



**Central Management**

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**THE FIRST INTERNATIONAL BANK OF ISRAEL LTD.**

**("FIBI BANK")**

**September 20, 2018**

**To  
Israel Securities Authority**

**To  
Tel Aviv Stock Exchange Ltd.**

**IN RE: IMMEDIATE REPORT REGARDING A MERGER THAT IS NOT  
SIGNIFICANT**

Further to the immediate report published by FIBI Bank on May 23, 2018 (reference no. 2018-01-041361), FIBI Bank hereby respectfully notifies that the Board of Directors of FIBI Bank and the Board of Directors of Bank Otsar Ha-Hayal Ltd. (hereinafter: "**Otsar Ha-Hayal**"), a subsidiary of FIBI Bank, approved on September 17, 2018 a merger of Otsar Ha-Hayal with and into FIBI Bank (hereinafter: "**the merger**"), following approval of the audit committee of each one of the banks, as well as the merger agreement also having been signed. The Merger is subject, *inter alia*, to proceedings pursuant to Chapter 1 of Part VIII of the Companies Law, 5759-1999, as well as to a pre-ruling by Income Tax pursuant to Chapter 2 of Part V2 of the Income Tax Ordinance.

Otsar Ha-Hayal, as an independent brand, including the activity and the unique character of its branches, shall be preserved also subsequent to its legal merger into FIBI, and this includes preserving the expertise of Otsar Ha-Hayal in the retail sector and in providing services to the defense establishment population.

Along with the merger's long-term implications for improving efficiency, in the Bank's financial statements for the third quarter of 2018, the Bank is expected to record an expense in respect of the anticipated streamlining of the workforce, in the sum of about NIS 40 million (NIS 26 million after tax).

The following are details pertaining to the merger, in accordance with the provisions of Chapter C1 of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (hereinafter: "**the Regulations**"):

## 1. THE PARTIES TO THE MERGER

The parties to the Merger are:

- 1.1. FIBI Bank – the surviving company, as this term is construed in the Companies Law, 5759-1999 (hereinafter: "**the Companies Law**").
- 1.2. Otsar Ha-Hayal – the target company, as this term is construed in the Companies Law.

FIBI Bank and Otsar Ha-Hayal collectively (hereinafter: "**the merging companies**").

## 2. MAIN POINTS OF THE MERGER AGREEMENT

- 2.1. Pursuant to the merger agreement that was signed on September 20, 2018 between FIBI Bank and Otsar Ha-Hayal (hereinafter: "**the merger agreement**"), Otsar Ha-Hayal, a wholly owned and controlled subsidiary of FIBI Bank, shall merge with and into FIBI Bank.
- 2.2. The merger is to be implemented in accordance with the provisions of Chapter 1 in Part VIII of the Companies Law and in accordance with the provisions of Chapter II of Part V2 of the Income Tax Ordinance, 5721-1961 (hereinafter: "**the Ordinance**"), in such manner that the assets and the liabilities of Otsar Ha-Hayal are to be transferred to FIBI Bank without consideration and Otsar Ha-Hayal shall be terminated, without liquidation. The Registrar of Companies shall strike it from its records.
- 2.3. The merger date shall fall on December 31, 2018 or on a later date on which the last of the suspending conditions shall be fulfilled and all the procedures and the actions required pursuant to Chapter 1 in Part VIII of the Companies Law shall be performed or the date indicated in the merger notice that shall be issued by the Registrar of Companies, or on a date when the operational procedure of the merger shall be completed or on any other date that is to be set by agreement by FIBI Bank and Otsar Ha-Hayal, whichever is later (hereinafter: "**the merger date**").
- 2.4. On the merger date, subject to the provisions of Section 323 of the Companies Law and after obtaining all the approvals and the permits required by law and/or agreement, the following actions shall be performed:

- 2.4.1. All the assets, the rights and the liabilities of Otsar Ha-Hayal, as they shall be on the merger date, including contingent, future, known and unknown obligations, shall be transferred to and vested in FIBI Bank. In addition, any charge registered on assets of Otsar Ha-Hayal, if any, shall continue to be in force on said assets with respect to which it was registered, which shall be owned by FIBI Bank, and shall be registered with respect to said assets;
  - 2.4.2. FIBI Bank shall be regarded as having stepped into the shoes of Otsar Ha-Hayal in respect of all the legal proceedings (including execution proceedings) to which Otsar Ha-Hayal is a party on the merger date;
  - 2.4.3. On the effective date all the directors in Otsar Ha-Hayal shall cease their term of office and shall not transfer to FIBI Bank;
  - 2.4.4. Otsar Ha-Hayal shall cease to exist as a separate legal personality and shall be terminated without liquidation, in accordance with the provisions of the Companies Law;
  - 2.4.5. The articles of association of FIBI Bank shall be the articles of association of the merged company.
- 2.5. The finalization of the merger was stipulated on the fulfillment of a number of suspending conditions within 12 months of the date of signing the merger agreement (or on a later date that shall be set by agreement between the parties), and including: obtaining a pre-ruling on income from the Director of the Tax Authority, in accordance with the provisions of Chapter 2 of Part V2 of the Ordinance ("**income tax ruling**"); obtaining approvals of authorities, insofar as shall be required, and performance of all the actions and fulfillment of all the conditions to the merger in accordance with the Companies Law.
  - 2.6. Without derogating from the general purport of the aforesaid in Section 2.4, and subject to any law, the undertaking of Otsar Ha-Hayal to indemnify the directors and the officers who are serving and shall serve at Otsar Ha-Hayal, as shall be in effect on the merger date, in respect of any claim and/or legal proceeding that have been filed or shall be filed against them in relation to their term of office at Otsar Ha-Hayal, including in relation to the merger, shall be transferred to FIBI Bank in the context of finalizing the merger.

- 2.7. Subject to any law, FIBI Bank shall continue to act to ensure that the directors and officers insurance policy of FIBI Bank shall continue to cover the directors and the officers of Otsar Ha-Hayal , as they have served and shall serve up to the merger date, in respect of the actions that they have performed and shall perform in the course of their duties at Otsar Ha-Hayal up to said date, and this for at least seven years from the merger date, as the same shall apply to the directors and officers of FIBI Bank.
- 2.8. The undertaking of FIBI Bank as set forth in Sections 2.6 and 2.7 above shall also constitute an undertaking in favor of the directors and the officers of Otsar Ha-Hayal who have served and shall serve at Otsar Ha-Hayal, up to the merger date.
- 2.9. Until the merger date, the parties may, by mutual agreement, cancel the merger agreement at any time and for any reason. In the event of cancellation of the agreement, as stated, the agreement shall be regarded as void *ab initio* and the parties to the agreement and/or the shareholders thereof and/or the employees thereof and/or any third party shall not have any cause and/or right of action arising from the agreement or from the cancellation thereof, including, *inter alia*, a cause or right of action against an officer and/or director and/or shareholder of the parties to the agreement.
- 2.10. It should be noted that the management of the Bank and Otsar Ha-Hayal have held unsuccessful discussions with the Histadrut Labor Federation and with the workers' committee of Otsar Ha-Hayal with regard to the possibility of a merger and/or other structural changes at Otsar Ha-Hayal that are needed to improve the operational efficiency of Otsar Ha-Hayal and of the group. In light of the resolution with regard to the merger, the management of FIBI Bank shall hold discussions with the relevant workers' committees and the Histadrut Labor Federation in relation to the possible implications of the merger for the employees.

3. **THE TAX IMPLICATIONS OF THE MERGER FOR FIBI BANK**

The parties shall apply to receive a pre-ruling of the Director of the Tax Authority for the merger being a merger exempt from income tax and from capital gains tax pursuant to the provisions of Chapter 2 of Part V2 of the Ordinance, save payment of the acquisition tax at a rate of 0.5% in respect of the transfer of real estate rights of Otsar Ha-Hayal to FIBI Bank, which shall be borne by FIBI Bank (hereinafter: "**the tax benefits**") and that is expected to be in an insignificant amount for FIBI Bank. It should be clarified that the actual realization of the tax benefits does not constitute a condition to the finalization of the merger.

The effective date of the merger for tax purposes is December 31, 2018 or any other date that shall be set with Income Tax approval

The tax benefits shall be stipulated on conditions pursuant to the provisions of Chapter 2 of Part V2 of the Ordinance, and *inter alia* on the condition whereby FIBI Bank shall not sell most of its assets and most of the assets of Otsar Ha-Hayal in the course of the period commencing on the merger date and ending two years from the end of the tax year in which the merger date falls.

4. **HOLDINGS OF INTERESTED PARTIES IN FIBI BANK**

To the best knowledge of FIBI Bank, holdings of interested parties in the Company are as specified in the status of holdings of interested parties and senior officers dated July 4, 2018 (reference no.: 2018-01-064216). Holdings of the interested parties in the Bank are not expected to change as a result of the merger.

5. **THE MERGER CONSIDERATION**

The merger shall be effected without consideration and this in light of the fact that FIBI Bank (the surviving company) holds all the issued and paid up share capital of Otsar Ha-Hayal (the target company).

6. **POSITION OF THE BANKS' BOARD OF DIRECTORS WITH REGARD TO THE BANK'S ABILITY TO MEET ITS LIABILITIES TO CREDITORS**

At its meeting of September 17, 2018, the Board of Directors of FIBI Bank determined that, bearing in mind the financial condition of the merging companies, in its opinion, there is no reasonable concern of economic or legal significance that as a result of the merger, the surviving company will not be able to fulfill its liabilities to its creditors, following the merger.

At its meeting of September 17, 2018, the Board of Directors of Otsar Ha-Hayal determined that, bearing in mind the financial condition of the merging companies, there is no reasonable concern that as a result of the merger, the surviving company will not be able to fulfill its liabilities to its creditors, following the merger.

7. **APPROVALS REQUIRED FOR THE MERGER AND/OR CONDITIONS FOR THE IMPLEMENTATION THEREOF**

- 7.1. The merger pursuant to the merger agreement does not require the approval of the general meeting of FIBI Bank inasmuch as the merger complies with the conditions prescribed in Section 320(a1) of the Companies law.
- 7.2. On September 17, 2018, the audit committee of FIBI Bank approved the implementation of the merger pursuant to the merger agreement, and, as stated, on September 17, 2018 the Board of Directors of FIBI Bank approved the implementation of the merger pursuant to the agreement.
- 7.3. On September 17, 2018, the audit committee of Otsar Ha-Hayal approved the implementation of the merger pursuant to the merger agreement, and, as stated, on September 17, 2018 the Board of Directors of Otsar Ha-Hayal approved the implementation of the merger pursuant to the agreement.
- 7.4. The merger pursuant to the merger agreement requires approval of the shareholders' meetings at Otsar Ha-Hayal, in accordance with Section 320(b) of the Companies Law.
- 7.5. The merger pursuant to the merger agreement is contingent on the cumulative fulfillment of all the suspending conditions detailed in Section 2.5 above, while the merger date shall be set as set forth in Section 2.3 above. The effective date of the merger for tax purposes is as set forth in Section 3 above.

8. **NEW RESTRICTIONS THAT SHALL APPLY TO FIBI BANK AS A RESULT OF THE MERGER**

To the best knowledge of FIBI Bank, no new existing or anticipated restrictions are expected to apply to FIBI Bank in the wake of the merger, including:

- 8.1. To the best knowledge of FIBI Bank, no demand for early repayment of loans provided to FIBI Bank and/or to Otsar Ha-Hayal is expected as a result of the merger.
- 8.2. To the best knowledge of FIBI Bank, no restrictions on the creation of charges beyond the restrictions existing on the eve of the merger pursuant to any law are expected to apply to FIBI Bank as a result of the merger.
- 8.3. To the best knowledge of FIBI Bank, no change in the credit rating / liability rating of FIBI Bank and/or of Otsar Ha-Hayal until its merger into FIBI Bank is expected to apply as a result of the merger.
- 8.4. For details with regard to conditions for application of the tax benefits, see Section 3 above.

9. **PERSONAL INTEREST IN THE TRANSACTION**

To the best knowledge of FIBI Bank, the directors, the controlling shareholders and the interested parties in the Bank have no personal interest in the merger.

10. **APPROVAL OF THE MERGER PURSUANT TO SECTION 320(c) OR (d) OF THE COMPANIES LAW**

In the opinion of FIBI Bank, the merger does not require approval pursuant to Section 320 (c) or (d) of the Companies Law.

11. **CONVERTIBLE OR EXERCISABLE SECURITIES OF OTSAR HA-HAYAL**

To the best knowledge of FIBI Bank, there are no securities of Otsar Ha-Hayal that are convertible or exercisable into shares of Otsar Ha-Hayal.

## **12. THE REASONS FOR WHICH THE MERGER IS NOT SIGNIFICANT**

In the opinion of FIBI Bank, the merger between FIBI Bank and Otsar Ha-Hayal is a merger that is not significant, and this since none of the conditions set forth in Regulation 37C(a) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 hold true for said merger. Moreover, since Otsar Ha-Hayal is a private company wholly controlled by FIBI Bank, the financial statements of which are in any case consolidated with the financial statements of FIBI Bank, then the merger has no effect on the status of the assets or the liabilities of FIBI Bank in its consolidated financial statements.

## **13. MAIN REASONS OF THE BOARD OF DIRECTORS FOR APPROVAL OF THE MERGER**

The following are the main reasons of FIBI Bank's Board of Directors for approval of the merger.

- 13.1. FIBI Bank foresees significant expediency resulting from the merger. Management of the joint activity of the merging banks within one bank may make a significant contribution to efficiency and synergy and would allow the merged bank to reduce its expenses (compared to the joint expenses of the two banks), to utilize the joint activity more efficiently and to simplify and shorten various procedures between the companies.
- 13.2. In light of the fact that Otsar Ha-Hayal, the target company, is a wholly owned subsidiary of the Bank, the surviving company, the merger does not involve the giving of consideration, the allotment of shares or the dilution of the existing shareholders of the surviving company.
- 13.3. The financial statements of Otsar Ha-Hayal are consolidated with the financial statements of FIBI Bank and therefore, in accounting terms, the merger has no effect on the status of the assets or the liabilities of FIBI Bank in its consolidated financial statements.
- 13.4. Bearing in mind the financial condition of the merging companies, in the opinion of the Board of Directors, there is no reasonable concern, that as a result of the merger, the Bank, as the surviving company, will be unable to fulfill the Bank's liabilities to its creditors.



- 13.5. The merger is not expected to have an effect on the activity of the Bank in its existing format and on the ability of the Bank to implement its work plan for 2018, in terms of maintaining the necessary equity to risk weighted assets ratio and in terms of complying with the regulatory restrictions. The streamlining issue constitutes one of the strategic objectives of the group. The merger is consistent with this goal.
- 13.6. The Board of Directors was presented, *inter alia*, with data and an analysis prepared by the Bank management with regard to the merger's effect on the Bank's activity, on the capital structure of the Bank, bearing in mind the directives and positions of the regulator, on the credit restrictions (in terms of maximum liabilities), on compliance with the restriction on real investments and on compliance with various internal restrictions of the Bank, such as compliance with restrictions related to market risk exposure, the policy on capital uses for investment purposes and the credit policy.
- 13.7. For the sake of examining the Bank's ability as a surviving company after finalization of the merger to fulfill its liabilities, the Board of Directors was presented with the scope of its liabilities (including public deposits), liquidity management data of the Bank, the effect of the merger on this data, as well as the effect of the merger on the capital adequacy ratios of the Bank.
- 13.8. The merger creates an advantage for the customers of Otsar Ha-Hayal and will enable to provide them with a diverse and broad basket of services commensurate with the full range of their needs. Moreover, the merger will improve the level of service and the accessibility of Otsar Ha-Hayal customers to the branches, given the wide dispersion of FIBI Bank branches throughout the country, while preserving the activity and unique character of Otsar Ha-Hayal branches.

**14. PLACE AND TIME OF CONVENING THE GENERAL MEETING, THE LAWFUL QUORUM AND THE MAJORITY REQUIRED THEREAT AND AT AN ADJOURNED GENERAL MEETING FOR APPROVAL OF THE MERGER**

As set forth in Section 7.1 above, the merger does not require approval of the general meeting of FIBI Bank.

**15. SIGNATURE OF THE BANK AND NAMES AND POSITIONS OF THE SIGNATORIES**

**The First International Bank of Israel Ltd.**

Name of Signatory: Yossi Levy

Position: Executive Vice President and  
Head of Resources Division

Name of Signatory: Aviad Biller, Adv.

Position: FIBI Bank Secretary