



CORPORATE RESPONSIBILITY REPORT 2016

MERCANTILE

**ISRAEL
DISCOUNT
BANK**



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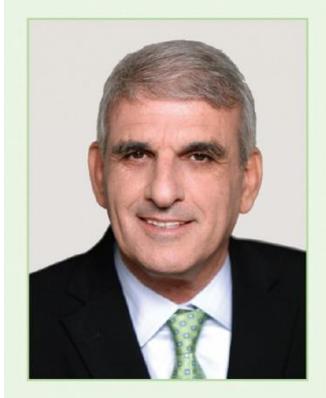
SOCIAL RESPONSIBILITY REPORT 2016

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Greetings from the Chairman and the President & CEO

We are honored to present the Corporate Responsibility Report of Discount Bank for 2016. The publication of the Corporate Responsibility Report reflects Discount Bank's deep commitment to the subject of social and environmental responsibility, including in matters of corporate governance.

The vision of the Bank was formed and approved at the beginning of 2017: "We shall endeavor to become the best Bank for its customers, permitting over a period of time, growth and financial solidity by means of adapted, professional and fair banking."

Within the framework of assimilating the Vision, the Bank adjusts to the changing world and creates innovative banking models providing customers with an advanced service tailored to their needs. In the meantime, the Bank has invested in a number of innovative initiatives in the fintech and innovation field. The optimal service to customers accompanied by the deep social commitment reflect the basic values of the Bank and the Group.

This is the sixth Corporate Responsibility Report published by Discount Bank. In our previous Report, we have included for the first time the principal subsidiaries in Israel: Mercantile Discount Bank and ICC. The disclosure regarding the said subsidiary companies has been enlarged and intensified in this report, reflecting their acclaimed activity in the social responsibility field.



In 2010, the Bank joined the United Nations Global Compact initiative. This report constitutes also an annual update of this initiative in respect of 2016. In this respect we reiterate the Bank's commitment to the Global Compact initiative and to its ten principles.

Publication of the Social Responsibility Report was made alongside additional reporting frameworks: to the Maala Organization, to the EIRIS research body and to the reporting and recording center of the Israel Ministry of Environmental Protection. This year, ICC was rated for the first time in the Maala rating and was successful in being included in the "Platinum" rating. This reporting structure reflects the Bank's and the Group's commitment for transparency and for extending its activity in social responsibility areas.

The Corporate Responsibility Report presented below is not only a report or summary of activities, but is also, and mainly, a promise to continue the activities of the Bank and its employees in servicing its customers, with fairness and decency, continuing to work opposite those involved with the Bank and for the community alongside we work.

Within the scope of its social involvement and commitment, the Bank will continue to take action to advance weak populations and encourage its employees to participate in activities for the community, thereby strengthening its social contribution as an organization and as individuals. Furthermore, the Bank has and will take action to integrate environmental considerations as part of its business strategy and credit policy.

On behalf of ourselves and the members of the Board of Directors and Management, we support all the volunteers being employees of the Discount Bank Group, and all stakeholders in the social activities and projects led by the Group.

12 November, 2017

Dr. Yossi Bachar
Chairman of the Board of Directors

Lilach Asher-Topilsky
President & CEO



A Corporate Responsibility Report – what is it?

Corporate responsibility reporting rests on the approach that a corporation must be accountable to the society and the environment in which it operates, and not only to its shareholders. The adoption of this approach leads to a broadening of the scope of reporting, while addressing a wide variety of subjects, aspiring to deal with the full range of social, environmental and economic issues that occupy all the stakeholders of the reporting corporation.

A "stakeholder" is anyone that Discount Bank influences or is influenced by: customers, employers, suppliers, shareholders, the community and the environment (it should be noted that as a financial corporation, in its main field of activity – financial brokerage – the Bank's vendors are essentially its customers, which their activity as depositors serves the Bank in providing financial resources. Another significant party is contracted workers, who are discussed in the chapter dealing with employees)¹.

The dialogue with the stakeholders is being conducted in various channels and is detailed in the different chapters below.

The Corporate Responsibility Report complements the corporation's financial statements. Whereas one presents the corporation's financial performance, the second presents the manner in which things are done, the degree of importance that the corporation attributes to the aspirations of its stakeholders, and its efforts to promote areas requiring improvement.

The Corporate Responsibility Report is not just a reporting framework, but a platform for ongoing dialogue between the corporation and its stakeholders.

The Bank was the first banking corporation to issue a Corporate Responsibility Report in Israel in 2005 (for the years 2003–2004). The second Social Responsibility Report was published in 2009 (for the years 2007–2008). The Bank's Third Social Responsibility Report (for the years 2012–2013) was published in 2014. The Bank's fourth social responsibility report (for the year 2014) was published at the beginning of 2016. The Bank's fifth social responsibility report (for the year 2015) was published at the end of 2016. The publication of the Sixth Social Responsibility Report forms an expression of the Bank's commitment for social responsibility issues and for their importance as part of the Bank's organizational culture.

¹ 102-40, 102-42.



Corporate responsibility report – Directives of the Supervisor of Banks in Israel

On the background of developments regarding the issue of corporate responsibility reporting, and in view of the importance that the Supervisor of Banks attributes to the activity of banking corporations in this respect, the banking groups, in accordance with the Reporting to the Public Directive, are required to publish reports concerning corporate responsibility for a period of up to two years. In accordance with the instructions, the corporate responsibility report may refer to matters such as commitment for involvement in the community, environmental topics, cultivating the staff and work environment, fairness to customers and business ethics. The instructions do not determine the reporting contents, though it is recommended to include therein a disclosure regarding relevant quantitative indices as well as relevant standards according to which the banking corporation operates in this field. It is the Bank's intention to continue to publish a social responsibility report every year.

Challenges and opportunities in the field of social responsibility

Social responsibility and sustainability is an approach that provides the Bank with a methodological opportunity to make an operative connection between various topics and challenges. Discount Bank has been connected with the community since its establishment. Throughout the years, the Bank has seen itself as a bank that operates within the community, as a bank that operates in the best interests of the customer and his family and as a bank that acts responsibly toward all the stakeholders who influence, or are influenced by, its activities.

The Bank is focusing on the challenges facing it in the social responsibility field, on a number of main levels:

- **Creating a common value in products for customers:**

At the level of banking products – the Bank focuses on several populations. The flagship program is the "Family Program", which focuses on the needs of the customer and his family, and makes them into a financial group that benefits from a variety of unique services and benefits, in accordance with the aggregate data of the program's partners. Concurrently, the Bank focuses on additional populations,



such as small and medium-size businesses, students and so forth. The Bank is also taking steps in the fields of providing accessibility and financial education.

- Employees - development and enrichment of employees by means of training, mobility and personal development;
- Community - increasing the scope of volunteer work by the Bank's employees;
- The environment - reducing the ecological footprint by means of a reduction in energy consumption;

At the level of environmental products - promoting products such as those that enable the financing of alternative energy;

- Responsible activity of the organization - Responsible corporate conduct, while implementing high standards in the field of corporate governance and ethics, in all units of the organization and with stakeholders;
- In addition to the above mentioned areas, MDB focuses on the creation of value to the non-Jewish customers population and to the Haredi customer population, in respect of which the bank operates by means of a layout of branches as well as by specialized professional units. Moreover, during the last decade MDB, jointly with relevant governmental agencies, developed considerable expertise in the granting of credit to small and medium businesses through governmental funds for the support of businesses;
- In addition to the areas mentioned above, ICC focuses on the creation of value to customers belonging to the small business segment.

The work process for managing this field will be expanded in the coming years, and will include broadening the measurement and reporting, strengthening the manner in which certain topics are handled and the gradual expansion of managing this field to the Group level.

The expansion of the disclosure in this social responsibility report and in the previous social responsibility report, so as to include wide and varied information regarding the work performed in the area of social responsibility by the principal subsidiaries in Israel - MDB and ICC - comprises a significant progress in this field.

Social Responsibility Director

The Bank has an officer in charge of social responsibility appointed by the Bank's Management. The appointment is intended to strengthen the management of the social responsibility field at the Bank and reflects the importance attributed by the Bank to this subject. The director's task is to intensify the awareness of Bank employees as well as of stakeholders, and to formulate plans of action to achieve the goals designated for this area.



The officer in charge of social responsibility reports to the head of the Human Resources and Properties Division, who is in charge of managing social responsibility at the Bank's Management level.

MDB has appointed an officer in charge of social responsibility, whose duty is to increase awareness to social responsibility among the bank's employees. The social responsibility officer reports to the Head of the Human Resources and Administration Division.

ICC has appointed an officer in charge of social responsibility management, who is responsible for managing all social responsibility issues at ICC. The officer in charge of social responsibility management reports directly to the General Manager of ICC.

Discount's sixth Corporate Responsibility Report

The report has been prepared on the basis of the Standard of the Global Reporting Initiative, an independent organization that has pioneered sustainability reporting. This Report has been prepared in accordance with the GRI Standards: Comprehensive option², and includes reference to all Aspects identified as material (see extensive discussion further on³). The list of topics reviewed in the Report may be viewed in the table of contents on pages 2-3. An index is attached in an Appendix to this report which constitutes a cross-reference table between the different indicators and their reference in the report.

The Report reviews the Bank's processes in Israel and at the principal subsidiaries in Israel - MDB and ICC, and does not include the overseas activity⁴.

Inclusion of the foreign subsidiary - IDB New York - within the framework of the Bank's social responsibility report has been postponed in view of the heavy administrative inputs invested by this subsidiary in recent months in the preparation of a new strategic plan, on the background of the appointment of a new CEO. This issue would be reexamined within the framework of the preparations for the next social responsibility report, the report for 2017.

The Report addresses, in the relevant contexts, the activities of the different divisions of the Bank and the principal subsidiaries in Israel - MDB and ICC, including the senior levels over management.

² 102-49.

³ 102-46.

⁴ 102-45.



The data presented in the Report were processed according to the reporting of the Bank's various units, striving to build a data base that will enable a comparison with data from past years. The calculation methods that are used have been noted in the places where the related data are presented, respectively. The report does not contain any data that are in contradiction with the data presented in previous social responsibility reports published by the Bank⁵. In cases where previously published data had been changed or corrected, this fact was distinctly noted⁶.

In the process of writing this report, the Bank strives to describe with maximum transparency its activities in relation to topics that it believes to be of interest to its stakeholders. We at Discount believe that this Report will serve the five categories of our stakeholders (shareholders/investors, customers and suppliers, employees, the community and environment), and will facilitate the promotion of dialogue, intensifying the relationship and heightening cooperation.

Various excerpts of the Report, as well as the data presented therein, were referred to the information providers at the Bank and at the main subsidiary companies, for review and to various functions at the Bank and at the main subsidiary companies for comments. The final draft of the Report was also referred to all members of the Bank's Management for comments.

Work performed in the field of social responsibility by the principal subsidiaries in Israel

As stated, in our previous Report, we have included for the first time the principal subsidiaries in Israel: Mercantile Discount Bank and ICC. The addition to the social responsibility report of the Bank has set a challenge for the said subsidiaries⁷: The expansion and intensification of reporting, while establishing an appropriate data base as well as data gathering and reporting procedures. MDB and ICC had excepted the challenge, and in this Report we have enlarged and intensified the disclosure pertaining to the said subsidiaries, reflecting their acclaimed activity in the social responsibility field. However, further efforts are required for the systematical gathering of data regarding the various reporting issues.

⁵ 102-48.

⁶ 102-49.

⁷ 64-23.



In order to reflect to stakeholders the reporting position in these companies in a transparent and orderly manner, the Index contained in the Appendix to the report assigned separate columns to MDB and to ICC.

The reports of MDB and of ICC are at the "Core" reporting level (where with regards to the material reporting aspects, the report responds to policy aspects and to at least one indicator respecting each aspect), and as regards many aspects, they are very near to the "Comprehensive" reporting level (where the report responds fully to all indicators regarding all reporting aspects).

It is noted that the sections describing policy or work procedures at Discount Bank apply also to MDB and to ICC, unless otherwise stated.

The process of identification of material Aspects

In accordance with the reporting standard, it is required to perform a process for the identification of material aspects⁸ that have a material impact on the activities of the reporting company and on its stakeholders. Selection of the material Aspects is made from a list of Aspects offered by the GRI.

Towards the preparation of the social responsibility report for the year 2014, the Bank has performed an orderly process of defining the material reporting aspects. A materiality matrix was defined as part of this process, which is used by the Bank as a reporting basis also for the present report.

Within the framework of the preparations made with respect to the social responsibility report for 2016 (the present report) the Bank has examined the list of topics defined as material, vis-à-vis the list of topics defined within the framework of the dialogue with stakeholders in the banking sector (see below). As may be seen, high correlation exists between the aspects defined by the Bank as material and the aspects defined as such by the stakeholders taking part in the process. In view of the above stated, the list of topics has not been changed.

For details regarding the process of defining material aspects, see the Social Responsibility Report for 2014 (pp. 10-13).

⁸ 102-46.



Alternatives for the manner of defining the approach to each Aspect. In accordance with the reporting standard, three alternatives exist for the definition of each Aspect:

- **Alternative "A":** defining the Aspect as material - identification of an Aspect as material requires conducting an orderly reporting based on a clear administrative infrastructure that includes a formal policy, work plans and performance goals, with respect to such Aspect (this alternative is defined in the following Table as "material Aspects - full reporting");
- **Alternative "B":** immaterial Aspect, information only - the definition of an Aspect as immaterial, in respect of which information only will be provided. Reference to this Aspect in the report, though not defined as material, stems from the need to report on processes and data that are required by various initiatives and frameworks, in which the Bank is a member. Namely, initiatives such as the UN Global Compact, the Maala rating, the EIRIS rating and so forth (this alternative is defined in the following Table as "immaterial Aspects - partial reporting");
- **Alternative "C":** immaterial Aspect - an immaterial Aspect, in respect of which no reference will be made in the report (this alternative is defined in the following Table as "Immaterial Aspects - no reporting").

Within the framework of the identification process, all Aspects have been classified into one of the mentioned above alternatives⁹.

⁹ 102-46.



Aspects defined as material¹⁰

Material Aspects - full report	Immaterial Aspects - partial report	Immaterial Aspects - no report		Importance of the Aspect for Stakeholders
Prevention of corruption Economic performance Fairness of products and advancement of financial education	Environmental and social risk management	Customer privacy Inclusion of human rights clauses in investment agreements	High	
Regulatory compliance Work environment and conditions of employment Prevention of discrimination Gender equality Local procurement practices Diversity and equal opportunities Indirect economic implications	Social/environmental products Employee health and safety Employee union Employee relations - Management Work environment Complaints mechanism	Evaluation of suppliers' work environment Evaluation of the suppliers' impact on human rights Environmental evaluation at suppliers	Medium	
Energy consumption and increased efficiency Business continuity Training and development of employees Involvement in the local community	Environmental Investment Greenhouse gases emissions and air pollutants Material consumption	Asset management and sifting Sewage and waste	Low	
High	Medium	Low		Importance of the Aspect to the Bank

¹⁰ 102-46; 102-47.



Material Aspects – reporting Boundaries¹¹

	Material aspect	Reporting Boundaries
1	Prevention of corruption	within the organization
2	Economic performance	within the organization
3	Fairness of products and advancement of financial education	within and outside the organization
4	Work environment and conditions of employment	within the organization
5	Training and development of employees	within the organization
6	Involvement in the local community	within and outside the organization
7	Indirect economic implications	within and outside the organization
8	Regulatory compliance	within the organization
9	Prevention of discrimination	within the organization
10	Gender equality	within the organization
11	Diversity and equal opportunities	within the organization
12	Energy consumption and increased efficiency	within the organization
13	Business continuity	within the organization
14	Local procurement practices	within the organization

Dialogue with stakeholders in the banking sector

In the first quarter of 2016, a validation process of the material reporting aspects framework for banks in Israel was conducted, under the guidance of the corporate responsibility and sustainability group of the Accounting Firm of BDO Ziv-Haft. Fourteen representatives of the academy, the professional community, the business community, associations, the community and the environment participated in this process.

The products of the dialogue may be divided into two groups: the compiling of a list of reporting aspects in accordance with the level of importance as seen by the stakeholders participating in the process and the recommendations/comments made by the said stakeholders regarding the focus and enlargement required with respect to each aspect.

The following aspects have been defined within the framework of compiling the list of reporting aspects:

¹¹ 102-46; 102-47.



Aspects of high importance - fairness in products and services; accessibility; environmental and social considerations in the granting of credit, finance and investments; disadvantaged population; privacy of the customer; diversification of customers and sectors; ethics and prevention of corruption.

Aspects of medium importance - promotion of proficiency and financial education; promotion of the local economy and the creation of economic value for stakeholders; quality of service; corporate governance; compliance; sustainability management; integrating corporate responsibility aspects with purchasing; proper work environment; employment diversity, equality of opportunities and gender equality.

Aspects of low importance - marketing communication; innovation regarding services and products; business continuity; operational and logistic efficiency - environmental aspects; training and the development of employees; investing in the community (contributions and sponsorships); voluntary activity of employees.

As stated, as may be seen, high correlation exists between the aspects defined by the Bank as material and the aspects defined as such by the stakeholders taking part in the process.

The Bank has studied the recommendations/comments made by the said stakeholders regarding the focus and enlargement required in each aspect and made an effort to enlarge and focus the report, in accordance with the said recommendations/comments.

Reporting to the Global Compact

The Bank joined the United Nation Global Compact initiative in September 2010 and since then submitted in March 2012 and in March 2013 an annual progress report regarding the Bank's social and environmental activities. This report, as well as the three previous social responsibility reports, constitutes an annual progress report in respect of the years 2016, 2015, 2014 and 2013, respectively. An Appendix to this report includes an index comprising a cross-reference table between reportable items in accordance with the Global Compact initiative and their reference in this report.



Distribution of the Report

The Social Responsibility Report in Hebrew may be viewed on the Bank's website (www.discountbank.co.il) and in English on the Bank's website in the Investor Relations page (www.discountbank.co.il/IR). Bank employees may view the Report also on the employees' portal. The English version of the Report may be also found on the website of the GRI (<http://database.globalreporting.org/companies/view/1806>), and on the GC website (<http://www.unglobalcompact.org/participant/12568-Israel-Discount-Bank-Ltd>).

References. In certain cases the report includes reference to details presented in the Bank's 2016 Annual Report and 2017 quarterly reports. These are available for perusal at the Bank's website (see above) (translation into English of these reports is to be found in the Investor Relations page, see above). Furthermore, the reports are available for perusal (in Hebrew) also at the "Magna" website of the Israel Securities Authority (<https://www.magna.isa.gov.il/details.aspx?reference=2014-01-017514&file=2&id=01160>) and at the "Maya" website of the Tel Aviv Stock Exchange Ltd. (http://maya.tase.co.il/bursa/report.asp?report_cd=885621).

In certain cases, the report refers to the reports of MDB and of ICC. These reports are available on the website of MDB (<http://www.mercantile.co.il/MB/private/about-mercantile/financial-reports/annual-reports>) the website of ICC (<http://www.cal-online.co.il/he-il/Cal/CalServices/about/pages/financialReports>). The English version of the 2016 annual report of ICC and MDB is available on their websites, respectively.



Assurance examination

The Bank's Corporate Responsibility Report has undergone an assurance examination by an outside, objective body – the corporate responsibility and sustainability group of the consulting company of BDO Ziv Haft, Certified Public Accountants – which determined that Discount Bank meets the GRI requirements for the In Accordance – Comprehensive reporting. The Report presents fairly Discount Bank's activities for the given period. Likewise, the Report is balanced and properly presents Discount Bank's activities in the various material aspects, in financial sector activity in Israel and for the Bank itself. The opinion of BDO Ziv Haft is presented below, in the chapter.

The present report covers also the principal subsidiaries of Discount Bank in Israel – MDB and ICC.

The report has successfully undergone the GRI Materiality Disclosure Service.



Control over the appropriateness of reporting – Discount Bank

GRI Standards in Accordance – Comprehensive option

General

The Corporate Responsibility and Sustainability Group of the BDO Ziv Haft Consulting Company have been engaged by Discount Bank to perform an assurance process for the **2016 Discount Corporate Responsibility Report** (reviewing the Bank's performance in the 2016). The said Corporate Social Responsibility and Sustainability Group have an over fifteen years experience in assisting companies in matters of corporate responsibility and sustainability. This Group operates in accordance with local and international accounting standards for the examination and promotion of responsible conduct of corporations.

Independence – The accounting firm of BDO Ziv Haft acts as joint auditors of Discount Bank and Mercantile Discount Bank. Furthermore, the Corporate Social Responsibility and Sustainability Group provide support to the Bank in a number of control processes over sustainability reporting. Discount Bank has engaged the Corporate Social Responsibility and Sustainability Group to perform an assurance process over the reporting, and the Group declares that it is independent of the Bank in its business operations.

The appropriateness control presented herewith has been performed as detailed further on, and in accordance with the GRI standard and the accepted principles for reporting control. The control is designed to examine compliance with reporting according to the principles of the international reporting standard GRI standard and the performance of the process for the definition of material Aspects lying at the basis of the report, in accordance with the GRI methodology.

Certification

In view of that stated above, and in accordance with the examination performed by us, we certify herewith that the report of Discount Bank complies with the requirements of GRI standard at the "In accordance-Comprehensive", and accordingly we hereby testify on the basis of the information at hand, as follows:

- The Aspects included in the report cover the areas material to the Bank's activities and its stakeholders.



- All the information contained in the report have been approved by the functionaries of the Bank and verified against the material used for the writing of the Bank's report.
- The report is complete, comprehensive and reliable.
- The report is structured in a manner that allows comparability and comments by the stakeholders.

Work procedure

This control work has been performed according to a planned work plan that had been submitted prior to the beginning of the control work. The process of collection of the material by Discount Bank has been examined during the work, comments have been submitted regarding the response to indices contained in the report, a feedback has been submitted in respect of several areas, as detailed below, and documents and internal and external data have been reviewed - all this in order to comprehend the manner of reporting and its quality. Following are the channels in which control was performed, commensurate with the principles of control over the appropriateness of reporting.

Principles for the definition of the report content

Stakeholder inclusiveness - providing a response to stakeholder expectations from the Bank.

- The Bank maintains an orderly dialogue with several stakeholders, which allows it to understand their preferences in real time.
- The identification of material aspects procedure is based on the materiality procedure applied in anticipation of the writing of the social report for the year 2014, combined with the results of the dialogue process conducted with representatives of the different stakeholder groups at the beginning of 2016. In view of the high compatibility regarding the identified material aspects, no changes were made in the present report to the list of material aspects included therein, in relation to those aspects identified in the previous report.

Product: Discount Bank presents the framework of material Aspects in its operations, and in view of the inclusion of stakeholders' positions, the Bank presents a framework of Aspects material to corporate responsibility activity.



Sustainability context - presentation of the different sustainability issues relevant to the Bank.

- The report presents the commitment of Discount Bank to all material Aspects identified in the area of sustainability, including extensive reference to Aspects of employment, involvement in the community, creating value for customers, and the environment, stemming from the nature of its operations.
- The information presented in the report includes a description of the administrative approach with respect to each of the material Aspects.

Product: The report reviews the operation of Discount Bank and its impact upon stakeholders in aspects of sustainability, while presenting an extensive and orderly state of affairs image.

Materiality - clear reference to the various areas of influence of the Bank.

- The Bank had already made in the previous report a comprehensive process for the identification of material Aspects in its operations, both internal and external. This act has integrated the positions of stakeholders alongside the positions of senior officers of the Bank, and a materiality matrix of Discount Bank has been created. The materiality matrix used by the Bank in the writing of this and the previous report, and serve as a basis for reporting in accordance with the GRI Standards.

Product: The report relates to all the material Aspects relevant to the Bank. Furthermore, the materiality matrix enables to understand the gaps existing between the preferences of the Bank and those of the stakeholders. In addition, the Bank has elected to include in the present report also reference to Aspects of a lesser importance level, on which the Bank expands the scope of disclosure, despite the fact that they are not material.

Completeness - examination of the scope of disclosure in respect of material Aspects. The report complies with the requirements of the GRI Standard, at a "In Accordance - Comprehensive", meaning that the report responds in full to all the indices comprising the Aspects, which the Bank had defined as material Aspects.

Product: Full disclosure in respect of each of the indices under the aspects material to the operation.



Principles for assessment of the report quality

Balance and clarity - balancing the report between positive and negative aspects of the company's operations, and the clarity of the data and information to the reasonable reader.

- The report presents the Bank's performance in a transparent manner, with reference to both positive and negative performance.
- The manner of presentation of the information in the report allows the reader to understand the implications of the Bank's operations, with a more extensive discussion of Aspects defined as material.

Product: The data is presented in a manner that allows the reasonable reader an in-depth understanding of the operations and performance of the Bank in a full and objective form.

Comparability - the ability to compare the data in the current report with the data appearing in prior or other reports of the company, and with reports of similar companies around the world.

- The report includes multi-annual data, which allows the presentation of trends.
- The process of defining the content of the report took into consideration the Aspects that had been defined as material to similar banks in Israel and in the world, which serve as a basis for comparison.

Product: The data is presented in the report in a comprehensive manner that allows comparability with data presented in earlier reports of the Bank, and in a manner enabling comparison of the data with that of the financial sector.

Accuracy - the extent of details and accuracy of the data and information in the report.

- The report presents data which allows the reader to understand and assess the Bank's performance.
- The report includes notes which indicate clearly which basic assumptions and assessments had been taken into account in computing the data. Where the item in question does not represent data but only an assessment, this fact is distinctly noted.

Product: The report presents in a reliable manner the Bank's performance data, which match the data appearing in its other reports.



Timeliness - the up-to-dateness and relevancy of the information to the public.

- The present report of Discount Bank relates to the Bank's performance in 2016.
- Discount Bank publishes every year a social responsibility report. Nevertheless, the report is being published almost ten months from the end of the reported period, and this time lag has to be reduced in future years.

Product: The report presents relevant and updated data for stakeholders of Discount Bank in respect of the year 2016.

Clarity - presentation of information in an accessible and clear manner.

- The information in the report is presented in a clear manner allowing an in-depth study of the reported issues.

Product: The report presents the content in a clear manner, and the Bank is strict in publishing its social responsibility reports also on its Internet website.

Reliability - reliability of the data and information in the report.

- All data and information included in response to the reported indices have been verified. Verification was made by means of examination of the material used for the preparation of the report. The data had been assembled from all responsible functionaries at the Bank and by means of documents evidencing the reliability of reporting.

Product: All Aspects had been examined and we found complete correlation between the contents of the report and the operations of the Bank.

Recommendations

We found it proper to commend Discount Bank on the following matters:

- Advancing the reporting date** - this year, the Bank advanced the reporting date, publishing the report several weeks earlier compared with the reporting dates in prior years.
- Enlargement and intensification of the report** - this is the second year in which the corporate responsibility report includes information regarding the principal subsidiary companies in Israel (ICC and MDB). The present report enlarged significantly the information presented with respect to the said companies, compared to the report published last year.
- Strictly keeping of a balanced reporting** - As in every year, also in this report, the Bank strictly maintains a transparent, full and balanced reporting, and reports positive achievements and performance alongside the confrontation with complex



issues that are not flattering, while presenting the relevant comprehensive information in the matter as part of appropriate management.

- D. **Continuous commitment to transparency** – over a long period of time the Bank diligently submits annual reports to additional reporting frameworks in the field of corporate responsibility besides the GRI, including: Global Compact, the Greenhouse Gas Emissions Registration and Reporting Group of the Israel Ministry of Environmental Protection, and also participates in the rating of Maala. This may be considered as a continuous commitment to transparency with respect to its performance in this field.

As part of the Bank's efforts to continue and improve, we recommend intensifying the activity and reporting in the following areas:

- A. **Definition of goals and indicators regarding corporate responsibility** – a certain part of the corporate responsibility aspects at the Bank are conducted in an orderly and measurable fashion, though most of them are not for the moment. In our view, the orderly management of the corporate responsibility field has to be based upon defined and measurable goals, as well as on the integration of processes supporting the work plans. In the absence of clearly defined goals, it is doubtful that the Bank would succeed in making progress and improvements in the field of corporate responsibility, a fact that might cause the Bank to face various risks, such as the risks of regulation, reputation, etc. Therefore, in future reports, the Bank has to determine and present clearly its goals in the matter of corporate responsibility, in a fashion that compliance therewith may be measured, and that would indicate whether the expected improvement has been attained.
- B. **Extending the contents of the report and reference to all the material subsidiaries** – As stated, Discount Bank has significantly expanded in the present report the information on its operations, including therein considerable information regarding the operations of the material subsidiaries operating in Israel. It is recommended that in the next report, the Bank shall review the whole Group, reporting also on the operations abroad. This, alongside the maintenance by the material subsidiaries of the high reporting standard and transparency of the Bank. The in-depth and extended reporting covering all the material subsidiaries, would, in our opinion lead to the integration of the management processes of all officers in charge of corporate responsibility in all companies of the Discount Group.

Corporate Responsibility and Sustainability Group
BDO Consulting Group
12 November, 2017

Bank's Profile, Corporate Governance and Values



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The Discount Group – general overview and structure of the Group

Israel Discount Bank Ltd. (hereinafter: "the Bank") was incorporated in Palestine in 1935, as a public company under the Companies Ordinance. The Bank is a banking corporation having a banking license under the provisions of the Banking Law (Licensing), 1981.

The Bank was established by the late Mr. Leon Recanatti under the name of "Palestine Discount Bank Ltd.", in cooperation with the founders, the late Mr. Joseph Albo and the late Mr. Moise Carasso. The offices of the Bank and its first branch office were at first located at No. 39, Yehuda Halevi Street in Tel Aviv. In 1939 the offices of the Bank were relocated to No. 27, Yehuda Halevi street, the site on which the Discount Tower is situated today, in which most of the Head Office units of the Bank are located.

During the years of its operation the Bank has developed a chain of branches and a wide variety of commercial banking activities in all banking spheres.

Domestic Operations

Discount Bank grants its customers comprehensive banking services in all areas of financial activity, through 122¹² branches in Israel, direct banking, on-line banking and Internet services.

The Bank has a banking subsidiary in Israel – Mercantile Discount Bank Ltd. (hereinafter: "MDB") – a commercial bank serving customers in all fields of financial activity through 78⁸ branches (see hereunder).

The activities in Israel include additional areas, including:

- **Credit cards** – The Bank controls "Israel Credit Cards Ltd." (hereinafter: "ICC") and "Diners Club Israel Ltd." (hereinafter: "Diners", a company wholly owned and controlled by ICC), which issue and market "VISA", "Diners" and "MasterCard" credit cards, both for domestic and overseas use (see hereunder);
- **Securities portfolio management** – the subsidiary, Tafnit Discount Asset Management Ltd. (hereinafter: "Tafnit") which manages securities investment portfolios for private customers, corporations, not-for-profit organizations and institutional bodies;

¹² The number of branches updated as of December 31, 2016.



- **Non-financial investments and underwriting** - the subsidiary "Discount Capital Ltd." (formerly known as: "Israel Discount Capital Markets and Investments Ltd.") is engaged in investments in companies, in private equity funds, in venture capital funds, in the investment banking field, as well as in initiating and assisting public offerings and private placements and providing underwriting and distribution services by means of a subsidiary company.

International activity

The international activity of the Discount Group is conducted by a subsidiary company in the United States. IDB New York is the largest of the Israeli banks operating abroad, and at the present time operates branches in the New York area, Florida and in California. This bank has representative offices in Latin America and in Israel. The international activity is characterized as business-commercial and local and international private banking.

Mercantile Discount Bank – general background

Mercantile Discount Bank (MDB) was incorporated in October 1971, by Barclays Bank International of England (hereinafter: "Barclays Bank") and by the Discount Group, under the name of: "Barclays Discount Bank Ltd."

The financial activity in Israel of the banking institutions that were the predecessors of MDB began in 1918, with the conquest of Israel by the British, when the Anglo-Egyptian Bank, operating at the time in Egypt, established three branches: in Jerusalem, Jaffa and Haifa. At a later date, in 1921, a fourth branch was opened in Nazareth. In 1925, "Barclays Bank DCO" (a bank owned by the British Bank "Barclays Bank" which provided financial services to the authorities all over the British Empire) acquired the shares of the Anglo-Egyptian Bank, thus turning it into a part of the Barclays Bank Group. In 1971, "Barclays Bank DCO" changed its name into "Barclays Bank International". Soon after its incorporation on December 7, 1971, MDB acquired all the assets and liabilities of the Barclays Bank branches in Israel (by that time some 40 Barclays Bank branches had been in operation in the State of Israel).

On February 28, 1993, following the acquisition by Discount Bank of all the interests of Barclays Bank in MDB, the Bank changed its name into the present name. The Bank is defined as a "banking corporation" under the Banking Act (Licensing), 1981, and it holds a banking license under the said Act. The larger part of the Head Office of MDB is located in the "Yovel" Tower in Tel Aviv while another part is located in the city Holon.

MDB is engaged in financial commercial activity and provides services to all operating



segments, including: diverse credit activity and foreign trade and foreign currency services. In the mortgage loan field, MDB offers its customers services through mortgage centers operating within the branches. The bank specializes in business, from minute businesses to middle market businesses, in all sectors of the economy. In the course of the last decade, the bank, in cooperation with relevant governmental agencies, developed expertise in the granting of credit to small and medium businesses by means of governmental funds supporting businesses. The bank provides to its customers, among other things, divers services regarding their securities operations through a wide layout of consultants located at the bank branches.

Furthermore, MDB has international relations with brokers, enabling customers to transact business also on foreign securities markets. The Bank offers its customers an array of online banking services by means of the telephone and the interactive internet website.

MDB markets credit cards offered by ICC and Diners club.

This comprehensive framework of operation enables MDB to provide to its customers the full range of banking and financial solutions and grant them professional service of the highest level, through diverse communication lines for all banking products prevailing in the market, adapted to the specific needs of the customers. The said services are provided to customers of MDB through a countrywide network of branches, numbering 78¹³ branches.

Israel Credit Cards Ltd. ("ICC") – general background

ICC was incorporated in 1979 as a private company under the Companies Act. The company is engaged in credit card operations and in the development of payment solutions and financial products. ICC is considered an "auxiliary corporation" under the Banking Act (Licensing), 1981. The company offices are located in Givataim.

The main two lines of business in which ICC is engaged are the issue of credit cards and the clearing of transactions made by credit cards.

The income of ICC is composed mostly of commission fees on the operation of credit cards and on the providing of payment solutions, as well as credit financing income earned from its customers: credit card holders and trading houses. ICC has several subsidiary companies and one affiliate, through which it provides to customers a part of its services. Such services were provided in 2016 through Diners Club Israel Ltd. (franchise holder of the global Diners Club chain, which is engaged in the issue, marketing and operation of "Diners" credit cards, valid in Israel and abroad), C. A. L

¹³ The number of branches updated as of December 31, 2016.



(financing) Ltd. (operates as the financial arm of the company for the purpose of providing credit to holders of the company's credit cards), Diners Finance Ltd. (engaged in financing the credit for a part of Diners credit cards), Iatzil Finance Ltd. (engaged in providing financing services to trading houses through the discounting of "VISA", "MasterCard", "Diners", "American Express" and "IsraCard" credit card vouchers) and ICC Deposits Ltd. – all of which are wholly owned subsidiaries of ICC.

In addition, ICC has a 20% stake in the share capital of Shlomo C.A.L Ltd. (a company providing credit to private individuals interested in purchasing new vehicles by leasing transactions), and a 10% stake in the share capital of Casponet Ltd. (which is engaged in installing and operating of cash withdrawal machines at trading houses). These companies provide to their customers, in cooperation with the company, supplemental services to those provided by ICC, with the view of offering customers as wide as possible services platform.

ICC issues, markets and operates directly "VISA", "Diners" and "MasterCard" credit cards, valid in Israel and abroad, and is also engaged in joint issue agreements with banks participating in the arrangement. ICC is also engaged in the clearing of transactions made by "VISA", "Diners" and "MasterCard" credit cards, valid in Israel and abroad, as well as by the "IsraCard" brand (in Israel only).

Principal operations and central events during 2016

In 2016, Discount Bank instituted three central moves, significant to the organization and having a material impact on its outline of development in the coming years: approval of an accelerated efficiency plan, the raising of capital and the signing of a wage agreement until 2018, including extension of the validity of the Labor Charter by five years. In addition, at the beginning of 2017, the Bank completed the issue of subordinated debt notes, being capital instruments classified as Tier 2 capital, which include a mechanism for the absorption of capital losses (CoCo).

Approval of the efficiency plan. The Bank's Management has formed a plan for accelerating the efficiency, in the center of which is the reduction in the manpower status of the Discount Group by approx. 1,000 additional employees by the year 2021, both by early retirement and natural retirement. The Bank's Board of Directors approved the plan on September 13, 2016. (For additional details, see the Bank's 2016 Annual Report, p. 20).

Formation of the plan and the approach to employees were backed up by detailed planning actions at the unit level, by providing professional advisory services to employees considering retirement, and by preparations for management of the risks involved in a massive retirement of employees, particularly in the area of knowhow preservation. The



Bank's Management continues its strict and restraining management of the manpower status and payroll expenses, in a manner that would ensure the preservation of the retirement achievements.

The raising of capital. On the background of the accelerated growth of the Bank's credit portfolio, and in order to enable the realization of the business growth potential, even beyond the existing strategic plan, the Bank has decided on the raising of Tier 1 capital. The addition to the Tier 1 capital is intended to enable a further growth in income on the basis of the existing infrastructure and with no additional expenditure. This, alongside the approval of the plan for the acceleration of the efficiency, as stated above. The combination of the said significant actions, growth alongside efficiency, is intended to increase income and improve the profitability, the return on capital and the efficiency ratios of the Bank.

Within the framework of this move, the Bank issued shares and option warrants for an immediate gross consideration of NIS 580 million, and after the exercise in full of the option warrants in the amount of NIS 760 million (see in the Bank's 2016 Annual Report, p. 216 and in the 2017 First Quarter Report, p. 180).

The signing of a wage agreement until 2018. On November 30, 2016, the Management of Discount Bank and the national committee of Discount Bank employees signed a new wage agreement until 2018.

The wage agreement contains new sections and changes comprising a precedent in the banking sector. The central change is in the mechanism for the increase in wages. Until now, wage agreements contained proportionate wage increases expressed in percentages. The new agreement states, for the first time, a payment mechanism based on shekel wage increases. This mechanism reduces wage differences at the Bank and benefits low wage employees. At the same time, new sections were introduced with the aim of increasing administrative flexibility and helping the Bank in facing the changing reality.

The labor charter has been extended, within the framework of the agreement, until the year 2021, subject to the changes made to several significant sections. Extending the validity of the labor charter ensures industrial peace until the termination date of the agreement (see in the immediate report dated November 30, 2016).

Furthermore, during the second half of 2016, the Bank began the process of updating the strategic plan, as detailed below in this Chapter.



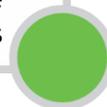
Central moves in 2017

Issue of subordinated debt notes (Series L). On January 9, 2017, the Bank completed the issue of subordinated debt notes in a total amount of NIS 784 million, which include a mechanism for the absorption of capital losses, being capital instruments classified as Tier 2 capital (CoCo) for the purpose of inclusion in the Bank's regulatory capital. The said issue is expected to contribute 0.5% to the overall capital ratio in December 31, 2016 terms.

Principal activities and events at Mercantile Discount Bank

The year 2016 was the second work year for the implementation of the strategic plan of MDB. The carrying out of the strategic plan involves the implementation of structural changes as well as changes in work procedures implemented at MDB within the framework of projects, including:

- **"Expanding the activity of the back office unit"** - within the framework of which certain operational activities are transferred from the branches to back office operational centers, with the aim of increasing the resources of the branches available for customer service and for the continuing development of the Bank's activity;
- **Improvement of the computer infrastructure** - including the infrastructure relating to the development of operations in the retail segment, such as: expansion of the channels used for providing banking services, improvement of the technological infrastructure allowing transaction not requiring the physical signature by the customer, the upgrading and increase in the number of automatic teller machines at the branches and the development of advanced digital applications enabling Bank customers to obtain available information and transact banking operations through mobile means of communication;
- **Reorganization of the Commercial-Corporate Division** - as a derivative of the implementation of the strategic plan of MDB, which, inter alia, includes lines of operation for the development of the retail and commercial activity, Management of MDB had decided upon a reorganization of the Commercial-Corporate Division, whereby the activity of the corporate group of the Division was merged into two commercial groups. The change took effect on January 1, 2017, following which, the name of the "Commercial-Corporate Division" was changed to "Commercial Banking Division";
- **Organizational change in the Retail Division** - Management of MDB approved in the last quarter of 2016 organizational changes in the Retail Division, which include:



- Organizational change in the marketing group, stemming from the implementation of the new strategic plan, within the framework of which, marketing referents have been appointed based on segmental qualifications and with the aim of introducing optimal modifications of services and products, while modifying them to the needs of the targeted population;
- Expanding the operations of the credit and control group.

(For details regarding the strategic plan, see "Goals and business strategy" below in this Chapter)

Principal operations and events at ICC

Increase in competition and reduction in concentration Act. The Increase in Competition and Reduction in Concentration and in Conflict of Interests in the Banking Market in Israel (Legislation Amendments) Act, 2017, was published in the Official Gazette on January 31, 2017.

The Act constitutes the adoption of the recommendations of the Strum Committee, appointed in 2015 by the Minister of Finance and by the Governor of the Bank of Israel, in order to recommend, inter alia, of ways for attracting new participants in the competition for the supply of prevalent financial services, including by way of separation from banks of the ownership of credit card companies.

In the immediate future, the separation from the banks of the ownership of credit card companies would not apply to ICC but only to its competitors (Isracard and LeumiCard). Only at the end of four years would the issue of separating the ownership of ICC be re-examined. This and more, if until now the large banks (Poalim, Leumi and Discount) issued to their customers credit cards of the credit card companies owned by them (Isracard, LeumiCard and ICC), competition between the companies is now expected to develop. Concurrently, the banks would be required to move a part of the issue of new credit cards to customers to another credit card company, at least one, with which they had no previous business. From the view point of ICC, although there would be a reduction in the issue of credit cards to customers of the owner banks, ICC would now have the opportunity to compete in the issue of new credit cards to customers of Poalim and Leumi. In the era of post-entry into effect of the new Act, the different participants in the credit card market, banks on the one part and credit card companies on the other part, find themselves in front of an array of moves and action possibilities of each of them and of each of the other participants.



The aforementioned could have a material effect on the banking system, including the Bank itself and on the credit card market, including on ICC. Nevertheless, at this preliminary stage, prior to clarifying the nature, character, scope and timing of the measures that will be taken, if at all, it is not possible to assess the aforesaid effects either in terms of materiality or in terms of quantity.

For additional details, see Discount Bank's 2016 Annual Report (pp. 396-399).

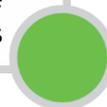
The VISA Europe transaction. On November 2, 2015, VISA Inc. and VISA Europe Ltd. announced their entry into an agreement whereby VISA Inc. will acquire VISA Europe in consideration for an immediate cash payment and for special preferred shares, convertible under certain circumstances into shares of VISA Inc., as well as for an additional future consideration in cash. The transaction had been approved by the various Regulators and the immediate payment was received in June 2016. (For additional details, see Discount Bank's 2016 Annual Report, p. 26).

For details regarding the police investigation regarding ICC and arrangement replacing criminal proceedings, see in this chapter below.

For details regarding the formation of a strategic plan, see below in this Chapter.

Control of Discount Bank – Bank having no core controlling interest

As from December 3, 2013, the Bank turned into a bank having no core controlling interest and is subject to the instructions applying to banking corporation having no core controlling interest, in accordance with the Banking Act (Legislation amendments), 2012. Within the framework of the law, special instructions have been determined in the matter of appointment of directors, their tenure of office and termination of office, which apply to a banking corporation not having a core controlling interest. For additional details, see "Election of Directors Process" below and in the 2016 Annual Report (pp. 338-339).



Communication with investors in securities of the Bank

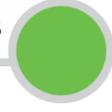
The first and principal layer of communication with investors in securities of the Bank¹⁴ is the layer of regulatory reports - reports in accordance with instructions and guidelines of the Supervisor of Banks and in accordance with the provisions of the Securities Act and the Regulations under it. These reports include annual, quarterly and immediate reports. All the reports in the Hebrew language are available for perusal on the "Magna" website of the Israel Securities Authority and on the "Maya" website of the Tel Aviv Stock Exchange. An English translation of the reports is available for perusal on the investor relations website, for the benefit of non-Hebrew speaking shareholders and investors.

The Bank maintains an additional layer of communication with investors in securities of the Bank (existing and potential), as well as with other parties (such as: analysts and research agencies) in Israel and abroad, by means of the investor relations unit of the Planning, Strategy and Finance Division. This communication is bi-directional - from the Bank to the outside, through conference calls, presentations and other materials assisting in the understanding of the Bank's results and its operations, maintaining meetings and conferences of the Bank's Management with such stakeholders, distribution of updates regarding events and more. And in the other direction - from stakeholders to the Bank, through the exposing of opinion and analysis of the relevant stakeholders and providing Management and the Chairman of the Board (and alongside the decision making process on relevant matters, also before the Board of Directors) with feedback on the results of the Bank and its activities, as well as the integration of such contents in the decision making process at the Bank.

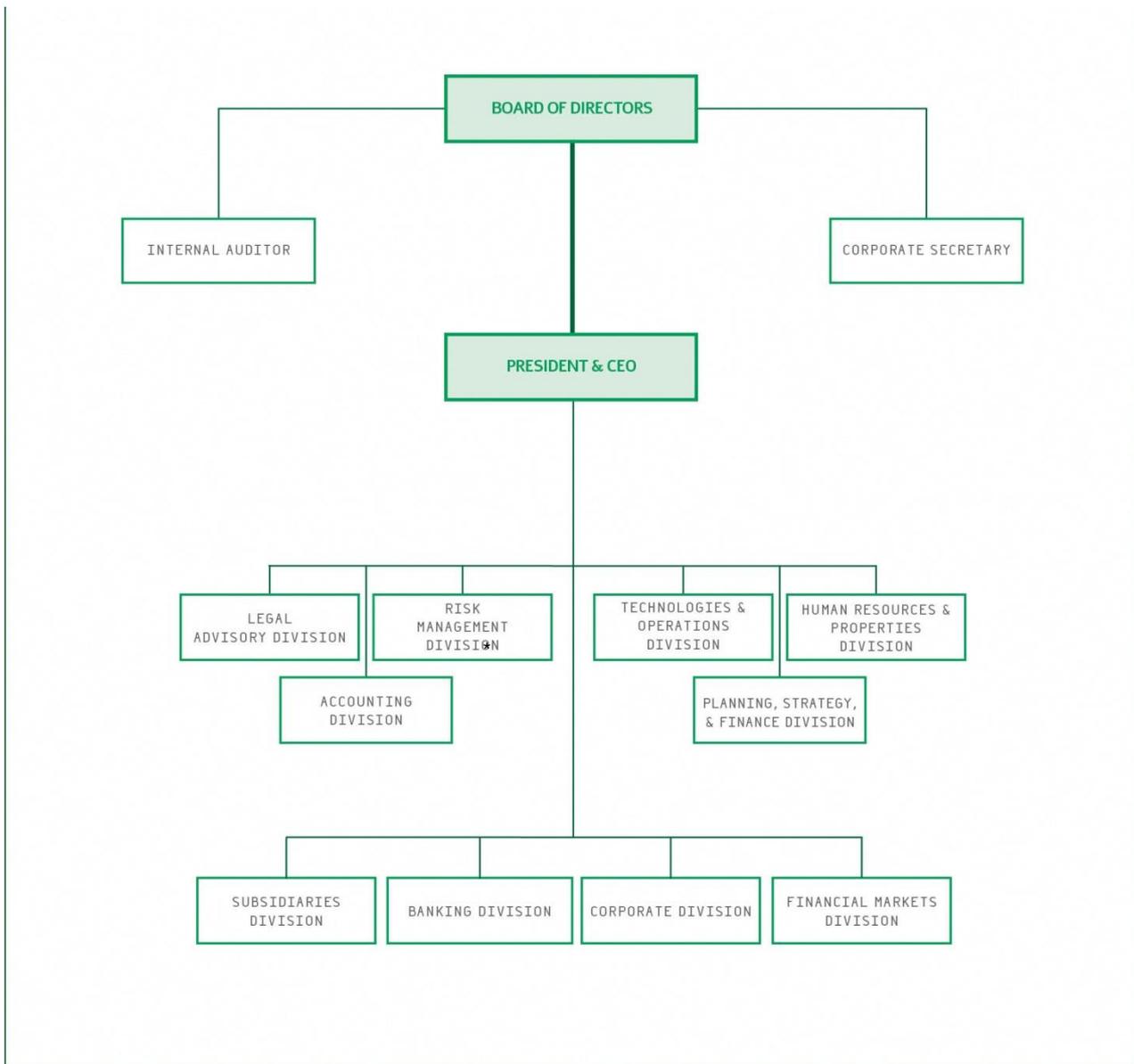
The activity of the Bank's investor relations unit is based on the concept that transparency, cooperation and a fruitful dialogue create value for both sides and enable stakeholders to make long-term educated investment decisions. The Bank's Management believes in strengthening and preserving relations with investors in securities of the Bank, and has even defined this field as part of its strategic focusing for the coming years.

The Financial Division of MDB, serves as an information center for investors approaching it, and initiates meetings in which the activity of the bank is being reviewed, principally prior to the raising of equity and debt capital.

¹⁴ 102-44; 102-43; 102-40.



Discount Bank's Organizational Structure Chart



* Among other subordinates of the Bank's Chief Risk Officer, who heads the risk management division, are the compliance officer and the officer in charge of the prohibition of money laundering and terror financing, appointed under the provisions of the Prohibition of Money Laundering Act, and the credit controller.



Issues regarding corporate governance

The General Meeting of Shareholders

The Agenda for the general meeting of shareholders is determined by the Board of Directors, however, according to the Companies Act, a shareholder who holds at least one percent of the voting rights in a general meeting of shareholders, may request the Board of Directors to include an item on the Agenda of a general meeting to be convened in the future, on condition that this item merits a discussion at the general meeting of shareholders.

In accordance with the provisions of the Law, the Bank has to publish a notice at least twenty-one days prior to the notice convening a general meeting of shareholders, to the extent that a proposal for the appointment of Directors or the termination of their office appears on the Agenda of the meeting. The preliminary notice includes details of the subjects on the Agenda of the coming general meeting. In the notice convening a general meeting of shareholders, the Bank provides details of the Agenda of the meeting being convened, the proposed resolutions and the majority required for the different resolutions.

The above stated, excluding the determination of the Agenda by the Board of Directors, does not apply to MDB and to ICC, both being private companies.



The Board of Directors

Composition of the Board⁽¹⁾

The Corporation	Discount Bank	Mercantile Discount Bank	ICC
Number of Directors	14	12	9
Directors qualified as external Directors	10	5	3
Of which:			
External Directors ⁽²⁾	4	-(5)	-(5)
External Directors in terms of Directive 301 ⁽³⁾	6	5	3
Directors with professional qualifications ⁽⁴⁾	14	10	7
Directors with accounting and financial expertise	13	5	5
Women	4	2	2
Men	10	10	7
Age			
up to 49	1	1	2
50-60	1	2	4
61-70	10	8	3
Over 70	2	1	-

Notes:

(1) The data is updated as of date of publication of the 2016 Annual Report.

(2) In terms of the Companies Law, 1999.

(3) External directors in terms of Directive No. 301 of Proper Conduct of Banking Business Directives, and as such also qualify as external directors in terms of the Companies Law.

(4) Within the meaning of the term in the Companies Regulations (Conditions and tests for directors having accounting and financial expertise and a director having professional qualifications), 2005.

(5) The duty of appointment of external directors in accordance with the Companies Act does not apply to MDB and to ICC, both being private companies.

The Chairman of the Board does not hold any other office at the Bank in addition to his office as Chairman. Until July 2016, the Chairperson of the Board of Directors of MDB was Ms. Lilach Asher-Topilsky, the President & CEO of Israel Discount Bank, who did not hold any other office at MDB. Since July 2016, the Chairperson of the Board of Directors of MDB is Mr. Yair Avidan, Senior Executive Vice President in Discount Bank, who does not hold any other office at MDB. The Chairman of the Board of Directors of ICC in 2016 was Mr. Yuval Gavish, a Senior Executive Vice-President of Israel Discount Bank, who does not hold any other office at ICC.

For additional details regarding the Bank's Board members, see the 2016 Annual Report (pp. 317-323)¹⁵. For additional details regarding members of the Board of Directors of Mercantile Discount Bank, see the 2016 annual report of this bank (pp. 282-288). For additional details regarding members of the Board of Directors of Israel Credit Cards, see the 2016 annual report of this company (pp. 193-197).

¹⁵ The data regarding Directors appearing in the 2016 annual report is up-to-date as of a date proximate to the date of publication of the report.



Activity of the Board of Directors

In accordance with the Companies Law, the Board of Directors shall outline the policy of the corporation and supervise the activities and duties of the CEO. According to the Law, the Board may not delegate its authority to a committee of the Board with respect to a number of issues, including the formation of a general policy.

The Proper Conduct of Banking Business Directives prescribe that the Board of Directors bears responsibility for the business of the banking corporation and for its financial strength. Within this framework, the Directives provide, inter alia, that:

- (a) The Board of Directors will outline the strategy of the banking corporation, including the risk strategy and risk appetite, and will approve the banking corporation's policy that will guide the banking corporation in its ongoing activities;
- (b) The Board of Directors will supervise the activities of the Management and their consistency with the policy of the Board of Directors;
- (c) The Board of Directors will ensure the establishment of clearly defined spheres of responsibility and accountability within the banking corporation;
- (d) The Board of Directors will outline the organizational culture of the banking corporation, which requires the implementation of high standards of professional conduct and honesty;
- (e) The Board of Directors will ensure that the banking corporation operates in compliance with the law and regulations.

In accordance with the Directives, the Board of Directors appoints the President & CEO and approves the appointment of the members of the Management by the President & CEO. In addition, the Board of Directors appoints directors at the Bank's principal subsidiaries.

It should be noted that the corporate governance code of the Discount Group, determined, among other things, principles regarding the responsibilities of the Board of Directors, independence and qualification of the Board, the conduct of the Board and its meetings, committees of the Board, separation of authority between the Board and Management, duties of the Board, of the President & CEO and Management.

Determination of the Agenda of the Board of Directors. The Agenda for the meetings of the Bank's Board of Directors is determined by the Chairman of the Board, taking into consideration the different regulatory requirements, including the Companies Regulations and Proper Conduct of Banking Business Directives, etc.

Issues concerning risk management, corporate governance and social responsibility are being discussed by the Board where required and/or in accordance with regulatory duties and the Bank's policy.



Work procedure of the Board of Directors and its committees. The Board of Directors and its committees operate in accordance with a procedure determined by them for their work. Among other things, in this procedure are stated the duties and authority of the Board itself and of the various Board committees, their manner of operation, the reports that have to be submitted to them and their frequency, and issues and transactions that require their approval. The Board of Directors updates the procedure from time to time, as required.

Assessment of the effectiveness of the work of the Board of Directors. In accordance with Proper Conduct of Banking Business Directive No. 301, the Board of Directors performs once every two years, for internal purposes, a process of self assessment. This is intended to test the efficiency of the Board of Directors' work, to identify weaknesses in its work and make the necessary changes where required.

The self evaluation process is conducted by means of questionnaires relating to aspects in the work of the Board of Directors and its committees, including: the commitment and independence of the Board of Directors, outlining the strategy of the Bank and of the Group and monitoring its implementation, the activities of the subcommittees and the coordination among them, supervision and control over the performance of the Bank and the Management, and so forth. The process in Discount Bank is conducted with the assistance of an external factor, which, among other things, assists in the formation of the questionnaire and in the assembly and analysis of the findings stemming there from.

The process was last performed in November 2016 (in MDB – November 2015; in ICC – December 2015).

Committees of the Board of Directors

General. The Bank's Board of Directors acts, inter alia, through sub-committees. As a general rule, all committees are permanent committees, certain of which are as required by legislation. Ad-hoc committees are formed from time to time to deal with certain matters. The composition of the Board of Directors and its committees and their duties are determined in accordance with the relevant legislation and the Proper Conduct of Banking Business Directives. The duties of the Board of Directors and of its committees are also defined in internal procedures, and the work procedures of the Board of Directives and of its committees. Following are the main duties of the sub-committees:

Strategy Committee. The duty of the Committee is to assist the Board of Directors in forming the strategy of the Bank and of the Group, as well as direct the Management in forming the work plans of the Bank and of the Group.

The Committee monitors the implementation of the strategic plan of the Bank and of its



principal subsidiaries. The Committee verifies performance of analysis of trends and major changes in the local and international competitive environment, and in accordance therewith recommends to the Board of Directors changes/revisions of the strategic plan.

The Committee is authorized to discuss matters relating to purchases and to the asset management policy.

Credit Committee. The Committee is authorized to deal with various matters concerning the credit operations of the Bank and the Group. Inter alia, the duty of the Committee is to provide support to the Board of Directors in outlining the credit management strategy, as well as discuss and recommend to the Board of Directors matters relating to the Bank's credit policy document.

The Committee discusses, inter alia, the following matters: the Bank's credit policy; the Group's and the Bank standalone credit risks document; compliance with credit policy document; effectiveness of the credit policy; approval of exceptional credit facilities to governments and banks; periodic reports regarding changes in the risk profile of the credit portfolio of the Bank and of the Group, which include a review of material credit exposure and risk centers in the portfolio, the monitoring of compliance with limitations set by the policy, etc.

The Committee discusses the yearly and multiyear credit control work plan and the annual report of the credit controller. The Committee also holds a personal discussion with the credit controller.

The Committee is authorized to discuss and approve credit applications that deviate from the credit policy, as well as applications under conditions and amounts exceeding the minimum determined by the Board of Directors from time to time.

Audit Committee. The committee discusses the annual and multi-annual work plans of the internal audit, recommends the plans for approval of the Board and monitors the implementation of the work plan.

The committee discusses the findings included in audit reports of the internal audit department, and in this framework discusses material audit reports presented to it in full and in the response of the audited organs. The Committee discusses also the quarterly and semi-annual reports submitted by the internal Auditor, which, inter alia, include a summary of the audit reports prepared by the Internal Auditors. It also discusses the annual report regarding the operations of the internal audit department. The semi-annual and the annual reports include, inter alia, details regarding issues contained in audit reports and audit letters of the Bank and Israel, as well as issues mentioned in the supplementary report of the external auditors, the treatment of which had not yet been completed.



The committee also discusses quarterly reports, semi-annual report as well as an annual report regarding the activities of the internal audit in companies in Israel and abroad that are controlled by the Bank.

The committee also discusses the audit reports by the Supervisor of Banks the audit reports of authorities and of the Bank's independent auditors and the proposed response of Management to the issues raised in such reports.

The committee is authorized to discuss and recommend to the Board the appointment of an internal auditor or his removal from office and also recommend to the Remuneration Committee the salary and remuneration of the Internal Auditor and the promotion thereof. In addition, the committee is authorized to discuss and recommend to the Board of Directors the appointment of the internal auditor/internal audit, and approve the plan verifying the quality of the internal audit function.

The committee receives on an ongoing basis reports regarding disciplinary events and the manner in which Management has dealt with such cases.

The committee examines deficiencies in the business management of the Bank and proposes ways of rectifying them.

The Committee discusses the yearly work plan of the Compliance Officer and maintains a semi-annual monitoring of its performance. The committee discusses the annual work plan of the officer in charge of money laundering prohibition and maintains a semi-annual monitoring of its performance and discusses the annual evaluation report of the officer in charge of money laundering prohibition.

The Committee discusses the policy document regarding the handling of complaints of the public and the service charter and the periodic report of the Public Complaints Commissioner.

The committee discusses the independent review made by the internal audit in the matter of ICAAP (a document summarizing the internal capital adequacy assessment process).

The committee holds discussions with audit and control functions alone, in the presence of the committee members and the relevant officer only.

The committee discusses transactions with "related persons", as required under Directive no. 312 of Proper Conduct of Banking Business Directives, and as regards actions and transactions as required by the provisions of the Companies Act.

The Audit Committee is responsible for supervising the work of the Bank's external auditors, including recommend to the Board of Directors regarding the remuneration of the external auditors, as well as examining the scope of their work and their remuneration and present its recommendations to the Board of Directors. In the case that the Agenda of the General Meeting of Shareholders includes the termination of office of the external auditor or the non-renewal of his office, the Committee has to present its position to the Meeting.



In accordance with Proper Conduct of Banking Business Directives, once every three years the audit committee holds a discussion regarding the possibility of replacing the existing independent auditors of the Bank.

The Committee may request the external auditors to conduct an examination/audit that is in addition to those included in the external auditors' audit and/or review plan, and to bring their recommendations before the Committee.

The committee discusses the Bank's draft of the annual report and the quarterly reports to the public (hereunder: "financial statements") and submits recommendations to the Board in their respect. As part of the discussions, the committee receives reports by the chief accountant officer with respect to matters relating to the financial statements or matters which affect the financial statements, such as new regulatory directives or such which are expected to become effective.

The committee is authorized to discuss and decide upon disclosures regarding the accounting policy in critical issues and as regards critical accounting assessments. Moreover, the Committee discusses and recommends to the Board of Directors matters regarding the formal disclosure policy of the Bank.

Within the framework of the discussion on the financial statements, the committee discusses the issue of customers, the provisions recommended to be created in respect of whom for that quarter is above the amount to be determined by the Board, and recommends to the Board the amount of the credit loss expense to be created in their respect.

Prior to the issue of a Prospectus, the committee discusses the draft Prospectus before submission for approval of the Board and makes recommendations to the Board regarding the draft.

In addition, the committee discusses and recommends to the Board in all matters relating to internal control over financial reporting, in everything relating to the supervision over the current management of financial reporting risks, in accordance with Section 404 of the Sarbanes Oxley Act. The Committee discusses the financial reporting risk management policy (SOX risks - internal control over financial reporting) and recommends its approval to the Board of Directors. Moreover, the Committee discusses and approves the annual work plan for the financial reporting risk management (SOX 404) and monitors the progress of its implementation.

The committee receives an annual review of the independent auditors regarding the audit of the financial statements and regarding new developments in standards and regulation in Israel and the world over, as well as a quarterly review (communication of the independent auditors with the functions responsible for overall control).

The Committee also discusses the corporate governance questionnaire prior to its discussion in the plenum.



The Committee is authorized to discuss and recommend to the Board of Directors in matters regarding the existence of permanent conflict of interests of a Director of the Bank. Furthermore, the Committee discusses the issue of negligible relations regarding a director/candidate for office of director of the Bank, in accordance with the provisions of the Banking Ordinance and the Companies Act.

The Audit Committee has to approve as to whether and to the extent that a candidate, who complies with the qualification terms of an external director, complies also with the qualification terms of an independent director under the Companies Act.

Corporate Governance Committee. The Committee is authorized to discuss everything pertaining to the field of the Bank's and the Group's corporate governance, including: procedures designed to reflect the corporate governance principles and the framework for the implementation of the corporate governance principles within subsidiaries.

Manpower Committee. The committee discusses matters relating to human resources, labor relations and labor agreements and is authorized to discuss and recommend to the Board of Directors the appointment of senior officers at grades of executive vice president and higher.

The Committee makes recommendations to the Board of Directors regarding the appointment of officers in the audit and control field (e.g. the Credit Controller, the Enforcement Officer).

The President & CEO or VP Human Resources report annually to the committee as well as submit current updates (where required) regarding material matters relating to the level of compliance with the social responsibility of the Bank (including issues of human rights and work environment, involvement with the community and environmental issues). In addition, the committee discusses the Bank's code of ethics.

Remuneration Committee. This Committee has been given the duties and powers required pursuant to Amendment No. 20 of the Companies Act and under Proper Conduct of Banking Business Directives of the Supervisor of Banks. Within this framework, the Committee discusses and recommends to the Board of Directors policy matters regarding the remuneration of employees and senior officers of the Bank. Where required, and prior to approval by the Board of Directors and the General Meeting of Shareholders, the Committee approves the terms of engagement of the Bank with senior officers as regards their remuneration.

The Committee decides whether to approve transactions regarding the terms of office and employment of officers, requiring approval by the Committee.

The Committee discusses the evaluation of effectiveness of the remuneration policy and mechanisms.

The Committee approves the annual award to officers.



IT Committee. The Committee is authorized to discuss and approve and/or recommend to the Board of Directors on the following matters: information technology, operations, data protection and cyber protection and information technology related risks. In this framework, the Committee discusses and recommends to the Board of Directors to approve the strategy/strategic focuses and the work plan of the Technologies and Operations Division, including the budget required for their implementation.

The Committee monitors and controls the implementation of the annual work plan on the matters of computing and operations, including annual budgets compliance and progress made in projects under focus.

The Committee discusses and recommends to the Board of Directors to approve the following policy documents: information technology management policy, information technology risk management policy, data protection and cyber protection policy, the group cyber protection strategy and the use of cloud computing technology policy.

The Committee discussed arrangement for backup and recovery of the computer systems at the Bank and at the Group.

The Committee discussed the work plan for the development of the cyber protection layout and maintains the monitoring of its implementation.

The Committee discusses and receives reports on current matters regarding the field of operation of the Division, including the following matters: changes in the risk profile in the computer field of the Bank and in the status of plans for the reduction of material risks; material deviations from the limitations prescribed in the tolerance declaration regarding information technology risks; material failure events, including in the field of data protection and cyber defense and rectification of deficiencies; material findings raised in internal audit reports, in safety surveys and controlled penetration attempts, the drawing of conclusions and a deficiency rectification plan; changes in regulation having a material effect upon matters under the authority of the Committee; changes in the organizational structure of the Division and the appointment of key personnel.

The Committee discusses Management's recommendations for the introduction of a new product and/or new operation and/or outsourcing operation in the field of computing.

The Committee approves projects and procurement agreements in the computer field, the total amount of the investment therein exceeds NIS 35 million.

The Committee monitors meeting usability goals of the integrated projects under focus.

Risk Management Committee. The Committee is authorized to discuss and to make recommendations to the Board of Directors in any matter relating to the overall risk strategy, including the risk management and risk exposure policy, in the Bank and in the Group. Within this framework, the committee discusses matters of risk tolerance/risk appetite, present and future; scope of exposure to the various risks and



limitations on exposure; organizational preparations and corporate governance for the implementation of the risk strategy for exposure management and control; updating of the Board of Directors' procedures in the risk management field.

The committee is authorized to discuss and recommend to the Board of Directors in matters of insurance of the Bank and the Group, including the renewal of the banking insurance policy (BBB) and the insurance of officers (D&O), business continuity, management of online banking risks as well as regarding new products and activities, unless it is recommended that new products and activities would be discussed by a different committee.

In addition, the Committee holds a semi-annual discussion, sitting as a sub-committee for the management of operating risks in the United States.

- The Committee holds discussions regarding periodic reporting in matters of risk management at the Bank and at the Group, as detailed below:
 - Discussions of Group policy documents and basic documents regarding risk management, in accordance with the frequency determined therein, and recommending their approval to the Board of Directors. The Committee is, inter alia, authorized to discuss the credit risk appetite of the Discount Group;
 - Discussions of the monthly update of the Head of the Risk Management division and the monthly report regarding legal and regulatory instruction relevant to banks in Israel;
 - Quarterly discussions of the risk document, including the monitoring of the Group's exposure to risk, including reports on changes in the risk profile of investee companies and on material events that affect their risk profile;
 - Quarterly discussions of the legal and regulatory risk document, including reference to material legal actions lodged against and by the Bank and investee companies, material updates of relevant legal and regulatory instructions, and material approaches having legal aspects of the supervisory authorities in Israel and abroad, relating to matters of the Bank and of its investee companies;
 - Quarterly discussions of the report of the Head of the Financial Markets Division, including the general overview by the Bank's Chief Economist;
 - Quarterly discussions of the activity in derivatives by the Bank and by the Bank Group;
 - The quarterly monitoring of the implementation of the internal enforcement plan as well as of the cross-border risk subject.



- Annual discussion of the capital adequacy assessment report (ICAAP) and of the independent review by the internal audit:
 - Annual discussions of matters relating to the risk appetite declaration, in line with the strategy, the uniform stress test of the Bank of Israel and the results of the holistic stress tests and their impact on the equity, within the framework of the ICAAP, as well as discussion of the SREP letter and the preparations made by the Group for its implementation;
 - Annual discussion of the annual work plan of the Risk Management Division and of the related performance report;
 - An annual presentation and review of the operations of the principal subsidiaries (MDB, ICC, Bancorp/IDB New York and Discount Capital), under the leading of the Subsidiary Companies Division and with an emphasis on business activity and risk management aspects, as well as an annual review of the aspects of risk management relating to subsidiaries not considered as material subsidiaries, and of other investee companies;
 - Annual reviews regarding matters of stress tests of market risk and the central assumptions used in the management of exposure to interest risk, fraud and embezzlement, credit risk relating to household customer operations, material operational risks, and changes in the model catalogues;
 - Annual discussions of investment strategies and the financing strategy of the Group;
 - Discussion of the operational risks survey, including fraud and embezzlement survey, of the compliance infrastructure survey and the Group enforcement survey and the financial plans for strengthening the capital adequacy;
 - Annual discussion with the chief risk officer, in the presence of Committee members and the chief risk officer only;
 - Receiving reports regarding deviations from limits set by the Board of Directors and regarding material failure events, as near as possible to the date of discovery thereof, and receiving reports and current updates from control and compliance factors (chief risk officer , chief legal adviser, head of the financial markets division and the chief compliance officer) regarding material matters relating to risk management.

In addition, the CRO submits immediate reports to the committee, and if required also to the Board of Directors, on any matter, finding or deficiency found in the area within the duty and authority of the committee, which might have a material effect on the risk management at the Bank and/or on its business. The CRO is entitled at his own initiative, to bring additional matters for discussion by the committee. (The above stated is also applicable in relation to MDB and ICC).



Coordination Committee. the Committee is authorized to discuss changes and adjustments to the duties and powers of the sub-committees of the Board of Directors, including the contents of their discussions.

The Committee is also authorized to discuss the findings that arose within the framework of the "Assessment of the Effectiveness of the Board of Directors' Work" process.

The members that serve on this Committee are the members of the Board of Directors who serve as the chairmen of the sub-committees of the Board of Directors.

Operating at MDB are the following committees of the Board of Directors: audit, risk management, remuneration and administration, credit. The remuneration and administration committee deals, among other things, also with the following matters: manpower, computer system, branches, organizational structure and efficiency. The Remuneration and Administration Committee receives a report from the President & CEO or from the VP Human Resources and Administration or from other factors in accordance with the subject matter. The Committee and also receives reports regarding activity in aid of the community, also presented to the Committee is the new Code of Ethics, and the Committee follows-up the plan for implementation measures for absorbing the Code.

Operating at ICC are the following committees of the Board of Directors: Strategy committee, remuneration committee, computer system committee, risk management committee and the audit committee. The Remuneration Committee discusses also issues of manpower. The Code of Ethics of ICC has been approved by the Remuneration Committee. Reports regarding the social responsibility areas are submitted on a current basis to the Board of Directors of ICC.

The duties of the said committees and their authority, in ICC and MDB, are similar to those of the parallel committees of Discount Bank, as described above.

Mechanisms for the prevention of conflict of interests among Directors

In accordance with Proper Conduct of Banking Business Directive No. 301, it is not permitted to appoint a Director whose current business interests create a permanent conflict of interest between himself and the banking corporation or where fear of such conflict exists. According to legislation, a director has a fiduciary commitment towards the corporation in which he serves, including a commitment to avoid any conflicting activity between his duties as director and any other office he may hold or between his personal interests and/or of any action constituting competition with the business of the company and avoiding the utilization of any business opportunity of the company with a view of obtaining benefits for himself or for another person. The



Bank's Board of Directors has approved guidelines` for the prevention on a permanent basis of conflict of interest, based on the scope of the business relations of the director, which raise suspicion of conflict of interest and the materiality of the business relations with the Bank.

In addition, within the frameworks of the Companies Law and Proper Conduct of Banking Business Directives procedures and mechanisms were specified, for dealing with cases where a conflict of interest exists, or may exist, between the corporation and an interested party therein. In this framework, the law determined the duties of disclosures, according to which a director is bound to declare any personal interest that he has in an existing or proposed transaction, to the extent required, for the purpose of determining a process of approval of a transaction, as stated, by the various organs (audit committee and/or the board of directors and/or the general meeting of shareholders), as the case may be.

The Proper Conduct of Banking Business Directives prescribe, inter alia, that a director who had declared that he has such a personal interest, will not receive information from the banking Corporation with regard to that matter, will not be present at a discussion pertaining to the matter in which he has a personal interest, and will not vote on such matter. The Directives also prescribe that a director who has a connection with a corporation in a secondary sector (a holding of at least 5% in one or more of the means of control over the corporation in the secondary sector, or serving as an officer of the corporation in the secondary sector), will not be present at discussions of the Board of Directors or of its committees that relate to a customer of the banking corporation, which is also a corporation in the same secondary sector, and will not receive information and reports with regard to that customer from the banking corporation.

The corporate governance code of the Discount Group, determines, among other things, that the Board of Directors shall determine a policy and principles for dealing with conflicts of interest intended to protect the Bank from improper or illegal actions or from the influence of those who do not act in accordance with the best interests of the Bank.

It has also been determined that the Board will determine rules for dealing with transactions in which a controlling shareholder and/or an officer is involved, or in which they have a personal interest, subject to the provisions of the law applying to the Bank. Such rules shall apply also to a transaction between a controlling shareholder and/or an officer of the Bank as the parent company and subsidiaries of the Bank.

Accordingly, the Bank's Board of Directors has determined a procedure for the approval of transactions with interested parties in the Bank, which is intended to regulate the



process of identification and approval of transactions between the Bank and subsidiaries under its control, and interested parties in the Bank, which require approvals and special reporting. For this purpose, the Audit Committee of the Board of Directors has established yardsticks concerning transactions between the Bank and interested parties in the Bank, according to which decision would be made as to what transactions shall be brought for approval of the Audit Committee, which duty is to decide whether it is an irregular transaction that requires special approvals.

In addition, the Bank acts according to the provisions of Proper Conduct of Banking Business Directive No. 312, in the matter of related parties, which sets requirements regarding obtaining approval of the Audit Committee for transactions between the Bank and persons related to the Bank, including transactions between the Bank and Officers of the Bank. In accordance with this Directive, the Audit Committee is required to confirm that the terms of these transactions do not deviate from market terms of similar transactions that the Bank enters into with other parties.

Accordingly, the Board of Directors approved the procedure for approval of transactions with related parties and transactions, which an officer of the Bank has a personal interest therein, the aim of which is to describe the manner of treatment required in case of transactions with an interested party and transactions, which an officer of the Bank has a personal interest therein (whether transactions of the Bank with the officer himself or transactions of the Bank with others), in accordance with the Companies Act. It is noted that in term of Proper Conduct of Banking Business Directive No. 301, Directors of the Bank are forbidden to serve also as directors of corporations controlled by the Bank, as well as directors of a financial body, the volume of its assets exceeds NIS 2 billion.

The above stated applies also to the board of directors of ICC. In addition it should be noted, that due to the membership mix of the board of directors of ICC, which, inter alia, is composed also of directors who act as officers of the owner banks of ICC, discussions by the board which might expose commercial and business secrets, as well as a potential for the violation of the Antitrust Laws, are not held in the presence of the directors who act also as officers of the owner banks and even, based on the complexity of the subject, these are brought before ad-hoc committees, composed of external Directors and an independent Director, for an in-depth review of the matter.



The process of appointment of Directors

The appointment of members of the Bank's Board of Directors is made by the general meeting of shareholders, and everything according to the provisions of the law applying to the Bank as a public company and as a banking corporation having no core controlling interest and in accordance with the Bank's articles. These provisions determine special qualifying conditions regarding the qualifications and experience requires from whoever acts as director of a banking corporation. According to the Banking Ordinance the Supervisor of Banks has to be informed in advance of the intention to appoint a director, and the Supervisor has the authority to oppose such an appointment.

The Bank is a banking corporation without a core controlling interest, subject to special instructions regarding the appointment of directors, their tenure and termination of office. In accordance with these instructions, voting on the appointment of directors shall take place only at the annual meeting of shareholders or in a meeting convened under Section 35A of the Banking Act (Licensing), 1981 (hereinafter: "the banking Act"); period of office of a director who is not an external director is limited to three years, and nine years on a cumulative basis, of the period of office of such a director; the number of directors who are to be replaced in each year shall not exceed one half of the number of the acting directors.

Following the Bank becoming a bank having no core controlling interest, and in accordance with the amendment to Proper Conduct of Banking Business Directive of May 2014, the Supervisor of Banks instructed the Bank to gradually increase the number of Directors up to fifteen Directors following the General Meeting of Shareholders for 2016. In a letter dated April 10, 2016, the Supervisor of Banks approved the Bank an increase in 2016 to 14 Directors only.

An amendment of Proper Conduct of Banking Business Directive No. 301, published in July 2017 reduces the maximum number of Directors of a banking corporation to 10 instead of 15 (For additional details, see the 2016 Annual Report, p. 411). Following the publication of the draft amendment to the Directive as aforesaid the Supervisor of Banks has instructed the Bank to reduce the number of directors at the General Meeting of Shareholders to be convened in 2017 to 12 Directors.

According to the Banking Act a statutory committee was established for the appointment of directors in a banking corporation not having a core controlling interest, the duty of which is to propose to the general meeting of shareholders candidates for office as directors, in a number equal to the number of open positions on the board of directors plus one more candidate of each class.

Concurrently with the committee, in the case of a banking corporation having no core controlling interest, a shareholder and/or a group of shareholders that hold over two



and one half percent of a certain class of means of control in the corporation, are entitled to propose to the general meeting of shareholders candidates for election as directors.

On June 29, 2014, a special meeting of the Bank's shareholders approved the amendment of the Bank's articles with respect to the appointment, office and termination of office of the Bank's Directors, on the background of the Bank becoming a bank without a core controlling interest, as detailed in the immediate reports dated May 13, 2014 and June 29, 2014.

The amendment states that the period of office of a Director would be three years from date of appointment, instead of an annual appointment. It also states that notwithstanding anything stated in any rule of the Bank's articles and subject to any legislation, no more than one half of the Board members who officiated immediately subsequent to a prior general meeting of shareholders may be replaced in a general meeting of shareholders, unless the approval of the Supervisor of Banks is obtained in respect thereof.

The Bank's annual general meeting of shareholders held on November 8, 2016, it has been decided to appoint 2 directors out of the 3 candidates proposed by the committee, as stated (in 2015: 4 directors out of the 5 candidates).

Mercantile Discount Bank and ICC. MDB and ICC are private companies. The appointment of directors at MDB and at ICC is made in accordance with their qualifications and in accordance with Proper Conduct of Banking Business Directive No. 301. Appointment of members of the Board of Directors in ICC is made in accordance with the ratio of holdings between Discount Bank and FIBI and in accordance with guidelines set in the shareholders agreement and the company's articles. The Bank's Board of Directors approves the decision regarding the appointment of directors of MDB and of ICC.

The appointment of a director of a banking corporation and of a credit card company requires the approval of the Bank of Israel, following a full "fit and proper" (F&P) process, applying also to external directors according to Directive No. 301 - the appointment and approval must be renewed every three years.



The Management

The President & CEO

The Bank's Board of Directors has the authority to appoint the President & CEO, and is responsible for supervising and evaluating the performance of the President & CEO.

Members of Management

Appointment of members of Management is made by the President and CEO, subject to approval of the Board of Directors.

Details regarding members of management⁽¹⁾

The Corporation	Discount Bank	Mercantile Discount Bank	ICC
Number of members of management	11	10	10
Women	4	2	4
Men	7	8	6
Age			
up to 50	6	4	6
51-60	4	5	4
61 and up	1	1	-

Note:

(1) The data is updated as of date of publication of the 2016 Annual Report.

For additional details regarding the Bank's members of Management, see the 2016 Annual Report (pp. 324–326)¹⁶. For additional details regarding members of Management of Mercantile Discount Bank, see the 2016 annual report of this bank (pp. 288–290). For additional details regarding members of Management of Israel Credit Cards, see the 2016 annual report of this company (pp. 197–199).

¹⁶ The data regarding members of the Bank's Management appearing in the 2016 annual report, is up-to-date as of a date proximate to the date of publication of the report.



Relation between the remuneration of Directors and Management and performance of the Bank

Remuneration of Directors (excluding the Chairman of the Board)

In accordance with Proper Conduct of Banking Business Directive No. 301A (hereinafter: "Directive 301A"), the remuneration for all Directors of the Bank, excluding the Chairman of the Board, is to be determined in an identical manner and in accordance with the manner of determining the remuneration of an external Director, in accordance with the Regulations.

Directors' remuneration, excluding the chairman of the board, is determined in accordance with the Companies Regulations (Rules applying to remuneration and reimbursement of expenses of external directors), 2000 (hereinafter in this section: "the Regulations"). The amounts of the remuneration are in accordance with the maximum amount determined in the regulations for an external director who is not an expert external director, though most of the Board members have been defined as having accounting and financial expertise.

The remuneration is composed of a fixed annual amount with the addition of remuneration for participation in each meeting of the Board or of one of the committees of the Board. The remuneration does not include any component relating to the performance of the Bank.

The Amendment to Directive No. 301A in the matter of the remuneration policy in a banking corporation, dated August 2015, states that the remuneration of all members of a board of directors, including the chairman, will be a fixed amount only. The provisions of the Amendment apply to new remuneration agreements, including the extension or change of an existing remuneration agreement beginning with the date of publication of the Directive, as well as to existing remuneration agreements no later than December 31, 2017.

Directors' remuneration at MDB is determined in accordance with the Regulations, based on the capital grading relevant to MDB. The annual remuneration of directors, who serve as officers of Discount Bank, is paid to Discount Bank.

Directors' remuneration at ICC is determined in accordance with the Regulations and is payable to directors who do not serve as officers of the owner banks. The remuneration is based on the capital grading relevant to ICC.



The terms of office and employment of the Chairman of the Board and the President & CEO

The terms of office and employment of the Chairman of the Board. The Bank's annual meeting of shareholders held on October 2, 2014, approved the terms of office and employment of the Chairman of the Board, which do not include the variable remuneration components.

The terms of office and employment preserve the fixed remuneration and termination arrangements for the employment of the Chairman, in accordance with the terms of the previous employment agreement, subject to changes resulting from new instructions applying to the Bank and from the Bank's remuneration policy (and with the addition of a thirteenth month salary, similarly to other groups of employees at the Bank).

Following the enactment of the Remuneration of Officers of Financial Corporations Act (Special approval and the non-deductibility tax wise of an expense in respect of exceptional remuneration), 2016 (hereinafter: "the Remuneration Act"), the Bank was required to make modifications to the engagement terms of the Chairman of the Board. The Annual General Meeting of Shareholders held on November 8, 2016, resolved to approve the terms of office and engagement of the Chairman of the Board, as from October 12, 2016 and until the end of the term of office of the Chairman as Chairman of the Bank's Board of Directors. Nothing in the new engagement terms may impair the rights of the Chairman that had accumulated to October 12, 2016.

For further details, see Note 35 to the financial statements as of December 31, 2016 (pp. 303-305).

The terms of office and employment of the Bank's President & CEO. A special meeting of the Bank's shareholders, held on February 17, 2014, resolved to approve in accordance with the remuneration policy for the Bank's officers (see hereunder), which had been approved by the said meeting, the terms of office and employment of the Bank's incoming President & CEO, after these had been approved by the Board of Directors and the Remuneration Committee for a period of five years since the date on which the tenure of office begins (February 19, 2014).

The remuneration plan includes, among other, awards of different types, including the annual award that was computed on the basis of five indices, having identical weight, which are based upon the Bank's performance and upon a qualitative index based upon an evaluation of the functioning of the President & CEO by the Board of Directors, and a current award, the entitlement to which is conditional upon two minimum quantitative conditions, based on the performance of the Bank (the core capital adequacy ratio and the efficiency ratio), and upon a minimum condition based on the evaluation of performance, as stated.



Following the Remuneration Act, the Bank was required to make modifications to the previous engagement terms of the President & CEO. The Annual General Meeting of Shareholders held on November 8, 2016, resolved to approve the terms of office and engagement of the President & CEO, for a period of five years, as from October 12, 2016. Nothing in the new engagement terms may impair the rights of the President & CEO that had accumulated to October 12, 2016 (including the variable remuneration in respect of the year 2016).

The annual award for 2016 for the President & CEO. The entitlement to annual awards for the President & CEO did not materialize in respect of the year 2016. The Remuneration Committee and the Board of Directors have approved: the fulfillment of the criteria for a current award for 2016, in an amount of NIS 705 thousand (the proportionate share of the annual award of NIS 900 thousand, calculated through October 12, 2017; a special circumstances award of NIS 282 thousand (the proportionate share of the annual award of NIS 360 thousand, calculated through October 12, 2017); and a special contribution award, which can be distributed once every three years, of NIS 700 thousand.

For additional details, see Note 35 to the financial statements as of December 31, 2016 (pp. 304–305).

Remuneration plan for officers

Remuneration policy for officers of the Bank (2014–2016). A special meeting of the shareholders, held on February 17, 2014, resolved to approve the remuneration policy for officers of the Bank, and in accordance with Section 267A of the Companies Act, 1999, after its approval by the Board of Directors with the recommendation of the Remuneration Committee ("the previous remuneration policy"). Among other things, the policy included reference to a fixed salary and related benefits, as well as principles regarding the payment of annual awards based on attaining business goals. (For additional details, see the 2016 Annual Report, p. 209). The remuneration policy included, inter alia, annual award plan for officers, subject to attaining determined minimum targets. The scope of the annual award to officers was based upon attaining group indices and personal indices reflecting the contribution of the officer towards achieving the goals of the Bank, upon a basic award component and a discretionary award component. Special instructions have been determined, within the framework of the remuneration policy, with respect to the remuneration of officers engaged in risk management, control and audit. Within the framework of the policy, the maximum total amount of awards to all officers together and to each one of the officers has been determined, also included is the possibility for the distribution of special awards: award in respect of special profits or losses (positive or negative award), an award for



special contribution and an award in special circumstances. In the framework of the policy arrangements for the spreading of the annual award were determined, including – a cash payment of 50% of the total awards granted in respect of an award year, to be made soon after the publication of the Bank's financial statements for the award year, and deferment of the remaining 50% to be paid in three equal installments over the three years following the entitlement date, and which would be linked to changes in the price of the Bank's shares.

The principles detailed in the remuneration plan applied to the terms of office and employment of officers of the Bank, approved as from the date of approval of the remuneration policy.

The approved remuneration policy did not directly apply to the terms of office and employment of officers of the Bank's subsidiaries. Notwithstanding, the principles of the Bank's remuneration policy were adopted as part of the Group's remuneration policy, which applies, with the required adjustments, to officers of the Bank's subsidiaries in Israel.

It is noted, that the Companies Act (Section 267A) states, among other things, that the majority of voting in a general meeting of shareholders, which has to approve the remuneration policy for senior officers, shall include the majority of votes of shareholders participating in the meeting, who are not the controlling shareholders in the company or who do not have a personal interest in the approval of the remuneration policy.

Award plan for members of Bank's Management and for the Internal Auditor (2015-2016).

On February 2, 2015, the Bank's Board of Directors received the recommendation of the remuneration committee and approved the award plan for members of Management and for the Internal Auditor for the years 2015-2016 ("the plan"), which agrees with the principles stated in the previous remuneration policy. The Board of Directors received the recommendations of the remuneration committee and approved also the targets for the purpose of the awards at the Bank for the said years. For details regarding the award plan and its terms, see the 2015 Annual Report (pp. 253-258). For additional details regarding remuneration at the Bank, both qualitative and quantitative, see part C in the document "Disclosure according to the third pillar of Basel and additional information regarding risks", which is available for perusal on the MAGNA website of the Israeli Securities Authority, on the MAYA website of the Tel Aviv Stock Exchange Ltd. and on the Bank's website.

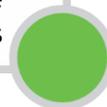
Remuneration policy for officers of the Bank (2017-2019). The Annual Meeting of Shareholders held on November 8, 2016, decided to approve the remuneration policy for officers of the Bank, in accordance with Section 267A of the Companies Act which replaces the previous remuneration policy ("the new remuneration policy").



The Bank's remuneration policy is, inter alia, subject to the provisions of the Companies Act, to Directive No. 301A in the matter of the remuneration policy of a banking corporation, as amended from time to time, and to the Remuneration Act, published on April 12, 2016. The formation of a new remuneration policy is intended to modify the remuneration policy at the Bank to the changes made in the Directive of the Supervisor and to the provisions of the Remuneration Act.

The main differences between the approved remuneration policy and the previous remuneration policy are:

- Limitations were added regarding the scope of remuneration for officers, minding the rules and limitations stated in the Remuneration Act;
- Changes were made in the terms of the award plan for officers who are subject to the President & CEO, as determined in the remuneration policy. In this framework, changes have been made to the threshold terms for the payment of awards, to the components of the annual award, and the maximum amounts for the annual awards to officers, as above, have been reduced;
- An authority was added to the Remuneration Committee and to the Board of Directors to approve an award to an officer who is subject to the President & CEO, not on the basis of measurable criteria up to a maximum of three monthly salaries to an officer as above, and subject to the award budget, by use of discretion as stated in the remuneration policy;
- An authority was added to the President & CEO to approve immaterial changes in the terms of office of officers subject to her, without requiring approval of the Remuneration Committee, in accordance with the Companies Regulations (Relief regarding transactions with interested parties), 2000;
- Directives were introduced whereby a variable remuneration that would be awarded and paid, would be refundable in accordance with criteria determined in the remuneration policy, in accordance with the terms of Directive 301A;
- The mechanism for deferment and the spreading of variable retirement benefits and awards was revised so as not to require the deferment and spreading of variable remuneration that does not exceed 40% of the fixed annual remuneration, where the remuneration agrees with the requirements of the Remuneration Act regarding the maximum amount of remuneration. Furthermore, it is no longer required that one half of the variable remuneration in respect of a calendar year shall be granted in the form of a capital remuneration;
- The possibility for the granting of a thirteen's month salary to officers of the Bank was added;



- Additional instructions were introduced allowing the granting of capital remuneration to officers, subject to the restrictions on the scope of remuneration stated in the remuneration policy.

The annual award in respect of 2016. The entitlement to an annual award for the Bank's Vice Presidents did not materialize in respect of the year 2016. The Remuneration Committee and the Board of Directors have approved: the fulfillment of the criteria for a basic bonus in an amount equivalent to one month's basic salary for each of the vice presidents, in a total amount of NIS 998 thousand for all the vice presidents (see item 6 above in the 2016 Annual Report, p. 212); a special circumstances bonus package in an amount of NIS 998 thousand for the vice presidents (see item 8 (c) in the 2016 Annual Report, p. 213, was divided differentially by the President & CEO); and a special contribution bonus, for three vice presidents, in a total amount of NIS 500 thousand (see item 8 (b) above in the 2016 Annual Report, p. 212). The approved bonuses totaled NIS 2,495 thousand. The Remuneration Committee has approved the following special profits and losses for the purpose of the 2016 remuneration plan: the gain on the sale of VISA Europe; ICC's expense in respect to the arrangement in lieu of criminal proceedings; the costs in respect to the 2016 retirement plan. Elimination of the aforesaid special profits and losses has not affected the total amount of the bonuses. The Remuneration Committee and the Board of Directors have approved the application of the spreading mechanism prescribed in the new remuneration policy that was approved by the general meeting on November 8, 2016, in relation to the 2016 bonuses. Consequently, the spreading mechanism will be applied only if the variable remuneration of a vice president exceeds 40% of the fixed remuneration (see in the 2016 Annual Report, pp. 210-214).

The actual remuneration for 2015-2016 of Board members, the president & CEO, members of Management and the internal auditor was in accordance with the plans and mechanism described above.

For details regarding the remuneration policy, including the remuneration policy with respect to officers of the Bank, see Chapter 4 below.

A mechanism for the reimbursement of variable remuneration. The Amendment to Directive No. 301A states that a variable remuneration awarded to a key employee, shall be subject to the obligation of reimbursement in exceptional circumstances where the employee was involved in activity causing exceptional damage to the corporation, including: unlawful activity, violation of fiduciary duty, deliberate violation or gross negligible disregard of the policy of the banking corporation, its rules and procedures, fraud or deliberate inappropriate conduct, which caused the restatement of data in the financial statements. A banking corporation has to determine criteria for the operation of the remuneration reimbursement mechanism and take all reasonable



measures, including legal measures, for the reimbursement of the variable remuneration, where all criteria for such reimbursement exist. The period for reimbursement is five years from the date of the award of the variable remuneration ("the reimbursement period"), which may be extended for two additional years in the case of an officer, where during the reimbursement period an internal or external investigation has been initiated, which might activate the reimbursement mechanism. The provisions of the Amendment on the matter of the reimbursement of variable remuneration shall apply to new remuneration agreements, including the extension or change of an existing remuneration agreement, with effect from the date of the publication of the Directive, as well as to existing compensation agreements no later than December 31, 2017.

For details regarding remuneration of employees at MDB, see "Additional disclosure according to the third Pillar of Basel – as of December 31, 2016" (pp. 99–107 of the Hebrew version). The said report is available on the website of MDB. For details regarding the remuneration plan for the General Manager of ICC, its managers and employees, see the annual report of the company for 2016 (pp. 213–214) and "Additional disclosure according to the third Pillar of Basel" – 2016 annual report (pp. 48–54 of the Hebrew version). The said reports are available on the website of the company.

Principal control functions

The Internal Audit

The Bank's Internal Auditor is Mr. Nir Abel, CPA (Isr.), who assumed office on May 18, 2011. The Chairman of the Board of Directors is the organizational entity in charge of the Internal Auditor.

The internal audit operates according to an annual and multi-annual work plan, focused on risks, which was designed on the basis of an overall risk survey, conducted according to new and accepted methodologies, and was influenced by local and international guidelines (including Basel, SOX, COSO and Proper Conduct of Banking Business Directive No. 307 regarding the internal audit function).

The Internal audit is a function having Group responsibility and therefore emphasis is put upon the existence of interfaces in the fields of methodology, approval of work plans, etc., with the subsidiary companies that have their own internal audit units.

The internal audit is carried out according to the provisions of the Internal Audit Law, 1992, and of the Proper Conduct of Banking Business Directive No. 307 in the matter of "Internal audit function".



For further details regarding the internal audit at the Discount Group, see the 2016 Annual Report (pp. 328–330).

The Internal Auditor of MDB is Ms. Tsiona Cohen, who acts in this role since August 1, 2012. For details regarding the Internal Audit at MDB, see the 2016 annual report of this bank (pp. 290–293).

The Internal Auditor of ICC is Mr. Nir Abel, who acts in this role since May 18, 2011. For details regarding the Internal Audit at ICC, see the 2016 annual report of ICC (p. 210).

Risk Management Division

The Chief Risk Officer is Mr. Avi Levi who took office on July 21, 2016 and heads the Risk Management Division. Mr. Yair Avidan acted as Chief Risk Officer until July 21, 2016. The Chief Risk Officer is a member of the Management who reports to the President & CEO independently from the business lines that create the risk. The Chief Risk Officer assists the Board of Directors in fulfilling its duties regarding risk management, and he has full access to the Board of Directors and to the Board's Risk Management Committee. The Chief Risk Officer is responsible for the management of all risks at the Bank and the Group, within the framework of the second defense line.

Risk management has been defined by the Bank as a function having Group responsibility. Accordingly, emphasis is being put on tightening the interfaces with the subsidiaries in Israel and abroad and on the guidance provided to them regarding the adoption of processes and tools according to methodologies determined by the parent company, with the required adjustments.

Among the main tasks of the division: Recommendations regarding the risk appetite and risk management policy, identification and correct evaluation of the risks and exposures; monitoring and current reporting to Management and the Board of Directors, as a risk based management and control tool; verification of capital adequacy, ensuring the long-term stability; involvement in material processes, such as: supporting the strategic planning and accompanying strategic and business processes, integration of new work procedures derived from regulation; leading the credit policy and the integration of risk based pricing, providing a second opinion on credit applications and on investments that involve a material credit exposure and approval of ratings, classifications and allowances, challenging of the capital planning, strengthening of risk based remuneration aspects, improving tools, models and systems supporting risk management, identification of developing risks, etc. This, with the aim of verifying the integration of risk management aspects as an integral part of the business processes and testing their anticipated impact on the risk profile.

The Risk Management division combines under it the independent functions supporting



the risk management, comprising the units managing credit risks, market risks, liquidity and investment in securities, operational risk, including business continuity risks and fraud and embezzlement risks, IT risks and cyber risks, as well as compliance risks, prohibition of money laundering and finance of terror risks and cross-border risks.

The managers of the risk management units operate as the second line of defense and conduct a variety of processes for the identification, measurement, evaluation as well as control and risk mitigation. In addition, the Chief Risk Officer is responsible for control functions, including the credit controller, second opinion units regarding credit applications, as well as supervision and evaluation function, which performs comprehensive assessment processes of the risk profile of the Bank and of the Group, including management of the annual process for the Internal Capital Adequacy Assessment Process (ICAAP), as well as performs supervision and control processes over the subsidiaries in Israel and abroad from risk management aspects and IT unit, providing support for the promotion and management of risk management systems, including the work desk system for the Chief Risk Officer.

For further details regarding the risk management at the Discount Group, see 2016 Annual Report (pp. 63-103) and in the document "Disclosure according to the third pillar of Basel and additional information regarding risks", which is available for perusal on the MAGNA website of the Israeli Securities Authority, on the MAYA website of the Tel Aviv Stock Exchange Ltd. and on the Bank's website.

The Chief Risk Officer of MDB is Mr. Gilad Alyagon, who acts in this role since May 1, 2012. For details regarding risk management at MDB, see the 2016 annual report of this bank (pp. 51-104) as well as the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risks" of this bank.

The Chief Risk Officer of ICC is Mr. Alex Beltush, who acts in this role since July, 2013. For details regarding risk management at ICC, see the 2016 annual report of ICC (pp. 41-74) as well as the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risks" of ICC.



Vision and Values

Formation of the "Discount Spirit"

With the passing of two and one half years since the beginning of the implementation of the strategic plan, which outlines the activity in all the core fields of operation and supporting fields of Discount Bank's operations, the need was found for the outlining of the organization's spirit for the creation of a joint language and of a generating power leading to the success of the organization in attaining its business goals, as a complementary process to the Bank's strategy. At the end of 2016, the Bank's Management decided to begin a process for the formation of the "Discount Spirit". The process is made of three tiers:

- Formation of a vision;
- Formation of values;
- Writing of conduct rules (code of ethics).

The vision, values and the code of ethics are to replace the existing vision, values and code of ethics.

The vision of the Bank was formed and approved in the first quarter of 2017. All members of the Bank's senior forum participated in this process.

Following is the vision: **We shall endeavor to become the best Bank for its customers, permitting over a period of time, growth and financial solidity by means of adapted, professional and fair banking.**

Presently, the Bank is implementing an action for the formation of the values of the Bank and its rules of conduct (the Code of Ethics), in which about 400 managers are taking an active part in participation with all Bank employees, followed by an integration process continuing into 2018.

For details regarding the vision and values of Discount Bank, which were in effect at date of introduction of the move for the formation of the "Discount Spirit", see the Social Responsibility Report for 2015 (pp. 60-62).



ICC – The Company's Vision

ICC is operating in accordance with the company's vision, by which it aspires to realize the dreams, needs and wishes of its customers with gratification and responsibility, at any time and at any place. In accordance with this vision, which is being implemented with professional integrity, innovation and courtesy, the communication language of ICC is used under the slogan of "ICC- what is good for me" – all this with the aim of enhance the wishes of the company to be attentive to its customers and to grant them exactly what is good for them.

ICC offers its customers an array of financial tools and off-banking credit products. In accordance with its business concept, which views the customer at the center, ICC has established an organizational infrastructure that is focused on the customer and provides service from one end to another, in accordance with the segment to which the customer belongs.

The values of ICC

Partnership – always acting out of commitment and out of mutual responsibility.

Integrity – acting fairly, reliably and in accordance with ethical principles.

Excellence – be ready to face any challenge and overcome it.

Innovation – always be one step ahead of others.

Positiveness – employ a positive approach, and believe in the ability to succeed.

Flexibility – acting in accordance with changing situations.

The values of Mercantile Discount Bank

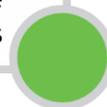
MDB operates in accordance with values incorporated in three layers: human, organizational and inter-personal.

Human

Responsibility, fairness and integrity – for us these constitute an asset.

We act taking always personal and organizational responsibility for our actions.

We share joint universal values, which we strictly nurture daily in our work, principally: fairness and decency, integrity and compliance with the law.



Organizational

Professionalism, commitment and excellence – for us it is a way of life.

We maintain high professionalism, personal excellence and nurture standards of ever increasing improvement with commitment for the advancement of the bank and endeavor to achieve its business goals.

Our customers are an important and significant component of our success. The professionalism of each of us, whether maintaining a direct interface with the customer or providing intra-organizational service, impacts the excellence of MDB.

Inter-personal

Cooperation, mutual respect and tolerance – the path to success.

We believe that in the basis of a steady and long-term business and professional relationship, are to be found values of mutual respect and tolerance.

We act with a feeling of dedication and partnership towards all our stakeholders.

In accordance with our concept, joint work within the bank is the key for success and prosperity.

The code of ethics

The Code of Ethics of Discount Bank was formed in 2004. During the years 2013–2014, the Bank updated and modified the Code in accordance with standards developed in this field in Israel and around the world. These standards focus on social and environmental responsibility, the prevention of bribery and corruption and the protection of employees raising ethical issues.

The Bank's Board of Directors and Management see great importance in the absorption of the Code and turning it into an integral part of the culture of the organization.

The executive in charge of ethics at the Bank is Ms. Yafit Gariani, member of Management and – Executive Vice President, Head of the Human Resources and Properties Division.

Operating together with her is the Ethics Committee, whose responsibility is to form a policy in the matter of ethics, monitor the absorption processes and deal with dilemmas and ethical issues. Representatives of the Bank's units officiate in the Committee.



The absorption processes integrate courseware, the designated Intranet site, which contains a collection of dilemmas and extended information regarding organizational ethics, integration of ethical dilemmas with professional and managerial qualification processes, and more.

The reporting mechanisms are an anonymous telephone line and forms addressed to the Ethics Committee also for consulting purposes. Only a few approaches were made in 2016. The Code of Ethics is available for perusal on the Bank's website.

As stated, the Bank is at present forming a new Code of Ethics, as a complementary process to the formation of the Bank's Vision and Values (see above in this Chapter, in the item "Vision and Values").

Mercantile Discount Bank. Towards the end of 2016, MDB introduced a new ethical code serving as a compass in the organizational and business culture paths, as well as in the relationship of the bank with the different stakeholders (customers, suppliers, employees, etc.). The ethical code reflects the leading values of MDB, and includes three layers: the human layer, relating to responsibility, fairness and honesty; the organizational layer, relating to professionalism, excellence and commitment; and the inter-personal layer, relating to cooperation, mutual respect and tolerance. The ethical code was integrated in 2017 with respect to managers and employees by means of instruction sessions held at the instruction center and by means of "downward" instruction by managers to employees. Code of ethics pamphlets have been distributed to all employees, as well as structured instruction programs for managers.

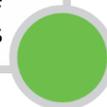
The officer in charge of ethics at MDB is a member of Management, Ms. Ronnie Lars - VP Head of Human Resources and Administration Division. An ethics committee has been established, headed by Ms. Lars, and ways of approaching the committee have been institutionalized.

The code of ethics is available on the employee Internet portal. A summary of the code is available on the Internet website of MDB.

ICC. The officer in charge of ethics at ICC is a member of Management, Ms. Shirly Hadas Glick - VP Head of Human Resources Group. The Code of Ethics of ICC was approved in 2014.

The Code of Ethics of ICC is available to the employees on the organizational portal of the company. In addition, a learning course is provided to employees for understanding the rules and the manner of conduct when encountering dilemmas in the organization.

The Code of Ethics of ICC is available to the general public on the Internet website of the Company.



Corporate Governance Code for the Discount Group

The corporate governance code, approved by the Bank's Board of Directors in October 2009, reflects the implementation of a "best practice" policy in the corporate governance field. The code is based on the provisions of the law and various regulations applying to the Bank in the corporate governance field. The Code was discussed by the Board of Directors in September 2014, and updates of the document were approved. The updated document is available for review on the Bank's website.

The work procedure with subsidiary companies, which was approved by the Board of Directors in January 2012 was revised in April 2016. The procedure is designed to regulate the interfaces between the Bank and its subsidiaries, with a view of preparing an infrastructure for management on a group level, and determine a work format for the supervision and control over the activities of subsidiary companies by the parent company.

Within the framework of the policy document and work procedures with subsidiary companies, supervision and control mechanisms have been set, which are designed to assure the proper and effective operation of the Discount group including with respect to the following items: activity and transactions with related parties; supervision by the Bank's Board of Directors over companies in the Group; reorganization and structural changes; the formation of a group risk management policy regarding various areas.

In addition, the Bank's Board of Directors has determined a procedure for the approval of transactions with interested parties in the Bank, which regulates the process of identification and approval of transactions between the Bank and/or subsidiary companies controlled by the Bank and interested parties in the Bank, which require special approvals and reporting. Among other things, the procedure determines that transactions between the controlling entities of the Bank and subsidiary companies are to be approved in accordance with procedures enacted in Israeli laws with respect to the approval of transactions with the Bank itself.

The corporate governance code of MDB was approved by the Board of Directors of MDB in January 2013, and was revised in June 2015.

The corporate governance code of ICC was approved by the Board of Directors of ICC in November 2014. The code is available on the company's website. ICC intends to validate the code this year.



Corporate governance questionnaire

On September 12, 2012, the Israeli Securities Authority published a disclosure guideline regarding the application of a corporate governance questionnaire. The Securities Authority published on January 14, 2016, an updated version of the questionnaire. The accompanying letter noted that the staff of the Securities Authority works for the establishment of the matter in a binding and permanent manner in Regulations, and that it encourages its implementation even now. In 2017 the Bank decided to submit a corporate governance questionnaire for 2016 voluntarily in the updated format.

The Bank's corporate governance questionnaire is available for review on the MAGNA website of the Israel Securities Authority and on the MAYA website of the Tel Aviv Stock Exchange together with the Bank's 2016 Annual Report.

Prevention of bribery, fraud and embezzlement

The corporate governance code of the Discount group states as follows: "The Board of Directors is responsible for setting high standards of conduct, designed to promote professional conduct and honesty, and for the integration thereof throughout the organization".

Fraud and embezzlement risks

As a financial corporation, the Bank holds funds and financial assets of its customers. In operations of this nature, the most basic condition for conducting business is the trust which customers feel towards the Bank. Hence the importance of management of fraud and embezzlement risks.

The management of fraud and embezzlement risks is conducted by the Discount Group as part of the operating risk management. Management of the risk is achieved by three lines of defense:

First line of defense - business units. The Bank and the Group prepare operating risk surveys on a current and dynamic basis and maintain, as a routine matter, the operating risk maps by means of a designated operating risk management system. Each risk center manager is responsible for the evaluation of the risks inherent in the operations of



his unit. The risk maps contain, among other things, also embezzlement and fraud risks. The risk survey made at the Bank and at companies in the Group, within the framework of which are examined, inter alia, fraud and embezzlement risks, covers repeatedly a period of three years. The present survey was concluded in 2016, and a new survey, to be performed over three years, is beginning in 2017. The survey applies to all of the units, in the Bank, ICC and MDB. In addition, each manager of a risk center has the duty of updating the risk map on an ongoing basis, where material changes and changes in work processes or systems occur.

An independent control function operates at each division, which serves as a first line of defense and partly activates control systems for the spotting of suspected activity. **Second line of defense - risk management division.** The risk management division in its role as the second line of defense, determines the operating risk management policy, which includes a designated chapter regarding the management of embezzlement and fraud risks. The policy defines the manner of management, monitoring, lowering and reporting of such risks. Furthermore, the risk management division challenges the evaluation of the risk in accordance with the determined methodology, where each risk is awarded a rating according to parameters evaluated by the risk center manager. The operating risk management department has established a designated unit: the embezzlement and fraud risk management unit, among the duties of which are: increasing awareness of this issue, current monitoring of irregular transactions, reporting them, where required, to the internal audit group, etc.

Third line of defense - internal audit. Internal audit as the third control circle, examines the risk surveys and the manner of challenging them, as well as examines the effectiveness of controls. Clear procedures and guidelines have been established as regards the manner of reporting of events suspected of embezzlement. In this respect, among others, a "hot line" to the internal audit is being used by which Bank employees may report suspected/irregular events. As part of this process, the internal audit performs an extensive examination, which includes the issue of an audit report, and where required submitting the case to the disciplinary committee.

The internal audit taking explanatory procedures and an extensive drawing of conclusions in lectures in the field units, executive conferences and various forums, and distributes several times a year learning pages of extraordinary events to all Bank employees. As a general rule, the internal audit at MDB applies similar procedures.

It is noted, that in addition to the examinations made following reports being received, the second and third control circles carry out initiated current examinations in order to monitor irregular transactions.



The Internal Audit examines on an ongoing basis the accounts of employees within the framework of audit work performed during the year or of specific audits. Some 150 such accounts are examined yearly.

In addition specific examination of employee accounts are being performed as a result of approaches made by customers, employees, public approaches or the intensification of current audit following audit findings.

In cases where irregular activities are found or suspicion of actions contrary to employee work procedures, treatment of the case is conducted by the Disciplinary Committee, which may decide on termination of employment, reprimand, removal from office, transfer from the unit, etc.

Some 54 special examinations were made in 2016. No exceptional activity was identified in 20 cases. Work at the Bank of 8 employees was terminated. Some 58 special examinations were made in 2015. No exceptional activity was identified in 18 cases. Work at the Bank of 8 employees was terminated. All other cases were concluded by either a reprimand in writing or by an oral reprimand, transfer from the unit, impaired selective advancement and such like.

Cases examined in the years 2015-2016 included one case of theft of money. The remaining cases referred to conflict of interests, personal privacy, transactions in accounts of related persons, etc.

The special examinations and the resulting findings are reported to the Audit Committee, within the framework of current reporting and in the framework of the periodic reporting (quarterly and annual) with respect to the activity of the Internal Audit Division.

ICC. 4 exceptional cases were investigated in 2016, and 3 exceptional cases were investigated in 2015. Irregular operations or suspicion of activities contrary to procedures were found in the cases investigated. The employment of the employees involved in all the above cases has been terminated, except for 2 cases, where other action, such as a reprimand in writing, has been taken.

The managers in charge of security and of prevention of embezzlement had prepared conclusion drawing reports in respect of all these cases, and audit reports were issued in respect of a number of them.



Mercantile Discount Bank. In the course of 2015–2016 several special reviews were performed regarding the bank accounts of employees, where in a number of cases irregular activity has been revealed. The employment of four employees was terminated as a result. As regards additional employees, measures were taken such as reprimand, either in writing or verbally, transfer from the unit, hampering advancement and awards. Of the instances examined only one case of money pilfering had been found. The other cases mainly involved transgression of procedures and transactions in accounts of related persons.

The internal audit at the Bank, at ICC and at MDB, performs audits of the manner in which embezzlement and fraud events are being treated, and of the drawing of conclusions and its integration.

Additional means for the prevention of bribery, fraud and embezzlement

As part of the combat against bribery, fraud and embezzlement, the Bank has integrated different procedures, including procedures prohibiting situations of conflict of interests applying to employees in general, and acceptance of gifts from parties with whom they maintain relations in the course of their work, in particular. In accordance with the said procedures, the receipt or payment of "facilitation payments", inter alia, are prohibited.

The payment procedures at the Bank involve strict approval and control procedures. Donations are approved by an internal committee (donation committee), and in respect of each donation, an examination is performed regarding the substance of the receiving association, its objects and as to whether it has all the required approvals.

For additional details, see below in "Compliance with the provisions of the law and regulations".

Prohibition on political activity

The Bank supports a social and environmental agenda in Israel, though it strictly does not act politically. The Bank does not support political bodies and does not make any contributions to political bodies, political parties or politicians.

The rules of the Bank prohibit the use by employees of the premises of Bank or of its resources for political purposes. Whenever general elections are declared in Israel, the said rules are being refreshed by the Bank.



Additional Ethical Aspects

Compliance with the provisions of the law and regulations

Within the corporate governance code of the Discount Group it has been determined, that the Board of Directors is responsible for prescribing high standards of conduct, designed to enhance professional conduct and integrity and to integrate them throughout the organization. The Bank acts and will act in accordance with an ethical code intended to protect the values of the Bank and to determine proper standards of behavior and a fair and transparent conduct with respect to the customers.

The duty of the Board of Directors and Management was established to protect employees who report illegal actions, unethical actions or such that might impair integrity, against disciplinary actions or other negative implications towards them.

Discount Bank strictly manages its business in a legal and proper manner, diligently complying with the provisions of the law and regulation in its activities. For this purpose, the Bank has stated in its policy documents and procedures the extent of tolerance in respect of deviation from compliance instructions and risk endurance therefore. The Bank has established detailed processes and procedures for the implementation of requirements of regulatory instructions applying to the Bank and the enforcement thereof. In view of the fact that the provisions of the law and regulation are being changed frequently, the Bank has established a process by which procedures and systems are being updated from time to time, in accordance with requirements resulting from such changes. In addition, the Bank conducts processes regarding the drawing of conclusions from failure events, customer complaints and control and audit reports. At the same time, and where required, the Bank updates forms, control processes, systems, procedures, etc. that support relevant products and services. Furthermore, employee training and absorption activities are being conducted. The ethical code adopted by the Bank includes a declaration regarding the commitment to comply in letter and spirit of the provisions of any law, regulatory guidelines and procedures of the Bank.

As part of the training program for the familiarization with the Bank, each employee undergoes training in matters of ethics, which, among other things deals with various aspects of normative-ethical conduct.



The Legal Advisory Division at the Bank assists in the implementation of the duties applying to the Bank, by interpretation of the law and by legal counseling in the course of the current business activity. The provisions of the law and procedures are also being enforced on an ongoing basis by the various control and supervisory systems, which are intended to ensure compliance with the provisions of the law and regulations applying to the Bank.

In accordance with instructions of the Supervisor of Banks, the Bank has appointed a Chief Compliance Officer, who assists senior Management and the Board of Directors in the effective management of Provisions of the law and regulation applying to the Bank, including with respect to anti-money laundering and terror financing, and beginning with the year 2016, also with respect to internal enforcement fields in the securities laws and cross-border risks. This, at the Bank and at the relevant subsidiaries in the Discount Group. Among his other duties, the Chief Compliance Officer examines and verifies the Bank's readiness for any new operation, in order to verify the compliance and implementation of the provisions of the law and regulation within the area of his responsibility. Furthermore, the Chief Compliance Officer conducts through the compliance functions, a follow-up of the rectification of deficiencies concerning compliance, in order to avoid their repetition in the future, monitors audit reports and customer complaints brought to his attention, and initiates action for the detection of cross-organizational failures.

As from January 1, 2016, in view of the entry into effect of Proper Conduct of Banking Business Directive No. 308 in the matter of "compliance and the compliance function in a banking corporation", compliance risk management is performed in an overall manner covering all compliance instructions applying to the Bank, which are relevant to its operations and which impose on it operative compliance duties, and not only instructions having bank-customer relations aspects.

As a structured part of the compliance culture at the Bank, all bank employees, whether in senior or junior positions, undergo training in various matters of compliance, while designated employee populations undergo in addition training with respect to specific compliance matters. In this framework, also in 2016, the Bank held a group meeting in the matter of compliance, in which different contents relevant to the operations of the Bank and the Group were discussed, with special reference to urgent matters presently on the agenda, and to expected trends and processes both in Israel and globally. Among the actions taken for the implementation of the compliance culture at the Bank, significant use has been made of auxiliary training and learning tools in order to reach even the last of employees. In executing these duties, the Chief Compliance Officer and compliance function employees visited also in 2016 many of the Bank's branches holding discussions with branch management teams and other employees with



respect to different compliance issues and challenges which they face in their daily operation.

It is noted, that in order to increase effectiveness of compliance at the Bank's branches and different units, employees of the first line of defense ("first circle") have been appointed as compliance officers/trustees. Moreover, employees serving as compliance risk managers have been appointed as a second line of defense ("second circle") at the different divisions. These employees assist in verifying the implementation of the provisions of the law and regulation in the different matters of compliance and prohibition of money laundering, which are under their responsibility, as determined in the Bank's procedures. Such employees serve as information centers and assist in the training and implementation of compliance, fairness and honesty values among Bank employees.

Moreover, use is made of the "hot line" operated by the internal audit (see below) also for the purpose of reporting compliance issues.

In addition, the Bank's internal audit group performs audits at the Bank's units and across the board audits, within the framework of which, among other things, integrity, compliance with the law and compliance with various regulatory instructions and with procedures determined by the Bank, examined. In addition, the Internal Audit Group also examines the performance of the factors at the Bank entrusted with the supervision over compliance with the law. A similar activity is being conducted also at ICC.

"Whistle blower" mechanism. At the end of 2011, a "hot-line" was installed at the Internal Audit Division for use of anonymous approaches, and a circular was issued in this respect to all employees. The circular stated that the internal audit would ensure that the identity of the complainant would not be exposed without his permission, unless it is required by the Court. The circular also clarified that the Bank's Management shall not permit employment of any measures against employees whose complaint had been submitted bona fide.

The "hot-line" is intended for approaches regarding the following matters: suspicion of fraud and embezzlement; concern regarding improper accounting operations; suspicion of violation of the law; material deviation from Bank procedures. At the end of 2012, the manner of reporting and treatment of complaints concerning financial irregularities has been established in the internal audit procedures.

The Internal Audit publishes several times a year an information pamphlet to all Bank employees, discussing exceptional events, noting also the existence of the "hot-line" and its number. In addition, as part of "FaceBank", the central tool for intra-organizational communication, details are provided regarding the "hot-line" and its aims, within the framework of "approach and reporting centers".



A report concerning complaints received through the "hotline" is submitted to the Audit Committee of the Board of Directors.

The Discount "hot line" serves also ICC. The approach mechanism by means of the "hot-line" has been communicated to employees, including by means of a link on the employee portal for reporting on the "hot-line" of the Internal Audit.

MDB also operates a "hot-line", which operates in a similar fashion.

Prohibition of money laundering and the finance of terror

The Bank acts towards complying with whatever is required under the Prevention of Money Laundering Law and the Prevention of Finance of Terror Law and the Regulations enacted under these laws. The Bank further acts towards the absorption of the directives relating to money laundering and the finance of terror by Bank employees. For this purpose, the Bank invests resources for the updating and development of systems supporting the fulfillment of the provisions of the law.

Within the framework of the integration of guidelines of the international regulation and standards relating to prohibition of money laundering matters, a proposal has been formed regarding the policy for identifying and preventing the use of bank accounts for bribery and corruption purposes, which will be brought for approval of the Board of Directors at the beginning of 2018.

The subject of Prohibition of money laundering and the finance of terror have turned in recent years into one of the most significant enforcement and prevention subjects in international and domestic legislation and regulation in the matter is changing and developing, intensifying the requirements for monitoring, supervision and follow up. Work procedures are being updated on a regular basis. Concurrently, within the framework of integrating this subject into the compliance culture of the Bank, the Bank holds training and learning sessions for employees by means of frontal studies in the "field", computerized courseware made available to the branches and Head Office units, knowledge tests and case studies. Employees are also exposed to updated information via the Intra-net site.

In addition, the Bank uses control and supervisory tools for the monitoring of irregular transactions and for the fulfillment of the duties imposed upon the Bank according to the law.



Fines

No fines in material amounts and no non-monetary sanctions were imposed on the Bank, Mercantile Discount Bank and ICC during 2016 with respect to non-compliance with laws and regulations.

Police investigation regarding ICC and Arrangement replacing criminal proceedings

Background - events regarding the clearing of international electronic trade transactions and other matters. In the second half of 2009 and in the beginning of 2010, ICC faced allegations made by VISA Europe and the Global MasterCard Organization (hereinafter: "the international organizations") with respect to prima facie violations of the rules of these organizations pertaining to the clearing of international electronic trade, in transactions effected by a subsidiary of ICC, ICC International (which had in the meantime been merged with and into ICC). In this framework, fines have been imposed on ICC and its activity in this field of operations has been restricted for a period of several months. Moreover, within this framework, the Visa Europe organization notified ICC International that it expects a vigorous and stringent action in handling the irregularities and to implement the risk mitigation plan to which it had committed within the allotted time-span and, were this not to be done, consideration might have to be given to suspending its international clearing license and, in the most extreme cases, to even discontinue its membership in the organization.

ICC has immediately implemented a reduction plan in order to comply with the requirements of the international organizations, in the framework of which it applied various measures, including changes in the company's management, conducting advanced monitoring processes for the enforcement of the compliance requirements; various organizational changes and so forth. In addition, ICC took steps to comply with the compliance rules of Visa Europe and MasterCard Worldwide, in addition to terminating its engagement with several trading houses, which caused most of the exposure. At a later stage, the international e-commerce activity was also discontinued. (Fuller details regarding this matter were presented by ICC in its annual financial statements for 2009 and 2010).

Notices by the State Attorney. In continuation of the investigation conducted by the police, ICC received on December 3, 2014, a notice from the economic department of the State Attorney Office, according to which a file with regards to an investigation of suspicions against ICC, had been delivered for perusal of the State Attorney.



On April 20, 2015, ICC received a notice from the State Attorney Office, to which was appended a "suspicion letter", according to which the State Attorney is considering the filing of an indictment against ICC, in respect of perpetrating offences of fraudulent conversion under aggravating circumstances and money laundering.

The Supervisor of Banks informed ICC on April 20, 2015, that in view of the notice of the State Attorney as stated and the "suspicions letter" attached to it, he instructs ICC not to distribute a dividend until the termination of the proceedings, clarification of the consequences thereof and its impact on the financial position of ICC.

The Supervisor of Banks announced on March 9, 2017, the removal of the restriction.

The suspicion brief describes two cases in which, according to the Prosecution, ICC was involved together with others.

In the first affair it has been alleged that during 2006 through 2009 (hereinafter: "the relevant period"), ICC, through who has officiated as CEO of ICC in the relevant period and the CEO of ICC International in the relevant period (jointly and severally: "the Officers"), together or with others, acted fraudulently regarding false coding of transactions cleared by ICC, and also acted in contradiction with the Prohibition of Money Laundering Act. In the second affair it has been alleged that ICC, through the Officers and together or with others, has presented false display with regards the splitting of trading houses records who has cleared through ICC, thus receiving funds and producing gains fraudulently, as well as acting in contradiction with the Prohibition of Money Laundering Act. The transactions turnover that as alleged is attributed to ICC in relation with the alleged offences is NIS billions.

As stated, in the announcement of the State Attorney ICC has the right to submit a motion to refrain from filing an indictment, whether in writing or by way of an oral plea.

In May 2015, the representative of ICC received a copy of the core of the investigation material in this case. In continuation thereof, a hearing was held in October 2015.

Arrangement replacing criminal proceedings. A conditional arrangement, in terms of Item A1 of Chapter "D" of the Criminal Proceedings Act (Combined version), 1982, was signed on November 3, 2016, between the economic department of the State Attorney Office and ICC. This agreement will lead to the closure of the investigation case by an arrangement, replacing criminal proceedings, subject to the terms stated below.



Within the terms of the arrangement, ICC admitted the facts relating to two affairs involving international electronic clearing, made by ICC International (a subsidiary of ICC that was merged into ICC in December 2009), in the years 2007 to 2009. The arrangement clarifies that the facts to which ICC refers in the arrangement, were not personally known to the Officers approving the arrangement, and came to their attention only through the letter of suspicion delivered to ICC by the State Attorney Office. Approval of the arrangement, as stated, has been given after consideration of other alternatives and bearing in mind the benefit of the company.

The arrangement required ICC to operate in accordance with binding internal procedures in writing, for a period of one year from date of signing the arrangement, including matters of supervision and control mechanism that would ensure prevention of the admitted offences being repeated. ICC declared in the arrangement that the adoption of the procedures and organizational changes detailed in the arrangements had been implemented in practice by it, even prior to the signing of the arrangement.

It was agreed by the parties that under the terms of Section 67C(a)(5) and Section 5 of the fifth Addendum to the Criminal Proceedings Act (Combined version), 1982, ICC would deposit an amount of NIS 85 million for the purpose of its forfeiture.

Subject to the fulfillment by ICC of the terms of the arrangement, the State Attorney's Office has committed to close the case against ICC.

The State Attorney Office has committed not to conduct an investigation and not to serve an indictment, including any other proceedings, either civil or administrative, against ICC and/or any other related company thereof, and/or against any present or former Officer of these companies, with the exception of two Officers who had officiated therein in the past.

The arrangement clarifies that nothing in the admission of ICC may implicate any other person, including Officers and any other employee of ICC or of a related company thereof, and that nothing in the said admission could serve as evidence in any proceeding.

Motion for approval of a derivative claim. The 2016 Annual Report (p. 311), includes description of a motion for approval of a derivative claim. In accordance with a procedural arrangement reached between the parties, a claim and an amended motion for approval of the claim as a derivative claim (multi-party) was submitted to the Tel Aviv - Jaffa District Court on May 8, 2017. The amended motion included, inter alia, a cause of action relating to the conditional arrangement signed on November 3, 2016, by ICC and the State Attorney, in respect of which, ICC paid an amount of NIS 85 million, and respectively amendments were made to the arguments of the Appellant and to the alleged amount of the damage.



A plea to the High Court of Justice regarding an arrangement in lieu of criminal proceedings. A plea was filed on August 10, 2017, with the Supreme Court sitting as a High Court of Justice, the respondents to which are the Attorney General for the Government, the State Attorney Office, the First International Bank and Israel Discount Bank. The plea requests the Court to instruct the respondents to provide reason for not submitting an indictment and not suing whoever had been found involved in the affair regarding the international clearing activity of ICC, as well as reason why they should not avoid reaching an arrangement with those involved in the said affair. The Court was also requested to issue an interim order instructing the respondents to avoid any attempt to reach an arrangement until the plea has been decided. No such interim order has been issued.

Financial and economic profile

Strengthening of the Israeli economy

The Bank maintains daily relations with the local business community and its members. The Bank is also positioned in the meeting point of those wishing to save or deposit funds and those who wish to draw money for investment and development of their business. Due to the Bank being a leading bank in the economy, which constantly provides a variety of financial and investment solutions to business entities and to various sectors of customers.

(Presented hereunder are principal financial data of the Bank, including data regarding profitability, certain balance sheet data, principal financial ratios and data regarding the market share of the Bank).

Economic value produced by the Discount Group

The economic value produced by the Discount Group results from its being a large economic entity, one of the five major banking groups in Israel. The Bank's operations and its business results create value for its shareholders. The Discount Group's activity as a leading financial institution creates, as stated, value for the Israeli economy. The Group pays taxes to the authorities as prescribed by law, employs a large staff and thus contributes to the livelihood of many families. The Group purchases services and products in a substantial volume, most of which in the local market.

Hereinafter ("Economic performance indices") are presented central data regarding the added value created by the Discount Group and regarding the economic values of the Group.



Government Support

Israel Discount Bank, MDB and ICC do not receive governmental financial support.

Indirect economic impacts

The Discount Group is acting towards promoting various benefits for the benefit of the public. Among the services for the benefit of the public may be mentioned the extensive activity with regard to financial education (see Chapter 3 below) and the establishment and operation of the Hertzeliinblum Private Museum (see Chapter 5 below).

In addition, some of the Group's measures in the field of employee recruitment, are intended for the empowerment of certain populations and to increase their participation in the labor market. The Group acts to promote the employment of women from the ultra-orthodox sector (see Chapter 4 below), as well as employment of special needs personnel and girls at risk (see Chapter 5 below).

The Bank Group offers services to customers by means of a widespread branch network in the various regions of the country. This branch network contributes both to the availability of financial services in peripheral areas in the country (alongside a variety of online banking services) and to employment in these areas. The Group specializes in providing services to the non-Jewish population and to the ultra-orthodox Jewish population by means of Mercantile Discount Bank. (See Chapter 3 below, "A wide disposition of branches - servicing a wide variety of customers").

Two additional indirect impacts worth mentioning are the Bank's investment in financial education (see Chapter 3 below) and the investment in its flag ship project in the field of contribution to the community - "Discount sprint". The project focuses on the advancement of youth at risk in peripheral areas with a view of reducing social gaps and increasing social leadership by means of education and knowledge.

Goals and business strategy

The updated strategic plan

In August 2014, the Board of Directors approved the Discount Group's strategic plan for the years 2015-2019. The aim of the plan was to close the gap from the banking industry as regards a number of quantitative and qualitative parameters, headed by financial parameters of return on equity and efficiency ratio.

The plan that was drawn up was based on in-depth analysis and detailed planning work carried out at the Bank, with the assistance of an international consultancy firm. The plan encompassed all the Discount Group's spheres of activity, taking a view of the



Group's strengths and challenges, as a diverse and stable financial group having core material holdings in Israel and overseas, with a longstanding and loyal customer base, an extensive network of branches, service that is based on personal relationships, and devoted and professional staff.

The plan comprised several principal layers:

A. Efficiency and stringent management of expenses, including:

- Reducing the size of the Discount Group's workforce;
- Closing branches and foreign extensions, as well as making efficiencies in the Bank's head office space;
- Making savings in procurement costs and other expenses.

B. Customer focused growth:

- Growth in the retail segment, with emphasis on individual and small business customers, at the Bank and at the subsidiaries, MDB and CAL;
- Nurturing the connection with the Bank's customers by means of upgrading suitable and useful value offers across the spectrum of distribution channels, while implementing technological improvements and enhancing the customer experience;
- Transferring operational activities from the branches to the back-office - "the Banking Service Center", as well as assimilation of faster and more simple work processes at the branches;

C. Assimilating a change supporting organizational culture;

D. Focus and reducing non-core-business activities.

Since launching the plan, the Bank has successfully made significant progress in implementing all aspects of the strategic plan, both in improving capabilities and infrastructure and also in the actual results. Thus, since the plan's launch through the end of 2016, the size of the Bank's workforce has been reduced by 955 employees and premises have shrunk by 14,500 square meters. Concurrently, the Bank sold the operations of Discount Bank Latin America ("DBLA"), sold the operations of IDB (Swiss) Bank, and closed down the London Branch. Likewise, the Bank sold its interest in FIBI. These actions contributed to the Bank attaining the capital adequacy goals set by the Bank of Israel already by the end of 2015. Due to these and other measures, the Bank managed to grow in 2016 in a most significant manner in many fields of activity. Thus, for example, in 2016, total credit of the Discount Group grew by 10.6%, household credit grew by 15.5% and small and minute business credit by 10.6%.

Nonetheless, in recent years, and particularly during the past year, the competitive environment in which the Bank operates has changed at a rapid pace. These changes include technological developments, regulatory changes, whose objective is to stimulate the competitiveness and transparency, and changes in the competition map following the entry of off-banking players into classic banking fields.



Against the said background, toward the second half of 2016 and concurrently with the continuing implementation of the original strategy, the Bank began making preparations for future banking and, to this end, updating the strategic plan. The updated plan is based on the original strategic plan, but is more extensive, more challenging and continues through 2021. The updated strategic plan is based on a leading goal - leading in the Bank's customer satisfaction by means of customer adapted banking, and comprises three principal layers:

- a further narrowing of the gap with the banking system;
- a transformation in traditional banking;
- development of innovative banking models.

A further narrowing of the gap with the banking system

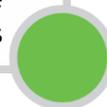
This layer represents a continuation of the original strategic plan from 2014, and it largely consists of the same pillars as the original plan that were described above:

- Acceleration in efficiency measures and the strict management of expenses;
- Continuing accelerated growth in the core banking fields, with a focus on retail credit, housing credit and credit to small businesses;
- Continues diligence of improving the organizational culture, including integration of key performance indicators (KPI's) at all management levels at the Bank, and associating goal attainment with remuneration.

A transformation in traditional banking

In order to create a lead in the Bank's customer satisfaction by means of customer adapted banking, the Bank is focusing on a number of principal topics:

- A. Development of communication channels, including upgrading of digital channels and the opening of new communication channels;
- B. Upgrading of service centers (including the branch layout, the TeleBank and the back office);
- C. The formation of a synchronized multichannel management platform that ensures customer service quality;
- D. Producing information-based business perceptions aimed at enabling customers to receive the value proposition that is best and most suited to them.



Development of innovative banking models

The Bank is putting to the test a number of solutions and innovative banking models. This, with a view of expanding to new customer populations and to additional platforms and services, as part of the value offer by the Bank.

Strategies for the subsidiary companies

Concurrently with the updated strategic plan at the Bank, the Group acts to formulate unique strategies for the principal subsidiaries - ICC and MDB - with the aim of aligning their modus operandi to the new competitive environment:

- ICC - ICC formulated a new strategic plan, with the assistance of an international consulting firm, against the background of the Law for Strengthening Competition and Reducing Concentration in the Israeli Banking Market (see below);
- MDB - a new retail strategy was approved during 2016, the main points of which are: focusing on and accelerating growth in designated segments of the population, in which considerable expertise has been gained over the years of providing banking services, as regard to both households and small businesses, segmentation and adjustment of customer value offer and a step up in online channels (see below);
- New York - updating the multi annual strategy following the removal of the internal limitation to cross the threshold of total assets of US\$10 billion.

Assimilation of the strategic plan

With the refreshing of the strategy, the projects map was also updated so that at the end of 2016 the Group is managing 28 strategic projects at the end of 2016.

Goals of the strategic plan

Within the framework of updating the strategic plan, several financial goals were set, the principal of which are achieving a return on capital of approx. 10% by 2021 and achieving an efficiency ratio approx. 60% by 2021.



The strategic plan of Mercantile Discount Bank. The Board of Directors of MDB approved in August 2015 the strategic plan for the operation of this bank.

The strategic plan comprises two principal lines of action:

- Expansion of the retail activity of the bank (households and small businesses), within the framework of which, the bank is expected to focus on specific segments of the population, in respect of which the Bank has accumulated experience and specialization over the years in the granting of banking services that respond to the special needs of these segments.
- Operational efficiency through strict management of operating expenses and improvement in the structure of revenues.

For additional details, see the 2016 annual report of MDB, which is available on the website of this bank (pp. 5-7).

2016 plan. The Board of Directors of MDB approved in the second half of 2016, a strategic plan, prepared by Management of this bank with the assistance of external consultants. The plan is intended to intensify the activity in the retail segment, including the focusing on designated segments of population, in respect of which the bank has acquired over many years specialization in providing banking services.

The strategic plan of ICC. The Board of Directors of ICC approved on December 10, 2014, the strategic plan of the company for the years 2015-2017. The plan is based upon two central layers - growth in the credit field and the reduction in costs, alongside the maintenance of the competitive capabilities in the payment market.

Implementation of the plan is intended to lead to an operational model that would support the achievement of the company's goals, including: reliance on advanced digital and technological platforms in order to support the realization of business initiatives, educated risk management within the framework of the risk appetite, as well as development of human capital and organizational culture in order to support the strategy.

Implementation of the plan is intended to lead to a growth in profits of the ICC Group and to enable it to face in an optimal manner, the challenges set by the financial market in Israel in the coming years.

With the assistance of external consultants, ICC has formed in the first half of 2017, a strategic plan for the years 2017-2021. The plan took into consideration the changes expected to take place in the credit card market, in view of the enactment of the Increase in Competition and the Reduction in Concentration in the Banking Market in Israel Act, 2016. In the opinion of ICC, the implementation of the strategic plan would enable it to deal, in the best possible manner, with the challenges of the financial market in Israel in the coming years. It should be noted, that the success of the plan depends on a number of factors, the realization of which is not certain.

Forward-looking information. The main points of the strategic plans presented above include assessments that fall into the category of forward-looking information, such as the estimate of profitability, the efficiency and growth targets that have been set, and so forth. These assessments are based on the latest information and estimates available to the Bank and its subsidiaries.

The strategic plans are based on assumptions regarding developments in the Israeli economy in the coming years, and also legislative and regulatory initiatives that are currently known, whose enactment is expected with a high degree of probability. Material changes in the state of the economy and the situation of the customer public, legislative and regulatory changes having a material effect, material changes in the competitive landscape and material changes in the security situation could have an impact on the degree to which the targets of the strategic plans are achieved. A further cause of uncertainty arises from the limited ability to accurately forecast the implications of some of the future processes and their impact on profitability.

Financial data of the Discount Group

Profitability

	For the year ended December 31			Change in %	
	2016	2015	2014	2016 compared to 2015	2015 compared to 2014
	In NIS millions				
Interest income, net	4,569	4,225	4,218	8.1	0.2
Credit loss expenses	469	187	164	150.8	14.0
Profit before taxes	1,725	1,366	793	26.3	72.3
Provision for taxes on profit	753	568	271	32.6	109.6
Profit after taxes	972	798	522	21.8	52.9
Profit Attributed to the Bank's Shareholders	905	750	505	20.7	48.5
Profit Attributed to the Bank's Shareholders – disregarding certain components (see below)	980	804	896	21.9	(10.3)
Comprehensive income, attributed to the Bank's shareholders	613	719	905	(14.7)	(20.6)
Net earnings per one share of NIS 0.1 par value attributed to the Bank's shareholders - in NIS	⁽¹⁾ 0.84	0.71	0.48		
The ratio of Profit before taxes to total equity in %	12.4	10.3	6.6		
The ratio of Profit after taxes to total equity in %	7.0	6.0	4.4		
Net return on equity attributed to the Bank's shareholders, in %	6.6	5.8	4.2		
Net return on equity attributed to the Bank's shareholders, in % – disregarding certain components (see below)	7.2	6.2	7.4		

Footnote:

(1) The diluted earnings are identical to the basic earnings.

Profitability - Disregarding certain components

	Notes	For the year ended December 31			Change in %	
		2016	2015	2014	2016 compared to 2015	2015 compared to 2014
in NIS millions						
Net Profit Attributed to the Bank's Shareholders - as reported		905	750	505	20.7	48.5
Disregarding:						
Gains on the sale of rights in Visa Europe	36 F	(178)	-	-		
Effect of settlement	23 J	90	-	-		
Retirement plans ⁽¹⁾	23 G and H	-	⁽¹⁾ 19	341		
Loss from sale of operations of foreign investee companies	15 E	-	14	50		
Provision in ICC for arrangement replacing criminal proceedings	36 E	54	-	-		
Effect of the change in tax rate	8 K	109	21	-		
Net Profit Attributed to the Bank's Shareholders - disregarding certain components		980	804	896	21.9	(10.3)
Net Profit Attributed to the Bank's Shareholders, in % - disregarding certain components		7.2	6.2	7.4		

Footnote:

(1) Increased compensation to employees of an investee company overseas whose operations were sold

Balance Sheet⁽¹⁾

	December 31, 2016	December 31, 2015 ⁽¹⁾	Change in %
In NIS millions			
Total assets	219,577	205,260	7.0
Credit to the public, net	140,760	127,216	10.6
Securities	38,818	38,935	(0.3)
Deposits from the public	172,318	⁽²⁾ 157,875	9.1
Equity attributed to the Bank's shareholders	14,512	13,288	9.2
Total equity	14,936	13,634	9.5

Footnotes:

(1) Excluding balances classified as assets and liabilities held for sale - see Note 18A, 2016 Annual Report, p. 197.

(2) Reclassified - see Note 1 G, 2016 Annual Report, p. 155.

Financial Ratios

	2016	2015	2014	2013	2012
	in %				
Ratio of total equity to total assets	6.8	6.6	6.3	6.0	6.0
Ratio of credit loss expenses to the average balance of credit to the public	0.34	0.15	0.14	0.49	0.61
Ratio of credit to the public, net to total assets	64.1	62.0	58.0	57.7	58.5
Ratio of credit to the public, net to deposits from the public	81.7	⁽³⁾ 80.6	⁽³⁾ 78.3	⁽³⁾ 77.5	⁽³⁾ 77.1
Ratio of deposits from the public to total assets	78.5	⁽³⁾ 76.9	⁽³⁾ 74.0	⁽³⁾ 74.5	⁽³⁾ 75.9
Ratio of total non-interest income to operating and other expenses	59.2	53.3	49.2	56.5	55.8
Ratio of total non-interest income to operating and other expenses – disregarding certain components (see below)	55.3	53.7	54.4	56.5	55.8
Ratio of operating expenses to total income	72.6	78.7	87.0	78.1	75.6
Ratio of total non-interest income to operating and other expenses – disregarding certain components (see below)	72.8	78.1	78.6	78.1	75.6
Risk assets adjusted return ⁽¹⁾	6.7	5.8	4.3	7.8	7.8
Risk assets adjusted return ⁽¹⁾ – disregarding certain components (see below)	7.2	6.2	7.6	7.8	7.8
Leverage ratio ⁽²⁾	6.6	6.5			
Liquidity coverage ratio ⁽²⁾	146.5	128.0			

Footnotes:

- (1) Return on capital computed on the average balance of risk assets in accordance to the Bank's minimal capital goal for the end of the relevant year (2016 - 9.15%, 2015 - 9.06%, 2014 - 8.5%, 2013 - 8.0%, 2012 - 7.5%).
- (2) The ratio is computed (since 2015) in respect of the three months ended December 31.
- (3) Reclassified - see Note 1G, 2016 Annual Report, p. 155.

Ratio of capital to risk assets

Basel III	December 31, 2016	December 31, 2015
	in %	
Ratio of common equity tier 1 to risk assets	9.8	9.5
Ratio of total capital to risk assets	13.8	14.3

Developments in the market price of the Discount shares

	Closing price at end of the trading day		Rate of change in 2016 in %
	December 31, 2016	December 31, 2015	
Discount share	801	706	13.4
The Banks index-5 ⁽¹⁾	1,578.90	1,340.17	17.8
The TA 35 index ⁽²⁾	1,470.78	1,528.74	(3.8)
Discount market value (in NIS billions)	9.07	7.44	21.9

Footnotes:

- (1) TA Bank index.
- (2) TA 25 Index.

Market share

Based on data relating to the banking industry as of December 31, 2016, published by the Bank of Israel, the Discount Bank Group's share in the total of the five largest banking groups in Israel was as follows:

	December 31, 2016	December 31, 2015
	In %	
Total assets	15.0	14.8
Credit to the public, net	15.2	14.2
Deposits from the public	15.1	14.7
Interest income, net	17.4	17.1
Total non-interest income	18.4	15.9

Economic performance indices

Following are principal data regarding the economic performance of the Bank and the added value produced by it:

	As at December 31	
	2016	2015
	in NIS million	
Salaries and related expenses	3,416	3,396
Donations and social investments ⁽¹⁾	17.0	16.3
Dividend paid to the Bank's shareholders	-	-
Interest expenses	1,102	1,042
Provision for taxes on income	753	568

Note:

(1) For details, see Chapter 5.

Following are details regarding the economic values of the Discount Group:

	As at December 31	
	2016	2015
	in NIS million	
The total economic value produced by the Group ⁽¹⁾	8,008	7,278
Total economic value distributed by the Group to its stakeholders ⁽²⁾	6,567	6,293
Total retained economic value ⁽³⁾	1,441	985

Notes:

(1) Interest income, net (interest income less interest expenses) together with non-interest income (non-interest financing income, commissions and other income).

(2) Operating and other expenses (including among other: salaries and related expenses, municipal tax, donations and community investments) with the addition of provisions for taxes and dividends.

(3) The difference between the economic value produced by the Group and the economic value distributed by the Group.

Financial data of MDB and of ICC are presented in their annual reports for 2016, available on their respective Internet websites.



Data regarding the activity of the Discount Group by operating segments are presented in the 2016 Annual Report (pp. 249–263). Data regarding the activity of the Discount Group by geographical areas are presented in the 2016 Annual Report (p. 260). Data regarding the distribution of the overall credit risk of the Discount Group according to economic sectors are presented in the 2016 Annual Report (pp. 70–73).

Membership of organizations and external Initiatives

The Bank is a member of various organizations. Among the prominent organizations in which the Bank takes an active roll on a current basis, may be mentioned Maala Organization, the Union of Banks and the Israeli marketing Union. In addition, the Bank joined the Global Compact initiative of the United Nations. MDB is also a member of the Union of Banks and of the Israeli Marketing Union. ICC is a member of the Israeli Marketing Union.

Maala. Maala is an umbrella organization for some 110 of the leading companies operating in the Israeli market, which promotes corporate responsibility issues and develops standards for responsible management in Israel. Maala operates since 1998, its main object being increasing the awareness of the business sector to the importance of corporate responsibility in the Israeli social texture.

Maala leadership - leading corporations in the market which have chosen to lead and introduce improvement in the world of corporate responsibility in the business sector in Israel.

The Bank, ICC and MDB are subscribers of Maala. The Bank is a member of the leadership group of Maala.

The Bank submits a yearly report to Maala, as part of its participation in the Maala rating. ICC participated this year for the first time in the Maala rating (see below).

Association of Banks in Israel. The Association of Banks in Israel was founded in 1959 as an umbrella organization for all commercial banks and mortgage banks. The Association was founded by the banking sector with a view of maintaining an effective dialogue with governmental agencies and with the public and private environments with respect to general banking issues. All Israeli banking groups, independent banks and a large number of the foreign banks operating in Israel are members of the Association.

UN Global Compact. In September 2010, the Bank joined the Global Compact initiative of the United Nations.



The Global Compact is a strategic policy initiative by corporations which have committed to accept, support and apply within the framework of their area of influence, a set of basic values regarding human rights, standards for work and environment conditions and fight in corruption.

As part of its participation in this initiative, the Bank has declared its support of the ten universal principles of this initiative and its commitment to turn the Global Compact and its principles into a part of the Bank's strategy, organizational culture and daily operations.

The Bank submits to the Global Compact initiative a yearly progress report. The social responsibility report since 2013 comprises a progress report the relevant years.

The Israeli Marketing Union (formerly: the Advertisers Union). The Israeli Marketing Union incorporates the marketing and advertising companies in all industries, services and sectors (some 200 companies). The aim of the Union is to lead and promote the marketing profession as a leading profession in the Israeli business world, to serve the needs of Union members in the marketing management world and to represent them in front of the various interested parties.

In addition, the Bank reports matters related to social responsibility to the following entities and initiatives:

Reporting to investors through "EIRIS" (Ethical Investment Research Services) and FTSE4Good. An external review of all published reports of the Bank to its investors in a condensed format, and its future action for their improvement in matters of corporate responsibility. EIRIS and FTSE4Good are forming the evaluation of the corporate responsibility performance of the Bank, for responsible investors around the world.

Reporting to the Ministry of Environmental Protection regarding emission of greenhouse gases. A comprehensive annual report, voluntarily prepared at present, and which reviews emission of greenhouse gases by the Bank and measures taken to reduce them. The report for 2016 was submitted in August 2017.

Commendations and prizes

The annual index of Marketest regarding "customer experience in Israel". During the past decade, The Marker magazine published the annual index of Marketest for the customer experience in Israel. The Marketest index examine experiences and positions of customers of the largest corporations in the market, operating in different sectors, such as: finance, hotels, cellular and more. The index is based on the parallel index in the U.S. (ACIS).

In 2016, Discount Bank, out of the five large banks, led the field with the general satisfaction of customers from the Bank. Discount was ranked first place in a variety



of customer experience parameters, in particular regarding value for cost, professionalism, taking care of the customer's interest and courteousness of bank officers.

IT Awards Competition for 2016. In January, the Bank won twelve prizes for projects carried out during 2016, as well as the title of "Champion of Champions" in the IT Awards Competition held by "People and Computers" magazine. The Bank won the title in respect of a long line of projects that had received the highest average marks in the competition.

In the arguments for the winning the Judges stated that: "in the recent year the Bank executed a series of infrastructure projects intended to enable the Bank's employees to provide customers with better service on their way to digital banking, which the Bank leads". It was further stated that the Bank "acts to make its banking services more accessible and to provide value offers to its customers. The Bank issues to customers innovations in its digital service, while creating advanced technological solutions". The projects of the Bank, which participated in the competition, were:

- A new mobile application to private customers - introduced in July 2016, and offering an advance and unique user experience to Bank customers;
- Construction of a new communication line while maintaining separation between the networks of the Bank - a logical separation between the production network and the development and examination network;
- A multi-channel and multi-focus platform - developing the ability of managing references from an array of channels by way of a number of surfing centers at the Bank, creating a differentiating multi channel customer experience;
- The establishment of a new back office - the "banking service center" - a system has been developed for the management of tasks and order of operations, supporting the management of processes at the banking service center (faxes, the closure of accounts, collateral, etc.);
- Support and service center - upgrading of processes and system at the "help desk" center, improving the level of service and the internal user experience, while developing advanced measurement capabilities;
- Contact center - the establishment of a managed telephonic layout enabling the management of approaches by telephone (availability management of bank officers, regulation of loads, directing approaches and control);
- One platform for "Big Data & DWH & Bi" - absorption of "Big Data" infrastructure and development of "Use Cases", which perform structured information analysis for the purpose of producing business insights;



- Big Data based operational monitoring and analysis - adoption of innovative technology for the analysis of resources consumption and performance within the systems of the central computer for the purpose of improving efficiency;
- Transfer of the secondary computer site to an alternative location - a successful and smooth transfer of the Bank's secondary computer site from its existing location to a new and advanced location;
- Detailed automation and orchestration cloud at Discount Bank - development and introduction of a portal for the supply of IT services in a computerized manner, from the application stage to the delivery stage;
- Active/Active Data Centers for the availability and redundancy of the computer infrastructure - application of advanced technology as regards storage of information, which shortens the response time and simplifies the movement between sites;
- Operating and management "TeleBank" reporting - development of tools for the management of daily performance of the call center staff, up to the level of the banking officer.

A leading bank in the digital field for 2016. Discount Bank has been elected as a leading digital bank for the year 2016 - an award and international recognition as a leading bank in the digital field for 2016, by one of the prestigious magazines in the world "Global Finance".

Discount Bank was named in 2016 as a superbrand in Israel for the fourth consecutive year. The aim of the International Superbrands Organization is to identify and name in each country the brands that have demonstrated brand and marketing excellence in the local market. The Organization is active in some seventy countries around the world. Since 2009, the Organization is also active in Israel.

How are the super brands elected? After compiling a list of all brands active in Israel in the preceding year, the brands have been rated by some 117 leading CEO's and marketing VP's, who acted as a professional referee team. At the next stage, 804 brands attaining the highest marks have undergone a consumer research. The research was conducted by the research company MarketWatch in accordance with the research methodology of the Superbrands Organization worldwide. Thus, in fact, it is the consumers who have decided which are the superbrands in Israel.

ICC was named in 2016, as a Superbrand in Israel for the seventh consecutive year.

Product of the year 2016. Also in 2016, ICC won the innovation prize in the Product of the year competition, in the means of payment category.

"The Winning Introduction" - ICC won the 2016 prize for the "Winning Introduction" competition held by the Israeli Marketing Union. The prize was granted to ICC for an innovative process of "recovery of the secret code for the Cal4U digital wallet



application" - a deserving breakthrough and innovative process being a product of extensive thinking and investment.

INNOVATE 2016. As part of the Innovate competition held by the Innovation in Marketing Forum jointly with the Recanatti Foundation, the introduction of the Cal4U digital wallet won the great and prestigious prize - the innovative marketing move of the year.

CEO Awards 2016. ICC has been elected as the leading company in its field as regards exceptional applications and solutions for technologies and innovation, within the framework of the CEO Awards 2016 competition of "People and Computers" Group. Mr. Doron Sapir was chosen in the election process as the outstanding CEO in business leadership and use of technology.

Excellence in computer systems. Out of 280 projects, ICC won this year three prizes for excellence in computer systems for 2016, in the competition held by the "People and Computers" Group:

- Prize for the recovery of a secret code - in the digital and innovation category;
- Prize for the mini models project - in the leverage of state-of-the-art technology category;
- Prize for the "Scheduler" project - in the monitoring and control category.

Social Responsibility Ratings

"Maala" rating for 2016. In June 2017, "Maala" published its rating for 2016. The Bank has been rated in the Platinum Plus category (awarded to companies with an absolute score of over 90). The rating is based on criteria detailed in a number of central areas of corporate responsibility: Labor relations, health and balancing; responsibility in purchases; quality of the environment and sustainability; ethical aspects of business processes; diversification and containment; contribution to the community; social involvement of employees; corporate governance; corporate responsibility management and reporting. The rating by Maala covers the largest public and private corporations operating in the market, and allows them to be included in the Maala rating and in the Maala Index on the Tel Aviv Stock Exchange.

This year, ICC was rated for the first time and was successful in being included in the "Platinum" rating.

BDI rating - the best companies to work for. Since 2005, the business information and credit risk management company BdiCoface, performs an annual rating of "the best companies to work for". The rating examines what is important for employees, what are their expectations from the work place and what are the most desirable places to work



for. The methodology includes quantitative parameters (human resources characteristics in an organization and the level of investments therein) as well as qualitative parameters (employee surveys and student surveys).

In 2016, the Bank was awarded the 15th place in the rating and ICC was awarded the 27th place.

BDI Code. A business leadership index rating approximately 500 companies in the market. In 2016, the Bank was awarded the 22nd place in the rating. In 2016, MDB was positioned in the 128th place in the rating and ICC in the 129th place.

The Customers



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- "Family program" - a unique program for families at Discount Bank;
- Investment in several innovative initiatives in the FinTech and innovation fields;
- A designated plan for the clearing of credit card transactions in the small business segment;
- Approx. 370 workshops and lectures regarding financial education;
- A credit volume of NIS 34,219 million to small and minute businesses;
- 94%-98% of local purchases.



General policy

The Bank's policy stems from the Vision set by the Bank: "We shall endeavor to become the best Bank for its customers, permitting over a period of time, growth and financial solidity by means of adapted, professional and fair banking."

Within the framework of assimilating the Vision, the Bank adjusts to the changing world and creates innovative banking models providing customers with an advanced service tailored to their needs. Inter alia in this respect, the Bank has invested in several innovative initiatives in the FinTech and innovation fields (see below in the item "Technological improvements and innovation").

The Bank aspires to be a leader in the experience of personal and people-oriented service, based on listening to and understanding customer needs, while creating clear and innovative solutions. The Bank strives to create value for its customers in the various banking fields of operation.

The Bank continued in 2015 and 2016 the operation of the "family program", a program, first of its kind in Israel, which is designed for existing and new customers who are related to one another. The "family program" turns the existing family cell into a financial group, enjoying the variety of services and exclusive benefits. (See below).

The Bank works to integrate a culture of service and insists on processes of learning lessons in connection with customer relations and dealing with customer inquiries.

The Bank is willing to open an account for customers, or provide them with service, subject to the provisions of the law and accepted banking considerations. From time to time, the Bank offers different population segments unique solutions and campaigns, on a purely economic basis, without involving irrelevant considerations of race, nationality, religion or gender.

As part of the strategic plan of the Discount Group for the years 2015–2019, the retail segment (households and small businesses) has been defined as a segment under focus and serves as an engine for the long-term growth and profitability, with a focus on strengthening relations with existing customers and improvement of the service.



A wide disposition of branches – servicing a wide variety of customers

The Bank offers its customers comprehensive banking services through a network of 122¹⁷ branches in Israel. 78¹ branches of Mercantile Discount Bank join the above network. This network of branches enables the widespread offering of banking services country wide.

The Bank offers services to different customer segments: households, small and minute business customers, private banking customers, large business and the medium business customers. (For details regarding the definition of the segments, see the 2016 annual report p. 249, for details regarding the activity breakdown by business segments, see the 2016 annual report pp. 252-259; for details regarding the activity breakdown by geographical areas, see the 2016 annual report p. 260).

Among other things, Mercantile Discount Bank specializes in providing services to small and medium size businesses, and in providing services to the Arab and to the Haredi customer population (see below – "the household segment at Mercantile Discount Bank" under "Retail customers – households" and "the small business segment at Mercantile Discount Bank" under "Customers of the small businesses segment").

The Bank's website enables to locate branches according to different sections: business hours, mortgage consulting, pension consulting, foreign trade, ATM's accepting cash deposits, ATM's disbursing foreign currency (according to type of currency), investment centers, business centers and accessibility. The website of MDB enables to locate branches according to the following sections: business hours, mortgage consulting, business centers and accessibility.

The scaling down of the branch layout

Within the strategic program of the Discount Group, it has been decided to reduce real estate areas held by the Bank and the Group, among other things, in view of the reduction of the labor force. An extensive project was put into operation in the last quarter of 2014, which is continued in 2015-2016, within the framework of which, examinations are being performed, intended to ensure the efficient and effective utilization of the real estate assets. The lines of action being examined are the reduction in the number of branches, reduction in the floor area of branches, merger of branches, improvement in terms of rental agreements or the exchange of rented locations, etc.

Since approval of the strategic plan, the Bank closed down 7 "Discount your way"

¹⁷ As of December 31, 2016.



branches (one of them in 2016), The merger of branches and extensions was carried out (of which, nine in 2016), eight Head Office properties were closed down and returned/sold (of which, one in 2016), moved out and returned were two investment centers and one branch (two of which in 2016), the floor area of six branches was reduced (one of which in 2016), the terms of agreement regarding three properties were improved (one of which in 2016).

The following branches were shut down in 2016: the new Rehovot branch, The Drorim Branch at the Lev HaSharon Regional Council, the Hamasger Branch in Tel Aviv, the Oron Branch in Petah Tikva, Savyonim Branch in Yahud, Bait Vagan Branch in Jerusalem, the Yehudah Hamaccabi Branch in Tel Aviv, the Tel Aviv University Branch, the Haifa Main Branch and the "Discount Your Way" Branch at the Haifa Grand Mall.

Until the end of 2016, Teller services have not been eliminated. In the course of 2017, the Bank had conducted a pilot for the discontinuation of teller services at two branches, following which, teller services have been and would be discontinued until the end of the year at seven additional branches. Within the framework of the preparations for the pilot, clear guidelines had been prepared intended to ensure measures which would reduce, to the extent possible, the inconvenience caused by the discontinuation of the service. Included in the above, the branches in which teller services had been discontinued would have on duty, for a period of three months, a banker who would instruct customers having difficulty in using the online services and also would enable customers to reach nearby branches where teller services are available. MDB continues its operations and disposition in accordance with the outlined strategy.

Household segment

Central moves

Discount, the Bank for the family

The Bank offers its customers a unique plan in Israel, which is designed for existing and new customers who are related to one another. The idea is to connect several customers who are related to one another having different accounts, to the "Family Program" in the Bank's systems, and thus provide financial strength to the family cell. Joining the program is simple and easy and is made possible by registering at the branch, at the TeleBank center and through the Bank's Internet site.



The connection to the family group grants the family members participating in the program, benefits, and everything, of course, while strictly maintaining bank confidentiality so that none of the parties joining the program share or are involved in the accounts of the other family members.

The principal products of the program are:

- **Exemption from commission on money transfers** in Israeli currency between accounts of the family members participating in the program.
- **"Family plus"** - offsetting interest on overdrawn accounts against the accounts of the other family members. The program allows the customer to enjoy the setting off of interest charged on their overdraft so long as one or more family members participating in this benefit has at that time a credit balance on their current account, in accordance with the principles of the plan.
- **"2go key" card** - a rechargeable card in the name of the child provides parent security and control over expenses, as from the age of fourteen. An exemption from card fees to customers participating in the family program.
- **Saving for higher education** - a monthly saving for fifteen years with a gift from Discount Bank of deposits for one full year.
- **Family loan** - All-purpose loans at preferential terms to members of the family program.
- **Family deposit** - A shekel deposit at preferential terms to members of the program.
- **Business Family** - The program grants benefits to customers managing at Discount Bank their business account, private account and accounts of family members.

"Discount Key"

In 2016, the Bank continued the unique marketing effort in the area of financial consumption - "Discount key". This campaign reflects a new approach which combines consumption culture with savings culture, with the aim of bolstering customer loyalty to the Bank. In this framework, Bank customers holding Discount's credit cards (VISA CAL, Diners and MasterCard) enjoy discounts at over 120 marketing chains and from unique benefits, such as free parking in the afternoons and at week-ends.

Customers have the possibility of joining a unique savings plan, accumulating amount through credit card transactions. Bank customers may save in one of the following lanes: the rounding off of credit card transaction amounts to NIS 5 or NIS 10; accumulation to the savings scheme of discounts granted by trading houses participating in the plan; and complementing the monthly fixed amount deposit.



The Bank launched the first private refueling card in Israel. This benefit enables private account holders, who own a credit card of the Bank, to order a private refueling card, free of charge, for use in SONOL gas stations.

In continuation to the "Discount is good for the family" move, the Bank introduced in June 2015 the "family key". "Family key" is a benefits plan designed for customers who are attached in their current accounts to the family plan and who hold the "Discount key" credit card of the Bank. Within the framework of this plan, holders of the "Family key" enjoy double or increased discounts at a variety of trading houses.

Service concept

In 2016, the Bank focused on differentiating service according to customer segments, including the modification of a variety of segment adjusted products.

Conduct of the service is based on the following principles:

- Focus on the customer - specialization according to segments (customer arenas) instead of products - providing appropriate services and products in accordance with the characteristics and unique requirements of each segment;
- One stop shop - A comprehensive service to the customer at one service point;
- The creation of excellent digital channels enabling the customer to receive an extensive array of services independently and immediately (see details below);
- Modification of the human channels - branches and TeleBank - to customer needs;
- Multi-lane - enables the customer to perform banking operations everywhere, at any time, in every lane and individually customized;
- Expert banking - provision of various professional services in the credit and investment sectors, including customizing the product to customers' needs and requirements, and this based upon a designated technological platform (CRM);
- Service initiative - Forecasting customer needs, product adaptation and services;
- The integration of standards for handling customer approaches and the continued reduction in complaints;
- Easy and convenient communication with the Bank's customers through emails to the banker.

A customer focused support system was integrated at the Bank's service layouts. This system places the customer at the center and customizes the products according to his needs and preferences.



Operational efficiency in the branches

The action for the removal of operational activity from the branches continued in 2016 alongside efficiency measures, improvement in procedures and a change in the concept of operation.

The activity was designed to achieve the following targets:

- a. Removal from the branch of all operational activity not required for customer service;
- b. Simplifying and shortening the remaining processes at the branch;
- c. Focusing on the customer and his needs in order to improve the service experience;
- d. Reducing the amount of paperwork and filing at the branch;
- e. Efficiency in manpower and costs;
- f. Reduction in office space at the branches.

All the Bank's branches have a self-service banking area, where the customer is able to conduct most of their daily banking transactions, including check deposits, cash deposits and drawing services and effecting payments. Approx. 60 automatic machines provide foreign currency drawing services, deposit of cash in ATM services, and the depositing of checks in Information Desks service exist in all of the Bank's branches. The activity of removal from the branches of basic documents and their scanning was completed in 2016, in a manner that allows the business functions and head office units a computerized viewing of basic documents.

A move for transformation continued at the branches in 2016, within the framework of which a number of significant improvements are made to work procedures at the branches: The central banking service continued to absorb operations from additional branches with a view of easing and adjusting the burden of work at the branches in favor of the focusing on service and initiatives. The operations of 75 branches were absorbed until the end of 2016, and those of the remaining Bank branches would be absorbed in 2017; the Bank continues the characterization of processes for greater efficiency within the framework of new models.

Complementary services to branch services

Marketing of mortgage products. The Bank focuses on the granting of mortgage loans as a method for maintaining the business with existing customers and attracting new customers. The Bank grants loans for the purchase, renovation or construction of residential unit, as well as loans for whatever purpose secured by a mortgage of a residential unit. As of the end of 2016, sixty-four branches of the Bank operate in providing mortgage services countrywide.



The Bank operates two channels in the process of approving a mortgage, as follows:

- A direct approach channel to the mortgage loan officer at the branch;
- A direct channel - call center specializing in mortgage loans, which provides service in main areas, as follows:
 - Dealing with approaches by customers seeking a new loan. Based on predetermined criteria, the customer is granted a preliminary stipulated approval for a loan, with the process being continued at a personal meeting with the customer at the branch;
 - Deferral of requests or, alternatively, scheduling meetings at branches for customers who do not comply with prescribed criteria;
 - Response to existing customer questions regarding ongoing loans.

The Bank holds a subsidiary, Discount Mortgage Home Insurance Agency (2005) Ltd., which acts as an insurance broker. MDB also owns an insurance agency, Marbit Insurance Agency (1996) Ltd. These insurance agencies operate independently and sell insurance through a telephone service separate from the Bank's and DMB's telephone services, respectively. The agencies market property insurance and life assurance while acquiring a mortgage loan.

Marketing mortgage products by Mercantile Discount Bank. The services provided by MDB in this field include the granting of housing loans (to private customers) as well as commercial mortgages (to the retail, middle market and corporate segments).

Marketing of credit cards. The Bank markets to its customers credit cards issued by ICC, in accordance with joint issuance agreements with the Bank.

Private banking services. See hereunder.

Telebank - personal service. Customer telephone answering service - automatic direction to direct banking for customers calling the branch switchboard. The service enables to improve the quality of telephonic response and to afford the staff of the branch more time to create for the customer added value from the aspects of initiative and sales. Within the Telebank framework operates a telephonic sales center, which is principally focused on the private credit market.

Marketing and distribution

Marketing and distribution are conducted by way of advertising campaigns on the printed media, television, radio and billboards. In addition, this activity is conducted through the following lanes:

- At the branches - frontal activity through screens located in areas where customers await service;

- Through the telephone either by way of an initiated approach to the customer or in response to an approach by the customer;
- By Discount TeleBank - either by way of an initiated approach to the customer or in response to an approach by the customer;
- At the Discount website on the Internet and the Discount application on cellular phones, which provide marketing messages and marketing offers;
- Through the Discount automatic teller machine, by which marketing messages and marketing suggestions are being communicated;
- In the interactive voice response (IVR) system in the "Telebank", by means of marketing messages and marketing suggestions while the customer is waiting for service;
- Direct mailing to customers (to which is attached a statement of account) and through the automatic service machines (ATM and Information Desk).

Loans to students

Students are being offered loans for whatever purpose and loans financing tuition fees. The Bank offers a variety of loan models that are intended to answer the special needs of students.

So, for instance, a loan for the splitting of tuition fees granted against the presentation of a payment voucher (also to the parents of the student). The payment voucher may be split into up to ten payments without interest and linkage (the first payment made in cash).

With respect to a loan of the "Degree with peace of mind" class, the repayment period is up to ten years, and the repayments of the principal of the loan may be deferred for three years, while enjoying especially low repayments during the studies period.

The overall repayment period for loans to students studying abroad for higher degrees, is seven years, and the repayment of the principal amount of the loan may be differed for up to twenty-four months. Arrangements exist for loans to students at most attractive interest rates.

Following are details of loans granted in the years 2015-2016:

Year	Any purpose loans	Tuition fees loans	Total
		NIS millions	
2015	208	6	214
2016	188	7	195



Loans for students at Mercantile Discount Bank. In recent years MDB introduces special credit products to the student population, which are especially tailored to the needs and abilities of this population. The central target of this product is to make higher education affordable to all young people (with a special focus on peripheral areas, on the Arab sector and on the Haredi sector).

MDB offers three main channels: the first - tuition fee loans granted by the branches. Students may finance tuition fees by a long-term loan, with a grace period of up to four years during studies and beginning the long-term repayment of the principal amount one year after completion of studies. The second channel is in the framework of cooperation with the academic institutions by means of a tuition fees fund ("financial tranquility for the student"). In most cases the institution pays the interest on the loan while the student repays only the principal amount. The third channel is in the framework of cooperation between the bank, the Haredi Professional Advancement Fund and the Council for Higher Education, encouraging higher education in the Haredi sector. According to this program, students receive a subsistence loan during their study period and upon graduation receive a scholarship of 40% to 70% of the loan (depending on the subject studied), the remaining balance of the loan being repaid over a long period.

The outstanding balance of loans to students amounted at December 31, 2016 to NIS 455 million, as compared with NIS 351 million at December 31, 2015, an increase of 29.6%.

Goals and business strategy

The Bank continued to implement in 2016, the strategic plan for the Group, approved in 2014, which had defined the household segment as one of the segments, on which the Group would focus in the coming years, as the central growth engine. The strategy relies on three principal layers: focus on the intensification of relations with existing customers of the Group; focus on growth products - private credit, and growth sectors - wealthy customers (at Discount Bank), customers of the Arab and Jewish Orthodox sectors (at MDB); and improvement of the retail infrastructure, which among other things includes the improvement of the service model and customer experience.

Several moves towards attaining the multi-annual goals were made in 2016:

- A comprehensive preparation has been made for the removal of the operating activity from the branches and for improving the efficiency of their work procedures, in order to divert the time to the improvement of service and sales to customers;
- Increasing availability - turning the personal service TeleBank into a backup center for online response at the branches. Calls by customers, following waiting at the branch, are transferred to the telephone center for service.



- Increasing the scope of initiative and sales as regards customers, on the basis of a comprehensive training provided to the staff of the branches, improving the sales systems on the basis of customer needs and computerized training systems;
- Positioning the TeleBank as a nationwide service and sales center - focusing on improving the response time to customers in general, combining value offers into incoming calls, and introduction of a sales center by means of initiated calls to all bank customers;
- Utilizing customer potential - by means of the establishment of approach strategy based on the modification of service and value offers to the customer.

Points of emphasis for 2017

In 2017, the Bank will continue to implement the new retail strategy, while focusing on a number of fields:

- The continued removal of the operating activity from the branches and the transfer thereof to the banking services center and concurrently, allowing more free time to bankers at the branch layout for the improvement of the service experience and deepening of activity and contact with customers;
- The continuing upgrading of the digital channels and diversion of activity to these channels;
- Addition of communication lines for customers - encoded mail and a communication application for correspondence with a banker;
- Deploying a CRM system for the upgrading of the management of communication with the customer;
- Upgrading the marketing effectiveness by means of value offers tailored to the customer's needs in all the channels;
- The continued positioning of the Bank as a leader in the pension consulting field;
- The continued development and use of analytical models as a tool supporting decision making in the granting of credit;
- The continuing upgrading and improvement of service and responsiveness in the mortgage loan granting process.



The household segment at the Mercantile Discount Bank ("MDB")

MDB views the retail segment as a central target of its business development and is diligently following the disposition of branches in this sector as well as improving the service to its customers.

Within the framework of this segment, MDB provides to private customers, typified by household activity, a variety of banking services and financial products, including capital market and housing loan services. These services are provided to customers of this segment through a layout of MDB branches, which at the end of 2016 numbered 78 branches countrywide.

The service to the general customer population of the Bank in the private sector, is based upon many years of acquaintanceship and the granting of personal consulting and service, both at branches and through additional marketing channels (Internet, TeleBank, etc.), as well as through involvement in the community and adapting to its needs.

Most of the customers of MDB belonging to the household segment of this bank, receive banking services by means of MDB branches, of which 31 branches located in places having an absolute majority of the non-Jewish population and which administratively belong to the Acre Region and the Nazareth Region, as well as additional branches in others places in Israel, including: Rahat, Salah-a-Din in Jerusalem, Wadi Nisnas in Haifa and more.

Service to the Haredi customer population. MDB operates 10 branches at the heart of the Haredi sector. The branches are located countrywide, mostly in the Jerusalem, Bnei Braq and Ashdod areas as well as in additional areas populated by the Orthodox (Haredi) community. The bank specializes in the development of products and the granting of designated services to the Haredi customer population. The bank has a special unit handling associations and organizations belonging to the Haredi sector, which handles hundreds of such institutions. In addition, the bank operates its branches at business hours that are convenient to this population.



Customers of the small and minute business segment

Goals and business strategy

The Bank approved in 2014 a new comprehensive Group strategic plan, which had defined the small business segment as one of the segments in focus, on which the Group would focus in the coming years, as the central growth engine. The new strategy relies on the focusing on the intensification of relations with existing customers of the Group, alongside a growth in the market share of this segment. Activity in 2016 was based on the implementation of the strategic plan, while emphasizing the automatization of credit processes in the small business segment, among customers having a debt of less than NIS 1 million. The focusing by the segment continued in 2016, with an emphasis on increasing the activity with existing customers, attracting new business customers and the basing of growth upon improving the models for the rating of business customers as a supporting tool for the granting of credit.

Service to the segment's customers

The small business segment provides the full variety of services to the segments' customers. Service is provided at the Bank branches, except for foreign trade services. Customers also have the option of receiving service through a designated Internet site as well as by telephone.

Customers transacting international trade business are being serviced by the foreign trade department in accordance with their particular economic sector (see below under "Corporate Banking Segment").

Service to small and medium businesses. The Bank's small and middle market customers obtain services commensurate to their volume of operations, this in order to provide professional service appropriate to the customer's characteristics. Customers having a volume of operations of up to NIS 15 million and/or indebtedness of up to NIS 4-5 million, obtain services from the business banking teams at the Bank branches. Customers having higher volumes of operations and indebtedness than those stated above, obtain services from the Bank's business centers.

Financing of small businesses. As part of the Bank's policy of focusing on operations in this segment, existing customers of the Bank are being offered two financing lanes, while two additional lanes are being offered to new customers. This, in the framework of four funds for the financing of small businesses. The total financing per customer



offered by the fund, may reach NIS 1.25 million, including reduced collateral requirements. Operations in this field were enlarged during 2014–2016, and the Bank granted finance of this type to hundreds of small businesses in geographical and sectorial distribution.

Business dealing room. This dealing room provides services for the purchase and conversion of foreign currency as well as for hedge transactions. The Bank conducts a focused activity for connecting business customers, both small and medium, to the commercial dealing room.

Business credit card. The Bank offers a "business key" credit card to its customers. This card is intended to provide business owners with a unique service through the use of a credit card of a key type, which enables the customer to obtain discounts at trading houses that are suppliers.

"Business+" website. A designated website for business customers. The website presents comprehensive data regarding the accounts of the business and allows customers to transact business independently from their place of business.

SMS business packages. A package that allows extension of current account services. Receiving messages regarding the following matters are available: notice in advance as to the termination of a guarantee, outstanding balance of guaranties relating to the account, collection of post-dated checks (balance and payments), checks serving as collateral (balance, payments and shortage vis-à-vis the defined amount), order of check books, dishonored checks, etc.

"Business family". The "Business family" program takes the "Discount family" program one step forward by granting also to business account customers, benefits by joining the program. Customers enjoy the family and business position and receives benefits from both worlds.

The small business segment at the Mercantile Discount Bank ("MDB")

Within the framework of this segment, MDB provides varied banking services and financial products to small business customers (individuals and companies). Service to customers of this segment is provided both by the distribution layout of MDB, which at the end of 2016 numbered 78 branches, and by direct distribution channels: the Internet and the call center.

The small business segment at the MDB is one of the outstanding segments of this bank and accordingly is a central target in its business development.

Around one half of the customers of MDB who belong to this segment live in areas where



the population has an absolute "non-Jewish" majority and receive banking services by means of branches of this bank, 31 of which belonging organizationally to the Acre and Nazareth regions and additional branches in other regions and areas around the country. **Governmental funds for the support of business.** During the past decade, MDB has developed, in cooperation with relevant government agencies, expertise in the granting of credit to small and middle market businesses through governmental funds for the support of business.

Small Business Fund. In order to develop competition in providing services to customers belonging to this segment, the State published a public tender in 2015, for the granting of credit to customers of this segment through the Small Business Fund, with a partial guarantee of the State. The tender has been directed to banking corporations and institutional bodies, jointly, within which the winning banking corporations are required to share the credit risk of the winning bank with the institutional bodies, which will receive access to applications and income, which until now, were the exclusive domain of the banking sector.

The Ministry of Finance informed MDB on January 17, 2016, of its decision to accept the offer of the Bank (and its institutional partner), as one of the winners in the tender. The maximum volume of credit, which MDB (jointly with the institutional body) would be able to grant customers within the framework of this tender, amounts to NIS 650 million. In the course of 2016, MDB granted loans to its customers within the framework of the Fund (in participation with the institutional body), the balance of which, at December 31, 2016, amounted to NIS 190 million.

Private Banking customers

General

The private banking service layout focuses on a comprehensive banking service, initiating and specializing, to wealthy customers, with a commitment to prompt service regarding all customer needs and particularly in the investment field.

Customers of private banking, both Israelis and foreign residents, are classified as private customers holding financial assets at the Bank in a minimum amount exceeding NIS 4 million in the case of Israeli customers and US\$1 million, in the case of foreign residents (hereinafter: "private banking customers").



Customers of the local private banking in Israel, manage their accounts at the Bank's branches, and obtain service at four private banking centers at their disposal: in Herzliyah Pituach, in Tel Aviv, in Jerusalem and in Haifa. Private banking customers who are foreign resident obtain service at the international private banking center in Tel Aviv.

Strategic emphases

In accordance with emphasized strategic items at the basis of the Bank's work plans, private banking operates in 2 units: the international banking department, serving foreign resident private banking customers and new immigrants; and the private banking layout, serving Israeli resident private banking customers. The private banking layout comprises a part of the investment and wealthy customers wing, established at the beginning of 2017, with a view of placing the wealthy customer at the center.

The investment and wealthy customers wing serves customers holding assets with the Bank of NIS 1 million and above, where up to NIS 4 million the service relates to investments and over NIS 4 million a comprehensive service is offered to customers.

The international banking serves two segments of customers, a private international banking segment and a retail international banking segment, which is to serve foreign residents with financial assets deposited with the Bank, but of a volume lower than the minimum level required by private banking.

The private banking services, provided to Israelis and foreign residents, offers customers a comprehensive individual banking service, granted by a customer relation manager – investment consultant, responsible for their account, and allows them accessibility to investment consulting and financial products, including in the global area.

The private banking centers offer customers comprehensive banking services with a focus on financial investments and custom products management, and with the possibility of obtaining credit to finance customer investments.

The private banking layouts will continue to focus on expanding the customer base and in intensifying activities with them, while focusing on nurturing the continuing generation and maintaining a thorough risk management in the process of attracting new customers and servicing the existing ones.

As an integral part of the private banking business plan, emphasis is placed on the ongoing review and upgrading of the risk management processes. At the beginning of the year, the Bank adopted a risk based policy regarding foreign resident and new immigrant customers, which relates to the tax payment on the funds deposited in their accounts, and has immediately started the implementation of this policy with respect to the



relevant group of customers. In addition, the risk management unit at the banking division will continue to intensify its operations in the fields of prohibition of money laundering, compliance and operational risks management. The compliance trustees at the branches and at the private banking centers, are responsible for the current risk management at the unit, though they report directly to the manager of the risk management unit. The staff of the units continued to participate in training sessions for widening and intensifying the knowledge in the fields of money laundering prohibition and compliance according to the work plan.

Service to customers

A "service envelope" is being offered to private banking customers, customized to the segment's customers' needs, and which harnesses the Bank's and the Group's resources in providing an optimal response to their needs and for an initiated activity with them. Customers of this sector enjoy an array of banking services at the highest professional level in the private banking centers. Consultants, experienced in the field of financial investments in Israel and abroad, pension consultants as well as experienced bankers in the fields of credit and general banking are at the disposal of the customers.

The private banking centers provide service to customers six days per week. The centers operate from 8 AM to 8 PM, in order to provide service at hours convenient to customers. The staff of international banking have a command of foreign languages, in accordance with the language of the customer they serve.

In addition to the general banking services, additional services are at the disposal of customers, such as: direct access to dealing rooms, and complementary services by the Bank's subsidiaries: trusteeship and investment portfolios management, compatible with the needs of this segment's customers.

Customer relations unit acts to provide private banking customers with offers of value, particularly within the all-round marketing.

A product initiation unit acts to create unique products suitable for this segment of customers.

The advisory services department acts to create an infrastructure of research, local and international market surveys, and in structuring investment models suitable for the needs of this segment of customers.



Service to corporate customers (large businesses)

The Corporate banking segment enjoys a professional banking service, specializing in a "one stop shop", including an in depth examination of the requirements of the company and adaptation of creative financial solutions. Customers enjoy a personal, professional and quality service relating to all their financial needs by adapting various banking products in the credit, currency hedge, international trade, clearing of credit card transactions, financing, specialized investments in the capital market and additional fields.

The financing operations of the large corporations are performed by business managers teams in the large corporations department of the Corporate Division. The teams are divided according to the business activity fields of the corporations. Such teams serve as the banking address for all the financial needs of the corporate customer.

The services of the Tel Aviv Main Branch are at the disposal of the customers. This branch specializes in serving the Bank's large corporate customers, as well as in providing services to financial and institutional bodies, including custodian services to foreign entities. The Branch has extensions in Jerusalem and in Haifa.

Discount Capital offers the customers of the corporate segment assistance in the process of public offerings and private placements, including underwriting services and securities distribution, as well as services regarding investment banking.

The Capital Market Wing. The aim of the wing is to expand the services provided by the Bank with respect to capital market activity, to the large corporations, institutional bodies and capital market operators. The wing engages in the allotment of credit to customers under his care, including the rendering of related services (brokerage, investment consultancy and administration) and providing initiated consulting services to corporations.

Customers engaged in international trade are being served by the foreign trade wing (for additional details, see below).

The Diamond Exchange Branch serves businesses engaged in the diamond sector. The branch specializes in accounts of diamond merchants as well as in all the unique services required by this sector.

Some of the segment's customers utilize the services of the Bank's trading desk (see below in "Finance management segment") and the Bank's overseas offices (see below in "International operations segment").



Foreign trade operations

General. The foreign trade department operates within the framework of the Bank's Corporate Division, and offers a range of services to customers from the various business segments engaged in international trade.

The business activity of the foreign trade department coordinates in each department all the services in the foreign trade field that the customer requires (import, export, finance, financial instruments, etc.). The foreign trade department continued in 2016 its intensive activity in the preservation and development of relations with existing customers as well as in attracting new customers, while initiating business meetings and the visiting of customers together with the business unit managers of the Bank's various divisions.

The marketing activity for increasing the customer base using foreign trade services was successfully carried out in 2016 and increasing the share of their operations on the Internet.

Products and services

The services offered include current financing according to customer needs, including among other things, foreign trade activity and the trading desk, financing of investments for maintaining and expanding activity, the financing of acquisitions and mergers, granting credit to capital market operators, participating in credit and/or risk offered by the large local banks or foreign financial institutions extending credit to Israeli corporations operating abroad.

In addition, these include related services such as deposit accepting and investment activities, derivative financial instrument activities, granting financial guarantees, execution guarantees and so forth.

Clearing of credit cards. ICC, a subsidiary of the Bank, offers customers clearing services.

Clearing operations include the clearing of credit card transactions made in Israel, by way of "Point of Sale" appliances (POS appliances) located at trading houses. In addition, ICC offers trading houses related services, which include, among other things: discounting of credit card transaction vouchers, advance payments for transactions effected and the granting of advances on account of future payments to trading houses with which ICC is engaged in clearing agreements.



Reaching targets and business strategy – 2016

In the course of 2016 the Bank operated in accordance with the work plan for the corporate banking segment, while focusing on the raising of returns on risk assets and a customer focused view. Among other things, the Bank acted towards modifying the credit spreads to risk levels, and to the reduction in exposure to high risk level operations, with the aim of improving the credit portfolio.

In addition, during 2016, the Bank focused on syndication as well as the management of the credit portfolio from the aspect of pricing a risk adjusted return.

The Bank strictly monitors large customers and borrower groups at a high level of risk. For further details, see "Credit risks" in the 2016 Annual Report (pp. 67–85).

Targets and business strategy

In 2017, the Bank will operate in a wide variety of segments and economic sectors, whilst spreading out its credit portfolio and reducing exposure to segments in which the risk involved has been identified as higher than average. This, while shifting risk assets to usages earning a high return. In addition, the Bank will focus on small and medium size businesses, whilst continuing project financing operations for large corporations.

Within the framework of the focusing by the Bank on value maximization with respect to the risk asset portfolio in the corporate banking segment and attainment of the capital adequacy goals, the following principal development directions have been defined with respect to the year 2017:

- Activity in a wide range of segments, economic sectors and credit products, in order to create the most beneficial distribution within the portfolio;
- Leading syndication transactions in conjunction with institutional bodies in Israel and abroad;
- Widening the array of services to customers while increasing the risk adjusted return;
- Increasing the income derived from a risk asset while setting a risk adjusted price;
- A decline in the existing risk profile by means of defining the credit risk appetite levels to the various economic sectors;
- Utilizing the Group synergy and the existing relative advantage of each of the subsidiaries in the field of credit (populations, targets, products, geography);
- The Bank will refrain from credit operations that involve fear of damage to the goodwill of the Group or the Bank, among other things, areas related to money laundering or the finance of terror.



The Corporate banking Segment at Mercantile Discount Bank

Within the framework of this segment, MDB provides a variety of banking services and financial products to large business corporations. The business of such customers is typified by significant complexity and sophistication - accordingly, the bank provides to these customers financial products, mostly in the credit field, tailored to their activity and specific needs - having comprehensive view to their varied businesses.

The handling of these customers is the responsibility of MDB's Commercial Banking Division, operating in this segment through two sub-units, as follows:

- Two commercial wings - under the responsibility of these wings are the large business customers of MDB (excluding customers belonging to the real estate sector) - through five teams headed by business managers. Banking services are provided to these customers by means of the bank branches.
- Real estate department - responsible for all real estate corporations conducting business with MDB, in large acquisition groups (of over ten residential units or ten group members). The department operates both in the entrepreneur real estate area, by means of the "closed finance" method for construction projects, mainly residential buildings for sale, including through "acquisition groups" (handled by the construction department), and in other areas, such as: construction contracts, income bearing commercial property and property holdings (handled by the real estate finance department). Services to these customers are provided through a number of branches.

A fund for the renewal and purchase of production facilities. MDB has a designated fund, established in 2015 in conjunction with the Manufacturers' Association, for the granting of long-term credit to Association members who wish to renew and purchase equipment and manufacturing facilities, and in this way upgrade industry and increase production ability and competition. The outstanding balance of the loans granted by this fund amounted at December 31, 2016, to NIS 13 million.



Customers of medium business segment

Service to the segment's customers

Customers of the group's medium business segment are medium size business customers. These customers enjoy personal, professional and quality service relating to all their financial needs (one stop shop). The service includes the modification of the varied banking products to their different needs as regards credit and guarantees, currency hedge, international trade, financial instrument activity, credit card clearing settlement, specialized investments in the capital market, and more. Besides these services, the Bank offers solutions for the financial needs of company owners, their executives and staff, who enjoy terms granting them the status of preferred customers. Service to Bank customers is provided by five business centers countrywide: Jerusalem and the South, Tel Aviv, Sharon, The North and lowlands.

The service provided by the business centers is integrative, provided by teams that include business bankers, economists and credit officers, with the assistance of the team handling loans and guarantees. In order to adapt the service to the business customer, which are located at the business centers, while assisted by the branch layout.

The foreign trade department serves customers engaged in international trade. The Internet website "Business +" stands at the disposal of the segment's customers. (For further information, see above, "Service to corporate customers (large businesses)").

Business dealing room is designed for providing operating services to middle-market and small business segments customers, a focused activity is being conducted introducing suitable customers to this dealing room. This dealing room provides purchase and conversion of foreign currency services and performing hedge transactions.

Targets and points of emphasis for 2017

- In view of the strengths and uniqueness of the business centers at Discount Bank, this segment constitutes one of the Bank's strategic focuses. Therefore, a challenging target of growth in the volume of credit has been determined for this segment, with an emphasis on quality customers, both existing and new, who operate in economic sectors having a reasonable level of risk and appropriate profitability to the Bank;



- Expanding the activity with customers operating in economic sectors preferred for growth based on the Bank's credit policy, while reducing the activity in economic sectors having a high risk level;
- The continued improvement of professionalism, availability and credit risk management processes and increasing control and monitoring processes, by means of improving the quality of analysis of the credit portfolio and of customer condition;
- Use of advanced models for credit risk management, for the purpose of pricing the marginal transaction and modifying the financing spread to the characteristics of the transaction and the level of the risk to the Bank, while improving the ability to compete in attracting quality customers.

The Medium Business Segment at Mercantile Discount Bank

Within the framework of this segment, MDB provides banking services and financial products to middle market companies. The products and banking services provided by this bank are tailored to the business need of these customers and include a variety of credit services, foreign trade, financial instruments, investment products and capital market services, etc..

Additional services

Service to customers in the real estate sector

Most of the business activity in the real estate and construction segment is carried out by the real estate and infrastructure department. The department provides a wide range of banking services both to the large and medium level corporations engaged in the promotion and investment in residential and income generating real estate in the local market. In addition, the financing operations of the segment are also conducted by business managers at the large corporations department, mainly with income producing real estate holding corporations, as well as by means of the business centers of the Banking Division.

Within the framework of the real estate and infrastructure department operates a unit specializing in complex transactions for the finance of investments in national infrastructure projects (energy, electricity, water and desalinization plants and toll roads, mostly by the PPP method).



MDB provides the service to customers of this sector through the real estate wing, which is composed of two departments: real estate finance department and the building project finance department. The real estate finance department serves real estate customers of MDB having credit facilities in excess of NIS 7 million (excluding building project finance), mostly the financing of income producing properties, the holding of properties and construction contractors. The building project finance department coordinates the handling and management of all closed building project financing at MDB, and also coordinates the handling of all "acquisition group", with a facilities scope exceeding NIS 10 million or ten residential units.

Products and services. Credit for the construction or purchase of properties intended for housing and/or intended to serve as income producing property (mostly commercial and office space, large parts of which are marketed in advance); credit financing national infrastructure projects at the construction and operating stages; credit financing working capital and/or investments in Israel, and in exceptional cases also investments abroad; credit granted to acquisition groups; providing Sales act guarantees to purchasers of residential units and guarantees to landowners within the framework of combination construction transactions.

Dealing room

The dealing room is available to customers and to the Bank's branches and provides personal and professional service in the global money and capital markets and in the implementation of special transactions in foreign exchange, interest rates and securities. Dealing room customers include local and foreign banks, corporations, Private customers having a large volume of activity active on the capital market and institutional entities. Dealers and professional traders, advanced technology and computer systems, enable the dealing room to provide customers with timely, professional and competitive service. Combining the said areas of operation, allows customers to obtain all commercial services under one station providing a standard of service and of professional level.

The dealing room is engaged in two principal areas of activity:

Over the Counter (OTC) trading - foreign currency and interest rate trading. The OTC unit carries out transactions according to customer needs, in particular with respect to hedge and market risk requirements. The unit is a central "market maker" in the dollar/shekel trading; when the dealing room enters into a transaction with a customer, the dealing room becomes the counterparty to the transaction and in respect thereof bears market, credit and operating risks.

The principal transactions which the unit offers customers are: purchase or conversion



of foreign currency, options on currencies and interest rates, interest swap transactions and other derivatives as required by the customer. The Bank serves as a central market maker in government bonds (linked and shekel). The Bank trades in these bonds on behalf of Bank customers for the purpose of hedging risk and for investment.

Trading in securities. The securities unit is composed of two desks: a foreign securities desk and a local securities desk. The two desks offer customers of the Bank access to the market by a wide range of investment instruments. Following are details regarding the lines of trading operations in securities at the two desks:

Foreign securities. The foreign securities desk is active in a large variety of equity and financial markets worldwide, utilizing complex financial instruments and offering a wide range of instruments: trading in shares on foreign markets, trading in options, in Government bonds and in corporate bonds and in mutual funds.

Brokerage regarding Israeli securities. The brokerage desk for Israeli securities engages in the brokerage of transactions involving bonds, shares, synthetic contracts, options and convertible traded on the Tel Aviv Stock Exchange. The desk provides brokerage services involving marketable securities through brokering deals for customers (matching transactions), carries out transactions on behalf of customers (on and off the stock market) and participates in issuance. The desk develops business, markets and attracts customers transacting a considerable amount of business, both at and outside the Bank, and maintains direct communication with institutional customers, large corporations and hedge operators active in the day-trading field.

Mercantile Discount Bank. MDB operates a dealing room with similar activity (except for "market maker" operations).

Capital market services

Securities-related services. The Bank provides its customers with an array of investment consulting services, securities trading and operating in Israel and abroad. These are offered to private customers, institutional customers and capital market operators. The Bank offers varied services, which include: equity securities activity in Israel and abroad, bonds (including convertible bonds), short-term Government loans (MAKAM), options, foreign currency, structured deposits, ETN's, derivatives in Israel and abroad, securities offerings and lending of securities, as well as providing professional and objective investment consulting regarding securities and financial assets.

Some of the Bank's customers maintain securities portfolios managed by various portfolio managers operating through the Bank, including through the subsidiary Tafnit Discount Asset Management.



Trading services in the capital market. The Bank provides various trading services in securities:

- Discount trade – a service intended for customers who operate independently in the capital market, and which includes an advanced dealing center and a state-of-the-art Internet trading system.
- An interface for securities operations on the Internet website.
- A designated trading interface for securities operations of institutional bodies.

Investment centers. Customers having deposits of over NIS 780 thousand or customers active in the capital market are entitled to consultancy services regarding their funds at 9 investment centers. The account of the customer is managed at the branch, however the service is provided at the investment centers by expert investment consultants. 9 investment centers and 5 investment centers extensions were in operation at the end of 2016.

Advisory services to large corporations and to VIP customers. Advisory services and performance of securities transactions are provided to customers being large corporations, corporations engaged in infrastructure and real estate and to not-for-profit organizations conducting their accounts at the Bank's Corporate Division. Service is provided by senior securities consultants, and covers the different needs of these corporations as regards liquidity, issuance, the required research and more. Advisory services at the division are also provided to private customers, owners of the corporations and senior officers thereof, who conduct their accounts at the VIP unit of the Tel Aviv main Branch.

Consulting services in Bank branches. Customers with securities portfolio exceeding NIS 100 thousand are entitled to advisory services provided at the branches by authorized investment consultants.

Pension advisory services. The Bank provides pension advisory services at the Bank's branches and investment centers. The Bank has elected a unique model of providing pension advisory services by differentiated consultants specializing in pension advisory services to all types of customer. The Bank provides pension consulting services to self-employed and salaried employees all over the country.

Mercantile Discount Bank. MDB provides to customers similar services in the securities field. In the field of capital market trading services, MDB provides trading services through Mercantile Trade (a service similar to that of Discount Trade) and by means of a securities activity interface on the Internet website.

Customers with deposits of over NIS 300 thousand, or customers active in the capital market are entitled to advisory services regarding their assets held with the bank, provided by the investment center in Tel Aviv. The customer's account is associated with the branch, though the service is provided by expert investment consultants at the



investment center located in Tel Aviv. The investment center serves also large companies customers in all areas of activity and non-profit organizations. The service is provided by expert investment consultants and covers the different needs of these companies as regards liquidity, the raising of capital, etc.

Customers having a securities portfolio are entitled advisory services provided at the branches by authorized investment consultants.

”Discount INVEST”

As part of the business strategy focusing on the customer and the variety of his needs, the Bank operates a wide service in the capital market field – "Discount invest". This service offers the Bank's customers a wide and varied array of advanced technology and services layouts for capital market operations.

"Discount invest" offers innovative technological applications, the most noticeable of which is "Discount trade" – an advanced trading system, which enables customers active on the capital market, complete independence and direct communication with the Stock Exchange, while using decision supporting tools for executing their operations. Alongside the technological innovation, subscribers of "Discount trade" enjoy a level of service and unique availability of the Bank's dealing room. The service affords communication with a designated telephonic support center throughout the trading hours. The integration of the advanced technological tool and the telephonic support provides the ultimate solution for investors active on the capital market.

The service also includes foreign securities operations on the U.S. Stock Exchanges. Within the framework of "Discount invest", the Bank positions a high bar for service, adapted to the type of activity of the customer, with maximum availability. Advisory services in the Bank's branches are rendered by qualified investment consultants who provide personal service during the operating hours of the branches. Advisory services may be further obtained from the central telephonic investment support office until 20:00 hours, Sundays to Thursdays. The service provides continuous consulting services to investors, including foreign securities.

Customers having investments in amounts of between NIS 700 thousand and NIS 4 million, obtain services from nine countrywide investment centers and five extensions, which provide specialized service, similar to that of an investment house. Thus, the customer enjoys a service experience distinguished from the banking industry. The investment consultants in these centers are personally available for customers throughout the market trading hours and also for prearranged appointments even after that.

An additional innovation relates to the pricing of commissions. Customers of the investment centers, excluding the users of "Discount trade", enjoy varied service lanes



at attractive prices. For example: the "Invest Gold" lane offers the total comprehensive services provided by the center in consideration for a fixed quarterly payment.

Customers having financial wealth enjoy a modern layout of private banking centers for Israeli customers, which include professional and specialized service of investment consulting in the local and international markets.

Alongside these, the Bank has upgraded the service relating to all types of cellular telephones. The Discount application is modified to the Blackberry, Android and iPhone versions allowing the receipt of information and the transaction of business on the capital market. In addition, it is possible to enjoy "Discount SMS" which provides notification regarding stock exchange indices at the end of trading.

Capital market services at Mercantile Discount Bank

MDB offers the following services and products:

- Securities trading by means of the securities portfolio management of the bank, which includes marketable investment products (mostly government bonds) and nonmarketable products (mostly corporate bonds).
- Financial instrument activity with banks and institutional bodies, mostly through short-term deposits in all linkage segments.
- Derivative financial instrument activity - conducted through the foreign dealing room operating within the framework of the Finance Division.

The services provided by MDB to its capital market customers, include mainly securities consulting (including the distribution of mutual trust fund certificates). Services in this area are provided to customers, mostly through the branch layout of the bank.

In the course of 2016, MDB continued the integration of an advanced Internet based information system, which allows customers active on the capital market to trade in securities and receive detailed and up-to-date information regarding events and trends in the capital market, generally, and with respect to their investments in particular, and independently make changes in their investment portfolio.

Pension advisory services

The Bank provides pension consulting services with respect to provident funds, pension funds, further education funds and insurance products through pension consultants operating at the Bank branches and investment centers.



Public awareness as to the importance of pension planning had grown in recent years, and as a result, the demand for pension consulting services provided by the Bank has grown. A number of systems and auxiliary tools have been developed as part of the pension consulting services support layout:

- Pension consulting system - a computer system devised as a decision support tool for the pension consultant in recommending and choosing pension products for the customer. This system is being adjusted and updated in accordance with regulatory requirements and business needs;
- An automatic forms system including a graphic signature, for the production of operational instruction forms addressed to the institutional bodies with which the Bank has distribution agreements, based on the results of the pension consulting;
- Presentation of a customer portfolio on the direct lanes - the Bank's customers who receive pension consulting services, and who have permission to access the direct lanes (the Internet or the Bank's automatic service machine) may view the details of the pension products included in their portfolio;
- Computerized connection to the pension clearing house for the collection of information regarding the pension products of the customer;
- Pension information portal - providing professional support for consultants, which is being updated on a current basis.

The Bank is obliged to enter into engagements with all institutional bodies managing provident funds, new pension funds as well as further education funds, which wish to do so, with the exception of insurance companies. As of date of preparation of these financial statements, the Bank entered into distribution agreements with most of the institutional bodies operating in the pension market, for the distribution of products managed by them, in consideration for a distribution commission at rates and payment terms identical to those for an identical service. The maximum distribution commission rate is determined by Regulations, and the commission is payable in respect of pension assets (excluding insurance products) of customers receiving pension consulting services from the Bank.



Services in different languages

The Bank is working for providing different services in a variety of languages for the convenience of all its customers.

- The Hebrew, English and Russian languages may be used on the marketing website;
- Hebrew is the language used on the operations website, though English may also be partly used;
- Marketing pamphlets which are placed in the branches for the customers' convenience are written usually in Hebrew, and in certain cases, according to needs or demand, designated leaflets are also produced in other languages (English, Russian, French and Arabic);
- ATMs provide guidance in Hebrew, Arabic and Russian, and with the use of an international card, also in English;
- The Information Desks interface operates in Hebrew, English, Arabic and Russian. It is possible to receive statements of account in Hebrew or English, where the language of the account is marked as English;
- At branches servicing a large number of foreign residents, such as the Nataniyah, Bat-Yam, Ashdod and Herzliyah Pituach branches, service is provided also by English speaking officers and those who speak an additional foreign language, such as French or Russian;
- The Bank is acting towards the adding of the English, Arabic and French languages at the line management positions, in addition to the Russian and Hebrew languages.

MDB has extensive activity among the Arab population and the Ultra-Orthodox ("Haredi") population and thereby the required adjustment is made to the bank's operations with the different segments of the population. The marketing approach in the Arab sector is generally made in Arabic (including film-strips, leaflets, rollups, etc. in Arabic). Also the approach to the Haredi sector is made considering the "language" in practice (without photographs that might offend public feelings and with a text that is appropriate to the Haredi sector).

In ICC - Service at the call center is provided in Hebrew, English and Russian.



Technological improvements and innovation

General. Among the goals of the Bank's strategic plan, is the goal of the implementation of technological means and increasing customer experience. Among the measures taken in this field may be noted the establishment of the digital wing and the establishment of a "Fintech and innovation" unit.

Establishment of the Digital department

In May 2016, it was decided to establish a new subdivision at Discount Bank – the Digital Wing. The establishment of the Wing reflects the recognition of changes and trends that have characterized the banking sector in recent years, led by – growth in the share and importance of the direct channels in connecting the Bank with its customers; the need for documentation and effective management of a range of bank-customer interfaces and interactions; and the benefits, both for the customers and for the Bank, that arise from simplifying and streamlining services and core products, such as current accounts and payment methods.

The new Digital Wing takes the lead solutions concept in three principal content spheres – direct channels, the CRM and customer concept and current account.

The Wing is responsible for setting the course for each content sphere, for shaping the customer's future journeys, for upgrading and adapting the bankers' work environment to the changing reality and for the assimilation of innovative tools, services and solutions.

The Wing was established as part of the Technologies and Operations Division at the Bank, stemming from the realization of the central role that technology takes in the ability to facilitate initiatives in the digital field and with the aim of shortening, to the greatest extent possible, the time it takes to provide advanced digital services to the Bank's customers.

Direct channels

The Bank acts on a current manner in order to provide its customers with an advanced experience regarding its direct channels, aspiring for a continuous improvement both as regards the type and variety of services and as regards user friendliness and customer experience. Within the framework of this activity, the Bank introduced the following products and services during 2016:



On the Internet website:

Changes in the transactions site. The new transactions site for private customers continued to change and offer customers a unique and advanced user experience:

Presentation of a banking identity document. The possibility of producing an annual report presenting to the customer information regarding all his assets and liabilities as well as the current operation on his account;

Financial instruments - statement of account and historical revaluation. Information to a customer having a financial derivatives account providing details of and revaluation of the open transactions, based on the continuous exchange rate and of the transactions that were open at the end of a selected business day, based on the representative exchange rate.

Advanced orders regarding securities. A possibility was added of the use of the advanced orders "stop loss" (STL), "iceberg" (ICE), "fill or kill" (FOK) and "immediate or cancel" (IOC).

Presentation of a summary of consulting conversation via the Internet. A service enabling a customer receiving consulting services to view consulting conversations made during the past three years.

"Personal planning" service on the Bank's website. This new tool presents to subscribers of discount@internet the overall picture of their financial conduct and helps them to identify and plan in a sensible manner their expenditure and income. By means of this service, the customer can obtain a picture of his expenses and income by different categories, observe data in cash flow presentation, to conduct a monthly budget, to define warning signs as well as savings targets.

Locating dormant accounts by way of the Internet. In accordance with the initiative of the Bank of Israel regarding locating dormant accounts or deposits with no entries, in the name of the customer or in names of deceased family members, the Bank enables the submission of requests for locating such accounts through its Internet website.

By the cellular application:

New app for private customers. The new app introduces an innovative and advanced standard of user experience. Uniquely and exclusively for Discount customers, the app enables fingerprint identification ("Discount Touch"), not just for iPhone users, but is also - for the first time in Israel - available also for Android users and provides customers with insights on the state of their accounts. The app was launched at the beginning of July 2016.

The app includes also the opportunity to join the "Brief Glance" service where, basic account information, without identification, regarding current account balance, last three transactions, total credit card charge and the total value of the securities portfolio.



Customers benefit from an advanced experience of receiving information and conducting a broad range of transactions from the banking content platforms, moving between main topics with just a screen swipe, and a fast access to transaction execution and a main menu available from any screen.

Moreover, after opening the app for the first time and completing the full identification process, subsequent use of the app is enabled just by password identification.

Additional services via the application were introduced during the year:

Withdrawal of cash without an ATM card. The new service enables the customer who does not have a credit card, or who has forgotten the entry code for the card, to order a sum of money through the application and withdraw the amount from the ATM machine by entering the "withdrawal code" and the relevant amount.

Information regarding loans by means of the application. In addition to the possibility of obtaining an immediate and personally adapted loan, a service existing up until now, the customer is now presented with details of the loans recorded in his account, such as: the balance, the monthly repayment amount, number of repayments outstanding, warning notices and the repayment schedule.

Information regarding foreign currency. Details of the foreign currency accounts, including the balance, the last thirty-two entries in each currency, future entries, representative exchange rates and more.

Additional options regarding the information as to current account movement. Search of entries made in the past six months, screening by type of entry and presentation of the balance at end of a business day.

Depositing checks between banks. In private or small business accounts, the possibility was added of depositing via the application also checks of other banks in addition to Discount Bank.

Upgraded "Business+" app. An update to the existing version of the "Business +" app - the new version supports all the existing "Business +" services on the Internet (based on an Internet site infrastructure adapted for cellular browsing).

The above stated relates also to customers of MDB.

On December 31, 2016, the Bank had 390 thousand active subscribers to online services.

Technological accessibility for the adult population. The Bank is working copiously in order to help different populations, including the adult population, in the integration of the correct and safe use of online services. This, due to the belief in the advantages that such services may bring to these populations (availability of the service, time saving, unique experience, etc.) and the understanding of the difficulties that accompany the changes in the manner of use of the services and the adoption of new technologies.



In this framework, the Bank invests considerable efforts in the planning and design of the interfaces and the digital processes, while especially emphasizing the simplicity of the processes, their intuitiveness and the language in which they are presented.

In addition, the Bank plans to introduce innovative capabilities, based on BOT and AI applications, which enable orientation, the conduct of banking operations and providing response to different questions regarding the management of the bank account, by means of free text (whether written or oral) through the entrance window, in a manner that obviates search and orientation. In the opinion of the Bank, these aspects comprise at present a barrier for a part of the said population in the use of digital services.

All this, alongside the continued communication - by contents and clips - describing new products and services available online, at the branches and in the different media. In addition, in each branch where teller services are being discontinued, the Bank places a steward whose duty is to assist customers in obtaining service by means of the automatic machines, with special attention to the adult customer population, as well as instructing them in the use of the mobile application and of the operations website, in order to facilitate customer in performing their operations through these channels.

Formation of a Fintech & Innovation Unit

As part of the Bank's preparations for future banking within the framework of the strategic plan, a Financial Technology ("FinTech") and Innovation Unit has been established by the Planning, Strategy and Finance Division. The aim of the unit is the creation of cooperation with FinTech companies and the integration thereof in value offers to customers, as part of the banking work environment and of the systems of the Bank.

Advanced initiatives in the field of FinTech and innovation

PayBox. On April 26, 2017, the Bank entered into an agreement with a startup company in the Fintech field by the name of PayBox Payment Solutions Ltd. ("the company"). The company has developed a cellular phone application and a designated Internet website under the brand name of "PayBox", by which it operates and provides payment services intended to customers of all the banks in Israel. The service provides for the transfer of funds between private individuals, as well as the collective collection of funds for a defined purpose by way of establishing a closed group for this purpose.

In accordance with the above agreement, the Bank would acquire from the company an exclusive license to operate the application and the website in Israel, and would also



acquire from the company a number of assets and services that would enable it to independently continue to operate the application and the website and offer the service to individuals operating a bank account with any of the banks in Israel. The beginning of these operations and completion of the agreement are, inter alia, subject to obtaining the regulatory approvals and to technological modifications.

iCount. On August 10, 2017, the Bank entered into a cooperation agreement with a Fintech technology company which has developed a system for the management of accounts and cash flows for small and medium businesses, operating by means of an Internet website and mobile application under the "iCount" brand name.

According to the signed agreement, customers would be able to join the service, by which banking information regarding their accounts at Discount Bank would be accessible and integrated into the iCount system.

This is the first technological-business application in the banking sector in Israel, which implements an open banking concept into an interface with third party suppliers using an Application Programming Interface (API) platform of the most advanced in the world, and which enables a secured link based on a global standard. The introduction of the product is subject to technological adjustments.

"DIDI" - a digital representative. The Bank has introduced a new service for customers using the banking application, which enables them correspondence and conversation with a digital representative on the application by the name of DIDI. DIDI proposes a unique and innovative way for digital banking activity, thus changing the way in which customers use the application. The conversation with DIDI is held in an open language. DIDI would be able to provide customers with information regarding their accounts, to execute banking transactions, to assist customers in getting oriented with the application and to bring up important insights helping wise financial conduct.

The new service is based on advanced artificial intelligence technology, which enables the decoding of text typed by the customer on the one hand, and the conduct of a conversation by a clever and attentive robot on the other hand.

This is unique and primary service provided in the Israeli banking industry.

The service was introduced in September to a certain group of Bank customers and would be available to all Bank customers by the end of the year.



ICC – Readiness for the digital era

In 2016, ICC continued to establish, promote and modify its assets and products to the challenges of the digital revolution, including development of new initiatives and their integration in to the wide array of the digital assets, such as the digital wallet Cal4U, the business application Cal4Biz and more. The contribution made by the integration of products and services leads to a significant increase in the use made by customers of the online channels. Among the central services, may be mentioned:

- The online recovery of secret codes regarding digital assets;
- The direct accessibility to the chat service from the website or from the application;
- Application of the "Mobile First" concept, while making the websites of the company accessible in a responsive version adapted to the size of the screen of the user;
- "Vocal visual" answering service used as a supporting tool in conversations with the service centers;
- Integration of designated tools supporting the customer in the digital assets, including a Google search in the company's websites;
- An innovative payment through the Cal4U application for the purchase of digital vouchers.

All the above have been added to the services introduced prior to the year 2016, and have been improved during the year, such as:

- Payment at restaurants through the designated and innovative interface with the Cal4U digital wallet;
- **Ordering a credit card online** - development and integration of a designated service for the ordering of a credit card online, both on the desktop platform and on the mobile platform;
- **Online credit products** - availability of credit products to private and business customers by means of all digital platforms in general and by the mobile platform in particular;
- **Transfer of funds by means of the mobile phone** - integration of a service for the real-time transfer of funds between customers of ICC;
- **Personal design for the credit card** - a designated digital asset enabling ICC credit card holders to personally design the image of their credit card, a unique service in Israel.

From the viewpoint of ICC, the digital media serves as a channel reaching the whole of the population, which makes important and valuable information accessible also to those who find it difficult to leave their homes.



ICC – services in the credit card field

Issuance field

ICC issues and operates credit cards of the "VISA", "MasterCard" and "Diners" brands. ICC issues these credit cards to customers (credit card holders) who use them for payment for products and services purchased at different trading houses.

ICC offers customers also credit cards that are issued directly by it, especially within the framework of customer clubs and specialized organizations ("off-banking cards").

Within the framework of the expansion of the array of services provided by ICC to its customers, ICC provides to customers off-banking credit by means of different types of credit solutions, such as express loans for any purpose, loan outside the credit card facility, loans not requiring a credit card and loans financing the purchase of motor vehicles through Shlomo CAL Company Ltd. as well as by revolving credit and deferment of charge date programs.

ICC operates various customer clubs. In general, customers joining these clubs are entitled to discounts and benefits at a variety of trading houses.

The principal customer clubs in 2016 were: FlyCard, Family 365, CAL-H&O, Powercard and YOU. In addition ICC has formed different clubs for professionals such as public accountants and lawyers.

Goals and business strategy in the issuance field. Leading the issuance market, both by utilizing the banking channel through the offer of solutions tailored to the customer needs, and by attracting credit card customers in the off-banking channel, in existing customer clubs and by creating cooperation with different entities for the formation of additional customer clubs. In addition, in 2016 an emphasis was given to the marketing of credit products from the standpoint of the customer and family savings, such as the CalFixnet card, which grants the holders thereof a cash refund on purchases made at international sites on the Internet and on purchases made abroad in foreign currency.

Furthermore, ICC endeavors to turn into a major player in the consumer credit field, where the issuance of off-banking cards comprises an infrastructure for the creation of consumer credit and for the positioning of the company as a body granting varied credit services (including by means of credit cards).

The clearing field

ICC is engaged in clearing agreements with businesses in the various economic sectors, and in addition offers, inter alia, through a subsidiary company Iatzil Finance Ltd.,



financial services, such as: the granting of loans; advance payments on account of future revenues expected to be received by trading houses in respect of ordinary transaction vouchers; discounting services for trading houses, namely, crediting the trading house with one immediate payment, net of a fee, against ordinary transaction vouchers and installment transactions, as well as different options for advancing the regular payment date to the trading house in consideration for a fee.

Goals and business strategy in the clearing field. The main goal of ICC is the marketing to trading houses of a comprehensive array of products, while increasing its market share in the clearing field. Moreover, ICC is active in the development and marketing of additional products that would be offered by it to trading houses, in addition to those on offer at the present time.

Activity relating to attracting of clearing customers – Micro Merchant Segment

The aim of this activity is to allow small businesses to charge the credit cards of customers, by means of a designated program tailored for small clearing turnovers of businesses just beginning operations, or that are typified by low business turnover. ICC aims at providing a response to the micro-merchant segment, which faces special challenges and needs in the payment world.

The challenges facing micro merchants in the world of payments -

Collection:

- Customers deferring payment - "I have no cash, come tomorrow";
- Post-dated checks;
- Wasting time on debt collection instead of using it for selling to the next customer;

Cash flow:

- Lack of command and control over cash flow;
- Mostly collection of cash, which quickly disappears;

Service:

- Lack of flexibility in spreading out payments by customers;
- Inability to accept credit cards - accepting only cash or checks which customers do not always readily have.

ICC offers micro merchants the possibility of accepting payment from customers by credit cards, through the Smartphone or the tablet, at any time and at any place, in a secured and easy manner.

The aim is to provide micro merchants with the possibility of easy and secured collection, of the deferment of payments for up to twelve installments, command and



control over their revenues, avoiding the wasting of time on collections, and all these under beneficial terms adjusted to their needs.

ICC offers micro merchants the clearing of four brands (VISA, MasterCard, Isracard and Diners), full exemption from operational fees, a fixed fee of 2.5%, covering all types of transactions. Furthermore, the trading house is not obligated to a minimum number of transactions on a monthly basis.

The prominent sectors are: consulting services, cosmetics, apparel, insurance, medical and office equipment.

The transaction clearing turnover in this sector increased in 2016 by 154% compared with 2015.

Social networks

Official Facebook page of Discount Bank¹⁸. The Bank opened its official Facebook page at the end of 2010. At the end of 2016, there were approx. 71,240 members of the Bank's Facebook page (end of 2015 - 65,630 members). The Bank's Facebook page serves as a platform for the current distribution and publication of marketing activities in various segments and areas, and in addition serves as a platform for chats with surfers and for customer service. Accordingly, public and private approaches are being received from surfers, which are being fully treated in a short period of time.

Twitter account - Discount Invest. The Bank is active on the Twitter social network - under the name "Discount Invest". In the Twitter account - "Discount Invest", the Bank publishes information regarding market data (in Israel and abroad), economic and capital market reviews by experts on behalf of the Bank and other practical information for the benefit of customers (lectures and conventions regarding capital market issues, reference to articles in the economic press, etc.).

Instagram account. The Bank operates on Instagram social networking - by means of the social network browsers are exposed to campaigns and current updates accompanied by inspiring photos and video strips.

¹⁸ 102-43; 102-44.



Social networks at ICC. ICC has a Facebook web page with over 153,000 followers, who currently follow the marketing activity of the company published on this page, the varied services offered by the company to customers, and more. The page includes a "customer service" link through which are received customer approaches, questions and comments, and immediate answers are given to customers (either privately or publicly, depending on the contents of the notice).

The Diners Company, a fully owned subsidiary of ICC, also has a Facebook page with over 36,000 followers, in which it presents current updates of its marketing operations, benefits to customers, etc.

Financial education

About five years ago, the Bank launched a strategic move in the matter of financial education. The Bank approaches its customers and the public at large making the financial language accessible to the full range of ages¹⁹.

The present financial world is much more complex than the one with which the public was familiar a decade or two ago. The offer of financial products has become wider and the products themselves more complex. In addition, in view of changes in regulation, in the pension savings field in particular, the individual is increasingly required to make complex financial decisions. The public debate has widened also to a financial debate – the growing life expectancy, the importance of long-term savings, consumption culture, sensible financial conduct, the cost of living, investment channels regarding pension savings, choosing a mortgage loan and more.

With a view of the customer's needs at any point of time during the changing stages of life, starting with the opening of a young person account, continuing as a service man, student, as a young family, as an adult family, facing retirement and post retirement, the Bank has devised appropriate study/lecture material on the subject of financial education, in order to assist its customers in making educated decisions, as well as created financial products, all of which for increasing its customers satisfaction.

The Bank initiates many activities in the matter of financial education:

- Customer conventions at the branches on matters of sensible financial conduct, family economics and the capital market;
- Lectures to organizations/corporations at their request;

¹⁹ 102-43.



- Financial education workshops for families and children aged 6-12, 13-17 at the Herzlillienblum private Museum;
- Designated study programs for high school students at the Herzlillienblum private Museum;
- Lectures on financial planning for adults;
- Lectures at academic institutions on financial matters intended for juveniles.

The conventions are designed to simplify understanding and make the financial language accessible to the customer public. The conventions focus on the explanation of basic concepts, while presenting to customers the various service layouts and the modification to customer needs of the consulting services available at the Bank. In these conferences, customers also receive responses to their questions.

In the wake of these conventions, customer readiness to increase their involvement in important financial decisions during the various stages in life is noted. The feedback supporting the conventions activity indicate the satisfaction of the participants and their wish to continue being invited to similar activities²⁰.

Since 2012, date of starting this activity, and until the end of 2016, almost all of the Bank's branches participated in it, in over 370 different events.

Focused activity is conducted from time to time in a certain area, such as the financial education week in the Haifa and Northern Region, and sometimes a simultaneous activity is being conducted in several regions nationwide.

The Bank's activity in the financial education field is free of charge.

The Supervisor of Banks established a Forum in 2016, which includes the Union of Banks as well as all banks operating in Israel, with the aim of expanding the activity on the subject of financial education. The leading banks, which until then had been engaged in financial education, were Bank Hapoalim, Bank Leumi and Discount Bank. Discount Bank has shared with the Forum members the abundant know-how accumulated by the Bank. The Bank also participates in the many committees of the Forum.

A financial awareness week was held in September 2016, initiated by the Supervisor of Banks, in which all banks participated in accordance with their proportionate size. Discount Bank conducted the activity simultaneously at ten branches. Between 40-70 persons participated in each activity, not all of them customers of the Bank. Registration for these activities was open to customers of all banks.

As known to the Bank, the Supervisor of Banks plans to hold a financial awareness week for the adult population also in 2017, and also, for the first time, hold in an orderly and systematic manner, in cooperation with the Ministry of Education, lectures on financial education at junior high schools and high schools for ninth grade pupils.

²⁰ 102-44



Discount Bank is expected to reach about 13 schools and 50 classes, in 100 meetings. The involvement of the Regulator in the field of financial education, driven by a real desire to strengthen the know-how of the public at large as regards financial matters, increases the activity of the banks in this important area and stimulates its expansion. It is the intention of Discount Bank to continue and increase this activity, expanding it in 2017 to new focused sectors, such as freelancers and young persons, trying to provide them with an appropriate and focused solution for the different stages in the lives of its customers.

The Bank conducts also intra-organizational activity for the enrichment of Bank employees and their family members, by means of a capital market workshop of eight meetings, which takes place at the Bank's meeting rooms and at the Discount College. Some 25 persons participated in each such activity, and over twenty such workshops had been held since the beginning of this activity in 2012.

Internet media. Development of a designated Internet website – the Bank presents on its principal website, under the heading of "Family and financial education" wide contents dealing with financial education, this as part of the Bank's envelop for the family, modified to the various stages in life, and presenting life events. This begins with contents for juveniles of primary school age, continuing with middle and high school age; contents regarding issues relating to servicemen; pre-enlistment, soldiers on active service and pre-demobilization; contents relating to students; budget planning, saving in expenses, enjoyment of benefits, in between jobs; contents relating to the family: we and money, pre-nuptial, pre-childbirth, divorce; contents relating to housing and mortgage issues; contents relating to current economic management: preparing for holidays and vacation, a monthly family budget, how to eliminate a bank overdraft, loans, deposits and savings; contents relating to retirement: pension savings, preparation for imminent retirement; as well as a dictionary of capital market terms including many concepts.

Printed media – Professional literature. The Bank leads the subject of development of designated booklets providing knowledge enrichment to customers: a booklet for elementary age, a booklet for middle and high school students, hints booklet and capital market booklet.

It is the Bank's intension to continue and develop activity in all fields – frontal, digital and printed – while continuing the cooperation with leading factors in this area. A booklet intended for freelancers is presently being prepared.



The Bank offers a range of lectures and workshops, including:**

Enrichment lectures	
Budget management Correct financial conduct in an economically challenging period	An experiential lecture, presenting an image of the individual's financial conduct and the way to improve it: <ul style="list-style-type: none"> - "It'll be OK" - regarding our economic management culture; - The breaking of myths - "all inclusive vacation"; - Overdraft, loans and credit, management of the monthly budget - eradicate the deficit; - Duality and money, children and money, retirement age and money.
Economics between the business and the family*	- A lecture to freelancers on the subject of conduct
Know about money*	- Lecture to young persons in junior high and high schools
Capital market	
The Israeli economy vis-à-vis global recovery and the low interest rate	A lecture describing in a light experiential manner events taking place in capital markets in Israel and abroad and preparations to be made for a year in advance, including the economic challenges which face investors in the capital market at the present time.
Psycho-finance You and your financial matters	The relation between making economic decisions and investments in the stock exchange, and the personal psychological characteristics.
Real estate investments, risk or chance	An analysis of the residential real estate market as an alternative investment, latest trends in this sector by geographic distribution, when to investments in real estate and who should.
Workshops	
Capital market workshop Micro and macro, their relation to private investments and savings	3 meetings, 2 subjects per meeting Meeting 1 - Macroeconomics + Bonds; Meeting 2 - Mutual funds + ETN's; Meeting 3 - Shares + Psycho-finances. The workshop provides participants with basic tools for understanding the financial world and becoming familiar with basic concepts of the capital market.
"Mixed" workshop	- Family economics; - Pension; - Capital market.
Seniors field - financial education	- Israeli economy; - Psycho-finances; - Analytical reading of the financial press.

*Preparations for 2017.

** 102-43.



Financial education at Mercantile Discount bank²¹

A financial education workshop initiated by the Supervisor of Banks. MDB participates in a Forum initiated by the Supervisor of Banks for the advancement of financial education. Within the framework of the financial awareness week financial education workshops for employees of the bank were held in September 2016 at ten branches, mostly in peripheral areas. The activities are intended for the public at large where 20-30 employees participated in each, and approx. 250 employees in total. The workshops were conducted by Bank employees using educational material produced centrally and in participation of all members of the banking sector in Israel.

A financial education workshop held at a battered women shelter. Within the framework of a further initiative of the Supervisor of Banks with the cooperation of the banks, and in an attempt to assist women who had left their homes and live now in shelters for abused women, a senior female manager at the bank conducted a financial education workshop at an abused women shelter in the Arab sector.

Additional activity. Employees of the bank conduct from time to time financial education workshops for youth groups of different frameworks.

Financial education at ICC²²

ICC Mentors Forum. ICC and "Globes" magazine have initiated the enterprise intended for small and medium businesses clearing their transactions with ICC. Within the framework of the Forum, the businessmen meet with a mentor, who describes the challenges he had faced on the way to realizing his business dream. This initiative was developed on the basis of ICC's desire to strengthen and expand the activity of small and medium businesses, being aware of their contribution to the growth of the Israeli economy. The guest lecturer at the meeting of the Forum held in December 2016, for the sixth consecutive year, was Mr. Avi Katz, founder of the "Cofix" chain and of the "Hagshama" Fund.

"Cal Lada'at" on YouTube. ICC introduced in 2014 the world of "Cal Lada'at" on YouTube. A set of eleven video strips providing information on a variety of financial concepts, in a clear, common and at an eye level language. For example: prime interest rate, loans, interest, revolving credit, off-banking credit facility, banking credit facility, safe purchase on the Internet, immediate debit card, off-banking credit, CPI linkage. These video strips had reached hundreds of thousands of views.

²¹ 102-43

²² 102-43



Mercantile Discount Bank and ICC. MDB and ICC view the absorption of financial education as an important layer of their activity in aid of the community, and accordingly, employees volunteer, within the framework of the "A Different Lesson" project, to provide basic banking and budget management concept to school children, through the cooperation with the "A Different Lesson" Association and with other organizations engaged in financial education (see below, in the Chapter "Work in aid of the community").

Business continuity

Banking corporations, including the Bank, are service providing entities, which services are essential for continuing existence of proper economic life. Accordingly, ensuring business continuity is a material Aspect for such banking corporation.

The Bank aspires to provide services on a continuous basis, and to continue operating also in times of emergency and in various disaster situations.

For this purpose, the Bank maintains a framework, which operates according to an orderly plan, with a view of ensuring the business continuity of its essential services to its customers, if and when a threatening scenario arises, which might cause a significant disruption of its operations.

The response plans to maintain business continuity relate to various threat scenarios, including: war, earthquake, epidemic, cybernetic attack. The Bank's response plans to maintain business continuity include preparations in all relevant issues and, among other things, are based on backup and the spare load of essential infrastructure, detailed operational plans, the training and qualifying of teams and of essential office holders, applicability tests by means of the conduct of exercises according to exercise plans.

The work plans for the Bank's preparation for the maintenance of business continuity, are conducted in accordance with the policy and strategy for the management of business continuity, under the constant control of the various control functions at the Bank.

The Bank's ability to carry out the response plans and to activate in practice its emergency layouts is being tested on a current basis by means of a wide scope exercise plan.

The work procedures in the field of business continuity support constant improvement, and are being conducted in accordance with professional standards.



The Bank has determined the service target levels of the essential core processes, with a view of enabling the continuous provision of services to customers at appropriate reaction time, in accordance with the provisions stated in regulation (Proper Conduct of Banking Business Directive No. 355).

Future goals

Constant improvement in the Bank's preparedness for the maintenance of business continuity, including: closing of identified gaps in preparedness, implementing conclusions drawn from exercises, intensifying the integration of the plan among Bank employees.

The above stated relates also to MDB and to ICC.

Accessibility to handicapped persons

Accessibility Regulations

Equal Rights to Handicapped Persons Regulations (Accessibility adjustments to a public place being an existing building) 2011, dealing with accessibility adjustments to public places being existing buildings, entered into effect in 2012.

Equal Rights to Handicapped Persons Regulations (Accessibility adjustments to service) 2013, dealing with accessibility adjustments to services, entered into effect in 2013.

In accordance with the Regulations, the Bank is required to make accessibility adjustments to buildings, infrastructure and the environment as well as accessibility adjustments to service. The accessibility adjustments include, among other things, accessibility adjustments to approach ways, overcoming height differences, and providing restrooms and parking lots for the disabled, the Bank's internal design branches; signposts at the Bank; Service and waiting stations; modification of accessibility to self-service automatic appliances; providing accessibility to information; modification of interactive voice response; Internet website; etc.



Accessibility adjustments

Preparations by the Bank. In accordance with the law, the Bank has appointed an "Accessibility Manager" whose duties are to lead and coordinate the accessibility operations at the Bank and serve as an address for any approach in the matter. Within the framework of the preparations, the Bank conducts a "Discount Accessible" Project, being a multi-annual project within the framework of which accessibility modifications are being made in accordance with the new regulations, both with respect to the modification of buildings, infrastructure and the environment, and with respect to modification of service accessibility.

For the purpose of the Project the Bank engaged an association specializing in the matter of access to handicapped persons, which employs qualified professionals who accompany the Bank and advise on the modifications required for easy access, including the defining of requirements for the elimination of existing accessibility differences as regards all relevant services and installations.

Modification of accessibility. During the reported year (2016), the Bank completed the accessibility of 65% of its properties, both from the aspect of accessibility adjustments of service and from the aspect of accessibility adjustments to buildings, infrastructure and the environment, in accordance with the due date prescribed by the regulations (June 22, 2016). At the present time, the Bank is in the midst of the accessibility work conducted within the framework of the fourth and last stage, the due date thereof is November 1, 2017. In addition, accessibility adjustments were made in the marketing Internet website and in the operational website, and training sessions on the matter of accessibility are conducted for Bank employees.

The above stated relates also to MDB and ICC.

Information regarding accessibility at branches

Information is presented on the websites of the Bank and of MDB with respect to branches and services accessible to handicapped persons (including parking for the disabled, accessibility to the branch, toilets for the disabled, ATM machines modified for persons having mobility or sight difficulties, service stations and aid instruments for persons with hearing impairment).



Proper disclosure – information regarding products and services

Banking corporations are required by law to abide by proper disclosure requirements in everything relating to the information which is to be provided to customers regarding the banking product or service including the Banking Act (Customer Service), 1981, the Banking Rules (Customer Service)(Proper Disclosure and the Delivery of Documents), 1992, and the Banking Rules (Customer Service)(Advertisements directed at Minors), 1995. The central principle of this legislation is the duty of proper disclosure (transparency) towards the customer and the preservation of his right to receive advice and service from the bank.

The Bank strictly adheres by the instructions applying to it in this respect and maintains strict control procedures.

At the base of the above subject are found fairness and honesty values comprising an integral part of the current business activity, interwoven with the day-to-day operations of the Bank and comprise a guideline for the operations of Bank employees. The above stated requires development and maintenance of an organizational culture, which positions the customer and the business fairness and reliability at the heart of the decision making processes conducted both by the authorized organs of the Group, and by the three lines of defense, and in particular the risk taking units.

In view of the above and as part of the overall risk management concept, and in particular, the compliance and regulation risks, the Bank acts in order to impart and integrate proper and fair business principles and values into the banking operations of the Group as a whole, including the formation and characterization of products being offered by the Bank to customers, in accordance with requirements changing from time to time, proper disclosure to customers with respect to the different products, including the risk components inherent therein, and the adaptation of the solutions offered by the professionals of the Bank to the needs of customers and changing market requirements.

The Bank acts, inter alia, for the establishment of the said values in the core documents and the basic documents of the Bank, and conducts current operations to integrate them in the field. Among other things, the Bank emphasizes transparency as well as adequate and proper disclosure provided to the Bank's customers, including the information and adaptation which have to be provided to customers with respect to banking products or services granted or offered to them.

An additional layer in which the values of fairness and honesty are being reflected is



the introduction process of new operations/products of the Bank, as well as the marketing and advertising operations of the Bank. Messages delivered to Bank customers (including potential customers) are examined by control factors who verify, inter alia, that the messages are not misleading customers and are being delivered in a proper and fair manner.

The above stated led, inter alia, to the fact that in the years 2015–2016 no significant fines and/or monetary sanctions were imposed on the Bank.

Structured infrastructure exist at the Bank, which assist employees in providing service in accordance with Bank values, a service being of value also to customers. Thus, for instance, the systems of the Bank assist the fair and transparent conduct, while providing proper disclosure of all data and information relevant to the execution of a transaction; also existing is an administrative infrastructure allowing proper criteria and way of conduct; regulation supporting information sessions are being conducted regarding the consumer credit field, which establish fairness and honesty values; frontal guidance sessions are held as regards a variety of compliance matters with the assistance of distance learning and updates, which help in the absorption of different issues. The guidance sessions are designed for all Bank employees and managers, a part of which are designed to agree with the special work environment concerning designated products and employee populations. The infrastructure is being validated and updated from time to time in accordance with the regulatory environment and the business activity of the Bank. These assist also the control side of compliance enforcement of the provisions of the law and regulations and in the imparting of the compliance culture at the organization.

Compliance with the provision of the law and regulation are enforced on a regular basis by means of various control and supervision systems – the chief compliance officer, compliance officers and trustees and the internal audit.

In accordance with Proper Conduct of Banking Business Directives, the chief compliance officer is responsible for assisting the Management and the Board of Directors, to maintain the responsibility of compliance with the provisions of the law and regulations, and the management of compliance risk at the Bank in an effective manner. In this respect, the chief compliance officer verifies that the compliance risk to which the Bank is exposed, including conduct risk (see the 2016 annual report, p.101) are being properly managed by the relevant units, and are presented to the Board of Directors in the form of a holistic point of view, and this by outlining a policy and methodologies for compliance risk evaluation, the treatment thereof and forming proper reporting mechanisms.

The chief compliance officer participates in the planning of the compliance risk strategy, including determination of the risk appetite; is involved in major



organizational changes planned by the Bank; and, inter alia, is actively involved in the preparations towards the introduction of new operations and products by the Bank. Moreover, the chief compliance officer monitors the rectification of material deficiencies and failures in matters of compliance.

The chief compliance officer submits to the Bank's Management and the Board of Directors quarterly and/or annual reports on matters of compliance, which include a summary of his activity during the reported period.

In accordance with the provisions of Proper Conduct of Banking Business, the Chief Compliance Officer has the duty of assisting the Managements of the Bank and the Group in the effective management of risks stemming from violation of compliance instructions. The Compliance Officer is also actively involved in the preparations towards the introduction of new products and operations at the Bank. Furthermore, the Compliance Officer monitors the rectification of material deficiencies that had been identified with respect to compliance issues. Quarterly reports that include a summary of his activities are submitted by the Chief Compliance Officer to the Bank's President & CEO and to the CEO's of the subsidiaries in which he acts as a compliance officer.

In accordance with guidelines of the Supervisor of Banks, prior to the launch of new products/operations, the Bank performs an orderly and systematic process ensuring the identification and evaluation of all risks inherent in the new product/operation, while examining their effect on the risk profile and verifying the propriety of the infrastructure and controls supporting their operation. The said process has been established in a designated policy and in supporting work procedures applied by the Bank and the Group mutatis mutandis.

The above stated relates also to MDB.

Proper disclosure in publications

The Bank strictly applies several basic principles in the advertising and marketing of its products:

Truth in advertising - Strict measures are taken in the publication of valid information, which is being properly examined prior to its release.

Social correctness - Material published by the Bank is being edited in a respectable and adequate manner while strictly maintaining social correctness and avoiding impingement of populations, beliefs, etc.

Ethics - The Bank is committed to the advertising ethical code adopted by advertisers and television channels and includes principles designed to protect values (such as human dignity), populations (such as children), etc. The said code is obligatory both as regards production of marketing communication as well as the products themselves.



No complaint with respect to a violation of the said Code of Ethics was received in the years 2015–2016.

ICC is also a signatory of the advertising ethical code, and no complaints were received in the years 2015–2016 regarding violations thereof.

MDB has not signed the said Code of Ethics.

Communication with customers – improvement of service

Discount Bank's service concept places the customer front and center and sets itself a goal of service excellence. The Bank aspires to create for its customers a personal service experience, causing them to continue and choose it as their bank.

Quality of service index. In 2016, measurement was made of the multi-channel customer experience by means of the service index which is composed of 80% regarding customer satisfaction questions, as reflected in customer surveys performed by the unit, and 20% representing the measurement of compliance with SLA (service level agreement) as defined for the service. The measurement data are conveyed on a current basis to managers of the business units at the branches, the investment centers and at TeleBank, and comprise an infrastructure for drawing of conclusions and analyzing the strengths and weakness of providing the service. In situations where immediate involvement is required, the unit manager contacts the customer in order to provide a personal response.

With the aim of providing managers with the tools to improve, analysis reports have been developed, which provide for a view of the unit's status in the service field and of subject for improvement in which efforts need to be focused.

Internal services survey. The survey for the year 2016 was published in February 2017, in a cross-organization format. The results of the survey comprise an improvement index applied at each unit, and forms a tool for the continuous process of measurement and improvement. The survey had measured approx. 400 services provided by the various divisions. The rate of respondents reached 85%.

The following measures have been adopted within the framework of feedback and improvement procedures: The findings and results had been presented to all heads of divisions and departments at designated meetings; Each service manager received a detailed report of the findings and an analysis of the results; improvement targets have been defined for each head of department at a KPI level; Units requesting



assistance in structuring their improvement plans and establishing a dialogue with users of the service, have been provided with professional assistance. In addition, a convention has been held in honor of outstanding service managers and managers of outstanding units with the participation of the President & CEO as well as members of Management.

A date for the next survey was fixed for November 2017.

The guiding concept is that improvement in the level of internal service would contribute to higher satisfaction of the bankers, on the one hand, and to providing tools and infrastructure for improving customer service.

ICC. The service concept of ICC stems from the holistic and responsible vision of the customer and his needs.

ICC strictly conducts daily customer satisfaction surveys, by which it examines the general satisfaction of the service, satisfaction of the quality of work of the representative, and measurement by means of the Net Promoter Score (NPS). The marking by the NPS is a part of the targets of the Key Performance Indicator (KPI) of the service department. In addition, the company analyses recurring and onetime events in order to improve the quality of service and customer satisfaction.

Evaluation of customer satisfaction²³

The Bank is performing a series of current and designated surveys in order to evaluate the satisfaction of customers. These are made by telephone calls and SMS. The surveys are directed at customers of the Bank, and in certain cases, for comparison purposes, also at customers of competitor banks.

The surveys measure both short-term satisfaction indices (such as satisfaction from a particular service) as well as long-term satisfaction indices (such as hypothetical market share and recommendation index).

The surveys include also measurement of different indices dividing satisfaction into different components: the provider of service, the branch, the Bank in general, service channel, the product, the marketing offer.

²³ 102-43; 102-44.



Class	Survey	Population	Description
Current surveys	Branches	After making contact with the Bank, private and business customers and those customers receiving investment advice at the branches	A daily survey on a permanent basis, approaching customers who have had a direct service event
	Branches	With no communication with the branch for over thirty days	Daily review on a permanent basis, referring to customers who had no communication with the branch for over thirty days
	TeleBank	TeleBank customers	A daily survey on a permanent basis, approaching customers who have had a direct service event
	Investment centers	Customers of investment centers	A daily survey on a permanent basis, approaching customers who have had a direct service event
Designated surveys	Satisfaction	Private banking customers	A designated survey
	Satisfaction	Customers of the TeleBank mortgage center	A designated survey approaching customers interested in a mortgage loan
	Satisfaction	Business center customers	A designated survey
	Satisfaction	Business customers at the branches	A designated survey
	Satisfaction	Real estate department customers	Research by means of in-depth interviews
	Satisfaction	Capital market department customers	Research by means of in-depth interviews
	Satisfaction	Browsing on the Bank's application	A designated survey
	Satisfaction	Browsing on the Bank's Internet website	A designated survey
	Satisfaction	Customers who contacted the Internet support center	A designated survey
	Customer experience - interfaces	Customers of the five largest banks	A designated survey
	Customer experience - post contact	Customers of the five largest banks who have experienced contact with the Bank	A designated survey
	Customer experience	Business customers of all banks	A designated survey

Service index

The survey constitutes the main work tool for evaluating the quality of service in the Bank. The survey examines, on an ongoing basis, the customer's service experience proximate to the time the interaction occurred - a visit to or telephone call to the branch.

As part of the survey, the customer is interviewed following the transaction made in order to receive from him a feed-back regarding the service experience. The survey presents to the Manager the strong points to be maintained and the aspects regarding relations of the branch with the customers that should be improved.



Measurement is performed all through the year with the aim of obtaining findings reflecting the operations of the branch, on a current basis and in real time, which provides for an immediate response to customers, as required.

Approx. 37,330 surveys of customers having contact with the branch (telephone, SMS and Internet surveys) were performed in 2016. In addition, approx. 14,080 service surveys were performed regarding customers who had no contact with the branch for thirty days in 2016.

With the aim of increasing satisfaction and loyalty of customers to the Bank, the measurement was focused in 2016 on five parameters having the highest influence over the general satisfaction of customers.

Professionalism rating	Availability rating	Personal relations rating	NPS rating ⁽¹⁾	Service continuity rating ⁽²⁾	Total service index rating	Service index target	Percentage of target attainment
16.5	13.4	16.2	9.2	17.8	73.1	78.0	93.7

Notes:

(1) NPS – an index gauging customer loyalty.

(2) Service continuity – measurement of conformity with the SLA determined for concluding the treatment of an approach made by a customer and transmitted to the branch by the TeleBank service.

ICC – evaluation of trading house satisfaction

The service and sales center for businesses conducts a satisfaction survey following each telephone call by a trading house to the service center. The survey is addressed to the email address of the trading house and is intended to test satisfaction: satisfactions from the company, satisfaction from the service, satisfaction from the representative's professionalism, recommendation of the company parameter as well as the option for free comments.

Post interaction survey. This survey comprises the central tool for testing the quality of service at the center. The survey tests on an ongoing basis the service experience of the customer soon after the time of interaction – a telephone call to the center.

The survey presents to the managers the strong points, which should be maintained, and the aspects that have to be improved regarding the interaction of the center with the customers.

Measurement is being conducted through a designated surveys system named "My Attentive", which allows the measurement of each question in the surveys and provides an image of the situation per employee over a period of time as well as according to the measured parameter.

Questions asked in the survey: How would you assess your satisfaction from the service obtained in your last approach to the business center of ICC? How would you assess the level of knowledge and professionalism of the representative who attended to your last



approach? Do you feel that the representative has made the utmost to give you the best service? How long was the waiting time for the response of the service representative? Do you actively use the trading house website of ICC? On a scale of 0 to 10, would you recommend ICC to a friend as the preferred clearing company? Is there another matter you would like to add?

The answers are analyzed to three main parameters: 1. Satisfaction, 2. Professionalism, 3. Recommendation.

Each survey responded to by a trading house reaches the email address of the team managers at the center, the manager of the center and the department manager. With respect to any survey that is below expectations or which contains comments that have to be addressed, a return call is made to the customer in order to complete the treatment, providing response to the feedback, completion of the treatment/response and granting compensation where required.

The average marking of the survey for 2016 was 8.3 as regards satisfaction and 8.4 as regards assessment of professionalism.

ICC – Evaluation of private customer satisfaction

ICC conducts several types of surveys: a satisfaction survey presented to the customer immediately upon the conclusion of the service call, a chat satisfaction survey presented to the customer immediately upon conclusion of the digital interaction, a club survey presented to the customer after completion of the credit card issue process. The average results of the satisfaction survey for 2016, made at the end of the service call, was marked 3.30 (on a scale from 1 to 4, with 4 noting "excellent"). The chat service has been rated 3.55.

Maintaining customer satisfaction

The Bank acts on several levels with respect to the maintenance of customer satisfaction:

- Management in accordance with survey findings – Survey data with a low mark of the satisfaction index, are (subject to the consent of the customer) referred to the Branch Manager for further treatment. The Branch Manager is responsible to refer back to the customer trying to understand the reasons for the dissatisfaction of the customer, and to the extent possible try and improve satisfaction by solving the problems raised by the customer;



- Service targets - Branches are allotted annual targets of satisfaction indices. The extent of compliance with the annual target serves as a basis for remuneration of the branches on a permanent basis;
- Comparative analysis and implementation - The surveys are analyzed for the identification of weaknesses in customer satisfaction from the Bank either absolutely or relatively in comparison to competitor banks. Also analyzed are trends of satisfaction among different populations in order to identify changes in indices. The findings and insights are passed on to the service group in order to perform an in depth examination and/or a change of policy, as required. The findings and insights are delivered also to the various business factors in charge of customer relations policies.

ICC. The satisfaction rating is examined by ICC over a period of time, with the analysis of trends.

Integration of service values in the organizational culture

In order to strengthen the service value within the organizational culture, the Bank applies several measures:

- Designated staff meetings on the subject of service and service films projected at the branches within the framework of the "Morning magazine";
- Focused assistance to branches having relatively low service ratings, through apprenticeship/training sessions;
- Current measurement of service providers in the branches, at the "telebank" and at the investment centers;
- Integration of the service index target in the "excelling branch" competition;
- Control tasks for the branch managerial staff under the supervision of regional managements;
- A challenging personal service competition between Bank employees - accumulation of points in respect of each survey in which a customer expresses high satisfaction;
- Meetings of the Head of the Banking Division with outstanding managers and with managers who failed to reach service targets.

ICC. The service department of ICC has the vision and values of provision of excellent service. In addition, daily instruction sessions are being held and workshops for representatives are being held from time to time on the subject of providing excellent service.



Mercantile Discount Bank. The above stated in relation to Discount Bank, regarding the improvements made to service, including evaluation of customer satisfaction, preservation of customer satisfaction and the integration of service values in the organizational culture, applies also to MDB.

The quality of service index is measured by the Net Promoter Score (NPS). The data is being delivered regularly and comprises an infrastructure for the drawing of conclusions. MDB conducts on a regular basis, a telephonic survey testing customer satisfaction (following contact with the bank). The findings of such surveys (analysis and management), comprise an annual target for the customer satisfaction indices.

Customer inquiries

The Bank attributes great importance to listening to its customers and to encouraging customers to inquire about any matter or problem. The natural and immediate address is the business official who services the customer, in a branch or in other business units. Nonetheless, there are cases in which another address is needed.

The Public Complaints Commissioner at the Bank coordinates the handling of complaints and approaches made by customers in different banking issues, including mortgages, interest charges, treatment and service.

Among the duties of the Commissioner are: maintaining an interface between the treatment of complaints and approaches and the various units at the Bank, the Supervisor of Banks, the Israeli Police and various outside factors; conducting examinations of various banking matters and the formation of findings for the business functions, the branches, collection functions and for the legal advisory group; assistance, guidance and follow-up of Bank employees in the formation of solutions for customer problems; providing guidance to new employees regarding common deficiencies; assistance in the production of study material to Bank employees designed to prevent deficiencies raised by complaints, assistance in the drawing of conclusions and in organizational study.

In September 2014, the Supervisor of Banks published a Proper Conduct of Banking Business Directive in the matter of the treatment of complaints made by the public the entry into effect of which was on April 1, 2015. According to the position of the Supervisor, the Commissioner represents the customer vis-à-vis the bank and he has to act, handle complaints and initiate the drawing of conclusions in accordance with the standards set by the Supervisor of Banks. The Commissioner has to act in accordance with the standards of fairness vis-à-vis the customer and reach a fair decision in the customer's complaint.

In accordance with the Directive, the Bank has to adopt a policy as regards the treatment



of complaints and publish on the Internet website and in the branches a service treaty for the handling of complaints. Customers should first refer their complaint to the Commissioner. Complaints submitted to the Bank of Israel would be passed to the Commissioner for attention. The Commissioner, in replying to the complaining customer, must clarify that the customer has the right to file with the Bank of Israel an objection to such reply.

The response time of the Commissioner to complaining customers will stand at 45 days and in exceptional cases, the Commissioner may inform the customer of a 15 day delay in replying. A complaining customer who has not received a reply within 45 days may refer the complaint directly to the Bank of Israel.

The Commissioner has the authority to compensate customers.

The Commissioner has to report once in every six months to the Bank's Management and once a year to the Bank's Board of Directors regarding the treatment of complaints. The Management and the Board of Directors have to discuss these reports soon after submission thereof.

Material deficiencies and data regarding complaints received and dealt with have to be reported by the Commissioner to the Supervisor of Banks once in every six months.

The Management and the Audit Committee of the Board of Directors received a report regarding the deficiencies, the material findings and the cross-organization deficiencies. An annual report by the commissioner is presented to the President & CEO, to relevant members of Management and to the Audit Committee of the Board. The commissioner reports to Management twice a year and once a year to the Audit Committee of the Board.

The Commissioner is required also to publish to the public once in each year, on the Bank's Internet website, a concise description of the Bank's policy in the matter of treatment of complaints, the process of treatment of a complaint and data regarding complaints received and dealt with.

The Bank is required to publish on the Internet website and in the Branches the service treaty adopted by the Bank.

The service treaty is available to the public on the Bank's website as from March 2015, after its approval by the Board of Directors.

Following is data regarding customer complaints and approaches:



In 2016 some 2,577 complaints and approaches were treated, compared with 2,713 complaints and approaches treated in 2015. In 2016 some 2,651 complaints and approaches were received, compared with 2,666 complaints and approaches received in 2015. Treatment of 1,483 complaints was concluded in 2016, compared with 1,859 complaints in 2015. The rate of justified complaints in 2016 was 17.9% as compared with 27.5% in 2015. In addition, treatment of 1,074 approaches, requests and various clarifications was concluded in 2016, as compared with 854 in 2015.

Most of the complaints made in 2016, related to matters of: means of payment - transactions in cash, in checks, by means of the online services and credit cards (27.6%), the quality of service - attentiveness and service, call center and the opening and closure of branches (20.7%), current accounts - the opening and closing of accounts, transactions not in accordance with signature rights or with no authorization (15.1%); additional operations - inheritance, foreclosure, debt collection and execution of Orders (10.7%).

The classification of complaints made in 2016 has been determined in accordance with the Bank of Israel instructions, accordingly, the data cannot be compared with that of 2015.

Complaints regarding disturbance to the vicinity

Two complaints were received by the Bank in 2016 with respect to disturbance to the vicinity. The first complaint referred to a noisy loudspeaker of the ATM machine situated outside the branch. The Bank reduced the volume of the speaker to a level that makes the ATM machine accessible to the population requiring sound indication without disturbing the vicinity. The second complaint referred to bad smell and passage obstruction as a result of building work made at the branch. The Bank explained to the complainer that following a breaking attempt into the ATM machine at the branch and in order to put the ATM machine back to activity, the Bank had temporarily to carry out the said work.

Mercantile Discount Bank. One complaint was received in 2016, regarding disturbance to the neighboring surrounding - caused at night by noisy air conditioning appliances at a certain branch. The complaint has been handled by the construction department.



Customer complaints at Mercantile Discount Bank

752 complaints and approaches were dealt with in 2016, compared with 578 complaints and approaches in 2015. As of December 31, 2016, the treatment of 78 such approaches has not yet been concluded. The ratio of justified or partly justified approaches in 2016 to total complaints in respect of which a position might be established, amounts to 20% as compared with 28% in 2015. Of which, 11.5% (33 complaints) are with respect to services provided by Discount Bank and under its responsibility (such as: ATM machines, TeleBank, computer, etc.). The ratio of justified approaches, net of the above approaches amounts to 24% (similar to 2015).

Customer complaints at ICC

ICC assigns great importance to attendance to its customers and to encouraging them to refer to the company regarding any matter or problem. The natural and immediate address is the customer service unit of the company or the business factor dealing with the customer. Notwithstanding, cases arise, which require an additional address.

The Commissioner of Public Complaints at ICC coordinates the handling of complaints in writing made by private and business customers of the company, which has one or more of the following characteristics:

- Customer complaints addressed to the General Manager of ICC or to the public approaches unit;
- Customer complaints passed on to the unit by ICC's spokesman office;
- Customer complaints, which had not been attended to by the relevant factors at ICC, or which, in the opinion of the customer, had not been satisfactorily handled;
- Complex complaints or complaints having a cross-organization impact are passed on to the unit by internal factors in the company;
- Customer complaints received through external entities, such as: the Bank of Israel, consumer organizations and public complaints units of the banks.

In addition, the Commissioner instructs senior officers of the customer service of the company, in case of complaints referred to him, as to the manner in which complaints may be settled with the customers, and is also authorized to approve certain factors at the company a recorded call at the request of the customer.

For details regarding Proper Conduct of Banking Business Directive in the matter of public complaints, see above. In accordance with this Directive, ICC has formed a policy for the treatment of complaints made by public, as well as a service charter for the Commissioner of Public Complaints, which is available on the Internet website of the company and at its customer service offices.



In accordance with the said policy, the Commissioner has the duty to report once every six months to the Management of the company and once a year to its Board of Directors, with respect to the treatment of complaints, this in accordance with the format determined in the policy. Management and the Board of Directors discuss these reports soon after receipt thereof.

In 2016 ICC and Diners handled 887 complaints and approaches. 871 complaints and approaches were received in that period.

Most of the complaints referred to deferred charge cards (37.28%), other matters (12.72%), quality of service (11.54%), revolving credit cards (7.1%), online transactions (6.07%).

Customer complaints to the Bank of Israel

The Bank of Israel report in the matter of review of approaches made by the public in 2016, was published on September 6, 2017. The year 2016 is the first year in which the banking industry in Israel, including credit card companies, acted in accordance with the new principles introduced by the Bank of Israel in the matter of approaches by the public.

The public approaches unit of the Supervisor of Banks acted as an appellate instance, control and supervision over responses provided by the public complaints officers of the banks. No rating for banking corporations was awarded in this year with respect to public approaches, in view of the change in the work format as stated above, and the Supervisor of Banks has announced that a new rating for the banking corporations would be published following the integration of the new rating methodology.

In 2016, the public complaints unit of the Supervisor of Banks handled 5,360 complaints, requests for information and different requests for ex gratia assistance, and response was given to approx. 18,000 telephone calls received by the call center of the unit.

Of 926 public complaints decided by the public complaints unit, about 11% (100 complaints) had been found justified, and the banks or credit cards companies involved were instructed as to the rectification of the deficiency. Most of the justified complaints related to the refusal of banking corporations to open credit balance current accounts for customers having financial difficulties.

The percentage of complaints against the Bank which the Supervisor of Banks found to be justified out of the total complaints against the Bank for which the regulator adopted a position, stood at 3.5% in 2016, compared with 8.9% in 2015. This average percentage in the entire banking system amounted to approx. 11% in 2016, similar to 2015.



The ex gratia compensation of customers. In certain cases, the Bank decides to compensate customers, even though their complaint had been found unjustified. This is generally based on business considerations with the aim of preserving long standing and loyal customers. In 2016, some 30 cases of unjustified claims were received (out of 114 unjustified claims – 26.3%) in which ex gratia compensation was given, in a total amount of approx. NIS 18 thousand.

Mercantile Discount Bank. The total number of complaints received by the Bank of Israel relating to MDB was 112, of which, a position was taken with respect to 27 complaints and 4 complaints were found justified. In the case of 6 complaints found unjustified, MDB has acted in favor of the complaining customer, and made an ex gratia reimbursement in a total amount of NIS 1,678.

ICC. The ratio of complaints against ICC, which the Supervisor of Bank has found justified, to all complaints against ICC in respect of which the Supervisor has stated his position, reached 4% in 2016, compared with 8.7% in 2015. The total average ratio as above, in the whole industry was 11% in 2016.

In certain cases, ICC compensates customers even though their complaint has been found unjustified, this, due to business considerations of maintaining relations with long standing and loyal customers. 8 cases were recorded in 2016 in which ICC and Diners acted indulgently (out of 30 complaints not found to be justified, which were referred to the company – 26.6%) paying free willingly compensation in the amount of NIS 1,500. 15 cases were recorded in 2015 in which ICC acted indulgently (out of 40 complaints not found to be justified, which were referred to the company – 37.5%) paying free willingly compensation in the amount of NIS 14 thousand.

Preparations for improving service and reducing complaints

In recent years, the Public Complaints Commissioner unit in cooperation with the Banking Division, initiated various measures to improve service and reduce the number of complaints, including:

- Improving the work processes for dealing with customer complaints when identified in the branch, including the establishment of a steering committee in which strategic decisions are reached, and cases of justified complaints are analyzed; as well as the transfer of dealing with complaints received from the Bank of Israel to the personal responsibility of district managers;
- Strengthening the process of learning lessons at team meetings in the branches;



- Bolstering training to officials that coordinate the handling of complaints in the branch and the training of service teams;
- Increased incorporation of the subject of corporate culture in training (with emphasis on proper relationships and conduct) and its integration, performing measurements through surveys and lessons learned;
- Improved mapping and reporting of frequent failures or system failures;
- Determination of an annual target for the rate of justified complaints.

Confidentiality and privacy

General

The Bank stringently adopts an array of actions and measures for retaining customer data in data bases, in order to protect them from impairment in durability and exposure to a change to the data. This activity is carried out in accordance with the provisions of the law and the regulatory agencies.

The Bank insists on maintaining banking confidentiality and on protecting the privacy of the customer and the information in his account, and does everything it can to identify malfunctions and prevent their repetition.

4 complaints were received in 2016, of which 2 were found unjustified. In 2 cases customers complained of receiving mail addressed to other customers of the Bank. The fault has been rectified. No complaints were received in 2015, though one case was identified of a Bank employee who had inserted many queries with respect to an account of a family member. The Disciplinary Committee has decided to act for her retirement from the Bank.

No complaints were received by ICC in 2016.

Data protection risks and cyber protection

The importance of maintaining and protecting reliability, strength, availability and survival of information technology is ever growing in view of the enormous technological development in recent years and its implications on the Bank, in view of the cyber threats, which are growing in severity and frequency, and in view of the significant growth of the use of information technology products compared with humanly provided products. Therefore, the Bank views the protection and safety of information as a central goal and invests large resources in order to protect the information in its possession.



The principal risks involved in the impairment of data protection are impairment of the privacy and confidentiality of the information of the Bank, its customers and employees, the realization of cyber threats, hostile use of information by users of the system, distortion of data in the systems, impaired availability and survivability of systems and data, impairment of the Bank's business and its reputation.

Data protection and cyber defense at the Bank are regulated and directed in accordance with various regulatory provisions, including the Privacy Protection Act and Regulations, the Computers Act, Proper Conduct of Banking Business Directives of the Supervisor of Banks, and in particular Directives Nos. 357 and 361 (the preparations for the implementation thereof is described hereunder), cyber defense and data protection policy as approved by the Bank's Management and Board of Directors, SOX and Basel.

Threats in the cyberspace. As a general rule, threats in the cyberspace are defined as threats that may cause a shutdown of systems, preventing material services, material damage to confidentiality and completeness of data and performance of hostile actions and fraud.

In recent periods, we are witnessing a global intensification of this threat, both regarding the scope of attacks as well as their sophistication as well as in the directing of considerable resources towards attacking financial institutions for the perpetrating of fraud.

In view of the increasing threat, the Bank updated its concept of defensive operations in the cyber field, by means of creating a directive layer and the updating of the defensive methods and tools, in order to preserve the defensive advantage over the hostile factor at the base of the relating threat. Once in each period, the concept is being systematically challenged.

Except for the protection of the computer system, the defensive actions would be directed to provide a response to significant business processes of the Bank. In this way, a defense layer focused on a comprehensive-business viewpoint risk would be stabilized.

In 2016, there were no one or more cybernetic incidents that materially affected the products or services offered by the Bank or by the Group, their relation with customers or the competitive conditions.

Structure and processes. A data and cyber protection manager serves at the Bank, who is directly subject to the Head of the Technologies and Operations Division.

Attainment of the data and cyber protection goals is achieved through the implementation of a set of protection means, monitoring and control. Starting with policy and procedure outlines, determination of areas of responsibility and authority, installation of protection and reinforcement technologies, and ending with monitoring methods and treatment of incidents.



Data protection surveys and penetration tests to the Bank's systems are performed by independent external companies specializing in data protection and IT risks. The frequency of performing a survey in respect of each system is determined according to the criticality of the system and the risk inherent therein.

Online banking. the Bank enables online banking activity, which integrates advanced security and monitoring technologies.

Protection of the Bank's sites. In accordance with the Bank's policy in the matter, systems preventing unauthorized access as well as systems monitoring and identifying deviation from authorized activities are integrated into the Bank's systems. Protection of the marketing sites and of the Bank's operations is continuous.

The Bank operates a data protection center that operates continuously throughout the year (24 hours per day 365 days per year) the object of which is identifying risks breaches, exposures and vulnerabilities in the data protection system, and is responsible, among other things, for the identification and warning of any activity intended to damage the Bank's sites or its customers (by means of imitation sites). Furthermore, in the framework of the internal audit, a department in the field of IT operates, which performs current audits of such subjects. The Bank's operational sites that provide service to customers over the Internet, are protected by several layers of defense, which include protection components for hardware/ communication/and services providing information regarding attacks and hostile addresses. Infrastructure systems are monitored and reported to the data protection center. The Bank performs current operations to increase awareness and improve the organizational culture with regard to data and cyber protection aspects, which include, among other things, training sessions and memos.

As part of risk management, the Bank investigates various incidents, gains insights and draws conclusions. Such insights, together with data and cyber protection surveys enable the Bank to map gaps that should be rectified and determine preferences in the treatment thereof, on the basis of which the Bank establishes work plans.

The data protection activity is being implemented in accordance with the strategic plan, as approved by the Bank's Management and Board of Directors.

Systems and projects under development and maintenance are being closely assisted by professional mentors.

In accordance with the risk outline and with Proper Conduct of Banking Business Directive No. 357, risk surveys and break-in tests are performed at required frequencies, following which, reduction measures and required reports are implemented.



Access to information and the levels of authorization are controlled by teams and systems designated for the administration of authorities and passwords, the administration processes and management tools undergoing significant improvement and reorganization.

The Bank conducts current operations for increasing awareness and improvement of the organizational culture from the aspect of data protection, which among other things include training, publication of policy documents, manifests and marketing tools. The Bank has established in procedures most of its operations and processes, and the data protection unit at the Bank is involved in the approval of all the Bank's procedures in order to ensure the early identification of operations causing data protection risks. Aspects of physical safety, to the extent that they might be connected to data protection, are managed and implemented by the Bank's security officer, in conjunction with the data protection manager.

The above described processes are applied also with respect to MDB.

Technological preparations in the credit cards field. Within the framework of efforts to reduce the misuse and forgery of credit cards, the International VISA Organization, MasterCard Worldwide organization, and International Diners Club organization have adopted different measures in order to improve the level of security regarding their brand credit cards. Among other things, these Organizations have instructed their members to switch to the use of credit cards having special characteristics that hamper their use by unauthorized persons and/or their forgery (hereinafter: "smart cards"). The date of switching over to the smart cards for the VISA and MasterCard brands was fixed for January 1, 2005, while for the Diners brand the date was fixed for October 29, 2013 (hereinafter: "the switch over dates"). In order to encourage issuers and clearing agents to switch to the use of smart cards, the international organizations have issued instructions regarding the assignment of responsibility in the case of misuse of a smart card in certain cases: to VISA and MasterCard cards as from the above stated switch over date, and to Diners cards as from April 11, 2014.

The said instructions state that in case of forgery/misuse of a card:

- 1) Where a smart card was cleared by a trading house which had not installed a smart clearing device, the clearing agent shall bear the costs.
- 2) Where a card which is not a smart card, was cleared by a trading house that had installed a smart clearing device, the issuer shall bear the costs.



In accordance with the instructions of the international organizations, ICC has started preparations for the switch over to smart cards. In the issuance field, ICC issues smart VISA credit cards on a current basis, and since February 2015 issues also smart Diners credit cards. These preparations include modification of the company's systems and the definition of the profile of a smart card for the manufacturers of the cards.

In the clearing field, the company has started preparations for an infrastructure in accordance with the EMV standard, which includes modification of the company's systems for receiving, processing and the broadcasting of broadcasts and files in new structures as define by ABS and the three credit card companies.

As of the present time, all ICC cards issued to customers are smart cards. The transition in full to the smart cards was completed on the following dates: Diners - October 1, 2015; VISA - October 1, 2016; MasterCard - January 1, 2017.

The transition in full to smart cards was completed on the following dates: Diners - on October 1, 2015; VISA - on October 1, 2016 and MasterCard - on January 1, 2017.

For details regarding the approach by MasterCard Worldwide to ICC with respect to the preparations for the implementation of different operational requirements, see the report of the Bank for the 2017 second quarter (p. 213).



Appendix: Suppliers

Purchasing from suppliers

Purchasing at Discount Bank is mostly performed in a centralized manner for all units of the Bank, by means of the central purchasing department, operating as part of the Planning, Strategy and Finance Division. The department is responsible for the formation of a purchasing specification for the internal customers, where required, locating suitable suppliers, screening them, obtaining offers, conduct of negotiations, engagement and current follow-up of relations with them.

The purchasing department is responsible for both technological purchases (hardware, software, projects and services) and general purchases (operating and logistical equipment and services, security and safety, gifts and sales promotion products, training). It is also responsible for purchases regarding construction and maintenance (renovation of buildings, systems installation and maintenance, furniture, etc.).

During 2014-2015, the internal purchasing procedures were refreshed, leading to stricter supervision and control over the purchase expenditure of the Bank's various units. Concurrently, a renewed examination of the engagements of the Bank in different areas and their cost was performed. The combination of these two procedures has tightened the level of supervision and control over purchasing procedures, and, as estimated by the Bank, has led to a gradual reduction in costs.

The acquisition of manpower services, including manpower in the technological field, is the responsibility of the human resources department at the Human Resources and Properties Division. The acquisition of property or its rental is the responsibility of the construction and real estate department, being also a part of the Human Resources and Properties Division.

Expenditure on purchases from suppliers and service providers is relatively low at the Bank. Payroll expenses constituted 37.4% of the Bank's total operating and other expenses in each of the years 2015-2016. A major part of the non-payroll expenses is with respect to the acquisition of products and services from entities in Israel - local manufacturers and service providers, and importers of products that are manufactured overseas. The Bank conducted business in 2016 with 2,340 suppliers, in a total amount of NIS 1.28 billion.

As a general rule, offers in significant amounts regarding public tenders, are deposited in a locked box or mailed to an electronic offer box. The opening time of the boxes is fixed in advance, is being strictly enforced and the boxes are opened in the presence of at least three participants. The content of the envelopes is documented in minutes signed by all participants.



Mercantile Discount Bank. Purchases by MDB are made by four main groups: technological purchases – IT, marketing purchases, office premises and maintenance purchases and general purchases. The general purchases are generally made centrally for all units of the bank by means of the administration and payments department of the Human Resources and Administration Division. Most of the purchases are made jointly with the purchases of the parent company. The department is responsible for the formation of the purchase specifications as required by the internal customers, where applicable, identification of appropriate suppliers, their screening, obtaining offers, negotiating the purchase, engagement and follow-up of relations with them.

Acquisition of manpower services, including manpower in the technology field, is the responsibility of the Human Resources and Administration Division. The purchase or rental of office premises is the responsibility of the construction and property department of the Operations Group.

As a general rule, the bidding in purchase tenders in significant amounts is made by means of sealed envelopes dropped into a locked bidding box. The opening time of the bidding box is stated in advance and is strictly controlled in the presence of at least two participants who are authorized signatories of the bank. Following the processing of the data, the material is submitted to the Purchases Committee, which is composed of three members of Management, a lawyer from the legal counsel department and the manager of the Administration and Payments Department. Where required, the relevant professional function is also invited to the discussions of the Committee.

ICC. Purchases by the company are mostly made in a centralized manner (about 90%), by means of the purchasing department, operating within the framework of the Finance Group. The central purchasing at ICC is responsible for technological purchases (hardware, software, projects and services), general purchases (operational and logistic equipment and services, printing, security and safety, gift and sales promotion products), purchases of property and its maintenance (renovation of buildings, installation of systems and maintenance thereof, furniture, etc.), the rental or purchase of office premises, engaging manpower and consulting services, including manpower in the technology field, credit cards purchase, purchase of sales promotion and marketing services, excluding advertising and media.

ICC conducted business in 2016 with 850 suppliers, in a total amount of NIS 300 million. Also at ICC, the submission of offers for transactions in significant amounts is made by the "quasi-tender" process, into a locked box or by an electronic offer box. The opening time of the envelopes is determined in advance and is made in the presence of at least three participants. The contents of the offers is documented in a protocol, and where these are complex and not easily documented in a protocol, the original offers are signed to maintain their authenticity.



The contents of this Section from here onwards apply both to Discount Bank and to MDB and ICC (excluding what has been explicitly noted otherwise).

The Bank purchases products and services on a current basis in accordance with its needs. The Bank's supplier pool includes various suppliers engaged in different fields and conducting different volumes of activity.

Over 98% of the volume of purchases is made with suppliers who operate and employ staff in Israel. The ratio of foreign purchases amounts in ICC to 5-6% of total purchases.

The Bank maintains long standing relations with its suppliers and is committed to fairness, offering equal opportunity, transparency and a current dialogue with them.

The Bank strictly maintains the existence of agreements with suppliers and non-adverse utilization of its position towards them, endeavors to prevent damage to integrity and does everything possible to prevent corruption and improper conduct.

The Bank approaches suppliers inviting them to submit price offers. The Bank chooses providers of services under competitive processes, while strictly maintaining the confidentiality of the submitted offers, beginning with the identity of the offerors and ending with the contents of the offer, while aspiring to increase the trust of the offerors in the purchasing processes.

The Bank endeavors to transact business with suppliers that comply with the following requirements:

- Compliance with and maintenance of the provisions of the law;
- Strict observance of legal and fair employment conditions;
- Maintaining the quality of the environment;
- Having an ethical code and a commitment to its values.

The Bank strictly observes the following:

- Maintenance of honesty;
- Prohibition of the granting of benefits;
- Fair competition;
- Transparency;
- Confidentiality and data protection.



Strict payment ethics

Already during the competitive process, the Bank agrees with its suppliers the terms of payment, in accordance with the date of delivery of the goods or services. The Bank strictly adheres to the agreed payment dates, in order to maintain proper business relations and cooperation with its suppliers. It is noted that the payment process is controlled and that it is being conducted in accordance with the commercial terms agreed upon when ordering the products and services.

The content of this section applies also to MDB and ICC.

Fair employment and maintenance of rights of outsource workers

Within the context of its purchases, the Bank also acquires labor services.

On June 19, 2012, the Intensification of Enforcement of Labor laws Act, 2011, came into effect, the aim of which is "to intensify enforcement of labor laws and making it more efficient". The law imposes extensive liability on employers, as purchasers of services with respect to enforcement and securing the rights of personnel engaged on their premises in guard, security, cleaning and catering duties. The Act prohibits the engagement by entities ordering services and contractors supplying such services, in agreements which do not provide for basic wage terms for the personnel involved.

The engagement agreements with companies providing cleaning and security services comply with the provisions of the law. In the engagement agreements of the Bank with providers of services, the contractors are required to confirm, among other things, that they abide by the provisions of the Act for increasing enforcement of labor laws.

The Bank strictly observes the fair employment of persons working at its premises and the violation of rights of outsource workers is taken seriously.

The Bank has appointed an officer responsible for this matter and has engaged the services of an independent accountant in respect of monthly sample tests to be performed according to the law. Where deficiencies are found, these are rectified by the suppliers and the Bank monitors the actual rectification thereof.

It should be noted, in particular, that upon changing service suppliers in these areas, a comprehensive examination is performed to ensure that contractor employees whose employment had been terminated, receive the full rights due to them in respect of their period of engagement with the Bank.

2 complaints were lodged with the Bank in 2016, of which, following examination, 1 was found unjustified, and the second complaint was found justified and has been rectified by the contractor. This, as compared to 42 complaints filed in 2015, of which 29 were found unjustified and 13 were found justified and have been rectified by the



contractors. 8 of the complaints filed in 2015, were in respect of delays in payments relating to termination of employment. The decrease in the number of complaints stems mainly from the fact that in 2016, during the termination of engagement with a contractor and his replacement by other contractors, the Bank had prepared in time for an examination of the transfer in full of the rights attaching to the transferred employees.

No complaints were submitted to MDB in 2016 by employees of contractors.

Ten complaints by outsourcing employees were submitted to ICC in 2016. These were handled and rectified by the outsourcing contractor (the complaints resulted from the introduction of a new payroll system by the contractor).

Social purchasing

To the extent possible, the Bank and MDB engage with factors employing handicapped persons or those with special needs. For example, MDB and ICC purchase from social associations, such as AKIM, Beit Issie Shapiro and others, in Chanukah and Purim, personal packages of sweets, which are distributed by employees of MDB during their different activities in aid of the community. The total scope of this type of purchasing is not material.

ICC operates consistently over many years with "Hameshakem" Company, engaging it for work suitable for handicapped workers and those with special needs.

Complaints regarding discrimination

No complaints regarding discrimination were raised in 2015–2016 on the part of suppliers. The content of this section applies also to MDB and ICC.

Goals set in the social report for 2014

In 2015, Discount Bank, in conjunction with the Maala Organization, approached selected suppliers, of a medium size scope of operation, with an offer to join the activities of the Organization and increase their commitment for the raising of standards and their potency, and increase responsibility all along the supply chain, maintaining at the same time quality and excellence in the services/products being supplied. It should be noted that a number of suppliers responded to this initiative.

In 2016, the Bank increased the approach to additional suppliers, with a view of encouraging them to join this activity. Eight suppliers had been approached, of whom two joined the Maala rating.



The principal future goals

- The continuing improvement in the purchasing process in order to purchase quality products and services at the most beneficial terms;
- Continuing strict integrity, fairness and transparency in relations with suppliers;
- Replacement and refreshment of the active supplier pool at a scope of 5%;
- Continuing search for possibilities and opportunities for higher efficiency and savings;
- Maintenance of a high service level (SLA) to internal customers.

The content of this section above applies also to MDB and ICC.

The Employees



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- Innovative wage agreement - a uniform shekel wage addition, which would contribute to the reduction of wage differences at the Bank and would benefit low wage employees;
- 48 handicapped workers employed by the Bank as temporary employees, were accepted as permanent employees;
- An increase of 2.1% in the ratio of female managers to total number of managers;
- An increase of 15% in the ratio of female managers to the total of senior managers at the Bank (position of wing manager and above);
- An increase of 0.6% in training hours for each employee and of 7.3% in the volume of interactions of network self-study.



Human Resources Policy

General

Discount Bank and MDB adopted a policy of directed management of personnel, based on the understanding that human capital is the key factor for the Bank's success. Therefore, they work to develop the human resource and to lay a foundation for outstanding, forerunning leadership, expressed in a long range view and planning as a basis for the organization's empowerment and growth. Concurrently, emphasis is placed on the recognition of the individual's aspirations for personal and professional advancement by providing an array of opportunities for the development of his career.

The Bank and MDB insist on protecting the dignity of employees, of proper labor relations and on protecting employee rights, in accordance with the law and labor agreements. The treatment of employees is led by the Human Resources and Properties Division²⁴, which guides the employee from his hiring until termination, including from the aspects of: salary, welfare, employee development, guidance and professional training.

Discount Bank and MDB have many managerial systems that support the development and nurturing of the human resource. Entrenched in the organization are sophisticated evaluation and feedback mechanisms. The management training and development systems emphasize directing employees who are facing challenges, from the professional and the managerial aspects.

Discount Bank places much importance on dealing with employee welfare, from the many possible leisure activities offered to employees and their families, to the aspects of social support to employees and their families when facing personal distress.

ICC - Management of ICC views the human capital as a strategic key in achieving the success of the organization, and accordingly, invest in employee training and development, in their personal and professional progress, in compensating them for qualitative performance, their welfare, their attachment to the business core aims, and in an open dialogue with the employees with the aim of creating frankness and fairness. As part of the above, ICC operates on a number of central levels, including:

- Labor relations - the formation of a new collective labor agreement for the years 2016-2018, which follows the agreements of 2011 and 2015;
- Development, training and the mobilization of employees, as part of their personal and professional development and their career management;
- The creation of a leading and strong leadership - development of the executive echelon through rich and varied development programs;

²⁴ At Mercantile Discount Bank - the Human Resources and Administration Division.



- Diversity and equal opportunities – diverse employment and focusing on employment of handicapped persons;
- Investment in diverse activities for the welfare of employees and their families, such as: company vacations, presents for the holidays and for personal events, a present and gathering for children of employees starting first grade or enlisting to the IDF, operation of a workout room, dining room, etc.

Principal activities in 2016 – Discount Bank

2016 Efficiency plan. In 2016 the Bank's Management has formed a plan for accelerating the efficiency, in the center of which is the reduction in the manpower status of the Discount Group by approx. 1,000 additional employees by the year 2021, both by early retirement and natural retirement. The Bank's Board of Directors approved the plan on September 13, 2016. (For additional details, see in the 2016 Annual Report, pp. 20, 26–27 and 214–215).

Until December 31, 2016, some 342 employees had retired in the framework of the plan (from the Bank and from MDB).

The signing of collective labor agreements between the Bank's Management and the employee representative committee. On November 30, 2016, the Bank's Management, the employee representative committee and the Federation of Labor signed two collective labor agreements: a wage agreement concluding wage demands until the year 2018, and an agreement extending the validity of the Labor Charter until the end of 2021, subject to changes.

Following are the principal provisions of the wage agreement applying to employees of a "tenured" status at date of signing of the agreement, and which would continue to be employed on the dates of actual payment of wage increments and/or awards and/or bonuses as determined in this agreement:

- For employees of the clerk level, a monthly shekel increment shall be paid to an employee, in the amount of NIS 1,500 on an average, divided into two portions: NIS 1,000 per person – a standard comprehensive increment, payable at the beginning of 2017, and NIS 500 on an average (between NIS 100 and NIS 900), being a selective increment payable at the beginning of 2018;
- Managers shall be paid a monthly shekel increment of NIS 1,750 on an average per person, divided into two portions: NIS 1,200 per person – a standard comprehensive increment, payable at the beginning of 2017, and NIS 550 on an average (between NIS 100 and NIS 1,100), being a selective increment payable at the beginning of 2018;



The selective wage increments shall be determined by Management in accordance with the following cumulative criteria: Annual assessment marks awarded to the employee during the relevant period, length of service of the employee and the complexity of his duties, as well as in relation to the scope of his office and period of employment.

- c) The payment to managers at the Bank of "transfer fees" (payment in respect of the transfer from one office to another) will be abolished, and in return managers will be entitled to a one-off increment at the rate of 2.8%, spread over four years (0.7% per year);
- d) Employees will receive a one-off differential award, in the average amount of NIS 20,000 and to managers in the average amounts of NIS 26,000. The award will be paid to employees by the end of the first quarter of 2017.
- (e) The employees will be entitled to receive an annual bonus dependent on the level of the annual return on equity in 2017 and 2018;
- (f) Employees with a grade of "branch manager", at the time of signing the agreement, will be entitled to a personal and uniform salary increment at the rate 2% (1% for each of the years 2017-2018), which will be added to their monthly salary.

Furthermore, within the framework of the agreement extending the validity of the Labor Charter several items of the labor charter were changed allowing higher administrative flexibility, such as: Mobility of managers with no cost of payment in respect of relocation; a flexible track for the promotion of employees to managerial roles; increasing the quota of personal employment agreements; extending the period for temporary employment, expansion of disciplinary measures; cancellation of the trial period; transfer of employees engaged at the Bank within the framework of the "Giving to the Community" project to the position of a "tenured" employee with permanent employment and the possibility of receiving a company vehicle instead of a mileage allowance.

The new agreement is in agreement with the Bank's multiannual strategic plan.

Principal activities during 2016 at Mercantile Discount Bank

New branch methodology. A new work outline was implemented starting from 2015, at the bank branches and at the regional managements - a comprehensive framework of detailed guidelines and definitions, which, inter alia, deal with the organizational structure, definition of duties and work routines and management.



The new outline has been structured in accordance with the retail concept of MDB, with the aim of improving service to customers, strengthening business, marketing and sales contents, strengthening the status of employees at the branches, and preserve the advantages of the bank while intensifying them.

Alongside the work outline for the branches, a new and improved operational model has been formed, which supports the defined business focuses, while strictly adhering to the requirements of regulations, laws, procedures and the bank's Code of Ethics.

The Human Resources Division of MDB has taken part in the process of integration of the new branch methodology at the bank, a process that included elimination of knowledge gaps and modification of manpower at the branches, concurrently with the manning of the expert centers, to which were transferred operations and subjects which up to the date of change had been conducted by the branches.

Reduction in the labor force. The reduction in the labor force has been defined as one of the central goals of the multi-annual strategic plan. Within the framework of a multi-annual efficiency plan, in 2016 32 employees opted for early retirement.

Code of ethics. Towards the end of 2016, MDB introduced a new code of ethics. The code of ethics, actually, comprises a compass for the different paths of the organizational and business culture and accordingly related to the relations of the bank and its employees with its various stakeholders (customers, suppliers, employees, etc.). The code of ethics reflects the leading values of MDB and includes three layers: the human layer, relating to responsibility, honesty and fairness; the organizational layer, relating to professionalism, excellence and commitment; and the interpersonal layer, relating to cooperation, mutual respect and tolerance.

Challenges for 2017

Effective management of the labor force and its cost. The central challenge for 2017 is the strict and restraining management of the labor force and its cost, in a manner that would ensure the preservation of the achievements of the retirement plans of 2014 and of 2016 on the one hand, and the utilization of the natural retirement potential in 2015-2017 and thereafter on the other hand. All this, with the aim of ensuring the attainment of goals, as defined in the strategic plan, for the reduction in the labor force, and respectively, creating significant efficiency.



Providing supporting tools to the Bank's units. Providing supporting tools as regards locating, placement and supplementing knowhow, as a supplemental move of the move for the reduction in the labor force, with the aim of enabling the Bank's units to adjust to the reduction in the labor force, while making optimal use of employee mobility among the different units.

Assisting the efficiency move at the branches. Assisting moves for the downsizing, merger or shutting down of branches, from the different human resources aspects, including the providing of a supporting and respecting cover for employees and managers expected to experience the change.

Challenges for 2017 at Mercantile Discount Bank

The effective management of the labor force and its cost. The central challenge for the years 2016–2017 is the strict and restraining management of the labor force and its cost, in a manner ensuring increased efficiency and restraining of payroll cost.

Assistance for the branches in the processes for the continuing upgrading of services to customers. Accompaniment of the procedures in continuation of the transfer of operations from the branches to expert centers, in order to allow a breakthrough both in the activities and in business development of the Bank, as well as, in continuation of this move, improvement and upgrading of service level at the branches. These actions have different human resources aspects, including the manning of branches with teams having comprehensive knowledge regarding the different field of operation and the bridging of knowledge gaps, where required, as well as the creation of an attentive and supporting attitude towards employees and managers expected to experience a change, etc.

Providing supportive tools to the bank's units. Development and enrichment of employees by means of training, mobility and personal development.

Efficiency and saving. As part of the manpower management at the Bank in 2017, the Human Resources Division continues to support efficiency and saving measures conducted at the Bank, from the aspect of human resources.



Employee hiring policy

Discount Bank and MDB continuously hire hundreds of new employees each year for a variety of positions. The hiring and placement of new employees uses a system of placement and absorption that is prevalent in the market. In these measures, the Bank stresses compatibility between the needs of the candidate, his wishes and values, and those of the Bank, using an organizational approach that champions employee growth within the system and providing diverse employment opportunities over time.

The placement of employees in the Bank is done objectively, while, as noted, considering the candidate's skills and his suitability for the position, and does not involve irrelevant considerations such as race, gender, religion or nationality.

The Bank employs on a current basis persons having special needs (see below).

The Bank does not employ children in any way or form, either directly or through manpower agencies. The Bank employs a small number of teenagers during their summer vacation, according to age and conditions permitted by legislation, within the framework of projects to the benefit of the community (see "Employment of visually impaired teenagers and Girls at Risk", in Chapter 5 below).

The Bank views the transfer of employees between positions as an opportunity for professional development and enrichment of its employees, and encourages such transfers. Among other things, vacant positions are advertised on the website of the employees in order to allow employees to submit applications for such positions.

ICC - In order to adjust the workforce with the changing business requirements, ICC engages in each year hundreds of employees for diverse professional and administrative duties. The process is conducted through a variety of channels using diverse screening and diagnostic tools that are modified to the requirements of the position: capability tests, evaluation centers, personal interviews, interviews with recommending persons and employment Integrity interview, conducted by the security department, as complementary to the screening process. The diagnostic and recruiting processes of the company apply to all employee levels up to the level of members of Management. ICC encourages its employees to develop and progress within the company, by participating in internal position tenders, thus preserving the knowhow, skill and manpower of the company, at the same time providing the opportunity for self-expression and personal advancement, alongside the realization of the company's targets. ICC develops and encourages employee excellence and the will to progress, by way of transparent and regulated tenders and the offering of career development opportunities.



In addition, ICC offers feedback conversations and career consultation to each employee, at the end of the recruitment process.

In 2016, 71% of the executive positions and 66% of positions in general, were manned by company employees.

Complaints regarding discrimination of employees

The Bank's and MDB's Managements have placed emphasis on preventing discrimination, and this principle is applied upon engaging employees, advancing them and determining their wage terms.

Complaints regarding discrimination. As stated, the Bank denies discrimination of any kind. Two complaints regarding discrimination were received during 2016 (one in respect of a handicap and the other in respect of parenthood). The two complaints had been examined by the Bank's human resources factors and found baseless.

As part of claims filed with Labor Courts, an argument of discrimination had been raised as one of many arguments raised in these proceedings. Out of the complaints submitted in 2016, two complaints were, inter alia, based on grounds of discrimination. One of these complaints was concluded by consent of the parties, following an intermediate decision supporting the arguments of the employee.

It is noted, that in one of the proceedings opened in 2014, the verdict in respect of which was given in 2016, discrimination on grounds of age was found.

It is noted that with respect to the issue of retirement on grounds of age, the Bank acts in accordance with legal judgments in this respect (see below "Legislative and regulatory restrictions").

Mercantile Discount Bank. One complaint regarding discrimination (in respect of physical disability) was received during 2016. Within the framework of claims filed with Labor Courts, the claim of discrimination was one of many raised in legal proceedings. Of the claims filed in 2016, the claim of discrimination was, inter alia, raised in two claims. One of these claims was concluded by consent of the parties, while the other claim is still being heard.

It is noted that the legal proceedings opened in 2017, in which a discrimination claim was raised regarding refusal to engage an employee on grounds of physical disability (originating in the claim mentioned above received in 2016), were concluded in a compromise.



In matters of retirement on grounds of age, MDB acts in accordance with the law.

ICC. One action claiming discrimination was filed against the company in 2016. The action was resolved in a compromise agreement, without a Court declaration of discrimination (for additional details, see "Claims by employees", below).

In matters of retirement on grounds of age, ICC acts in accordance with the law.

Diversity and equal opportunity

The Bank views with importance the diversity in employment while offering opportunities to populations in the society which are underrepresented in the labor market.

Already in 2005, the Bank took specific action for the implementation of this policy, including the engaging of workers with special needs. All this, a long time prior to the legislation in this matter taking effect. At present, the Bank is preparing for the implementation of the new requirements.

In recent years, the Bank has taken specific action for the employment of staff from the Ethiopian community and female staff from the ultra-orthodox sector.

For details regarding the employment by the Bank during the summer months of visually impaired youth and girls in risk situations, see below in the Chapter "Discount for the community".

Diverse employment of staff in the technological field

During the past several years the Bank has been acting in cooperation with the Matrix Company and the Tech-Career Association for the integration of ultra-orthodox female employees and employees of Ethiopian origin in the software testing field. The Bank is also active with different software companies such as Ness, MALAM, AMAN, Taldor and others, in respect of the integration of Orthodox (Haredi) female employees in software development projects.

Tech-Careers Association was founded in 2003, with the aim of creating a unique opportunity for young Ethiopians to integrate in the software development field in the Israeli hi-tech sector. The target population of the association is youth with skills for professions in the information systems field (such as programming, software checks and network management) and motivation to work in this field.

During 2016 the Bank allowed 21 ultra-orthodox female employees and employees of Ethiopian origin, who did not have prior employment experience, but have the



appropriate technological qualifications, to serve as software testers in the software inspection unit, while gaining knowhow and experience in this field. A designated work area has been established for these female employees near to the Bank's area, which provides response to their needs, while providing solutions for infrastructure matters of the existing work environment. Employment in this direct format had existed at the Bank until October 2016, while as from November 2016 the whole operation of software testing at the Bank was converted into the format of service provided and managed by the Ness Company, and all employees were offered continued employment in this field through this company.

The Bank attributes importance to the integration of Tech-Career graduates and has even donated in 2016 an amount of NIS 50 thousand in aid of this activity.

In addition, the Technology Division employs about twenty-five ultra-orthodox female employees in different software development positions.

Diverse employment of staff in the banking field

A distinctive team of ultra-orthodox female employee is engaged by the online banking unit ("TeleBank"). The team was formed in 2013, and is engaged in responding to phone calls regarding diverse banking matters made by all Bank customers.

Most of the candidates have no prior employment background or experience. They are being trained by the Bank in banking matters and integrate into employment at the call center as temporary employees, with a status similar to that of the other employees of the center.

This act included the cooperation of a Rabbi, who instructed the Bank as regards preparing a special work environment for them, equipment logistics and separation in response to their needs, as well as providing transportation from and to their place of residence.

At the present time, the team is composed of seven employees, who fulfill the duties assigned to them and integrate successfully with the staff.

Presently, the Bank is actively seeking to expand the team.

Mercantile Discount Bank. MDB is one of the major employers in the Arab sector. Most of the managers and staff of the bank at 36 branches located in northern Israel and in other parts of the country (such as: Rahat, Salekh-a-Din in Jerusalem, Wadi Nisnas in Haifa, Kafr Qasim and more) are of Arab extraction. In addition, members of the Arab sector are employed in various positions at the bank's head office.

MDB has a number of branches in Haredi populated areas, and many of the male and female staff at these branches belongs to the Haredi sector. Female and male staff of the Haredi sector are also employed at the bank's head office.



Diverse employment of staff in ICC. Female employees of the Haredi sector - ICC operates a service and sales center in Upper Modi'in, which employs approx. 122 ultra-orthodox female employees, forming an integral part of the service department. The center is modified to the needs of women belonging to the ultra-orthodox sector, who are residents of the area. The center had been reviewed and found to comply with the business targets and indices, and to integrate the business requirements of the organization and its customers with the personal needs of the female employees of the center, such as: particular welfare events, baby nursing room, specialized and modified work shifts, etc.

At the same time, ICC is in constant contact with Associations engaged in the integration of diverse populations in the employment market, including the "Kav Mashve" Association encouraging employment of academic graduates coming from the Arab sector, and the "Tech-Career" Association for the integration of employees of Ethiopian origin in technological jobs.

Employment of handicapped employees

As part of its personnel recruitment policy, for several years, the Bank offers handicapped persons, who generally are not hired, the opportunity of being integrated into positions at the Bank suitable to their ability and according to the requirements of the Bank. This offers such persons a window of opportunity to function as regular citizens who support themselves with self respect. In addition, this measure will shape the organizational culture of the Bank, as an organization that is open-minded toward those who are different. In light of the aforesaid, the employment of handicapped persons has been defined as a primary focal point in the Bank's communal activity.

Order in respect of employment of handicapped persons. An Extension Order was issued and took effect on October 5, 2014, regarding the encouragement and enhancement of employment of handicapped persons. The Extension Order expands the provisions of the collective labor agreement signed in this matter between the Business Associations Board and the New General Federation of Labor, and it applies to all employers in the market, who employ one-hundred and over employees. The aim of the Extension Order is to encourage employment of handicapped persons.

Already since 2005, the Bank acts towards the integration of handicapped employees. The absolute majority of these employees are employed by the Bank to this day.

At the end of one year from the date on which the Extension Order entered into effect, namely, since October 5, 2015, where 2% or over of the workforce employed by an employer are handicapped persons, then he is considered as having appropriate representation. At the end of two years from the date on which the Extension Order entered into effect,



namely, since October 5, 2016, appropriate representation is considered an entity where 3% or more of its employees are handicapped persons.

Appointment of a responsible officer. Employers are required to appoint an officer responsible for the employment of handicapped persons, in order to implement the provisions of the Extension Order and achieve the best and proper integration of handicapped persons in the workplace. In view of this guideline, the Bank appointed on January 11, 2014, an officer responsible for the employment of handicapped persons.

As part of the preparations in respect of the Expansion Order in the matter of employment of handicapped persons, the Bank has contacted "Call Yachol" Company, which specializes in the employment of handicapped persons at call centers. Within the framework of this engagement, "Call Yacholl" Company provided advisory and classification services as well as assistance in the process of engaging and training of handicapped persons at the Bank's call center. Following that stated above, the Bank has begun the employment of four handicapped persons at the Call Center. Furthermore, the Bank studies possible engagements with additional bodies for the recruitment through them of additional employees.

In accordance with the collective labor agreement dated November 30, 2016, signed between the Bank and the employee representative committee, approx. 48 handicapped Bank employees employed by the Bank on a temporary employee status, were admitted as permanent employees. These employees enjoyed, in addition to the opportunity of earning an honest living, also occupational security.

Mercantile Discount Bank. MDB engages handicapped employees. The bank is preparing for the implementation of Regulations in this respect. The bank has appointed an officer responsible for the employment of handicapped persons.

The bank held meetings with several bodies engaged in recruitment and placement of handicapped employees. In addition, the bank has recently joined the "well worth business" initiative, which assists organizations of the business sector in the promotion of employment of handicapped persons.

ICC. Within the framework of the Expansion Order encouraging the increased employment of handicapped persons, the employee recruiting manager of the company was appointed in 2015, as an "officer responsible for the employment of handicapped persons", and under the leadership of the Human Resources Group, an announcement to employees was issued in the matter.

In the past 2 years, handicapped employees were successfully integrated into various departments in the company fulfilling diverse duties. These employees had undergone screening processes modified to their personal needs, following which, upon beginning work, modified training and instructions, even as to the contents of their duties, until their full integration.



ICC is being assisted in this respect by various manpower sources, including associations that specialize in this subject, such as the "well worth business" initiative, as well as receiving guidance from the Employer Assistance Center at the Ministry of the Economy. The ICC applicant screening team has been especially trained in this matter and is engaged with it on a daily basis. The Internet website of the company has a special link to this matter, which serves personal applications. It is the intention of ICC to continue and integrate different handicapped persons in various jobs in the company, so that they will have adequate representation.

Summarized employment data regarding the underrepresented populations

Following is a summary of the employment data regarding underrepresented populations in the labor market:

Number of employees of this group as of December 31	Arabs	Ultra-Orthodox	Handicapped persons ⁽²⁾	Ethiopian descent
At Discount Bank - 2016	90	-(1)	137	20
At Discount Bank - 2015	75	-(1)	126 ⁽³⁾	23
At ICC - 2016	4	125	43	4

Notes:

(1) See hereunder.

(2) The data is not in accordance with the Expansion Order.

(3) The data as of December 31, 2015 has been restated.²⁵

The Bank's policy does not require Bank employees to provide details regarding their affiliation to particular population groups, such as those mentioned above, therefore, employees are not requested to assess the attitude regarding their affiliation to one or another group of population. Accordingly, the data presented above constitutes an estimate based on the sources stated below.

Arabs – employees are not required to state their nationality in their personal details submitted to the Bank, and therefore the Bank has no details regarding employees of Arab nationality. The estimate stated in the Table is based on the number of employees electing to celebrate Arab national holidays.

Ultra-orthodox Jews ("Haredi") – there is no clear definition of the term "Haredi". Many Bank employees maintain the Jewish tradition to one degree or another and a number of them would definitely define themselves as "Haredi". However, as stated, employees are not required to state whether they maintain the Jewish tradition or whether they are "Haredi", therefore the Bank has no data in this respect.

²⁵ 102-48.



Handicapped persons - the estimate stated in the Table is based on the following sources: employees engaged as part of a special effort to employ handicapped persons (in this exceptional case, the Bank keeps specific records of such employees). In addition, a review has been made of employees reporting withholding tax exemption due to blindness or other disability. Moreover, a review has also been made of employees reporting the holding of a disabled certificate. The said estimate does not include absent employees due to lengthy illness and employees engaged on part-time basis due to lengthy illness. This evaluation does not comprise measurement in accordance with the Expansion Order.

Ethiopian descent - as stated, the Bank does not require employees to state their country of origin. The reported estimate is based on the number of employees who had elected to voluntarily state their country of origin.

For details regarding employment of older adults (50+), see "Employee characteristics". The above stated applies in principle also to ICC. The estimated number of "Haredi" employees at ICC is based, mainly, on the number of persons employed at the service and sales center in Modi'in (see above).

Employment in peripheral areas

As part of the encouragement of employment in peripheral areas, the Bank has established in Neshar a Call Center that employs 98 workers coming from different populations.

ICC acts for the encouragement of employment in peripheral areas. A service and sales center was opened in 2014 in Ashdod. The center comprises an employment basis for residents of the area and assists in the economic development of the southern part of the country. The center employs about 132 employees. During the recent year, the areas of operation of the center have been significantly enlarged and diversified, with a respective increase in the number of employees at the center.

Labor relations

General. Labor Relations at the Bank are based on the Labor Charter, collective labor agreements and employment arrangements that are formulated mainly in discussions between the Bank's management and the employees' representatives.



Labor Charter. "Labor Charter for the Employees of Israel Discount Bank Ltd.", which was signed in 1974 (hereinafter: "the Labor Charter") constitutes a broad outline incorporating employment conditions, disciplinary provisions, arbitration procedures and additional procedures and regulations. During recent decades, dozens of collective labor agreements were executed in addition to the Labor Charter. These other agreements include wage and other agreements intended to supplement and expand the Labor Charter, to change the Labor Charter or to cancel certain provisions of the Labor Charter. In an agreement dated November 30, 2016, the validity of the Charter was extended until December 31, 2021, with the notice mechanism, according to which, unless any of the parties informs otherwise to the other in writing three months prior to the said date, its validity would be extended for one additional year, being repeated at the end of each year, remaining unchanged, and due to be renewed when the current Labor Charter reaches the end of its term (December 31, 2021).

Rights of association. The tenured employees of the Bank are organized within the framework of the national Employees' Representative Committee. The Representative Committee is divided internally in such a way that employees at the clerical level come under the purview of the Clerks' Committee and authorized signatories and managers are organized under the Managers' Representative Committee. Most of the issues are agreed and signed between the Bank's management and the Employees' Representative Committee and the Federation of Labor. A Retirees' Committee also exists, under which retirees of the Bank are organized.

Also tenured employees of MDB and ICC are organized within the framework of a national union.

Labor relations at ICC are based upon partnership and trust between Management of the company, the national committee and the employees. A new collective labor agreement was signed in 2016 for the years 2016–2018, which follows the agreements of the years 2011 and 2015.

Bank participation in the budget of the Employees' Representative Committee. The Bank contributes monthly to the budget of the Employees' Representative Committee, in an amount double the monthly amount contributed by the employees (the agreement signed on November 30, 2016, between the Bank and the employee representative committee, increased the share of Management per employee). Five of the 21 Committee members are officers engaged on the Committee on a fulltime basis and receiving a full salary. The other members of the Committee fulfill various positions in the Bank and serve as Committee members in addition to their regular work. In addition, the Bank provides office premises for the Committee's use and covers its maintenance costs. The Bank assists the retirees' committee and allows it to conduct activities at the Bank premises in Jerusalem, Jaffa and Haifa.



Majority of employees under a collective labor agreement. As of December 2016, the Bank had 5,529 employees. This figure includes all of the Bank's employees, as well as workers providing services to the Bank by way of different outside factors. Of the above, 5,145 are tenured employees and temporary employees, engaged under collective agreements and constituting 93.1% of total employees. If we deduct the number of outsourced employees, the number of employees stands at 5,221 and the number of those covered by the collective agreements reaches 98.5%²⁶. The said ratio at MDB amounts to 91%.

As stated, the employees who are organized are entitled to be elected to the committee and to elect the members of the committee, are tenured employees only, comprising some 73.6% of all employees who are not employed by outside parties. The said ratio at MDB amounts to 79.9%.

Organizational changes. Item 4 of the collective agreement dated April 2, 2000, in the matter of the definition of the Bank's units, stated that the Bank's Management shall forward its proposals regarding the definition of units and management duties, and a joint discussion will be held during fifteen days from date of forwarding the proposals to the managers' representative committee. At the conclusion of the discussions, if the parties have not reached an agreement, the matter will be forwarded to the Bank's President & CEO, whose decision will be final. The period was shortened from 15 days to 7 days by the collective agreement dated November 30, 2016.

Mercantile Discount Bank. The special collective labor agreement of 2002 states that where Management takes a decision to merge branches or wings, the decision shall be brought to the attention of the employees representative committee together with the presentation of the relevant data, and an intensive discussion is to be held with the committee with respect to the implications of the decision upon the employees involved. Management of MDB may act upon the merger decision only after fourteen days have passed since the date of notifying the committee regarding the decision.

ICC. The collective labor agreement of 2011 states that the company is entitled to introduce organizational and/or technological and/or operational and or structural changes, such as the merger of units, integration with other centers, the closing down of units in accordance with changing work requirements, etc. Material changes that have a material impact upon the employees would be brought to the attention of the employee representative committee no later than fifty days preceding the planned implementation date of such change. In the case where no agreement has been reached regarding material changes that have a material impact upon employees of the company, than each of the parties retains his rights without prejudice.

²⁶ 102-41



Developments in labor relations

Labor dispute. On July 23, 2015 a notice was delivered to the Bank from the Union of Clerks, Administrative Public Service Employees ("Histadrut HAMAOF") on the deceleration of a labor dispute at Discount Bank, in accordance with Section 5a and 5b of the Settlement of Labor Disputes Law, 1957 and resulting regulations. In accordance with the notice, a strike in the Bank could have been called as from August 9, 2015, and thereafter. On December 14, 2015, the representative committee of employees introduced various sanctions, which include the alternating shutdown of units as well as disallowing of employee mobility. On February 25, 2016, the sanctions were lifted. The collective labor agreement signed on November 30, 2016, between the Bank and the employee representative committee, which extended the validity of the labor charter, subject to changes, also terminated the labor dispute that had been declared by the Histadrut HAMAOF, as stated.

Histadrut HAMAOF informed the Bank on April 19, 2017, of the declaration of a labor dispute by the Managers Representative Committee at the Bank. This, in terms of Sections 5A and 5B of the Settlement of Labor Disputes Act, 1957, and the Regulations enacted under it. According to the said notice, the Managers Committee could start a strike as from May 7, 2017, and thereafter. The labor dispute was terminated by the collective labor agreement signed on September 17, 2017, by the Bank and the employee representative committee.

Collective labor agreements signed in 2016

The following agreements, among others, were signed in 2016:

- On September 1, 2016, a special collective labor agreement was signed in respect to "IT staff", which allows the continued employment, of 250 employees, for more than seven years and without any time limit, at a status of IT staff. The Labor Charter that applies to tenured employees will not apply to either IT staff as stated.
- On September 1, 2016, a special collective labor agreement was signed in respect to "extending the temporary period for employees", within the framework of which it was decided to extend the temporary period for up to 50 temporary employees, whose identity would be determined at the sole discretion of the Bank's Management, for a further 24 months.
- On November 30, 2016, a wage agreement was signed until 2018, and an agreement extending the validity of the Labor Charter until the end of 2021, subject to changes. For further details, see above "Principal Activities in 2016".

For details regarding additional collective agreements signed in 2011, see the 2015 annual report, p. 408.

Employment terms and remuneration

Principal categories for terms of employment²⁷

Following is a summary of employment data in the Bank in the various categories and the changes therein:

Employees	As of December 31,			Change	
	2016	2015	2014	2016 compared to 2015	2015 compared to 2014
Tenured employees under personal contracts and members of management	3,917	4,149	4,115	(232)	34
Temporary employees	1,304	1,386	1,493	(82)	(107)
Manpower company employees	-	-	-	-	-
Software house	308	314	301	(6)	13
Total	5,529	5,849	5,909	(320)	(60)
Additional - employees on unpaid leave and maternity leave	173	185	186	(12)	(1)
Total	5,702	6,034	6,095	332	(61)

Following is a summary of employment data in Mercantile Discount Bank in the various categories and the changes therein: [G4-10]

Employees	As of December 31,		Change
	2016	2015	2016 compared to 2015
Tenured employees under personal contracts and members of management	1,225	1,248	(23)
Temporary employees	167	211	(44)
Manpower company employees	93	73	20
Software house	32	39	(7)
Total	1,517	1,571	(54)
Additional - employees on unpaid leave and maternity leave	41	32	9
Total	1,558	1,603	(45)

²⁷ The data in this Chapter does not include employees on unpaid leave and on maternity leave.



Following is a summary of employment data in ICC in the various categories and the changes therein:

Employees	As of December 31,		Change
	2016	2015	2016 compared to 2015
Permanent employees under personal contracts and members of Management	947	954	(0.7)
Temporary employees	508	479	6.1
Outsourcing	135	98	37.8
Total	1,590	1,531	3.9

Employees of the Bank are classified into three categories for purposes of employment terms: Tenured employees, Temporary employees and Personal employment agreement employees.

Tenured employees. The employment terms of tenured employees are arranged, as stated, in the Labor Charter, special collective labor agreements and other employment arrangements.

On December 31, 2016, there were 3,840 tenured employees in the Bank (December 31, 2015: 4,062 tenured employees). The majority of the Bank's tenured employees are permanent employees, while a minority constitutes new employees on a trial period. As of December 31, 2016, the Bank's employees numbered 867 of the tenured employees, as stated, employed under a new employment agreement in accordance with the collective agreement of June 2011 (December 31, 2015: 689 employees).

Temporary employees. The employment conditions of temporary employees are arranged mainly in several special collective labor agreements, which detail the terms of their employment, where the termination of employment is possible at any time at the discretion of Management.

The population of temporary employees is divided into several categories, as detailed below:

Employees engaged in the computer field, who are not in a position of tenured employees, are divided into two sub-categories:

"Computer temporary". The temporary employment period of such employees is seven years, based on an agreement between the Bank's Management and the representative committee of employees signed in 2002. The collective labor agreement of June 2011, in the matter of engagement of computer employees, permitted the Bank to increase the number of employees engaged as "computer temporary" to 750 instead of the previous number of 350.

IT computer employees. Their employment period is not limited in time. The agreement of September 1, 2016, states that the Bank is permitted to employ simultaneously at any time, 250 "computer temporary" employees, whose employment period of seven years came to an end, in the position of "IT computer employees" for an unlimited period of time.



The decision whether to include an employee within the said group of 250 employees would be at the absolute and exclusive discretion of the Bank.

On December 31, 2016, the Bank employed 248 temporary computer employees/IT computer employees (December 31, 2015: 289 employees).

Tellers and online banking employees. The temporary employment period of such employees, who are also in the position of temporary employees, is five years, in accordance with the employment agreement for tellers dated June 2, 2011.

Remaining temporary employees (who are not included in the above mentioned populations - "ordinary temporary employees"). The period of temporary employment applying to these employees is at present, four years (extended from three to four years under the agreement dated November 30, 2016). It is noted that in accordance with an additional agreement dated September 1, 2016, in force until December 31, 2017, the parties agreed to extend the period of temporary employment to five years, for up to fifty employees, cumulative during the whole period of the agreement, their identity being determined at the exclusive discretion of the Bank's Management.

The number of "ordinary" temporary employees\ tellers and online banking employees employed by the Bank on December 31, 2016, was 1,304.

According to the collective labor agreements to which the Bank is a party, the total number of temporary employees (excluding computer staff and excluding service employees engaged as Bank employees, such as: cafeteria, maintenance, security) is limited to 30% of the total number of the Bank's regular employees, as the number may be from time to time, starting with January 1, 2012.

Personal employment agreement. Prior to their engagement with the Bank, employees hired under personal employment agreement sign a personal contract, which precludes the Labor Charter and the collective labor agreements for these employees. Employees engaged under a personal contract include members of Bank management, part of the information technology staff and a defined and specific agreed list of position holders, mainly senior personnel. The agreement dated November 30, 2016, added to the list of positions, in respect of which the Bank is entitled to sign personal employment agreements, another 73 such positions, of which 15 are in respect of dealing room positions and 20 in respect of managerial grade positions (3 of which are even at the level of wing manager), so that at the present time the Bank has in total approx. 180 personal employment agreement positions, of which, as of December 31, 2016, some 77 personnel were employed (including members of management) under personal employment agreements (December 31, 2015: 87 employees engaged under personal employment agreements).

In addition, the Bank acquires services of manpower company employees and software houses. As of December 31, 2015 and 2016, no manpower company personnel were employed



by the Bank. As of December 31, 2016, some 308 software house personnel were in the Bank. These employees are engaged mainly in software development tasks (as of December 31, 2015: 314 software house personnel).

Employee remuneration

The principal salary components of tenured employees are the base salary which includes a seniority increment, representation and signature fees for each employee based on his seniority and position. The base salary constitutes the basis for salary increments and for the payment of split working hours' remuneration at the rate of 2.5% of the base salary (only to eligible employees), shift remuneration (only to eligible employees), overtime and the 13th month salary and long term service award. Likewise, there exists an additional payment at the rate of 5% for managers and 6% for clerks effective from January 2014, payable to those entitled to split-time payment. Part of the employee's remuneration is linked to the CPI. In cases where the change in the CPI is a negative figure, the employees' wages are not reduced and the drop in the CPI is setoff against the rise in the CPI in following months. Employees are also entitled to various additional benefits. Bank employees are promoted by grades only and are also entitled to a long-service bonus equal to several monthly salaries plus additional vacation days, at the end of 20, 30, and 40 years of service in the Bank. A collective labor agreement dated November 22, 2007 specified that new employees shall not be entitled to "long-service vacation" or to wage components for nursery school and summer camp. The item in the collective labor agreement of June 2011, regarding the updating of grading and stages, changed the components and terms mentioned above, applying to regular employees engaged or converted to this status as from January 1, 2012. In addition, certain components have been cancelled in their respect and maximum salaries have been determined according to position and grading.

Payment of overtime to eligible employees is contingent on prior approval of his superior. Starting January 1, 2015, the Bank began the reporting of employee attendance by means of a time clock machine (excluding exceptional cases).

Most of the Bank's employees are entitled to recreation pay in an amount significantly higher than the amounts provided by law. Employees are also entitled to accepted provident and continuing education funds contributions.

The Bank's liability for severance pay and provident fund contributions to its employees is according to the employee's base salary, global overtime payment, 1/12 of the employee's 13th month salary and other additional benefits.



The employees are also entitled to certain benefits after their retirement, similar to those to which tenured employees are entitled during their period of employment.

The Bank is prepared for the changes made in the general collective labor agreement signed in February 2016 (an Expansion Order in respect of which was issued in May 2016), according to which, starting with July 2016, the share of the employee in provident contributions shall not be less than 5.75% and the share of the employer shall not be less than 6.25%.

Respectively, since January 2017 the share of the employee have increased to not less than 6% and of the employer to not less than 6.5%.

The share of the employer in provident contributions to an insurance fund/provident fund which is not a pension fund will include purchase of loss of work ability insurance for the employee, on condition that the rate of provident contributions in the employer's share shall not be lower than 5%.

Furthermore, the minimum rate of the employer for severance contributions shall apply to the full amount of the insured employee wage, at the rate of at least 6%, in accordance with the agreements applying thereto, at the work place up to the amount of the average wage prevailing in the economy.

In addition to the rates of the provisions, as stated above, In accordance with the collective labor agreement in the matter of pension from June 2011, a provision in the entire amount of severance pay was set at the rate of 8.33%, including the finality of the provision (according to Section 14 of the Severance Pay Act, this in relation to temporary employees, and employees converted to the status of tenured employees, following the signing of the agreement and regarding existing employees, who chose this alternative willingly, as from the date of choosing it). The Agreement further specified that each new employee shall be entitled to pension insurance starting with the first month of his employment, and also that existing employees (regular) will be entitled to change to the pension insurance arrangement, if they so decide.

Payment in respect of public holidays and sabbatical days. The Bank is closed for business on nine sabbatical days defined by law, as well as on Purim (Jewish holiday) and on the Ninth of Av. In a Knesset General Elections year, the elections day is also considered a public holiday. All Bank employees are being paid in full in respect of these public holidays. No minimum service period is required in respect of monthly employees. A minimum service period of three months is required by law for hourly workers. In addition, with respect to employees engaged on an hourly basis, the day of Purim and the Ninth of Av are considered unpaid leave days. Tenured employees, who do not belong to the Jewish faith, are being paid in full in respect of absence on their own religious holidays.



Furthermore, hourly workers at MDB are granted a day off at the expense of the bank on Purim and on the Ninth of Av.

Payment in respect of holidays and sabbatical days at ICC. The company operates in a reduced format on nine sabbatical days defined in the law as well as on Purim. Working on these days are only the employees permitted by a work permit issued by the Ministry of Economics, to work on the Sabbath (approximately 25 employees). Election Day is also a sabbatical day whenever general elections to the Knesset are held. The said sabbatical days are fully paid to all employees. Payment to monthly employees is made with no reservations. Payment to hourly employees is made only if they were scheduled to work on that day. Employees not of the Jewish faith, who are off from work on their religious holidays are fully paid for these days if they had elected them as their sabbatical days.

Employee termination benefits

The Bank's liabilities for the payment of severance compensation to employees at the rate of 100% upon termination of their employment, including at retirement age, as prescribed by the Severance Pay Act, is covered in full by deposits in severance pay funds and by insurance policies.

Mercantile Discount Bank. The bank's liability for severance pay to its employees is covered by deposits with severance pay funds and by appropriate provisions.

ICC. The company's liability for the payment of severance pay to its employees, which is based upon one month's salary for each year of service, as accepted, is fully covered by deposits with severance pay funds, by assurance policies and pension funds and by the provision recorded on the company's books. That part of the severance pay not covered by deposits with defined deposit plans, as stated above, is treated by the group as a defined benefit plan (within the meaning of the term in generally accepted accounting principles), according to which, a liability is recognized in respect of employee rights.

Fair wages

The Bank insists on the payment of wages in excess of the minimum wage to all of its employees. Accordingly, the starting wage given to most of the new temporary employees, at the end of 2016, was NIS 25 to NIS 33 per hour. The minimum wage in Israel (as of December 2016) was NIS 25, therefore, the starting wage at the Bank was equal or higher than the accepted minimum wage.

It is noted, that in accordance with a special collective agreement of June 2011, in the



matter of employment of tellers by the Bank, the starting wage for these employees and for TeleBank employees shall not be less than the minimum wage plus 5%. It should also be noted that, at the starting salary level, there is no gap between the salaries of men and women in the same positions.

Fair wage at Mercantile Discount Bank. Since March 2016, the starting wage payable to most temporary new employees is NIS 30.30 per hour. It is noted that at this primary wage level, and for similar positions, there is no difference between male and female employees.

Fair wage at ICC. The company meticulously pays a fair wage, which is in excess of the minimum wage. The beginning basic wage payable to employees starting work as from July 2016, is NIS 5,000 in respect of a full-time position (NIS 26.88 per hour for hourly workers). Most employees are also entitled to incentive payments in addition to the basic wage. The beginning wage payable by the company is higher by 3.6% than the mandatory minimum wage. Furthermore, in terms of the new collective labor agreement, a special wage increase was granted to employees of five years and above earning a monthly salary of up to NIS 7,500 for a full-time position (salary including incentive pay).

Special remuneration to managerial personnel

Part of the managerial personnel is entitled to global overtime payment.

A managerial rank employee who has been promoted is entitled to a 5% salary increase from the salary table (provided that at least 12 months have elapsed since the date of his last entitlement to such increase due to promotion and/or transfer). A managerial rank employee who has been transferred to another position is entitled to an increase of 2% to 7% of the salary according to the salary table (basic salary components), at management's discretion, taking into account the additional responsibility and/or the special managerial effort required for acclimation to the new position following the transfer, and provided that at least 12 months have elapsed since the date of his last entitlement to such increase due to promotion and/or transfer. The item in the collective labor agreement of June 2011, regarding the updating of grading and stages, includes changes in some of the employment terms applying to new regular employees becoming Bank employees of this status as from January 1, 2012. In this connection, the average transfer payment has been reduced to 3%. In addition, maximum salaries have been determined according to classes in line with the accepted administrative grades at the Bank.

It is noted that the collective labor agreement signed on November 30, 2016, abolished the transfer increment for managers, as stated.



Employees in the last 3 senior grades (senior manager, Assistant to the President, Senior Assistant to the President) are entitled to receive a car from the Bank and full funding for one telephone landline in his home.

Officers and members of the management group at the Bank

For details regarding remuneration of Officers and members of Management, see Chapter 2 above.

The average remuneration amount in respect of the group of senior officers (the Chairman of the Board, the President & CEO, members of Management and the internal auditor) in the years 2015–2016, was 6.84 and 7.97 times higher, respectively, than the average cost, and 7.72 and 8.73 times higher, respectively, than the mean cost of remuneration paid to all other employees of the Bank and to outsourcing employees (security and cleaning).

The said data indicate an increase in the gap in 2016 compared to 2015 (an increase of 16.5% in the gap against the average wage, and of 13.1% against the median wage). The said growth was affected both by the growth in the average payroll of an officer, mostly due to the increase in awards, as well as from the reduction in the cost per employee, affected by the retirement plans (the calculation in respect of the employees has been made after elimination of the data with respect to the group of senior officers. The cost does not include payroll tax, and the cost regarding the employees also does not include the long service award ("jubilee award"). The main assumptions used in the computations regarding employees are: (1) it has been assumed that the average provision customary at the bank for vacation pay, jubilee vacation pay and pension expenses is expected in respect of the median employee; (2) expenses in respect of severance pay have been included based on current actual cost and not according to the provisions, this in view of the transition to actuarial computation).

MDB. The average remuneration amount in respect of the group of senior officers in the years 2015–2016, was 4.81 and 4.59 times higher, respectively, than the average cost, and 5.34 and 5.18 times higher, respectively, than the mean cost of remuneration paid to all other employees of the Bank and to outsourcing employees.

The said data indicate a decrease in the gap in 2016 compared to 2015 (a decrease of 5.0% in the gap against the average wage, and of 3.0% against the median wage).

ICC. The average cost of remuneration for the senior officers group (the CEO and members of Management) in the years 2016 and 2015, was 4.57 and 4.41 times higher, respectively, than the average cost, and 7.18 and 7.24 times higher, respectively, than the mean cost of remuneration payable to all other company employees and outsourcing employees.



Awards to employees and managers in 2016

Employee award. In accordance with the wage agreement dated November 30, 2016, a one-time differential award, was paid in March 2017 to tenured employees to whom the agreement applies, in an average amount of NIS 20,000 and to managers in an average amount of NIS 26,000. At the same time, a one-time award was also granted to temporary employees and to personal engagement agreement employees, based on the budget and model approved by the Bank's Management.

Awards to Officers in respect of the year 2016. The entitlement to an annual award did not materialize in respect of the year 2016. The Remuneration Committee and the Board of Directors have approved: the fulfillment of the criteria for a basic bonus in an amount equivalent to one month's basic salary for each of the vice presidents, in a total amount of NIS 998 thousand for all the vice presidents; a special circumstances bonus package in an amount of NIS 998 thousand for the vice presidents (divided differentially by the President & CEO); a special contribution bonus, for three vice presidents, in a total amount of NIS 500 thousand. For additional details, see the 2016 Annual Report (p. 214, item 14).

The entitlement to annual awards for the President and CEO did not materialize in respect of the year 2016. The Remuneration Committee and the Board of Directors have approved: the fulfillment of the criteria for a current award for 2016, in an amount of NIS 705 thousand (the proportionate share of the annual award of NIS 900 thousand, calculated through October 12, 2017); a special circumstances award of NIS 282 thousand (the proportionate share of the annual award of NIS 360 thousand, calculated through October 12, 2017); and a special contribution award, which can be distributed once every three years, of NIS 700 thousand. For additional details, see the 2016 Annual Report (p. 306).

Awards to employees of Mercantile Discount Bank in the years 2015-2016. The award in respect of the year 2015 equaled 1.25 times of the salary on an average, where the fixed part of the award amounted to 0.45 times of the salary and the remaining part amounted to 0.8 times of the salary. The award was paid on a differential basis based on the evaluation of the employee's performance. The award in respect of the year 2016 equaled 1.2 times of the salary on an average. The award is payable in 2017, as follows: 0.45 of the bonus which comprise a fixed component – was paid in April 2017. The balance, being 0.65 of the salary, shall be divided differentially and will be paid at the conclusion of the annual evaluation process and in accordance therewith.



ICC paid an annual award in respect of 2016 to managers and employees in accordance with the remuneration policy approved by the Board of Directors. An award in respect of the year 2016 has been paid to all employees and managers, including officers. For details regarding remuneration plans for the President & CEO, to company employees and managers, see ICC's 2016 annual report (pp. 148-149).

Remuneration policy

The corporate governance code approved by the Bank in 2010, states, inter alia, that the Bank will approve the remuneration policy as well as a group remuneration policy for the Bank, including its subsidiaries and foreign operations, based on broad organization wide considerations and on considerations designed to increase the value of the Bank in the long-term, while avoiding the granting of incentives for acceptance of undue risks.

Amendment No. 20 to the Companies Act. The Companies Act (Amendment No. 20), 2012 ("the Amendment"), which took effect on December 12, 2012, deals with terms of office and employment in public companies. The Amendment imposes on public companies the duty to adopt a policy regarding the terms of office and employment of officers.

An instruction in the matter of the remuneration policy of a banking corporation. The Supervisor of Banks issued on November 19, 2013, a Proper Conduct of Banking Business Directive in the matter of remuneration in a banking corporation (hereunder: "The Directive"). In accordance with the instruction, the Bank's Board of Directors has to approve, at least once in every three years, a remuneration policy, which has to be formed by the remuneration committee, as well as determine principles for a Group remuneration policy. The remuneration policy shall apply to all employees of the banking corporation and to all types of remuneration. The instruction prescribed restrictions and requirements regarding the variable remuneration, in accordance therewith, the maximum variable remuneration shall not exceed 100% of the fixed remuneration, excluding exceptional circumstances. Moreover, the instruction contains a mechanism for the deferral and spreading of the variable remuneration.

Remuneration policy for Officers of the Bank. The Bank's general meeting of shareholder approved in February 2014, a remuneration policy for officers, in accordance with Section 267A of the Companies Act, 1999, in accordance with the instruction and with Amendment No. 20 to the Companies Act. In November 2016, the Bank's General Meeting of Shareholders approved a new remuneration policy regarding officers of the Bank, following the enactment of the Remuneration at Financial Institutions Act, and the amendment of the Directive regarding remuneration at banking corporations (For additional details, see the Bank's 2016 annual report, pp. 209-210 and 352-353).



For additional details regarding the remuneration policy for officers see the immediate reports dated January 7, 2014 and February 17, 2014 (Ref. Nos. 2014-01-066526 and 2014-01-040990) (see also Note 23 F to the financial statements as of December 31, 2016, pp. 210-214) and in immediate reports dated September 28, 2016 and November 9, 2016 (Ref. Nos. 2016-01-056790 and 2016-01-074847).

For additional details regarding the terms of engagement and office of the Chairman of the Board, the President & CEO and members of the Bank's Management, see Note 35 F, G and H, and Note 23 E and F to the financial statements as of December 31, 2016 (pp. 302-306 and 209-214).

Remuneration policy. In June 2014 the Bank approved a remuneration policy for all employees of the Bank has been approved, including in respect of central employees, as well as the principals of group remuneration policy, the remuneration policy for officers, as approved by the general meeting of shareholders comprising a part thereof. In December 2016, the Bank approved an updated remuneration policy.

As part of the employees remuneration policy, restrictions have been set that apply to the variable remuneration of employees and provisions have been prescribed with regard to the fixed and variable remuneration of key employees, as well as reference to supplementary procedures regularizing the distribution of responsibility in respect of the relevant functions at the Bank engaged in the remuneration mechanism. Moreover, within the framework of the Group remuneration policy, principles have been prescribed regarding the fixed and variable remuneration of officers of controlled corporations. Following the updating of the remuneration policy, the subsidiary companies in Israel, which are subject to the directives of the Supervisor of Banks (ICC, MDB and Discount Capital) approved a remuneration policy complying with the provisions of the instruction, based upon the principles of the Group remuneration policy that had been approved by the Bank in December 2016.

For further disclosure in the matter of "remuneration", see the document "Disclosure according to the third pillar of Basel and additional information regarding risks", available for review on the Internet.

Amendment to Proper Conduct of Banking Business Directive No. 301A in the matter of the Remuneration Policy. In August, 2015 the Supervisor of Banks published a circular for the amendment of Proper Conduct of Banking Business Directive No. 301A regarding "Remuneration Policy in a Banking Corporation" ("the amendment to the directive"), where within the framework of which, a duty has been determined for the reimbursement of variable remuneration paid to a key employee who had been involved in behavior causing exceptional damage to the corporation, and limitations were set prohibiting the granting of variable remuneration to directors of a banking corporation. Following the enactment of the Remuneration at Financial Corporations Act, an amendment was



published to the Proper Conduct of Banking Business Directive No. 301A which included mitigating requirements regarding variable remuneration payable to key employees in accordance with the Directive.

The remuneration policy of Mercantile Discount Bank. The Board of Directors of MDB approved on September 30, 2014, a remuneration policy, which includes reference both to all aspects of remuneration in practice at the bank (including fixed remuneration, variable remuneration, remuneration upon termination of employment and other related benefits) and to all classes of the bank's employees (including officers, key employees and other employees). The remuneration policy had been modified to the policy framework approved at Discount Bank, including determination of maximum amounts for the different kinds of remuneration and which includes principles intended to link the remuneration payable by the bank to the realization of the strategy, objects and goals of the bank.

ICC's remuneration policy. Further to the decision of the Remuneration Committee of the Board of Directors of the company, the Board of Directors of ICC decided on September 14, 2014, to approve a remuneration plan for the CEO of the company and a variable remuneration plan for company employees and managers. The remuneration plans are for a period of three years from 2014 to 2016.

The remuneration plans adopted the principles of the Discount Group's remuneration policy, with the necessary adjustments, and they agree with the guidelines of the Supervisor of Banks regarding "remuneration policy of a banking corporation".

Among the objects standing at the base of the plans are: support in the realization of the strategy, goals and targets of the company; motivating managers and employees to work for the creation of long-term economic value for the company; support of compliance with laws, regulatory directives and procedures of the company; adjusting the remuneration to the risk appetite and the risk management framework; connecting the remuneration to company and personal performance; creating an appropriate balance between the components of the variable remuneration (performance dependent) and the components of the fixed remuneration; ensuring an appropriate and fair remuneration to employees of the different grades, in accordance with their contribution, level of responsibility and their relative influence over the activity of the company.



Remuneration of Officers and Employees of Financial Corporations Act, 2016

The Remuneration of Officers and employees of Financial Corporations (Special approval and the non-deductibility tax wise of exceptional remuneration) Act, 2016, (hereinafter: "the Act") was published on April 12, 2016. The Act contains instructions regarding the remuneration of officers and employees of banking corporations.

A special mechanism is included in the Act regarding the approval of engagement for the payment of remuneration in an amount exceeding NIS 2.5 million per year ("maximum remuneration"), which requires approval by the Remuneration Committee, the Board of Directors by a majority vote of the independent Directors and by the General Meeting of Shareholders by special majority vote. In accordance with the Act, an amount of remuneration exceeding the maximum remuneration amount may not be approved if the ratio of the expected expense for remuneration based on fulltime position cost, to the lowest remuneration expense paid by the bank to an employee, exceeds 35. Engagement regarding remuneration, which is not approved in terms of the provisions of the Act, shall not be considered valid, both as regards the financial corporation and as regards the senior officer or employee.

In addition, the Act contains restrictions regarding the deductibility tax wise of an amount of remuneration exceeding NIS 2.5 million, according to which the maximum deductible expense regarding payroll cost exceeding an amount of NIS 2.5 million per tax year, shall be NIS 2.5 million, net of the expense in respect of the granting of shares or of the right to acquire shares, and net of the amount of payroll cost exceeding NIS 2.5 million.

The transitional instructions state that the provisions of the Act shall apply to a remuneration engagement approved as from the date of publication of the Act and thereafter. It is also stated that the provisions of the Act shall apply to a remuneration engagement approved prior to the date of publication of the Act, but which requires approval within a period of six months from date of publication of the Act.

The provisions regarding the deductibility tax wise shall apply to an existing engagement within a period of six months from date of publication of the Act, and to an engagement approved following the date of publication of the Act, as from January 1, 2017.

Amendment of Proper Conduct of Banking Business Directive No. 301A. Following the publication of the Remuneration Act and its expected implications, in September 2016 an amendment to Proper Conduct of Banking Business Directive No. 301A was published in the matter of the remuneration policy of a banking corporation. As part of these amendments, the definition of "key employee group", to which the provisions of the



Directive apply, has been reduced. In addition, it has been determined to allow the discretionary payment of remuneration in an amount not exceeding three monthly salaries per year, and it was established that the duty to spread the payment of the variable remuneration shall not apply where the amount of remuneration does not exceed the maximum remuneration amount and the variable remuneration does not exceed 40% of the fixed remuneration.

On November 8, 2016, the Bank's General Meeting of Shareholders approved a new remuneration policy as well as the terms of office of the President & CEO and the Chairman of the Board, following the enactment of the Remuneration Act and the publication of the amendments to the Directive.

Additional details as regards the remuneration plan are presented in Part "C" of the document "Disclosure according to the third pillar of Basel and additional information regarding risks". The document is available for perusal on the Bank's website together with the Bank's 2016 annual report, on the MAGNA site of the Israel Securities Authority, and on the MAYA site of the Tel Aviv Stock Exchange Ltd..

Work on the day of rest

The Bank's personnel on duty at the computer center and security personnel work on rest days as defined in the Work and Rest Hours Law, 1951. Work on such days requires a special permit obtained by the Bank and which is extended from time to time.

Labor relations of the principal subsidiaries

ICC

On December 21, 2011, ICC, the New General Federation of Labor and the national committee of ICC employees signed a special collective labor agreement, which specifies the terms of employment and the rights and duties of company employees (excluding certain employees to whom the agreement does not apply and except for members of Management and the department managers grade whose terms of employment are determined in personal employment agreements).

On March 23, 2015, ICC signed a collective labor agreement with the new Federation of Labor and the national representative committee of ICC employees ("the agreement"). The agreement extends by one additional year the validity of the previous agreement signed by the parties.

The wage level at ICC is decided based on accepted criteria in the employment market and in accordance with employee performance.



In 2016 a new collective labor agreement was signed for the years 2016–2018. The agreement established the rate of the selective wage increase at an average level of 3.1% for each of the years, as well as established the "seniority increment" for these years. In addition, additional employee rights and benefits were established, while emphasizing the increase in the contributions to provident and further education funds with the aim of strengthening the long-term savings base of the employees.

Mercantile Discount Bank

Labor relations with employees of this bank, except for those having a personal employment agreement, are principally based on a basic labor agreement – "labor statute" – and complementary collective agreements. These agreements determine, among other things, that wage terms, work and related terms shall be linked to those of Bank Leumi Le'Israel B.M.. Besides these agreements, specific agreements are being made from time to time, between Management and the employee representative committee, with respect to specific issues.

The terms of employment of members of Management of MDB are regularized by personal engagement agreements.

The collective labor agreements existing at the bank are subject to Section 5 of the labor agreement of May 17, 1968, namely, the validity of the agreement shall be automatically extended for two additional years, unless one of the parties to the agreement informs of his intention to make changes thereto.

A wage agreement was signed on January 29, 2015, between Bank Leumi and its employees, which will be effective for a period of four years as from the year 2015 ("the agreement").

Following the signing of the agreement in Bank Leumi, a wage agreement has been signed on April 28, 2015 between MDB and the employee representative, which constitutes an update to the former agreement with effect for four years starting January 1, 2015. The updated wage agreement adopts relevant understandings for MDB determined in the wage agreements of Bank Leumi, and adjusts other components to the labor charter prevailing in MDB.

Amendment of the Labor Agreement with respect to "seniority awards". As stated above, the employment terms of the Bank's employees are linked to those of Bank Leumi. It is noted in this respect, that a special collective labor agreement was signed on February 17, 2016, between Bank Leumi and its employees, within the framework of which Bank Leumi issued shares to its employees in consideration for the agreement of the employees for the settlement in full of the commitment of Bank Leumi to pay seniority awards to its employees (including the "vacation component" included in these awards). In the wake



of the signing of this agreement and the principles determined in the Labor Charter, the Bank signed on December 28, 2016, an agreement with its employees, in which the parties agreed to terminate the commitment of the Bank to pay seniority awards to its employees in consideration for the onetime payment to the employees of an amount of NIS 61 million, derived from the actuarial provisions as of September 30, 2016, in respect of the Bank's commitment to pay seniority awards, discounted to their present value at an annual interest rate of 3.5%, instead of the interest rate in effect at that time.

Revision of the bank's liability to provide certain post-retirement benefits. in accordance with the Labor Charter, employees of MDB are entitled to certain post-retirement benefits, such as gifts for the holidays, benefits regarding ledger fees at the bank, etc.

Retirement and dismissal

Conducting dismissal procedures while maintaining and respecting the rights of employees

With respect to tenured employees, forming the majority of Bank employees, the Bank acts in accordance with the Labor Charter and agreements with the employees' representative committee, according to which, the Bank may not dismiss employees unless in exceptional cases, and excluding cases of criminal wrongdoings, dismissal requires the approval of the said committee, and in its absence - a process of arbitration. In addition, from time to time the Bank encourages early retirement of tenured employees, as detailed below. With respect to the remaining Bank employees who are not union members and are employed for determined time periods (temporary employees) and/or in accordance with personal employment agreements - managerial flexibility regarding the termination of their employment is higher, and indeed termination of employment of these employees occurs generally at the end of the contractual engagement period, or on grounds of dissatisfaction from the employees performance or disobedience, as well as in view of adopted efficiency measures and cuts in expenditure required by the Bank. Such termination of employment is effected only after the employee has been made aware of the circumstances and reasons for the termination of his employment, has been given the opportunity to voice their claims against the dismissal, and after the Bank has seriously considered each such case on its own merits.



Employee Retirement

The Bank encourages early retirement of permanent employees, directed at an employee population having defined characteristics, for which a focused effort is made to encourage their early retirement at beneficial terms.

The encouragement of retirement of permanent employees is a strategic human resources goal. The retirement has the retiring employee's consent and is not imposed (dismissals), and it advances goals like reducing the average cost per employee position and rejuvenation of the workforce and larger efficiency.

2016 retirement plan. On September 13, 2016, the Bank's Board of Directors approved an efficiency plan. The approved efficiency plan comprises a significant expansion of the existing efficiency plan of the Group, forming a part of the strategic plan for the years 2015–2019. The approved efficiency plan includes early retirement of employees alongside natural retirement, which in total is expected to lead to a reduction in the workforce of some one thousand additional employees until 2021. Until December 31, 2016, some 342 employees had retired in the framework of the plan (from the Bank and from MDB).

As part of integrating the retirement plan, the Bank provided retirees with pension consultation by external consultants, financed by the Bank, which assisted employees in their decision as to the acceptance of the retirement offer and as regards the desirable compensation channel.

For details regarding employee rights in respect of severance pay, retirement benefits and pension payments, see Note 23 item A, in the 2016 annual report (pp. 200–201).

Employee Retirement in key subsidiaries

Voluntary retirement plan at MDB. As part of the efficiency measures taken by MDB, which, among other things, include the reduction in the workforce of the bank, the Board of Directors of MDB approved in 2016, a voluntary retirement plan formed by the Management of this bank. The plan involves the payment of increased severance pay to employees to which the plan applies. 32 employees retired in 2016, within the framework of the plan.



	Discount Bank ⁽¹⁾		Mercantile Discount Bank		ICC	
	December 31		December 31		December 31	
	2016	2015	2016	2015	2016	2015
The total number of retired employees	394	84	54	23	2	6
Of which: the number of early retirement employees	312	28	32	13	-	-

Note:

(1) The data relates to tenured employees only.

Legislative and regulatory restrictions and their arrangement

General. In addition to the Labor Charter, the collective agreements and various work arrangements existing from time to time, the Bank operates within legal and regulatory frameworks that apply to the entire economy. Below we will briefly describe the main restrictions applying to the Bank in connection with its labor relations.

Improvement of enforcement of labor laws. On June 19, 2012, the Intensification of Enforcement of Labor laws Act, 2011, came into effect, the aim of which is "to intensify enforcement of labor laws and making it more efficient". The Act specified an administrative enforcement mechanism, which includes warnings and the imposition of monetary sanctions on employers who violate labor laws, which will serve as an alternative for criminal indictments by power of labor laws. The law imposes extensive liability on employers with respect to their direct employees, as well as purchasers of services with respect to enforcement and securing the rights of personnel engaged on their premises in guard, security, cleaning and catering duties. The Act prohibits the engagement by entities ordering services and contractors supplying such services, in agreements which do not provide for basic wage terms for the personnel involved. The Bank is preparing in accordance with the requirements of the provisions of the law. Among other things, the Bank hired the services of an independent accountant, who performs a monthly test audit as required by law, and deficiencies, if found, are being attended to accordingly.

Ruling in the matter of forced retirement on grounds of age. In December 2012, the National Labor Court issued an innovative ruling with respect to the duty of employers to consider approaches made by employees facing retirement on grounds of age (67 years), who are interested in continuing their employment. In accordance with the said ruling, employers must consider approaches made by employees based on the personal circumstances of each employee and not only on the requirements of the employer. In



actual fact, a part of the employees apply for the continuation of their employment, and the Bank acts in accordance with the procedures required by the said ruling of the Court.

Collective agreement in the matter of proper representation in the workplace of handicapped persons. A collective agreement was signed on June 25, 2014, by the Business Associations Board, the Manufacturers Association in Israel, Federation of Israeli Chambers of Commerce (FICC) and other organizations with the Federation of Labor, which states that an employer, who employs over 100 employees, must provide for the proper representation of handicapped persons. The parties have defined that "proper representation" at the end of the first year since the agreement became effective, would be 2% of the total number of employees employed by an employer, and 3% at the end of the following year. It has also been agreed that an employer has to appoint a person on his behalf as "responsible for the employment of handicapped persons".

The agreement became effective on October 5, 2014, upon the publication by the Minister of the Economy of the Extension Order. The Bank is preparing for the implementation of the provisions of the collective agreement, including the appointment of a "responsible officer", as stated.

General collective labor agreement and Expansion Order in the matter of increased contributions for pension. An Expansion Order was published on May 23, 2016, which expanded the provisions of the general labor agreement in the matter of increasing the rates of pension contributions, according to which, as from July 1, 2016, the provident contributions of the employer will be increased to 6.25% and the deduction of the part of the employee to 5.75%, and as from January 1, 2017, will increase to 6.5% and 6%, respectively.

Amendment of the Annual Vacation Act. An Amendment to the Annual Vacation Act took effect on February 16, 2016, whereby employees with a service period of up to four years would be entitled, as from July 2016, to one additional vacation day, and as from January 2017, to one additional vacation day (in total, an addition of two vacation days).

Amendments to the Female Labor Act. An Amendment dated June 27, 2016, states that an employee is entitled to up to five days of absence from work, starting from the day following the day of his spouse giving birth, as follows: first three days - on account of his vacation days, and if he has no accumulated vacation days, as unpaid leave. Two additional days - on account of his sick leave (with payment of one half of the sick leave pay for each day).

An Amendment dated July 5, 2016, states that the entitlement to a one hour of absence per day ("parenthood hour") as from the end of the childbirth and parenthood period and for a period of four months, shall apply also to a full-time employee - himself or



alternately with his spouse who had completed the period of childbirth and parenthood, subject to the terms stated in the Act.

Economic Efficiency Act (Legislation amendments to achieve the goals of the budget for the 2017-2018 budget years). In accordance with the Act, published on December 19, 2016 with effect as from January 1, 2017, employees whose assured monthly salary exceeds NIS 32,000, shall pay income tax on the amount of the employer contribution to severance pay computed on that part of the assured salary that exceeds the said maximum amount, in accordance with their marginal tax rate.

Moreover, a maximum amount was determined in respect of "severance pay complementary contribution" (a one-time amount deposited by the employer, occasionally, in order to complement severance pay in respect of prior employment years), in the amount is NIS 32,000 or the employee's monthly salary, whichever is lower, which up to it the amount is not taxable, and any amount in excess thereof is taxable at date of contribution.

Section 9(7A) of the Income Tax Ordinance has been amended, stating that amounts considered as employment income of the employee at date of deposit with a pension fund, shall be exempt from tax on date of withdrawal of the amounts as a capital award upon retirement, on condition that these amounts are withdrawn on date of retirement or thereafter.

A retired employee, the amounts comprising severance pay standing to his credit at all pension funds, in respect of his employment with the same employer, do not exceed NIS 360,000, shall be deemed an employee who had informed of his wish to retain such amounts for the purpose of pension payments, unless otherwise requested by him.

In addition, the tax rates have slightly been changed and even expanded with respect to the lower taxable grades, so that the tax payable on amounts of up to a monthly income of NIS 20,000, is lower. The amount of the reduction is being eroded up to an income of NIS 34,000, and as from this level and up to an income level of NIS 67,000 there is an increase in the tax rate. The tax rate remains unchanged for amounts in excess of the aforementioned income level.

Characteristics of employees

General. Following are presented different sections regarding characterization of employees²⁸.

²⁸ Note: It is noted that the Discount Bank data in this item include tenured employees, under personal employment agreement, members of Management and temporary employees and do not include workers of outsourcing status or employees on leave (excluding data relating to managers, which do not include members of Management).

Gender segmentation

Distribution by gender of all Discount Bank employees:

	Clerks		Managers		Total	
	December 31		December 31		December 31	
	2016	2015	2016	2015	2016	2015
Men	1,494	1,576	571	630	2,065	2,206
Women	2,628	2,765	533	565	3,161	3,330
Total	4,122	4,341	1,104	1,195	5,226	5,536

Distribution by gender of senior managers at Discount Bank – group manager and above:

	December 31		
	2016	2015	Rate of Change (in %)
Men	59	41	43.9
Women	105	90	16.7
Total	164	131	25.2
Rate of women	36	31.3	15

Distribution by gender of all MDB employees:

	Clerks		Managers		Total	
	December 31		December 31		December 31	
	2016	2015	2016	2015	2016	2015
Men	342	366	297	291	639	657
Women	632	681	160	152	792	833
Total	974	1,047	457	443	1,431	1,490

The ratio of female employees at Discount Bank, at MDB and at ICC:

	Percentage of female employees					
	% of all the employees		% of tenured employees		% of Managers	
	December 31		December 31		December 31	
	2016	2015	2016	2015	2016	2015
Discount Bank	60.5	60.2	59.4	59.9	48.3	47.3
Mercantile Discount Bank	55.2	56.0	54.0	53.7	35.0	34.2
ICC	71.5	69.2	71.4	⁽¹⁾ 69.4	54.2	52.6

Note:

(1) This definition is irrelevant to employees of ICC.

A comparison of the wages of all men to the wages of all women at Discount Bank shows that the average salary of female managers is 27.4% lower, on average, than the wage of male managers, compared with 28.1% in 2015. Also, the average wage of female clerks is 24.6% lower than the average wage paid to male clerks, compared with 21.2% in 2015 (it is noted that the method of calculation has been changed with respect to the year 2016 – an improved calculation in respect of the effect of part-time employment. The data for 2015 has been restated accordingly).²⁹

Mercantile Discount Bank. A comparison shows that no gap exists between the average salary of female managers and the average salary of male managers. The average salary of female clerks is lower by 28.7% than the salary paid to male clerks (compared to 29.3% in 2015).

ICC. A comparison of men's wages and women's wages shows a gap of approx. 20%.

Age and seniority

Presented below are data regarding average age and seniority:

Age	Average age		Average seniority	
	December 31		December 31	
	2016	2015	2016	2015
Discount Bank	44.9	45.4	17.0	17.8
Mercantile Discount Bank	43.3	42.9	16.1	15.6
ICC	36.2	35.5	8.5	7.9

The reduction in the average age and in the average seniority stems, inter alia, from the effect of the early retirement plan at the end of 2016.

Presented below are data regarding the age breakdown of the employee as of December 31 for the years 2015-2016:

Age	Discount Bank			
	2016		2015	
	No. of employees	Rate in %	No. of employees	Rate in %
Under 30	655	12.5	578	10.5
30 to 50	2,597	49.7	2,615	47.2
Over 50	1,974	37.8	2,343	42.3
Total⁽¹⁾	5,226	100.0	5,536	100.0

Note:

(1) Tenured and temporary employees, not including employees on layoff periods.

²⁹ 102-48.



Age	Mercantile Discount Bank			
	2016		2015	
	No. of employees	Rate in %	No. of employees	Rate in %
Under 30	121	8.5	156	10.5
30 to 50	987	69.0	962	64.6
Over 50	323	22.5	371	24.9
Total⁽¹⁾	1,431	100.0	1,489	100.0

Note:

(1) Tenured and temporary employees.

Age	ICC			
	2016		2015	
	No. of employees	Rate in %	No. of employees	Rate in %
Under 30	431	30.2	517	35.9
30 to 50	827	58.0	786	54.6
Over 50	169	11.8	137	9.5
Total⁽¹⁾	1,427	100.0	1,440	100.0

Note:

(1) Permanent employees and temporary employees.

Academic education

	Discount Bank		Mercantile Discount Bank	
	December 31		December 31	
	2016	2015	2016	2015
Rate of employees with academic degrees	57.5	56.1	52.2	50.4
Rate of managers with academic degrees	82.5	81.2	56.1	54.3
Rate of clerks with academic degrees	50.8	47.7	50.3	48.8
Rate of women with academic degrees	54.3	52.6	51.7	50.0
Rate of men with academic degrees	62.5	61.5	52.7	50.9

Employee turnover

Discount Bank

During 2016, some 986 employees left the Bank (not including 25 employees, who were on unpaid leave or on maternity leave) and 662 new employees joined. Furthermore, the status of an outsourcing worker has been converted into that of a temporary employee. The difference between the number joining and leaving reflects the decrease in manpower. Most of those hired are temporary employees, while some advance to the status

of tenured employees on a trial basis. At the end of this period, their status changes and they become tenured employees of the Bank.

As shown in the table, the main reason for employees leaving in 2016 was voluntary retirement among temporary employees. Among tenured employees, the principal reason for retirement in 2016 was in respect of encouragement of retirement.

Breakdown of employees leaving Discount Bank in 2016:

Termination due to	Temporary	Tenured	Total
Encouraged retirement	-	312	312
Natural retirement and leaving (includes: termination of contract)	- 34	82 (1)1	82 35
Resignation (wages and benefits)	400	34	434
Dismissal (imposed by Bank)	110	3	113
Other	6	4	(2)10
Total	550	436	986

Notes:

(1) Employee on a trial period.

(2) Of which, five who had passed away.

An examination of the breakdown of the net additional employees according to regions in Israel reveals that most of the growth is in the Tel Aviv region, as is reflected in the table below.

178 employees were moved in 2016 from the position of temporary employees to the position of tenured employees.

Employee breakdown (joining and leaving) according to status/work location:

	Temporary				Tenured	
	Joining		Leaving		New*	Leaving**
	The Bank	Converted	The Bank	Converted		
Jerusalem	59		34	10	10	19
T.A.	68		72	11	11	26
Sharon	65		70	13	13	42
South	50		56	7	7	37
North	49		33	6	6	44
Remaining units	371	1	285	131	131	265
Bank total	662	1	550	178	178	436

Notes:

* New includes temporary employees converted to tenured 47 in regions and 178 total in the Bank.

** Not including retiring employees on maternity/unpaid leave: 22 temporary employees and 3 tenured employees.

The conclusion arising from the data is the breakdown of those joining and leaving, which shows a higher rate for women.

Also interesting is the average age of the men and women joining the Bank. The average age of new female temporary employees is 28.1 years, while the average age of retiring female temporary employees is 29.3 years, 58.1 years for tenured employees. The average age of new male temporary employees is 31.2 years. The average age of retiring male temporary employees is 32.9 years and 60.1 years for retiring male tenured employees. The age of retiring female tenured employees is around 59.8 years, while the age of retiring male tenured employees is around 63.2 years.

Employee breakdown (joining and leaving) according to gender and status – Discount Bank:

	Temporary				Tenured	
	Joining		Leaving		Joining*	Leaving**
	The Bank	Converted*	The Bank	Converted		
Women	456	1	360	101	101	281
Men	206	-	190	77	77	155
Bank total	662	1	550	178	178	436

Notes:

* Joining - including temporary employees converted to the position of tenured employees. Also there is one employee that had been moved from an outsourcing position to a temporary employee position.

** Not including retirees who were on maternity leave or on unpaid leave: 22 tenured employees and 3 temporary employees, all female.

In addition to those leaving and entering the Bank, 709 employees changed their jobs or place of work in the Bank in 2016 (1,133 in 2015). These changes are an important expression of "employment rejuvenation" and of rotation, which is an important weapon in the war against embezzlement and fraud.

Breakdown of employees (joining and new) by age – Discount Bank:

Hereunder are data regarding the age of new employees, in the years 2015-2016:

Age	2016		2015	
	Number of employees	%	Number of employees	%
Up to 30	433	65.4	444	66.5
30 to 50	219	33.1	208	31.1
Over 50	10	1.5	16	2.4
Total	662	100.0	668	100.0

Hereunder are data regarding the age of employees who retired in the years 2015-2016:

Age	2016		2015	
	Number of employees	%	Number of employees	%
Up to 30	259	26.4	356	50.6
30 to 50	403	41.1	232	33.0
Over 50	319	32.5	115	16.4
Total	981	100.0	703	100.0

Mercantile Discount Bank

Breakdown of employees leaving MDB in 2016:

Termination due to	Temporary	Tenured	Total
Encouraged retirement	-	32	32
Natural retirement and leaving	-	10	10
Resignation (wages and benefits)	16	9	25
Dismissal (imposed by Bank)	17	2	19
Other	-	1	1
Total	33	54	87

Notes:

* Excluding employees retiring while on unpaid leave or on childbirth leave

**Employees on a trial period.

Employee breakdown (joining and leaving) according to gender – MDB:

In addition to the employees leaving or joining MDB, approx. 160 employees changed positions within the company in 2016 (126 in 2015).

	2016		2015	
	Joining	Leaving	Joining	Leaving
Women	17	60	11	31
Men	7	27	24	32
Bank total	24	87	35	63

Breakdown of employees (joining and new) by age – MDB:

Hereunder are data regarding the age of new employees, in the years 2015-2016:

Age	2016		2015	
	Number of employees	%	Number of employees	%
Up to 30	12	50.0	21	60
30 to 50	11	45.8	12	34.3
Over 50	1	4.2	2	5.7
Total	24	100.0	35	100.0

Hereunder are data regarding the age of employees who retired in the years 2015-2016:

Age	2016		2015	
	Number of employees	%	Number of employees	%
Up to 30	16	18.4	9	14.3
30 to 50	29	33.3	30	47.6
Over 50	42	48.3	24	38.1
Total	87	100.0	63	100.0

ICC

Some 350 employees left ICC during the year 2016, and 326 new employees joined. As may be seen from the Table, the main reason for employees leaving in 2016 was resignation initiated by the employee.

Breakdown of employees leaving – ICC:

Termination due to	2016	2015
Encouraged retirement	2	5
Resignation (wages and benefits)	230	205
Dismissal	108	124
Other	10	1
Total	350	335

Employee breakdown (joining and leaving) according to gender – ICC:

	2016		2015	
	Joining	Leaving	Joining	Leaving
Women	253	241	134	243
Men	73	109	40	92
Bank total	326	350	174	335



In addition to the employees leaving or joining the company, 135 employees were moved to other positions within the company in 2016, and 126 employees were moved in 2015. These changes are an important expression of "employment rejuvenation" and of rotation, which is an important weapon in the war against embezzlement and fraud and a tool for career development and for increasing the long-term commitment of employees.

Breakdown of employees (joining and new) by age – ICC:

Hereunder are data regarding the age of new employees, in the years 2015-2016:

Age	2016		2015	
	Number of employees	%	Number of employees	%
Up to 30	245	75.1	164	78.4
30 to 50	80	24.6	43	20.6
Over 50	1	0.3	2	1.0
Total	326	100.0	209	100.0

Hereunder are data regarding the age of employees who retired in the years 2015-2016:

Age	2016		2015	
	Number of employees	%	Number of employees	%
Up to 30	215	61.4	201	61.3
30 to 50	128	36.6	120	36.6
Over 50	7	2.0	7	2.1
Total	350	100.0	328	100.0

Vacation and absence data

Data regarding absence days

Paid illness days

Paid sick days are days for which payment to the employee is made directly by the Bank. The number of paid absence days is counted according to the actual number of days.

Presented below are data regarding paid absence days⁽¹⁾ in 2015-2016 - the Bank:

	2016	2015	Change in %
	Illness	Illness	
Men	25,939	26,051	(0.43)
Women	55,298	53,667	3.04
Total	81,237	79,718	1.90
Absence percentage⁽²⁾	6.14%	5.78%	6.23

Notes:

- (1) The counting of days is of workdays missed by the employee and it refers to the total number of possible workdays in the year and not to the total number of days in the calendar year.
- (2) The absence percentage is calculated as the total actual number of absence days divided by the total number of possible workdays of the employee population at the end of the reporting year. It should be noted that the total number of absence days includes all employees who in respect of which an event of "vacation", "illness" or "military reserve" was recorded, while the denominator comprises the employee population at the end of the year. As a result of this calculation format the absence percentage has an upward bias.

Presented below are data regarding paid absence days⁽¹⁾ in 2015-2016 - MDB:

	2016	2015	Change in %
	Illness	Illness	
Men	4,840	4,580	5.7
Women	10,476	10,271	2.0
Total	15,316	14,851	3.1
Absence percentage⁽²⁾	4.1%	3.56%	15.2

Notes:

- (1) The counting of days is of workdays missed by the employee and it refers to the total number of possible workdays in the year and not to the total number of days in the calendar year.
- (2) The absence percentage is calculated as the total actual number of absence days divided by the total number of possible workdays of the employee population at the end of the reporting year. It should be noted that the total number of absence days includes all employees who in respect of which an event of "vacation", "illness" or "military reserve" was recorded, while the denominator comprises the employee population at the end of the year. As a result of this calculation format the absence percentage has an upward bias.

Presented below are data regarding paid absence days⁽¹⁾ in 2015-2016 - ICC:

	2016	2015	Change in %
	Illness	Illness	
Men	3,902	3,738	4.4
Women	14,304	14,043	1.9
Total	18,206	17,781	2.4

Note:

- (1) The counting of days is of workdays missed by the employee and it refers to the total number of possible workdays in the year and not to the total number of days in the calendar year.

Accidents

The data presented below with regard to reported accident events are taken from the data reported to the National Insurance Institute and also include accidents that occurred on the way to the place of work and on the way back. Accordingly, such data do not represent an indication of the number of "work safety" incidents.

Presented below are data regarding the number of accident events reported in 2015-2016:

Number of events	2016			2015		
	Men	Women	Total	Men	Women	Total
Discount Bank	37	105	142	39	76	115
ICC	8	18	26	11	22	33
Mercantile Discount Bank	8	12	20	18	10	28

Maternity leave

Presented below are data regarding taking maternity leave in 2015-2016 - Discount Bank:

	Gender	2016		2015	
		No. employees	Rate in %	No. employees	Rate in %
Employees entitled to maternity leave ⁽¹⁾⁽²⁾	Man	160	34.6	178	37.2
	Woman	302	65.4	300	62.8
	Total	462	100.0	478	100.0
Employees taking maternity leave ⁽³⁾	Man	6	2.2	1	0.3
	Woman	261	97.8	315	99.7
	Total	267	100.0	316	100.0
Employees who returned to work after maternity leave ⁽⁴⁾⁽⁵⁾	Man	6	2.5	1	0.3
	Woman	237	97.5	292	99.7
	Total	243	100.0	293	100.0
Employees who returned to work and were still with the Bank 12 months thereafter	Man	5	2.4	1	0.4
	Woman	204	97.6	233	99.6
	Total	209	100.0	234	100.0

Notes:

- (1) Data for the year 2016 - entitlement to maternity leave - female or male employee whose baby was born between January 1, 2016 and December 31, 2016, not necessarily exercised his rights at the Bank.
- (2) Data for the year 2015 - entitlement to maternity leave - female or male employee whose baby was born between January 1, 2015 and December 31, 2015, not necessarily exercised his rights at the Bank.
- (3) The number of employees on maternity leave is higher than the number of those entitled to such leave in the same year, due to birth taking place at the end of the previous year, though the maternity leave is counted as from January 1, of each year, respectively.
- (4) The 2015 data for the number of male and female employees who returned and were still at work are as of October 31, 2015.
- (5) The 2016 data for the number of male and female employees who returned and were still at work are as of June 28, 2017.

All employees who had returned to the workplace and worked for at least twelve months from date of their return, reverted to their same position.



Presented below are data regarding taking maternity leave in 2015-2016 - MDB:

	Gender	2016		2015	
		No. employees	Rate in %	No. employees	Rate in %
Employees entitled to maternity leave	Man	52	44.4	45	42.1
	Woman	65	55.6	62	57.9
	Total	117	100.0	107	100.0
Employees taking maternity leave	Man	-	-	2	3.1
	Woman	65	100.0	62	96.9
	Total	65	100.0	64	100.0
Employees who returned to work after maternity leave ⁽¹⁾	Man	-	-	2	3.1
	Woman	38	100.0	62	96.9
	Total	38	100.0	64	100.0
Employees who returned to work and were still with the Bank 12 months thereafter	Man	-	-	2	3.1
	Woman	65	100.0	62	96.9
	Total	65	100.0	64	100.0

Notes:

- (1) The 2016 data for the number of male and female employees who returned and were still at work are as of December 31, 2016.
 (2) The 2015 data for the number of male and female employees who returned and were still at work are as of December 31, 2015.

Human resources planning and development

Development of human resources at the Bank derived from the strategic focuses and the Bank's organizational culture. Thus reinforcing the Bank's ability to address successfully its business and organizational challenges.

Management and leadership

Establishing, cultivating and strengthening the managerial backbone, throughout its extent, by developing managerial leadership that supports strategy.

Development of acting managers

Enrichment activities for the Senior Forum (officers reporting directly to VP's). Enrichment activities designed for the administrative and business senior management level and for strengthening networking within the Forum. For example: experimental learning activity that includes exposure to other organizations, enrichment lectures, significant activity in aid of the community.



"An executive training room". Practical-implemental training, subject focused, for the maximization of the variety managerial skills and qualifications of the Bank's managers. In 2016, some 250 managers participated in the "executive training room", undergoing training in relevant management subjects.

Training for managers of an organic unit in the matter of initiative and business development. An applied program for fifteen business managers and forty business bankers of the Corporate Division, positioning them as creators of value and trusted advisors as regards existing and potential customers, and providing them with applicative tools for attracting customers and intensifying activity with customers in a competitive era.

Managers website. Strengthening administrative professionalism by means of current distribution to all managers of articles, tools and TED video clips on the matter of management.

Program for the development of team leaders and of organic teams. Development activities in this framework were conducted in 2016 for 86 managers.

Personal development

Assisting and advising managers when assuming new duties and/or advising and on the job managerial training. Assisting new branch managers upon their entry into office was performed according to an integrative guidance and assistance layout, for intensifying the role concept of a branch manager. Assistance and counsel was given to 71 Unit managers in 2016.

The mentoring of managers and units undergoing change. Organizational diagnosis, development plans, consulting and support assistance to units in view of processes of change at the unit. Assistance was given in this framework to 28 Unit managers in 2016.

Professional guidance

In 2016, a comprehensive response was provided for professional needs by means of training that dealt with the qualification of employees for core banking positions, as well as ongoing on-the-job training. A significant portion of this was devoted to training employees who had replaced other employees who had taken advantage of early retirement as part of the implementation of the strategic plan.

The main guidance focal points were: enhancing the professionalism of officeholders in the credit field, financial consulting, regulation and compliance and also comprehensive training of bank tellers and service teams.



In 2016, a guidance process continued with regard to the law dealing with accessibility for customers with disabilities. Within this framework, 104 experiential workshops were conducted for 1,404 employees as compared to 74 workshops in 2015 (a growth of 40%), involving 1181 employees (a growth of 19%). In these workshops employees serving customers were given the experience of a customer with disabilities.

The scope of professional and managerial training

The number of training days in 2016 reached approx. 26,280 compared with 26,130 training days in 2015, an increase of approx. 0.6%. The data regarding the number of training days relate to actual training days within the premises of the College and outside thereof. In addition, training was conducted via communication network, which amounted in 2016 to 39,914 interactions of network self study, compared with 37,530 interactions in 2015 an increase of 7.3%. A significant part of the computer network learning was dedicated to the regulation in different areas (administrative enforcement of the Securities Laws, FATCA, etc.).

Presented below are data regarding the average annual training hours per employee for the years 2015-2016:

	(1)2016	(1)2015
Average training hours - clerk	35	35
Average training hours - manager	28	31
Average training hours - total	34	34

Note:

(1) The data is based upon the number of employees at end of year.





Investment in training and development of employees

The Bank's investments in developing its human resources, in the training and shaping of an organizational culture amounted to NIS 7 million in 2016, similar to 2015.

The above mentioned amounts include the training of employees in various subjects (development and providing training and training advice), professional qualification expenses, study seminars, etc. The amount does not include expenses in respect of academic studies for the Bank's employees and also not indirect costs regarding the wage of instruction staff, rental and building maintenance costs. The amount does not also include the relative part of employee payroll in respect of the participation of the staff in providing training courses, in the Bank's training framework, in self study by means of the distant learning computer systems and participation in outside training frameworks.

Furthermore, for the purpose of conducting the training, the Bank appoints mentors and training partners who are Bank employees and who, in addition to their regular work, assist in apprenticing training and in the preparation of training material. The cost in this respect is not included in the above amount.

It is noted that also in 2016 the level of exposure to training has risen, through the use of computer communication.

Knowledge management

Knowledge management constitutes an important layer in the management of employee professionalism and the quality of service at the Bank. A site for managers was opened in 2016 on the Bank's portal, with the aim of enrichment of knowledge and tools in the field of management. Managers may find on the website: tools for the development and management of employees, administrative conjectures and simulations, different management reports and professional video clips. In addition, the site includes a communication forum and registration for administrative training within the framework of an "executive training room".



Human resources planning and development – ICC

Management of ICC views the human capital as a strategic partner in achieving the goals of the organization, and therefore invests in the cultivation and development of workers and managers, in their personal and professional progress and in their attachment to the core business goals.

- Development of acting managers - "Leading together", a managers development program introduced in 2015: a program which provides tools and skills to managers helping them to lead their units to success. The program deals with different subjects, such as: perception of duties, motivation of workers, personal and organizational development, work and management routine, avoidance of wear and tear among employees and managers, etc. During 2016, 43 managers participated in the program (50 managers in 2015);
- A designated and unique development program for department managers was formed in 2016. The program focused on leadership and 32 managers participated in it.

Management and leadership. Management of ICC believes in the development of the executive echelon and conducts a structured process of identification, locating and development of managers with the aim of cultivating a strong, qualitative and leading executive echelon. Some 70% of the managers of ICC have grown within the company into managerial positions.

Several programs are in operation in order to develop the executive echelon:

- ICC leads a development program for managers entering office as well as for managers already in office. The development programs deal with contents matters of ICC and are connected to the business focuses of the company. The programs are modified to the special administrative needs of each level;
- Managers meeting (expanded management forum) - once in every quarter meeting are held for the updating, formation and strengthening of the executive echelon;
- Position survey - Once in every two years the organization performs a position survey with the aim of providing the manager with an organizational image as regards the positions of employees and to focus him on matters requiring maintenance and treatment during the year. The last survey was performed in 2016;
- Executive training room - A program introduced during 2016, which includes enrichment learning meeting regarding a variety of subjects, the aim of which is to continue and develop and cultivate managers and provide them with management tools and skills;



- Inspiration creating communication for managers - designated communication delivered on a monthly basis, dealing with the different world of management and include articles/lectures/ TED videos and more;
- Development of managers entering office - Managers' training course: a course designed for managers entering their first managerial office in the organization. The training focuses on providing knowhow, perceptions and skills in different areas: perception of the role of a manager, impacting and creating performance, creating motivation, interface management, etc. During 2016, 18 managers participated in the course (in 2015 - 20 managers);

Personal development. Personal attention is provided by the organization to managers entering managerial positions, as well as in case of organizational changes, as part of the change management process.

- Assistance upon entry into a first managerial position - ICC operates an assistance and support program for managers, which includes personal attention, an absorption kit and an orientation workshop that reviews all knowhow and professional factors supporting the appointee in his duties as manager;
- Assistance for managers as support for organizational changes - following the conduct of a diagnostic process, a designated development and training program is devised.

Encouragement of excellence - ICC views excellence with importance and encourages its employees in this respect:

- Ongoing performance measurement;
- An annual and semi-annual employee evaluation process, which sets professional and personal development targets as well as measurement of performance in the past year (evaluation in respect of the previous year is performed at the beginning of each year. Mid-year discussions are held in the months of July/August);
- The granting of an annual award based on the annual employee evaluation;
- The "Proactive" excellence program - esteem for outstanding workers of the different departments, and an annual esteem program for selected outstanding workers of the company, which includes a gift, public esteem and a luxury trip abroad for the "Proactive" team.

Professional training. ICC sees supreme importance in the subject of employee and manager development and invests many resources in the financing and development of professional study courses, seminars and workshops for increasing professionalism of employees and maintaining their competence as a generator for organizational growth. For this purpose, designated training programs are being constructed, accompanied by different innovative and creative training products, which provide a learning experience to the participants. The training courses in the different tracks combine



different types of learning: digital learning, learning by means of games and the use of smartphones. In this manner, the training creates satisfaction of the participant alongside effectiveness and a high professional level.

CAL College - an organizational training program for the development and enrichment of the employee, allowing each employee to register and participate in a variety of professional courses and training programs suitable to his position and his personal and professional needs. The courses and training programs are advertised on the company's Internet portal and include: technological courses and training programs, proficiency workshops and meetings in matters of process management, knowhow in the credit field. Existing alongside this program is a training program regarding the organization as a whole, covering cross-organization matters, including business projects, regulation and employee duties.

In view of the fact that the company focuses on credit, many training programs have been conducted in this matter: strengthening of knowhow and skills regarding the sale of credit within the general representative population, credit study meetings for all managers providing and improving the knowhow, participation of credit officers of the different departments in a consumer credit course held at the Discount College.

Following are data regarding employee and manager training inputs at ICC:

Type of training	Population	2016 (hours)	2015 (hours)
Entering the position	Managers	28 hours per manager	Not held
	Employees	8 hours per employee	8 hours per employee
	Representatives ⁽¹⁾	232 hours per Representative	232 hours per Representative
On the job training	Employees and managers	16.51 hours per person	17.42 hours per person

Note:

(1) A "representative" is defined as one who provides telephonic service to customers (service representatives, service and sale representatives, trading house service representatives, etc.). Representatives receive intensive training for about one month, upon entering this position.

Direct investment in training in 2016 (including training, consulting for managers, development of managers and senior Management) amounted to NIS 1.4 million, similarly to 2015.

Training, planning and development of human resources – Mercantile Discount Bank

Management of MDB attaches importance to the development of the human capital in the spirit of the bank's values in accordance with the bank's strategy, with the aim of continuing the growth and prosperity of the Bank.



Management and leadership

Development of acting managers. The bridging of gaps action was performed in 2016 with respect to department heads at the branches (a first managerial position), who had been appointed to their position within the framework of integration of the methodology. 45 of these department heads participated in the course providing training for a first managerial position.

Improving tutorial skills. All department heads at the branches have improved their tutorial skills by designated instruction on the subject.

A monthly newsletter supporting sales and service management is being distributed every month to heads of the business units.

Personal development. Newly appointed managers are accompanied by a tutor manager as well as assisted by an organizational advisor. Three new managers were so accompanied in 2016. As part of the merger of branches, one branch team received the said assistance. Assistance was provided also to ten additional branches requiring higher skills in the matter of sales and service.

Professional training. The learning supports the implementation of the bank's business strategy and comprise a necessary layer in the training of an employee for the correct performance of his duties and for improving his performance. Professional development and training in accordance with the procedures and policy, while maintaining an up-to-date knowledge and strict internal control, risk management and compliance, which are essential for the promotion of a uniform standard of professional level in aid of providing full service to customers. The training courses are divided into groups of professional development emphasizing procedural training adjusted to the duty, while maintaining professional qualification over a period of time.

Training sessions were held in 2016 complementing the required knowhow for a uniform professional standard, following the branch methodology.

Learning has been conducted as regards all banking fields.

The distribution of learning by fields reflects the strategic methodology for the granting of full service to the customer in all contents worlds, as well as preference by risk and subjects on the organizational agenda.



Professional training of investment consultants is conducted through joint sessions with the parent company.

Integration of the compliance culture. As part of the support of this process, a variety of frontal and digital learning activities have been conducted, and self-study layouts at the branches have been developed. Nineteen study sessions were held for branch managers, compliance trustees and bankers. A survey has also been conducted for the monitoring of the risk management culture at the bank.

Approx. 64,000 organizational study hours were conducted in 2016, of which 15% being digital study. The above does not include "on-the-job" (OTJ) training.

99% of all employees participated in study sessions.

85% of employees participated in non-computer communication training on the various sites of the bank.

44% of the non-computer communication training activities were conducted at the branches and at the Regional Managements (excluding tutorial training).

The number of frontal instruction hours amounted to 30,800. In addition, 13,266 interactions were made in self digital study.

A decrease in study hours at the bank is noted in comparison with an increase in the number of students, a fact indicating efficiency while shifting the study to the proximity of the student.

The average study hours per employee amounted to 28. The data does not include academic study.



Organizational culture

In 2016, the focus was placed on the design of a change supporting organizational culture³⁰, with an emphasis on performance and service.

Facebank. An organizational portal, in the format of news sites on the Internet. This allows updating on news and current updates at the Bank, and invites an open dialogue with senior Management on subjects that are the center of discussion in the organization. Since its establishment, the Facebank provided, among other things, a current updates of the employees regarding the new strategic plan, cross-organizational projects operated within the framework of which, and news regarding the marketing and services field. A designated site was introduced in November 2015 on Facebank, named "Human resources for you" intended for the benefit of the individual employee. The site includes detailed information regarding employee rights, training and development programs, social responsibility, and more.

A portal managed by the Bank's Spokesperson, a fact that allows full synchronization between the external information layout and the intra-organizational information system, which, inter alia, provides employees with current information and updates regarding material events, both outside and inside the Bank.

The Discount code of ethics. The process of updating the ethical code was completed in 2015, and a significant number of Bank employees have undergone training in different frameworks. A process for the definition of a new ethical code modified to the spirit of the Bank and to its new values began in 2017.

Internal communication. The Bank is investing in the development of open and two-sided communication with its employees, while strengthening their relations and commitment to the strategy and goals of the Bank, as well as to the community and the environment. With a view of broadening employees' knowledge and understanding as to the Bank's total activities and to promote performance, a variety of communication lines were also used during 2016, including: Senior Forum - a quarterly meeting led by the President & CEO; "Morning magazine" - a weekly television newscast presenting subjects standing at the core of the Bank's endeavor.

"The Managers" website. In 2016, the Bank introduced an internal website "The Managers", which contains tools and content for managers at the Bank, which assist them in the integration of cross-organizational processes stemming from the Bank's strategic plan, as well as enrichment and development content.

³⁰ 102-43; 102-44.



Communication with the Senior Forum. In 2016 a designated channel has been established for communications with the Senior Forum at the Bank and at the Group. The Forum consists of some 120 executives in the Group who, through this channel, receive current updates and reports on a daily basis. In addition, special-purpose activities have taken place in order to strengthen joint voluntary activity for the benefit of the community.

In order to feel the mood, challenges and questions of employees, the Bank holds meetings at various levels, discussion groups and feedback processes, including:

- "Round tables" - "face to face" meetings of the President & CEO or of one of the management members with managers and employees;
- "Management in the field" - monthly tours of management members at branches and field units accompanied by senior managers from their head offices;
- "Ethics Café" - meetings led by a member of the Management, enriching the ways of facing ethical dilemmas.

Nurturing excellence. In accordance with the Bank's strategy, which encourages performance culture and Cultivating excellence, several remuneration mechanisms have been determined at the Bank intended to appreciate and compensate outstanding employees, who had attained their business goals and awarded high appreciation marks by the annual performance evaluation measures. In this framework, the Bank conducts different competitions, at the branch and regional levels, and Vice Presidents award remuneration to outstanding employees at the different divisions, as well as special remuneration awarded annually by the President & CEO to a number of outstanding employees, at a festive ceremony held at the Bank. All this in addition to integration and employee motivation processes conducted on a current basis.

ICC³¹

Follow-up activities have been applied for the integration of the business strategy in 2016, and a plan was devised for the integration of a strategy supporting culture -

- Designated training for managers for the incorporation of the strategy;
- Training for designated populations relevant to the implementation of the strategy;
- Continuing integration within the framework of meeting of Management, the extended Management, work plan meetings for all wings, and more.

³¹ 102-43; 102-44.



The organizational Internet portal of ICC. Allows every employee to find all the information regarding the terms of employment, the collective labor agreement, employee benefits and welfare, rules of conduct, current updates, possibility of direct approach to the CEO, and more.

The portal includes, inter alia, professional knowhow with respect to the company and its products, the CalCollege program for professional enrichment and training, managers portal, open positions and the process of the online submission of candidacy, the employee representative committee website and hundreds of professional information sites.

The ethical code of ICC. Integration of the Code of Ethics continued in 2016, which included a meeting with the managers in the organization, at the level of heads of units, department managers and members of Management, which took place at the Ethics Center in Jerusalem. The meeting included learning, bringing up of dilemmas and the required course of action, a lecture on increasing awareness and importance of the subject. Managers of the organization integrated the ethical conduct among their subordinates, including conducting compulsory learning.

Intra-organizational communication³². ICC invests in ongoing and open communication with its workers and managers, in increasing the sense of relationship between the workers and the organization, their acquaintance with the company's activities and strategy and the strengthening of the bond between them, as part of the support of the targets and business growth.

Communication includes a variety of means, including:

- The quarterly extended management forum;
- A monthly management report worksheet "Cal way of management" - the worksheet is intended to enrich knowledge in the world of management with orientation towards ICC and to provide implemental tools for a dialogues with employees, tools for team meetings, and more. The worksheet includes four types of tools:
 - An in depth article on a current management subject;
 - "Passing it on" - suggestions for a dialogue with employees on current and changing organizational matters;
 - "What happens at ICC?" - a report by managers of the organization regarding organizational work, significant processes and more;
 - Link to an intensifying inspirational video clip connected to current organizational or managerial work;
- Round table meetings of the different grades with the CEO;

³² 102-43.



- Campaign for the encouragement of internal mobility of employees and progress to an additional position in the organization;
- Use of a joint language with the employee representative committee "together we are the best for you", strengthening the bond based on mutual responsibility;
- Changing campaigns and exposure to current organizational activity.

Mercantile Discount Bank

A new branch methodology was introduced at MDB in the years 2015–2016, based on the desire to improve the business and marketing capabilities and upgrade the level of service at the branches, while adapting the workforce and bridging knowledge gaps.

At the end of 2016, MDB introduced a new code of ethics, based on three dimensions: human - responsibility, fairness and honesty; organizational - professionalism, excellence and commitment; and interpersonal - cooperation, mutual respect and tolerance. The bank conducted and continues to conduct on a current basis instruction sessions and activities for the integration of the code of ethics.

MDB has an Internet website in Hebrew and Arabic, providing extensive information regarding the bank and its operations.

MDB has an employee Intranet portal, which includes extensive information serving and enriching its employees. The bank is upgrading the intra-organizational communication in order to maintain an open and two-way communication with the employees, while strengthening their commitment and linkage to the strategy and the goals of the bank, as well as to the community and the environment³³.

In order to sense the mood, challenges and questions of employees, meetings and discussion groups are being held at different levels, as well as feedback processes, including:

- "Round tables" - face-to-face meetings of the CEO or of one of the members of Management with managers and employees.
- "Management in the field" - current visits by members of Management at the branches and at field units accompanied by senior managers of their head offices. Management of the bank emphasizes visits to bank branches and field units towards important holidays of the different denominations.
- Twice yearly, before the Jewish New Year and the Passover holidays, Management of the Bank "raises a glass" together with the staff of the bank's head office.

³³ 102-43.



The "Human resources for you" Center³⁴

The Center was established in November 2015, within the framework of a move for the upgrading of the service provided to Bank employees by the Human Resources and Properties Division. The Center was established in order to serve as one clear address for all Bank employees with respect to any approach in the matter of human resources, and to provide a uniform and professional response to all approaches.

The establishment of the Center allows also control over the response time to employee approaches, and the inclusion thereof in a clear framework of defined goals.

Approaches to the Center may be made through different routes: telephone, email or service envelopes. Telephone approaches may be made at predetermined time frames announced to employees. Approaches by email may be made throughout the day at a designated email address "Human resources for you".

The year 2016 was the first year of operation of the Center. Some 5,400 approaches were received, of which 1,400 approaches by telephone and 4,000 approaches by email. Approx. 87% of the approaches in 2016 involved matters of wages and attendance at work.

Several cross-organizational events occurred during the year which raised a relatively large number of approaches: the transition to a new attendance at work agreement (December 2015); computerizing Form 101 into the payroll system of the Bank; employee evaluation process; distribution of the Passover gift; distribution of schoolbags to children of employees starting first grade; retirement plan; continuing leave; the new wage agreement (November 2016) and more.

Service surveys conducted by the Bank show that 95% of employees participating in the surveys have expressed high satisfaction from the service.

Feedback interviews³⁵

The feedback conversations comprise an annual process forming a most important management tool in guiding and motivating employees. The feedback interview is intended to survey an employee's performance and functioning during the past year, to retain and reinforce the strengths and achievements, to identify what needs improvement and to set goals for the upcoming year. At the same time, the feedback conversation is an opportunity for open dialogue with the employee.

³⁴ 102-44.

³⁵ 102-43; 102-44.



In 2017 the performance appraisal process was conducted in respect of performance in the year 2016. As part of this process, 98% of the employees earned feed-back discussions.

Within the framework of the preparations for the process training sessions were held for approx. 100 assessing managers and for human resources managers at the different divisions.

The process for the current year emphasized the integration of a performance based organizational culture. The requirement for the setting up of goals and the linking of goals from the level of senior Management to the employee level has been communicated and integrated in the process.

Following the conclusion of discussions, a process of drawing conclusions is made once a year, leading to steps for the improvement and updating of the process.

Feedback discussions at Mercantile Discount Bank. The annual feedback discussions serve as a platform for the evaluation of employees, their performance and commensurate remuneration with the aim of encouraging a culture of transparency and dialogue that fortifies the obligation of the employees towards the organization focused on results, and comprises a tool for the identification and nurturing of excellence.

In 2016 a new model was developed and implemented at MDB for the evaluation of employees and feedback discussions. The new process created differentiation between employees, identifies end population and creates transparency and dialogue. The model had been applied in the feedback discussions held in 2016, regarding the 2015 performance and in discussions held in 2017 regarding performance in 2016.

An evaluation was made in respect of 100% of employees. Feedback discussions were made in respect of 96% of the employees.

Feedback conversations at ICC. Two processes of evaluation and feedback are held in each year.

The annual evaluation and feedback process – this process is conducted at the beginning of the year and includes a forward looking evaluation and feedback focusing on both personal and organizational growth. The process assists in focusing the personal capabilities of each employee in a manner that would contribute to personal growth and the realization of the strategy "Growing clever together". Evaluation of employees was made in 2016 using a form reflecting the skills required from employees and managers in order to achieve the strategy and business goals. Furthermore, and as part of the support provided to managers, workshops were held providing tools assisting in the handling of the complexity of the process.



Semi-annual feedback conversation – this is held in July and is intended to provide feedback regarding the progress made since the beginning of the year and give direction as to the continuation of growth and achievement of personal goals.

The annual evaluation and feedback process for 2016 included conversations and provided a summing-up evaluation for 100% of the company's employees taking part in the process (all employees participate in the process, excluding new employees).

Position Survey³⁶

In recent years, within the framework of the participation of the Bank in the BDI survey – "100 best places of employment", a survey is being conducted with participating Bank employee relating to their position on issues relevant to the Bank. The results of the survey are analyzed according to various sections: head office/field, regions etc. Multi-annual trends in the organization are also analyzed as well as trends in comparison to the benchmark of banking corporations in the industry, in order to identify differences and concentrate efforts to reduce them, respectively.

The survey relating to the year 2016, was conducted at the beginning of 2017 and covered approx. 13% of all Bank employees.

The findings of the surveys and the perceptions arising there from are presented to the Human Resources and Properties Division and to the Bank's Management. The insights being formed following these findings, are used by the Division in forming the highlights of the work plans.

ICC position survey. In recent years ICC participates in the BDI survey "100 Best Companies to Work for". The results of the survey are being analyzed according to different sections. Furthermore, an analysis is made of multi-annual trends within the organization and trends as compared with the benchmark of the financial sector in order to identify gaps and concentrate efforts for reducing them, respectively. Approximately 37% of company employee participated in the survey conducted in 2016, resulting in ICC rising to the twenty-sixth place in the rating.

An organizational employee position survey is conducted once every two years. The last survey was conducted in September 2016, in which about 93% of the employees participated.

The survey results are presented to the company's Management as well as to all manager, and following its analysis a comprehensive plan is devised for the gaps, both at

³⁶ 102-43; 102-44.



organization and unit levels. The position survey serves as a supporting tool for managers of the different units in order to introduce improvements both at the personal management level and at the cross-unit matters level.

Employee welfare

Welfare services operated in the Bank

Since its establishment, the Bank has been known as an institution in with special sensitivity to the needs of the employee, and his troubles, and the approach to the employee is warm and familial. In 1976, the Bank began to operate welfare services in an institutionalized manner, becoming one of the first organizations in the economy to do so. The welfare services in the Bank do not replace community services, but are a connecting and complementary link.

The establishment of a welfare field in the Bank, is essentially taking the position that the organization (the Bank) views itself as a partner in the employee's problems and is interested in helping him, to the extent possible, to solve them, with a view that presumes that an employee who obtains assistance in solving his problems may be a more satisfied employee with a higher sense of belonging to the organization. Moreover, as part of the task of developing the organization's human resources, the Bank is interested in contributing to the employee's welfare, to improve his quality of life and diversify his leisure possibilities, in order for him to be a more satisfied and healthy person in body and soul.

Treatment and prevention in two circles are integrated into the supportive welfare field, as follows: assisting the individual - the worker and his family and the development of welfare programs for all employees and common interest groups.

Treatment of the individual

Treatment of the individual focuses on consulting, servicing and direction under crisis, and is intended to assist the worker in dealing more effectively with his problems and needs, in order to return him to proper functioning as soon as possible, at home and in the work place. An important bi-product of this involvement is the contribution to strengthening an employee's commitment to the organization.



The main areas of involvement within the scope of dealing with the individual are:

- Consulting and treatment in a wide variety of types of problems: personal, family (children, spouse, parents), health, finances, retirement, death, work problems. The consulting and treatment are provided in office meetings, in the work place, home visits, visits in institutions, etc;
- Providing information on and referrals to services in the Bank and the community in order to make the most of rights and/or treatment, while forging ties with those officials, as needed;
- The writing of social reports, which serve as a recommendation for the Bank's internal assistance funds, and to the extent necessary, also to outside parties (courts, adoption service, etc.);
- Consulting to those in charge of treatment of employee problems, instead of or as a complement to treating the employee himself.

The referral to welfare services is generally done by the employee himself, or by referring parties, such as: supervisor, Human resources manager in the unit, peers at work, etc.

In 2016, the Welfare Department dealt with 840 inquiries, compared with 673 inquiries in 2015.

Death of a family member of an employee. The Bank attends to its employees also in sensitive events in their lives, such as the death of a first degree family member, sending a wreath to the funeral, providing condolence set to the bereaved family and inserting an obituary notice on the Bank's internal website.

A similar process is also conducted at ICC.

Managers' involvement in treatment process

The Bank and ICC encourage the involvement of the immediate superior in assisting an employee in crisis. The concept on which this approach is based is the providing of basic tools for involving the manager with crisis events in an employee's life, as part of the concept of proper management, with the professional support and guidance of the Welfare workers.



Treatment of group pressure situations

Involvement in a pressure situation is accompanied at times by group treatment intended to provide a solution for the mutual need or difficulty of a group of employees, simultaneously, in addition to and as a complement to individual counseling. The group meeting enables an employee to learn from the knowledge and experiences of the group members.

Group pressure situations include: war, terror events, robbery or attempted robbery in the branch, sudden death of an employee, natural disaster, etc.

The involvement occurs in several plains: conversation and training for the unit's management team; individual personal treatment for employees who were hurt and need support; group conversation held close to the time of occurrence, intended to release fears and create an atmosphere of mutual support around the traumatic event; coordination and cooperation with parties in the Bank and the community.

In 2016, 7 events of group pressure situations were treated, compared with 14 in 2015.

Mercantile Discount Bank. At exceptional events, such as outbreak of war, widespread fire, etc. - the bank assists and supports employees located in vulnerable areas by providing psychological support, hotel accommodation where required, and accommodation at other employees of the bank.

Health in employment

This area is the responsibility of the officer in charge of safety at the Bank, which includes: environmental and employment monitoring tests as required by Regulations, including the performance of a preliminary survey. Performance control for employment medical examination is conducted in accordance with the duties prescribed by legislation relevant to employees according to the risks involved in their work, in coordination with the Bank's medical officer, heads of the relevant units and Human Resources.



Complaints by employees regarding suspicion of electromagnetic radiation generated by the electrical network or regarding the air quality in their workplace etc., are submitted to the safety officer for examination using qualified outside experts, and are being treated, as the case may be, by the Bank's performance functions (construction and maintenance department, Human Resources, etc.). In addition, the Safety Officer initiates tests regarding electric network radiation and air quality issues arising from risk factors discovered by safety surveys performed at units of the Bank.

16 radiation and air quality tests were performed in 2016, compared with 35 tests performed at the Bank's units in 2015.

Personal and welfare programs

Over the years, the Bank maintains a familial work environment accompanying employees at significant junctions in their lives, marking personal events of employees, granting presents at holidays, providing enrichment and integration activities as well as welfare programs. These programs are designed to develop employee welfare in the fields of health, community and leisure, and to provide a solution to a wide array of needs of employees and their families; to increase awareness of early detection of diseases, education, health, preventing physical wear and tear, and to improve quality of life in areas, such as: family, retirement, leisure and health.

Preparation for retirement

Retirement is one of the most significant transitions in an employee's life. Accordingly, the Bank organizes and offers workshops in preparation for retirement. Within the framework of the seminars, the participants receive information on medical, psychological, legal, financial and other matters. By working in small groups, the retirees are able to deal with their concerns together, in order to be prepared for the range of changes and possibilities brought by retirement. For those interested, personal counseling can be provided in addition to the seminars.

In 2016, 110 workers (without their spouses) participated in retirement seminars. 303 workers (without their spouses) participated in retirement workshops in 2015.

24 employees (excluding spouses) have participated in preparations for retirement workshops held by MDB.



Workshops and seminars

The Bank offers its employees a wide range of seminars, activities and lectures on the subjects of health, family and leisure. The activities are conducted outside of work hours in Discount College, and at a number of additional centers and sites of the Bank throughout Israel. In 2016, there were 5,824 participants in these activities, compared with 6,523 participants in 2015 (the data does not include pre-retirement workshops).

Welfare activity at ICC

All through the years, ICC maintains a familial and warm work environment, inter alia, due to the support and attention given to employees in significant and sensitive events in their lives. Beyond the wage terms, the company grants awards during the year, to excelling employees as well as an incentive program for employees gaining company excellence. In addition, the company provides diverse benefits and services designed for the welfare of employees and their families.

As regards the individual and his family, the ICC invests in annual vacations, in financing summer schools, in noting personal events of the individual employee, an event for employee children starting first grade, gifts for children of employees enlisting the IDF, gifts and gatherings on public holidays, rebates in credit card commissions and interest, enrichment activities for the different units and financial assistance in case of need.

Furthermore, employees enjoy subsidized dining services, cafeteria, dry cleaning service, and sale bazaars at reduced prices are held once a period.

Welfare activities at Mercantile Discount Bank

Over its years of operation, MDB has been noted as a familial and warm place of work, inter alia, due to the support and sympathy granted to employees in sensitive and significant events in their lives. In addition to the wage terms and agreements, which include different related social benefits, the bank shows appreciation and grants remuneration to excelling employees. The annual promotion of employees includes a differential component that appreciates excellence and encourages it.

As regards the individual and the family, the bank invests in annual vacation, finances summer schools during vacations, finances higher education for employees and their children, notes personal events of the individual employee, such as birthdays and birth of children, organizes events and gifts at public holidays, grants beneficial commissions and interest rates on employee accounts and credit cards, and conducts



enrichment and integration activities for the different bank units. The bank attaches great importance to the participation of its employees in the visits to the concentration camps in Poland. Any employee is entitled to participate in the travel to Poland, the employee bearing only one-third of the cost, with the balance being financed by the bank. Bank employees enjoy the service of a cafeteria and of subsidized meals.

The Employee Committee holds a family day every year in the amusement park, noting the children of the workers who are starting first grade and gives them gifts.

Medical tests and blood insurance

In 2016, 225 employees received blood insurance by donating blood, compared with 108 employees in 2015. 131 employees and retirees, and their spouses had general medical tests performed in 2016, compared with 198 tests in 2015. In 2016, some 184 tests were performed on the Bank's athletes, compared with 204 in 2015.

Medical examinations and blood donation insurance at ICC. ICC employees enjoy significant health benefits, which include periodic medical examinations, medical insurance, and psychological attention. Entitled to medical tests are all employees of age 35 and over with at least one year of service with the company. The tests may be made at one of three medical institutes. The company organizes twice a year blood donation by employees, and once a year offers employees flu vaccination.

Medical examinations at Mercantile Discount Bank. Bank employees enjoy significant health benefits, which include: periodic medical examinations, health insurance and psychological assistance in cases of group stress. The medical insurance coverage paid for by the bank are: employee life assurance, employee dental care and loss of work ability insurance (for those employees who are not covered by loss of work ability insurance in terms of their pension insurance through the provident funds), while with respect to all the said insurance coverage, the employee bears the cost tax wise of the value of the benefit. Employees aged 35 and over and having a seniority period of eight years are entitled to the said medical benefits.



Sports activity and medical insurance

The Employee Committee offers to all the Bank's employees and family members participation in medical and dental insurance arrangements.

Sport activities at ICC. ICC operates a workout gym and classes at ICC House and at further away centers and invests in encouraging a rich sport activity in many spheres. ICC has four teams competing in the Workplaces League, and which represent ICC in the Sportiada (the final event of the Workplaces League): target shooting, basketball, soccer and ladies netball.

Health insurance and sport activity at Mercantile Discount Bank. Bank employees enjoy a social safety net, which includes a variety of insurance coverage including life assurance for the employee and his spouse, health, surgery and personal accident insurance, dental insurance for the employee and his family, and loss of work ability insurance. Employees enjoy benefits and preferential management charges for their different pension savings and insurance policies.

MDB encourages sport activities in different fields. The bank has ten sport teams of employees from all over the country. The teams are registered with the work places league. These teams represent the bank in the "Sportyada" sport games: Basketball (two teams - North and Jerusalem), mini-football (three teams - Central, North and Jerusalem), tennis, table tennis, netball, volleyball and chess.

Safety in the workplace and work environment

Safety in the workplace

The Bank has an officer in charge of safety, who coordinates matters of safety and occupational health at the Bank.

In each year, the Bank distributes a safety learning to all its employees, which includes information regarding safety hazards at the Bank branches and offices, and which, inter alia, encourages employees to identify hazardous matters in their work environment and report them to the relevant factors.



Implementation of the plan for safety tests continued in 2016 for the identification of hazards and in order to provide a safe work environment and to ensure the safety of customers and those visiting the Bank's facilities. Employee populations with unique features were identified, such as: storekeepers, maintenance personnel and so forth, and these received instructions regarding the unique risks relating to their duties (notwithstanding, no occupational diseases have been identified at the Bank).

The establishment and formation of a safety trustee layout at branches and locations of the Bank and to involve them in conducting the ongoing safety testing at their units has been completed.

Within the scope of the activity for integrating safety awareness, all employees of the Bank receive a quarterly safety sheet that includes updated information and reminders about certain topics.

From time to time, appropriate environmental tests are conducted in order to identify factors that could endanger the existence of a safe and healthful work environment for the Bank's employees.

Safety events are investigated and checked, including drawing conclusions and implementing them, in order to establish a continuous process of improvement.

Presented below are data regarding events in which customers and/or employees were involved, in 2015-2016, which resulted in exercising the Bank's insurance policies:

	2016	2015
Customers (third-party)	12	6
Employees (employers liability)	4	3
Total	16	9

Item 41 of the Labor Charter states that the Bank shall employ all necessary measures, in order to provide physical work conditions that protect the health of the employee in the workplace.

The Bank does not have a safety committee. Nevertheless, the manager of the properties and construction group conducts periodic discussions on safety issues.

Mercantile Discount Bank. MDB has a safety officer, who as part of his duties performs examinations at the branches and provides guidance concerning deficiencies requiring rectification.



ICC. ICC has appointed a safety officer, who is an outside safety engineer. Learning material is being issued to employees on a yearly basis, which include guidelines of how to act for minimizing the number of accidents at work. A Safety Committee has also been appointed which meets at least eight times per year, reviews the safety reports, highlights deficiencies and monitors the rectification of safety deficiencies. The Safety Committee at ICC is composed of 3-4 managers, 7-8 employees and the officer in charge of safety.

Work environment

Banning of smoking. According to the provisions of the Law to Prevent Smoking in Public Areas, the Bank prepared and disseminated a detailed procedure that brings the provisions of the law to the employees, as well as the rules of conduct required for its implementation in the best possible manner. The procedure is accessible to employees at all times. According to the said law and procedures, smoking is banned within the confines of the Bank. In the different Bank units, there is appropriate signage regarding the smoking ban. Any complaint on this subject reaching the responsible officials is dealt with immediately.

Radon gas. Management insists on having periodic tests performed in the branches for the existence of radon gas, if such a need arises.

Healthy nutrition. Insistence on employee health includes their nutrition and tests are performed on the quality of the food served in the Bank's units. Likewise, the meals served in Discount College and the head office units offer dietetic and healthy choices (light bread, vegetables, low fat cheeses, etc. Food vendors are also required to meet quality standards (Standard 9000).

ICC. ICC performs routine periodic surveys of work conditions as well as annual surveys of radiation. Any deficiency found is being treated immediately, and there were no unresolved deficiencies.



Preventing sexual harassment

Sexual harassment and intrigues of a sexual nature damage a person's dignity, choices, privacy and equality of the sexes, and they violate the law and the Bank's policies and harm work relations. The Bank invests vast resources in preventing sexual harassment, in dealing with and putting an end to the phenomenon when it occurs, in accordance with the Prevention of Sexual Harassment Act, 1998, and the Regulations enacted under power thereof. The Bank has appointed an officer, who is responsible of investigating complaints and reporting her findings and recommendations to the Head of the Human Resources and Properties, who serves as officer in charge of prevention of sexual harassment at the Bank.

In cases where sexual harassment had been found, punitive sanctions are adopted, which, among other things, include: oral reprimand, reprimand in writing, suspension from work and even dismissal, everything in accordance with the severity of the case and subject to the law and binding labor agreements at the Bank.

Nine cases of sexual harassment were brought to the attention of the officer in charge in 2016:

- The treatment of three complaints was terminated without conclusions and recommendations to the officer in charge, due to the fact that the inquiries could not be fully completed for various reasons - lack of cooperation on the part of the complaining party, lack of identification of an anonymous complainant, refusal of an employee to submit a complaint claiming that she did not feel harassed (the complaint was submitted by another employee based on hearsay);
- Conclusions and recommendations were submitted to the officer in charge in respect of six of the nine cases, and the following decisions were taken in the matter:
 - Sexual harassment was found in one of the cases and it is noted that the accused, a permanent employee of the Bank, submitted a complaint in the hearing held for him, against one of the complainants. The investigation indicated that the accused had not been sexually harassed. Following these findings, the said employee was dismissed from the Bank;
 - Improper behavior had been found in another case and the accused was dismissed from the Bank;



- Improper behavior had been found in two additional cases, and it was decided that the officer in charge shall conduct at the relevant units sessions refreshing the rules regarding the prevention of sexual harassment at the Bank and refreshing the rules of conduct relating to an environment free of sexual harassment;
- It was not possible to undoubtedly determine the existence of harassment in one case, and for reasons of cautiousness, the accused employee was called for a talk in which the rules relating to the prevention of sexual harassment were made clear to him;
- An anonymous complaint had been investigated in an additional case, during which both employees mention in the complaint vehemently denied the claims detailed in the complaint letter.

Instruction in the matter of prevention of sexual harassment. The "prevention of sexual harassment and intrigues of a sexual nature in the Bank" procedures is given to every new employee beginning work in the Bank, hangs on notice boards in the various Bank units and is prominently presented on the front page of the Bank's Intranet site. Prevention of sexual harassment and of annoyance on sexual grounds procedures directive was published to all employees also through the procedure website of the Bank.

The Bank uses comprehensive learning material on the subject of prevention of sexual harassment, and once in each period distributes it to all Bank employees. New employees are required to study this material, being a compulsory study within the framework of the introductory courses of the Bank.



ICC

The officer in charge of prevention of sexual harassment at ICC is responsible for clarifying complaints and submission of conclusions and recommendations to the Human Resources VP, who serves as the representative of the employer for the purpose of making decisions.

Each new employee who starts work at ICC has to read and sign on the set of rules of the company and perform a tutorial in the matter. The principle items of the Act are posted on signboards, on which are also published the names of officers dealing with complaints. The company's set of rules is also published on the internal Internet portal of the company and once a year, an all organizational learning is performed, including a knowledge test.

Punitive sanctions are taken in cases where sexual harassment has been found.

Three approaches regarding sexual harassment were received with in 2016: In one case, the employer was informed that a company employee had been exposed to sexual remarks by a manager of an external site (not belonging to ICC) where she worked. Clarification of the case with the officer in charge of prevention of sexual harassment of the company employing that manager showed that the said company has decided to terminate the employment of that manager, due also to other events.

In the second case, information was received regarding improper expressions directed by a tutor towards a trainee in a training course for a new position. In a conversation that was held, the tutor was instructed by the training manager what appropriate behavior is and what is the code of conduct in ICC. The tutor apologized. No sexual harassment existed but only improper approach and expression. No complaint had been filed.

The third case involved a complaint by the manager of a competitor company regarding improper expression and a written remark on the part of a field representative of ICC towards a field representative of the competitor company. Clarification of the case indicated gross and improper behavior, contrary to the norms of conduct expected from ICC employees, including in regards its customers. The VP in charge discussed the matter with the employee, explaining that the company views his behavior with acute severity. A warning letter has been attached to the employee's personal file, which clarified that the continuation of his employment would be considered if the matter is repeated.



Mercantile Discount Bank

MDB has appointed a team of employees comprising "officers-in-charge" in terms of the Act, who are entrusted with the clarification of complaints and submit their conclusions and recommendations to the VP Human Resources, who acts as the representative of the employer for the purpose of taking decisions.

Each new employee beginning his service with MDB, reads the company's articles, and sign it and conducts learning on the subject. The principal items of the Act are posted on notice boards including names of officers handling complaints. Furthermore, the articles are published on the internal portal of the bank.

Each complaint or clarification in this respect is being handled discreetly with complete attention and as speedily as possible. Punitive sanctions are being applied in cases where sexual harassment was found.

One complaint in the matter of sexual harassment was received in 2016. Clarification of the complaint has been cut short due to lack of cooperation on the part of the complaining employee. However, the matter has been clarified with the manager involved in the complaint and no reason for such a complaint was found. Nevertheless, the requirement for higher awareness of this subject at the unit involved has been intensified.



Claims made by employees

In 2016 some 4 claims were filed with the Labor Court by present and former employees of the Bank, with respect to different issues relating to labor laws. Inter alia, alleged allegations of violations of the labor charter, discrimination on the grounds of age, denial of mobility to the position due to lack of a hearing, reinstatement due to no performance of adjustment in respect of disability, and a claim for abuse while working. To date, out of these actions, one had been dismissed with the consent of the parties. Three additional actions are still being conducted at the Labor Court.

13 claims were concluded in 2016 until now, which were submitted during 2012-2015: Three actions against the Bank had been concluded by a Court verdict, within the framework of which the Bank was obliged to pay lower amounts in relation to the amount of the claim, two actions were dismissed, while the remaining eight actions had been concluded by compromise agreements, whereby the Bank agreed to pay different amounts, smaller than those stated in the actions, without admitting any of the claims raised by the Claimants.

Mercantile Discount Bank. Three claims were served against the bank in 2016. All claims were in respect of alleged unlawful dismissal. One of the claims submitted as above, was concluded in the same year, while a second one was concluded in 2017. Two claims were settled by compromise agreements, with the payment of small amounts in comparison with the amounts claimed.

ICC. One class action suit was filed in 2014, which has not yet been resolved. No actions were filed in 2015. Two actions were filed in 2016: one filed as a motion for cancellation of a dismissal - an injunction order. The Court dismissed this action. Another action involved a claim by an employee regarding the termination of employment due to the non-granting of a permanent employee status several months after her return to work following maternity leave. The action was resolved in a compromise agreement, without a Court declaration of discrimination.

Work in aid of the community



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272	Involvement in and contribution to the community by the principal subsidiaries

- An amount of NIS 16.3 million has been donated to the community;
- Approx. 23,000 hours of voluntary work;
- 22,000 young persons have participated to date in the "Sprint" program;
- 92% of graduates of the "Sprint" program have completed high school studies with a full matriculation certificate;
- Approx. 70 scholarships a year granted to students of the Arab sector;
- Employment during the summer vacation of girls at risk and youth with visual impairment;
- 300 thousand visitors at the Herzlilinblum private museum;
- The granting of sponsorships to 34 events and social organizations in 2016;
- The realization of dreams of children at risk, within the framework of the "ICC is wishing and dreaming" project.



Community Activity Policies

Discount Bank has worked for the community since its founding, with a comprehensive management approach whereby activities for the community are part of the business, social and cultural commitment.

The Bank's main voluntary project is "Lema'an" - Discount Employees for the Community, part of the Bank's policy of encouraging volunteerism for the community among its employees. The project was launched at the end of March 2002, and within its framework the Bank's employees volunteered for activities for the community.

The Bank's policy, as formulated in recent years, is to consolidate the human and financial resources in activities for children and teens at risk and in crisis, mainly in the fields of education and training. This comes from the approach that these areas are the engines for personal and social success of the aforementioned target populations.

Within this framework and as expression of this approach, in 2005, Discount Bank joined the foundation "Sprint for the Future", together with which it launched a program that became the Bank's flagship program "Discount Sprint for the Future" (see below).

In addition to activities in education and training:

- The Bank encourages its employees who volunteer in the community and aspires to expand the circle of volunteers;
- The Bank enables the employment of special-needs employees;
- The Bank assists in inquiries on health issues through the Discount Fund in the "Ezra LeMarpeh" Organization;
- The Bank seeks to deepen the ties with the community on specific programs.

Future goals

- Increasing the scope of volunteer work among employees of the Bank;
- Creating a supportive atmosphere by means of election of the Outstanding volunteers/employee/branch/unit, granting the Volunteer Shield and special publication of the activity.

The policy is being examined from time to time.

The policy for community work is a joint policy of Discount Bank, MDB and ICC in the framework of which General principles and a coordination mechanism have been determined, while maintaining the individual judgment of the subsidiary companies as well as operating and response space considering the characteristics and nature of their activity.



Areas of activity. During 2016 the voluntary activities continued within the framework of the project "Lema'an" - Discount Employees for the Community, in which the Bank's volunteer employees contribute their time and the goodness of their hearts. In some of the cases, the Bank's Management finances the costs of the activity itself (such as the cost of purchasing materials used in the volunteering activity, purchase of gifts to residents of the volunteer center etc.).

The voluntary activity is diverse, providing assistance and support to a broad range of elements in the Israeli population: Children and teenagers, students, soldiers, distressed population strata, the elderly, persons having special needs, the infirm, etc.

Voluntary activity continued in 2016 within the framework of associations engaged in helping children and youth in distress and risk situations, persons having special needs, IDF personnel, Holocaust survivors, and more, as well as assisting various associations that support target populations as defined by the Bank.

In addition to the activities in the "Lema'an" Project - Discount Employees for the Community, described below, activities were carried out in 2016 also in the areas of culture and art, providing sponsorships and making donations.

Volume of activity

Following are data regarding the scope of expenditure of the Discount Group in respect of the activities:

	In the year	
	2016	2015
	In NIS thousands	
Direct expense including the "Lema'an" project activities	7,667	6,804
Sponsorships ⁽¹⁾	186	267
Direct current cost of operating the Hezelilienblum Museum ⁽²⁾	5,501	5,531
Indirect expenses - payroll ⁽³⁾	3,262	3,398
Miscellaneous expenses ⁽⁴⁾	394	332
Total⁽⁶⁾	17,010	16,332

Footnotes:

- (1) A small part of the expense regarding sponsorships has been taken into account – only sponsorships for social associations.
- (2) Guidance team payroll and building maintenance.
- (3) Staff of the social responsibility unit and certain other factors who were directly engaged in social responsibility matters as part of their regular working hours.
- (4) Mostly expenses relating to the preparation of various social and environmental responsibility reports, and participation of the Banks' Management in financing the travel to Poland.

Hereunder is data regarding the areas in which funds had been invested:

	In the year	
	2016	2015
	In NIS thousands	
Education and training	4,183	3,532
Herzelilienblum Museum	5,501	5,531
Persons having special needs	758	1,031
Health	1,002	700
Adoption of IDF units	232	298
Other social causes	1,198	1,243
Indirect and miscellaneous expenses	4,136	3,997
Total	17,010	16,332

It should be noted that the data presented above do not include the Bank's investment in the financial education field. It is further noted that the above stated data are included sponsorships for social organizations and associations only (most of the sponsorships have not been included).



Donations

Donations are directed mainly to associations, clubs, education establishments, health organizations and others, that focus on children and youth and personal welfare. Noteworthy among the Bank's donations in 2016 are: Discount Sprint, ALEH Negev - Nahalat Eran, Association for the Wellbeing of Israel's Soldiers, Association for Advancement of Education in Jaffa, AKIM, Friends of Rabin Medical Center, Yad Sarah, Israel Cancer Association Ramon Foundation, Reuth Medical Center, Ezra LaMarpeh, Beit Leweinstein, NaLaga'at Center, Hom Association, Krembo Wings and more.

Control. The control over the use of the actual contributed funds and its effectiveness is performed taking into consideration the nature of the project and the amount of the contribution. A high level of involvement and control exists with respect to projects where the contribution is of a significant amount such as "Sprint". The level of involvement and control regarding projects enjoying small contributions, is low.

Assistance to families in need

In line with the Bank's tradition, the Bank rallied also in 2016 to assist families in need towards the Passover holiday. The Bank has contributed a total amount of NIS 118 thousand, which assists in delivering food parcels to families in need. Among the Associations through which the donation had been distributed, may be mentioned: Hom Association, Help and Remedy Association, Chabad Nataniyah, and more.



”Discount Sprint for the Future” – Discount Bank’s Flagship Project

General. In 2005, the Bank joined the "Sprint for the Future" Association with a view of advancing education and schooling in the social and geographical periphery in the State of Israel.

During the past ten years the Bank was a party to the growth and expansion of activities and budgets of the Association, assisted in the structure of unique projects and partnerships with government agencies, such as the Israeli Ministry of Education and the Israeli National Insurance Institute, and also has founded a student scholarship foundation.

General background – the Association and its activities. The "Sprint for the Future" Association develops and operates programs for advancement of youth in distress from peripheral areas with the aim of reducing social gaps and increasing social mobility through education and learning. The Association strives to integrate the youth into the academic and employment world.

The "Sprint for the Future" Association operates five central programs:

- **"Sprint" Program** focusing on supporting students having study difficulties helping them to graduate from high school with a matriculation certificate and continue with higher studies;
- **"Pre-Atidim" Program ("Sprint for excellence")** leads students having academic potential to excellence in science studies, attaining a quality matriculation certificate that admits entry into prestigious faculties at universities (engineering and sciences);
- **"Sprint for Industry" Program** designed to prevent youth in distress from dropping out of school, lead them to technological and professional studies and integrates them into industrial enterprises in their areas of residence. The Program had begun as a "start-up" financed by the Bank and developed into a nationwide extensive scope project. The Ministry of Education and the National Insurance Institute have recognized the importance and contribution of this program and have taken a strategic decision to participate in a joint enterprise with the Association (in which the Bank also participates) and to operate it at some thirty centers of operation in peripheral areas. Presently, the program has turned into a national program and is active in sixty-six high schools in all segments of the community and all over the country;



- **"Sprint for the Academy" Program.** Assists graduates of the programs of the Association to enter into the academic world. The students are awarded consultation and assistance in obtaining their first employment position. The Bank has established a scholarship foundation, through which it awards hundreds of scholarships each year (see below);
- **"Sprint for engineers" Project** (a new program), a singular program leading young persons of all sectors from peripheral social and geographic areas, towards advanced technological and diploma studies regarding subjects required by the economy. The program offers studies for a practical engineering degree, providing comprehensive and wide coverage, integration in industry and assistance in obtaining work.

General data "Sprint for the Future" – December 2016

- 17 years of activity, of which 11 years in partnership with the Bank;
- 85 schools around the country;
- 8,000 young persons per year;
- 22,000 young persons have participated in the programs of the Association during its years of activity;
- 600 students a year at universities and colleges.

Nationwide disposition. The Association operates at a country-wide disposition, in various sectors of the Israeli society (ultra-orthodox Jews, orthodox Jews, secular, Arabs, Druze and Bedouins). Among other places, the Association operates in Hatzor, Zefat, Acre, Nahariyah, Beit Shean, Tiberias, Isifya, Kisra Samia, Salalme, Upper Nazareth, Nazareth, Um-el-Fahem, Or Akiva, Bnei Brak, Ariel, Ramla, Lod, Jaffa, Petach-Tikva, Tel Aviv, Jerusalem, Dimona, Shderot, Yeruham, Ofakim, Beer Sheva, Rahat, Lakia, Kseiffa, Churra, Umm Batin, Abu Tlul and in many youth villages around the country. In many places the Association operates in all schools.

Achievements. The programs are being accompanied by an independent evaluation research performed by the "Szold Institute for Social Research". The results of the research made in recent years indicate a high level of achievements and compliance with the aims of the Association's programs: some 92% of the "Sprint" program graduates completed their high school studies with a full matriculation certificate. Some 87% of the "Sprint for Excellence" graduates completed their high school studies with marks of 85 and over in their science oriented matriculation certificate. 56% of whom reached high distinction with average marks of over 95.

Furthermore, the results of the research regarding the "Sprint for Industry" program indicate a clear and proven turnaround in the prevention of the dropout of students at



risk from the education system and in directing them to a professional future in trades and profession required by the military and by industry. 100% of the students have completed their studies (prevention of dropping out) with a professional diploma; 70% completed studies with a technological matriculation certificate; 35% of the graduates continue to practical engineering studies; 40% of the graduates join technological units of the armed forces; 25% of the graduates join the military or national service in meaningful duties.

The gathering of data regarding Sprint for academic programs, including "Sprint Mercantile", is made by the Sprint Association, with internal monitoring and control and information regarding each student.

The Bank's involvement. The Bank is a party to both the financial support of the Association and the promotion and advancement of its activities. Representatives of the Bank's management are members of the Association's executive board and employees of the Bank have started voluntary activity within the Association's programs, including in the adoption by Bank branches and Banks units of neighboring schools participating in the project. Representatives of the Bank are members of the audit committee of the Association. The Bank's Accounting Group provides accounting and payment services for the Association. An initiative which started in 2013 is the mentoring of students from peripheral areas conducted by senior Bank employees with a view of jointly forming ways and means for the successful integration of young persons in the community. The mentors provided by the Bank will assist students in their way to a first job and will constitute those social relations for the students.

The late Nissim Alagem Fund. In January 2007, the Bank instituted a scholarship fund for academic studies named after the late Nissim Alagem, who passed away in 2006. Mr. Alagem worked at the Bank for 40 years, his last post being Vice President, Head of the Commercial Division. Within the framework of the Foundation, the Bank makes in each year a contribution to finance academic studies of youth graduating from the programs of the Association. The Foundation enables these graduates to continue in academic studies at higher education institutes with a personal mentoring and learning support of the Association.

Since the establishment of the Foundation, 872 scholarships have been granted through it to students in need. This number includes both scholarships donated by the Bank, scholarships donated by entities in the Arab sector (see hereunder) and scholarships by different donors, who wished that their donation would serve for scholarships granted through the Foundation. Some 110 scholarships were granted in 2016, similar to 2015.



A Sprint for the Future program in the Arab sector

In 2015–2016, Mercantile Discount Bank continued to operate the unique program for the advancement of higher education in the Arab sector, which started in 2008 in cooperation with the "Sprint for the Future" Association.

During the past decade, MDB, through this project, granted every year over seventy scholarships for academic studies to students belonging to the Arab sector. The Bank views this contribution as an important layer in promoting education in the Arab sector, which in the future would contribute to the prosperity and success of the younger generation – the future generation.

The scholarships are granted on the basis of socio-economic considerations and the level of academic achievements, strictly maintaining geographical spread. In consideration for the scholarship, students grant study assistance to high school pupils and also partake in community work in the areas where they live. The cost of the program amounted to NIS 550 thousand in each of the years 2015 and 2016.

The scholarships are granted annually at a festive ceremony, in the presence of members of the Bank's Management, regional managers and branch managers in the Arab sector, members of the executive committee of the "Sprint" Association, many dignitaries and the students and their families. To date, hundreds of students had enjoyed study scholarships donated by the Bank and acquired academic degrees from higher education institutes all over the country.

In addition, meeting with students are being held from time to time.

Within the framework of the program to date:

- NIS 2.88 million have been granted as student scholarships;
- 48.2 thousand study hours have been granted to the community;
- 387 students from 42 locations participated in the program.



Voluntary Activities

The Bank encourages its employees to take part in various voluntary activities while emphasizing a long-term activity. Many units in the Bank have designated volunteer focuses that they have adopted, and they encourage their employees to volunteer in these focused areas. Some of the volunteers engage in voluntary activities on an individual basis, not within the unit framework.

In 2016 the volunteer efforts were concentrated on associations for at-risk and in-crisis teenagers, clubs for children and the elderly and in assisting various associations that support the target populations defined by the Bank.

As of December 2016 approx. 1,200 Bank employees contributed their time and engaged in volunteer activities on a regular basis. These volunteers were active in 129 voluntary positions (2015: approx. 1,080 volunteers who were active in 113 voluntary positions). The Bank estimates that 23 thousand hours were devoted to voluntary activities in 2016 (2015: approx. 25 thousand hours).

Promotion of volunteer work was, among other things, conducted by sixty volunteer coordinators, operating at the branches and units, in which an organized unit volunteer work exists. The volunteer coordinators maintain current communication with the relevant functions at the centers where voluntary work is done, among other things, in order to review the needs from the voluntary aspect and monitor its progress³⁷.

The voluntary activities of the employees are carried out during their free time. However, there are employees, primarily those in the Social Responsibility Unit, the staff of the Herzlilenblum Museum and employees who conduct activities for the Sprint project (see above "The Bank's Involvement" under "Discount Sprint for the future"), who are engaged directly in social responsibility fields within the framework of their work hours.

The Bank's Management appreciates the volunteer work of Bank employees by currently advertising the volunteer activities on FaceBank, a designated website "Human resources for you", noting the elected outstanding volunteer, granting tickets to fundraising events, etc.

Hereunder are presented various examples of projects and voluntary activities within the framework of the "Lema'an" project.

³⁷ 102-43



Volunteer Activities and collaboration with associations and within the framework of clubs for children and teenagers

Institute for Advancement of Education in Jaffa. The cooperation with this Institute continues, including volunteer work by Bank employees and a financial contribution by the Bank. The Institute provides a variety of education, welfare and enrichment programs to thousands of at-risk children, from families of a low socioeconomic background. Moreover, the Association assists many Holocaust survivors residing in southern Tel Aviv and in Jaffa.

Adoption of "A Place in the Heart" - children at risk - Jaffa "D". A club for first to sixth grades schoolchildren, operated once weekly by volunteers of the Bank, with the aim of assisting children at risk with their school homework. The support provided in 2016, included purchase of entry tickets and transportation to the "Festigal", as well as the purchase of eighty schoolbags and study equipment for first grade pupils.

Hanukkah and Purim events at volunteering venues. Bank employees conducted Hanukkah and Purim parties at centers in which they work as volunteers; children clubs, senior citizen clubs, schools, a shelter for battered women, Chimes - Rehabilitation Work Centers (adult population having special needs), "Dancing on Wheels", a club for the blind, children with special needs, hospitals etc.

"A Different Lesson" Project. A voluntary project in cooperation with the "A Different Lesson" Association, helping children at risk providing them with enriching and experience yielding different lessons. Within the framework of this project, members of the senior Forum lectured on subjects of banking and the realization of dreams to the children of the "Sokolov" school in Bat Yam (fifth graders). The project ended at the Bank's Visitor Center, where a tour was conducted for the children, who met a part of the Forum members (who came especially to greet them and wish them well on the termination of the project). Certificates and a present were granted at the end to all the children.



Population with special needs

"Cruvit" Project. Volunteers from among employees of the Bank participated in this project, cooking for the Shavuot Holiday, festive meals for families in need. Part of the employees together with additional volunteers from all over the country cooked the meals at the Holon Community Center, another part brought meals cooked at home and the rest helped in the distribution of the food to the houses.

Renovation of the "Neveh Hadar" boarding school. An initiative of the Sharon Region employees of the different branches who volunteered to renovate and paint the boarding school building, used to house children who had been removed from their homes by Court orders. The employees also bought game sets for children of the boarding school.

The Haifa Blind Association. A unique volunteer work modified for the blind, such as "Lag Baomer" Jewish holiday activity, summer parties etc.

Bazaar for items produced by the population with special needs. In 2016, towards the Jewish New Year and Passover holidays, the Bank assisted in setting up a bazaar (on the Bank's premises) at which Bank employees can buy items created by persons with special needs working under the auspices of the following associations: "Beit Miriam", the "Enosh" in Rishon le'Zion and "Ohel Sarah" (persons with special needs). Income from sales was contributed towards the continued activities of associations employing population with special needs.

Volunteer activities and assistance in the health field

"Discount Fund" at the "Ezra LeMarpeh" Organization. The Fund was established in August 2007, and the activity continued uninterrupted in 2015. The objective of the fund is to provide financial assistance in exceptionally difficult cases. The Fund is a collaboration between the Bank and the "Ezra LeMarpeh" Association. Suitable inquiries received by the Bank are referred to the Association for examination of the case and its various aspects. When the request is found deserving, assistance is given from the Discount Fund in the association.

"Reuth" Medical Center. Voluntary work over many years. In addition to a yearly monetary donation for the purchase of medical equipment, the renovation of the residential unit for holocaust survivors in the place, etc., the staff of the Lowland Region maintains voluntary activities. Each employee contributes his personal talent and together they hold a happening several times a year intended to make a change from routine life for the patients.



Various projects

Ramon Foundation. In 2013, the Bank joined the "Ramon Award" program, the mark of quality, excellence and leadership, in memory of Ilan and Asaf Ramon. Within the framework of the program, young persons excelling in their studies and especially outstanding in their community volunteer work, were chosen as leaders of social change. The aim of the program is to encourage excellence and leadership among youth in Israel, in the image of Ilan and Asaf Ramon, who represent a personal example in their personality, deeds and achievements. The elected youth undergo a several months' course increasing their proficiency and skills. During the year, the youth participate in twelve meetings in which they obtain tools for leadership as well as meet figures having influence over Israeli society.

Twelve young persons were elected to participate in the project in each of the years 2015 and 2016.

Summer Bazaar for children of "A Place in the Heart". As usual in each year, employees of the Technologies and Operations Division held a Bazaar towards the coming academic year for children of "A Place in the Heart" Association (children at risk of Ethiopian origin). Various activities were held at the Bazaar and first and second grade school children were given schoolbags and study equipment for the new school year.

"Bar Mitzvah" ceremony at the Western Wall of the "Connected to Life" Association for children with special needs. Representatives of the Jerusalem Region branches and Management took part in the ceremony. The volunteers arrived to make the children happy and help with the putting on of the "Tefillin" by the celebrating children.

Good Deeds Day. The following activities were conducted as part of the Good Deeds Day:
Activity in aid of lonely elderly people. The Forum managers of the Technologies and Operations Division initiated activities on this day reaching some forty lonely elderly persons confined to their homes in the center of Tel Aviv. The managers purchased different products, packed them in impressive gift parcels and entertained the elderly persons at their homes.

Cooperation with the Tzeva Association. The internal audit employees decided to adopt children of the Holon "Tzeva" Association (children at risk). The employees participated at a multiparticipant community happening, in which they operated activity stations, sold self-baked cakes and entertained the club children and their families.



An intra-organizational communication of the activity

Current updates regarding voluntary work and community activities are provided to employees by means of FaceBank - an organizational portal operating in the format of news websites prevalent on the Internet.

“Adopt a combat soldier” Project

Discount Bank takes part in the Friends of the IDF's "Adopt a Combat Soldier" Project, adopting "Squadron 916" of the Israel Navy, which is responsible for the security of Israel's southern coast, and the Regiment "Tiger" of the Artillery Corp.

The bank supports the said units with a monetary contribution as well as with volunteer work. The annual contribution is NIS 100 thousand intended for financing activities for the welfare of the soldiers. In addition to a monetary contribution, the Bank incorporates volunteer activity. Furthermore, servicemen of the units participate in various events of the Bank.

The bank management is in constant communication with the units commanders to examine the needs of the units and to coordinate joint activities³⁸.

Employment of visually impaired teenagers and girls at risk

A project with "Ofek Liladenu" (Our Children's horizon Project) Israel National Association of Parents of Visually Impaired Children. Since the summer of 2005, the Bank employs visually impaired teenagers during the summer. Most of these teenagers reach the Bank with the help of the "Ofek Liladenu" Association - a national organization of parents of blind or visually impaired children. 21 youth were employed at the Bank in 2016, and in 2015, 17 teenagers were employed at the Bank. Before they begin employment, the teenagers undergo two days of banking and general training in Discount College.

"Young employment" Project. A project in conjunction with the Herzliyah Foundation, aimed at assistance in finding work during the summer vacation for girls at risk aged 14-17. The purpose of the project is to grant the girls positive experience at work, acquiring various knowhow and skills, which will advance their integration in future workplaces. 8 girls joined the project in 2016, and in 2015 - 10 girls joined the project for a period of two weeks in July-August.

³⁸ 102-43; 102-44.



“The March of the Living”

In 2016, a delegation of Discount Bank employees participated, for the fourteenth time, in the "March of the Living" from Auschwitz to Birkenau that takes place every year on the memorial day for the Holocaust and Heroism. The delegation numbered 52 of the Bank's staff and ICC's staff. This continued a tradition started in 2003, of participation of a Discount Group delegation in the "March of the Living", the Bank and the Employee Union participating in the cost thereof.

”Herzelilinblum” – Banking and Tel Aviv Nostalgia Private Museum

The Herzelilinblum Museum, founded in 2009, is located in Schiff House, one of the first houses in Ahuzat Bayit. The Museum forms an integral part of the Bank's social responsibility concept, and is open to the general public free of charge.

The Museum exhibits the economic history of Israel simultaneously with the development of the City of Tel Aviv by showing original historical objects together with films and advance technological means.

The building, declared as preserved building under strict limitations, has undergone over three years a detailed restoration and preservation process, which included the restoration of the external architectural outline of the building as well as the internal architectural motives.

In 2011, the Herzelilinblum Museum was declared a heritage site by the Society for Preservation of Israel Heritage Sites, and is one of some one hundred similar sites around Israel.

The building has three floors, each dedicated to another time dimension:

First floor - Floor of the Past. In this floor are displayed articles from various periods of the building, a restoration of a bank branch from the thirties and forties of the twentieth century including original items of the period, a historical model of the city of Tel Aviv in the thirties, as well as the "Avenue of Time" a display, which through interactive means, provides accessibility to significant events in Israel's economic history.



Second floor - Floor of the Present. This floor presents present banking by technological means such as an ATM machine with see-through sides, a self-production of checkbook station, computer stations providing information regarding capital market and banking concepts, a pension computer, trivia games, etc.

Third floor - Floor of the Future. This floor presents the future banking by means of a 360 degrees surround 3D film. The forecasting scenario had been constructed with the assistance of the Technological Forecast Institute of the Tel Aviv University. The floor has also a meeting room equipped with wall to wall screens and with innovative technological means, in which the visitors participate in business games simulations.

Tours

Since its opening in May 2009 and until the end of 2016, the Museum hosted 300 thousand visitors of different populations: children, families, middle and high school students, university students, tourists, social organizations, associations, Bank customers, businessmen, Government officials and their guests and more.

Visits to the Museum are structured and led by skilled guide teams, all of them employees of the Bank.

Tours are varied and are adapted to various populations and age groups. There are economic tours for children and adults, workshops for middle and high school students on subjects of economics and civics, historical tours of the city of Tel Aviv, in-depth tours in the fields of preservation and architectural.

In addition, the Museum hosts social organizations, associations and business entities and enables them to hold conventions, seminars and lectures in conjunction with guided tours.

In 2016, some 150 events were held for corporations, business forums and organizations, compared with 140 events in 2015.

Cooperation with the Ministry of Education. The Herzlilnblum Museum is recognized by the museum department of the Ministry of Education and forms part of the study program in matters of economics, civics and the financial education field, recently introduced into the educational layout.

In this framework, the Museum focused mainly in the education field to pupils taking five units in civics, economics and social sciences, within the framework of the following unique study programs:

- The stock exchange - an educated investment;
- Monetary policy in Israel - the Bank of Israel: independence and power;
- Meetings with the social-economic world in Israel: the social-democratic approach as against the neo-liberal approach.



Seminars for children and youth during the academic year. Students visit the Museum within the framework of tours and workshops dealing with economic development in Israel, acquiring knowledge regarding the capital market, banking and business as well as in socioeconomic theories by which they examine present issues of the Israeli reality. All these with the help of innovative and interactive technological means, which integrate the students into decision making processes.

During the academic year, some 85 per quarter on an average are being conducted for school children of seventh to twelfth grade. Part of the tours, lasts one and a half hours, mostly to middle schools and partly to high school classes.

Financial education. As part of the voluntary work of organizations in aid of the community, commercial companies and investment houses conduct financial education activities:

Financial education workshops. During the school vacations (Tabernacle, Hanukkah, Passover and the summer vacation) the Bank conducts dozens of designated workshops for children and families on the subject of financial education. The workshops are divided into two in accordance with the children's age: the money workshop for children aged 6-12, and the money way workshop for youth aged 13-17. In the course of two hours, the children are exposed to a journey in time, beginning thousands of years ago when trade constituted barter trade and up to an attempt to envision how the financial system would be conducted in the future. The Museum enables children to study, touch, experience and even compete through video clips, interactive presentations, actual exhibits, as well as interactive trivia games. The information is presented in impressionable manner, which enables the children to acquire knowledge regarding money and develop awareness as to the importance of money, savings as from a young age and smart consumption. In addition to the predesigned permanent workshops, the Museum introduced a "small change" workshop for occasional visitors to the Museum, who were open to financial education. Whereas the children workshops are booked in advanced, and in most cases are very hard to join during the summer vacation (being nearly fully booked well before the beginning of the summer vacation), the Museum introduced this year an "occasional visitor small change" workshop. In fact, these shortened version workshops were held on a daily basis at a fixed hour, to occasional visitors who could not join the regular workshops. In addition, designated money workshops were conducted for different groups, such as children of employees of various organizations and student groups accompanied by parents.

About 240 tours for children and their families were conducted during the school vacation in 2016, similar to 2015: "My money, a seminar for young economists" - economic seminars.



Joint project with "Taasiyeda". Taasiyeda is the educational arm of the Manufacturers Association of Israel. The Association trains high school students for integration in industry. The joint project includes economic orientated tours of the Museum as well as a new program of three meetings dealing with the Israeli economy and industry.

Joint project with the "Nitzotzot" Association. The Association is engaged in promoting motivation and capabilities in various areas of knowledge among school children. In 2016, the Museum hosted on Fridays several dozens of events of the Association, which included expansion of economic and banking knowledge of the students.

Financial education for adults. As part of the Museum tours, regular lectures are being held on matters as smart consumption and economic management for adults.

Pension education for women. Workshops for pension education are planned in cooperation with WIZO. The consulting group of the Bank participates in this venture.

Cooperation with the Tel Aviv Municipality

A joint marketing campaign was held in 2016 between the Tel Aviv Municipality, Independence House, the Shalom Tower Library, the Hagana Museum and the Herzl Lilienblum Museum. The joint operation was reflected in several ways: different groups visiting the Tel Aviv Municipality Building were directed to the Museum, such as a group of Evangelists visiting Israel and other tourist groups; a basis was laid for a joint operation by the institutions located in the Rothschild Blvd. - Lilienblum Str. - Herzl Str. Area. As a result, the Museum was open to the public for the first time also in the Israeli Independence Day, and special tours were conducted therein in accordance with the historical-Zionist spirit of the Day (over 2000 visitors participated in this event); tours were conducted for employees of many departments of the Tel Aviv Municipality; mutual updates are conducted in favor of the different institutions cooperating in the project.



Exhibitions at the Museum

In addition to the permanent exhibition, the Museum hosts changing exhibitions on varied and different subjects relating to the characteristics of the house. Among the outstanding exhibitions held at the Museum in 2016, may be mentioned:

"Heroics - Breaking through for the past 80 years" Exhibition. This exhibition, which was at the center of the 80th anniversary events of the Bank, presents over a fascinating timeline, historical layers closely following one another: milestones occurring in Israel and globally since the year 1935 to date, alongside the integration of the activity of Discount Bank in the parallel time line. By means of photographs, rare documents and unique objects, some of which never exposed before, the exhibition spreads before the visitor a succession of events and memories as individuals and as a society. The exhibits are presented in four dimensions: the World - outstanding and breakthrough events in politics, history, science and technology; Israel - central events in the Jewish community and in the State of Israel; economics and economic atmosphere - presented at the beginning of each decade over the timeline; and the breakthrough by the Bank over the years.

Relocation of the "Adorned" Exhibition. The "Adorned" Exhibition, presented at first at the Museum, has been moved from "Madatech" in Haifa to MUZA at Hof HaCarmel Regional Council. The exhibition was opened in an inaugural event held for customers of the Zichron Yaakov branches and the Haifa Main Branch. Some 200 guests were present at the event in the presence of the Head of the Hof HaCarmel Regional Council and the Bank's Haifa Region Manager. In continuation, the exhibition would be moved to the RAMBAM Hospital.



Arts

Discount's art collection contains some 2,200 original works and about 4,200 lithographs of the best of Israeli artists, representing a fascinating and varied assortment of making over more than fifty years and includes sculptures, paintings, tapestries, video art and photographs. The Bank's art collection is considered one of the quality collections of Israeli art.

"Between Landscape and Abstract" - Exhibition of works from the art collection of the Bank held at "Rubin Museum". A comprehensive exhibition from the collection of Israeli art of Discount Bank, presented at "Rubin Museum" to mark the eightieth anniversary of the Bank. Fifty works of some fifty Israeli artists chosen from the collection of the Bank were presented. Over 1,200 art lover guests and Bank customers visited the exhibition. The works chosen for the exhibition focused on Israeli abstract art, starting with the forty's and going up to recent years, with attention being placed on the special place taken by Israeli landscape moving there from to the abstract. The exhibition was opened in November 2015 until the end of March 2016.

One hundred years of Israeli art in the collection of Discount Bank - by Mr. Yona Fischer
The art collection book of the Bank. The book is based upon three years of comprehensive research work made on the collection. The book was written and edited by Mr. Yona Fischer. Management of the Bank granted the book as a New Year present to about 5,000 selected customers. Moreover, the book was distributed to all museums and schools of art. The book includes photographs and articles regarding over 120 artists included in the art collection of the Bank.

Cooperation with various museums continued in 2016. Within this framework the Bank lent works from its art collection. The work of the artist Yaacov Agam "Gesture to Mrs. G." was given on a long-term loan to the Agam Museum in Rishon LeTzion. The work of Moshe Kastel "Canaan the Promised Land" was given on loan to the Moshe Kastel Museum in Jerusalem. Works of the artists Yehezkel Streichman and Yair Garbuz were given on loan to the exhibition "I Painters" at the Tel Aviv Museum of Art. The work of Streichman is the last one painted by him but not completed, the canvas being left only half painted and was completed by the artist Yair Garbuz. Seven works of art from the collection of the Bank (Luisada, Simon, Danziger, Stematsky, Aroch and Streichman) were given on loan to the "A New Horizon for New Horizons" exhibition, held at the Mishkan Museum of Art, Ein Harod. Danziger's work "Choshen" was presented at the main entrance to the Museum comprising a symbol for the "New Horizons". Two works of art from the collection of the Bank, by the artists Raffi Lavie and Michael Argov, were given on loan to the "White on White" exhibition at the Mané-Katz Museum in Haifa. The work of the artists Asim Abu



Shaqra, "Tzabar" was loaned to a permanent exhibition at the Israel Museum in Jerusalem, presented in the Israeli Art Hall.

Donations given out of the collection. Two lithographic prints donated for the financing of the Lewinsky Garden Library in Tel Aviv. The prints had been sold immediately upon the opening of the exhibition and the consideration transferred to the Library. Twenty-one lithographic prints from the collection of the Bank were donated to the Assaf Harophe School of Nursing. Six etchings were donated to the sale event of the "Credit Point of the Israeli Spirit" Association. Eighteen lithographic prints were donated to the Youth Boardinghouse of "Neveh Hadassa", as part of the activity of the senior Forum of the Bank to improve the recreation area of students of the boarding house. Ten lithographic prints were donated to the new immigrant absorption center in Nataniya, initiated by the private banking group.

"Building Rocks of Life". An event in aid of the community, held in February 2016, at the Tiroche Gallery, as part of a joint project of the Friends of Schneider Children's Medical Center and Discount Bank. One hundred artists had been approached last year with a request for a painting of a uniform size of 40/40 cm. Each artist chose to paint a subject nearest to his heart. The result was an impressive and qualitative exhibition in which many artists participated, including: Nurit David, Sigalit Landau, Ella Amitay Sadovsky, Shai Azoulay, Eran Shakine and Tali Navon. All income from the sale of the paintings was donated for the purchase of equipment for the nephrology department and the dialysis unit of the Schneider Children's Medical Center.

"Credit Point". An event in aid of the community held in September, 2016, within the framework of a joint project of the Israeli Spirit Association and Discount Bank. The annual fundraising event of the "Israeli Spirit", active in providing opportunities and places to youth in risk situations, was held in cooperation with the Bank, which provided sponsorship for the event. Over one hundred artists had been approached for donation of works of art; the income from the sale thereof was donated to help the operations of the youth villages of the "Israeli Spirit". The event was held at the White City Building in Tel Aviv, and many private banking customers of and customers the banking division participated therein.

A stage for the artist. The project "A stage for the artist" is intended to provide exposure to artists within the premises of the Bank's branches. The project is designed to support creative artists and encourage creativity and original art of all classes.

Two exhibitions were held in 2016 within the framework of the project:

- An exhibition by the name of "Hadera - Haifa" was held in January at the Haifa Main Branch, in which the artist David Mei-Tal presented landscapes of the cities of Haifa and Hadera. Invited to the exhibition were customers of the branch, private banking customers and ICC customers residing in Haifa;

- As part of the opening ceremony of the Carmel Center Branch, held in December, a photographic exhibition of the artist Jacob Bodeker was opened within the framework of the "Stage for the Artist" project. The photographer elected to present documentary photographs documenting his rare journey of several years around the world.

Guided public tours. Guided tours of the Bank's art collection, open to the public, are conducted on Friday mornings at the Discount Tower. 55 tours were made during 2016, in which some 1,400 visitors have participated. Some 34 tours were made during 2015, in which some 840 visitors have participated.

ICC. Within the framework of the cooperation with ICC, ten specially designed credit cards have been issued, depicting works of arts of the Discount Bank collection. The artists participating in the project were: Alon Razgour, David Mey-Tal, Yanai Navon, Keren Shpilsher, Tali Navon, Eliaz Slonim, Arik Miranda, Yehezkel Streichman, Shai Azoulay and Amit Cabessa.

Sponsorships

During 2016, the Bank granted sponsorship to entities and activities promoting goals in areas of community, activities in aid of weak populations, health, sporting, cultural, artistic and educational, environmental protection, science, energy and business.

Cultural and artistic sponsorships

The Third "Adio Querida" Ladino Festival. Sponsorship for the families festival held in January at the "Habima" Theatre, which presented the best performances, songs and stories of the culture of Spanish and Northern Morocco Jewry.

"A New Horizon for New Horizons" exhibition. Sponsorship for the exhibition held in February, presenting canonic works of the "New Horizons" artists, in which seven art works from the collection of the Bank have been shown.

"Theatronetto" Festival. Sponsorship for the Jewish-Arab theatre in Jaffa and Acre, held during the Pesach Holiday.

"Galabiyah". Sponsorship for a fundraising event of the Friends of Beit Hatfutsot Association, held in May at the Carasso family residence in Bnei Zion.

"Docaviv". Sponsorship for the pre-inaugural event, held in May, for the film of the Cellist Yu Yu Ma, to which had been invited customers of the investment centers.



Beit Hatfutsot (Diaspora House). Sponsorship for the opening of the family gallery at the Beit Hatfutsot, held in June, to which had been invited customers and their families.

"Qualita". Sponsorship for the "Olympics Paris-Jerusalem" event, held at the end of June, supporting the French immigration, in which immigrants from France and other new immigrants took part.

"Festival of Theatre". Sponsorship for a festival held in August, in which several theatre shows for families were presented.

"Oh la la" Festival. Sponsorship for the comedy films festival "Oh la la!", a festival of Israeli comedy films with French subtitles, held in November.

The third Negev Yerucham "Docaviv" Festival. Sponsorship to the family festival held in Yerucham in December in support and encouragement of the periphery.

Educational sponsorships

The third Kinneret Convention for the protection of Children. Sponsorship of the convention of the Kinneret Institute for Bullying Studies among children, held in April at the Kinneret College on the Sea of Galilee.

Moona Space for Change. Sponsorship for the 2016 annual drone competition, held in May, as part of the support for the development and operation of educational programs in the field of development, flying and building of drones by youth in peripheral areas.

Friends of the Tel Aviv University Association. Sponsorship for the University's sixtieth anniversary celebration event, held in June.

Ihack. Sponsorship for an enterprise using the advantage of Israel as a startup nation and Israeli innovation in searching for creative and breakthrough solutions for the boycott and delegitimation of Israel problem, an event held in August at the Haifa Technion.

Adler Institute. Principal sponsorship for the jubilee convention of the Institute "Next generation relations", held in November.

Sponsorship for social activities and activities in aid of weak populations

"Israeli Spirit" Association. Sponsorship for a fundraising event held in February, marking eighteen years of activity of the "Israeli Spirit" in aid of children and youth in risk situations.



"Life's Door". Sponsorship for the annual fundraising event held in June, of the organization supporting patients suffering from a terminal disease and their family members.

"Helping Brides" Foundation. Sponsorship for a fundraising event for brides coming from disadvantaged families, held in April.

Herzliyah Rotary Club. Sponsorship for a fundraising event held at the end of May, with the pre-inaugural projection of the film "Florence Foster Jenkins". The funds raised are intended for children suffering from cancer and for the welfare of a school in Herzliyah.

Gedera Rotary Club. Sponsorship for a summer camp held in July for children of disadvantaged families in Gedera.

"Natal Association". Sponsorship for the "Running in Color" race, held in November, in aid of trauma casualties on national grounds.

"Chimes Israel" Association. Sponsorship for the jubilee event of the Association, working to improve the quality of life of individuals with special needs, held in December.

Health sponsorships

The Israel Surgical Association convention. Sponsorship for the bi-annual convention of policy makers and leading thinkers in the field of oncological surgery in Israel, held in February.

"Tene Briut". Sponsorship for a fundraising event for the "Tene Briut" Association engaged in increasing awareness to chronic diseases and a healthy way of life among the Ethiopian immigrants, held in February.

"The Bavly Race". Sponsorship for the children and family race held in March 2016, increasing awareness to matters of health, sports and family recreation in the Bavly quarter of Tel Aviv.

Lev - Fighting for Recovery Together. Sponsorship for the annual fundraising event of the Lev Association of parents of cancer patient children from Northern Israel, held in March.

"Hadassah International Israel". Sponsorship for a fundraising event for a rehabilitation project for servicemen and terror casualties at the Hadassah Mount Scopus Hospital, held in September.

Nursing School Convention. Sponsorship for the event opening the academic year of the Assaf Harofeh Campus Nursing School, held in November.



Environmental protection, science and business sponsorships

Manufacturers Association. Sponsorship for study courses and training sessions held during the year at the Industrial Management College, with the participation of experts from the Bank.

Open Day in the Arava. Sponsorship for an exhibition on the subject of agricultural research and development in the Arava Valley, held in January.

Union of Municipal Corporations. Sponsorship for the annual conference of the Union, held in February in Eilat.

Business Conference. Sponsorship for the first Jerusalem Business Conference, held in June.

The Real Estate Fair in Eilat. Sponsorship for the real estate event held in December.

Involvement in and contribution to the community by the principal subsidiaries

ICC – social involvement and contribution to the community

An object of ICC is the participation in social involvement and in work in aid of the community.

The work of ICC in aid of the community includes, alongside financial resources allocated to different organizations and associations, also the allocation of human resources; therefore ICC strives towards activity that combines voluntary work by ICC employees.

All this, while emphasizing the connection to the core business and the company's vision: realization of dreams, needs and wishes at any time and place.

"ICC is to wish and dream". In accordance with the business vision of ICC, which emphasizes the realization of dreams and needs at any time and place, ICC has continued, for the fourth consecutive year, the project "ICC is to wish and dream" – being the representative program for social work by the company. Within the framework of the program, company employees volunteered for work at boarding houses of the Fair Chance for Children Association, with the aim of realizing the dreams and needs of children living in boarding houses with no family support. Employees and managers of the company meet the children at experience study groups discussing what is a dream? What is the difference between fantasy and a dream? And together form the dream which the



children wish that ICC employees would realize for them. Over the years, dreams had been realized for hundreds of children.

Commitment to and establishment of a center in favor of the national saluting day for ZAKA volunteers. In 2016 ICC rallied to the initiative of the ZAKA Organization, by establishing a telephone facility which provided a response to approaches by contributors in the framework of the "National saluting day for ZAKA volunteers". Many resources had been allotted to this matter, which inter alia included: construction of an information center and allotment of employees, adapting the systems of the company to the support of approaches and the documentation thereof, adapting the telephone system, volunteer time management, construction of a comprehensive training layout, advertising on the social networks of the company, and more.

"Another lesson". For the past eight years, ICC participates in the project of the "Another lesson" Association, engaged in promoting equality of opportunities in education and in encouraging involvement of members of the business and public sectors in the enrichment of school children. Employees and managers of ICC lecture at schools on a variety of subjects. As part of this activity and towards the end of the academic year, school children are invited for an enriching and experience providing visit to the company.

"Synergy". A program combining powerful leadership alongside contribution to the community. ICC is the first company of the financial sector, which participates in a program integrating senior executives as members of boards of directors and executive committees of various associations, on a full voluntary basis. Such integration is made compatibly with the needs of the association and the qualifications of the volunteering executives. The program is conducted jointly with the Israel Joint.

"ICC for a Fair Chance". The first of its kind social enterprise in aid of the community with the participation of ICC credit card holders together with various trading houses and the "Fair Chance for Children" Association. Within the framework of the enterprise, a discount is granted to the credit card holder in respect of any transaction made through an ICC credit card at trading houses participating in the program, and concurrently, a donation is made to the "Fair Chance for Children" Association (in accordance with a ratio of the transaction amount as agreed with the trading house participating in the program).

"Round-Up". The company participates in the activities of the "Round-Up" Association engaged in improving the Israeli society through a mechanism offering to each credit card holder the option of rounding-up to the nearest shekel the amount of a credit card transaction, thus making a small contribution and a big change.



Company employees initiate for the community. The company is open to any employee wishing to offer ideas and leading social initiatives. The company assists such ideas conceptually, financially and in following the actual work. Of the various activities led by employees may be mentioned the distribution of gift parcels during the Holidays to children in hospitals and boarding houses, organizing the purchase of products contributed to the different associations, and more.

Sponsorships and the purchase of tickets for fundraising events. The company assists associations and other social organizations by the granting of sponsorships and purchasing tickets for fundraising events, to which employees active in social work are invited from time to time.

The friendship line of Orly and Guy. A project operating within the framework of the TV morning program of "Orly and Guy" on Channel 10, which provides response to persons entangled in bureaucratic red-tape or in economic distress, with the aim of finding the way to solve problems with the establishment or in general. ICC provides assistance on a current basis to customers referring to the friendship line with the request for assistance in matters relating to the activity of the company, including the spreading of repayment of debts to the company, the granting of rebates, etc. in the course of the years 2015-2016, ICC helped tens of customers applying for assistance through the friendship line.

Help to families in need. From time to time and at the High Holidays period, ICC joins the effort of providing foodstuff to families in need and assists different associations active in this field. Among other things, the company assists in the annual "kamcha depascha" activity, where donations are granted to families in need for the Passover Holiday.

Different projects. ICC helps associations which apply for assistance regarding surplus advertising products. During 2016, the company contributed such products to the "Hayim" Association engaged in helping children with cancer.

Supporting sports. The company accompanied the Israeli Judoka Yarden Gerbi on the road to the 2016 Rio Olympic Games, where she won a medal. The decision to support Yarden Gerbi is in line with the vision of the company, focusing on the realization of dreams, needs and wills enjoyably and responsibly, alongside the brand identity of ICC - Israel Credit Cards. In addition, the company supported in 2016 the Jerusalem Hapoel Basketball Club.



Mercantile Discount Bank (MDB) – work in aid of the community at the level of the organization and the employees

MDB views the activity in aid of the community an integral and significant part of its overall activity and organizational culture, and accordingly does a lot from the social aspect in aid of the community within which it operates. The activity in aid of the community is varied and includes monetary contributions, the granting of sponsorships and participation in community projects as well as the activity of employees with the community.

This activity is conducted countrywide, employing the wide geographical and demographical spread allowing the reaching of diverse populations, communities and sectors and the conduct of a wide range of activities.

The policy of this bank in the social-community field, as had been formed in recent years, focuses on the younger generation and on the promotion of education and knowledge. This arising from the concept that these areas comprise a generator creating potential for personal and social success, and in the end of the day – means supreme in importance for the promotion of society and of the "future generation".

Leading projects in the education field. MDB invests in the promotion of education through three leading projects, in which it is a longstanding partner: "Sprint Mercantile", "Computer for each child" and "Yad Eliezer", as well as through financial education activities conducted voluntarily by bank employees.

"Sprint Mercantile" project. For details, see above in "Sprint program in the Arab sector" under "Sprint Discount".

"Computer for each child" project. For the past decade MDB has participated in this project (sponsored by the State of Israel) involving the contribution of computers, software and instruction for children of low means families. Over the years, the Association has distributed thousands of computers to children and in addition, software, instructions and study courses regarding the different software had been given. In the years in which the Bank participates in the project, it donated approximately 1,000 computers.

"Yad Eliezer" project. MDB has joined the "Yad Eliezer" Association, engaged in providing assistance and support to thousands of families in need (single parent in particular) in the ultra-orthodox sector. The Association provides support in various fields including education, and in this activity the bank participates. Within the framework of the cooperation with the Association, the Bank grants in each year some 160 scholarships to mentors of the ultra-orthodox community, who in consideration for



the scholarship assist in their studies school children of second to eight grades, who are orphans or belong to a single parent family.

Cooperation with the "A Different Lesson" Association. Employees of MDB integrate into activities of the Bank for the promotion of education. In recent years, the Bank is cooperating with the "A Different Lesson" Association, within the framework of which bank employees participate in a financial education project for school children, residing mainly in periphery. During 2016, employees of the bank conducted seven enrichment study courses at schools of the Arab and ultra-orthodox sectors. In these courses the pupils acquired basic practical concepts of banking subjects, with a focus on issues such as management of a responsible budget and the importance of savings. The pupils visited branches of the Bank, closely observing the business activity conducted at the bank.

For details regarding additional financial education projects conducted by MDB, see Chapter 3 above ("Customers"), under "Financial education".

Activity in aid of the community conducted by employees of MDB. As stated above, MDB who operates through seventy-eight branches countrywide, uses its wide disposition for varied activity in aid of the community. Employees of the bank participate in voluntary work, including: the renovation and painting of buildings, institutions and homes serving the community, the collecting and packaging of foodstuff and the distribution thereof via associations supporting disadvantaged people, maintenance of community gardens, collection of clothing and donating them through the country wide activity of associations, study assistance and financial guidance, participation in Holiday parties at welfare homes, old age homes and hospitals (as part of these activities, Bank employees distribute gift parcels purchased within the framework of social purchasing), the collection of medication in cooperation with the "Friends for Health" Association (the medications are tested by authorized pharmacists, those found usable being delivered to the needy, while those exceeding their expiry date being delivered to green destruction), and more.

Green Discount



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- A reduction of approx. 14.9% in the consumption of energy compared with the year 2015;
- A reduction of approx. 30% in the bank's carbon footprint, compared with the year 2015;
- Investment of approx. NIS 10.5 million, in energetic efficiency projects;
- 918 tons of paper were recycled;
- Credit exposure of NIS 736 million to projects involving solar energy;
- 71,000 beverage bottles, 9,000 batteries and 8,400 fluorescent lighting were sent for recycling.



Policy

General

The Bank is a financial corporation providing various financial services to its customers, and as such, the direct environmental influences on its existing "production processes" are very limited. This differs, for example, from industrial plants that could deal with the problems of gas emissions, sewage, toxic waste removal, etc.

Most of the Bank's environmental influences are office effects deriving from the consumption of resources: energy, water, paper, etc. One of the Bank's environmental goals is to limit these indirect effects.

Environmental policy

Discount Bank attributes importance and relevance to the subject of the environment, from the social and economic aspects, and as a valuable basis for its business activity. Therefore, the Bank adopted a policy of maintaining the proper balance between business activity and environmental protection.

Principles

- Discount Bank views the subject of the environment with importance and relevance, in the social areas - toward the community, and in economic areas - its business success and positioning as a leader and its commitment to prevent environmental damage and to ongoing improvement in environmental performance;
- The Bank directs its business activity while aspiring to service its customers' transactions and their economic development, while considering subjects related to environmental protection, and while assessing that the legal and regulatory obligations are fulfilled where applicable to a financial body;
- In the construction and property sector, the Bank is obligated to identify environmental influences, measure and understand them, as a basis for reaching decisions, prevention of environmental damage, and an obligation to a proactive approach;
- The Bank will include its employees and the community in its environmental activities;
- The Bank's Corporate Division undergone a process, with the objective of evaluating credit policy with an eye to environmental matters;



- The Bank's Management allocates manpower and financial resources to evaluate and monitor to the extent possible, the environmental influences of the Bank - direct and indirect - in order to reduce them.

The Bank's Management has chosen a high-ranking official - the construction and Properties Department manager. The manager reports directly to the Head of the Human Resources and Properties Division, who reports to the Bank's Management.

Ultimate Objectives

- Commitment to preventing environmental damage and ongoing improvement in contribution to the environment;
- Recognition of natural resources as a limited public resource;
- Commitment to the principle of sustainable development;
- Commitment to the entrepreneurial approach in the real estate sector, primarily the reduction of damaging effects to the environment;
- Examining the possibility of installing of energy-saving equipment in the operation of electrical equipment and air conditioning.

Goals Related to Impact on Environment

- Energy - reducing electricity consumption - 5% annually;
- Reducing gasoline consumption - 1% annually;
- Reducing the carbon footprint in Scope 1 and Scope 2 by 1% per year.

It is the intention of the Bank to examine during 2017, different means for exposure of employees and increasing their awareness to environmental issues relevant to the Bank's operations.

The consumption of resources

Energy usage

In continuation thereof and according to the policy as described above, and considering the nature of its environmental implications, the Bank has determined the reduction in energy consumption as a central goal in its operation in this field.

Almost all of the Bank's energy consumption results from its buildings - bulbs used for lighting and air conditioning systems. The Bank monitors its energy consumption with the aid of an outside company. The Bank has set goals for savings in energy consumption.



Among the measures taken in order to encourage awareness, and in consequence - actions taken for savings in electricity, may be mentioned the reporting to managers. A reporting procedure has been instituted whereby an electricity consumption report that includes a comparative analysis, is produced for attention of branch and unit managers. The object of this process is to reflect electricity consumption to managers in order to encourage energy saving. The report is produced on a monthly basis and in addition, a condensed semi-annual and annual report is produced for each unit manager at the Bank.

In this framework, the company took several actions in 2016, including:

- Replacement of air conditioning systems with advanced VRF systems at thirteen locations of the Bank.
- Energetic efficiency of lighting in seventeen locations of the Bank through the installation of LED lamps and the connection of the lighting system to the security systems, with the aim of ensuring the turning-off of lights at the branches and head office premises automatically upon the turning on of the alarm system.
- The installation of timers and other means for savings in electricity consumption. The Bank allotted an amount of NIS 10 million for energetic efficiency measures at its branches and head office premises.

MDB has taken several steps to improve energetic efficiency, including use of energy saving light bulbs and installment of efficient air conditioning units (VRF) at new branches.

Furthermore, occupancy sensors have been installed in meeting rooms and the automatic turning-off of lighting and air conditioning is in operation during afternoon and evening hours at the management office premises. At MDB branches a central switch exists for the turning-off of electric power at end of the work day.

MDB monitors electricity consumption and regularly examines electricity consumption per square meter of office space, in order to identify opportunities for improvement of energetic efficiency.

ICC operates an automatic switching-off of computers at each weekend and on Holidays, as well as automatic switch to "standby" position after two idle hours. Furthermore, by means of building control systems, the automatic switching-off of electric power is made four times during evening and night hours. Roofs of buildings owned by ICC are covered once a year by white insulation material, which contributes to a reduction in the heat absorption of the buildings during summer months, thus saving in air conditioning energy consumption. Furthermore, to the extent possible, ICC uses natural lighting for its office premises, and the planning of new buildings and operation areas makes use of material that is not harmful to the environment, while complying, to the extent possible, with green construction principles.

Electricity consumption

Following are data regarding the consumption of electricity by the Bank in KW/H:

Electricity consumption from Israel Electricity Company	2016		2015		2014		Change in % ¹	
	Absolute	Relative Per Sq. Meter	Absolute	Relative Per Sq. Meter	Absolute	Relative Per Sq. Meter	2016 compared to 2015	2015 compared to 2014
Discount Bank	45,451,496	288	53,407,111	335	56,529,575	339	(14.9)	(5.5)
MDB ⁽²⁾	10,358,950	243	10,975,114	268.4	12,625,374	284.4	(5.6)	(13.1)
ICC ⁽³⁾	6,684,440	437.5	6,662,000	466.6	-	-	0.34	

Notes:

- (1) The percentage change is computed on the absolute amount.
- (2) The electricity consumption at the rental properties of MDB is assessed on the basis of the average kw/h price.
- (3) The electricity consumption by ICC in 2015 is being reported again following improvement of the data. An estimated amount was reported in the previous report. Accordingly, the total data for energy consumption (in GJ) as well as greenhouse gas emission have also been updated.³⁹

Fuel consumption

Data regarding fuel consumption for employee travel and generators:

		2016	2015	2014	Change in %	
		In Liters			2016 compared to 2015	2015 compared to 2014
Benzene for transportation	Discount Bank	598,700	599,300	598,450	(0.1)	0.1
	MDB	343,691	387,644	427,670	(11.3)	(9.4)
	ICC	561,561	601,803	⁽²⁾ 665,045	(6.7)	(9.5)
Diesel oil for transportation	Discount Bank	14,498	15,100	14,977	(4.0)	0.8
	MDB	2,772	3,321	3,392	(16.5)	(2.1)
Diesel oil for generators ⁽¹⁾	Discount Bank	350	6,000	4,000	(94.2)	50.0
Total Discount Bank		613,548	620,400	617,427	(1.1)	0.5
Total MDB		346,463	390,965	431,062	(11.4)	(9.3)
Total ICC		561,561	601,803	665,045	(6.7)	(9.5)

Notes:

- (1) The consumption of fuel in the first quarter of 2014 has been assessed on the basis of the average monthly consumption.
- (2) Use of emergency power generators by ICC is negligible (a few tens of liters per year). MDB does not consume diesel oil for generators.

³⁹ 102-48.



Presented below are the principal data relating to energy consumption, from various sources, for the years 2014-2016:

		Energy Consumption in GJ units ⁽¹⁾					
		2016		2015		2014	
Energy source		Absolute	Relative Per Sq. Meter	Absolute	Relative Per Sq. Meter	Absolute	Relative Per Sq. Meter
Electricity from the grid	Discount Bank	163,625	1.04	192,266	1.2	203,506	1.22
	MDB	37,292	0.87	39,510	0.97	45,451	1.02
	ICC	24,064	1.58	23,983	1.68		
Diesel for generators	Discount Bank	12.6	0.0001	216	0.001	144	0.001
	MDB	19,602	0.12	19,617	0.12	19,594	0.12
Benzene for transportation	MDB	11,253	0.26	12,689	0.31	14,002	0.315
	ICC	18,386	1.2	19,699	1.38	21,774	1.5
	Discount Bank	522	0.003	544	0.003	538	0.003
Diesel for transportation	MDB	99.8	0.002	120	0.003	122	0.003
	Discount Bank						
Total Discount Bank		183,762	1.16	212,643	1.33	223,782	1.34
Total MDB		48,645	1.14	52,319	1.28	59,576	1.34
Total ICC		42,450	2.78	43,682	3.1	21,774	1.5

Note:

(1) GJ - Energy measurement unit (Gigajoules).

The Bank does not measure extra-organization energy consumption.

Emission of greenhouse gas

The Bank is voluntarily committed to targets for reducing the emission of greenhouse gases. In each year, the Human Resources and Properties Division monitors the progress in this area by collecting performance data in the various areas and formation of a report reflecting such data. The Bank voluntarily reports emissions created by it to the reporting and recording center of the Israel Ministry of Environmental Protection. This, in view of the expectation that with time such voluntary reporting would become compulsory.

In operational terms, the Bank strives to gradually reduce its carbon footprint through energetic efficiency at the branches and at head Office (see hereunder).

In addition, to the extent possible the Bank combines green criteria in the building projects of its Head Office and branch buildings (see hereunder).

The carbon footprint, the data of which is presented hereunder, is composed of three scopes:

Scope 1 - direct emission originating in the consumption of fuel and refrigerant gases;



Scope 2 - indirect emission deriving from the electricity consumption;
Scope 3 - indirect emissions deriving from business flights.

Carbon footprint⁽¹⁾:

Scope		2016		2015		2014		Change in % ⁽²⁾	
		Absolute	Relative Per Sq. Meter	Absolute	Relative Per Sq. Meter	Absolute	Relative Per Sq. Meter	2016 compared to 2015	2015 compared to 2014
Scope 1 ⁽³⁾	Discount Bank	3,709	0.02	8,619	0.05	17,767	0.11	(56.9)	(51.5)
	MDB	811	0.02	915	0.02	1,009	0.02	(11.4)	(9.3)
	ICC	1,313	0.09	1,407	0.1	1,554	0.12	(8.7)	(7.5)
Scope 2	Discount Bank	27,392	0.17	37,160	0.23	38,880	0.23	(26.3)	(4.4)
	MDB	6,243	0.15	7,636	0.187	8,683	0.196	(18.2)	(12.1)
	ICC	4,028	0.26	4,635	0.32			(13.1)	
Scope 3 ⁽⁴⁾⁽⁵⁾	Discount Bank	557	0.004	195	0.001	279	0.002	186	(30.2)
	MDB	-	-	5.27	0.0001	4.95	0.0001		6.5
	ICC	15.5	0.001						
Total Carbon footprint	Total Discount Bank	31,657	0.20	45,974	0.29	56,926	0.34	(31.1)	(19.2)
	Total MDB	7,054	0.17	8,556	0.21	9,697	0.022	(17.6)	(11.8)
	Total ICC	5,356	0.35	6,042	0.42	1,554	0.12	(11.3)	

Notes:

- (1) The computation of the greenhouse gases emission in scope 1 and 2 are based on coefficients published by the Israel Ministry of Environmental Protection for the years 2014, 2015 and 2016. The computation of emission in scope 3 is based on the emission coefficients of DEFRA and GHG Protocol.
- (2) The percentage change is computed on the absolute amount.
- (3) Calculation of direct emission (Scope 1) of MDB and of ICC does not include refrigerant gases emission.
- (4) Scope 3 in Discount Bank, in the years 2014-2015 includes emissions due to business travel only. As from the year 2016, the computation includes also water consumption and paper consumption of the Bank.
- (5) Scope 3 at MDB and at ICC includes emissions resulting from business travel (flights) only. There were no flights at MDB in 2016.

The data in the Table indicate a reduction of 30.0% in the carbon footprint of Discount Bank in comparison with the carbon footprint measured in 2015, which is the result of two factors:

- A 15% reduction in the consumption of electricity which led to a reduction at the rate of 25% in indirect emissions (Scope 2). (It should be noted that the reduction in indirect emissions stemming from the consumption of electricity (Scope 2) is also, to a certain extent, the result of the reduction in the emission coefficient of the electricity company);
- Reduction in direct emissions (Scope 1) stemming from the reduction in consumption of fuel and from the significant reduction (approx. 68%) in the consumption of refrigeration gases following the installation of VRF systems replacing part of the old air conditioning systems at the branches, repair of leakage and a more accurate measurement.

These two factors add to the reduction of 1.1% in office space.



Annual absolute reduction targets of 1% both in Scope 1 and Scope 2.

The Bank makes use of refrigerant gases for the air conditioning of its branch and head office buildings. In 2016, the Bank consumed approximately 1.16 tons of R-22 type refrigerant gas and approximately 84 tons of R-410 type refrigerant gas. The Bank is acting for the replacement of a major part of its old air conditioning systems with the more economical VRF systems.

Energetic efficiency

Measures to reduce greenhouse gas emissions

Presented below are details regarding the investment of Discount Bank in measures to reduce greenhouse gas (GHG) emissions in 2016, and the annual savings which have resulted therefrom:

Type of activity	Description	2015		Annual GHG emissions reduction (CO ₂ e tons)	Expected annual financial savings ⁽²⁾ (estimate in NIS ⁽³⁾)
		Investment in NIS thousand	Annual energy savings (in kwh)		
Energy efficiencies in buildings	Energy efficiencies in A/C systems	10,000	6,364,492	869	6,215,498
Energy efficiencies in buildings	Upgrading the lighting systems	500	1,193,342	652	1,165,406
Energy efficiencies in buildings	Installing building control systems	50	397,781	652	388,469
Total		10,550	7,955,615	2,173	7,769,373

Notes:

(1) Savings in the consumption of electricity in relation to 2015. Estimated as a percentage of total savings in consumption.

(2) In accordance with actual savings data, estimated as a percentage of the total financial savings.

Mercantile Discount Bank acts toward the reduction in fuel consumption and emission of greenhouse gases in several ways:

- Transportation to and from the Management Building in Holon and the "Yovel Tower" in Tel Aviv;
- Providing transportation for the joint travel on business of employees;
- Preference for low pollution vehicles on lease arrangements;
- Use of video conference means for meetings and appointments.

ICC - the company's vehicle fleet which numbers some 230 vehicles, was replaced in the course of the recent few years and it includes today vehicles with small engines of economical fuel consumption and reduced pollution. Replacement of the vehicle fleet of the company has led to a 5% saving in the consumption of fuel by the company. Furthermore, the company maintains a transportation system for employees of the



service centers, with the view of reducing the use of private vehicles by employees. As part of improving the efficiency of the employee transportation layout, efficiency of the transportation layout has been improved by 50% in 2015. In addition, the air conditioning systems in the Management office building in Givatayim and in the service center building in Ashdod are operated by means of water chiller units, which do not require use of refrigeration gasses having a high global warming potential.

Employee transport system at Discount Bank

In order to reduce greenhouse gas emissions resulting from employees' transportation on the one hand and in order to make things easier for employees on the other hand, the Bank operates two transportation facilities at the disposal of employees. During the day there is transportation service (at fixed hours) from the 160 Herzl street offices in south Tel Aviv to the Discount Tower in the center of Tel Aviv. In addition, a transportation array is provided from Jerusalem to the Discount College in Rishon Le'Zion. In addition, the Bank has installed shower cabins in one of the buildings on Yehuda Halevi Street, for the benefit of those employees who cycle to their office at the Discount Tower.

Bicycle parking facilities have been placed at one of the Management buildings in order to encourage employees to use this means of transportation to arrive at work.

Presented below are data regarding the estimated savings resulting from the provision of a shuttle service for employees:

Leaves from	Destination	Frequency	Daily frequency	Average no. of passengers per circuit	Average no. of passengers per Month	Length of journey (in mins.)	Estimated savings in travel time (in hours)
		Days per week	Circuits				
Central Jerusalem	Discount College Rishon Lezion	4	2	6	192	60	192
Within Tel Aviv	Discount Tower, 160 Herzl St.	5	9	10	1,800	20	600
Total monthly savings							792
Total annual savings							29,504

Paperless Activity

One of the main goals related to environmental responsibility is to become a paperless bank. The Bank, together with its employees, has mobilized in a major process with the objective of reducing paper consumption. This process is reflected in several projects being integrated simultaneously.



- **Branch without archives:** The process includes extracting the daily material from the central archives, extracting basic documents from the branches, the scanning thereof and presentation in the customer digital file (performed at all of the branches);
- **Recycling of the A4 folders:** recycled use of A4 folders, following the scanning project;
- **Paperless archives:** The creation of transaction documents as an original electronic document (applied in respect of approx. 15% of the documents at the branches, regarding transactions made not in the presence of the customer). The quantity of containers at the central archives has been reduced by 30% (a reduction of 6,000 containers), leading to the saving of 90 tons of paper;
- **Reduction in the number of reports printed on paper:** A reduction of 90% in the amount of paper reports and the transition to producing digital (electronic) reports;
- **System for management and distribution of procedures and circulars:** Enables access and retention of the Bank's procedures over time. Is carried out by a transition to an Intranet system (an internal communication network in the Bank) which enables the distribution of circulars and procedures in an employee portal, thereby saving the need to print the procedures and distribute them to all the employees;
- **Discount mail service in the Internet:** The Bank contacts its customers and enables them to receive updates about their account activity by means of a secured mailbox on the Bank's website. This process makes it possible to reduce the distribution of notices and letters to the customer's home by mail. The service allows secured access to the mailbox from any computer by use of a personal password. Furthermore, the service allows the safekeeping of mail messages and management of a personal archive, where mail may be retrieved during a period of seven years;
- **A reduction in the number of notices sent to customers:** the Bank has conducted the mapping of prevalent notices sent to customers, examining their regulatory requirement, and reduced the number and frequency of such notices;
- **Computerized forms system:** Banking work uses a large number of forms. Until now, the forms were printed in advance, requiring extensive storage space, and the destruction of the inventory of forms whenever they were updated. The Bank switched to a computerized forms system, which enables each employee to print the updated form when needed, while it contains the particulars of the specific customer, thereby avoiding recording errors. This process also saves space for storage of the blank forms, and enables customers to receive faster and more efficient service;



- **Envelope savings** - Replacement of inter-office envelopes with multi-use envelopes. In addition, documents sent for scanning are delivered in expendable nylon envelopes as an alternative to paper envelopes;
- **Use of the "Fax to Mail" software:** cancellation of the need to print fax notices, and keeping documents sent to the Bank as computer files.

Mercantile Discount Bank

Mercantile Discount Bank acts in a wide array of ways in order to reduce the consumption of paper at the branches and at Head Office:

- Reducing the quantity of printed material at the branches - within the framework of the project "paperless archives", which commenced in 2014, the Bank acts to reduce the printing of documents at the branches. The printing of a form would be made only where the Bank has the regulatory duty to keep a printed form in its archives. This project led to a reduction of 15% in the scope of forms printed not in the presence of customers, such forms being now kept in a digital archive;
- Reduction in the number of contract forms - the bank has found that in many cases, contracts signed with different suppliers of the Bank may be reduced to a small number of pages only, and already in 2014, the Bank began the process of reducing the contents length of contracts;
- Proper disclosure presentation on a touch screen - the bank is obligated to publish daily proper disclosure in each of its branches. In order to improve efficiency of the process and save paper, touch screens were installed (in 2017) on all the bank's branches, on which the proper disclosure would be presented as well as other relevant information. The information is updated on a concerted basis by the relevant factor in the bank's management;
- Computerized committee management system - in 2015 the bank has purchased portable computers and tablets for the purpose of improving the efficiency of committee work, avoiding the need to print the documents required for the work of the different committees;
- Reducing the number of loan documents - in the course of 2016 the bank began reducing the number of documents required for the granting of a loan to costumers;
- Computerized interfaces with credit card and insurance companies - the bank established digital interfaces with credit card companies to allow the electronic delivery of payment orders and other forms. In addition the bank contacted various insurance companies in order to allow the digital recipient of documents.



Furthermore, additional actions are planned for the coming years, which are expected to lead to a significant reduction in the consumption of paper, part of which being introduced already in 2016:

- Printing centers - The bank conducted in 2016 a pilot program at the Bank's Operations and Information wing, whereby all printing of documents is conducted at a central printer, using a personal card. In view of the success of the pilot program, it has been decided to establish secured printing centers at all Head Office locations, which will assist in reducing the consumption of paper in several ways, including the definition of two-sided printing as the default option, the deletion of unprinted documents from the printer's memory at the end of the working day, determination of specific printing authorizations for each employee, as well as the use of the central printers as scanning machines allowing the scanning of documents to a digital memory as an alternative to the photocopying and filing of documents;
- Reducing the number of loan documents - During 2017, the bank has started to reduce the number of documents required for the granting of loans to customers;
- The bank has started the current scanning of basic documents, conducted through an outside scanning office, as the first stage of the examination of the possibility of destroying such documents at a later stage.
- The Bank is preparing for the process on several plains: finishing form barcodes, reducing printed documents, reducing the number of documents being scanned, reducing the period of time for the keeping of documents in archives, transfer of part of the documents to the computer system, the digital signing of documents and improving the scanning quality. This move would lead to the optimization of the scanning process and the archiving of documents, including improved scanning efficiency, application of digital signature and a review of the length of period for the keeping of documents in archives.

ICC

- **ICC Mail** - ICC started in 2015 a move for the reduction in the quantity of paper used in its operations, and has offered customers the option of receiving their monthly statements of account by electronic mail instead of by regular mail. In this framework, the number of customers joining this service has significantly grown since 2015, and the matter is placed in an organizational focus. 31% of the company's customers have joined the service until the end of 2016, receiving now their statements by "CalMail" instead of by regular post;



- **Online forms** - customers asking for the issue of credit cards or for loans may now do so via the Internet and fill the online forms;
- **Paperless archive** - the archiving of documents is made digitally;
- **Reduction in the quantity of paper used for internal purposes** - the two-sided printing of documents has been defined as the default option and company employees are required to use their personal employee cards for printing purposes. Moreover, documents that have not been printed by employees are being deleted from the memory of printers after sixteen hours.

Consumption of paper (in Tons)	2016		2015		Change in % ¹ 2016 compared to 2015
	Absolute	Relative to employees	Absolute	Relative to employees	
Discount Bank	539.1	0.103	⁽³⁾ 564.5	0.102	(4.5)
MDB ⁽²⁾	200.7	0.14	195.5	0.134	2.7
ICC	28.93	0.02			

Notes:

(1) The percentage change is computed on the absolute amount.

(2) Paper consumption data of MDB and ICC has been computed on the basis of the number of paper packages purchased and the average weight of a package.

(3) The data for 2015 has been restated, due to an error found in the data previously reported.

In 2016, the quantity of paper waste sent for recycling has increased (918.4 tons in 2016, 744 tons in 2015, 610 tons in 2014), which stems from the shutting down of branches, the scanning of documents and the reduction in archives.

Use of recycled materials

The Bank makes extensive use of toner cartridges. Most of this consumption is based on refurbished toner cartridges, as detailed below.

Consumption of refurbished toner cartridges (in Units)	2016	2015	2014	Change in % ¹	
				2016 compared to 2015	2015 compared to 2014
Discount Bank	15,500	18,000	18,209	(14.0)	(1.1)
MDB ²	593	1,344	4,630	(56.0)	(71.0)

Notes:

(1) The change in percentages is calculated on the absolute amount.

(2) MDB mainly makes use of new (original) ink cartridges.

The reduction in consumption of refurbished ink cartridges stems from a number of factors, including the implementation of the efficiency plan, the reduction in the



number of the types of printers using universal toners, as well as the increased purchases of new (original) ink cartridges, which have a longer life expectancy, and therefore the overall consumption of ink cartridges by the Bank is smaller over a period of time.

ICC does not make use of refurbished ink cartridges.

Use of recycled paper is in immaterial quantities.

Additional activities

Promoting green building

Examining environmental effects also at the Bank's buildings - environmental effects are being examined also as a basis for making decisions in matters of construction and assets. This in the framework of moves described hereunder.

Integration of green criteria in construction in branches and Head Office buildings - as part of the process of choosing and planning of buildings, in engineering and the choice of materials (see above "Energetic Efficiency").

Environmental control - measurement and monitoring of radiation at Discount Bank and at ICC. Furthermore, current monitoring of the work environment is conducted at ICC, including presence surveys and radiation surveys performed by external independent companies.

Promoting green building - at the present time, the Bank has one building complying with Standard 5281 for green construction of the Israel Standards Institute. The building is located at 17, Yehuda Halevi Street in Tel Aviv, and has been awarded the Green Label certificate of the Israel Standards Institute. The Bank has acted towards obtaining a Green Label certificate also for the Bank's building at 41 Yehuda Halevi Street.

The building has been constructed according to the "green building" principles, which include the use of natural lighting, energy saving air-conditioning system, use of building materials having a green standard stamp, providing a bicycle parking facility as well as shower stalls for the riders.



Plans for the future. Establishment of the Discount Campus – in June 2016, the Group purchased a plot of land of twenty-one dunnums in Rishon Le`Tzion. The Group plans to construct on the site a campus to which will be moved different units of Discount Bank, MDB and ICC, including the computer installations. Construction of the project and the transfer of the various units shall be made in stages. Green building considerations would be taken into consideration in the construction of the Discount Campus, such as: ventilation, optimal use of natural lighting and more.

Additional activities

In addition to that stated above, several additional activities were held, such as:

Upgrade of air-conditioning systems and transition to VRF systems – All renovation and construction of branch premises performed in 2016, included the replacement of the air-conditioning systems with advanced energy saving systems.

Recycling – in addition to the paper sent for recycling, the Bank recycles additional waste, such as electric bulbs, bottles, batteries and electronic waste. The waste sent for recycling in 2016 included 8,400 electric bulbs, about 71,000 beverage bottles, 9,000 batteries and 6,678 items of electronic waste.

Additional actions – reduction in the floor space of archives following scanning operations and the use of such space for work station purposes, and the repeated use of furniture following the renovation of branch premises.

ICC

- **Extending the validity of part of the credit cards issued for five years** – this move will contribute in the long run to the reduction in the company's consumption of plastics;
- **Recycling of plastics** – once a year, the company shreds old plastic cards. These are sent for recycling and used as raw material;
- **Responsible removal of batteries serving uninterruptible power supply** – such empty batteries are being removed once a quarter and sent to the Ramat Hovav hazardous waste disposal facility;
- **The green scrapping of computers, servers and storage equipment** – Electronic waste, such as computers is sent for recycling to Ecommunity company – Ecology for protected community.



Communication of the subject and employee instruction

An environmental organizational portal - use of the internal Intranet site for employees in the matter, where information/ activity in this respect is being published. The site serves also as an address for employee questions and approaches in the matter.

Additionally, in all the offices and conference rooms, stickers were affixed to the switches, reminding to shut off the lights at the end of the workday. Likewise, all of the cafeterias have hung banners calling for saving resources and encouraging employees to make use of the recycling bins placed at the cafeterias.

Management of environmental risks

In the Supervisor of Banks' guidelines regarding the exposure to environmental risks and their management, various possible aspects regarding the exposure of banking corporations to environmental risks are detailed and the need to relate to these risks individually is emphasized.

Environmental risk may derive from an impairment of collaterals when realized to the extent that they are exposed to environmental risk. Furthermore, the risk might be realized in an indirect manner as a result of deterioration in the financial condition of another party due to environmental costs resulting from regulations regarding environmental protection. Damage to reputation may also be recognized as part of environmental risk, as a result of the possibility that relation to an environmental hazard might be attributed to the banking corporation.

Training sessions have been performed by outside experts, as part of the process of absorption of environmental risk management for the business factors.

Risk deriving from climate changes

The main climate change risks to which the Bank is exposed, may result from factors affecting the Bank's operations (for example: changes in physical conditions or changes in regulation) or from Bank customer activities (mostly in the financing area).

Physical changes are being managed at two levels - firstly, as part of the Bank's business continuity plan, which examines and estimates the probability and severity of potential risks which might affect the essential operations of the Bank, including extreme events, such as extensive flooding caused by heavy rain. The evaluation of risks



is continuing by updating Bank's response plans to their possible materialization. Furthermore, the Bank is prepared for operation under difficult weather conditions, such as heavy snow in Jerusalem or a storm that might affect the Discount Tower. Such risks and the updating of assessments, respectively, are performed on a current basis.

Risks deriving from the Bank's customer operations are managed within the framework of credit risk management. At the same time, the Bank has identified the opportunity inherent in the financing of the renewable energy field, and is financing projects in this field (see below).

Credit Policy regarding Environmental Risks

In recent years, there has been a significant increase in the global awareness of ecological and social damage caused as a bi-product of the development of projects, mainly in the industrial, real estate and infrastructure sectors. As a result of increased awareness, widening legislation on the subject and claims by those who had suffered damage which were admitted by courts around the world, a part of the companies engaged in these areas began taking into account environmental criteria in considering the feasibility of projects. Legislation in this field has widened also in Israel, though it is not yet wide-ranging compared to Europe and the U.S..

Banking corporations may be exposed to environmental risks in the various aspects of their operation, and such risks may be included with other risks, such as: credit risk, market risk, operational risk, legal risk and liquidity risk.

The Bank's policy as regards environmental risks relating to credit is focused on the identification of the risks, evaluation thereof and reporting it to the decision makers, as well as conducting a continuous monitoring of borrowers having a high environmental risk potential.

The aim of this policy is to identify borrowers having a high risk potential, and making specific decisions with respect to cases where the risk is viewed as material (having a high probability of materialization and when in potential materialization the credit loss may be material).



In this framework, the Bank has defined an evaluation process with respect to the level of environmental risk and of the quality of risk management regarding business customers upon the granting of credit and upon performing the periodic evaluation of customer quality, with special reference to customers having a high environmental risk potential. The monitoring of the credit risk exposed to significant environmental risks is performed on an ongoing basis during the year.

For further details regarding the risk management at the Discount Group, see the 2016 Annual Report (pp. 63-103) and in the document "Disclosure according to the third pillar of Basel and additional information regarding risks" for 2016.

Granting "green credit" (green businesses)

As part of the overall process of environmental quality risk management, the bank offers credit to "green" businesses, everything subject to adherence to the credit granting rules in effect at the Bank, including the examination of the repayment ability of the borrower.

"Green credit" - credit granted for:

- Financing the operations of a company producing green products contributing to the protection of the quality of the environment;
- Credit to a company that has a green production process protecting the quality of the environment;
- Credit granted for the establishment of a green operation, including the purchase of green equipment (machinery);
- Upgrading of production systems of those protecting the quality of the environment.

Following is a list of green areas determined preferential as regards financing:

- Banking services on the Internet - the granting of benefits to customers using the Internet banking services also as part of the environmental risk management concept. These customers do not visit the Bank branches using air-polluting vehicles, thus reducing air pollution;
- Companies developing green products - companies manufacturing products having environmental added value, such as cleantech companies;
- Installation of solar energy systems - installation of solar energy systems both for commercial and private purposes;
- Purchase of green vehicles - credit for the purchase of hybrid/electric vehicles;
- Companies rated highly by the Ministry of Environmental Protection.



The area of activity, which became relatively significant from among the above mentioned areas, is credit financing the installation of solar energy systems, as detailed below.

Financing in the solar energy field

The sub-sector of photovoltaic installations (PV) is a part of the renewable energy field. This field is based on regulations under power of the electricity market Act, designed to regularize the establishment of electricity production installations using solar and wind energies.

The Bank has a specific policy for the granting of credit to the solar energy systems field, both to business and private consumers. Among other matters the processes for granting credit, controls and specific collateral for this field are arranged within the framework of the policy.

The Bank's total credit exposure in respect of financing solar energy projects amounted as of December 31, 2016, to NIS 736 million, compared with NIS 926 million on December 31, 2015. The reduction stems from the gradual repayment of loans granted in prior years.

Mercantile Discount Bank. From time to time, the bank provides credit for the financing of solar systems, mainly to corporations specializing in joint ventures with Kibbutz settlements (where control is in the hands of the Kibbutz). The volume of credit to this type of activity amounted at December 31, 2016, to NIS 22 million, a relatively insignificant amount in relation to the operations of the bank (approx. 0.1% of total credit granted by the bank).

ICC - cooperation in the financing of home solar energy systems. ICC and Enerpoint Israel Ltd. signed on May 10, 2017, an agreement in principle for cooperation in providing loans for the installation of home solar energy systems. Within the framework of this joint venture, ICC will provide loans to private customers installing the Enerpoint solar energy systems on their home rooftops.

Epilogue



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Thank you's!

And before Discount Bank's Sixth Corporate Responsibility Report gets going... the pleasure of thank you's!

Thank you to the dozens of **Discounters** and employees of the subsidiaries MDB and ICC who worked so hard gathering and processing the material, who provided responses, ideas, comment, clarifications, proofreading, initiative and encouragement.

In the design of the cover, use had been made of a photograph taken by Mr. Tim Marshal from Oakland, New Zealand. We are grateful to him for sharing the photo with us by means of the "unsplash" Internet site.

A special thanks to the staff of **Ruth Kantor's Studio** for the prolific and original ideas.

Thanks to Roni-Lee Gilad from BDO Ziv Haft's Corporate Social Responsibility and Sustainability Group, for her devoted work in the shaping control process in preparing the Bank's social responsibility report.

And last but not least - a huge thank you to all the Discounters and employees of the subsidiaries MDB and ICC who convert the corporate commitment, a daily activity, from a vision to a reality.

Responses to the Report

The Bank's customers, its employees, shareholders from the public, other stakeholders or remaining readers of the Report - all are invited to respond and comment on the Report and its contents: send ideas, comments or illuminations, or just talk about the Report and the social activism of Discount Bank.

Responses may be sent:

- By **telephone** - 03-5146793;
- By **fax** - 03-5146764;
- By **mail** - to: Israel Discount Bank Ltd. - Human Resources Group, 41, Yehuda Halevi Street, Tel Aviv, c/o Ms. Anat Sigman, in charge of social responsibility;
- Or by **email** - anat.sigman@discountbank.co.il

The Bank's employees are also invited to react through the intranet website.



GRI Content index combined with UNGC

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102-49	Changes in reporting	10, 11	N/R	N/R		
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103-1	Explanation of the material topic and its Boundary	79-83			NR	
103-2	The management approach and its components					
103-3	Evaluation of the management approach					
201-1	Direct economic value generated and distributed	85-88	88-89	88-89		



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	Discount Bank	MDB	ICC		
201-2	Financial implications and other risks and opportunities due to climate change	293-294	293-294	N/R	7
201-3	Defined benefit plan obligations and other retirement plans	190-192	192	192	NR
201-4	Financial assistance received from government	80	80	80	
GRI 203: Indirect Economic Impacts 2016					
103-1	Explanation of the material topic and its Boundary	80			NR
103-2	The management approach and its components				
103-3	Evaluation of the management approach				
203-1	Infrastructure investments and services supported	135, 251, 253-255, 262	139, 256	139, 272-274	
203-2	Significant indirect economic impacts	79, 80, 135, 179-180, 182-183	139, 181	139, 180, 183	
GRI 204: Procurement Practices 2016					
103-1	Explanation of the material topic and its Boundary	163-167			NR
103-2	The management approach and its components				
103-3	Evaluation of the management approach				
204-1	Proportion of spending on local suppliers	165	165	165	
GRI 205: Anti-corruption 2016					
103-1	Explanation of the material topic and its Boundary	68-69, 75			10
103-2	The management approach and its components				
103-3	Evaluation of the management approach				
205-1	Operations assessed for risks related to corruption	68-69	68-69	68-69	
205-2	Communication and training about anti-corruption policies and procedures	69-70	71	70	
205-3	Confirmed incidents of corruption and actions taken	69	71	70	
GRI 302: Energy 2016					
103-1	Explanation of the material topic and its Boundary	279-281			7,8,9
103-2	The management approach and its components				
103-3	Evaluation of the management approach				
302-1	Energy consumption within the organization	282-283	282-283	282-283	
302-2	Energy consumption outside of the organization	Measurement of energy consumption outside of the organization is not preformed			
302-3	Energy intensity	282, 283	282, 283	282, 283	
302-4	Reduction of energy consumption	281, 285, 291-292	281, 285	281, 285-286	
302-5	Reductions in energy requirements of products and services	126, 287			



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GRI 401: Employment 2016					
103-1	Explanation of the material topic and its Boundary	171, 174-175, 183-184, 233			1,2,6
103-2	The management approach and its components				
103-3	Evaluation of the management approach				
401-1	New employee hires and employee turnover	203-204, 209-212	203-204, 212-213	204, 213- 214	6
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	191	191-192	192	NR
401-3	Parental leave			No data was provided	1,2,6
GRI 404: Training and Education 2016					
103-1	Explanation of the material topic and its Boundary	217, 220			6
103-2	The management approach and its components				
103-3	Evaluation of the management approach				
404-1	Average hours of training per year per employee	219	225	223	
404-2	Programs for upgrading employee skills and transition assistance programs	217-219, 236	224-225	221-223	NR
404-3	Percentage of employees receiving regular performance and career development reviews	231	231	222, 231	6
GRI 405: Diversity and Equal Opportunity 2016					
103-1	Explanation of the material topic and its Boundary	177-182			1,6
103-2	The management approach and its components				
103-3	Evaluation of the management approach				
405-1	Diversity of governance bodies and employees	38, 53, 207	38, 53, 207	38, 53, 207	
405-2	Ratio of basic salary and remuneration of women to men	193, 208	208	208	
GRI 406: Non-discrimination 2016					
103-1	Explanation of the material topic and its Boundary	176			1,2,6
103-2	The management approach and its components				
103-3	Evaluation of the management approach				
406-1	Incidents of discrimination and corrective actions taken	177, 246	177, 246	177, 246	
GRI 413: Local Communities 2016					
103-1	Explanation of the material topic and its Boundary	249			NR
103-2	The management approach and its components				
103-3	Evaluation of the management approach				
413-1	Operations with local community engagement, impact assessments, and development programs	249-254, 257, 261	256, 275- 276	272-274	



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	Discount Bank	MDB	ICC		
413-2	Operations with significant actual and potential negative impacts on local communities	154, 293-294	154, 293-294	No activities have been identified with negative impacts on the community	
FS13	Access points in low – populated or economically disadvantaged areas by type	98-99 The bank does not monitor its access point in low-populated or economically disadvantaged areas	107	N / R	
FS14	Initiatives to improve access financial services for disadvantaged people	125, 128-129, 141-142	107, 125, 141-142	125	
GRI 417: Marketing and Labeling 2016					
103-1	Explanation of the material topic and its Boundary	143-146			8
103-2	The management approach and its components				
103-3	Evaluation of the management approach				
417-1	Requirements for product and service information and labeling	143-145	143-145	143-145	NR
417-2	Incidents of non-compliance concerning product and service information and labeling	144, 145	144	144	
417-3	Incidents of non-compliance concerning marketing communications	146	No information was provided	146	
GRI 419: Socioeconomic Compliance 2016					
103-1	Explanation of the material topic and its Boundary	72-75			1
103-2	The management approach and its components				
103-3	Evaluation of the management approach				
419-1	Non-compliance with laws and regulations in the social and economic area				



Principles of the Global Compact initiative⁴⁰

Discount Bank expresses support of the ten principles of the Global Compact initiative of the United Nations, and acts for the advancement of these principles.

Following is a list of the principles of the initiative:

Human rights

1. Businesses should support and respect the protection of internationally proclaimed human rights;
2. Businesses should make sure that they are not complicit in human rights abuses;

Standards of employment

3. Businesses should support the freedom of association and actively acknowledge the right for collective bargaining;
4. The elimination of all forms of forced and compulsory labor;
5. The effective abolition of child labor;
6. The elimination of discrimination in respect employment and occupation;

The environment

7. Businesses should support a precautionary approach to environmental challenges;
8. Undertake initiatives to promote greater environmental responsibility;
9. Encourage the development and diffusion of environmentally friendly technologies;

Anti-corruption

10. Businesses should work against corruption in all its forms, including extortion and bribery.

⁴⁰ <http://www.unglobalcompact.org>