Option Warrant not yet exercised or that has not yet expired, as the case may be, shall be reduced by the amount of the dividend per share, gross, that was distributed as aforesaid.

2.20.2 If the Bank distributes share dividend the record date for the distribution thereof falls after the date of the Board of Directors' approval but prior to said Option Warrants' exercise or expiry, the number of shares to which the Offeree shall be entitled on the Option Warrants' exercise shall be increased by the number of shares to which the Offeree would have been entitled as share dividend had he exercised the Option Warrants prior to the record date for the share dividend distribution. The exercise price of any Option Warrant shall not change as a result of the increase in the number of exercisable shares to which the Offeree is entitled in consequence of the distribution of share dividend, as aforesaid.

It is hereby clarified that the number of exercisable shares to which the Offeree is entitled to shall only be adjusted in the event of a distribution of share dividend, as provided above in this Section, but not in the event of any other issues (including issues to interested parties); it is also expressed that the Offeree's right to the Bank's securities in the event of a distribution of share dividend, as aforesaid, shall only apply from the exercise date of the Option Warrants and only in relation to Option Warrants actually exercised by the Offeree.

2.20.3 If the Bank offers its shareholders, by way of rights, rights to purchase any securities, the record date for the distribution of which falls after the date of the Option Warrants' issue to the Trustee for the Offeree, but before the Option Warrants' exercise or expiry, the Bank shall act such that the rights shall be offered on the same terms and conditions, *mutatis mutandis*, also to the Offeree, as though he exercised said Option Warrants prior to the date determining the right to participate in said rights' issue. The quantity of exercisable shares shall not be increased as a result of said rights' issue.

2.20.4 In the event of splitting or consolidation of the Bank's share capital, the Bank shall make the changes or adjustments required for the purpose of preventing the dilution of or increase in the Offeree's rights, with regard to the number of exercisable shares that shall be received on exercise of the Option Warrants not yet exercised by the Offeree and that have not yet expired, and with regard to the exercise price of each Option Warrant, as the case may be.

2.20.5 In the event of a change in the Bank's structure (hereinafter: the "**change of structure**") or the Bank's merger with or into another company, by way of a share swap, cash purchase or in any other way (hereinafter: "**merger**") or sale of all of the Bank's assets or the Bank's issued capital or the decisive majority of the Bank's assets, to any third party (hereinafter:

"sale"), the Board of Directors may, *inter alia*, at their sole discretion, act in one or more of the manners detailed below:

- a. accelerate the Option Warrants' vesting date or the date of the exercise period's conclusion, all at the sole discretion of the Board of Directors; or
- b. determine that an Option Warrant issued pursuant to the Plan shall be replaced by or converted into an alternative Option Warrant that shall be issued by the Bank or another Option Warrant that shall be issued by the new company, after the merger or sale, all at the sole discretion of the Board of Directors; or
- c. determine that an option warrant issued pursuant to the Plan shall be adopted by the new company, such that it may be exercised into a share of the new company, subject to the adjustments and changes stipulated by the Board of Directors in such regard, all at the sole discretion of the Board of Directors; or
- d. determine that an Option Warrant issued pursuant to the Plan shall be cancelled or returned to the Bank and the Bank shall pay the Offeree who returns the Option Warrant, as aforesaid, financial remuneration for such Option Warrant's cancellation or return, as aforesaid, all at the sole discretion of the Board of Directors; or
- e. perform any act, adjustment or change in connection with an Option Warrant issued pursuant to the Plan, and its terms and conditions, insofar as required in the circumstances of the case, all at the sole discretion of the Board of Directors.

For the purpose of the provisions of this Section, the term the "**new company**" refers to a company with which a merger is effected or a sale transaction executed or to a company which steps into the Bank's shoes after a change of structure, as the case may be.

2.20.6 If as a result of any of the adjustments provided in this Section 2.20 above, the Bank is required to issue share fractions, the Bank shall not issue share fractions, as aforesaid, and the number of shares issued for the Offeree shall be rounded down to the nearest whole share.

2.20.7 The adjustments required pursuant to this this Section 2.20, as aforesaid, shall be calculated and approved by an external accountant who shall be elected by the Bank's Remuneration Committee.

2.21 The Option Warrants' exercise process

The exercise of the Option Warrants pursuant to each of the Plans shall not take place on the record date, for the distribution of share dividend, for an offer by way of rights, for the distribution of a dividend, for the consolidation of capital, for the splitting of capital or for a reduction of capital (each of these shall be hereinafter referred to as a "**company event**").

In addition, if the ex date of a company event falls prior to the record date of the company event, the exercise of Option Warrants pursuant to each of the Plans shall not take place on said ex date.

2.21.1 The exercise of Option Warrants pursuant to each of the Plans, for the Offeree, shall by performed by the Trustee;

If during the Option Warrants' exercise period, the Offeree requests to exercise Option Warrants that he is entitled to exercise pursuant to the terms and conditions of any of the Plans, the Offeree shall give the Trustee and the Bank an exercise notice signed thereby, in the form determined for such purpose by the plan administrator (hereinafter: the "**exercise notice**"). In the exercise notice the Offeree shall detail, *inter alia*, the number of Option Warrants he wishes to exercise. The exercise date shall be the date on which the Offeree gives the exercise notice, as aforesaid (hereinafter: the "**exercise date**").

2.21.2 Where the Offeree has given an exercise notice as aforesaid, the following provisions shall apply:

a. In this Section, "**closing rate cap**" – ILS 80 plus CPI linkage differences, from the index known on the date of the Board of Directors' approval to the index known on the exercise date, this amount being adjusted in accordance with the adjustments in the exercise price, as detailed in Section 2.20 above, *mutatis mutandis*, as the case may be.

b. A calculation shall be made of the difference between:
the closing rate on the stock exchange of an ordinary share of the Bank on the trading day preceding the exercise date or the closing rate cap, whichever is lower, multiplied by the number of shares that should derive from the Option Warrants in relation to which the exercise notice was given (adjusted in accordance with Section 2.20 above, as the case may be;

and:

the exercise price, pursuant to Section 2.9.2 above (adjusted in accordance with Section 2.20 above, as the case may be) of the Option Warrants in relation to which the exercise notice was given, multiplied by the number of said Option Warrants.

This difference shall constitute the amount of the financial benefit deriving to the Offeree on the exercise date (hereinafter: the "**amount of the financial benefit**").

2.21.3 After determination of the amount of the financial benefit, as aforesaid, the Bank shall issue to the Trustee, for the Offeree, a quantity of ordinary shares the total market value of which, according to the closing rate of the Bank's ordinary shares on the stock exchange, on the trading day preceding the exercise date, is equal to the amount of the financial benefit.

2.21.4 Any share fraction obtained from the aforesaid calculation shall be rounded down to the nearest whole share.

2.21.5 The Bank shall convert part of its profits, within the meaning thereof in section 302(b) of the Companies Law, from premium on shares, or from any other source included in its equity, as

provided in section 304(a) of the Companies Law, into share capital, in an amount equal to the par value of the exercisable shares that are issued as aforesaid.

2.21.6 The Trustee shall act in respect of the Option Warrants and in respect of the exercisable shares in accordance with the provisions of Section 102 of the Income Tax Ordinance, including the rules, circulars and directives issued by virtue thereof.

2.21.7 It is hereby clarified that any Option Warrant not exercised by the end of the period stipulated for its exercise shall expire and shall not vest any right whatsoever.

2.21.8 The exercise expenses and any commission involved in the exercise shall be borne by the Offeree.

2.22 The rights attached to the exercisable shares

The shares derived from the exercise of the Option Warrants granted pursuant to each of the Plans (hereinafter: the "**exercisable shares**") shall rank *pari passu* with the Bank's ordinary shares, for all intents and purposes, from the date of the issue thereof, and shall be entitled to any dividend or other benefit where the date determining the right to receive such dividend or benefit falls on the issue date of the exercisable shares or thereafter. For details with regard to the rights attached to the Bank's shares, see Chapter 3 below.

It is hereby clarified that the Offeree shall not have any rights as a shareholder of the Bank in relation to Option Warrants granted thereto under this outline. In addition, unless otherwise stipulated in the terms and conditions of this outline, the Offeree shall not have any rights as a shareholder of the Bank in relation to shares issued pursuant to the terms and conditions of this outline, until the nominee company's registration as the holder of said shares in the Bank's register of shareholders.

So long as exercisable shares are held for the benefit of the Offeree by the Trustee, the Offeree may vote in respect of the exercisable shares. The Bank shall send the Trustee notices of general meetings of the Bank, and the Trustee shall send such notices to each Offeree. An Offeree who wishes to participate in the Bank's general meetings or to exercise his right to vote in respect of the exercisable shares held for him by the Trustee, shall apply to the Trustee in writing, at least four business days prior to the date of the meeting, and the Trustee shall send the Offeree a proxy to participate in the general meeting and to vote in respect of the exercisable shares held for the Offeree by the Trustee, in accordance with the instructions set by the Bank for all its shareholders.

For the purpose of this Section 2.22 above, "**business day**" means any day of the week on which most of the banks in Israel are open for business.

2.23 Impediment to or restrictions on the Offeree's execution of transactions with the Option Warrants or the exercisable shares

- 2.23.1 a. The restrictions included in the undertaking letters which the Offeree shall be required to sign as a condition for the grant of the Option Warrants are provided in Section 2.6 below;
- b. Option Warrants granted pursuant to each of the Plans may not be transferred, assigned, pledged, charged, or attached, except for a transfer to heirs. In the event of a transfer to heirs, as aforesaid, the terms and conditions of each Plan and the provisions thereof shall bind the heirs, for all intents and purposes.
- c. A transfer of right to heirs, as provided in Section 2.23.1b. above, pursuant to the law, shall come into effect and shall bind the Bank only after the authorizations provided below

are furnished to the Bank, signed and authorized by a notary:

(1) a written request to transfer the rights, as aforesaid, as well as a copy of a legal document which creates or affirms the right of such person to act in respect of the Offeree's estate and which creates and affirms the transferee's right; and

(2) a written consent of the transferee: (a) to pay any payment required pursuant to the provisions of the Plan according to which the Option Warrants were granted, and (b) to comply with all the provisions of the Plan according to which the Option Warrants were granted; and

(3) any other evidence, required in the opinion of the Plan Administrator for the purpose of establishing the right to transfer the Option Warrants or the exercisable shares or required for the purpose of establishing the validity of such transfer.

d. Option Warrants not exercised during the exercise period stipulated in respect thereof pursuant to the terms and conditions of the Plans shall expire and shall not vest any right whatsoever.

e. Additional restrictions governing the Option Warrants, including the conditions of entitlement to the Option Warrants, the vesting dates of the Option Warrants, the conditions for the exercise of the Option Warrants, and the exercise periods pursuant to the Option Plan, are provided in this outline.

2.23.2 The Offerees shall be governed by the provisions of Section 102 of the Income Tax Ordinance, including the restrictions detailed in Section 2.24 below.

2.23.3 As aforesaid, the issue of the Option Warrants pursuant to each of the Plans shall be executed pursuant to Section 15b(1)(a) of the Securities Law, under this outline, and, therefore, the

exercisable shares shall not be subject to restrictions on resale, as provided in Section 15C of the Securities Law and in the Securities Regulations (Details regarding Sections 15A and 15C of the Law), 5760-2000.

2.24 Taxation

- 2.24.1 Shortly after the filing of this outline, the Bank shall apply to the Tax Authority for its approval of each of the Plans, in order for the Plans to be operated on a work income taxation track, through a Trustee (hereinafter: the "**work income track**"), in accordance with the provisions of Section 102 of the Income Tax Ordinance, including all the regulations, rules, circulars and directives issued by virtue thereof (hereinafter, collectively: "**Section 102**").
- 2.24.2 The Option Warrants issued pursuant to the Plans and the shares issued as a result of the Option Warrants' exercise or other shares issued by reason of adjustments, in accordance with Section 2.20 above, including by reason of the exercise of rights and including share dividend that are allotted or issued, as the case may be, in the Trustee's name, shall be held by him for the blocking period required pursuant to Section 102 (hereinafter: the "**blocking period**"), and the Trustee shall act with them in accordance with the trust provisions set forth in such regard, pursuant to Section 102. On the date of filing this outline, the blocking period in relation to the work income track is 12 months from the date on which the Option Warrants were issued in the Trustee's name for the Offeree and deposited with the Trustee.
- 2.24.3 If the Bank distributes dividends to its shareholders, it shall transfer to the Trustee the dividends for the exercisable shares held by the Trustee for the Offerees. The Trustee shall deduct the tax pursuant to any law, and transfer the balance of the dividends to the Offerees. The Trustee and the Bank may determine that the dividend shall be transferred by the Bank directly to the Offerees, in which case the Bank shall deduct the

necessary tax and transfer confirmation of the tax deduction to the Trustee.

- 2.24.4 Subject to the provisions of Section 102, an Offeree may not sell or receive from the Trustee shares that were issued as a result of the exercise of Option Warrants or other shares issued by reason of adjustments, in accordance with Section 2.20 above, including shares issued as a result of the exercise of rights and including share dividend, until the blocking period has come to an end.
- 2.24.5 In accordance with the work income track, if the Offeree sells or transfers the exercisable shares from the Trustee after the blocking period has come to an end, the Offeree's income will be taxed as income pursuant to Section 2(1) or 2(2) of the Income Tax Ordinance, as the case may be. However, if the Offeree sells or transfers the exercisable shares from the Trustee before the end of the blocking period, the offeree shall pay tax in accordance with the higher between: (1) the tax that would have applied to the Offeree on the date of the issue to the Offeree, plus linkage differences and interest from the date of the issue to the date of payment of the tax, or (2) the tax applicable on the date of the sale or transfer of the exercisable shares. In addition, in the event that the Offeree sells or transfers the exercisable shares from the Trustee before the end of the blocking period, the Offeree might have to pay additional tax in respect of dividends paid up to the date of the sale and/or transfer, as aforesaid.
- 2.24.6 The Trustee shall not transfer to the Offeree shares that were issued as a result of the exercise of Option Warrants before payment of the full tax liability deriving from the Option Warrants issued in the Trustee's name for the Offeree or from the shares issued as a result of the exercise thereof, as aforesaid.
- 2.24.7 The offeree shall bear all the tax liabilities, levies, or compulsory payments, including payments to National

Insurance and health tax, applicable pursuant to the provisions of any law, by reason of the Option Warrants' issue, the Option Warrants' exercise, the issue of the exercisable shares or other shares issued by reason of adjustments, or the holding or sale of shares as aforesaid (or any other security issued or granted pursuant to each of the Plans), by or for the Offeree. It is hereby clarified that the Bank shall not refund to the Offeree the health tax and National Insurance payments made by him, as aforesaid. It is also expressed that the Bank or the Trustee shall not be liable for the tax implications, levies, or compulsory payments borne by the Offeree in connection with each of the Plans. The Offeree shall indemnify the Bank for any expense or damage payment, including, but without derogating from the generality of the aforesaid, any tax, fine, levy, compulsory payment, interest, or linkage, occasioned to or imposed on the Bank by reason of the non-performance of all or any of the Offeree's obligations.

2.24.8 At any time payment is required from the Offeree or the Bank or the Trustee, by way of tax deduction at source, in connection with the Option Warrants or the exercisable shares that are obtained as a result of the Option Warrants' exercise, the Bank or the Trustee may demand an amount from the Offeree that is sufficient to cover any demand for tax deduction at source, as provided above. Without derogating from the aforesaid, in the event that shares or any other asset that is not money are transferred in consequence of the Option Warrants' exercise, the Bank or the Trustee shall have the right to demand that the Offeree transfer a sum of money that is sufficient to cover any demand for tax deduction at source, and if this amount is not transferred on time, the Bank or the Trustee shall have the right to hold or set off (subject to the law) the shares or any other asset, as aforesaid, until said payment has been transferred by the Offeree.

The above provisions of this Section 2.24 do not purport to be an agreed interpretation of the provisions of the law regarding taxes that might apply in connection with the Option Warrants' issue pursuant to each of the Plans, and is not a substitute for legal and professional advice on the matter. As customary in the case of an investment, each Offeree must consider the various tax aspects and tax implications of his investment and consult with his professional advisors, including legal and tax advice, having regard to the data unique to him.

2.25 Simulation regarding the Offerees' (theoretical) entitlement to Option Warrants for 2013 and 2014

If the Option Warrant entitlement conditions were to apply, as provided in Sections 2.11 and 2.12 above, to the Bank's performance in 2013 or 2014, in accordance with its (consolidated) financial statements for each of said years, then based on the following quantitative indices: the return on equity rate (which was 11.5% in 2013 and 10.4% in 2014); the return on the Bank's share relative to the benchmark index (which was 2.8% in 2013 and -4.4% in 2014); the efficiency ratio (which was 59.6% in 2013 and 60.8% in 2014); and the deposits to loans average ratio (which was 100.8% in 2013 and 102% in 2014), each Offeree would be entitled to 89.2% of the Annual Lot of Option Warrants for 2013, in respect of the quantitative indices; and 55.92% of the Annual Lot of Option Warrants for 2014, due to the quantitative indices.

2.26 The law applicable to the Plans

Each of the Plans and all the documents related thereto, which have been given or signed by the Bank in relation thereto shall be interpreted, managed and subject to the laws of the State of Israel alone, and shall not be subject to any other law.

Chapter 3 – The rights attached to the Bank's shares

3. Below is a summary of the main principles of the Bank's articles of association with regard to the rights attached to the Bank's shares, as set forth in the Bank's articles of association, in the formulation thereof on the date of publication of this outline (hereinafter: the "**Bank's articles of association**" or the "**articles of association**"). The full text of the Bank's articles of association may be inspected on the Israel Securities Authority's distribution website, www.magna.isa.gov.il, and in the Bank's registered offices.

3.1 Share capital

3.1.1 The Bank's registered share capital is ILS 40,000,000, divided into 400,000,000 ordinary shares of ILS 0.1 par value each. The Bank may, in accordance with a resolution passed in the general meeting by an ordinary majority, increase the Bank's registered share capital, in share classes, as shall be determined.

3.1.2 Each ordinary share in the Bank's share capital shall have equal rights, for all intents and purposes, to every other ordinary share, including the right to a dividend, to share dividend and to participation in the distribution of the Bank's surplus assets upon liquidation, proportionate to the par value of each share, with no regard to any premium paid thereon, all subject to the provisions of the articles of association.

3.1.3 Each of the ordinary shares entitles its owner to the right to participate in the Bank's general meeting and to one vote.

3.2 Registered shares

All the shares in the Bank's capital are registered shares.

3.3 Redeemable securities

Subject to the provisions of the Companies Law, the Bank may issue redeemable securities under the conditions and in the manner determined by the Board of Directors, as its discretion.

3.4 Dividends, share dividend and funds

3.4.1 Subject to the provisions of the Companies Law, the Board of Directors may resolve to distribute a dividend. The Board of Directors which resolves to distribute a dividend may resolve

that such dividend shall be paid, in whole or in part, in cash or by way of asset distribution in kind, including in securities or in any other manner, at the Board of Directors' discretion.

3.4.2 The Board of Directors may, before resolving to distribute a dividend, as aforesaid, allocate out of the profits any sums, insofar as it deems fit, to a general fund or to a reserve fund for any needs or purposes, as determined by the Board of Directors at its discretion.

3.4.3 Subject to the provisions of the Companies Law, the Board of Directors may resolve to allot share dividend and to turn into share capital a portion of the Bank's profits, in the meaning thereof in Section 302(b) of the Companies Law, from premium on shares or from any other source included in its equity, presented in its last financial statements, in a sum determined by the Board of Directors, which shall be no less than the par value of such share dividend. share dividend allotted as aforesaid shall be deemed paid-up in whole.

3.4.4 The Board of Directors which resolves to allot share dividend may resolve that the Bank shall transfer to a special fund, earmarked for future distribution of share dividend, such sum that the turning thereof into share capital shall be sufficient to allot to whomever at the time shall hold, for any reason, a right to purchase shares in the Bank (including a right that is executable at a later date), share dividend to which he would have been entitled, had he utilized the right to purchase such shares prior to the record date for the right to receive such share dividend (hereinafter, in this Section: the "**record date**"). If, after the record date, the holder of said right shall utilize his right to purchase the shares or a portion thereof, the Bank shall allot thereto share dividend with a par value and which should have been owed to him had he utilized prior to the record date the right to purchase the shares that he actually purchased, this by turning into share capital an appropriate portion out of said special fund.

The share dividend shall entitle their owners to participate in the distribution of the dividends in cash or in share dividend, as from the date determined by the Board of Directors. For the matter of determining the sum that shall be transferred to said special fund, any sum transferred to said fund in respect of previous distributions of share dividend shall be deemed already capitalized and shares that entitle the right holders to purchase shares allotted therefrom, to share dividend.

3.4.5 Subject to the rights attached to the share classes issued at the Bank and to the provisions of the articles of association, a dividend or share dividend shall be distributed to the shareholders proportionately to the par value of each share, with no regard to any premium paid thereon.

3.4.6 A dividend or other usufructs in respect of shares shall not bear interest.

3.4.7 Without derogating the provisions of the articles of association, the Board of Directors may hold any dividend or share dividend or other usufructs in respect of a share the consideration determined for which, in whole or in part, was not paid to the Bank, and to collect any sum as aforesaid or any consideration obtained from the sale of all the share dividend or other usufruct, on account of the debts or undertakings in respect of said share.

3.4.8 The Board of Directors may determine, from time to time, the manners for the payment of the dividends or the allotment of the share dividend or the transfer thereof to those entitled thereto, as well as provisions, procedures and arrangements in connection therewith, for the registered shareholders, for the unregistered shareholders and for the shareholders who hold a share certificate.

3.5 The convening date of holding of general meetings and notices of general meetings

3.5.1 The Bank shall hold an annual general meeting per annum, no later than fifteen months from the date of the last

general meeting, at a time and venue determined by the Board of Directors.

3.5.2 The Bank's Board of Directors shall convene a special meeting as resolved thereby, and also at the request of each of the following: (a) two directors; (b) a shareholder, one or more, who holds at least five percent of the Bank's issued capital and one percent of the voting rights thereat, or a shareholder, one or more, who holds at least five percent of the voting rights at the Bank.

3.5.3 If the Board of Directors has been requested to convene a special meeting, as aforesaid, it shall convene such meeting within twenty one days from the date on which said request was submitted thereto, for a date determined in the notice of the special meeting, as provided in Section 3.5.7 below, provided that the date of convening shall be no later than thirty five days from the date of publication of such notice, unless otherwise stipulated in respect of a meeting to which Title g. of Chapter Two of Part Three of the Companies Law is applicable, all subject to the provisions of the Companies Law.

3.5.4 If the Board of Directors does not convene a special meeting requested as aforesaid, the requestor may, and in respect of shareholders – also a part thereof which holds more than half of the voting rights thereof, convene the meeting himself, provided that such meeting shall not take place after three months have elapsed from the date of filing said request, and that it shall be convened, insofar as possible, in the same manner in which meetings are convened by the Board of Directors.

3.5.5 The agenda in a general meeting shall be determined by the Board of Directors, and shall also include matters in respect of which the convening of a special meeting is requested pursuant to Section 3.5.2 above, as well as any matter requested as provided in Section 3.5.6 below.

3.5.6 A shareholder, one or more, who holds at least one percent of the voting rights at the general meeting, may request that the Board of Directors include a matter on the agenda of a general

meeting that shall convene in the future, provided that the matter is appropriate for discussion at a general meeting. Such request shall be submitted to the Bank in writing prior to the publication of the notice regarding the convening of the general meeting, and the form of the resolution proposed by said shareholder shall be attached thereto.

3.5.7 A notice of a general meeting shall be published in at least two widely distributed daily newspapers which are published in Hebrew; such notice shall be published up to fourteen days prior to the convening of the meeting. Notwithstanding the aforesaid, a notice of a general meeting the agenda of which includes any of the matters provided in Section 87 of the Companies Law shall be published at least 35 days prior to the date of convening the general meeting.

3.5.8 Other than a notice of a general meeting, as aforesaid, the Bank shall not furnish a notice of a general meeting either to the registered shareholders or to the unregistered shareholders or to the shareholders who hold a share certificate.

3.5.9 A notice of a general meeting shall provide the venue, date and time in which the meeting shall convene, and shall include the agenda, the summary of the proposed resolutions and any other details required by law.

3.5.10 The Board of Directors may change the venue and the time of a general meeting, provided that such change shall not impair the provisions of the Bank's articles of association in respect of the minimum time frames that should elapse between the date of the notice and the date of the general meeting, and conditional upon the notice of a change, as aforesaid, given in the same manner in which the notice of the general meeting in respect of the venue or time of which the change has been made, was given.

3.6 Discussions in the general meetings

3.6.1 A discussion shall not be initiated in the general meeting unless a legal quorum is present upon the beginning of such meeting. A legal quorum will be constituted upon the presence, in

person or by proxy, of two shareholders holding at least twenty five percent of the voting rights, within half an hour from the time set for the beginning of the meeting, unless otherwise stipulated in the Bank's articles of association.

3.6.2 In the absence of a legal quorum in the general meeting after half an hour has elapsed from the time set for the beginning of the meeting, the meeting shall be deferred by one week, on the same day and at the same venue, without having to notify the shareholders of such, or to another date, if such was noted on the notice of the meeting (hereinafter: the "**first deferred meeting**").

3.6.3 In a first deferred meeting, a legal quorum will be constituted upon the presence at the beginning of the meeting, in person or by proxy, of two shareholders holding at least fifteen percent of the voting rights, within half an hour from the time set for the beginning of the deferred meeting. In the absence of a legal quorum, as aforesaid, in the first deferred meeting after half an hour has elapsed from the time set for the beginning of the meeting, the meeting shall be deferred by one week, on the same day and at the same venue, without having to notify the shareholders of such, or to another date, if such was noted on the notice of the original meeting or in the notice of the first deferred meeting, if such was given (hereinafter: the "**second deferred meeting**"). In a second deferred meeting, a legal quorum will be constituted upon the presence at the beginning of the meeting, in person or by proxy, of two shareholders, regardless of their share in the voting rights.

3.6.4 Notwithstanding the provisions of Section 3.6.3 above, if the general meeting was convened at the request of shareholders, as aforesaid in Section 3.5.2(b), the second deferred meeting shall take place only in the presence of shareholders in the number required for the convening of such meeting, as aforesaid in Section 3.5.2(b).

3.7 Voting and passing resolutions in the general meetings

3.7.1 A shareholder interested in voting at the general meeting shall prove to the Bank his ownership of a share, as stipulated by the Companies Law. Without derogating from the aforesaid, the Board of Directors may set forth provisions and procedures with regard to proving ownership of the Bank's shares.

3.7.2 A shareholder may vote at a general meeting or at a class meeting, in person or by proxy, all pursuant to the provisions of the articles of association and subject to the provisions of the Companies Law. A proxy for the vote is not required to be a shareholder at the Bank.

3.7.3 Each of the ordinary shares entitles its owner to the right to participate in the Bank's general meeting and to one vote.

3.7.4 A resolution up for voting in a general meeting shall be determined in a vote by ballot; the vote by ballot shall be executed in a manner set for such purpose by the chairman of the meeting.

3.7.5 Subject to the provisions of the Companies Law or the provisions of the articles of association with regard to "other majority", the meetings' resolutions shall be passed by an ordinary majority.

3.8 Appointment of directors

In this Section, the following terms shall have the meaning appearing opposite thereto, as set forth in the Bank's articles of association:

"external director pursuant to the Companies Law"	–	An external director, in the meaning thereof in the Companies Law;
"external director pursuant to the provisions of the Supervisor"	–	An external director, in the meaning thereof pursuant to the provisions of the Proper Conduct of Banking Business Regulations with regard to a board of directors, given by the Supervisor pursuant to the provisions of Section 5(c1) of the Banking Ordinance;
"external director"	–	An external director pursuant to the Companies Law or an external director pursuant to the provisions of the Supervisor;

3.8.1 The number of directors shall not be less than seven and shall not exceed fifteen, including the external directors.

3.8.2 The directors shall be appointed at the general meeting, and the term of service thereof, other than external directors, shall be until the end of the annual meeting that shall convene for the first time after the date of appointment. Notwithstanding the aforesaid, in the event that no directors are appointed at the general meeting, the directors who have been appointed in the previous annual meeting shall continue their service. Directors whose term of service has terminated may be reappointed.

3.8.3 Other than a person who served as a director until the date of the annual meeting, no director shall be appointed at the annual meeting, unless the Board of Directors has recommended the appointment thereof, or if he, or a shareholder at the Bank who wished to propose his appointment, has submitted to the office, no later than fourteen days from the date of publication of the

preliminary notice of the meeting, in the meaning thereof in Section 3.8.5a. below, a written document announcing his candidacy for the position or the intention of said shareholder to propose his appointment.

3.8.4 The Bank may, at a special meeting, appoint an additional director or directors for the Bank, whether for the purpose of filling a position that has been vacated for any reason and whether as an additional director or additional directors, provided that the number of directors shall not exceed the maximum number set forth in the articles of association. Directors appointed, as aforesaid, other than external directors, shall terminate their service at the end of the annual meeting that shall take place after the appointment thereof.

3.8.5 In respect of the appointment of directors, the service thereof and the termination of service thereof, the following provisions shall apply:

a. A general meeting the agenda of which includes the appointment of directors or the termination of the service thereof shall not be convened, unless the Bank published a preliminary notice of such meeting 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 convening the general meeting, and the preliminary notice has been given on such date also to the Supervisor of Banks (hereinafter: the "**Supervisor**");

b. The Board of Directors may not appointment directors for the Bank, and may not propose candidates for directorship to the Committee for the Appointment of Directors in Banking Corporations, which was appointed pursuant to Section 36a of the Banking (Licensing) Law, 5741-1981;

c. Notwithstanding the aforesaid in Section 3.8.5b., the Board of Directors may appoint directors for the Bank if a seat on the Board of Directors has been vacated after the previous annual meeting, or under the approval of the Supervisor, provided that the term of service of a director who has been appointed as aforesaid shall terminate no later than the upcoming annual meeting;

d. The voting at the general meeting on the appointment of directors and the termination of service thereof shall be executed for any candidate for directorship or for any director, as the case may be, separately;

e. The resolutions of the general meeting regarding the appointment of a director or the termination of service thereof shall be passed by an ordinary majority; the total votes of the participants at the vote shall not include the abstaining votes;

f. If the number of candidates for directorship who received the majority votes of the participants at the vote at the general meeting exceeds the number of vacant positions for directorship as aforesaid, the candidates who received the highest number of supporters at the vote at the general meeting shall be elected.

3.8.6 Notwithstanding all of the aforesaid, the general meeting may, at any time, in a resolution by an ordinary majority, terminate the service of any director, other than an external director, before the end of the term of his service, provided that such director is given a reasonable opportunity to state his claim before the general meeting.

3.8.7 At least two external directors according to the Companies Law shall serve at the Bank, as well as external directors, pursuant to the provisions of the Supervisor, according to the provisions of the Proper Conduct of Banking Business Regulations with regard to a board of directors, given by the Supervisor.

3.8.8 An external director, pursuant to the Companies Law, shall be subject to the provisions stipulated in the Companies Law, for this matter.

3.8.9 a. An external director, pursuant to the provisions of the Supervisor, shall be subject to the provisions of Sections 239(d), 241, 244, 245(a), 245(a3), 245(b), 246, 247 and 249 of the Companies Law.

b. In respect of external directors, pursuant to the provisions of the Supervisor, who have been serving at the Bank as of September 20, 2012, the following provisions shall apply:

(1) The term of service of an external director, pursuant to the provisions of the Supervisor, shall terminate at the end of three years from the date on which he was appointed, for the first time, as an external director pursuant to the provisions of the Supervisor, and if more than three years have elapsed since the date of his appointment for the first time, as aforesaid, his service shall terminate at the end of three years from the date on which his first three years of service have terminated.

(2) The Bank may appoint a director, as provided in Sub-Section 3.8.9b(1) above, for additional terms of service of three years each, provided that the overall term of service at the Bank of each director, as aforesaid, shall not exceed nine consecutive years.

c. Notwithstanding the provisions of Section 245(b) of the Companies Law –

(1) the Supervisor may terminate the service of an external director pursuant to the provisions of the Supervisor, under Section 11a(e) of the Banking Ordinance;

(2) the Supervisor may approve the termination of service of an external director pursuant to the provisions of the Supervisor, not pursuant to the provisions of Section 245(b) of the Companies Law;

In such case, as aforesaid, the Company may, via a resolution by an ordinary majority, at a special meeting, terminate the service of such director, provided that such director is given a reasonable opportunity to state his claim before the general meeting.

3.9 Transfer of shares

3.9.1 Any transfer of shares registered in the register of shareholders in the name of a registered shareholder, including a transfer by the nominee company or thereto, shall be made in writing, provided that the transfer letter shall only be signed by hand, by the transferor and by the transferee, or in their names, and

shall be furnished to the registered offices or to any other place set forth by the Board of Directors for this purpose. Subject to the provisions of the Companies Law, such transfer of shares shall only be registered in the register of shareholders after a transfer letter has been furnished to the Bank, as aforesaid; the transferor shall be deemed the owner of the transferred shares until the registration of the transferee as the owner of the transferred shares in the register of shareholders.

3.9.2 Subject to the provisions of the articles of association or the terms of issue of shares of any class, the shares shall be transferrable with no need to obtain the Board of Directors' approval.

3.9.3 Each transfer letter shall be submitted to the offices or to any other location set forth by the Board of Directors for registration, along with the share certificate of the shares to be transferred and any other proof required by the Board of Directors with regard to the transferor's proprietary right or the right thereof to transfer the shares. The transfer letters that shall be registered shall remain in the Bank's custody; however, any transfer letter which the Board of Directors refused to register shall be returned to the person who submitted it, at his request.

3.9.4 If the Board of Directors refuses to approve the transfer of shares, it shall notify the transferor of such no later than one month after the date of receipt of the transfer letter.

3.9.5 Subject to the provisions of the Companies Law and the provisions of the articles of association, if it has been proven to the Bank, to the satisfaction of the Board of Directors and in the manners set forth thereby, that the terms stipulated by law have been fulfilled for the assignment of the right to the registered shares in the register, the Bank shall recognize the assignee and him alone as the owner of the right to said shares.

3.9.6 a. Subject to the provisions of the articles of association, the Bank shall amend the registration of ownership of the shares in the register of shareholders if a court order has been

furnished to the Bank for the amendment of the register or if it has been proven to the Bank, to the satisfaction of the Board of Directors and in the manners set forth thereby, that the terms stipulated by law have been fulfilled for the assignment of the right to the shares, and the Bank shall not recognize any right of any person to the shares until the right thereof has been proven, as aforesaid.

b. Without derogating from the aforesaid, the Board of Directors may refuse to execute the registration or postpone it, as it would have been entitled to do had the registered owner transferred, by himself, the share before assigning the right.

3.9.7 Subject to the provisions of the Companies Law and the provisions of the articles of association, a person who became entitled to a share as aforesaid in Section 3.9.5 shall be entitled to dividends and other rights in respect of said share, as if he was the registered owner of said share, even if he has not yet been registered as such. However, before the registration thereof in the register as a shareholder in respect of said share, he shall not be entitled, by the power of said share, to enjoy any right of a shareholder with regard to the Bank's meetings.

3.9.8 Notwithstanding the aforesaid, the Board of Directors may, at any time, require from the person entitled to a share, as aforesaid in Section 3.9.5, to register by himself in the register or to transfer said share to another person. If such requirement is not fulfilled within 60 days from the date of furnishing thereof, the Board of Directors may delay dividends or other rights in respect of said share until such requirement is fulfilled. If such requirement has been presented, such presentation shall be deemed the Board of Directors' approval to register the person entitled to the share as the owner thereof, in the register of shareholders; however, the right shall be reserved to the directors to refuse to approve the transfer of said share to another person, pursuant to the provisions of Section 3.9.6b. above.

3.9.9 The Bank may close the register of shareholders for the duration set forth by the Board of Directors, provided that such duration shall not exceed, in total, thirty days per annum. While the register is closed, no transfer of shares shall be registered therein.

3.10 The issue of shares and convertible securities

The Board of Directors may issue or allot shares and other securities, convertible or exercisable into shares, up to the limit of the Bank's registered capital; for this matter, convertible securities which are convertible or exercisable into shares shall be deemed as if converted or exercised on the issue date. The Board of Directors may issue such shares and other securities, as aforesaid, grant rights of option for the purchase thereof, including options, or confer them in another manner, all in the prices and terms determined thereby, as well as set forth any other provision in connection thereof, all at the discretion of the Board of Directors.

3.11 Amendment of the articles of association

The Bank may amend its articles of association via a resolution passed in the general meeting by an ordinary majority.

3.12 Resolutions which require a special majority

For the purpose of the below provisions, the term "special majority" shall have the meaning given thereto in the articles of association, as follows" "a majority of seventy five percent of the total votes of the shareholders present at the general meeting or at a class meeting, as the case may be, entitled to vote and voting thereat, without taking into account the abstaining votes".

3.12.1 Amendment of the rights attached to the Bank's shares

a. At any time where the share capital shall be divided into various classes, the Bank may, via a resolution passed in the general meeting by a special majority, convert, expand, add, reduce or otherwise amend the rights of a class of the Bank's shares, provided that written consent is obtained of all the shareholders of said class or that such resolution was approved at a general meeting of the shareholders of said class by a special majority, or if

otherwise stipulated in the terms of issue of a certain class of the Bank's shares, as stipulated in the terms of issue of said class.

b. The provisions set forth in the articles of association with regard to general meeting shall apply, *mutatis mutandis*, to any class meeting, provided that a legal quorum at a class meeting will be constituted upon the presence at the beginning of the meeting, in person or by proxy, of two shareholders holding at least half of the number of issued shares of said class. However, in the absence of a legal quorum, as aforesaid, the class meeting shall be deferred to another time, and in the deferred meeting, a legal quorum will be constituted upon the presence of any number of participants, regardless of the number of shares owned thereby.

c. The rights conferred on the shareholders or the holders of a class of shares, which were issued whether by ordinary rights and whether by preference rights or by other special rights, shall not be deemed converted, reduced, impaired or otherwise amended by the creation or issue of additional shares of any class, regardless of whether they rank *pari passu* with, behind or before such shares, and shall also not be deemed converted, reduced, impaired or otherwise amended by the amendment of the rights attached to shares of any other class, all unless otherwise explicitly stipulated in the terms of issue of said shares.

3.12.2 **Restructuring**

Pursuant to the provisions of any law, in any event that Bank wishes to sell its enterprise, in whole or in part (hereinafter: the "**enterprise**") to another company (hereinafter: the "**other company**"), the Board of Directors or the liquidators – where the Bank is in liquidation – may, with the approval of the Bank's general meeting, in a resolution passed by a special majority, accept in consideration of the enterprise fully or partially paid-up shares or other securities or collateral of the other company, whether the other company exists at such time or is about to be founded for the purchase of the enterprise, as aforesaid, and the Board of Directors or the liquidators – in the event of a liquidation

– may, subject to the provisions of any law, distribute among the shareholders (or deposit therefor with trustees) such shares, securities or collateral or any other assets of the Bank's without exercising them.

3.12.3 **Capitalization**

a. Subject to the provisions of any law, if the enterprise or any part thereof is transferred to another company as provided in Section 3.12.2 above, the Bank may, with the approval of the Bank's general meeting, by a special majority, distribute or allot the shares, securities, collateral, cash, benefits or other assets of the Bank in a manner different to that in which they should have been distributed or allotted in accordance with the precise legal rights of the Bank's shareholders. However, where shares of the Bank, all or any of them, are bearer shares or shares listed for trade on the stock exchange, the distribution or allotment shall be effected in accordance with the legal rights of the shareholders, as precisely as possible.

b. For the execution of the provisions of Sections 3.12.3 and 3.12.3a. above, the general meeting may, in a resolution passed by a special majority, instruct that the shares, other securities, collateral, benefits and other assets of the Bank be valued in the manner and at the price resolved by the Bank.

3.12.4 **Rights in liquidation**

a. Without derogating from the liquidator's authority pursuant to section 334 of the Companies Ordinance (New Version) and subject to the rights attached to the classes of shares issued by the Bank, if the Bank is liquidated, voluntarily or otherwise, its assets remaining after the discharge of all its obligations shall be distributed amongst the shareholders pro rata to the par value of their shares without having regard to any premium paid thereon.

b. For this matter, any person who has submitted an application for shares and the shares have not yet been allotted thereto shall be deemed to have been allotted, prior to the winding

up, the shares included in his application, and the amount paid on account of the par value of such shares shall be deemed to have been paid in respect thereof.

c. Subject to the provisions of any law, the liquidator may, pursuant to a resolution of the general meeting passed by a special majority, distribute the surplus assets or any part thereof amongst the shareholders in kind, and the liquidator may, pursuant to a resolution of the general meeting passed by a special majority, deposit any part of the surplus assets with trustees who shall hold them on trust in favor of the shareholders, as the liquidator deems fit. For the purpose of distributing the surplus assets in kind, the liquidator may determine the proper value of the assets available for distribution and decide how such distribution will be effected amongst the shareholders taking into account to the rights attached to the various classes of shares in the Bank which are held thereby.

Chapter 4 – Additional Details

4.1 Details regarding the rates of the Bank's shares on the stock exchange

Below are details of the high and low closing rate of the Bank's share on the stock exchange, in ILS, in the years 2013, and 2014 as well as 2015, up to August 2, 2015, which was the last trading day preceding August 3, 2015, on which the Board of Directors approved the Plans² (in the event that the closing rate was identical in several trading days in each of said periods, the first trading day was provided):

Period	High rate		Low rate	
	Rate	Date	Rate	Date
2013	45.44	December 31, 2013	35.50	April 22, 2013
2014	47.63	March 27, 2014	39.67	December 30, 2014
2015	49.40	July 20, 2015	39.66	February 12, 2015

² The rates of the shares provided in the table are not adjusted to dividends paid by the Bank in said years.

4.2 The fair value of the Option Warrants

4.2.1 The Bank is implementing ASC 718, "Share-Based Payment". In accordance with the provisions of said standard, the Bank's financial statements must state an expense by reason of issue of the Option Warrants pursuant to the Option Plans. The provisions of the standard cover, *inter alia*, the recording of expenses in respect of the grant of Option Warrants in the Bank's financial statements, in accordance with their fair value on the date of the Option Warrants' grant for accounting purposes pursuant to the provisions of the standard. The fair value figures detailed below in this Section 4.2 were calculated on the basis of the figures known on the date of the Board of Directors' approval of the Option Warrants' issue.

It is hereby clarified that the entitlement to the Option Warrants which shall be issued as aforesaid and their exercise (that is to say, up to 229,990 Option) shall be determined in accordance with the provisions and indices detailed in Chapter 2 above.

In addition, the accounting standard distinguishes between option warrants subject to performance conditions that are market conditions (for example, the return on the Bank's share relative to the benchmark index) and option warrants that are subject to performance conditions that are subject to performance conditions (for example, efficiency ratio), which are reviewed in the period preceding the date of determining entitlement, as provided in Section 2.12.9 above.

In accordance therewith, the fair value of the Option Warrants included in each of the Annual Lots, and which are subject to performance conditions that are not market conditions, were calculated on the basis of the binomial model, and the fair value of the Option Warrants included in each of the Annual Lots, which

are subject to performance conditions that are market conditions, were calculated on the basis of the Monte Carlo model;

According to the accounting principles, the amount of Option Warrants the Offerees will be entitled to exercise, as stated in this outline above, will be reexamined on each report date, over the Option Warrants' vesting period, based on the information that existed at the time. The results of this review may lead to a change in the amount of expenditure which will be recorded in the Bank's financial statements due to the Warrant Options, but not to a change in the fair value of any single Option Warrant.

The calculation of the fair value, as of the date of the Board of Directors' approval of the Option Warrants' issue, is based on an economic opinion prepared by outside counsel.

4.2.2 For the purpose of calculating the fair value, as of the date of the Board of Directors' approval of the Option Warrants' issue, as aforesaid, the terms and conditions of the Option Plans were taken into account, as well as the following figures and assumptions:

- a. The Option Warrants' exercise price, for the purpose of the calculation, is ILS 47.76; this price was determined on the basis of the average closing rates of an ordinary share of the Bank on the stock exchange in the thirty (30) trading days preceding August 3, 2015, on which the Board of Directors' approval was received.
- b. The closing rate of an ordinary share of the Bank on the stock exchange on August 2, 2015 (that is to say, on the trading day preceding August 3, 2015, on which the Board of Directors' approval was received), was ILS 48.53.
- c. The contractual lifespan for exercising the two (2) Annual Lots of Option Warrants is 3.5 years.
- d. The standard deviation for each Annual Lot was calculated on the basis of the standard deviations of the historical

daily yields of the share prices on the stock exchange over a period equal to the contractual lifespan of each Annual Lot (as detailed above); in accordance therewith, for the purpose of the calculation, the annual standard deviation that was taken into account for the two (2) Annual Lots of Option Warrants D and E is between approx. 17.48% and 22.92%.

e. Risk-free interest rate – as a rule, according to ASC 718, use should be made of the interest of a risk-free asset the terms and conditions of which are consistent with the exercise price (linked or unlinked), to the currency in which the exercise price is denominated, and the period of the contractual lifespan for exercise.

In accordance therewith, and since the Option Warrants' exercise price is linked to the CPI, the interest rates taken into account for the purpose of calculating the Option Warrants' value are in accordance with the nominal government bond yield of which CPI expectations were deducted.

The yield to maturity data that were taken into account for the purpose of the calculation are as published by the "Mirvach Hogen" company on August 2, 2015, and are in accordance to terms and conditions of the Option Warrants included in each of the Annual Lots.

In light of the aforesaid, the interest rates taken into account for the purpose of the calculation are: between approx. 0.858% and approx. 0.454%.

f. Dividends – the exercise price is adjusted to dividends and, accordingly, the dividend rate taken into account for the purpose of the calculation is 0%.

g. The benefit restriction on the date of the Option Warrants' exercise – as stated in Section 2.21 above, the Option Warrants include a restriction on the amount of the financial benefit that

shall derive on the date of their exercise. In accordance therewith, for the purpose of calculating the amount of the financial benefit to the Offeree on the date of the Option Warrants' exercise, the closing rate on the stock exchange of an ordinary share of the Bank on the trading day preceding the exercise date or the closing rate cap (in the meaning thereof in Section 2.21.2 above), whichever is lower will be taken into account.

h. For Option Warrants the fair value of which was determined using the Monte Carlo model (that is to say, Option Warrants subject to performance conditions that are market conditions), the following data and assumptions were used (in addition to the assumptions detailed in Sub-Sections (a) to (g) above:

In this Subsection (h), "**excess return measurement period**" – the measurement period of the annual return on the Bank's share (including dividend) compared to the Tel Aviv-Banks index, in accordance with Section 2.12.4 above.

(1) The standard deviation of the Tel Aviv-Banks index – the standard deviation for each Annual Lot was calculated on the basis of the standard deviations of the historical daily yields of the closing rates of the Tel Aviv-Banks index, over a period equal to the excess return measurement period; in accordance therewith, for the purpose of the calculation, the annual standard deviation taken into account is between approx. 13.72% and approx. 14.88%;

(2) The correlation coefficient between the yield on the Bank's share and the yield of the Tel Aviv-Banks index – the correlation coefficient was assessed on the basis of a calculation of the correlation coefficient between the historical yields on the Bank's share price and the historical yields of the Tel Aviv-Banks index, over a period consistent with the excess yield measurement period; in accordance therewith, the correlation coefficient that was taken into account for the purpose of the calculation is: between approx. 57.77% and approx. 59.27%.

4.2.3 On the basis of the assumptions, as detailed in Section 4.2.2 above, the average fair value of each Option Warrant (isolated) that is granted pursuant to each of the Option Plans, as of the date of the Board of Directors' approval of the Option Warrants D and E's issue, is as follows:

An Option Warrant included in the First Lot – approx. ILS 7.09; an Option Warrant included in the Second Lot – approx. ILS 6.91.

4.2.4 It is noted that in accordance with the terms and conditions of the Option Plans, the rate of an Offeree's entitlement to exercise the Option Warrants granted thereto pursuant to any of the Plans shall be determined in accordance with the various entitlement conditions and exercise conditions laid down in the framework of such Plan; in accordance therewith, the quantity of Option Warrants that an Offeree shall be entitled to exercise pursuant to the terms and conditions of the Plan pursuant to which said Option Warrants have been granted thereto might be lower than the overall quantity of Option Warrants granted thereto pursuant to said Plan.

4.3 Rationale of the Remuneration Committee and the Board of Directors

Below is the rationale provided by the CEO to the approval of the Plans, as adopted by the Bank's Remuneration Committee, in its meeting of July 20, 2015, and by the Board of Directors, in its meeting of August 3, 2015:

4.3.1 The Option Plans according to the outline are based on the format and principles determined in the Option Plan for managers employed under individual contracts and the Option Plan for managers employed under collective agreements, as included in the 2014 outline. Furthermore, the offering of Option Warrants to managers at the Bank, as provided above, is based on the principles of the remuneration package for Bank employees who are not officers, including the performance-based monetary bonus and capital remuneration, as provided in the remuneration policy for Bank employees who are not officers.

4.3.2 The Option Warrant offering under this outline constitutes variable performance-based remuneration, limited by a cap; such remuneration is intended to create an incentive framework for managers at the Bank, to maintain an appropriate balance between the fixed remuneration and the variable remuneration; this while promoting well-founded and effective risk management, which does not encourage the risk taking beyond the Bank's risk appetite and allows maintaining strong capital base.

The Offerees' entitlement to the Option Warrants is contingent upon meeting prerequisites, as provided in this outline; moreover, the extent to which the Offerees are entitled to the Option Warrants out of the Annual Lot of Option Warrants to be issued in any Bonus year, shall be determined based on measurable company-wide indices of the Bank; additionally, the entitlement of managers at the Bank who are employed in the framework of collective agreements shall also be determined based on the quality rank assigned to each of them, as provided in Section 2.12.7 above.

4.3.3 Moreover, the entitlement terms set forth as part of the Option Plans are intended to adjust the remuneration terms to the Bank's strategic plan and long-term goals, as well as to the Offerees' contribution to attaining said goals and maximizing the Bank's profits; all while maintaining the Bank's risk management framework, as approved by the Board of Directors.

4.3.4 The Option Warrant offering according to the outline is proportionate and is appropriate:

a. The exercise price of the Option Warrants issued under the Plans has been calculated based on the average of the closing rate of the Bank's ordinary share on the stock exchange during the thirty trading days prior to the date of approval of the Option Plan by the Board of Directors. Consequently, the financial benefit to which the Offerees shall be entitled pursuant to the Option Plan is contingent upon the price increase of the Bank's ordinary share on the stock exchange compared to the exercise price, and is derived therefrom; however, pursuant to the terms and conditions of the

Plans, the financial benefit in respect of the Option Warrants is limited by way of a cap, and in no case shall exceed the difference between the amount of ILS 80, linked to the CPI, and the exercise price.

b. Taking into consideration all the restrictions and entitlement terms set forth in the Option Plans (including the limitation of the cap of the financial benefit amount that will arise to the Offerees upon exercising of the Option Warrants), the Option Warrant offering pursuant to the Plans serves the following goals:

- 1) Striving for uniform interests between the Bank's shareholders and the employees of the Bank, who are the Offerees under this outline;
- 2) Promoting well-founded and effective risk management, which does not encourage risk taking beyond the Bank's risk appetite and allows maintaining strong capital base and the required capital adequacy.

4.4 Reference to the last periodic report and other reports filed thereafter

Please note the periodic report for 2014, filed by Bank on March 10, 2015 (ref. no. 2015-01-047593), as well as the other reports filed by the Bank after the filing of said periodic report, the dates and summary of the topics thereof are provided below:

Reporting date	Ref. no.	Report topic
March 12, 2015	2015-01-050494	Immediate Report Regarding Requests to Approve A Derivative Action and a Class Action Against the Bank and Its Officers In Connection With the

		Mizrahi Switzerland Investigation
March 15, 2015	2015-01-051247	Capital Status and Registers of the Corporation's Securities and the Changes Therein
March 16, 2015	2015-01-052195	Immediate Report on Changes in the Holdings of Interested Parties and Senior Officers
March 24, 2015	2015-01-059668	Capital Status and Registers of the Corporation's Securities and the Changes Therein
April 2, 2015	2015-01-072838	Immediate Report on Changes in the Holdings of Interested Parties and Senior Officers
April 2, 2015	2015-01-072859	Capital Status and Registers of the Corporation's Securities and the Changes Therein
April 15, 2015	2015-01-078913	Capital Status and Registers of the Corporation's

		Securities and the Changes Therein
April 26, 2015	2015-01-005376	Capital Status and Registers of the Corporation's Securities and the Changes Therein
April 28, 2015	2015-01-007677	Immediate Report on Changes in the Holdings of Interested Parties and Senior Officers
April 30, 2015	2015-01-008784	Capital Status and Registers of the Corporation's Securities and the Changes Therein
May 4, 2015	2015-01-011577	Capital Status and Registers of the Corporation's Securities and the Changes Therein
May 7, 2015	2015-01-014547	Immediate Report on Changes in the Holdings of Interested Parties and Senior Officers
May 7, 2015	2015-01-015324	Immediate Report on Changes in the Holdings of

		Interested Parties and Senior Officers
May 10, 2015	2015-01-015807	Capital Status and Registers of the Corporation's Securities and the Changes Therein
May 10, 2015	2015-01-016317	Immediate Report Regarding a Preliminary Notice on the Bank's Intention to Convene A Special General Meeting of the Bank's Shareholders, On the Agenda of which is the Reappointment of Mr. Gideon Siterman For An Additional Three-Year Tenure As An External Director at the Bank.
May 14, 2015	2015-01-019365	Capital Status and Registers of the Corporation's Securities and the Changes Therein
May 18, 2015	2015-01-021363	First Quarter Report for 2015
May 18, 2015	2015-01-021372	Immediate Report

June 2, 2015	2015-01-038304	and Amending Immediate Report Regarding the Distribution of a Cash Dividend Into Securities
May 18, 2015	2015-01-021543	Immediate Report Regarding the Appointment of a Chairman for the Board of Directors – Mr. Moshe Vidman
May 18, 2015	2015-01-022110	Immediate Report on Changes in the Holdings of Interested Parties and Senior Officers
May 20, 2015	2015-01-024354	Immediate Report on Changes in the Holdings of Interested Parties and Senior Officers
May 21, 2015	2015-01-024870	Capital Status and Registers of the Corporation's Securities and the Changes Therein
May 26, 2015	2015-01-028236	Capital Status and Registers of the Corporation's

		Securities and the Changes Therein
June 1, 2015	2015-01-036783 2015-01-037188	Immediate Report and Amending Immediate Report Regarding the Convening of a Special General Meeting
June 7, 2015	2015-01-041784	Immediate Report on Changes in the Holdings of Interested Parties and Senior Officers
June 7, 2015	2015-01-042543	Immediate Report on Changes in the Holdings of Interested Parties and Senior Officers
June 8, 2015	2015-01-043062	Capital Status and Registers of the Corporation's Securities and the Changes Therein
June 9, 2015	2015-01-044499	Immediate Report on Changes in the Holdings of Interested Parties and Senior Officers

June 11, 2015	2015-01-045951	Capital Status and Registers of the Corporation's Securities and the Changes Therein
June 11, 2015	2015-01-046350	Immediate Report on Changes in the Holdings of Interested Parties and Senior Officers
June 15, 2015	2015-01-047892	Immediate Report on Changes in the Holdings of Interested Parties and Senior Officers
June 15, 2015	2015-01-048171	Capital Status and Registers of the Corporation's Securities and the Changes Therein
June 15, 2015	2015-01-048768	Immediate Report on Changes in the Holdings of Interested Parties and Senior Officers
June 15, 2015	2015-01-048789	Immediate Report on Changes in the Holdings of Interested Parties and Senior Officers

June 17, 2015	2015-01-050553	The Trustee's Report on Deferred Capital Notes Series A – for 2014
June 18, 2015	2015-01-051174	Capital Status and Registers of the Corporation's Securities and the Changes Therein
June 22, 2015	2015-01-053352	Capital Status and Registers of the Corporation's Securities and the Changes Therein
June 24, 2015	2015-01-056043	Capital Status and Registers of the Corporation's Securities and the Changes Therein
June 28, 2015	2015-01-057942	Capital Status and Registers of the Corporation's Securities and the Changes Therein
July 1, 2015	2015-01-062127	Rating Report
July 2, 2015	2015-01-063387	Capital Status and Registers of the Corporation's Securities and the

		Changes Therein
July 7, 2015	2015-01-066828	Immediate Report on Changes in the Holdings of Interested Parties and Senior Officers
July 7, 2015	2015-01-066990	Immediate Report on the Results of a Meeting to Appoint An External Director
July 9, 2015	2015-01-069099	Capital Status and Registers of the Corporation's Securities and the Changes Therein
July 12, 2015	2015-01-070620	Capital Status and Registers of the Corporation's Securities and the Changes Therein
July 14, 2015	2015-01-072429	Capital Status and Registers of the Corporation's Securities and the Changes Therein
July 19, 2015	2015-01-075597	Capital Status and Registers of the Corporation's Securities and the

		Changes Therein
July 19, 2015	2015-01-076380	Immediate Report on Changes in the Holdings of Interested Parties and Senior Officers
July 21, 2015	2015-01-078594	Capital Status and Registers of the Corporation's Securities and the Changes Therein
July 23, 2015	2015-01-081081	Capital Status and Registers of the Corporation's Securities and the Changes Therein
July 29, 2015	2015-01-084888	Capital Status and Registers of the Corporation's Securities and the Changes Therein

The above documents may be inspected on the Israel Securities Authority's website, at: www.magna.isa.gov.il, and at the Bank's Offices, 7 Jabotinsky Street, Ramat Gan, during standard business hours, by appointment at: 03-7559720.

August 3, 2015

Mizrahi Tefahot Bank Ltd.

via: - _____

Date

Racheli Friedman

Maya Feller

Chief Legal Advisor

Secretary