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בנק הפועלים בע"מ  
**BANK HAPOALIM B. M.**

17.9.2020

Securities Authority  
Via Magna

Tel Aviv Stock Exchange Ltd.  
Via Magna

Re: **Immediate Report ("the Report") Regarding the Convening of an Annual General Meeting of the Shareholders of Bank Hapoalim B. M. ("the Bank")**

Further to the Immediate Report of the Bank of 12.8.2020 (Reference No.: 2020-01-088026) and pursuant to the Companies Law, 5759-1999 ("**the Companies Law**"), the Security Regulations (Periodic and Immediate Reports), 5730-1970 ("**the Reports Regulations**"), the Companies Regulations (Notice and Advertisement About a General Meeting and a Class Meeting of a Public Company and the Addition of a Subject to the Agenda), 5760-2000 ("**the Notice and Advertisement Regulations**") and the Companies Regulations (Voting in Writing and Position Statements), 5765-2005 ("**the Voting in Writing Regulations**"), the Bank respectfully gives notice that the annual general meeting of the shareholders of the Bank ("**the Meeting**") will convene on Thursday, 22.10.2018 at 16:00 hours at the Bank's offices, 63 Yehuda Halevy Street, Tel – Aviv (Level 6, Room 608), on the agenda of which are the subjects and resolutions, as set forth below.

1. **The items on the agenda of the Meeting and the form of the proposed resolutions**

1.1. **Item No. 1 on the agenda – discussion of the financial statements and the report of the Board of Directors of the Bank for 2019**

A discussion of the company's audited annual financial statements as at 31.12.2019 and the reports of the Board of Directors and Board of Management for the year then ended (jointly - "**the Periodic Report for 2019**").

**This matter shall not be put to the vote.**

The Periodic Report for 2019, as released by the Bank on 19.3.2020 and amended on 30.3.2020 (Ref. no.: 2020-01-028783), may be inspected on the distribution website of the Securities Authority, at: <http://www.magna.isa.gov.il> ("**the Distribution Website**") and on the website of the Tel Aviv Stock Exchange Ltd., at: <http://maya.tase.co.il> ("**the TASE Website**").

1.2. **Item No. 2 on the agenda – approval of the reappointment of the Bank's auditors**

As at the date of the Report, Somekh Chaikin (KPMG), Certified Public Accountants and Ziv Haft (BDO), Certified Public Accountants serve jointly as the auditors of the Bank and they were appointed as such until the end of the annual general meeting, called under this Report.

At the recommendation of the Audit Committee of the Board of Directors of the Bank, it is proposed to reappoint Somekh Chaikin (KPMG), Certified Public Accountants and Ziv Haft (BDO), Certified Public Accountants, as the Bank's joint auditors, until the end of the next annual general meeting of the Bank.

Form of the proposed resolution:

**To approve the reappointment of Somekh Chaikin (KPMG), Certified Public Accountants and Ziv Haft (BDO), Certified Public Accountants , as the Bank's joint auditors, until the end of the next annual general meeting of the Bank.**

Details about the fees of the Bank's auditors for 2019, for audit and additional services, which were determined by the Bank's Board of Directors, are included in the Periodic Report for 2019 (p. 276).

1.3 Items Nos. 3 -5 on the agenda – appointment of external directors under the Companies Law

At this Meeting, standing for selection are the appointment of two external directors in accordance with the provisions of the Companies Law (external directors under the Companies Law, who also meet the qualifications for serving as external directors pursuant to the provisions of the Proper Conduct of Banking Business Directive No. 301 (Board of Directors) of the Supervisor of Banks ("**Directive 301**")) for a term of office of three years, out of the three candidates proposed by the Committee for the Appointment of Directors in Banking Corporations that was appointed according to Section 36A of the Banking (Licensing) Law, 5741 – 1981 ("**the Banking Law**", "**the Directors' Appointment Committee**", respectively), and they are:

- 1.3.1 Adv. Ronit Abramson Rokach (will be put up for selection as Item Number 3 on the agenda).
- 1.3.2 Accountant Issawi Frige (will be put up for selection as Item Number 4 on the agenda).
- 1.3.3 Accountant Dalia Lev (will be put up for selection as Item Number 5 on the agenda).

The term of office of one external director will commence on the later of 5.2.2021 (the first term of office of Adv. Ronit Abramson Rokach, who holds office as an external director till such time, comes to an end on 4.2.2021) and the date of approval or non-objection by the Supervisor of Banks of the appointment ("**the Supervisor**", and "**the Approval of the Appointment by the Supervisor**") in accordance with Section 11A of the Banking Ordinance, 1941 ("**the Banking Ordinance**").

The second term of office of an external director will commence on the later of 13.4.2021 (the first term of office of Accountant Dalia Lev, who holds office as an external director till such time, comes to an end on 12.4.2021) and the date of the Approval of the Appointment by the Supervisor.

**For further particulars pertaining to the appointment of directors, see Clause 2 of the Report. For particulars about the aforesaid candidates and the proposed resolutions, see Clause 3 of the Report.**

1.4 Items Nos. 6-8 on the agenda – Appointment of two other directors (who are not external)

At this Meeting, standing for selection are the appointment of two other directors (who are not external directors under the Companies Law or Directive 301) for a period of three years, out of the three candidates proposed by the Directors' Appointment

Committee, and they are:

1.4.1 Mr. Israel Trau (will be put up for selection as Item Number 6 on the agenda).

1.4.2 Prof. Stanley Fisher (will be put up for selection as Item Number 7 on the agenda).

1.4.3 Ms. Tamar Bar-Noy Gotlin (will be put up for selection as Item Number 8 on the agenda).

The term of office of the two candidates that are selected will commence on the later of the approval of the Meeting and the date of the Approval of the Appointment by the Supervisor.

**For further particulars pertaining to the appointment of directors, see Clause 2 of the Report. For particulars about the aforesaid candidates and the proposed resolutions, see Clause 3 of the Report.**

1.5 Item No. 9 on the agenda – approval of the remuneration policy for office holders of the Bank

It is proposed to approve the remuneration policy for office holders of the Bank, in the form attached hereto as **Annex "A"** of the Report ("**the Remuneration Policy**" or "**the New Remuneration Policy**"), in accordance with Section 267A of the Companies Law, Directive 301A of the Proper Conduct of Banking Business Directives of the Supervisor of Banks ("**Directive 301A**") and the provisions of the Remuneration of Office Holders of Financial Corporations Law (Special Approval and Disallowance of Expenses for Tax Purposes Due to Exceptional Remuneration), 5776-2016 ("**the Remuneration Restriction Law**"), effective from 1.1.2021 for a period of three years.

Form of the proposed resolution: "**To approve the remuneration policy for office holders of the Bank in the form attached as Annex "A" of the Report with effect from 1.1.2021 for a period of three years and to approve pursuant to Section 2(a) of the Remuneration Restriction Law, that in accordance with the remuneration policy and the regulations contained therein, remuneration of office holders can exceed the scale of remuneration prescribed under the said section with the approval of the Remuneration Committee and the Board of Directors, without any further approval by the General Meeting.**"

**For further particulars pertaining to the approval of the Remuneration Policy, see Clause 4 of the Report.**

1.6 Item No. 10 on the agenda – approval of the terms of office of the Chairman of the Board of Directors of the Bank

It is proposed to approve terms of office of the Chairman of the Board of Directors of the Bank, as set forth in Clause 5 of the Report.

Form of the proposed resolution: "**To approve the terms of office and employment of Mr. Ruben Krupik as Chairman of the Board of Directors of the Bank with effect from 28.6.2020 and until 31.12.2023, as set forth in Clause 5 of the Report in accordance with Section 273 of the Companies Law, subject to the provisions of the law and the directives of the regulatory bodies not preventing the granting of remuneration as aforesaid, as resolved by the Board of Directors of the Bank.**"

**For further particulars pertaining to the approval of the conditions of office of the Chairman of the Board of Directors of the Bank, see Clause 5 of the Report.**

1.7 Item No. 11 on the agenda – approval of terms of office and employment of the CEO of the Bank

It is proposed to approve terms of office and employment of the CEO of the Bank, as set forth in Clause 6 of the Report.

Form of the proposed resolution: **"To approve the terms of office and employment of Mr. Dov Kotler as CEO of the Bank with effect from 1.1.2021 and until 31.12.2023, as set forth in Clause 6 of the Report, in accordance with Section 272(c1) of the Companies Law and in accordance with Section 2(a) of the Remuneration Restriction Law."**

**For further particulars pertaining to the approval of the conditions of office and employment of the CEO of the Bank, see Clause 6 of the Report.**

**2. Further particulars pertaining to the appointment of directors (Items 3-8 on the agenda)**

- 2.1 Eight directors continue to serve on the Board of Directors of the Bank, since 18.6.2020 following the resignation of Mr. Oded Eran, of blessed memory, from his office as Chairman of the Board of Directors and as a director of the Bank.
- 2.2 In December 2019 the Supervisor of Banks notified the Bank that the number of directors for the year 2020 remain at 9 (the number of directors that held office at that time) and that commencing from the general meeting for the year 2021 their number will stand at 10 members.
- 2.3 Ahead of the annual meeting which is the subject of this summons, the Directors' Appointment Committee was requested to propose candidates to the Bank for four positions of office: Two external directors for the positions of office of Adv. Ronit Abramson – Rokach and Accountant Dalia Lev, whose first term of office will come to an end in the months of February and April 2021, respectively; and two "other" directors for the positions of office of Mr. Oded Eran, of blessed memory, whose office at the Bank came to an end as aforesaid, on 18.6.2020 and of Mr. Moshe Koren, whose office at the Bank will come to an end (having been extended by the Supervisor) upon the appointment of an "other" director instead of him (the second appointment to take effect in this category).
- 2.4 For this Meeting six candidates were proposed by the Directors' Appointment Committee: Three candidates for the office of external directors under the Companies Law (who also meet the qualification requirements for serving as an external director pursuant to the provisions of Directive 301), from whom it is incumbent on the Meeting to select two external directors; and three candidates for the office of other directors (who are not external), from whom it is incumbent on the Meeting to select two other directors.
- 2.5 The Bank must meet all of the relevant requirements regarding the composition and qualification of the Board of Directors as prescribed by law, and including Directive 301, among other things, regarding the requirement for directors of both sexes to hold office and the requirement for a minimal number (one third) of directors with "banking experience" (as the term is defined in Section 25(a) of Directive 301). In view of the foregoing, of the four directors to be appointed by the Meeting, it is required that candidates be appointed as follows:

2.5.1 It is required that there be appointed at least one director who is a woman;

2.5.2 It is required that there be appointed at least two candidates with banking experience;

2.5.3 In addition, it is requested that there be appointed at least one director who was actively and significantly engaged in the granting of credit and has broad knowledge and experience in the granting of business credit.

2.6 The declarations of the candidates for office as directors regarding their compliance with all of terms and conditions prescribed by law for their serving as directors of the Bank, including with reference to the fact that it is a banking corporation with no core of control, are attached to the summoning report.

At the request of some of the candidates to hold office as directors, letters detailing their c. v. were attached.

2.7 Voting with respect to each director shall be made separately and the shareholders may vote for each one of the candidates for office as a director.

2.8 Section 11A (a) of the Banking Ordinance determines that “no person shall hold office as an officer in a banking corporation unless notice is delivered to the Supervisor, at least 60 days before the commencement of office, and the Supervisor shall not have announced his objection to the said appointment within the said period, or shall have announced his consent thereto”. Therefore, the holding of office by the elected candidates is contingent on the Approval of the Appointment by the Supervisor.

2.9 In the category of external directors, the date of commencement of office of a serving external director who is selected for an additional term of office, will commence on the later of the date on which her first term of office comes to an end and the date of the Approval of the Appointment by the Supervisor.

In the category of ordinary directors, the order of commencement of office of the directors to be selected shall be according to the order of the date of receipt of the Approval of the Appointment by the Supervisor (see Sections 1.3 and 1.4 of the summoning report).

2.10 If before any of the selected directors actually takes office it transpires that he will not take his office for any reason whatsoever, any of the other candidates in such capacity (i.e. an external director according to the Companies Law and an "other" director) who receives the necessary majority for being selected (if any) shall be deemed selected in his stead by the General Meeting, and if there are several candidates in such capacity who have the necessary majority as aforesaid, the one of their number who has the highest number of supporters in the voting at the General Meeting in such capacity shall be selected.

2.11 The directors of the Bank are entitled, for their service, to the payment of annual remuneration and to participation remuneration in the maximum amounts that may be paid to an external director/expert external director (as the case may be) in accordance with the provisions of the Companies Regulations (Rules on External Directors' Remuneration and Expenses), 5760-2000 ("**the Remuneration Regulations**"), as they may be from time to time, and according to the Bank's rank in each fiscal year. In addition, all of the directors are entitled to a letter of indemnification in accordance with the resolution of the general meeting of 3.1. 2012, a letter of exemption in accordance with the resolution of the general meeting dated 18.2.2016, and they shall be insured according to a D&O liability insurance policy of the Bank as it may be from time to time, all, also according to the provisions of the policy of remuneration of office holders of the Bank that was approved by the general meeting of the Bank's shareholders of 26.12.2019 as well as according to the proposed policy of remuneration which is being brought for approval before

the General Meeting which is the subject of this summons. For further particulars regarding the remuneration policy in its updated form, see Section 4 below of the summoning report.

3. **Below are details, to the best of the Bank's knowledge, about the candidates for office as directors, as required in accordance with Regulations 26 and 36B(a)(10) of the Reports Regulations:**

3.1 **Item 3 on the agenda – selection of Adv. Ronit Abramson Rokach for a second term of office as an external director pursuant to the Companies Law:**

3.1.1 Details according to Regulation 26 of the Reports Regulations:

<b>Name of the Director</b>	<b>Ronit Abramson - Rokach</b>
<b>Identity Number</b>	054121108
<b>Date of Birth</b>	17 <sup>th</sup> August, 1957
<b>Address for Service of Process</b>	Shimshon 5, Jerusalem 9350105
<b>Nationality</b>	Israeli
<b>Membership of Board of Directors' Committees</b>	Serves as Chairman of the Audit Committee. Is a member of the committees of the Board of Directors: Remuneration Committee, Risk Management and Control Committee, Corporate Governance and Stakeholders Committee. Member of the Independent Committee Headed by Justice (ret.) Danziger in connection with the US Tax Investigation and the FIFA Affair.
<b>External Director or Independent Director</b>	Yes (an external director under the Companies Law)
<b>Has Accounting and Financial Expertise or Professional Qualifications</b>	Has Accounting and Financial Expertise and Professional Qualifications
<b>Expert Director</b>	Yes
<b>Employee of the Bank, a subsidiary, an affiliated company or interested party</b>	No

<b>The day on which he will commence serving as a director of the Bank</b>	The date which is the later of 5.2.2021 (the date on which the first term of office which she is serving is completed) and the approval of the Supervisor of the appointment.
<b>Education</b>	Bachelor of Laws degree from the Hebrew University in Jerusalem;
<b>Occupation in the last five (5) years</b>	<p>External director of Bank Hapoalim (commencing February 2018);</p> <p>Advocate (legal counselling services on business matters, advising corporations, licensing, banking, company law and securities' law); lecturer in courses for directors at the Magid Institute in association with the Hebrew University, and at the Mandel Institute.</p> <p>Served in the past as a director of Migdal Insurance Company Ltd., of Migdal Holdings, Insurance and Finance Ltd. and of and Migdal Capital Markets Ltd.</p> <p>For further particulars see the curriculum vitae attached to the declaration.</p>
<b>Additional corporations in which he holds office as a director</b>	Member of the Board of Governors of the Jerusalem Foundation, of Shiluv – Institute for Family and Couple Therapy; and of the Beit Berl College
<b>A family member of an interested party of the Bank</b>	No
<b>A director whom the Bank views as having accounting and financial expertise for the purposes of satisfying the minimal number determined by the Board of Directors according to Section 92(a)(12) of the Companies Law.</b>	Yes

### 3.1.2 The Candidate's Qualifications:

Based on her education, professional experience and qualifications, Adv. Ronit Abramson Rokach was assessed by the Board of Directors of the Bank as **having accounting and financial expertise and professional qualifications** according to the provisions of the Companies Regulations (Conditions and Tests for Directors Having Accounting and Financial Expertise and Directors Having Professional Qualifications), 5766-2005 ("**the**

**Expertise and Qualification Regulations")** (and with respect to the professional qualifications, also according to Directive 301) **and as a person who, due to her education, experience and qualifications is highly proficient and has a thorough understanding of the Bank's core business**, according to the Remuneration Regulations.

Furthermore, Adv. Ronit Abramson Rokach should be considered **as having banking experience**, as the term is defined in Directive 301.

Adv. Ronit Abramson Rokach signed a declaration according to the requirements of Sections 224B and 241 of the Companies Law. Her declaration is attached to the Report and may also be inspected at the Bank's registered office.

### 3.1.3 Resolution of the Audit Committee with regard to negligible ties:

The Audit Committee has confirmed, based on facts presented to it and on the basis of the candidate's declarations, that the following ties and circumstances in relation to the candidate or anyone with whom she maintains a close relationship, do not constitute a link according to the Banking Ordinance and according to Directive 301, because they are retail business ties and alternatively negligible ties, and that they do not constitute a link according to Section 240(b) of the Companies Law, or alternatively constitute, at most, negligible ties that do not constitute a link, according to the Companies Regulations (Matters that Do Not Constitute a Link), 5767-2006 ("**the No Link Regulations**"):

Bank accounts with a positive balance of Adv. Ronit Abramson Rokach, her relatives, of an institution of higher education of which Adv. Ronit Abramson Rokach is a member of the managing committee, and ties between the Bank / the Bank group and Adv. Ronit Abramson Rokach, her relatives or those close to her that are ties of a service provider – customer in the ordinary course of business, and which do or may include management of current accounts and securities, deposits and saving plans, credit cards, credit and credit facilities, management of investment portfolios, pension consulting, various insurances or other financial products/services that are given by the Bank group or material holders of the Bank; and also legal services given by a law office of which Adv. Abramson Rokach's spouse is a partner to a company of which the CEO of the Bank served in the past as chairman of the board at the time of his appointment to the Bank and in which he still has a minority holding.

### 3.1.4 Form of the proposed resolution:

**To approve the appointment for the second time of Adv. Ronit Abramson Rokach to the office of external director (pursuant to the provisions of the Companies Law and Directive 301) of the Bank for a period of three years.**

**The office will commence on the date which is the later of 5.2.2021(at the end of her first term of office) and the approval of the Supervisor or the absence of his objection to the appointment.**

## 3.2 Item 4 on the agenda – selection of Accountant Issawi Frige as an external director pursuant to the Companies Law:

### 3.2.1 Details according to Regulation 26 of the Reports Regulations:

<b>Name of the Director</b>	<b>Issawi Frige</b>
<b>Identity Number</b>	058526542
<b>Date of Birth</b>	14.12.1963
<b>Address for Service of Process</b>	P.O.B. 2501, Kafr Kassem
<b>Nationality</b>	Israeli
<b>Membership of Board of Directors' Committees</b>	As yet undetermined. Will serve at least as a member of the Audit Committee and the Remuneration Committee as an external director under the Companies Law.
<b>External Director or Independent Director</b>	Is a candidate to serve as an external director under the Companies Law.
<b>Has Accounting and Financial Expertise or Professional Qualifications</b>	Has Accounting and Financial Expertise and Professional Qualifications
<b>Expert Director</b>	Yes
<b>Employee of the Bank, a subsidiary, an affiliated company or interested party</b>	No
<b>The day on which he will commence serving as a director of the Bank</b>	The date which is the later of 5.2.2021 or 13.4.2021 (according to the identity of the second external director to be selected) and the date of approval by the Supervisor of the appointment.
<b>Education</b>	Cerified Public Accountant  Bachelor's degree in Economics and Accountancy (the Hebrew University in Jerusalem).
<b>Occupation in the last five (5) years</b>	At present provides consultancy services as a CPA; was a member of the Knesset on behalf of the party Meretz (2013 – 2019). In the framework of his service as a member of the Knesset, he was among other things an alternate on the Finance Committee (in the 19 <sup>th</sup> Knesset), and Deputy Speaker of the Knesset, and a

	<p>member of the Economics Committee and the Parliamentary Committee of Inquiry into the Financial System's Conduct in Credit Agreements with Large Business Borrowers (of the 20<sup>th</sup> Knesset).</p> <p>For further particulars see the curriculum vitae attached to the declaration.</p>
<b>Additional corporations in which he holds office as a director</b>	Member of the Managing Committee of the Hebrew University in Jerusalem
<b>A family member of an interested party of the Bank</b>	No
<b>A director whom the Bank views as having accounting and financial expertise for the purposes of satisfying the minimal number determined by the Board of Directors according to Section 92(a)(12) of the Companies Law.</b>	Yes

### 3.2.2 The Candidate's Qualifications:

Based on his education, professional experience and qualifications, CPA Issawi Frige was assessed by the Board of Directors of the Bank as **having accounting and financial expertise and professional qualifications** according to the provisions of the Expertise and Qualification Regulations (and with respect to the professional qualifications, also according to Directive 301) **and as a person who, due to his education, experience and qualifications is highly proficient and has a thorough understanding of the Bank's core business**, according to the Remuneration Regulations.

CPA Issawi Frige signed a declaration according to the requirements of Sections 224B and 241 of the Companies Law. His declaration is attached to the Report and may also be inspected at the Bank's registered office.

### 3.2.3 Resolution of the Audit Committee with regard to negligible ties:

The Audit Committee has confirmed, based on facts presented to it and on the basis of CPA Issawi Frige's declarations, that the following ties and circumstances in relation to CPA Issawi Frige or anyone with whom he maintains a close relationship, do not constitute a link according to the Banking Ordinance and according to Directive 301, because they are retail business ties and alternatively negligible ties, and that they do not constitute a link according to Section 240(b) of the Companies Law, or alternatively constitute, at most, negligible ties that do not constitute a link, according to the No Link Regulations:

Bank accounts of CPA Issawi Frige, his relatives and companies owned by them and ties between the Bank / the Bank group and CPA Issawi Frige, his relatives or those close to him, including an academic institution in which he is a member of the managing committee, that are ties of a service provider – customer in the ordinary course of business, and which do or

may include management of current accounts and securities, deposits and saving plans, credit cards, credit and credit facilities, management of investment portfolios, pension consulting, various insurances or other financial products/services that are given by the Bank group or material holders of the Bank; fees for a negligible amount from the sale of pension products received by a reinsurance agency owned by CPA Issawi Frige's relatives from material holders; and also CPA Issawi Frige's service as a member of the Knesset until 2019 (the 21<sup>st</sup> Knesset).

3.2.4 Form of the proposed resolution:

**To approve the appointment of CPA Issawi Frige to the office of external director (pursuant to the provisions of the Companies Law and Directive 301) of the Bank for a period of three years.**

**The office will commence on the date which is the later of 5.2.2021 or 13.4.2021 (according to the identity of the second external director to be selected) and the receipt of the approval of the Supervisor to the appointment.**

3.3 **Item 5 on the agenda – selection of Accountant Dalia Lev as an external director pursuant to the Companies Law:**

3.3.1 Details according to Regulation 26 of the Reports Regulations:

<b>Name of the Director</b>	<b>Dalia Lev</b>
<b>Identity Number</b>	007555337
<b>Date of Birth</b>	2.8.1947
<b>Address for Service of Process</b>	Bnei Moshe 16, Tel Aviv 6230821
<b>Nationality</b>	Israeli
<b>Membership of Board of Directors' Committees</b>	Chairman of the Remuneration Committee, member of the Credit Committee, the Audit Committee, Information Technology and Technological Innovation Committee; Strategy [and Business Development] Committee.
<b>External Director or Independent Director</b>	Yes (an external director under the Companies Law)
<b>Has Accounting and Financial Expertise or Professional Qualifications</b>	Has Accounting and Financial Expertise and Professional Qualifications
<b>Expert Director</b>	Yes

<b>Employee of the Bank, a subsidiary, an affiliated company or interested party</b>	No
<b>The day on which he will commence serving as a director of the Bank</b>	The date which is the later of 13.4.2021(the date on which the first term of office which she is serving is completed) and the approval by the Supervisor of the appointment.
<b>Education</b>	Cerified Public Accountant (the Hebrew University in Jerusalem); Master's degree in Law (Bar - Ilan University).
<b>Occupation in the last five (5) years</b>	External director of Bank Hapoalim (since April 2018). External director of the Strauss Group Ltd. In the past a director of The First International Bank of Israel Ltd. And of Paz Oil Company Ltd.  For further particulars see the curriculum vitae attached to the declaration.
<b>Additional corporations in which he holds office as a director</b>	The Strauss Group Ltd., Balgal Ltd. (wholly owned company)
<b>A family member of an interested party of the Bank</b>	No
<b>A director whom the Bank views as having accounting and financial expertise for the purposes of satisfying the minimal number determined by the Board of Directors according to Section 92(a)(12) of the Companies Law.</b>	Yes

### 3.3.2 The Candidate's Qualifications:

Based on her education, professional experience and qualifications, CPA Dalia Lev was assessed by the Board of Directors of the Bank as **having accounting and financial expertise and professional qualifications** according to the provisions of the Expertise and Qualification Regulations (and with respect to the professional qualifications, also according to Directive 301) **and as a person who, due to her education, experience and qualifications is highly proficient and has a thorough understanding of the Bank's core business**, according to the Remuneration Regulations.

Furthermore, CPA Dalia Lev should be considered **as having banking experience**, as the term is defined in Directive 301.

CPA Dalia Lev signed a declaration according to the requirements of Sections 224B and 241 of the Companies Law. Her declaration is attached to the Report and may also be inspected at the Bank's registered office.

### 3.3.3 Resolution of the Audit Committee with regard to negligible ties:

The Audit Committee has confirmed, based on facts presented to it and on the basis of the candidate's declarations, that the following ties and circumstances in relation to the candidate or anyone with whom she maintains a close relationship, do not constitute a link according to the Banking Ordinance and according to Directive 301, because they are retail business ties and alternatively negligible ties, and that they do not constitute a link according to Section 240(b) of the Companies Law, or alternatively constitute, at most, negligible ties that do not constitute a link, according to the No Link Regulations:

Bank accounts showing a credit balance of CPA Dalia Lev, her relatives and ties between the Bank / the Bank group and CPA Dalia Lev, her relatives or those close to her, that are ties of a service provider – customer in the ordinary course of business, and which do or may include management of current accounts and securities, deposits and saving plans, credit cards, credit and credit facilities, management of investment portfolios, pension consulting, various insurances or other financial products/services that are given by the Bank group or material holders of the Bank.

### 3.3.4 Form of the proposed resolution:

**To approve the appointment of CPA Dalia Lev to the office of external director (pursuant to the provisions of the Companies Law and Directive 301) of the Bank for a period of three years.**

**The office will commence on the date which is the later of 13.4.2021 (at the end of her first term of office) and the approval of the Supervisor or the absence of his objection to the appointment.**

### 3.4 Item 6 on the agenda – selection of Mr. Israel Trau as an "other" director who is not an external director:

#### 3.4.1 Details according to Regulation 26 of the Reports Regulations:

<b>Name of the Director</b>	<b>Israel Trau</b>
<b>Identity Number</b>	053641775
<b>Date of Birth</b>	16.12.1955
<b>Address for Service of Process</b>	Hanassi Itshak Ben Zvi 13 Herzliya
<b>Nationality</b>	Israeli
<b>Membership of Board of Directors' Committees</b>	Yet to be determined

<b>External Director or Independent Director</b>	No
<b>Has Accounting and Financial Expertise or Professional Qualifications</b>	Has Accounting and Financial Expertise and Professional Qualifications
<b>Expert Director</b>	Yes
<b>Employee of the Bank, a subsidiary, an affiliated company or interested party</b>	No
<b>The day on which he will commence serving as a director of the Bank</b>	The date which is the later of the approval of the Meeting and the date of approval by the Supervisor of the appointment.
<b>Education</b>	Bachelor's degree in Extended Geography, Lahav Senior Management Course, Lahav Advanced Investments and Capital Market Course, Business Administration, all from the Tel Aviv University.
<b>Occupation in the last five (5) years</b>	Business advisor to a number of companies and ventures; external director of Aviation Links Ltd.; member of the Nostro Credit Committee at Union Bank Ltd. Past CEO of Union Bank Ltd. (2014-2018), Chairman of Igud Investments and Enterprise (A.S.Y.) Ltd., Chairman of Igud Systems Ltd., Chairman of Igud Leasing Ltd. For further particulars see the curriculum vitae attached to the declaration.
<b>Additional corporations in which he holds office as a director</b>	External director of Aviation Links Ltd.
<b>A family member of an interested party of the Bank</b>	No
<b>A director whom the Bank views as having accounting and financial expertise for the purposes of satisfying the minimal number determined by the Board of Directors according to Section 92(a)(12) of the Companies Law.</b>	Yes

#### 3.4.2 The Candidate's Qualifications:

Based on his education, professional experience and qualifications, Mr. Israel Trau was assessed by the Board of Directors of the Bank as **having accounting and financial expertise and professional qualifications** according to the provisions of the Expertise and Qualification Regulations (and with respect to the professional qualifications, also according to Directive 301) **and as a person who, due to his education, experience and qualifications is highly proficient and has a thorough understanding of the Bank's core business**, according to the Remuneration Regulations.

Furthermore, Mr. Israel Trau should be considered **as having banking experience**, as the term is defined in Directive 301.

Mr. Israel Trau signed a declaration according to the requirements of Sections 224B and 241 of the Companies Law. His declaration is attached to the Report and may also be inspected at the Bank's registered office.

#### 3.4.3 Resolution of the Audit Committee with regard to negligible ties:

The Audit Committee has confirmed, based on facts presented to it and on the basis of Mr. Trau's declarations, that the following ties and circumstances in relation to Mr. Trau or anyone with whom he maintains a close relationship, do not constitute a link according to the Banking Ordinance and according to Directive 301, because they are retail business ties and alternatively negligible ties:

Bank accounts of Mr. Israel Trau, his relatives and ties between the Bank and Mr. Israel Trau, his relatives or those close to him, that are ties of a service provider – customer in the ordinary course of business, and which do or may include management of current accounts and securities, deposits and saving plans, credit cards, credit and credit facilities, management of investment portfolios, pension consulting, various insurances or other financial products/services that are given by the Bank group or material holders of the Bank; advisory services in the field of granting credit to diamond dealers that are provided by Mr. Trau to a body controlled by a material holder of the Bank and as to which Mr. Trau has advised that should he be appointed, he will stop providing the advisory services as and when the appointment enters into force; Mr. Trau's ties to Union Bank that will end if he is selected to hold office at the Bank as and when the appointment enters into force.

#### 3.4.4 Form of the resolution proposed for the General Meeting:

**To approve the appointment of Mr. Israel Trau to the office of other director (who is not an external director) of the Bank for a period of three years.**

**The office will commence on the later of the approval of the Meeting and the date of the approval by the Supervisor of the appointment.**

### 3.5 Item 7 on the agenda – selection of Prof. Stanley Fisher as an "other" director who is not an external director:

#### 3.5.1 Details according to Regulation 26 of the Reports Regulations:

<b>Name of the Director</b>	<b>Stanley Fisher</b>
<b>Identity Number</b>	327487971
<b>Date of Birth</b>	15.10.1943
<b>Address for Service of Process</b>	Nissim Aloni 5, Tel Aviv
<b>Nationality</b>	Israeli and American
<b>Membership of Board of Directors' Committees</b>	Yet to be determined
<b>External Director or Independent Director</b>	No
<b>Has Accounting and Financial Expertise or Professional Qualifications</b>	Has Accounting and Financial Expertise and Professional Qualifications
<b>Expert Director</b>	Yes
<b>Employee of the Bank, a subsidiary, an affiliated company or interested party</b>	No
<b>The day on which he will commence serving as a director of the Bank</b>	The date which is the later of the approval of the Meeting and the date of approval by the Supervisor of the appointment.
<b>Education</b>	Ph.D. in the field of Economics from M.I.T., M. Sc. (Econ) and B. Sc. (Econ), both from the London School of Economics
<b>Occupation in the last five (5) years</b>	Macro-Economic Advisor to Blackrock; formerly (2014-2017) Deputy Chairman of the US Federal Reserve Board of Governors
<b>Additional corporations in which he holds office as a director</b>	Director of Taglit and the National Library of Israel
<b>A family member of an interested party of the Bank</b>	No
<b>A director whom the Bank views as having accounting and financial expertise for the purposes of satisfying the minimal number determined by the Board of Directors</b>	Yes

<b>according to Section 92(a)(12) of the Companies Law.</b>	
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### 3.5.2 The Candidate's Qualifications:

Based on his education, professional experience and qualifications, Prof. Stanley Fisher was assessed by the Board of Directors of the Bank as **having accounting and financial expertise and professional qualifications** according to the provisions of the Expertise and Qualification Regulations (and with respect to the professional qualifications, also according to Directive 301) **and as a person who, due to his education, experience and qualifications is highly proficient and has a thorough understanding of the Bank's core business**, according to the Remuneration Regulations.

Furthermore, Prof. Fisher declared that he should be considered as **having banking experience**, as the term is defined in Directive 301.

Prof. Stanley Fisher signed a declaration according to the requirements of Section 224B of the Companies Law. His declaration is attached to the Report and may also be inspected at the Bank's registered office.

### 3.5.3 Resolution of the Audit Committee with regard to negligible ties:

The Audit Committee has confirmed, based on facts presented to it and on the basis of Prof. Fisher's declarations, that the following ties and circumstances in relation to Prof. Fisher or anyone with whom he maintains a close relationship, do not constitute a link according to the Banking Ordinance and according to Directive 301, because they are retail business ties and alternatively negligible ties:

Bank accounts of Prof. Fisher, his relatives and ties between the Bank and Prof. Fisher, his relatives or those close to him, that are ties of a service provider – customer in the ordinary course of business, and which do or may include management of current accounts and securities, deposits and saving plans, credit cards, credit and credit facilities, management of investment portfolios, pension consulting, various insurances or other financial products/services that are given by the Bank group or material holders of the Bank; and also ties in the ordinary course of business which are or liable to be maintained between the Bank and the Blackrock group (which Prof. Fisher advises) and ties between the Bank and Facebook (in which a relative of Prof. Fisher is an office holder).

### 3.5.4 Form of the resolution proposed for the General Meeting:

**To approve the appointment of Prof. Stanley Fisher to the office of other director (who is not an external director) of the Bank for a period of three years.**

**The office will commence on the later of the approval of the Meeting and the date of the receipt of the approval by the Supervisor of the appointment.**

## **3.6 Item 8 on the agenda – selection of Ms. Tamar Bar- Noy Gotlin as an "other" director who is not an external director:**

### 3.6.1 Details according to Regulation 26 of the Reports Regulations:

<b>Name of the Director</b>	<b>Tamar Bar- Noy Gotlin</b>
<b>Identity Number</b>	022268718
<b>Date of Birth</b>	28.12.1965
<b>Address for Service of Process</b>	Ariel Sharon 8, Givatayim
<b>Nationality</b>	Israeli
<b>Membership of Board of Directors' Committees</b>	Yet to be determined
<b>External Director or Independent Director</b>	No
<b>Has Accounting and Financial Expertise or Professional Qualifications</b>	Has Accounting and Financial Expertise and Professional Qualifications
<b>Expert Director</b>	Yes
<b>Employee of the Bank, a subsidiary, an affiliated company or interested party</b>	No
<b>The day on which he will commence serving as a director of the Bank</b>	The date which is the later of the approval of the Meeting and the date of approval by the Supervisor of the appointment.
<b>Education</b>	Master's degree in Business Administration, Tel Aviv University, Bachelor's degree in Natural Sciences, Open University
<b>Occupation in the last five (5) years</b>	Gives strategic business advisory services and mentoring to start ups and companies, in the past was VP Credit Leumicard (now MAX) and CEO of Leumi Card Credit Ltd. For further particulars see the curriculum vitae attached to the declaration.
<b>Additional corporations in which he holds office as a director</b>	Member of the Managing Committee of the society Batsheva Dance Company and of the society The Fintech of Israel
<b>A family member of an interested party of the Bank</b>	No

<p><b>A director whom the Bank views as having accounting and financial expertise for the purposes of satisfying the minimal number determined by the Board of Directors according to Section 92(a)(12) of the Companies Law.</b></p>	<p>Yes</p>
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### 3.6.2 The Candidate's Qualifications:

Based on her education, professional experience and qualifications, Ms. Tamar Bar-Noy Gotlin was assessed by the Board of Directors of the Bank as **having accounting and financial expertise and professional qualifications** according to the provisions of the Expertise and Qualification Regulations (and with respect to the professional qualifications, also according to Directive 301) **and as a person who, due to her education, experience and qualifications is highly proficient and has a thorough understanding of the Bank's core business**, according to the Remuneration Regulations.

Ms. Tamar Bar-Noy Gotlin signed a declaration according to the requirements of Section 224B of the Companies Law. Ms. Tamar Bar-Noy Gotlin's declaration is attached to the Report and may also be inspected at the Bank's registered office.

### 3.6.3 Resolution of the Audit Committee with regard to negligible ties:

The Audit Committee has confirmed, based on facts presented to it and on the basis of the candidate's declarations, that the following ties and circumstances in relation to the candidate or anyone with whom she maintains a close relationship, do not constitute a link according to the Banking Ordinance and according to Directive 301, because they are retail business ties and alternatively negligible ties:

Bank accounts of the candidate, her relatives and ties between the Bank /the Bank group and the candidate, her relatives or those close to her, that are ties of a service provider – customer in the ordinary course of business, and which do or may include management of current accounts and securities, deposits and saving plans, credit cards, credit and credit facilities, management of investment portfolios, pension consulting, various insurances or other financial products/services that are given by the Bank group or material holders of the Bank. Employee – employer ties between Ms. Tamar Bar-Noy Gotlin and Bank Leumi (which ended at the end of 2018), with whom the Bank has or might have ties in the current and orderly course of business.

### 3.6.4 Form of the resolution proposed for the General Meeting:

**To approve the appointment of Ms. Tamar Bar-Noy Gotlin to the office of other director (who is not an external director) of the Bank for a period of three years.**

**The office will commence on the later of the approval of the Meeting and the date of the receipt of the approval by the Supervisor of the appointment.**

## 4. Approval of Remuneration Policy for Office Holders of the Bank

It is proposed to approve a remuneration policy for office holders of the Bank, in the form attached hereto as Annex "A" of the Report ("the Remuneration Policy" or "the New

**Remuneration Policy**"), in accordance with Section 267A of the Companies Law, Directive 301A of the Proper Conduct of Banking Business Directives of the Supervision of Banks ("**Directive 301A**") and the provisions of the Remuneration of Office Holders of Financial Corporations Law (Special Approval and Disallowance of Expenses for Tax Purposes Due to Exceptional Remuneration), 5770-2016 ("**the Remuneration Restriction Law**"), with effect from 1.1.2021 for a period of three years.

Form of the proposed resolution: " **To approve the Remuneration Policy for office holders of the Bank, in the form attached as Annex "A" of the Report with effect from 1.1.2021 for a period of three years and to approve pursuant to Section 2(a) of the Remuneration Restriction Law, that in accordance with the remuneration policy and the regulations contained therein, remuneration of office holders can exceed the scale of remuneration prescribed under the said section with the approval of the Remuneration Committee and the Board of Directors, without any further approval by the General Meeting.**"

#### 4.1 Background and particulars in connection with Previous Remuneration Policy and the New Remuneration Policy

4.1.1 The remuneration policy for office holders of the Bank ("**the Previous Remuneration Policy**") was approved by the general meeting of the shareholders of the Bank on 19<sup>th</sup> December, 2016 and on 26<sup>th</sup> December, 2019. Its effectiveness was extended by the meeting for a period of up to the end of 2020.<sup>1</sup>

4.1.2 In recent months, the Remuneration Committee held discussions about a new remuneration policy for the office holders of the Bank. The New Remuneration Policy is adjusted to the Bank and its work programs, to the changes in the management of the Bank and the challenges faced by it at this time, including the corona crisis.

4.1.3 The remuneration policy brought before the general meeting for approval was designed in accordance with the provisions and restrictions of applicable law, including the Remuneration Restriction Law, the Companies Law and the 301A Directive.

4.1.4 In accordance with Section 2(a) of the Remuneration Restriction Law, the engagement of the Bank with an employee thereof, which includes granting remuneration that "the projected expense" thereof, as defined in the Remuneration Restriction Law, exceeds NIS 2.5 million per annum<sup>2</sup> (excluding a pension payment and severance pay payable by law) ("**Remuneration Level**") requires special approvals by the Remuneration Committee, the Board of Directors and the general meeting of the corporation. Furthermore, in accordance with the Remuneration Restriction Law, the ratio between "the projected expense" on account of the remuneration (as defined in the Remuneration Restriction Law), and the expense on account of the lowest remuneration (according to the cost of a full time position and according to the definitions of the Remuneration [Restriction] Law), shall not exceed the ratio of 1:35 ("**the Salary Ratio Cap**").

#### 4.2 Considerations and aims of the New Remuneration Policy and the composition of the remuneration in accordance therewith

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<sup>1</sup> See the immediate report of the Bank on the convening of a general meeting dated 20<sup>th</sup> November, 2019, Reference Number 112810-01-2019 and the immediate report on the results of the general meeting dated 26<sup>th</sup> December, 2019, Reference Number 114429-01-2019.

<sup>2</sup> Linked to the CPI that was known on 12.4.2016, and pursuant to the definition of "remuneration" in the Remuneration Restriction Law (the amount to that convening date stands at approximately NIS 2.55 million). As of the date of approval of the New Remuneration Policy by the Board of Directors of the Bank the Salary Ration Cap is approximately NIS 2.94 million.

- 4.2.1 The New Remuneration Policy is determined in keeping with the considerations set forth in Section 267B of the Companies Law, and it includes, among other things, reference to matters set forth in Part A of the First Schedule to the Companies Law and includes provisions as set forth in Part B of said Schedule.
- 4.2.2 The main aims of the New Remuneration Policy are (a) To motivate office holders of the Bank to act in order to create long term economic value for the Bank and the interested parties thereof, in a way that strengthens the bond between the remuneration and the creation of value for the interested parties thereof; (b) To base the annual bonus (in as much as it is forthcoming) on the return on equity of the Bank, attainment of quantitative and qualitative personal performance goals and on long term plans and objectives which are adjusted to the overarching strategic plan of the Bank and the sub-units thereof and the work plans derived therefrom; (c) To adjust the overall remuneration to the Bank's risk appetite, given that the annual and multi annual work plans are constructed with reference to the extent and different types of the risks, which the Bank is prepared to assume. Accordingly, the variable remuneration is also based upon performance targets that give expression to the components of the appetite for risk, when reaching the qualifying level of return on equity defines the threshold conditions for disbursing the annual bonus; (d) To create a remuneration structure that reflects the attainment of general targets of the Bank in the area of risk management and in the area of compliance with the law and the procedures of the Bank; (e) To promote a remuneration structure that takes into consideration the effect of gaps in remuneration between the various levels at the Bank on industrial relations at the Bank and which supports keeping them in good order; (f) To adjust the remuneration to the type of activity and responsibility of the office holders and their qualifications, so that when determining the remuneration of the office holder, his education, his qualifications, his expertise, his professional experience and his achievements will be assessed, and his line of duty, his areas of responsibility and the previous salary agreements concluded with him will be taken into account; (g) Rewarding organizational duties involved in supervision and control will be determined on the basis of standards that take into account the importance and sensitivity of such duties.
- 4.2.3 An additional central objective of the New Remuneration Policy is the construction of a remuneration model to assist in the preservation of competitiveness of the Bank in recruiting and maintaining of quality manpower for senior management positions. Taking such a view, the extent of the remuneration will be proportional and will take into account market conditions, the remuneration structure at the Bank and the regulatory restrictions on remuneration.
- 4.2.4 As set forth at length in the New Remuneration Policy and subject to the provisions of applicable law, the remuneration package of the office holders (except for the directors) is determined so that it combines fixed and variable components in order to incentivize said office holders (including the CEO of the Bank) to achieve good performance and at the same time refraining from risk taking beyond the risk appetite of the Bank.
- 4.2.5 The remuneration package of the office holders (except for directors) is liable to include the fixed remuneration components as set forth in the New Remuneration Policy, the main features of which are monthly salary, social provisions and accompanying benefits, a fixed equity remuneration the granting of which is not subject to conditions or to performance but is blocked from the date it is granted for a period of up to three years, and payments for retirement which are no more than what is usual for the rest of the Bank's employees.
- 4.2.6 Payment of the annual bonus to the office holders is conditional upon the existence of a threshold condition of attaining a minimum return on equity. It is possible to approve a

discretionary bonus in the event that the threshold condition is not attained up to the cap stipulated in the New Remuneration Policy and subject to applicable law (up to 3 salaries for each of the discretionary components included in the variable remuneration).

- 4.2.7 The variable remuneration under the New Remuneration Policy is composed of each remuneration that is not fixed, and that includes annual bonus, discretionary bonus, special bonus (to the extent paid), signing bonus for a new office holder and retirement payments in excess of what is usual for the rest of the Bank's employees. The annual bonus will be calculated in accordance with - (1) Achieving a return on equity, (2) The office holder attaining a mix of personal targets (KPI's) which include risk indices, which include compliance indices, and (3) Discretion of the office holder's superior.
- 4.2.8 The CEO is authorized to determine the KPI targets for the office holders and the executives under him and whose line of duty is not supervision and control and the attainment thereof, unless the Remunerations Committee and the Board of Directors otherwise determine. As for executives who belong to functions of supervision and control, the performance targets (KPI's), the attainment thereof, and the discretionary component, or if relevant, the discretionary bonus, will be approved by the Remuneration Committee and the Board of Directors upon the recommendation of teams to be determined in relation to each office holder and which would likely include the CEO and relevant directors (such as the Chairman of the Board of Directors, Chairman of the Audit Committee, Chairman of the Risk Management Committee – according to the office holder). Such executives would be fitted with KPI's according to the importance and sensitivity of such functions.
- 4.2.9 The annual bonus would be brought for approval by the Remuneration Committee and the Board of Directors after recommendation by the CEO of the Bank (or the relevant team in case of functions of supervision and control as set forth above).
- 4.2.10 In accordance with the New Remuneration Policy, the cap of the annual bonus shall not exceed 5 salaries with regard to the CEO and the office holders answering to him (and at certain levels up to 7 salaries)<sup>3</sup>, subject to meeting the Salary Ratio Cap (in which case the variable remuneration will be curtailed as aforesaid).

The remuneration of the Bank's office holders is likely to be higher than the Remuneration Level and in such case approval of the Remuneration Policy will also constitute approval of the engagement with the office holder (including the update of the terms of the engagement) pursuant to Section 2(a) of the Remuneration Restriction Law. Accordingly, the Remuneration Committee and the Board of Directors of the Bank may confirm remuneration of an office holder who answers to the CEO according to the remuneration policy, including the updating of remuneration as aforesaid, without the need for any further approval by the general meeting, provided that the cost of the annual remuneration of the office holder (in terms of the Remuneration Restriction Law) does not exceed the caps of applicable law including the Salary Ratio Cap and the caps of the Remuneration Policy<sup>4</sup>.

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<sup>3</sup> The remuneration of office holders who are not members of the board of management and its structure is similar to the main features of the remuneration of a management member, and in any case, their remuneration does not exceed (in financial terms) the caps stipulated in the New Remuneration Policy.

<sup>4</sup> Office holders who answer to the CEO who hold office to the date of the Report are as specified in the inventory of office holders and interested parties of the Bank (see the immediate report of 13<sup>th</sup> August, 2020, Reference Number 088149-01-2020), the conditions of their remuneration being in accordance with the principles of the Remuneration Policy being brought for approval in the framework of this report.

Should the sum of the remuneration be higher than the cap stated in Section 2(a) of the Remuneration Restriction Law, a portion of the wages of the office holders will not be a deductible expense for tax purposes, all subject to the provisions of the Remuneration Restriction Law.

The proposed remuneration for the Chairman of the Board of Directors of the Bank and the CEO of the Bank in accordance with the New Remuneration Policy is brought before the General Meeting for approval, as set forth in Sections 5 and 6 below of this report.

4.2.11 Arrangements for deferring and spreading payments of the annual bonus to office holders were also instituted in the New Remuneration Policy, with 50% of the annual remuneration liable to be deferred and be paid in three payments, subject to the Bank not recording a loss in its financial statements in respect of the year preceding the date of payment of the deferred portion of the bonus.

4.2.12 In accordance with the provisions of the Companies Law and Directive 301A mechanisms were established in the New Remuneration Policy of returning variable remuneration under circumstances of amendment of financial statements or exceptional circumstances where damage has been incurred by the Bank.

4.2.13 The New Remuneration Policy includes provisions regarding reservation of rights when retiring and pension rights of office holders of the Bank (past rights).

#### 4.3 The main changes with reference to the Previous Remuneration Policy

The remuneration policy which is being brought for approval is attached as an annex to the Report. Following is a description of the main changes as against the Previous Remuneration Policy:

4.3.1 Chairman – a change has occurred in the composition of the remuneration payable to the Chairman of the Board of Directors of the Bank in that the overall amount thereof has been reduced. According to the New Remuneration Policy, the remuneration of the Chairman (which shall all be a fixed remuneration), shall not exceed the Remuneration Cap (as defined above – at this time NIS 2.55 million) and will be payable on a monthly basis with reimbursement of expenses, subject to applicable law.<sup>5</sup> Social provisions will not be added to these amounts as was the case under the Previous Remuneration Policy. The foregoing, as against a capped monthly allowance of NIS 175,000 under the Previous Remuneration Policy and in addition a fixed equity remuneration linked to the index with a cash value of up to 25% of the total annual fixed remuneration.

4.3.2 CEO - a change has occurred in the composition of the remuneration payable to the CEO of the Bank, in that a portion of the remuneration of the CEO under the New Remuneration Policy will be variable remuneration depending upon the Bank's performance and not fixed remuneration. Under the New Remuneration Policy, the CEO of the Bank is liable to be entitled to a variable remuneration component of up to 5 salaries, the principles of which are similar to those of the rest of the office holders who are under the CEO (as set forth below). Accordingly, the entitlement of the CEO to up to 2 salaries under this component depends on achieving a return on equity in the range of between 7% and 10%, as set forth in Section 6.11.1 of this report below (the return on the equity of the Bank for the six months ended on is 1.72%. The balance of the bonus amounting to up to 3 salaries is discretionary. The component of the variable bonus will be curtailed when it reaches,

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<sup>5</sup> Notwithstanding the aforesaid, if the law does not allow to grant remuneration to the Chairman of the Board of Directors as aforesaid, he will be entitled to remuneration in respect of his office as a director (see Section 2.11 of the Report).

together with the rest of the remuneration components, the Salary Ratio Cap. According to the Previous Remuneration Policy, all of the Remuneration that could be paid to the CEO was fixed remuneration only up to the Salary Ratio Cap.

#### 4.3.3 Office holders under the CEO –

##### 4.3.3.1 Variable remuneration –

Raising the amount of the annual bonus – a possibility was added of updating the remuneration of the office holders under the CEO over and above the Remuneration Cap in accordance with the provisions of Section 2(a) of the Remuneration Restriction Law, with the approval of the Remuneration Committee and the Board of Directors (that is without any further approval of the general meeting of the shareholders of the Bank).

4.3.3.2 The mechanism for calculating the annual bonus – (1) The basis for calculating part of the bonus was updated to the return on equity (Section 13 of the New Remuneration Policy) (instead of the difference between the return on equity and the cost of capital, in accordance with the Previous Remuneration Policy); (2) The threshold condition for payment of the annual bonus was updated, according to a minimum return on equity (with the possibility of paying a discretionary bonus if the threshold condition is not met); (3) The annual bonus cap was updated to up to 5 salaries (and on certain levels up to 7 salaries); (4) A possibility was added of variable remuneration to the extent of up to 200% of the fixed remuneration in exceptional conditions in accordance with Directive 301A.

4.3.3.3 Deferred variable remuneration – it was determined that, as a rule, that payment of the deferred variable remuneration would be in cash (instead of blocked units of shares);

4.3.3.4 Reduction of the variable remuneration – the power of the Board of Directors to reduce the variable remuneration in certain cases, was expanded to reduction of up to 100% of the variable remuneration (as against 50% under the Previous Remuneration Policy);

4.3.3.5 Equity bonus- the possibility of paying a variable equity bonus was revoked (the Bank made no use of this possibility);

4.3.3.6 Additional bonuses – possibilities were added of approving a signature bonus for a new employee who is an office holder of up to 6 salaries, as well as a special bonus of up to 3 salaries;

4.3.3.7 Retirement bonuses – a possibility was added of a retirement bonus of up to 175% for an office holder who is a senior executive and is not a member of the Board of Management and also the possibility of retirement conditions that take into consideration collective agreements with respect to such executives, who were employed in close compliance with collective agreements. The maximum period of acclimatization bonus was extended from 3 to 6 months (the entire acclimatization bonus will only be approved in certain circumstances and subject to approval by the Remuneration Committee and the Board of Directors). A cap was added to the total amount of payments in circumstances of the end of employment to the extent of 9 salaries, as set forth in the [New] Remuneration Policy.

4.3.4 The provisions regarding arrangements for the return of bonus amounts have been amended in cases of amendment of financial statements (pursuant to the Companies Law) and in

cases of exceptional circumstances (pursuant to the directives of the Supervision of Banks), and that includes, among other things, it being determined that damage to the extent of 3% of the equity capital shall be deemed "exceptional damage" and that having regard to the importance that the Bank attaches to compliance with the provisions of law, the policy of the Bank and its procedures, when the criteria for return are present, the amount to be returned will be to the extent of the entire bonus (except for the part deducted and paid as tax to the Tax Authority). It was also clarified that the return arrangements established in the remuneration policy in no way derogate from any other relief that the Bank might have by law *vis à vis* any office holder in any case where damage is sustained by the Bank.

4.3.5 A framework of limitations of liability was established for the purchase of an insurance policy covering office holders' liability, a liability insurance policy in connection with issues of securities offered to the public (a POSI type policy – Public Offering of Securities Insurance) and also an insurance policy in respect of office holders' liability of the Run Off type (cover for past activity) under circumstances of structural changes. The limitations of liability under these policies are in addition to and separate from the maximum limit of liability under the current office holders' liability insurance policy. In accordance with the provisions of law, the framework of limitations of liability will enable insurance policies of such types to be purchased without resorting to further approvals by the general meeting.

#### 4.4 Implementation of the Previous Remuneration Policy

During the years of implementation of the Previous Remuneration Policy, the remuneration of the previous Chairman of the Board of Directors (Mr. Oded Eran, of blessed memory) and the previous CEO of the Bank (Mr. Arik Pinto) reached the caps which was possible for each one of them under the Previous Remuneration Policy. Particulars of the remuneration of office holders of the Bank (including the previous Chairman of the Board of Directors and the CEO) for the years 2018 and 2019 were included in the periodic report for the year 2019 (pages 407-409). For the years 2019 and 2020 the present CEO, Mr. Dov Kotler, did not receive the maximum remuneration which the remuneration policy allows on account of his having waived the fixed equity remuneration for the year 2019 and the linkage of his remuneration to the Salary Ratio Cap, as set forth in Section 6 of this report.

#### 4.5 Personal Interest and Participation in the Discussions of the Remuneration Committee and the Board of Directors

Each of the members of the Board of Directors is liable to have a personal interest in the approval of the remuneration policy, arising from the remuneration policy also makes provision pertaining to the terms of office and engagement of the Bank's directors. The Chairman of the Board of Directors (Mr. Ruben Krupik) has a personal interest also considering that the remuneration policy includes provisions pertaining to the terms of office and engagement of the Chairman of the Board of Directors.

At the meeting of the Remuneration Committee of 27<sup>th</sup> August, 2020 at which participated all of the members of the Remuneration Committee (Dalia Lev, Ronit Abramson – Rokach, David Avner and Moshe Koren), which was preceded by a number of meetings of the Remuneration Committee at which the New Remuneration Policy took form, it was resolved by a majority of votes (see Section 4.6.3 below with respect to the reasons of one of the directors for voting against and the content thereof) recommending to the Board of Directors of the Bank to approve the New Remuneration Policy attached as **Annex "A"**.

At the meeting of the Board of Directors of the Bank of 6.9.2020, at which all of the members of the Board of Directors participated, it was resolved by a majority of votes (see Section 4.6. below) to accept the recommendations of the Remuneration Committee and to adopt the New Remuneration Policy. At the meeting of the Board of Directors of the Bank, all of the members

participated (except for the Chairman of the Board of Directors who participated in some of the discussion in order to present his position, but did not participate in the discussion pertaining to the terms of office of the Chairman of the Board of Directors and did not participate in the adoption of the resolution pertaining to the remuneration policy on account of his personal interest).

#### 4.6 The main thrust of the reasons of the Remuneration Committee and the Board of Directors for approving the remuneration policy in view of its objectives

4.6.1 The New Remuneration Policy was shaped in order to adapt the existing remuneration model at the Bank to the new challenges facing it including following the corona crisis, to remuneration in the banking market in Israel and to existing regulation, which consists mainly of the Remuneration Restriction Law and Directive 301A, all of which by implementing the Bank's great experience, its insights and conclusions drawn from implementing short and long term remuneration plans.

4.6.2 The New Remuneration Policy was formulated after the Remuneration Committee and the Board of Directors examined and considered it in the light of the Bank's strategy, work plan and appetite for risk of the Bank, and with a view to lead to the bestowal of value of the Bank in the long term, placing an emphasis upon the stability of the Bank and the alternativity between achieving a return and assumption of risk, all of which having regard to the regulatory provisions applying to the Bank.

4.6.3 The Remuneration Committee examined various alternatives to put on a firm basis the variable remuneration mechanism and the threshold conditions for the application thereof, including the possibility of adding a comparative index in relation to the banking system. After a number of discussions were held on the matter, during which the advantages and disadvantages of the alternatives were presented and the position of the CEO of the Bank was also heard, the Remuneration Committee and the Board of Directors decided to base the variable remuneration mechanism and the threshold conditions in relation thereto (see Section 13 of the Remuneration Policy) on the return on equity achieved by the Bank, among other things, due to the correlation existing in this methodology between the Bank's results and its profits, which are enjoyed by the shareholders, and the remuneration paid to the office holders as well as due to the operational simplicity of the methodology and the intention to apply the model based on the return on equity also in relation to the rest of the categories of the Bank's executives and employees.

One of the directors who expressed a minority opinion was of the opinion that it was better to base the variable remuneration mechanism and the threshold conditions for the application thereof on a comparative index in relation to the banking system and not on an absolute index of return on equity, both because in his opinion it is better to test and reward the office holders by comparison with the performance of the rest of the banking system and because the adoption of a comparative index would serve the Bank better at a time of significant external events not under the control of the Bank and its office holders (such as the corona crisis) and would render superfluous any possible need for intervention by the Board of Directors of adjusting the objectives once every year over the period of the remuneration policy. In that regard, the rest of the directors noted that the return on equity with respect to the various banks is influenced by the different structure of each bank, its appetite for risk and its own strategy and accordingly, a comparative index is less suitable. The director who expressed a minority opinion supported the rest of the arrangements included in the Remuneration Policy (including the provisions of the Remuneration Policy pertaining to fixed remuneration and the remuneration caps established therein, the provisions of the Remuneration Policy pertaining to the terms of office of the Chairman and the CEO, recovery arrangements, provisions regarding insurance, indemnification and exemption and retirement arrangements).

- 4.6.4 The Remuneration Committee and the Board of Directors turned their attention to the effect of market conditions on the ability to incentivize executives according to the remuneration model even in situations of crisis such as the corona crisis. The Remuneration Committee and the Board of Directors noted that in the remuneration model there are flexible mechanisms that would enable to reward office holders subject to approval by the Remuneration Committee and the Board of Directors also in crisis situations as aforesaid, by means of the possibility of updating the range of the return on equity by one more per cent., the possibility of approving a discretionary bonus, and the possibility of giving a special bonus in special circumstances or special performance.
- 4.6.5 The New Remuneration Policy was also considered in the light of the aspiration to reward the office holders and the executives for their work and contribution to the Bank and to keep them over the long term, all the while creating worthy incentives and binding them to the goals of the Bank and the interested persons therein, and all the while ensuring that the New Remuneration Policy, with the remuneration mechanisms and the levels of remuneration included therein, will reflect and express the goals of the Bank, its work plans and its policy, taking a long term view, as far as possible, and will know how to retain leading key personnel at the Bank in the long term given the said limitations.
- 4.6.6 In the framework of its discussions, the Remuneration Committee gave thought to the main goals of the Remuneration Policy, as set forth in Section 4.6.1 above, and in the light thereof the New Remuneration Policy laid down a section that was intended to preserve the flexibility of the Remuneration Committee and the Board of Directors of the Bank when approving remuneration for the office holders and the updating thereof in order to keep them at the Bank in the long term (see Section 4.6.5 above). The Remuneration Committee and the Board of Directors discussed the possibility of disallowing the expense for tax purposes in connection with part of the office holders' remuneration over and above the Remuneration Cap and determined that it concerns an amount that is insignificant for the Bank. In that context members of the Remuneration Committee and the Board of Directors of the Bank noted that an effort was made to reward office holders of the Bank and to incentivize them to bring the Bank to achievements by using the tools which the law, including the Remuneration Restriction Law, allows.
- 4.6.7 In the process of adopting the New Remuneration Policy an examination was made of the remuneration structure and the present day conditions of office of the office holders of the Bank and the proposed remuneration structure according to the New Remuneration Policy, including the relationship between the fixed components and the variable components and the relationship between the conditions of remuneration of the office holders and the average and median remuneration of the rest of the Bank's employees, including contractor employees working for the Bank, and their effect on the labour relations at the Bank (these relations are detailed in the New Remuneration Policy which is attached to the Report).
- 4.6.8 For the purpose of holding discussions about the Remuneration Policy, among other things, the following materials were laid before the Board of Directors: A comparison with remuneration of office holders at other banks, the Remuneration Restriction Law, Directive 301A, Amendment 20 to the Companies Law and the main features of the position of the Securities Authority (best practice) of 5<sup>th</sup> October, 2016 (as subsequently updated), the Previous Remuneration Policy of the Bank and the present day remuneration model in accordance therewith, the proposed remuneration model of the Bank, reference to the proposed model and the new policy in the face of the risk management of the Bank, including compliance, and internal audit, and various simulations regarding remuneration of office holders of the Bank according to the new model and in relation to the remuneration data of the office holders in keeping with the present model, *inter alia* in various extreme situations.
- 4.6.9 All of the said considerations were noted by the Board of Directors in its discussions about the

recommendations of the Remuneration Committee and when adopting its recommendations.

4.6.10 After weighing all of the aforesaid and discussions about the various components of the Remuneration Policy and of the remuneration, the Remuneration Committee and the Board of Directors reached a conclusion according to which the New Remuneration Policy is a balanced remuneration policy worthy of the Bank.

## 5. Approval of the Terms of Office of the Chairman of the Board

On 28.6.2020 Mr. Ruben Krupik was selected as Chairman of the Board of Directors of the Bank ("**the Chairman**") subject to the approval / non objection of the Supervision of Banks and on 28.7.2020 the Supervisor of Banks gave notice that he does not object to the appointment. Up to his appointment as the Chairman and commencing on 9.6.2020, the date on which Mr. Oded Eran (of blessed memory), the previous Chairman of the Board of Directors, went on sick leave, Mr. Krupik was Acting Chairman.

Mr. Krupik serves as a director since 18.2.2016 and he was appointed for a second period of office that will come to an end on 17.2.2022 at the general meeting held on 18.7.2019.<sup>6</sup>

Mr. Krupik serves as an external director under Proper Conduct of Banking Business Directive 301 ("**ED 301**") and as an independent director under the provisions of the Companies Law. Up to his appointment as Chairman, Mr. Krupik was entitled to payment of remuneration in accordance with the Remuneration Regulations (see Section 2.11 of the ..... Report).

In view of Mr. Krupik's appointment as Chairman and considering the significant change in the scope of his duties (into a full time position) and the responsibility involved therein, the Bank wishes to approve for Mr. Krupik terms of remuneration, that exceed an ordinary directors' remuneration, and that befit his job title.

In August 2019 the Supervision of Banks published a letter pertaining to the principles for determining the terms of office of the chairman of the board of directors of a bank with no core of control ("**the Supervision Letter**").<sup>7</sup> It was written in the Supervision Letter among other things that the holding of office as chairman of the board of directors of a bank with no core of control in itself does not establish with regard to the chairman a link that detracts from his qualification to hold office, provided that his duties and powers do not exceed the duties and powers conferred upon him according to the provisions of the law. The Chairman's terms of office brought for the approval of the Meeting were determined having regard to the principles set forth in the Supervision Letter (see Sections 5.1 below), to the mind of the Bank, considering that the Bank is a banking corporation with no core of control, where in fact all of the directors in office are required to be independent of the Bank by virtue of the provisions of the Banking Ordinance, Mr. Krupik's very service as an independent director pursuant to the provisions of the Companies Law, does not prevent the approval of the proposed terms of office (which exceed the remuneration due to the rest of the directors under the Remuneration Regulations), and the approval of the terms of office as aforesaid will not establish with regard to the Chairman of the Board of Directors a link affecting the continuation of his office as an independent director. In view of the fact that the Securities Authority published in the past, without referring specifically to a bank with no core of control, a succinct position, from which there arises a different position, the Bank made a preliminary application to the Securities Authority requesting to exclude from said position the specific instance of the appointment of a chairman of the board of directors who is an independent director of a banking corporation with no core of control. [**Will be subsequently updated**]

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<sup>6</sup> See the report on the results of the general meeting of 18.7.2019 (Reference No. 2019-01-062601).

<sup>7</sup> The Supervision Letter is available on the following link:

<https://www.boi.org.il/he/BankingSupervision/LettersAndCircularsSupervisionOfBanks/LettersOfTheBankingSupervisionDepartment/201904.pdf>

The terms of office of the Chairman brought below were approved by the Remuneration Committee on 27.8.2020 and by the Board of Directors of the Bank on 6.9.2020, subject to the provisions of law and the directives of the regulatory bodies, including the Securities Authority, do not prevent the gift of remuneration in accordance with the terms of office as aforesaid.

**Form of the proposed resolution: "To approve the terms of office and employment of Mr. Ruben Krupik as Chairman of the Board of Directors of the Bank with effect from 28.6.2020 and until 31.12.2023, as set forth in Clause 5 of the Report in accordance with Section 273 of the Companies Law, subject to the provisions of the law and the directives of the regulatory bodies not preventing the granting of remuneration as aforesaid, as resolved by the Board of Directors of the Bank."**

5.1 Following are the main features of the proposed terms of employment of the Chairman and the totality of the remuneration to which he will be entitled in accordance therewith:

5.1.1 Description of his position: Ruben Krupik will serve as Chairman of the Board of Directors of the Bank to the extent of a full time job. So long as the Chairman holds his office, the Chairman may not do any other work or engage in any other occupation, unless he receives prior approval therefor from the Board of Directors of the Bank.

5.1.2 Term of office: The terms of office will commence on 28.6.2020 and until 31.12.2023. As aforesaid, Mr. Krupik's second term of office as a director of the Bank ends on 17.2.2022 and he will be at liberty to be appointed for an additional term of office (until 17.2.2025). Any one of the parties may give notice of termination of the engagement with the Chairman, at any time and for any reason, by giving 6 (six) months' prior written notice ("**the Prior Written Notice Period**"). The Prior Written Notice Period will also apply at the end of the term of office, in as much as it was not renewed / extended. The Bank may, by resolution of the Board of Directors, dispense with the Chairman's services and actual discharge of his office in the course of the Prior Written Notice Period or any part thereof without affecting his right to the terms of remuneration in full during this period (or to the redemption thereof).

5.1.3 The Consideration: The monthly consideration of the Chairman will be a sum total of NIS 2.4 million per year (NIS 200,000 per month), linked to the rise in the Consumer Price Index known on 15.9.2020<sup>8</sup> ("**linked to the Index**") ("**the Consideration**"). To the extent relevant, VAT according to law will be added to this amount.

The Consideration will be paid against a tax invoice and the Chairman will not be entitled to wage related benefits that are payable to employees of the Bank, including deposits for severance pay and provident funds and provisions for further study funds. The Consideration also includes payment for ordinary days of absence (up to 25 days per year) and due to state of health (up to an additional 25 days per year).

5.1.4 Reimbursement of expenses: The Chairman will be entitled to maintenance of a cellular phone and to reimbursement of expenses in the line of duty (mainly per diem expenses). The Bank will bear travelling expenses in Israel incurred in the line of duty.

5.1.5 Non competition and cooling off: The Chairman will be subject to a period of non competition of 12 months from the date his office actually comes to an end with respect to a banking corporation or any other corporation in competition with the Bank, insurance company and investment house, including any subsidiary company of any of the foregoing, all of which unless the approval of the Board of Directors of the Bank has been obtained. Furthermore there is a cooling off period of 6 months from the time his office comes to an

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<sup>8</sup> If the Consumer Price Index falls, there will be no wage reduction, but the salary will not be increased until the Index rises above the most recent Index according to which the salary was adjusted.

end with respect to ties with any business connection with which the Chairman was in contact in his line of duty at the Bank, unless the approval of the Board of Directors has been obtained.

5.1.6 Insurance, Indemnity and Exemption: The Chairman will continue to be insured under a directors' and office holders' liability insurance policy of the Bank. In addition, the Chairman holds a letter of indemnity and exemption, as is conferred upon office holders of the Bank.

5.2 Until the Board of Directors decides that the provisions of law and the directives of the regulatory bodies do not prevent payment of the Chairman's terms of office being brought for approval of this meeting, the Chairman will be entitled to continue receiving remuneration in accordance with the Remuneration Regulations, just like the remuneration payable to him at present. If the terms of office are approved by the Meeting and are allowed under the provisions of law and the directives of the regulatory bodies as aforesaid, the Bank will pay the Chairman the balance of the remuneration to which he is entitled from the commencement date of his office as Chairman.

5.3 Following are details of the anticipated remuneration to which the Chairman will be entitled for the year 2020<sup>9</sup> and the year 2021, according to his terms of office set forth in this Report above and subject to the provisions of law and the directives of the regulatory bodies not preventing the granting of remuneration in accordance with the terms of remuneration as aforesaid (in thousands of NIS according to the estimated Index for the end of 2020 and in terms of cost to the company without VAT / wage tax, on the assumption of holding office for a proportionate period of a full calendar year for the year 2020 and on the assumption of holding office for a period of a full calendar year for the year 2021):

Year	Particulars of the Recipient of the Remuneration				Remuneration (in thousands of NIS)				Total according to the Remuneration Restriction Law and also According to Regulation 21(2)
	Name	Position	Extent of Position	Rate of Holdings in the Capital of the Bank on the Date of the Report (as a percentage)	Salary and Additional Benefits (1)	Bonus (1)	Employer Payments and Provisions	Share-Based Payment	
<b>2020 (from the Appointment date 28.6.2020)</b>	Ruben Krupik	Chairman of the Board of Directors of the Bank	Full –time position	--	1,215	-	--	--	1,215
<b>2021</b>	Ruben Krupik	Chairman of the Board of Directors of the Bank	Full –time position	--	2,430	--	--	--	2,430

(1) In accordance with Directive 301A

<sup>9</sup> In respect of his office as director and until Mr. Krupik's appointment as Chairman of the Board of Directors of the Bank (i. e. until 27.6.2020), Mr. Krupik is entitled to directors' remuneration (fixed remuneration and participation remuneration) according to the Remuneration Regulations.

(2) Not including VAT

5.4 Comparative data between the terms of office offered to the Chairman and the terms of office that were offered to the former chairman: The main change in the terms of office offered to the Chairman according to this Report as against the terms of office of the former chairman is with respect to payment of an overall amount without entitlement to social benefits and accompanying benefits and without entitlement to a fixed equity based remuneration. The sum of the overall expected remuneration of the Chairman for the year 2021 will be lower than the remuneration of the former chairman for the year 2019 by approximately NIS 439 thousand. Details of the terms of employment of the former chairman are set forth in Section 3 of the Immediate Report on the summoning of a general meeting of 20<sup>th</sup> November, 2019, Reference Number 2019-01-112810 ("**the Previous Report**"):

5.5 Following are the reasons of the Remuneration Committee and the Board of Directors of the Bank for approving the terms of office of the Chairman as set forth in Section 5.1 above:

5.5.1 As part of the discussions about the remuneration offered to the Chairman, there were also examined the Chairman's education and qualifications. The Remuneration Committee and the Board of Directors noted that the Chairman has much business and entrepreneurial experience, as well as financial expertise, which are expected to contribute to the Chairman's performance in the discharge of his duties, and that the level of the Chairman's remuneration which is allowed under the New Remuneration Policy of the Bank is in keeping with his qualifications and his duties.

5.5.2 The ratio of the cost of the overall remuneration of the Chairman to the cost of the average overall remuneration of the rest of the employees of the Bank does not exceed 10.6: 1 and the ratio of the cost of the overall remuneration of the Chairman to the cost of the median overall remuneration of the rest of the employees of the Bank does not exceed 12.5: 1.

5.5.3 The terms of office of the Chairman were established taking into consideration, among other things, the size of the Bank, the complexity of its operations and the extent of the office (a full time position). The Remuneration Committee and the Board of Directors also referred to the relation between the extent of the Chairman's remuneration and the extent of the annual average remuneration per director at the Bank and they determined that it is reasonable considering the scope of the Chairman's duties (a full time job as aforesaid), his powers and the responsibility associated with the position.

5.5.4 The Remuneration Committee and the Board of Directors examined the extent of the remuneration of chairmen of the board of directors of other banking corporations in Israel and found that as a whole the terms of office of the Chairman are reasonable and even lower in comparison to those usually found in other banks, generally speaking and having regard to the size of the Bank and its volume of business in particular.

In this context it is to be noted that the Remuneration Committee and the Board of Directors were of the opinion that the remuneration of the Chairman of the Board of Directors should be higher than the remuneration being brought before the Meeting for approval, given the size of the Bank and the complexity of its operations and in the light of the Chairman's qualifications and experience and the extent of remuneration in the banking industry, but in keeping with the Chairman's request that his remuneration should be lower than the Remuneration Cap, without including additional benefits and social provisions, the remuneration as set forth above in this Report is brought for approval.

5.5.5 The Remuneration Committee and the Board of Directors examined the provisions of the Remuneration Restriction Law and the 301A Directive regarding remuneration policy in a banking corporation and the New Remuneration Policy of the Bank and found that the

overall remuneration of the Chairman meets their provisions.

- 5.5.6 The Remuneration Committee and the Board of Directors ascertained that the modality of the engagement with the Chairman or the terms of his office, including the remunerative components with the rights and duties involved therein, in no way affect the qualification of the Chairman to serve as a director of the Bank (seeing that it is a banking corporation with no core of control) or affect the disinterestedness and independence of the Chairman.<sup>10</sup> The Board of Directors referred to the fact that the functions and the powers of the Chairman (that were established and approved by the Board of Directors) do not exceed the duties and powers conferred on him according to the provisions of law.<sup>11</sup>
- 5.5.7 In view of all of the foregoing, the Remuneration Committee and the Board of Directors determined that the remuneration offered to the Chairman is in accordance with the New Remuneration Policy of the Bank and that in the circumstances it is reasonable, fair and usual, among other things, taking into consideration the duties of the Chairman and taking into consideration the size of the Bank in the banking market in Israel and the complexity of his duties as Chairman of the Board of Directors of a banking corporation with no core of control.
- 5.5.8 The resolutions were adopted unanimously with the participation of all of the members of the Remuneration Committee and the Board of Directors (with the exception of the Chairman of the Board of Directors due to his personal interest), respectively.

## 6. Approval of the Terms of Office and Employment of the CEO of the Company

Mr. Dov Kotler serves as the CEO of the Bank ("**the CEO**") since 1.10.2019. The remuneration of Mr. Dov Kotler as the CEO of the Bank is prescribed in his employment agreement, which was extended until 31.12.2022, with the terms of employment and office thereunder being extended for a period of up to one year only (i. e. up to 31.12.2020) without any change ("**the Previous Agreement**"), all as set forth in the Previous Report (as defined above). The extension as aforesaid was approved on 26.12.2019 by the general meeting of the shareholders of the Bank (after the approval thereof by the Remuneration Committee and the Board of Directors), the foregoing until the approval of the New Remuneration Policy by the Bank, as set forth in the Previous Report.

According to the Previous Agreement and after the CEO's waiver, as set forth in the Previous Report, the CEO was entitled to a fixed monthly wage, and was not entitled to the linkage of the remuneration and to the supplementation thereof up to the Salary Ratio Cap. Furthermore, all of the CEO's remuneration was comprised of only fixed components, without any variable components, including an annual bonus.

Accordingly, while at the same time a new remuneration policy is being forged by the Remuneration Committee and the Board of Directors of the Bank (which is brought for the approval of the Meeting by means of this summoning report), updated terms of office and employment befitting the CEO are also brought for approval. The cost of employment of the CEO will exceed the Remuneration Cap and accordingly, is brought for approval by the general meeting of the shareholders of the Bank according to the majority prescribed in Section 2(a) of the Restricted Remuneration Law and Section 267A (b) of the Companies Law. According to the Restricted Remuneration Law the portion in excess of the Remuneration Cap will not be recognized for the Bank as an expense for tax purposes.

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<sup>10</sup> If the provisions of the Supervision of Banks that may be instituted in the future, in as much as may be instituted, make it imperative, the Bank will take action to adjust the terms of office of the Chairman of the Board of Directors, to the extent required.

<sup>11</sup> During his period of office, the Chairman shall not serve as a member of the Audit Committee (which also serves as a committee for the examination of the financial statements) or of the remuneration Committee.

The updated terms of remuneration of the CEO will enter into effect from 1.1.2021.

Form of the proposed resolution: **"To approve the terms of office and employment of Mr. Dov Kotler as CEO of the Bank with effect from 1.1.2021 and until 31.12.2023, as set forth in Clause 6 of the Report, in accordance with Section 272(c1) of the Companies Law and in accordance with Section 2(a) of the Remuneration Restriction Law."**

Following are the main features of the proposed terms of employment of the CEO and the overall remuneration to which he will be entitled in accordance therewith, as approved by the Remuneration Committee and the Board of Directors of the Bank:

- 6.1 Definition of his position: The CEO serves as CEO of the Bank to the extent of a full time position. So long as the CEO holds his office, he may not do any other work or engage in any other occupation, unless he receives prior approval therefor from the Board of Directors of the Bank.
- 6.2 Period of employment: The employment agreement shall be for a period commencing on 1.1.2021 and ending on 31.12.2023. Notwithstanding the foregoing, either of the parties may give notice of termination of the CEO's employment under the agreement, at any time, even before the end of the period of the agreement, by giving 6 months' prior written notice ("**the Prior Notice Period**") and in as much as the validity of the agreement is not renewed or extended. The Bank may dispense with the CEO's actual employment during the Prior Notice Period or any part thereof without affecting his right to the terms of remuneration in full during this period (or to the redemption thereof).
- 6.3 Salary: The CEO's monthly salary will be a sum total of NIS 201,500 (Two hundred and one thousand five hundred NIS), linked to the rise in the Consumer Price Index known on 15.9.2020<sup>12</sup> ("**linked to the Index**"), subject to the provisions of applicable law ("**the Salary**").
- 6.4 Additional Benefits: The CEO will be entitled to additional benefits and conditions considering his position as CEO of the Bank, all as is usual at the Bank, and that will include a chauffeur, to maintenance of a cellular phone and to reimbursement of expenses in the line of duty. The CEO may waive any part or all of the above benefits and to convert the value of such benefits into additional earnings such that they be added to the CEO's salary, in so far as the law permits.
- 6.5 Fixed equity remuneration by means of blocked shares: In respect of his term of office commencing on 1.1.2021, the Bank will grant the CEO each year (taking into consideration parts of a year), for no consideration, ordinary shares of the Bank of NIS 1.00 nominal value each ("**the Shares**"), valued at NIS 100,000 linked to the rise in the Consumer Price Index known on 15.9.2020, which will be blocked against realization for a period of 36 (thirty-six) months from the end of the year for which they were granted ("**the Blockage Period**"), subject to the provisions of the remuneration plan of the Bank.

The quantity of shares to be awarded to the CEO will be determined by dividing the value specified in this section above by the average closing price of the share of the Bank on the stock exchange on the 30 (thirty) trading days preceding the date of publication of the annual financial statements of the Bank, published prior to the date they were granted.

The Shares will not constitute part of the earnings which form the basis for calculating social rights.

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<sup>12</sup> If the Consumer Price Index falls, there will be no wage reduction, but the salary will not be increased until the Index rises above the most recent Index according to which the salary was adjusted.

It is the intention of the Bank that, in so far as the law allows, the Shares as aforesaid will be granted along the capital gains track referred to in Section 102(b)(2) of the Income Tax Ordinance, [New Version], 5721-1961 and will be deposited with a trustee to be appointed for such purpose. The tax applicable in respect of the granting of the Shares and the sale thereof, as the case may be, shall be borne by the CEO.

If in the course of a calendar year the CEO's employment by the Bank comes to an end, an adjustment will be made to the fixed equity remuneration, with respect to such calendar year, taking into consideration the relative part of the calendar year in the course of which the CEO was employed by the Bank. The termination of the CEO's employment will not affect the CEO's rights to the Shares (the Shares are fully matured at the time they are granted) and it will not bring forward or change the Blockage Period, subject to the provisions of the remuneration plan of the Bank.

- 6.6 Provision for provident funds, severance pay and pension, for loss of working capacity insurance and for further study fund: The Bank will make provision with respect to the CEO for provident fund payments, compensation, for loss of working capacity insurance and for further study fund, to be remitted on a monthly basis, in full or in part at the option of the CEO, as follows:
- 6.6.1 Compensation and provident funds: The Bank will make deposits in favour of provident funds, compensation and loss of working capacity insurance on account of the CEO, which will be remitted on a monthly basis, in full or in part, as the case may be, to provident funds, all at the election of the CEO, according to the provisions of law and including the provisions of the Extension Order Regarding the Increased Provision for Pension Insurance in the Economy of 23.5.2016 ("**the Extension Order**").
- 6.6.2 Loss of working capacity insurance: The Bank will insure the CEO with insurance against loss of working capacity in accordance with the provisions of the Extension Order and as is usual at the Bank, unless the CEO) otherwise requests.
- 6.6.3 Further study fund: The Bank will provide for its own account in favour of the CEO for 7.5% of his salary to be remitted to the further study fund as aforesaid.
- 6.7 Severance pay: At the end of the CEO's employment by the Bank for whatever reason including In the event that the CEO passes away in the course of his office (God forbid), but excepting in circumstances in which the CEO's right to severance pay has been denied by virtue of a judgment on the strength of Sections 16 or 17 of the Severance Pay Law, 5723-1963, the CEO (or his survivors / successors, as the case may be) will be entitled, with respect to the period of the agreement (subject to the above) to severance pay at the rate of 100% of the salary or to the severance pay and the profits in respect thereof that have accrued to his credit in the provident funds, whichever is the higher.
- 6.8 Annual vacation, well-being and sickness: The CEO will be entitled to payment for 14 (fourteen) well-being days per year, according to the usual scale for members of the Board of Management and to annual vacation on full pay of 25 (twenty-five) working days, for each year of his employment under the employment agreement (and the proportionate number of working days for part of any year). The CEO may accumulate up to 10 vacation days in all. In addition, the CEO will be entitled to 25 (twenty-five) sick days on full pay, for each year of his employment under the employment agreement.
- 6.9 Non competition and cooling off: The CEO will be subject to a period of non-competition of 12 months from the date his office actually comes to an end with respect to a banking corporation or any other corporation in competition with the Bank, insurance company and investment house, including any subsidiary company of any of the foregoing, all of which unless the approval of the Board of Directors of the Bank has been obtained. Furthermore there is a cooling off period of 6

months from the time his office comes to an end with respect to ties with any business connection with which the CEO was in contact in his line of duty at the Bank, unless the approval of the Board of Directors has been obtained.

6.10 Insurance, Indemnity and Exemption: The CEO will continue to be insured under a directors' and office holders' liability insurance policy of the Bank. In addition, the CEO holds a letter of indemnity and exemption, as is conferred upon office holders of the Bank.

6.11 Annual bonus: In accordance with the following conditions and subject to meeting the Threshold Condition (as defined below), the CEO may become entitled to an annual bonus which should not exceed a cap of 5 salaries, subject to the cap stated in the Remuneration Restriction Law. In as much as the calculated bonus is higher than the ratio cap of the Remuneration Restriction Law (which is stated in Section 2(b) of this Law) the bonus of the CEO will be scaled down so as not to exceed the cap permitted by law. The annual bonus will be composed of two (2) components and will be calculated as the sum of the following:

6.11.1 The Bank's performance component: A component for a bonus of between a 0.25 salary and up to 2 salaries, payable in accordance with the Return on Equity according to the model applicable to the rest of the office holders (except for the Chairman and the directors). According to this model, the bonus will be paid commencing from a Return on Equity of 7% ("**Minimum Return on Equity**") and up to a Return on Equity of 10% ("**Maximum Return on Equity**"), and stepped, with the calculation of the bonus between those caps being on a linear basis. The Remuneration Committee and the Board of Directors may raise or lower the minimum or maximum reported Return on Equity of up to 1%, at the beginning of each bonus year, provided that the gap between them remains 3%.

"**Net Profit**" in this section is the net profit of the Bank attributed to the shareholders of the Bank, in accordance with the annual audited financial statements of the Bank for the year of the bonus.

"**Return on Equity**" in this section is the return of the net profit on equity, as reported in the annual audited financial statements of the Bank for the year of the bonus.

"**Threshold Condition**" a condition to be determined by the Remuneration Committee and the Board of Directors the non-compliance with which means ineligibility for the annual bonus, unless otherwise expressly determined in the Remuneration Policy of the Bank. Unless otherwise determined by the Remuneration Committee and the Board of Directors, the Threshold Condition is compliance with a minimum Return on Equity.

6.11.2 The discretion component: A component for a bonus of up to 3 salaries (together with the rest of the discretion components included in the variable remuneration, in so far as there are any), which it may be determined as applicable to the discretion of the remuneration Committee and the Board of Directors and could take the criteria into consideration.

The foregoing notwithstanding and subject to the provisions of applicable law, in the event that the threshold condition is not met, the Remuneration Committee and the Board of Directors may approve for the CEO a grant of up to three salaries, which could take the criteria into consideration ("**a Discretionary Bonus**").

6.12 Data Regarding the Extent of the Annual Bonus for the CEO Based on the Report for the Latest Year and the Year That Preceded It:

The data regarding the range of the CEO's annual bonus to which the CEO was entitled based

on previous reporting years in the following table are based on the Bank's performance component for those years in addition to the discretion component (up to 3 monthly salaries). It should be noted that because the financial statements for the year 2020 have not yet been prepared, it is not possible to estimate the extent of the bonus for that year.

	<b>Range of Bonus Prior to Scaling Down According to Remuneration Ratio Cap in Terms of CEO Salaries</b>	<b>Maximum Bonus After Scaling Down According to Remuneration Ratio Cap in Terms of CEO Salaries</b>	<b>Range of Bonus Prior to Scaling Down According to Remuneration Ratio Cap in Thousands of NIS</b>	<b>Maximum Bonus After Scaling Down According to Remuneration Ratio Cap in Thousands of NIS</b>
<b>Year 2018</b>	0.3 – 3.3	1.7	60 - 665	346
<b>Year 2019</b>	0 - 3	1.7	0 - 605	346

6.13 Following are details of the anticipated remuneration to which the CEO will be entitled for the year 2021, in accordance with the terms of his employment set forth in this report above (in thousands of NIS and in terms of cost to the company without any wage tax, on the assumption of employment for a term of an entire calendar year):

Year	Particulars of the Recipient of the Remuneration				Remuneration (in thousands of NIS)				Total According to the Remuneration Restriction Law(6)	Social Provisions According to Law and Others	Total Remuneration According to Regulation (7)
	Name	Position	Extent of Position	Rate of Holdings in the Capital of the Bank on the Date of the Report (as a percentage) (1)	Salary and Additional Benefits (2)	Bonus (3)	Employer Payments and Provisions (4)	Share-Based Payment (5)			
2021	Dov Kotler	CEO of the Bank	Full –time position	0.00%	2,444	346	50	100	2,940	359	3,299

- (1) Holding of shares as of the date of the Report
- (2) Including earnings and additional benefits such as: Holiday gifts, telephone expenses etc.
- (3) The entitlement of the CEO to an annual bonus is as set forth in Section 6.11 above, on the assumption of scaling down the Salary Ratio Cap. The data is presented based only on a theoretical assumption of receiving the maximum bonus.
- (4) Including payments and provisions for further study fund and National Insurance.
- (5) In respect of his term of office, the CEO will be granted each year, for no consideration, fixed equity compensation in the form of ordinary shares of the Bank, that will be blocked and nether transferrable nor disposable for a period of 36 months from the end of the year in which they were granted, as set forth in Section 6.5 above of this report.
- (6) This amount does not include provisions for provident funds and compensation according to law.
- (7) Not including wage tax.

6.14 Comparative Information Between the Terms of Employment Offered to the CEO and the Terms of Employment of the Previous CEO:

The previous CEO (who held office until 30.9.2019) was entitled to remuneration based on a fixed component (in cash and in shares) up to the Salary Ratio Cap (at a cost of approximately NIS 2.94 according to the definition of remuneration in the Remuneration Restriction Law). The up-to-date terms of employment of the CEO include a reduction in the fixed component (cancellation of part of the fixed equity remuneration component), to a fixed remuneration of approximately NIS 2.5 million per annum (according to the definition of remuneration in the Remuneration Restriction Law) and a possibility of variable remuneration (depending on performance and discretion) up to an overall

amount of the Salary Ratio Cap (which stands as of the date of this summoning report at NIS 2.94 million).

6.15 Reasons of the Remuneration Committee and the Board of Directors of the Bank for approving the terms of employment of the CEO as set forth in this Section 6 above:

- 6.15.1 As part of the discussions about the remuneration offered to the CEO, there were also examined the CEO's education, qualifications and achievements in his previous positions in and outside the Bank group. The Remuneration Committee and the Board of Directors noted that the CEO has much business experience and proven managerial ability, which are expected to contribute to the performance of the Bank and its business results, and that the level of the CEO's remuneration in accordance with the Remuneration Policy of the Bank is in keeping with his qualifications and his duties taking into consideration the regulatory limitations.
- 6.15.2 There was laid before the Remuneration Committee and the Board of Directors a comparison of the remuneration offered to the CEO in the framework of his terms of employment as against the remuneration to which the previous CEO was entitled and the remuneration that was approved for the CEO by the meeting of 26.12.2019 as set forth in the previous report and they also examined the extent of the remuneration of CEO's of other banking corporations in Israel. The Remuneration Committee and the Board of Directors found that the overall terms of office of the CEO are reasonable in comparison to those that are usual at other banks, having regard to the size of the Bank and the extent of its business.
- 6.15.3 The ratio of the cost of the overall remuneration of the CEO to the cost of the average overall remuneration of the rest of the employees of the Bank does not exceed 10.9: 1 and the ratio of the cost of the overall remuneration of the Chairman to the cost of the median overall remuneration of the rest of the employees of the Bank does not exceed 12.9: 1.
- 6.15.4 The Remuneration Committee and the Board of Directors examined the provisions of the Remuneration Restriction Law and the 301A Directive regarding remuneration policy in a banking corporation and the New Remuneration Policy of the Bank and found that the overall remuneration of the CEO meets the provisions thereof.
- 6.15.5 The Remuneration Committee and the Board of Directors discussed the structure of the fixed and variable remuneration of the CEO, the cap of the variable remuneration to the extent of 5 salaries of the CEO and the possibility of scaling down of the variable remuneration due to the Remuneration Cap under the Remuneration Restriction Law.

The Remuneration Committee and the Board of Directors of the Bank noted that the CEO's remuneration will be over and above the Remuneration Cap and accordingly, is being brought for approval by the General Meeting also in keeping with Section 2(a) of the remuneration Restriction Law. In addition in accordance therewith, the amount not recognized for tax purposes under the Remuneration Restriction Law, was laid before the Remuneration Committee and the Board of Directors.

- 6.15.6 The structure of the remuneration was fashioned so that the CEO's remuneration would reach in so far as allowed by law, up to a cap determined in advance which is proper and appropriate in their opinion and will tie in the CEO's performance with that of the Bank in the long term, out of a desire and an intention of remunerating the CEO of the Bank in a manner befitting the complexity of his duties and his responsibility.
- 6.15.7 The Remuneration Committee and the Board of Directors determined that the fixed equity component of the remuneration payable to the CEO in shares blocked for three years, will strengthen the bond between the remuneration of the CEO and the creation of value for the

holders of interest of the Bank and the performance of the Bank in the medium - long term.

6.15.8 In view of all of the foregoing, the Remuneration Committee and the Board of Directors determined that the remuneration offered to the CEO, is in accordance with the New Remuneration Policy of the Bank is reasonable, fair and usual in the circumstances of the matter, among other things, taking into consideration the duties of the CEO and taking into consideration the size of the Bank in the banking market in Israel and the complexity of its management.

6.15.9 The resolutions were adopted unanimously with the participation of all of the members of the Remuneration Committee and the Board of Directors, respectively. The directors have no personal interest in the approval of the remuneration for the CEO.

## **7. Procedures of and voting at the general meeting**

### **7.1 Date of the general meeting**

The general meeting shall convene on **Thursday, 22.10.2020 at 16:00**, at the Bank's offices, 63 Yehuda Halevy Street, Tel Aviv (6th Floor, Room 608).

### **7.2 Voting**

A shareholder may vote at the Meeting in person, by proxy, and by voting card within the meaning thereof in Section 87 of the Companies Law, the form of which is attached hereto ("**Voting Card**"). Furthermore, a shareholder under Section 177(1) of the Companies Law (i.e., a person to whose credit a share is registered with a TASE member and such share is included in the shares registered in the shareholders register in the name of a nominee company) ("**Unregistered Shareholder**") may also vote by means of an electronic voting card to be transmitted to the company via the electronic voting system operating under Title B to Chapter G2 of the Securities Law, 5728-1986 ("**E-Voting**", "**E-Voting System**" and "**E-Voting Card**", respectively).

### **7.3 Majority required for adoption of the resolutions on the agenda of the Meeting**

The majority required for adoption of the resolutions specified in Sections 1.2 (Agenda Item No. 2 – Reappointment of the Bank's auditors), 1.4 (Agenda Items No. 6-8 – Appointment of two other (non – external) directors)) and 1.6 (Agenda Item No. 10 – Approval of the terms of office of the Chairman of the Board of Director of the Bank) of the Report, is a simple majority. For details with respect to the rules of election in the event that the number of candidates who receive the required majority exceeds the number of positions, see below. Also see Section 2.10 above.

The majority required for adoption of the resolutions specified in Section 1.3 (Agenda Items No. 3-5 – Appointment of two external directors in accordance with the Companies Law), considering the fact that the Bank is a banking corporation without a core of control, is a simple majority of the votes of the shareholders participating in the vote, provided that one of the following is fulfilled: (1) The count of the majority votes includes at least a majority of the total of votes of shareholders who are not controlling parties of the Bank<sup>13</sup> or have a personal interest in the approval of the appointment, with the exception of a personal interest that does not result from his relations with the controlling party, participating in the vote. When counting all of the votes of such shareholders the votes of those abstaining shall not be taken into account; (2) the total of dissenting votes from among the shareholders mentioned in Subsection (1) above does not exceed a rate of two percent of all voting rights in the Bank.

With respect to Agenda Items 3-8 (appointment of directors) – If the number of candidates for the office of director who get the majority of votes of the participants in the vote at the general meeting exceeds the number of vacant positions in a specific qualification for holding office (the examination for this purpose

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<sup>13</sup> As of the date of the Report, the Bank has no controlling party.

shall be separately conducted for each qualification for holding office, i.e., external director under the Companies Law, external director under Directive 301, and other director), the candidates to be selected shall be the ones who got the largest number of supporters in the vote at the general meeting for such qualification, provided that if the office in question is that of an external director under the Companies Law, the candidates to be elected shall be the ones who get the largest number of supporters in the vote at the general meeting from among the votes of the shareholders as stated in Section 239(b)(1) of the Companies Law. In case a determination is required to be made between several candidates who received an equal number of votes, the determination as to which one of them shall serve as a director shall be made by lot.

The majority required for adoption of the resolutions specified in Sections 1.5 (Agenda Item No. 9 – Approval of a remuneration policy for the office holders of the Bank) and 1.7 (Agenda Item No. 11 – Approval of the terms of office and employment for the CEO of the Bank), considering the fact that the Bank is a banking corporation without a core of control, of the Report, is a majority of the votes of the shareholders participating in the vote, provided that one of the following is fulfilled: (1) The count of the majority votes includes at least a majority of the total of votes of shareholders who are not controlling parties of the Bank<sup>14</sup> or have no personal interest in the approval of the remuneration policy or the approval of the terms of office and employment of the CEO, as the case may be, participating in the vote. When counting all of the votes of such shareholders the votes of those abstaining shall not be taken into account; (2) the total of dissenting votes from among the shareholders mentioned in Subsection (1) above does not exceed a rate of two percent of all voting rights in the Bank.

#### 7.4 Personal interest and details with respect to shareholders

For the purpose of Agenda Items No. 3-5 – the appointment of two external directors in accordance with the Companies Law (from among Adv. Ronit Abramson Rokach, CPA Frige Issawi and CPA Dalia Lev)) - any shareholder who wishes to participate in the vote shall notify the Bank prior to voting at the Meeting – in person or by his attorney-in-fact (including by way of indicating on the power of attorney), as the case may be, or if voting is by Voting Card – by way of indicating on the space designated therefor on the Voting Card, whether he is a controlling party of the Bank<sup>15</sup>, or has a personal interest in the approval of the appointment (other than a personal interest in the approval of the appointment not resulting from his relations with the controlling party. If a shareholder fails to so notify, he shall not vote and his vote shall not be counted.

For the purpose of Agenda Items No. 9 (Approval of a remuneration policy for the office holders of the Bank) and No. 11 (Approval of terms of office and employment for the CEO of the Bank), any shareholder who wishes to participate in the vote shall notify the Bank prior to voting at the Meeting – in person or by his attorney-in-fact (including by way of indicating on the power of attorney), as the case may be, or if voting is by Voting Card – by way of indicating on the space designated therefor on the Voting Card, whether he is a controlling party of the Bank<sup>16</sup>, has a personal interest in the approval of the items on the agenda as aforesaid, or has not. If a shareholder fails to so notify, he shall not vote and his vote shall not be counted.

In addition, any shareholder who wishes to participate in the vote shall notify whether or not he is an interested party in the Bank, a senior officer of the Bank, or an institutional investor.

#### 7.5 Record Date

The record date for the purpose of eligibility to participate and vote at the Meeting, in accordance with Section 182 of the Companies Law and pursuant to Section 3 of the Voting in Writing Regulations, is **Thursday, 24.9.2020** (the “**Record Date**”).

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<sup>14</sup> As of the date of the Report, the Bank has no controlling party.

<sup>15</sup> As of the date of the Report, the Bank has no controlling party.

<sup>16</sup> As of the date of the Report, the Bank has no controlling party.

#### 7.6 Representative/Proxy for the vote

Any shareholder of the Bank who is entitled to participate and vote in the Meeting may appoint an attorney-in-fact to vote in his name. The appointment of a representative shall be in writing and signed by the appointer or his authorized representative for this purpose, and if the appointer is a corporation – by the person/s authorized to bind the corporation. The letter of appointment and the power of attorney (if any) under which the letter of appointment is signed, shall be deposited with the offices of the Bank **no less than forty eight (48) hours before the time scheduled for the opening of the Meeting**; however, the chairman of the Meeting may waive such requirement with respect to all of the participants in the Meeting and receive the letter of appointment and/or power of attorney at the commencement of the Meeting.

#### 7.7 Quorum and time of adjourned meeting

The quorum for holding the Meeting consists of the presence of at least two shareholders holding at least twenty five percent (25%) of the voting rights, within 30 minutes of the time scheduled for the opening of the Meeting. If a quorum is not present 30 minutes after the time scheduled for the opening of the Meeting, the meeting shall be adjourned to **Thursday, 29.10.2020 at 16:00** at the same place. If the aforesaid quorum is not present at the adjourned meeting 30 minutes after the time scheduled therefor, the meeting shall be held with any number of participants.

#### 7.8 E-Voting Card

As noted above, an Unregistered Shareholder is entitled to vote also by means of the E-Voting System. Voting by means of an E-Voting Card shall be available **up to six hours before the time of convening of the general meeting**.

#### 7.9 Voting in writing by means of voting cards

A shareholder may vote on an item on the agenda at the general meeting also by means of the Voting Card. Voting in writing will be effected by Part 2 of the Voting Card attached hereto.

The Voting Card and the position statements, within the meaning thereof in Section 88 of the Companies Law, insofar as given, are available for inspection on the Distribution Website at: <http://www.magna.isa.gov.il> and on the TASE Website at: <http://maya.tase.co.il>. Any shareholder may apply to the Bank directly and receive therefrom the form of the Voting Card and the position statements (if given).

A TASE member shall send, free of charge, by email, a link to the form of the Voting Card and the position statements (if given), on the Distribution Website, to any shareholder of the Bank who is not registered in the Bank's shareholders register and whose shares are registered with such TASE member, unless the shareholder shall have notified that he is not interested, or that he wishes to receive Voting Cards by post for the payment of postage fees, provided that the notice shall have been given with respect to a specific securities account and on a date preceding the Record Date.

The Voting Card and the documents to be attached thereto as specified in the Voting Card shall be delivered to the offices of the Bank (including by way of registered post) together with the ownership confirmation (and with respect to a registered shareholder – together with a photocopy of the identity card, passport or certificate of incorporation, as applicable), **up to four hours before the time of convening of the general meeting**. For this purpose, the "time of delivery" is the time at which the Voting Card and the documents attached thereto arrive at the Bank's offices.

An Unregistered Shareholder shall be entitled to furnish the ownership confirmation also by means of the E-Voting System.

In accordance with Section 83(d) of the Companies Law, if a shareholder votes in more than one way, his later vote shall be counted; for this purpose, a shareholder's vote in person or by proxy shall be deemed later to a vote by means of a Voting Card.

A Voting Card to which an ownership confirmation shall not have been attached (or, alternatively, the ownership confirmation shall not have been furnished by means of the E-Voting System), or as concerns a registered shareholder – a Voting Card to which a copy of the identity card, passport or certificate of incorporation, as applicable, shall not have been attached, shall be invalid.

One shareholder or more holding shares to an extent that constitutes five percent or more of all voting rights in the Bank (i.e., 66,794,906 ordinary shares of the Bank of ILS 1.00 par value each (“**Ordinary Shares**”)) is entitled, after the convening of the general meeting, to inspect the Voting Cards and the voting records by means of the E-Voting System received by the Bank, as specified in Section 10 of the Voting in Writing Regulations.

#### 7.10 Ownership confirmation

An Unregistered Shareholder shall be entitled to participate in the general meeting if he furnishes the Bank, prior to the general meeting, with an original confirmation by the TASE member with which his right to a share is registered, of his ownership of shares of the Bank on the Record Date, in accordance with the form in the Schedule to the Companies Regulations (Proof of Ownership of a Share for the purpose of Voting in a General Meeting), 5760-2000 (the “**Ownership Confirmation**”) or, alternatively, if he sends the Bank an ownership confirmation via the E-Voting System.

An Unregistered Shareholder is entitled to receive the Ownership Confirmation from the TASE member by which he holds his shares, at the branch of the TASE member or by post to his address for postage fees only, if he so requests, provided that a request on this matter be given in advance for a specific securities account.

An Unregistered Shareholder may instruct that his Ownership Confirmation be transferred to the company via the E-Voting System.

#### 7.11 Deadline for delivery of positions statements

After the release of this notice of meeting report, position statements may be published, which will be available for inspection in the Bank's reports published on the Distribution Website and on the TASE Website.

The deadline for the delivery of position statements to the Bank by the Bank's shareholders is up to 10 (ten) days before the date of the Meeting (i.e. **by 12.10.2020**).

8. Please note that Section 34(A1) of the Banking Law (Licensing), 5741-1981, prescribes as follows: “No person shall agree with another with respect to their vote on the appointment of a director in a banking corporation or in a banking holding corporation, including with respect to their vote on the termination of his office, other than in accordance with a permit granted by the Governor after consulting with the Licences Committee; this provision shall not apply to a body of holders within the meaning thereof in Section 11D(a)(3)(b) of the Ordinance, with respect to a vote on the appointment of a director proposed by them as a candidate under the same section, and to a holder of means of control who shall have agreed with another that the other would vote in his name and on his behalf without discretion, as the holder of the means of control instructs, provided that if the other himself holds means of control in the banking corporation or in the banking holding corporation, as applicable, he will not vote in the name and on behalf of more than one other holder”. The foregoing indicates, *inter alia*, that for the purpose of Agenda Items 3-8 (appointment of directors), an attorney-in-fact who is himself also a shareholder of the Bank may vote in the name and on behalf of one additional shareholder only.

9. **Representative of the Bank for the purposes of the Report**

The Bank's representative for the purposes of this report is Adv. Amit Levi, 63 Yehuda Halevy Street, Tel Aviv 6578109; Telephone: 03-5676594; Facsimile: 03-5673343.

10. **Inspection of documents**

This report, the documents mentioned herein (including the Voting Card and the position statements, insofar as given) and the complete wording of the resolutions presented for approval by the Meeting, are available for inspection in the offices of the Secretary of the Bank, 63 Yehuda Halevy Street, Tel Aviv, during normal business hours, after prior coordination by telephone: 03-5673800, until the time fixed for the Meeting.

This report, the Voting Card and the position statements (insofar as given) are also available for inspection on the Distribution Website and on the TASE Website, as mentioned above.

**Yours faithfully,**

**Bank Hapoalim B. M.**

**The Names of the Signatories of the Report and Their Titles:**

**Yael Almog, Chief Legal Advisor**

**Amit Levy, Legal Advisor to the Board of Directors**

# **Bank Hapoalim Ltd.**

## **Officer Compensation Policy**

**Chapter A – Introduction and Basic Principles**

**Chapter B – Underlying Rules for the Compensation Policy**

**Chapter C – The Fixed Compensation**

**Chapter D – The Variable Compensation**

**Chapter E – Insurance and Indemnification Arrangements**

**Chapter F – Retirement Arrangements**

September 2020

**Bank Hapoalim Ltd. (the “Bank”)**  
**Officer Compensation Policy**

*Chapter A - Introduction and Basic Principles*

1. Background

- 1.1. The Bank aims to compensate officers and managers for their work and contribution to the Bank and to retain them for the long term while creating proper incentives and tying their interests to the interests of the Bank and the stakeholders therein, consistent with the Bank’s objectives, work plans and policy.
- 1.2. The Compensation Policy is consistent with the strategy of the Bank, the Bank’s work plans and risk appetite, and its purpose is to maximize the value of the Bank while placing emphasis on the stability of the Bank and interchangeability between achieving return and assuming risk.
- 1.3. The Compensation Policy is adjusted to the provisions of the Companies Law, 5759-1999 (the “**Companies Law**”), the Proper Conduct of Banking Business Directive No. 310A on Compensation Policies at a Banking Corporation (“**Directives on Compensation in a Banking Corporation**”), and pursuant to the Compensation of Officers of Financial Corporations Law (Special Approval and Non-Allowance of Expenses for Tax Purposes for Irregular Compensation), 5776-2016 (the “**Restriction of Compensation Law**”).
- 1.4. In accordance with Section 2(a) of the Restriction of Compensation Law, an engagement of a financial corporation with a senior officer or employee which includes the granting of compensation (excluding a pension payment and severance pay pursuant to law), the “projected expense”<sup>1</sup> in respect of which exceeds ILS 2.5 million in a year,<sup>2</sup> requires approval by the Compensation Committee, the Board of Directors and the general meeting (the “**Compensation Tier**”). Compliance with the Compensation Cap is examined on the date of approval of the engagement in accordance with the “projected expense” only, and therefore, according to the Restriction of Compensation Law, actual payment according to the Compensation Policy in a given year may also be above or below the Compensation Cap.
- 1.5. Pursuant to Section 4 of the Restriction of Compensation Law, an expense for the cost of salary borne by the Bank, if any, directly or indirectly, in the tax year, for a senior officer or employee, which

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<sup>1</sup> Throughout this policy, wherever reference is made to the term “projected expense”, its meaning shall be pursuant to the provisions of the Restriction of Compensation Law, such that the relevant calculation shall not include a provision for “a pension payment and severance pay pursuant to law”. Additionally, according to the ruling of HCJ 4406/16 and 4534/16 of September 29, 2016, the projected expense shall be calculated so as not to prejudice historic rights, as defined in the Restriction of Compensation Law.

<sup>2</sup> Linked to the CPI known on April 12, 2016, and according to the definition of “compensation” in the Restriction of Compensation Law.

exceeds the “payment cap”, as defined in the said Section 4, shall not be recognized for the Bank as an expense for tax purposes.

- 1.6. Pursuant to Section 2(b) of the Restriction of Compensation Law, an engagement as aforesaid shall not be approved, unless the ratio between the projected expense and the expense for the lowest compensation at the Bank (as specified in the Restriction of Compensation Law) is less than 35 (the “**Salary Ratio Cap**”) (the Salary Ratio Cap or the Compensation Tier (in cases where the meeting of the shareholders shall not have approved compensation higher than the Compensation Tier), as the case may be, shall hereinafter be referred to as: the “**Compensation Cap**”).
- 1.7. Further to the aforesaid, subject to the terms and conditions of the Restriction of Compensation Law, the Bank’s Board of Directors and Compensation Committee may approve compensation of an officer who reports to the CEO according to this Compensation Policy, including an update of such compensation, without the need for additional approval by the general meeting, provided that the cost of the officer’s annual compensation (in terms of the Restriction of Compensation Law) does not exceed the caps stated herein. Approval of the policy shall constitute approval of an engagement with the officers (including an update of the terms and conditions of an engagement) according to Section 2(a) of the Restriction of Compensation Law.

2. Principles and objectives of the Officer Compensation Policy

Specified below are the principles and objectives underlying the Officer Compensation Policy:

- 2.1. Motivating the officers to act to create long-term economic value for the Bank and the stakeholders in the Bank, in a manner which strengthens the connection between the compensation and the creation of value for the stakeholders of the Bank. In accordance with this objective, the payment of salaries to the Bank’s managers and employees will be derived from a scale of ranks which allows for promotion and expresses the authority and responsibility at the various levels of the organizational hierarchy. Part of the fixed compensation may be paid in share-based instruments which will be restricted at the time of the granting thereof, for the long term.
- 2.2. An annual bonus (if any), will be based on the Bank’s ROE (as defined in Section 13 below), and will also be determined according to achievement of quantitative and qualitative measurable (and non-measurable) personal performance targets, as well as on long-term plans and targets which are adapted to the comprehensive strategic plan of the Bank and of its sub-units, and to the work plans derived therefrom.
- 2.3. Adjusting the overall compensation to the Bank’s risk appetite. The annual and multi-annual work plans are built, *inter alia* while taking into account the scope of the risks, including the various types thereof, which

the Bank is prepared to assume. The variable compensation is also based on performance targets which express the risk appetite components, while achieving an ROE threshold, defines the threshold conditions for distribution of the annual bonus<sup>3</sup>.

- 2.4. The risk management, control and audit functions at the Bank assisted in ensuring that the risk indicators and key performance indicators which are used in the officer compensation mechanisms are consistent with the objectives of the Compensation Policy and will ensure effectiveness of the compensation mechanisms.
- 2.5. A central objective of this Compensation Policy is building a compensation model which will help maintain the competitiveness of the Bank in recruiting and retaining quality human resources for senior management positions. From this perspective, the amount of the compensation will be proportionate and will take into account market conditions, the Bank's compensation structure and regulatory restrictions on the compensation. In the framework of formulating the Compensation Policy of the Bank, efforts were made to compensate and incentivize the Bank's officers to lead the Bank to achievements using the tools allowed by the law, including the Restriction of Compensation Law.
- 2.6. The officers' compensation will include a component which reflects fulfillment of general targets of the Bank in the field of risk management and in the field of compliance with the law and the Bank's procedures. The Bank's Board of Directors, through the Compensation Committee of the Board, will supervise the implementation of the Compensation Policy, and consult, for such purpose, with the risk management, control and audit functions at the Bank. The Compensation Committee, after consultation with the risk management, control and audit functions at the Bank, will design the means of control in order to ensure fulfillment of the Compensation Policy's principles, such that it will be possible to ensure, on an ongoing basis, that the actual compensation of the officers, the risk and key performance indicators and their results, are consistent with the compensation mechanisms chosen, and with the objectives of the policy, and adjustments may be made as necessary. The risk management and control functions at the Bank will conduct ongoing controls and will ensure that the compensation agreements and mechanisms are implemented according to the Compensation Policy and the compensation plans deriving therefrom.
- 2.7. To promote a compensation structure which takes into consideration the effect of the compensation disparities between various ranks at the Bank on the work relations at the Bank and supports good work relations.
- 2.8. Adjustment of the compensation to the type of activity and the responsibility of the officers and their skills, such that upon

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<sup>3</sup> In certain cases where the threshold conditions are not met, a discretionary bonus may be approved, as specified in Section 13.2 of this policy.

determination of the officer's compensation, his education, skills, expertise, professional experience and achievements will be examined, and his position, responsibilities and previous salary agreements signed with him will be taken into account. Compensation of organizational functions involved in supervision and control will be determined on the basis of standards which take into account the importance and sensitivity of such positions.

- 2.9. Variable compensation for employees of the Bank who work in marketing or sales of products and services or in the provision of service or advice to customers of the banking corporation, shall be consistent with the risk management of the banking corporation. Such compensation shall not encourage compliance violations and unfair treatment in the framework of the relationship with the customer.
- 2.10. The Bank will require that the officers undertake not to create private hedging arrangements which counteract the effect of the sensitivity to risk inherent in their compensation, and will determine arrangements to ensure this requirement.

3. The Officers subject to the Compensation Policy

The Compensation Policy is intended to determine a framework for the terms of office and employment of the Bank's managers who are officers thereof ("**Managers**"). The Bank's officers comprise:

- 3.1. The Chairman of the Board and the other Board members;
- 3.2. CEO of the Bank;
- 3.3. Members of the Bank's management and the internal auditor;
- 3.4. Managers from among the Bank's senior managers who are not members of management, and who are officers since they report directly to the Bank's CEO (each one, "**Senior Manager**")<sup>4</sup>;

In this Compensation Policy document, unless expressly stated otherwise, the term "**Officers**" shall not refer to the members of the Board of Directors of the Bank who are not the Chairman of the Board.

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<sup>4</sup> The compensation of Senior Managers, and the structure thereof, is similar to the compensation principles described in this policy with respect to officers who are members of management, and in any event, their compensation does not exceed (in monetary terms) the caps stated in this policy.

4. Means of compensation

Subject to the provisions of the applicable law, except for the compensation of the Chairman of the Board, the overall compensation package of an officer combines fixed and variable components in order to incentivize the officer to achieve good performance while avoiding taking risks beyond the Bank's risk appetite. Subject to the provisions of the applicable law, the compensation package of the Bank's officers may include the following components:

- 4.1. Fixed compensation (not performance-based) – monthly/annual salary, social benefits and related benefits, fixed equity compensation, adjustment bonus (subject to specific approval) and retirement payments which do not exceed the standard applied with respect to the Bank's other employees.
- 4.2. Variable compensation (generally performance-based) – annual bonus, discretionary bonus, special bonus (if paid), sign-on bonus for new officers, and retirement payments exceeding the standard applied with respect to the Bank's other employees.

The compensation for officers (excluding directors) shall be paid in full, directly to the officer and not via a corporation or any other entity.

**Chapter B – Underlying Rules for the Compensation Policy**

5. Fair compensation ratios between the Bank’s employees
- 5.1. In determining the Compensation Policy, consideration is given to the ratio between the cost of the overall compensation of the officers, including fixed compensation and variable compensation (the “**Overall Compensation**”), and the cost of the Overall Compensation of the Bank’s employees (including the salary of agency employees), while examining the compensation hierarchy at the Bank and examining the cost of the Overall Compensation within the various ranks of the Bank’s employees. Additionally, in the framework of such examination, consideration is also given to the ratio between the cost of the Overall Compensation of the Chairman of the Board and the CEO and the other officers, and the average and median cost of the Overall Compensation of all the Bank’s employees (including agency employees). The said ratios were examined by the Compensation Committee and the Board of Directors upon formulating the Compensation Policy, and the effect of the said ratios on the work relations at the Bank was examined. The expected ratios between the Overall Compensation of the officers and the Overall Compensation of the Bank’s other employees (as of the date of adoption of the Compensation Policy) are as follows<sup>5</sup>:
- 5.1.1. The ratio between the cost of the Overall Compensation of each one of the Chairman, the CEO and a member of management, and the average cost of the Overall Compensation of the Bank’s other employees is no more than x10.9.
- 5.1.2. The ratio between the cost of the Overall Compensation of each one of the Chairman, the CEO, and an officer, and the median cost of the Overall Compensation of the Bank’s other employees is no more than x12.9.
- 5.2. The compensation is subject to the restrictions of the applicable law, including the Restriction of Compensation Law. The Compensation Committee and the Board of Directors examined the Salary Ratio Cap, given the lowest compensation at the Bank (as specified in the Restriction of Compensation Law)<sup>6</sup>. Generally, any change initiated by the Bank which is not required by law in the lowest compensation at the Bank as aforesaid, which may affect the Salary Ratio Cap (with the exception of linkage to the CPI), will be presented for the approval of the Compensation Committee and the Board of Directors.
- 5.3. The compensation hierarchy at the Bank is designed to serve the management needs of the Bank while ensuring fair compensation for the

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<sup>5</sup> The calculation was made in accordance with the Compensation Caps in the Compensation Policy as of the date of this report, compared with the compensation of the Bank employees for 2019 (as emerges from the Bank’s financial statements for that year).

<sup>6</sup> According to the lowest salary at the Bank pursuant to the provisions of the Restriction of Compensation Law, as of the date of adoption of this Compensation Policy, the Salary Ratio Cap is approx. ILS 2.94 million per year.

various ranks of the Bank's employees in accordance with their contribution, the level of their responsibility and their relative influence over the organization's business.

- 5.4. The compensation hierarchy, including the possible promotion tracks, was designed, *inter alia*, to maintain good work relations at the Bank, as well as the Bank's value system. The ratio between the officers' compensation and the compensation of the Bank's other employees is examined periodically, and if necessary, adjustments are examined, insofar as a concern arises of an adverse effect on the work relations.

6. The ratio between the variable components and the fixed components

- 6.1. In determining the Overall Compensation of the officer, the ratio between fixed components and variable components of the compensation will be taken into consideration. The examination will be performed in consideration of the applicable law (including the restrictions of the Restriction of Compensation Law), the experience, expertise, skills, seniority, responsibility and performance of the officer, as well as the need to encourage behavior which supports the risk management framework and the long-term financial strength of the Bank, while providing explanations for each component and at times examining the reasonableness of the granting thereof also relative to the common market practice. The maximum variable compensation shall not exceed 100% of the fixed compensation for each officer.

- 6.2. The aforesaid notwithstanding, in exceptional circumstances, the Bank may determine that the maximum variable compensation will be up to 200% of the fixed compensation, and in such cases the Board of Directors (and the general meeting, if required by law) shall give reasons for its said decision, stating the number of employees affected, their position and the effect thereof on the banking corporation.

7. Transitional provisions regarding payments for separation of employment:

The Officers will be entitled to all of the rights accrued and/or to be accrued until the conclusion of the agreements prior to the Restriction of Compensation Law applying to their compensation, in connection with the terms of conclusion of their employment, provided that the projected expense for engagements from the date of commencement of the Restriction of Compensation Law does not deviate from the Compensation Cap.

**“Rights Accrued and/or to be Accrued Until the Conclusion of the Agreements Prior to the Restriction of Compensation Law Taking Effect”** are rights, the accrual of which is related to seniority, rank, position etc., such as the right to choose an early pension track, severance pay, bonus for non-use of sick leave, benefits for retirees of the Bank which are also granted to the Bank's other employees, etc.

Bonus for non-use of sick leave – The entitlement to the sick leave accrued in the framework of the agreements prior to the Restriction of Compensation Law

taking effect will be preserved for purposes of “a bonus for non-use of sick leave”, which may be paid upon retirement according to the provisions of such agreements, provided that the number of sick leave days accrued, as aforesaid, is no higher than the accrued sick leave days remaining until the retirement date, and the calculation will be made on the basis of the salary according to the agreement prior to the Restriction of Compensation Law taking effect.

8. **The Compensation Policy in itself does not grant rights to individual compensation to an officer of the Bank. An officer will be entitled to the compensation components stated in the Compensation Policy document according to resolutions, engagements and approvals of the Bank’s competent organs and subject to the provisions of any law.**

**Chapter C – The Fixed Compensation**9. Structure of the fixed compensation9.1. **Members of management and senior managers who are Officers (with the exception of the Chairman of the Board and the CEO)**

Members of management and senior managers who are Officers (with the exception of the Chairman of the Board and the CEO) may be entitled to fixed compensation as specified below:

9.1.1. The annual salary<sup>7</sup> for managers who are Officers of the Bank is determined according to the ranks assigned to them. The scale of ranks at the Bank expresses the position of the Officers, their type of activity and their responsibilities, their education, skills, expertise, experience, seniority, achievements and previous salary agreements that were signed with them. The annual salary of the Officers of the Bank is not expected to exceed the following caps (linked to the rise in the CPI<sup>8</sup>):

<i>Position</i>	<i>Cap in ILS in millions<sup>9</sup></i>
Member of management	1.8
Officer who is not a member of management	1.2

Promotions at the Bank from one rank to another are made in consideration of the employee's achievements, his progress, the meeting of targets set for him, his responsibilities, etc., such that it is possible to move up through the ranks according to the aforesaid.

9.1.2. Annual equity compensation at a fixed monetary value that shall not exceed 25% of the sum of the fixed compensation per year according to this chapter, in respect of which no social benefits shall be paid, which shall be granted in the form of ordinary shares of the Bank (the "**Fixed Equity Compensation**"). Subject to the applicable law, the Fixed Equity Compensation shall be granted pursuant to Section 102 of the Income Tax Ordinance, and exercise thereof shall be restricted for a period of up to three years.

<sup>7</sup> Namely the gross fixed salary paid in cash (as distinguished from employment cost). Social benefits may not be paid in respect of some of the salary components,

<sup>8</sup> Wherever linkage to the rise in the CPI is mentioned, if the CPI decreased, no salary reduction shall be effected, but rather the salary will not go up until the CPI is higher than the last CPI to which it was adjusted.

<sup>9</sup> The figures are according to the CPI known on September 15, 2020.

9.1.3. The fixed compensation of the Bank's Officers may be linked to the rise in the CPI.

9.1.4. Pursuant to the provisions of the applicable law, a non-material change to the compensation conditions of an officer who reports to the CEO will not require the approval of the Compensation Committee and the Board of Directors if approved by the CEO, upon fulfillment of the following cumulative conditions : (1) the change is up to 15% of the sum of the compensation (in the aggregate throughout the term of the employment agreement); (2) the terms of office and employment are consistent with this Compensation Policy; and (3) the rise is of up to one level on the Bank's scale of ranks.

## 9.2. **Chairman of the Board**

9.2.1. The compensation of the Chairman of the Board is determined relative to the method of compensation of the other board members, considering, *inter alia*, the Bank's size, the complexity of its activities and the scope of the Chairman of the Board's position.

9.2.2. The annual compensation of the Chairman of the Board (all of which will be fixed compensation) shall not exceed the Compensation Tier (as defined above) and shall be paid on a monthly basis with reimbursement of expenses, subject to the provisions of the applicable law<sup>10</sup>. The monthly payment will be linked to the rise in the CPI<sup>11</sup>. Insofar as relevant, V.A.T as required by law shall be added to this amount.

9.2.3. The Chairman may be entitled to payment of compensation also in respect of days on which he does not provide services to the Bank due to leave or sick leave as is standard at the Bank with respect to members of management.

9.2.4. The Chairman may be entitled to reimbursement / payment of expenses for telephones, reimbursement of *per diems*, tax gross-up.

## 9.3. **CEO**

9.3.1. The CEO's compensation is subject to the caps stated in this policy and in the Restriction of Compensation Law.

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<sup>10</sup> The aforesaid notwithstanding, if the law does not allow the granting to the Chairman of the Board of compensation in accordance with this section, he may be entitled to compensation in accordance with the provisions of Section 9.4 below only.

<sup>11</sup> The linkage will be to the CPI known on September 15, 2020.

9.3.2. The CEO's monthly salary shall not exceed the sum of ILS 201,500 per month, linked to the rise in the CPI<sup>12</sup>, subject to the provisions of the applicable law.

9.3.3. The CEO may be entitled to annual equity compensation at a fixed monetary value that does not exceed 25% of the sum of the fixed compensation per year, in respect of which no social benefits shall be paid, which shall be granted in the form of ordinary shares of the Bank. Subject to the applicable law, the annual equity compensation shall be granted pursuant to Section 102 of the Income Tax Ordinance and exercise thereof shall be restricted for a period of up to three years. The amount of the fixed equity compensation may be linked to the rise in the CPI.

#### 9.4. **Compensation of the board members**

All of the board members (with the exception of the Chairman of the Board) are entitled to compensation according to the maximum possible compensation (annual compensation and meeting attendance compensation) pursuant to law with respect to external directors, and may also be entitled to reimbursement of expenses.

#### 10. Specification of the components of benefits and related payments which constitute part of the fixed compensation

10.1. The Bank's Officers are entitled to social benefits and benefits according to law and their employment agreements, and may be entitled also to benefits according to the standard practice at the Bank (also with respect to other non-officer employee groups), including leave, sick leave, study fund, pension funds and provident funds, income protection insurance, recuperation pay, benefits in connection with management of an account at the Bank, etc. Accrual of leave days will be possible from 2020, according to the Bank's policy on accrual of leave days for members of management and Officers.

10.2. The Bank's Officers may be entitled to related benefits as is standard at the Bank (also with respect to other non-officer groups), including a company car and/or car maintenance, telephone maintenance expenses, reimbursement of *per diems*, tax gross-up, etc.

10.3. The Bank's Officers may be entitled to retirement payments as specified in Chapter F below and to benefits for retirees of the Bank which are also granted to the Bank's other employees upon retirement (such as: insurance, holiday gifts, etc.).

11. The Bank's Officers shall not receive consideration for participation in other boards of directors (with the exception of reimbursement of recognized expenses) of companies in the Bank's group.

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<sup>12</sup> The linkage will be to the CPI known on September 15, 2020.

**Chapter D – The Variable Compensation**12. Structure of the variable compensation

Subject to the provisions and restrictions of the applicable law, the Officers may be entitled to variable compensation. The variable compensation may comprise an annual bonus, entitlement to which shall be established only upon fulfillment of a threshold condition of meeting an ROE, a Discretionary Bonus (as defined below), a special bonus and a sign-on bonus for new officers in the Bank's group.

The Bank's Officers may be entitled to retirement payments as specified in Chapter F below. Retirement payments that exceed the standard practice at the Bank shall be classified as variable compensation.

13. The annual bonus for the Officers (with the exception of members of the Bank's Board of Directors)

The annual bonus mechanisms at the Bank are based mainly on the concept of compensation for creating economic value, all in accordance with the Bank's risk management policy.

**“Net Profit”** – the Bank's net profit attributed to the Bank's shareholders, according to the Bank's audited annual financial statements for the bonus year.

**“ROE”** – means the Net Profit return on equity as reported in the Bank's audited annual financial statements for the bonus year.

**“Threshold Condition”** – a condition to be determined by the Compensation Committee and the Board of Directors, non-fulfillment of which means non-entitlement to the annual bonus unless explicitly determined otherwise in this policy. Unless the Compensation Committee and the Board of Directors determine otherwise, the Threshold Condition is meeting the Minimum ROE.

**“Minimum ROE”** – the component of the Bank's performance which, in the annual bonus, will be determined in accordance with ROE brackets, with the bottom bracket being the “minimum ROE”. With respect to this Compensation Policy, the Compensation Tiers are from a minimum ROE of 7%. The Compensation Committee and the Board of Directors may increase or reduce the minimum ROE by up to 1% at the beginning of each bonus year, provided that the spread between the Minimum ROE and the Maximum ROE remains 3%.

**“Maximum ROE”** – the component of the Bank's performance which, in the annual bonus, will be determined in accordance with ROE brackets, with the top bracket being the “maximum ROE”. With respect to this Compensation Policy, the Compensation Tiers are up to a maximum ROE of 10%. The Compensation Committee and the Board of Directors may increase or reduce the maximum ROE by up to 1% at the beginning of each bonus year, provided that the spread between the Minimum ROE and the Maximum ROE remains 3%.

**“Discretionary Restriction”** – a restriction that applies to variable compensation of ‘key employees’, as defined in the Directives on Compensation in a Banking Corporation, according to which all of the discretionary components in the variable compensation of the key employee shall not exceed 3 salaries in respect of any year.

### 13.1. Calculation of the annual bonus for the CEO

In accordance with the following conditions and subject to compliance with the Threshold Condition, the CEO may be entitled to an annual bonus which shall not exceed a cap of **5** salaries, subject to the cap stated in the Restriction of Compensation Law. Insofar as the calculated bonus leads to the CEO’s compensation exceeding the Salary Ratio Cap in the Restriction of Compensation Law (stated in Section 2(b) of this law), the CEO’s bonus will be cut off at the sum of the cap permitted by law. Part of the CEO’s compensation shall not constitute a recognized expense for tax purposes, all subject to the provisions of the Restriction of Compensation Law. The annual bonus shall comprise two (2) components and shall be calculated as the sum thereof, as follows:

- 13.1.1. The Bank’s performance component: a bonus component of up to **2 salaries** according to ROE brackets, from the Minimum ROE to the Maximum ROE.
- 13.1.2. Discretionary component: a bonus component of up to **3 salaries** (subject to the Discretionary Restriction), to be determined by the Compensation Committee and the Board of Directors, and which may take criteria into account.

The aforesaid notwithstanding, and subject to the provisions of the applicable law, in a case where the Threshold Condition is not fulfilled, the Compensation Committee and the Board of Directors will be entitled to approve a bonus of up to **3 salaries** (subject to the Discretionary Restriction), which may take criteria into account (**“Discretionary Bonus”**).

### 13.2. Calculation of the annual bonus for the Officers

Subject to the provisions of Section 13.2.3 below, in accordance with the following conditions and subject to compliance with the Threshold Condition, an officer may be entitled to an annual bonus which shall not exceed a cap of **5** salaries (and for certain ranks, up to 7 salaries, with the personal component cap increasing as a function thereof), subject to the Salary Ratio Cap.

The annual bonus shall be presented for the approval of the Compensation Committee and the Board of Directors after the recommendation of the Bank’s CEO (or the relevant teams in the case of supervision and control functions, as specified in Section 13.3 below).

The annual bonus shall comprise three (3) components and shall be calculated as the sum thereof, as follows:

- 13.2.1. The Bank's performance component: a bonus component of up to **1.5 salaries**<sup>13</sup> according to ROE brackets, and as specified in Section 13.1.1 above regarding the CEO.
- 13.2.2. Personal component: a bonus component of **up to 1.5 salaries** which shall be calculated according to a grade that is given to the officer for his meeting a set of personal targets to be determined for him in advance, including also risk indicators (for example measurable financial targets of the Bank, qualitative targets and departmental targets) ("KPIs"). The KPIs may include also handling of audit findings.

The KPI targets shall be determined in advance but may be modified in irregular circumstances subject to the law.

Unless determined otherwise by the Compensation Committee and the Board of Directors, and subject to the provisions below with respect to supervision and control functions, the CEO will be authorized to determine the KPI targets for the Officers and the managers who report to him who do not hold supervision and control positions, and the achievement thereof, according to this policy.

- 13.2.3. CEO discretionary component – a bonus component of up to **3 salaries** for an officer (subject to the Discretionary Restriction), to be determined by the CEO out of a total bonus budget of up to **1.5 salaries** for each member of management.
- 13.2.4. The aforesaid notwithstanding, insofar as the law allows, the Compensation Committee and the Board of Directors will be entitled to determine that the annual bonus caps for the Officers will be higher than those stated in this section by up to 3 salaries. Approval of this Compensation Policy shall constitute approval for an engagement with the Officers (including an update of the terms of such an engagement) in amounts which exceed the amount stated in Section 2(a) of the Restriction of Compensation Law and in accordance with the provisions of this section. In a case where the bonus cap is higher than the cap stated in Section 2(a) of the Restriction of Compensation Law, part of the Officers' salary shall not constitute a recognized expense for tax purposes, all subject to the provisions of the Restriction of Compensation Law.
- 13.2.5. The aforesaid notwithstanding, in a case where the Threshold Condition is not fulfilled, the Compensation Committee and the Board of Directors will be entitled to approve a bonus budget

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<sup>13</sup> With respect to Officers who are not members of management, see Footnote 4.

for distribution by the CEO. This component plus all of the other discretionary components that shall be paid to the officer for the relevant year, if paid, shall not exceed 3 salaries (subject to the Discretionary Restriction), and in accordance with the provisions of the applicable law (“**Discretionary Bonus**”).

**13.3. Bonuses for managers in risk management, supervision and control functions**

13.3.1. The provisions of Section 13.2 above notwithstanding, with respect to managers belonging to supervision and control functions, the KPIs, the meeting thereof, and the discretionary component and/or the Discretionary Bonus shall be approved by the Compensation Committee and the Board of Directors according to the recommendation of teams to be determined in relation to each position holder and which may include the CEO and relevant directors (such as the Chairman of the Board, the chairman of the Audit Committee and the chairman of the Risk Management Committee, according to the position holder).

13.3.2. The KPIs of managers belonging to risk management, control and audit functions will be adjusted to the importance and sensitivity of these positions.

**13.4. Granting, staggering and payment of the annual bonus**

13.4.1. The officer’s annual bonus will be paid in cash, after the publication of the Bank’s annual financial statements for the bonus year.

13.4.2. The aforesaid notwithstanding, in a case where the sum of the variable compensation exceeds 40% of the fixed compensation, 50% of the annual bonus may be deferred (the “**Deferred Bonus**”).

13.4.3. The Deferred Bonus may be paid in three equal installments in cash staggered over the three (3) years following the year of payment of the annual bonus, as specified in Section 13.4.1 above. Payment of each installment will be contingent on the Bank’s not recording a loss in its financial statements in respect of the year preceding the date of payment of the Deferred Bonus installment.

13.4.4. The amount of each Deferred Bonus installment will be linked to the rise in the CPI from the end of the tax year in respect of which the bonus was paid until the date of actual payment thereof.

13.4.5. Separation of employment will lead neither to prepayment of the outstanding Deferred Bonus installments nor expiration of the entitlement thereto.

13.4.6. The Deferred Bonus may be paid in shares and/or in share-based instruments, the entitlement to which vests over several years, subject to fulfillment of the above conditions (or other conditions, if the Bank's Board of Directors so determines), and may be subject to a further deferment in certain circumstances, according to a resolution of the Board of Directors.

13.5. In a case where an officer actually works at the Bank only part of a calendar year in respect of which the bonus is calculated, the officer will be entitled to a proportionate part of the performance-based bonus component for such calendar year according to the period of his actual work at the Bank in such year (based on a daily calculation) and may be entitled to up to the full discretionary component.

14. Sign-on bonus for new officers

A new officer joining the Bank group may be entitled to a sign-on bonus which is limited to his first year of employment at the Bank in the sum of up to 6 monthly salaries and subject to the applicable law.

15. Special bonus

In addition to the annual bonus, and irrespective of the terms and conditions thereof, the Bank may grant, from time to time, and on any date in the course of a year, a special bonus to an officer for special contribution, exceptional efforts or a special event, in an amount that shall not exceed 3 monthly salaries, subject to the Discretionary Restriction and pursuant to any law ("**Special Bonus**") and subject to the approval of the Compensation Committee and the Bank's Board of Directors.

16. Reduction of the variable compensation

The Compensation Committee and the Board of Directors may deduct up to 100% of the variable compensation of an officer in cases where the Bank's financial or business condition so requires and/or on grounds relating to the functioning of the officer and/or in exceptional cases of non-compliance with the provisions of the law or grave non-compliance with the Bank's procedures, and for reasons to be given.

**Clawback arrangements according to the provisions of the Companies Law and the Directives of the Banking Supervision Department**

17. Clawback of bonus amounts in the event of amendment of financial statements

17.1. In a case where it transpires that an officer was paid bonuses based on information which transpired to be wrong and was restated in the Bank's financial statements, the officer shall repay the Bank the difference between the amount of the bonus that he received and that to which he was entitled due to the said amendment. The Compensation Committee and the Board of Directors shall determine the date of the repayment and the method of performance thereof. The officer will not be required to

repay the Bank the part of the bonus that was deducted and paid as tax to the Tax Authority.

The provisions of this section shall apply during the period of the officer's employment until three years after the date of separation of his employment at the Bank.

18. Clawback of bonus amounts in exceptional circumstances

18.1 Criteria for clawback – any bonus shall be granted and paid to an officer subject to a stipulation that it is subject to clawback from the officer to the Bank, considering the circumstances and upon fulfillment of one of the following criteria:

18.1.1 The officer was party to conduct that caused the Bank exceptional damage, including illegal activity, breach of the fiduciary duty, deliberate breach or grossly negligent disregard of the banking corporation's policy, rules and procedures;

“**Exceptional Damage**” means an actual significant financial expense due to penalties or financial sanctions imposed on the Bank by an authority authorized by law or according to a non-appealable judgment, a final arbitration award, a settlement arrangement on which the court entered a judgment, etc., which exceed 3% of the Bank's equity at the time of occurrence of the Exceptional Damage. The financial expense shall be calculated after deduction of amounts that were paid or are expected to be paid to the Bank as a collateral benefit from third parties and after accounting for recognition of tax losses.

The expense due to the Exceptional Damage, if any, will be attributed to the relevant year/s in which the act or omission having caused the Exceptional Damage occurred, and not to the current year in which the expense was actually recorded, all according to the determination of the Compensation Committee and the Board of Directors.

18.1.2 Deliberate misconduct or fraud due to which information transpired to be wrong and was restated in the Bank's financial statements;

18.1.3 Circumstances in which the officer was dismissed by the Bank without severance pay, according to the applicable law.

18.2 **The clawback period** – the bonuses will be subject to clawback for a period of 5 years from the date of granting thereof (the “**Clawback Period**”). The Bank may extend the Clawback Period by two additional years, upon fulfillment of all of the following conditions:

18.2.1 During the Clawback Period the Bank shall have instituted an internal investigation or received notice from a regulatory

authority in Israel or abroad that an investigation has been launched;

18.2.2 The Bank is of the opinion that the investigation might reveal that the criteria for clawback, as stated in Section 18.1 above, have been fulfilled;

18.2.3 It is decided that the circumstances for extension of the Clawback Period as aforesaid exist, after an examination of all of the relevant considerations, including the degree of responsibility of the officer and the extent of his involvement in the matter.

The extension period shall come to an end when the investigation is completed and when the degree of responsibility of the officer is clarified.

18.3 **Triggering clawback** – The Compensation Committee and the Board of Directors, or anyone appointed on behalf of the Board of Directors (including a committee of which persons who are not directors may also be members), shall decide whether the criteria for clawback as provided in Section 18.1 above are fulfilled. After hearing the claims of the officer and examining all of the relevant considerations, including the degree of responsibility of the officer and the extent of his involvement in the matter, a decision shall be made, in writing and with reasons, as to whether there are grounds for clawback and the sum of the clawback.

18.4 **The maximum clawback amount** – Considering the importance that the Bank places on compliance with the provisions of the law, the Bank's policy and its procedures, the maximum clawback amount, upon fulfillment of the above criteria, will be up to the amount of the full bonus that was paid to the officer in respect of the year in which the criteria for clawback were fulfilled, considering the circumstances. The officer will not be required to repay the Bank the part of the bonus that was deducted and paid as tax to the Tax Authority.

18.5 Notwithstanding the provisions of Section 18 above, when the total variable compensation granted to an officer for the calendar year does not exceed 1/6 of the fixed compensation in such year, the clawback mechanism will not be triggered, unless the Compensation Committee and the Board of Directors shall have decided to trigger it on special grounds.

19. The clawback arrangements specified in Sections 17 and 18 above constitute implementation of the provisions of the Companies Law and the Directives of the Banking Supervision Department, and they do not derogate from any other or additional remedy which may be available to the Bank pursuant to law vis-à-vis an officer in a case where the Bank suffers damage.

**Chapter E – Insurance, Indemnification Arrangements**

20. Specification of insurance arrangements
- 20.1 The Bank may engage in a contract for insurance of the liability of an officer thereof<sup>14</sup>, due to a liability imposed on him as a result of an act he committed in his capacity as an officer of the Bank (including filling a position on behalf of the Bank at another company), subject to the provisions of any law.
- 20.2 Current D&O liability insurance - The total limits of liability for the Bank's officers in the current insurance policy shall not exceed \$500 million, per claim and in the aggregate<sup>15</sup>.
- 20.3 In addition to the current insurance policy, the Bank may engage in insurance policies as follows:
- 20.3.1 An insurance policy which covers liability (including of officers) in connection with public offerings of securities (a Public Offering of Securities Insurance (POSI) policy) with standard limits of liability, up to 30% of the amount of the offering / the company value, as the case may be<sup>16</sup>.
- 20.3.2 A runoff officers' liability insurance policy (coverage for past activity) in connection with a transfer, purchase, sale, restructuring in the Bank's group, including a merger, insolvency proceeding, appointment of a position holder by a court / regulator, change of control, etc. The limits of liability in a runoff policy shall not exceed \$500 million, per claim and in the aggregate.
- 20.4 The said insurance policies may include, in addition to coverage of the liability of the Bank's officers, also coverage for the liability of the Bank and the Bank's subsidiaries, coverage of reasonable trial costs pursuant to law (also above the limits of liability specified) and coverage for liability of officers in the Bank's group.
- 20.5 Subject to the provisions of the law, engagements of the Bank for the purchase of insurance coverage policies, the terms of engagement in which meet the terms and conditions specified in Sections 20.2 and 20.3 above, will not require the approval of the general meeting and may be approved by the Compensation Committee and the Bank's Board of Directors, including in accordance with the provisions of Section 1B1 of the Companies Regulations (Relaxations in Transactions with Interested Parties), 5760-2000 in relation to insurance policies,

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<sup>14</sup> In this chapter, "Officers", including directors.

<sup>15</sup> For details regarding the current insurance policy in effect on the date of the report, see p. 216 of the Bank's Q2/2020 report.

<sup>16</sup> For details regarding an insurance policy which was purchased in connection with the offer to sell shares of Isracard Ltd., see Section 22 of the Bank's 2018 periodic report (on p. 342).

engagement in which is at market prices and is not likely to have a material effect on the Bank's profitability, assets or liabilities.

21. The indemnification arrangements

21.1. The Bank may undertake to indemnify officers of the Bank, as being from time to time, due to liability imposed on them / an expense they incurred as a result of an act they committed in their capacity as officers (including filling a position on behalf of the Bank at another company).

21.2. The indemnification undertaking may include, *inter alia*, indemnification due to a monetary liability imposed on the officer in respect of events that shall be specified in the letter of indemnification (up to an aggregate indemnification amount for all of the officers of 25% of the equity attributed to the Bank's shareholders, according to the Bank's last known financial statements, prior to actual payment of the indemnification), and indemnification in respect of reasonable litigation expenses, including legal fees, in various proceedings (including administrative proceedings<sup>17</sup>).

21.3. The Bank may retroactively indemnify an officer, subject to the provisions of any law.

22. Specification of the exemption arrangement

The Bank may exempt the Officers thereof in advance and/or retroactively from liability thereto for any damage of any type which was and/or shall be caused, directly or indirectly, to the Bank and/or any subsidiaries of the Bank and/or affiliates of the Bank and/or other corporations, securities of which are and/or shall be held, from time to time, by the Bank ("**Affiliated Corporations of the Bank**"), due to any act or omission that constitutes a breach of the duty of care of the Officers, all in accordance with and subject to the provisions of the Bank's articles of association. The aforesaid shall also apply in respect of the exemption of an officer of the Bank in relation to his being an officer of Affiliated Corporations of the Bank.

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<sup>17</sup> For details regarding the indemnification arrangements at the Bank on the date of the report, see Note 25.B.5 to the Bank's 2019 financial statements (on p. 175).

**Chapter F – Retirement Arrangements**23. Principles for determining the retirement arrangements

Upon determining the retirement arrangements of the officer and upon making retirement payments, an examination will be carried out, *inter alia*, of the period of office or employment of the officer, the terms and conditions of his office and employment during such period, the Bank's performance during such period, the officer's contribution to the achievement of the Bank's goals and to maximization of its profits, and the circumstances of the retirement. The retirement payment shall be capped, as specified in this chapter below and as applicable.

24. Transitional arrangements

24.1. The Officers shall be entitled to all of the rights accrued until the conclusion of the agreements existing prior to the Restriction of Compensation Law applying to their compensation in connection with the terms of conclusion of their employment, including with respect to the retirement tracks under such agreement, provided that, as a rule, the projected expense in respect of engagements from the date of commencement of the Restriction of Compensation Law shall not exceed the cap according to the applicable law, including the Restriction of Compensation Law.

24.2. It is possible for the officer to continue to accrue, in the context of his employment agreement, years of seniority and age for purposes of an early pension track. The aforesaid notwithstanding, conditions for determining entitlement to choose an early pension track as aforesaid may be added.

24.3. Choosing an early pension track will not be available to officers joining the ranks of the Bank in the future.

24.4. Officers who are not directors and are not members of management (the "**Senior Managers**") who: (1) were subject, on April 12, 2016, to a collective bargaining agreement; and (2) transition from a collective bargaining agreement to a personal executive contract after the said date, may be entitled, in certain circumstances, to payment of severance pay and pension arrangements that differ from those specified herein, which take into account their compensation and rights to which they may have been entitled, had they continued to be subject to the collective bargaining agreement.

25. Severance pay, pension, special payment upon retirement, prior notice and adjustment period

25.1. **Severance pay** – Subject to the above transitional arrangements, upon separation of employment, whether as a result of dismissal or resignation, the officer shall be paid 100% severance pay (including the money accrued in the severance pay funds from contributions as

aforesaid or the money accrued in the severance pay funds as aforesaid shall be released, whichever is higher. The rate of the severance pay shall be multiplied by the officer's last salary and by his years of employment at the Bank (from the end of the term of the agreement prior to the Restriction of Compensation Law taking effect, if any), such that the seniority of the officer, his rank, the terms and conditions of his employment and the officer's contribution to the Bank shall also be reflected.

The aforesaid notwithstanding, subject to the discretion of the Compensation Committee and the Bank's Board of Directors, according to the recommendation of the Bank's CEO, and subject to the Directives on Compensation in a Banking Corporation and the Restriction of Compensation Law and the Salary Ratio Cap, severance pay in the sum of up to 175% of his last salary in respect of all of the years of his employment may be approved for an officer who is a senior manager and is not a member of management.

- 25.2. **Special payment upon retirement** – Subject to the applicable law, the Compensation Committee and the Board of Directors, at their discretion, may decide on payment of a special amount upon the officer's retirement, over and above the payments as specified above and/or in the officer's employment contract, which shall be determined according to the officer's contribution, his position, the period of his employment, the circumstances of his retirement, etc. However, such amount shall under no circumstances exceed three (3) monthly salaries of the officer, subject to the Discretionary Restriction and in accordance with any law.
- 25.3. **Prior notice** – Subject to the applicable law, an officer may be entitled to a prior notice period of up to 6 months. The Bank may waive the officer's actual work during the prior notice period, or part thereof, without prejudice to the officer's right to the full compensation conditions, or part thereof, in such period (or to redemption thereof).
- 25.4. **Adjustment period** - Subject to the applicable law, in certain cases, and subject to the approval of the Compensation Committee and the Board of Directors only, an adjustment period of up to 6 months' adjustment may be approved for an officer.
- 25.5. **Cap on payments in circumstances of separation of employment** – the total payments which may be paid to an officer who retires from his position according to this Section 25 (such as: prior notice, adjustment, a special payment upon retirement, etc.) shall not exceed, in the aggregate, 9 monthly salaries of the officer, including social benefits and related benefits.
26. Deferred retirement payments
- 26.1. Any payment in respect of the retirement arrangements specified in this chapter below (excluding the prior notice component and excluding payment for 3 months' adjustment, if and insofar as approved), which is

paid to the officer over and above the standard for all of the Bank's employees (the "**Extra Retirement Sum**"), shall be deemed as variable compensation<sup>18</sup>, and accordingly, shall be paid proportionately only in the event that in the years in which the officer was chairman, CEO or a member of management (or a Senior Manager with respect to an officer who is retiring from a Senior Manager position) and in the three (3) years following his retirement, the Bank did not deviate significantly from the required capital adequacy ratios. Thus, for example, if the officer was a member of management for 10 years until the date of the retirement (and received retirement payments other than by way of pension for a period exceeding 3 years), and in one year in the course of such period the Bank deviated significantly from the required capital adequacy ratios, then 1/13 of the Extra Retirement Sum shall not be paid to the officer.

- 26.2. Furthermore, 50% of the Extra Retirement Sum<sup>19</sup> may be paid in proximity to the retirement date and 50% of the Extra Retirement Sum will be paid to the officer, in equal parts, after the lapse of 12, 24 and 36 months from the date of his retirement from the Bank<sup>20</sup>.
- 26.3. The deferred payments under this section, insofar as deferred, will be updated according to the rise in the CPI from the date of deferral thereof until the date of actual payment thereof (no updates will be applied for a negative index).

Notwithstanding the provisions of this section, the Extra Retirement Sum shall not be deferred in cases of serious illness, disability or death.

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<sup>18</sup> Subject to the definitions and conditions in the Directives on Compensation in a Banking Corporation, including with respect to the transitional provisions and applicability and historic rights.

<sup>19</sup> Which is not paid by way of pension for a period exceeding 3 years following the retirement.

<sup>20</sup> If the officer receives his retirement payments by way of early pension for a period exceeding 3 years, this amount shall be staggered as a proportionate part of each payment, provided that no amount shall be paid to the officer which will prevent the Bank from implementing the provisions of Section 26.1 above.