

Central Management

Bank House, 42 Rothschild Street, Tel-Aviv, tel. 03-5196223, fax. 03-5100316

To

The Securities Authority

www.isa.gov.il

The Tel Aviv Stock Exchange Ltd.

www.tase.co.il

April 16, 2020

Re: **The impact of the COVID-19 virus, including with regard to capital requirements and the implementation of the dividend distribution policy**

1. In accordance with, and in light of, the letter from the Supervisor of Banks to all the commercial banks dated March 29, 2020; and in accordance with the temporary directive dated March 31, which modifies the Proper Banking Directive 201, accordingly – regarding the reduction of the requirements for the banks' holdings of regulatory capital – and regarding the Supervisor's request, among other matters, that the Bank re-examine the dividend distribution policy in light of the COVID-19 crisis and the uncertainty arising from the development of the crisis; and in accordance with the discussion held by the Bank's board of directors on April 16, 2020 regarding such, the Bank reports as follows:
2. Pursuant to what is indicated in the Bank's 2019 financial statements for 2019, published on 15 March 2020, regarding the COVID-19 crisis, we see that the impact of the crisis on the economic activity and financial markets in Israel and throughout the world is only increasing. These effects are reflected in, among other things, a sharp decline in updates of macroeconomic forecasts; the response of governments and markets to these effects; and *inter alia*, in the lowering of the Federal Funds interest rates and of the Israel shekel interest rate – as well as the significant and continuing declines on the Tel Aviv Stock Exchange and throughout the world, as well as the significant fluctuation in share prices, and the widespread shutdown of the Israeli and global economies – all of which have led to negative impacts for the entire economy – and consequently, for the Bank's activity. These could all have a negative impact on the Bank's financial results for 2020. These effects could be reflected in, *inter alia*, a negative impact on the expenses with respect to credit losses, and declines in value and the recordation of losses that have not yet been realized with respect to the securities in the nostro portfolio. (As stated in the financial statements, some 90% of the nostro portfolio consists of government bonds, mostly Israeli government bonds, and/or government guarantees). On the other hand, there are also positive effects arising from the set-offs from various events with respect to the business results. It should also be noted that the negative influence on the Bank's capital can be reduced due to opposite effects of the crisis and its results – such as effects regarding the scope of obligations to employees, which are calculated on an actuarial basis.
3. Nevertheless, the Bank cannot at this stage assess with any certainty the scope of the effects of the COVID-19 virus on the Bank or on its results, in light of – among other things – the sharp fluctuations in the market; the uncertainty regarding the duration, strength and effects of the pandemic (including the impact of the growing unemployment and the economic recession); and the additional steps that the governments and central banks will take.

4. In accordance with the Supervisor of Banks' letter and the said temporary directive, the requirements regarding regulatory capital that apply to the banks have been reduced by one percentage point, for a period of six months (and if necessary, this decision will be extended for an additional six months) (hereafter: "the temporary directive period"). And after that, if relevant, the banks will be required to present a graduated outline for the re-accumulation of the capital, to the extent it has been reduced, over the course of two years.
5. Consequently, the Bank's board of directors has resolved that the Bank's capital targets will be adjusted to what is required in the temporary directive, such that the ratio of the Bank's Tier 1 capital to its risk assets, along with an additional capital requirement in the amount of 1% of its housing loans balance (on the basis of December 31, 2019 data) will stand at 8.31%, and its total capital ratio will stand at 11.81%. As of December 31, 2019, the Bank's above-mentioned ratios were 10.81% and 13.70%, respectively.
6. In light of the letter, and the Supervisor of Banks' instruction, and the uncertainty arising from the COVID-19 crisis - the Bank's board of directors held a discussion regarding the Bank's dividend distribution policy for 2019, as set out in the Bank's 2019 Directors' Report published on March 15, 2020 – relating to the scope of the distribution out of the Bank's annual net profit. It was decided that the Bank will not distribute a dividend to its shareholders during the temporary directive period. It is clarified that there is no change in the Bank's dividend distribution policy, and that the policy remains in place. The Bank's board of directors will continue to discuss the continued implementation of the Bank's dividend distribution policy in light of the development of the crisis and its impact on the Bank and on the economy; and it may examine its decision regarding the implementation of a dividend distribution, and the modification thereof, at its discretion.
7. The content of this report regarding the impact of the COVID-19 pandemic on the Bank and on its results constitutes forward-looking information, as defined in the Securities Law, 5728-1968, which is based on, *inter alia*, the Bank's assessments as of the date of this report. It is not clear whether and to what extent such assessments may be realized, due to – *inter alia* – the uncertainty regarding the scope, duration and strength of the COVID-19 crisis and its economic effects, the realization of which and/or the manner of the realization thereof is unknown; and due to the severe fluctuations in the global capital markets. Therefore, the consequences of the crisis – which are beyond the control of the Bank – are uncertain and, as stated, they may change from time to time as a result of, *inter alia*, the continued spread of the virus; the consequences of such for the capital markets and the economy in Israel and throughout the world; and the responses of governments and markets to these consequences.

Respectfully,
First International Bank of Israel LTD

Nachman Nitzan, Executive Vice President
Head of Chief Accountant Division

Attorney Aviad Biller
Secretary of the Bank